Annual Report

For the Year Ended 30 June 2019

Northern Inland
CREDIT UNION

ABN 36 087 650 422

Northern Inland Credit Union Limited

ABN: 36 087 650 422

Financial Statements

For the Year Ended 30 June 2019

Northern Inland Credit Union Limited
ABN: 36 087 650 422

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Chair & Chief Executive Officer's Report

30 June 2019

Financial results overview: the Northern Inland Group has had another good year in a challenging, low interest rate environment, with an after tax profit of $1,027,529.

Member deposit balances increased by 9.01% during the year to $267,585,750. Strong savings growth helped to support our increased lending, with loans growing by 5.6% annually, and total loan balances reaching $243,073,229 at year end. Our commitment to responsible lending was reflected in our bad and doubtful debt provision levels of 0.02%, which is well below the industry average.

The Group Reserves to Total Assets Ratio at 12.35% is above our strategic target ratio, and the Return on Assets was 0.34%. Our Capital Adequacy Ratio finished the year at 21.97%. Total assets increased by 9.2% to reach $313.5m by year end.

This year's highlights: after extensive due diligence, and in support of our long term digital strategy, NICU heads into 2020 with project work well-advanced on implementing upgrades and improvements to our operating systems. This investment in our infrastructure will see greater functionality available to our Members. Instructions for which Members were previously reliant upon branch or contact centre staff to perform, will soon be able to be carried out by Members at any time, from the convenience of their mobile phone or tablet device.

Member interest in electronic services has increased exponentially in the past two years. Coupled with extensive training for our dedicated staff, to be at hand to trouble-shoot and provide over the phone guidance, we anticipate being able to provide an increasing level of digital functionality and new services from mid 2020 onwards.

In 2019, changes to the ATM network saw NICU streamline its fleet. This resulted in many savings in fees for our Members. Members can now use any ATM anywhere in Australia – just take care to read the ATM screen to avoid the occasional machine still intent on direct charging.

Supporting our community: NICU continues to be the only credit union based in north-west NSW with branches in Tamworth, Gunnedah and Narrabri, and we take an interest in developing partnerships with many community-based organisations operating in our area. In the past year we have provided financial support by way of sponsorship or donations to many worthy organisations -

Tamworth: Tamworth City Bowling Club; Are You Aware We Care (drought relief through the Salvation Army); Tamworth Gymnastics Club Inc; West Tamworth Sports and Bowling Club; Tamworth Carols in the Park; Tamworth Junior Cricket Association; Pedal the Peel; Tamworth Mountain Bikers Inc; Duri Public School; Bendemeer Public School; Tamworth Swimming Club;

Narrabri: Narrabri Meals on Wheels; Narrabri Arts Eisteddfod; Narrabri Riding for the Disabled; Narrabri Pony Club; Narrabri High School;

Gunnedah: Gunnedah High School; St Mary's College Gunnedah; Albion Cricket Club; PRAMS; Gunnedah South Public School.

Where to from here: we continue to refine our operations in terms of effectiveness and efficiency. As part of our business improvement efforts you may receive communications over the coming months with respect to the streamlining of our products and services, and other changes that align our processes with systems being used by the larger financial institutions.

We also take this opportunity thank all of our dedicated staff and Directors for their efforts during the year and also thank Members for their continued loyalty.

Derek McIntyre
Chief Executive Officer

Robert Studte
Board Chair

Directors' Report
30 June 2019

The Directors present their report, together with the financial statements of the Group, being Northern Inland Credit Union (NICU) and its controlled entities, for the financial year ended 30 June 2019.

1. General information

Directors

The names of the Directors in office at any time during, or since the end of, the year are:

Names	Position
Robert James Studte	Director and Chair
Barry Edward Pratten	Director and Deputy Chair
John Cooke	Director
Robert John Carrington	Director
Geoffrey William Harris	Director
Charles Joseph McCarthy	Director
Wayne Austin Riggien	Director
David Michael Winnick	Director
Graham Russell Goodman	Director

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

Information on directors

The names, qualifications, experience and special responsibilities of each person who has been a director during the year and to the date of this report are:

Robert James Studte	
Qualifications	Graduate Certificate in Financial Planning (PS146 Compliant); Graduate Diploma in Financial Planning; Bachelor of Commerce (Accounting)
Experience	Member of the Board since 2005; Member of the Institute of Chartered Accountants in Australia since 12 January 2001; Member of the Australasian Credit Union Institute
Interest in shares and options	1 Ordinary Share in Northern Inland Credit Union Ltd
Special responsibilities	Director and Chair of the Board (01.07.18 - current); Member and Chair of Remuneration & Executive Committee (01.07.18 - current); Ex officio member of all sub committees (01.07.18 - current)
Occupation	Accountant

Barry Edward Pratten	
Experience	Member of the Board since 1993; Member of the Australasian Credit Union Institute
Interest in shares and options	1 Ordinary Share in Northern Inland Credit Union Ltd
Special responsibilities	Director (01.07.18 - current); Member of Remuneration & Executive Committee (01.07.18 - current); Deputy Chair of the Board (01.07.18 - current); Member of Marketing Committee (01.07.18 - 04.12.18); Chair of Marketing Committee (04.12.18 - current)
Occupation	Grazier

1. General information (continued)

Information on directors (continued)

John Cooke

Experience	Member of the Board since 1998; Member of the Australasian Credit Union Institute
Interest in shares and options	1 Ordinary Share in Northern Inland Credit Union Ltd
Special responsibilities	Director (01.07.18 - 05.11.19); Member of Marketing Committee (01.07.18 - current)
Occupation	Builder (retired)

Robert John Carrington

Experience	Member of the Board since 2000; Member of the Australasian Credit Union Institute
Interest in shares and options	1 Ordinary Share in Northern Inland Credit Union Ltd
Special responsibilities	Director (01.07.18 - current); Member of Audit Committee (01.07.18 - current); Member of Marketing Committee (01.07.18 - current); Reserve Member of Remuneration & Executive Committee (04.12.18 - current)
Occupation	Accountant

Geoffrey William Harris

Qualifications	Diploma in Financial Services
Experience	Member of the Board since 2004; Member of the Australasian Credit Union Institute; Manager of Northern Inland Investment Trust
Interest in shares and options	1 Ordinary Share in Northern Inland Credit Union Ltd
Special responsibilities	Director (01.07.18 - current); Chair of Trust Operations Committee (01.07.18 - current); Member of Board Risk Committee (01.07.18 - current); Member of Board Nomination Committee (for meeting 02.10.18)
Occupation	Retired CEO of Northern Inland Credit Union Ltd

Charles Joseph McCarthy

Experience	Member of the Board since 2006; Fellow of the Australian Society of Certified Practicing Accountants; Associate of the Institute of Chartered Secretaries and Administrators; Associate Fellow of the Australian Institute of Management; Company Director; Company Secretary; Management Accounting Consultant
Interest in shares and options	1 Ordinary Share in Northern Inland Credit Union Ltd
Special responsibilities	Director (01.07.18 - current); Chair of Audit Committee (01.07.18 - current); Reserve Member of Remuneration & Executive Committee (01.07.18 - 04.12.18)
Occupation	Accountant

Directors' Report
30 June 2019

1. General information (continued)

Information on directors (continued)

Wayne Austin Riggien

Qualifications	Bachelor of Commerce (Economics); Bachelor of Laws
Experience	Member of the Board since 2009; Member of the NSW Law Society; Company Director; Member of the Australasian Credit Union Institute
Interest in shares and options	1 Ordinary Share in Northern Inland Credit Union Ltd
Special responsibilities	Director (01.07.18 - current); Chair of Board Risk Committee (01.07.18 - current)
Occupation	Solicitor

David Michael Winnick

Qualifications	Bachelor of Business
Experience	Member of the Board since 2014; Member of the Australasian Credit Union Institute
Interest in shares and options	1 Ordinary Share in Northern Inland Credit Union Ltd
Special responsibilities	Director (01.07.18 - current); Member of Marketing Committee (01.07.18 - current); Member of Board Risk Committee (01.07.18 - current)
Occupation	Business Manager

Graham Russell Goodman

Qualifications	Bachelor of Arts (Economics)
Experience	Member of Board since 2016, Fellow Member of the Australasian Credit Union Institute
Interest in shares and options	1 Ordinary Share in Northern Inland Credit Union Ltd
Special responsibilities	Director (01.07.18 - current); Member of Audit Committee (01.07.18 - current); Member of Marketing Committee (01.07.18 - current); Member of Remuneration & Executive Committee (04.12.18 - current); Member of Board Nomination Committee (for meeting 02.10.18)
Occupation	Retired

Company secretary

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

Anna Clark (Compliance Officer) has been the company secretary since 2011.

Directors' Report
30 June 2019

1. General information (continued)

Principal activities

The principal activities of the Group during the financial year were:

- To accept funds on deposit from Members;
- To apply these funds to make loans to Members; and
- To provide other required services to Members.

Activity of the entities within the consolidated entity during the year was the provision of a complete range of financial products and services to Members.

No significant change in the nature of these activities occurred during the year.

2. Operating results and review of operations for the year

Operating results

The consolidated profit of the Group amounted to $1,027,529 (2018: profit of $1,075,424).

Dividends paid or recommended

No dividends were paid or declared since the start of the financial year. No recommendation for payment of dividends has been made.

Review of operations

A review of the operations of the Group during the financial year and the results of those operations is contained within the Chair and Chief Executive Officer's joint report.

3. Other items

Significant changes in state of affairs

There have been no significant changes in the state of affairs of entities in the Group during the year.

Events after the reporting date

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

Future developments and results

Likely developments in the operations of the Group and the expected results of those operations in future financial years have not been included in this report as the inclusion of such information is likely to result in unreasonable prejudice to the Group.

Directors' Report
30 June 2019

3. Other items (continued)

Directors' benefits

No Director has received or become entitled to receive during, or since the financial year, a benefit because of a contract made by NICU, controlled credit union, or a related body corporate with a Director, a firm of which a Director is a member or a credit union in which a Director has a substantial financial interest, other than that disclosed in Note 25 of the financial report.

Meetings of directors

During the financial year, 25 meetings of Directors (including committees of Directors) were held. Attendances by each director during the year were as follows:

	Board Meetings		Audit Committee		Marketing Committee		Remuneration & Executive Committee	
	Number eligible to attend	Number attended	Number eligible to attend	Number attended	Number eligible to attend	Number attended	Number eligible to attend	Number attended
Barry Pratten	12	10	-	-	3	2	-	-
Robert Studte	12	12	5	5	3	3	-	-
John Cooke	12	12	-	-	3	3	-	-
Robert Carrington	12	12	5	5	3	3	-	-
Geoffrey Harris	12	9	-	-	-	-	-	-
Charles McCarthy	12	11	5	5	-	-	-	-
Wayne Riggien	12	11	-	-	-	-	-	-
David Winnick	12	12	-	-	3	3	-	-
Graham Goodman	12	12	5	5	3	3	-	-

	Board Risk Committee		Board Nomination Committee	
	Number eligible to attend	Number attended	Number eligible to attend	Number attended
Barry Pratten	-	-	-	-
Robert Studte	4	4	1	1
John Cooke	-	-	-	-
Robert Carrington	-	-	-	-
Geoffrey Harris	4	4	1	1
Charles McCarthy	-	-	-	-
Wayne Riggien	4	4	-	-
David Winnick	4	4	-	-
Graham Goodman	-	-	1	1

Directors' Report
30 June 2019

Indemnification and insurance of officers and auditors

Insurance premiums have been paid to insure each of the Directors and officers of NICU, against any costs and expenses incurred by them in defending any legal proceeding arising out of their conduct while acting in their capacity as an officer of NICU. In accordance with normal commercial practice disclosure of the premium amount and the nature of the insured liabilities is prohibited by a confidentiality clause in the contract.

No insurance cover has been provided for the benefit of the auditors of NICU.

Proceedings on behalf of company

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

Disclosure of Prudential Information

NICU is an Authorised Deposit-taking institution regulated by the Australian Prudential Regulation Authority (APRA). As a result of this regulation, NICU is required to comply with Australian Prudential Standards (APS) released by APRA. APS 330 Public Disclosure requires NICU to disclose information regarding its composition of regulatory capital base and risk exposures and a reconciliation of the balance sheet in the financial statements to the balance sheet prepared under the regulatory scope of consolidation. Please refer to the "Disclosure Documents - Regulatory Disclosures" section of NICU's website for further information.

Auditor's independence declaration

The lead auditor's independence declaration in accordance with section 307C of the *Corporations Act 2001*, for the year ended 30 June 2019 has been received and can be found on page 8 of the financial report.

Signed in accordance with a resolution of the Board of Directors:

Chair: ....
Robert James Studte

Deputy Chair: ....
Barry Edward Pratten

Dated 1 October 2019

Auditors Independence Declaration under Section 307C of the Corporations Act 2001

I declare that, to the best of my knowledge and belief, during the year ended 30 June 2019, there have been:

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

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

PKF
Chartered Accountants

SCOTT TOBUTT
Partner

Dated 1 October 2019

Sydney, NSW

Statement of Profit or Loss and Other Comprehensive Income

For the Year Ended 30 June 2019

		Consolidated Group		Northern Inland Credit Union Ltd	
		2019	2018	2019	2018
	Note	$	$	$	$
Interest income	3(a)	**12,683,107**	12,080,299	**12,619,227**	12,021,757
Interest expense	3(c)	**(3,691,299)**	(3,279,869)	**(3,691,299)**	(3,279,869)
Net interest income		**8,991,808**	8,800,430	**8,927,928**	8,741,888
Fee commission and other income	3(b)	**2,020,370**	2,170,021	**1,514,246**	1,659,043
		11,012,178	10,970,451	**10,442,174**	10,400,931
Non interest expenses					
Impairment losses on loans to Members	d(3)	**(24,791)**	17,138	**(24,791)**	17,138
General administration					
Employees compensation and benefits	3(g)	**(4,387,481)**	(4,354,253)	**(4,022,275)**	(4,019,807)
Depreciation and amortisation expense	3(e)	**(792,091)**	(351,121)	**(771,341)**	(330,405)
Occupancy expense	3(f)	**(252,775)**	(493,910)	**(232,050)**	(466,119)
Other operating expenses	3(f)	**(4,137,816)**	(4,256,234)	**(4,059,506)**	(4,203,437)
Total non interest expenses		**(9,594,954)**	(9,438,380)	**(9,109,963)**	(9,002,630)
Profit before income tax		**1,417,224**	1,532,071	**1,332,211**	1,398,301
Income tax expense	4	**(389,695)**	(456,647)	**(359,978)**	(419,300)
Profit for the year after income tax		**1,027,529**	1,075,424	**972,233**	979,001
Other comprehensive income					
Surplus on revaluation of land and buildings, net of tax		1,682,124	-	1,682,124	-
Surplus on revaluation of financial assets, net of tax		447,260	-	447,260	-
Other comprehensive income for the year, net of tax		**2,129,384**	-	**2,129,384**	-
Total comprehensive income/(loss) for the year		**3,156,913**	1,075,424	**3,101,617**	979,001
Profit attributable to:					
Members of the parent entity		**1,021,520**	1,056,346	**972,233**	979,001
Non-controlling interest		**6,009**	19,078	**-**	-
		1,027,529	1,075,424	**972,233**	979,001

The accompanying notes form part of these financial statements.

Northern Inland Credit Union Limited
ABN: 36 087 650 422

Statement of Financial Position
As At 30 June 2019

	Note	Consolidated Group 2019 $	Consolidated Group 2018 $	Northern Inland Credit Union Ltd 2019 $	Northern Inland Credit Union Ltd 2018 $
ASSETS					
Cash assets	5	**15,400,884**	14,663,874	**15,117,448**	14,385,128
Liquid investments	6	**43,823,565**	35,645,787	**41,523,565**	33,545,787
Receivables	7	**322,547**	272,732	**276,826**	221,720
Loans to Members	9, 8	**243,073,229**	230,164,821	**243,073,229**	230,164,821
Investments	10	**1,233,820**	656,919	**1,233,821**	656,920
Property, plant and equipment	11	**4,694,997**	2,237,847	**4,690,666**	2,231,511
Investment property	12	**919,510**	937,845	**-**	-
Deferred tax assets	13	**578,542**	573,015	**567,007**	566,123
Intangible assets	14	**3,107,080**	1,479,749	**2,056,685**	429,354
Other assets	15	**387,460**	495,340	**380,171**	489,725
TOTAL ASSETS		**313,541,634**	287,127,929	**308,919,418**	282,691,089
LIABILITIES					
Deposits from Members	16	**267,585,750**	245,429,389	**268,041,663**	245,978,878
Creditor accrual & settlement accounts	17	**4,167,868**	3,782,009	**4,153,153**	3,772,990
Taxation liabilities	19	**885,814**	169,227	**892,098**	169,084
Provisions	18	**1,545,190**	1,570,255	**1,508,620**	1,547,870
TOTAL LIABILITIES		**274,184,622**	250,950,880	**274,595,534**	251,468,822
NET ASSETS		**39,357,012**	36,177,049	**34,323,884**	31,222,267
MEMBERS' EQUITY					
Reserves	20	**38,734,681**	35,583,777	**34,323,884**	31,222,267
Total equity attributable to equity holders of the NICU		**38,734,681**	35,583,777	**34,323,884**	31,222,267
Non-controlling interest		**622,331**	593,272	**-**	-
TOTAL MEMBER'S EQUITY		**39,357,012**	36,177,049	**34,323,884**	31,222,267

The accompanying notes form part of these financial statements.

Northern Inland Credit Union Limited

ABN: 36 087 650 422

Statement of Changes in Equity

For the Year Ended 30 June 2019

Consolidated Group

	Retained Earnings	General Reserve	Reserve for Credit Losses	Member's Shares Reserve	Shares Revaluation Reserve	Asset Revaluation Reserve	Total
	$	$	$	$	$	$	$
Balance at 1 July 2018	**-**	**34,412,575**	**850,000**	**321,202**	**-**	**-**	**35,583,777**
Changes on initial adoption of AASB 9 at 1 July 2018	**-**	**-**	**-**	**-**	**447,260**	**-**	**447,260**
Adjusted balance as at 1 July 2018	**-**	**-**	**-**	**-**	**447,260**	**-**	**447,260**
Profit for the year	**1,021,520**	**-**	**-**	**-**	**-**	**-**	**1,021,520**
	-	**-**	**-**	**-**	**-**	**-**	**-**
Transfers to/(from) reserves	**(1,021,520)**	**1,009,424**	**-**	**12,096**	**-**	**-**	**-**
Movement due to revaluations	**-**	**-**	**-**	**-**	**-**	**1,682,124**	**1,682,124**
Balance at 30 June 2019	**-**	**35,421,999**	**850,000**	**333,298**	**447,260**	**1,682,124**	**38,734,681**
Balance at 1 July 2017	-	33,364,083	850,000	313,348	-	-	34,527,431
Profit for the year	1,056,346	-	-	-	-	-	1,056,346
Transfers to/(from) reserves	(1,056,346)	1,048,492	-	7,854	-	-	-
Balance at 30 June 2018	-	34,412,575	850,000	321,202	-	-	35,583,777

Northern Inland Credit Union Ltd

	Retained Earnings	General Reserve	Reserve for Credit Losses	Member's Shares Reserve	Shares Revaluation Reserve	Asset Revaluation Reserve	Total
	$	$	$	$	$	$	$
Balance at 1 July 2018	**-**	**30,051,065**	**850,000**	**321,202**	**-**	**-**	**31,222,267**
Changes on initial adoption of AASB 9 at 1 July 2018	**-**	**-**	**-**	**-**	**447,260**	**-**	**447,260**
Adjusted balance as at 1 July 2018	**-**	**-**	**-**	**-**	**447,260**	**-**	**447,260**
Profit for the year	**3,101,617**	**-**	**-**	**-**	**-**	**-**	**3,101,617**
Transfers to/(from) reserves	**(972,233)**	**960,137**	**-**	**12,096**	**-**	**-**	**-**
Movement due to revaluations	**-**	**-**	**-**	**-**	**-**	**1,682,124**	**1,682,124**
Balance at 30 June 2019	**2,129,384**	**31,011,202**	**850,000**	**333,298**	**447,260**	**1,682,124**	**36,453,268**
Balance at 1 July 2017	-	29,079,918	850,000	313,348	-	-	30,243,266
Profit for the year	979,001	-	-	-	-	-	979,001
Transfers to/(from) reserves	(979,001)	971,147	-	7,854	-	-	-
Balance at 30 June 2018	-	30,051,065	850,000	321,202	-	-	31,222,267

The accompanying notes form part of these financial statements.

Statement of Cash Flows

For the Year Ended 30 June 2019

	Note	Consolidated Group 2019 $	Consolidated Group 2018 $	Northern Inland Credit Union Ltd 2019 $	Northern Inland Credit Union Ltd 2018 $
CASH FLOWS FROM OPERATING ACTIVITIES:					
Interest received		**12,431,886**	11,862,560	**12,363,970**	11,806,724
Fees and commissions		**2,273,001**	2,512,020	**1,712,263**	1,945,996
Dividends		**25,705**	51,496	**25,705**	51,496
Interest paid		**(3,568,380)**	(3,248,429)	**(3,568,380)**	(3,248,522)
Payment to suppliers and employees		**(9,116,079)**	(8,007,800)	**(8,632,956)**	(7,389,926)
Income taxes paid		**(486,330)**	(440,324)	**(445,545)**	(413,116)
Net cash (used in)/from revenue activities	30(a)	**1,559,803**	2,729,523	**1,455,057**	2,752,652
Net (decrease)increase in Member deposits and shares		**20,445,045**	18,911,561	**20,350,212**	18,999,180
Net decrease/(increase) in deposits to other financial institutions		**(8,206,571)**	(534,919)	**(8,623,481)**	(634,919)
Net (increase)/decrease in Member loans		**(12,908,192)**	(16,912,489)	**(12,908,192)**	(16,912,489)
Net cash provided by/(used in) operating activities		**890,085**	4,193,676	**273,596**	4,204,424
CASH FLOWS FROM INVESTING ACTIVITIES:					
Proceeds on sale of property, plant and equipment		**-**	1,691	**-**	1,691
Proceeds on disposal of investments		**-**	-	**616,910**	-
Purchase of intangible assets		**(38,106)**	(157,542)	**(38,106)**	(101,148)
Purchase of property, plant and equipment		**(114,969)**	(385,574)	**(114,561)**	(438,641)
Net cash provided by/(used in) investing activities		**(153,075)**	(541,425)	**464,243**	(538,098)
CASH FLOWS FROM FINANCING ACTIVITIES:					
Repayment of loan		**-**	-	**(5,519)**	(19,067)
Net cash provided by/(used in) financing activities		**-**	-	**(5,519)**	(19,067)
Net increase/(decrease) in cash and cash equivalents held		**737,010**	3,652,251	**732,320**	3,647,259
Cash at beginning of year		**14,663,874**	11,011,623	**14,385,128**	10,737,869
Cash at end of financial year	30(b)	**15,400,884**	14,663,874	**15,117,448**	14,385,128

Notes to the Financial Statements
For the Year Ended 30 June 2019

The financial report includes the consolidated financial statements and notes of Northern Inland Credit Union Limited and controlled entities (the Group) and the separate financial statements and notes of Northern Inland Credit Union Limited as an individual entity (NICU). The report was authorised for issue on 1 October 2019 in accordance with a resolution of the board of directors. Northern Inland Credit Union Limited is a for profit entity for the purpose of preparing the financial statements.

The consolidated financial statements are presented in Australian dollars which is the parent entity's functional and presentation currency.

1. Summary of Significant Accounting Policies

(a) Basis of Preparation

The financial statements are general purpose financial statements that have been prepared in accordance with Australian Accounting Standards, Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001.

These financial statements and notes comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The significant accounting policies used in the preparation and presentation of these financial statements are provided below and are consistent with prior reporting periods unless otherwise stated.

The financial statements have been prepared on an accruals basis, and are based on historical costs, which do not take into account changing money values or current values of non current assets except for real property and investments classified as FVOCI which are stated at fair value. The accounting policies are consistent with the prior year unless otherwise stated.

(b) Principles of Consolidation

The consolidated financial statements include the financial position and performance of controlled entities from the date on which control is obtained until the date that control is lost.

Intragroup assets, liabilities, equity, income, expenses and cashflows relating to transactions between entities in the consolidated entity have been eliminated in full for the purpose of these financial statements.

Appropriate adjustments have been made to a controlled entity's financial position, performance and cash flows where the accounting policies used by that entity were different from those adopted by the consolidated entity. All controlled entities have a June financial year end.

A list of controlled entities is contained in Note 26 to the financial statements.

(c) Changes in significant accounting policies

New standards applicable for the current year

<u>AASB 15 Revenue from contracts with customers</u>

AASB 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaced AASB 118 Revenue, AASB 111 Construction Contracts and related interpretations.

1. Summary of Significant Accounting Policies (continued)

(c) Changes in significant accounting policies (continued)

New standards applicable for the current year (continued)

NICU applied AASB 15 on 1 July 2018 retrospectively in accordance with AASB 108 Accounting Policies, Changes in Accounting Estimates and Errors without any practical expedients. The timing or amount of NICU's fee and commission income from contracts with Members was not impacted by the adoption of AASB 15. The impact of AASB 15 was limited to the new disclosure requirements.

AASB 9 Financial Instruments

AASB 9 Financial Instruments replaces AASB 139 Financial Instruments: Recognition and Measurement. It makes major change to the previous guidance on the classification and measurement of financial assets and introduces an 'expected credit loss' model for impairment of financial assets.

When adopting AASB 9, NICU has applied transitional relief and opted not to restate prior periods. Differences arising from the adoption of AASB 9 in relation to classification, measurement, and impairment are recognised in opening retained earnings as at 1 July 2018.

The adoption of AASB 9 has impacted the classification and measurement of NICU's financial assets.

AASB 9 allows for three categories of classification of financial assets:

- amortised cost,
- FVOCI (Fair Value through Other Comprehensive Income), and
- FVPL (Fair Value through Profit and Loss).

Classification is based on the business model in which a financial asset is managed and the related contractual cashflows. AASB 9 eliminates previous categories of held to maturity, loans and receivables and available for sale. Classification of financial liabilities is largely unchanged. Refer to the below table for a reconciliation of changes in classification and measurement of financial instruments on adoption of AASB 9.

Impairment of financial assets

Financial assets carried at amortised cost and those carried at fair value through other comprehensive income (FVOCI) are subject to AASB 9's new three-stage expected credit loss model. Loss allowances are measured at an amount equal to lifetime expected credit losses (ECL), except for the following, which are measured as 12 months ECL:

- debt investment securities that are determined to have a low credit risk at the reporting date; and
- other financial instruments on which credit risk has not significantly increased since initial recognition.

1. Summary of Significant Accounting Policies (continued)

(c) Changes in significant accounting policies (continued)

New standards applicable for the current year (continued)

The impacts on adoption of AASB 9 at 1 July 2018 are shown below:

	Cash assets	Liquid investments	Loans to members	Provision on impaired loans	Investment securities	Receivables	Deposits from members	Creditors
	$	$	$	$	$	$	$	$
Balances reported under AASB 139	14,663,874	35,645,787	230,164,821	14,722	656,919	272,732	245,429,389	3,782,020
Reclassify investments from Available for Sale to FVOCI - equity	-	-	-	-	447,260	-	-	-
Increase in deferred tax assets relating to expected credit losses	-	-	-	-	129,641	-	-	-
Adjustments to balances as a result of adoption of AASB 9	-	-	-	-	576,901	-	-	-

The move to the expected credit loss model under AASB 9 did not result in an increase of the provision for loans to Members at the adoption date. Refer to Note 9 for further details.

On adoption of AASB 9, NICU revalued its shares in CUSCAL. This revaluation is reflected in the creation of a Fair Value through Other Comprehensive Income Reserve. A deferred tax liability at 27.5% partly offset this revaluation. There was no other impact on the financial statements.

AASB 9 contains exemptions from full retrospective application for the classification and measurement requirements of the new standard, including impairment. These include an exception from the requirement to restate comparative information. Because NICU has elected not to restate comparatives, different accounting policies apply to financial assets and liabilities pre and post adoption of the standard. Therefore, both the pre and post adoption accounting policies for financial instruments are disclosed in the note below.

Financial assets and liabilities

Financial assets and liabilities are recognised when NICU becomes a party to the contractual provisions of the financial instrument and are measured initially at cost adjusted by transaction costs, except for those carried at fair value through the profit or loss, which are measured initially at fair value. Subsequent measurement of financial assets and liabilities are described below.

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and all substantial risks and rewards are transferred. A financial liability is derecognised when it is extinguished, discharged, cancelled or expires.

1. Summary of Significant Accounting Policies (continued)

(c) Changes in significant accounting policies (continued)

New standards applicable for the current year (continued)

Accounting Policy applicable from 1 July 2018

Classification and measurement of financial liabilities

As the accounting for financial liabilities remains largely unchanged from AASB 139, NICU's financial liabilities were not impacted by the adoption of AASB 9. However, for completeness, the accounting policy is disclosed below.

Financial liabilities include borrowings, Member deposits and other payables. They are initially measured at fair value, and where applicable, adjusted for transaction costs unless NICU designated a financial liability at fair value through the profit and loss. Subsequently, financial liabilities are measured at amortised cost using the effective interest method except financial liabilities designated at FVPL, which are carried subsequently at fair value with gains or losses recognised in the profit and loss.

All interest related charges and if applicable, changes in an instrument's fair value that are reported in profit and loss are included within interest or non-interest expenses.

Classification of financial assets

Except for those trade receivables that do not contain a significant financing component and are measured at the transaction price, all financial assets are initially measured at fair value adjusted for transaction costs (where applicable).

For the purpose of subsequent measurement, financial assets other than those designated and effective as hedging instruments are classified into the following categories upon initial recognition:
- Amortised cost;
- Fair value through profit and loss (FVPL); or
- Fair value through other comprehensive income (FVOCI).

All income and expenses relating to financial assets that are recognised in profit or loss are presented within net interest income, fees commissions and other income or non-interest expenses.

Classifications are determined by both:
- NICU's business model for managing the financial asset, and
- The contractual cash flow characteristics of the financial assets.

Subsequent measurement of financial assets

Financial assets at amoritsed costs

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

1. **Summary of Significant Accounting Policies (continued)**

(c) **Changes in significant accounting policies (continued)**

New standards applicable for the current year (continued)

After initial recognition, these are measured at amortised cost using the effective interest method. Discounting is omitted where the effect of discounting is immaterial. Cash, cash equivalents and trade receivables fall into this category of financial instruments as well as bonds that were previously classified as held to maturity under AASB 139.

Financial assets at Fair Value through Profit and 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. Irrespective of the business model, financial assets whose contractual cash flows are not solely payments of principal and interest are accounted for at FVPL.

Fair Value through Other Comprehensive Income (FVOCI)

Investments in equity instruments 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 such as shares in CUSCAL that were previously classified as ‘available for sale’ under AASB 139.

Loans to Members

Loans and advances’ captions in the statement of financial position include loans and advances measured at amortised cost; they are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method.

Loans and advances were non-derivative financial assets with fixed or determinable payments that were not quoted in an active market and that NICU did not intend to sell immediately or in the near term.

AASB 16 Leases

AASB 16 replaces AASB 117 Leases and requires all leases to be accounted for ‘on balance sheet’ by lessees, other than short term and low value asset leases. NICU has early adopted AASB 16 on 1 July 2018 after having undertaken a detailed assessment of its impact.

NICU recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

1. Summary of Significant Accounting Policies (continued)

(c) Changes in significant accounting policies (continued)

New standards applicable for the current year (continued)

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

The leases disclosed have all commenced during the financial year.

(d) Financial instruments - policy applicable before 1 July 2018

On initial recognition, all financial instruments are measured at amortised cost plus transaction costs (except for instruments measured at fair value through profit or loss where transaction costs are expensed as incurred).

Financial Assets

Financial assets are divided into the following categories which are described in detail below:

- loans and receivables;
- financial assets at fair value through profit or loss;
- available-for-sale financial assets; and
- held-to-maturity investments.

Financial assets are assigned to the different categories on initial recognition, depending on the characteristics of the instrument and its purpose. A financial instrument's category is relevant to the way it is measured and whether any resulting income and expenses are recognised in profit or loss or in other comprehensive income.

All income and expenses relating to financial assets are recognised in the statement of profit or loss and other comprehensive income in the 'finance income' or 'finance costs' line item respectively.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and services to Members but also incorporate other types of contractual monetary assets.

After initial recognition these are measured at amortised cost using the effective interest method, less provision for impairment. Any change in their value is recognised in profit or loss.

NICU's trade and most other receivables fall into this category of financial instruments.

The amount of the impairment is the difference between the net carrying amount and the present value of the future expected cash flows associated with the impaired receivable.

For trade receivables, impairment provisions are recorded in a separate allowance account with the loss being recognised in profit or loss. When confirmation has been received that the amount is not collectable, the gross carrying value of the asset is written off against the associated impairment provision.

Subsequent recoveries of amounts previously written off are credited against other expenses in profit or loss.

1. Summary of Significant Accounting Policies (continued)

(d) Financial instruments - policy applicable before 1 July 2018 (continued)

Financial Assets (continued)

Financial assets at fair value through profit or loss

Assets included within this category are carried in the statement of financial position at fair value with changes in fair value recognised in finance income or expenses in profit or loss. The fair values of financial assets in this category are determined by reference to active market transactions or using a valuation technique where no active market exists.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that do not qualify for inclusion in any of the other categories of financial assets. NICU's available-for-sale financial assets include listed securities and its investment in CUSCAL.

Available-for-sale financial instruments are recognised initially at fair value plus any directly attributable transaction costs on the trade date, which is the date that NICU becomes a party to provision of the instruments. Subsequent to initial recognition, available for sale financial instruments are measured at fair value unless fair value is unable to be determined reliably, in which case they are carried at cost.

Changes in fair value, other than impairment losses, for available-for-sale financial instruments are recognised in other comprehensive income and presented in the fair value reserve in equity. When an available-for-sale financial instrument is derecognised, the cumulative gain or loss in equity is reclassified to profit or loss. Available-for-sale financial instruments comprise of shares.

Held-to-maturity financial assets

If NICU has the positive intent and ability to hold debt securities to maturity, then such financial assets are classified as held-to-maturity. Held-to-maturity financial assets are recognised initially at fair value plus any directly attributable transaction costs on the trade date, which is the date that NICU becomes a party to provision of the instruments. Subsequent to initial recognition, held-to-maturity financial assets are measured at amortised cost using the effective interest method, less any impairment losses. Held-to-maturity financial assets comprises of debentures. NICU’s investments in interest bearing deposits are classified as held-to-maturity.

1. Summary of Significant Accounting Policies (continued)

(e) Revenue Recognition

Revenues are recognised at fair value of the consideration received net of the amount of goods and services tax (GST) payable to the Australian Tax Office (ATO). Exchanges of goods or services of the same nature and value without any cash consideration are not recognised as revenues.

Sale of Non-current Assets

Revenue from the disposal of assets is recognised when title passes from NICU to the purchaser. The gain or loss on disposal is calculated as the difference between the carrying amount of the asset at the time of disposal and the net proceeds on disposal.

Dividends

Dividend income is recognised on the date NICU's right to receive payment is established.

Interest Income

Interest income is recognised in the profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset (or, where appropriate, a shorter period) to the carrying amount of the financial asset. When calculating the effective interest rate, NICU estimates future cash flows considering all contractual terms of the financial instruments, but not future credit losses.

Loan Origination Fees

Loan origination fees are initially deferred as part of the loan balance, and are brought to account as income over the expected life of the loan. The amounts brought to account are included as part of interest revenue.

Rental Income

Rental income from operating leases is recognised on a straight line basis over the term of the lease.

Other Revenue

Fee, commission and other revenue is recognised when the service is completed, or when the fee in respect of services provided is receivable.

(f) Transaction Costs

Transaction costs are expenses which are direct and incremental to the establishment of the loan. These costs are initially deferred as part of the loan balance, and are brought to account as a reduction to income over the expected life of the loan.

(g) Income Tax

The tax expense recognised in the statement of profit or loss and other comprehensive income relates to current income tax expense plus deferred tax expense (being the movement in deferred tax assets and liabilities and unused tax losses during the year).

1. Summary of Significant Accounting Policies (continued)

(g) Income Tax (continued)

Current tax is the amount of income taxes payable (recoverable) in respect of the taxable profit (tax loss) for the year and is measured at the amount expected to be paid to (recovered from) the taxation authorities, using the tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is provided on temporary differences which are determined by comparing the carrying amounts of tax bases of assets and liabilities to the carrying amounts in the consolidated financial statements.

Deferred tax is not provided for the following:

- The initial recognition of an asset or liability in a transaction that is not a business combination and at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss).
- Taxable temporary differences arising on the initial recognition of goodwill.
- Temporary differences related to investment in subsidiaries, associates and jointly controlled entities to the extent that the Group is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax consequences relating to a non-monetary asset carried at fair value are determined using the assumption that the carrying amount of the asset will be recovered through sale.

Deferred tax assets are recognised for all deductible temporary differences and unused tax losses to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and losses can be utilised.

Current tax assets and liabilities are offset where there is a legally enforceable right to set off the recognised amounts and there is an intention either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Deferred tax assets and liabilities are offset where there is a legal right to set off current tax assets against current tax liabilities and the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Current and deferred tax is recognised as income or an expense and included in profit or loss for the period except where the tax arises from a transaction which is recognised in other comprehensive income or equity, in which case the tax is recognised in other comprehensive income or equity respectively.

Northern Inland Credit Union Limited and its wholly-owned Australian subsidiary and unit trust have been consolidated for tax purposes under the Tax Consolidation System. NICU is responsible for recognising the current tax assets and liabilities for the consolidated group. The tax consolidated group has a tax sharing agreement whereby each entity in the group contributes to the income tax payable in proportion to their contribution to the taxable profit of the tax consolidated group.

1. Summary of Significant Accounting Policies (continued)

(h) Cash and Cash Equivalents

Cash and cash equivalents comprise cash on hand and demand deposits which are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value.

(i) Loans and Advances to Members

All loans are initially recognised at fair value, net of transaction costs incurred and inclusive of loan origination fees on the date that they are originated. Loans are subsequently measured at amortised cost less impairment losses. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the profit or loss over the period of the loan using the effective interest method.

Loans are derecognised if NICU's contractual rights to the cash flows from the loans expire or if NICU transfers the loan to another party without retaining control or substantially all risks and rewards of the loan.

(j) Loan Impairment

Policy applicable after 1 July 2018

AASB 9's impairment requirements use more forward looking information to recognise expected credit losses – the 'expected credit loss model' (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 and some financial guarantee contracts (for the issuer) that are not measured at fair value through profit or loss.

A broader range of information is considered when assessing credit risk and measuring expected credit losses, including past events, current conditions, reasonable and supportable forecasts that affect the expected collectability of the future cash flows of the instrument.

In applying this forward-looking approach, three distinction stages of impairment are made:
- Stage 1 - financial instruments that have not deteriorated significantly in credit quality since initial recognition or that have low credit risk (performing loans);
- Stage 2 - financial instruments that have deteriorated significantly in credit quality since initial recognition and whose credit risk is not low (underperforming loans); and
- Stage 3 - covers financial assets that have objective evidence of impairment (loans in default/non-performing) at the reporting date.

Measurement of ECL

'12 month expected credit losses' are recognised for the first category while 'lifetime expected credit losses' are recognised for the second category. Measurement of the expected credit losses is determined by a probability weighted estimate of credit losses over the expected life of the financial instrument. They are measured as follows:
- Financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due in accordance with the contract and the cash flows expected to be received);
- Financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows;
- Undrawn loan commitments, being the present value of the difference between the contractual cash flows that are due if the commitment is drawn down and the cash flows expected to be received; and
- Financial guarantee contracts, being the expected payments to reimburse the holder less any amounts expected to be recovered.

1. Summary of Significant Accounting Policies (continued)

(j) Loan Impairment (continued)

Credit impaired financial assets

At each reporting date, NICU 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 on terms that would otherwise not be considered;
- 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.

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 undrawn component, and ECL cannot be identified on the loan commitment component separately from those on the drawn component, a combined loss allowance for both components is presented. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision.

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 it is determined 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 procedures for recovery of amounts due.

Policy applicable before 1 July 2018

Losses on impaired loans will be recognised when there is objective evidence that impairment of a loan or portfolio of loans has occurred.

Specific Provision

Losses for impaired loans are recognised when there is objective evidence that the impairment of a loan has occurred. Impairment losses are calculated on individual loans. The amount provided for impairment is determined by management and the Board to recognise the probability of the loan amount not being collected in accordance with the terms of the loan agreement.

1. Summary of Significant Accounting Policies (continued)

(j) Loan Impairment (continued)

Collective Impairment Provision

The collective impairment provision is based on historical loss experience for groups of loans with similar credit risk characteristics.

Reserve for Credit Losses

In addition to the above specific provision, the Board has recognised the need to make an allocation from General Reserves to ensure there is adequate protection for Members against the prospect that some Members will experience loan repayment difficulties. The reserve is based on estimation of potential risk in the loan portfolio based on loan purpose, taking into consideration the history of loan write-offs and assigning a probability of impairment.

Renegotiated Loans

Loans which are subject to renegotiated terms which would have otherwise been impaired do not have the repayment arrears diminished and interest continues to accrue to income. Each renegotiated loan is retained at the full arrears position until the normal repayments are reinstated and brought up to date and maintained for a period of three months.

(k) Impairment

At the end of each reporting period, NICU determines whether there is evidence of an impairment indicator for non-financial assets.

Where this indicator exists and regardless for goodwill, indefinite life intangible assets and intangible assets not yet available for use, the recoverable amount of the assets is estimated.

Where assets do not operate independently of other assets, the recoverable amount of the relevant cash-generating unit (CGU) is estimated.

The recoverable amount of an asset or CGU is the higher of the fair value less costs of disposal and the value in use. Value in use is the present value of the future cash flows expected to be derived from an asset or cash-generating unit.

Where the recoverable amount is less than the carrying amount, an impairment loss is recognised in profit or loss.

Reversal indicators are considered in subsequent periods for all assets which have suffered an impairment loss, except for goodwill.

(l) Equity Investments and Other Securities

Investments in shares are classified as fair value through other comprehensive income (FVOCI).

Investments in shares that do not have a ready market and are not capable of being reliably valued are recorded at the assessed fair value amount.

All investments are in Australian currency.

1. Summary of Significant Accounting Policies (continued)

(m) Intangible Assets

Items of computer software which are not integral to the computer hardware owned by NICU are classified as intangible assets.

Computer software is amortised over the expected useful life of the software on a straight-line basis. These lives range from 3 to 5 years.

The finance portfolio acquired is stated at cost and are considered to have indefinite useful lives and are not amortised. The useful life is assessed annually to determine whether events or circumstances continue to support an indefinite useful life assessment. The carrying value of the finance portfolio is reviewed annually for impairment, at the same time every year.

(n) Bad debts written off

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

(o) Property, Plant and Equipment

Classes of property, plant and equipment are measured using the cost model as specified below.

Where the cost model is used, the asset is carried at its cost less any accumulated depreciation and any impairment losses. Costs include purchase price, other directly attributable costs and the initial estimate of the costs of dismantling and restoring the asset, where applicable.

Depreciation

The depreciable amount of all property, plant and equipment, except for freehold land is depreciated on a straight-line method from the date that management determine that the asset is available for use.

Assets held under a finance lease and leasehold improvements are depreciated over the shorter of the term of the lease and the assets useful life.

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

Fixed asset class	Useful life
Buildings	10 to 40 years
Leasehold improvements	5 to 10 years
Plant and Equipment	3 to 40 years

At the end of each annual reporting period, the depreciation method, useful life and residual value of each asset is reviewed. Any revisions are accounted for prospectively as a change in estimate.

(p) Investment property

Investment property is held at cost which includes expenditure that is directly attributable to the acquisition of the investment property. The investment properties are depreciated on a straight line basis over 40 years.

1. Summary of Significant Accounting Policies (continued)

(q) Members' Deposits

Member savings and term investments are recognised at the aggregate amount of money owing to depositors. The amount of interest accrued at balance date is shown as part of payables.

(r) Interest Expense

Interest expense is recognised in the profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial liability (or, where appropriate, a shorter period) to the carrying amount of the financial liability. When calculating the effective interest rate, NICU estimates future cash flows considering all contractual terms of the financial instruments, but not future credit losses.

(s) Redeemable Preference Shares

NICU issues redeemable preference shares to each Member upon joining in accordance with the Constitution of NICU. Member shares are issued at a face value of $10.00 each. A Member share must confer the right to 1 vote, and only 1 vote, at meetings of NICU’s Members. No dividend is payable in respect of any Member share.

On 22 November 2013, NICU amended its constitution in respect of the subscription of Member shares.

(a) Member shares issued up to the date of the amendment are redeemed for their face value of $10.00 each on leaving NICU. On a winding up of NICU the holder of this Member share is entitled:
  i. to payment of the subscription price for the Member share when the Member subscribed for the Member share; and
  ii. if any assets remain after the payments in paragraph (a)(i) to any surplus assets of NICU, on par with (b).

(b) On a winding up of NICU the holder of a Member share issued subsequent to the amendment is entitled to a share of the surplus assets of NICU (if any) after making the payments mentioned in (a)(i), on par with (a)(ii), less the subscription price of $10.00 for the Member share.

(t) Payables

Liabilities are recognised for amounts to be paid in the future for goods or services received.

(u) Employee benefits

Provision is made for NICU's liability for employee benefits arising from services rendered by employees to the end of the reporting period. Employee benefits that are expected to be settled within one year have been measured at the amounts expected to be paid when the liability is settled.

Provision for long service leave is on a pro-rata basis from commencement of employment with NICU 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 balance date. Annual leave is reflected as part of the sundry creditors and accruals.

Contributions are made by NICU to an employee’s superannuation fund and are charged to profit or loss as incurred.

1. Summary of Significant Accounting Policies (continued)

(v) Borrowings

All borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the loans and borrowings using the effective interest method.

(w) Goods and Services Tax (GST)

As a financial institution NICU is input taxed on all income except for income from commissions and some fees. An input taxed supply is not subject to GST collection, and similarly the GST paid 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 goods and services tax (GST). To the extent that the full amount of the GST incurred is not recoverable from the Australian Tax Office (ATO), 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 balance sheet. Cash flows are included in the cash flow statement on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the Australian Taxation Office are classified as operating cash flows.

(x) Accounting standards issued but not yet effective

The Australian Accounting Standards Board (AASB) has issued new and amended Accounting Standards and Interpretations that have mandatory application dates for future reporting periods.

NICU has undertaken a detailed assessment of the impact of these Accounting Standards and has decided to early adopt these standards during the financial year and have been disclosed in Note 1 (c).

(y) Critical accounting estimates and judgments

The Directors evaluate estimates and judgments incorporated into the financial statements based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the Group.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected. Balances which include critical accounting estimates and judgements have been disclosed in the following notes:

- Note 9. - Impairment of Loans and Advances;
- Note 10. - Equity investment securities designated as FVOCI;
- Note 11. - Revaluation of Land and Buildings; and
- Note 14. - Intangible Assets.

2. Financial Risk Management

Introduction

The Board has adopted a policy of compliance and risk management to suit the risk profile of NICU. NICU's risk management focuses on the major areas of market risk, credit risk and operational risk.

The Board has ultimate responsibility to ensure that an appropriate risk profile and appetite is set and complied with. It approves the level of risk which NICU is willing to operate within and builds the framework for reporting and mitigating those risks. The scope of the risk is determined in light of the size, complexity, risk appetite, prudential framework and economic environment within which NICU is operating.

The Board has developed a committee structure to assist in the overseeing and management of the risk management system. The key committees include:

Board Risk Committee: comprising of Directors, this second line of defence body acts to review and challenge decisions. This is a key body in the control of risk and has representatives from both management and staff. The committee does not form a view on the acceptability of risks but instead reviews risks and controls that are used to mitigate those risks. This includes the identification, assessment and reporting of risks. Regular monitoring is carried out by the Committee through monthly review of operational reports acquired using Protecht's Enterprise Risk Management System.

The Committee carries out a regular review of risk areas to ensure that risks are being properly controlled and reported. It also ensures that contingency plans are in place to achieve business continuity in the event of serious disruptions to business operations. Key reports are presented to the Board in the monthly Board pack. Monitoring and reviewing of the Enterprise Risk Management System is included in the internal audit scope.

Audit Committee: its key role in risk management is the assessment of the controls that are in place to mitigate risks. The Audit Committee considers and confirms that the significant risks and controls are to be assessed within the internal audit plan. The Audit Committee receives the internal audit reports on assessment and compliance with the controls, and provides feedback to management for their consideration.

Asset and Liability Committee (ALCO): this committee of executive management meets at least quarterly and has responsibility for managing NICU's market risk, liquidity risk and credit risk.

The ALCO scrutinises operational reports, monitors exposures against limits determined by the Board and ensures compliance with policies and procedures implemented by NICU. In addition, it monitors the changing environment and the effect that these factors may have on NICU's operations.

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

Key risk management policies encompassed in the overall risk management framework include:
- Interest rate risk;
- Liquidity management;
- Credit risk management; and
- Operations risk management.

NICU has undertaken the following strategies to minimise the risks arising from financial instruments.

(a) Market risk

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

2. Financial Risk Management (continued)

(a) Market risk (continued)

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

The management of market risk is the responsibility of the ALCO, which reports directly to the Risk Management Committee.

(i) Interest rate risk

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. NICU does not have treasury operations and does not trade in financial instruments and is therefore not exposed to interest rate risk arising from those activities.

NICU however is exposed to interest rate risk in its banking book due to mismatches between the repricing dates of assets and liabilities. The interest rate risk on the banking book is measured monthly and reported to ALCO. NICU utilises Visual Risk and APRA reporting to assist in measuring and managing interest rate risk.

In the banking book, the most common risk NICU faces arises from fixed rate assets and liabilities. This exposes NICU to the risk of sensitivity should interest rates change. The level of mismatch in the banking book is set out in Note 21. The table set out in Note 21 displays the period that each asset and liability will reprice as at the balance date.

Method of managing risk

NICU manages its interest rate risk by the use of Value at Risk (VaR model). NICU’s exposure to market risk is measured and monitored using the VaR methodology of estimating potential losses. Each month, a report is generated using the Visual Risk software which calculates the VaR. VaR is a technique that estimates a potential loss that occurs on risk positions taken due to movements in market rates and prices over specified time period to a given level of confidence. VaR, as set out in the table below, has been calculated using historical simulations and using movements in market rates and prices over a period of 1 year, with a 99% confidence level, taking into consideration historical correlations between different markets and rates.

The VaR on the non-trading book was as follows:

VaR	**2019**	**2018**
$ value	428,551	153,503
% of Capital	1.37%	0.52%

NICU is therefore 99% confident that, given the risks as at 30 June 2019, it will not incur a one day loss on its non-trading book of more than the amount shown above, based on the VaR model used.

Although the use of VaR models calculates the interest rate sensitivity on the banking book, this is not reflected in the Pillar 1 capital requirement. NICU’s exposure to banking book interest rate risk is not expected to change materially in the next year, so existing capital requirements are considered to be an accurate measurement of capital needed to mitigate interest rate risk.

2. Financial Risk Management (continued)

(b) Liquidity risk

Liquidity risk is the risk that NICU 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 of Directors that adequate cash reserves and committed credit facilities are maintained so as to meet the Member withdrawal demands when requested.

NICU manages liquidity risk by:

- Continuously monitoring actual daily cash flows;

- Monitoring the maturity profiles of financial assets and liabilities;

- Maintaining adequate reserves, overdraft facilities and liquidity support facilities; and

- Daily monitoring of the prudential liquidity ratio.

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

NICU is classified as an ADI subject to the Minimum Liquidity Holdings ("MLH") regime under Prudential Standard APS 210 Liquidity. Under the MLH regime, NICU is required to maintain at least 9% of total adjusted liabilities as liquid assets eligible for repurchase by the RBA and capable of being converted to cash within two business days. NICU policy is to apply a minimum 12% of funds as liquid assets to maintain adequate funds for meeting Member withdrawal requests, with at least 80% of total liquid assets held with institutions with a credit rating of BBB+ or higher. The liquidity 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 borrowing facilities available. Note 23 describes the borrowing facilities as at the balance date. These facilities are in addition to the support from CUFSS.

The maturity profile of the financial assets and financial liabilities, based on the contractual repayment terms are set out in Note 21 (c). The ratio of liquid funds over the past year is set out below:

	Consolidated Group		Northern Inland Credit Union Ltd	
	2019	**2018**	**2019**	**2018**
	%	**%**	**%**	**%**
APRA				
MLH Ratio – 30 June	14.85	16.33	14.78	16.24
Minimum during the year	12.76	12.74	12.67	12.65

(c) Credit risk

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

Notes to the Financial Statements
For the Year Ended 30 June 2019

2. Financial Risk Management (continued)

(c) Credit risk (continued)

(i) Credit risk – Loans

The analysis of NICU's loans by class, is as follows:

	Carrying value	Off balance sheet	Max exposure
	$	$	$
2019			
Mortgages	217,558,071	10,682,889	228,240,960
Personal	10,821,122	643,746	11,464,868
Overdrafts	1,840,427	3,811,182	5,651,609
Total to natural persons	230,219,620	15,137,817	245,357,437
Corporate borrowers	13,293,562	1,433,668	14,727,230
Total	243,513,182	16,571,485	260,084,667
2018			
Mortgages	204,636,891	12,943,354	217,580,245
Personal	11,457,720	577,074	12,034,794
Overdrafts	2,010,384	3,433,967	5,444,351
Total to natural persons	218,104,995	16,954,395	235,059,390
Corporate borrowers	12,500,814	1,914,695	14,415,509
Total	230,605,809	18,869,090	249,474,899

Carrying value is the value on the Statement of Financial Position. Maximum exposure is the value on the Statement of Financial Position plus the undrawn facilities (loans approved not advanced, redraw facilities and overdraft facilities). The details are shown in Note 22.

All loans and facilities are within Australia. The geographic distribution is not analysed into significant areas within Australia as the exposure classes are not considered material. Concentrations are described in Note 8.

The composition of the lending book is monitored from month to month and over time to identify any substantial change between mortgage, personal loan and commercial exposures that might warrant variance of exposure limits or provisioning.

The method of managing credit risk is by way of strict adherence to the credit assessment policies before loans are approved and regular close monitoring of defaults in the repayment of loans thereafter. The Credit Risk policy has been endorsed by the Board to ensure that loans are only made to Members that are creditworthy (capable of meeting loan repayments). A hindsight review process is employed by the lending team to review approved loan applications to ensure the applicable policies and procedures have been followed in establishing the exposure.

2. Financial Risk Management (continued)

(c) Credit risk (continued)

NICU has established policies over the following:

- Credit assessment and approval of loans and facilities designed to ensure comprehensive risk assessment and security requirements;
- Limits of acceptable exposure to individual borrowers, non mortgage secured loans and commercial lending;
- Reassessment 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 these policies.

A regular review of compliance 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 NICU that requires interest and a portion of the principle 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 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.

NICU is required to determine a likely impairment loss on loans that have not maintained the loan repayments in accordance with their loan contract and have consequently fallen into arrears, or for some other reason are deemed to be at risk of suffering impairment.

In identifying the likely loss due to impairment, each loan that falls into this category is reviewed for the likelihood of full or partial recovery and the extent of possible loss. Depending on the loan's characteristics, the recoverability of the debt and any special arrangements put in place for repayment, a percentage is then applied to the balance outstanding to ascertain that portion of the loan that is deemed to be at risk of non-recovery.

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

Statement of financial position provisions are maintained at a level that management deems sufficient to absorb probable incurred losses in NICU's portfolio from homogenous portfolios of assets and individually identified loans.

A provision for impaired losses 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. Specific loans and portfolios of assets are provided against depending on a number of factors including deterioration in country risk, changes in a counterparty's industry, and technological developments, as well as identified structural weaknesses or deterioration in cash flows.

2. Financial Risk Management (continued)

(c) Credit risk (continued)

The provisions for impaired and past due exposures relate to 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 are as set out in Note 9.

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, taking account of the exposure at the date of the write off.

On secured loans, the write off takes place on ultimate realisation of collateral value, or from claims on any lenders mortgage insurance. A reconciliation in movement of both past due and impaired exposure provision is provided in Note 9(b).

Collateral securing loans

A sizeable portfolio of the loan book is secured on residential property in Australia. Therefore, NICU is exposed to risks in the reduction to 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. Note 8(b) describes the nature and extent of the security held against the loans held as at the balance date.

Concentration risk – individuals

Concentration risk is a measurement of NICU's exposure to an individual counterparty (or group of related parties). If prudential limits are exceeded as a proportion of NICU's Tier 1 capital (10 per cent), a large exposure is considered to exist. No capital is required to be held against these 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.

NICU does not hold any large exposure loans as at balance date (greater than 10 per cent of Tier 1 capital). Concentration exposures to counterparties are closely monitored and are reported to the Board on a monthly basis and to APRA on a quarterly basis. Average LVR of the loan book is also monitored and reported to the Board.

Concentration risk – industry

There is no concentration of credit risk with respect to loans and receivables. NICU's borrowing Members are dispersed across a wide cross-section of industries which is typical of a community based credit union.

(ii) Credit risk - Liquid investments

Credit risk attaching to liquid investments is the risk that the other counterparty to a financial instrument will fail to discharge their obligation resulting in NICU incurring a financial loss. This usually occurs when debtors fail to settle their obligations owing to NICU.

2. Financial Risk Management (continued)

(c) Credit risk (continued)

There is a concentration of credit risk with respect to investment receivables with the placement of investments in CUSCAL. The Board policy is that investments are only made to institutions that are credit worthy and this is determined through a due diligence process performed prior to an investment being placed. The Board has established policies to ensure that a maximum of 25% of Tier 1 capital can be invested with any one financial institution at a time, with the exception of CUSCAL where up to 80% of Tier 1 capital can be invested.

The risk of losses from the liquid investments placed is reduced by applying portfolio diversification and ensuring a large number of counterparties are invested with across a range of investment horizons.

Under the liquidity support scheme, minimum deposit requirements apply.

External Credit Assessment for Institution Investments

NICU uses the ratings assigned by ratings agencies such as Moody's Investor Services and Standard and Poor's to assess the credit quality of all investment exposures, and where applicable, using the credit quality assessment scale in the APRA Associated Guidance Note to Australian Prudential Standard APS 112. As at the balance date, the credit quality assessment scale within APS 112 had been complied with.

The exposure values associated with each credit quality step are as follows (inclusive of interest receivable):

	Consolidated Group		Northern Inland Credit Union Ltd	
	2019	**2018**	**2019**	**2018**
	$	**$**	**$**	**$**
Investments with:				
CUSCAL – rated A+/A-1	**14,758,880**	14,852,218	**14,758,880**	14,852,218
Financial institutions - rated AA- and above	**9,644,611**	8,636,990	**9,635,593**	8,627,803
Financial institutions - rated from BBB- to < AA-	**18,417,488**	19,141,259	**18,142,904**	18,871,502
Unrated institutions - Credit Unions/Mutual Banks	**15,394,698**	6,134,899	**13,088,660**	4,024,856
	58,215,677	48,765,366	**55,626,037**	46,376,379

2. Financial Risk Management (continued)

(d) Operational risk

Operational risk is the risk of loss arising from deficiencies in processes, personnel, technology and infrastructure, and from external factors other than credit, market, interest rate and liquidity risks. Operational risks in NICU relate mainly to those risks from a number of sources including, but not limited to, legal compliance, business continuity, data infrastructure and security, outsourced services failures, fraud and employee errors.

NICU'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 policies and systems to monitor the likelihood of the events and minimise the impact. Systems of internal control are enhanced through:

- Segregation of duties between employees and functions wherever practical, including approval and processing duties;
- Documentation of policies and procedures, employee job descriptions and responsibilities, to reduce the incidence of errors and inappropriate behaviour;
- Maintenance of whistle blowing 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 NICU promptly;
- Effective dispute resolution procedures to respond to Member complaints;
- Effective insurance arrangements to reduce the impact of losses; and
- Contingency plans to address the loss of functionality of systems, premises, utilities or staff.

Fraud

Fraud can arise from Members' cards and online banking passwords being compromised where not protected adequately by the Member. It can also arise from other systems failures. NICU has systems in place which are considered to be robust enough to prevent any material fraud. However, in common with all retail banking, fraud is potentially a real cost.

IT Systems

The worst case scenario would be the failure of NICU's core banking and IT network suppliers to meet customer obligations and service requirements. NICU has outsourced the IT systems management to an independent data processing centre, TransActions Solutions Limited (TAS). 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 NICU by the industry body CUSCAL, to service the settlements with other financial institutions for direct entry, ATM and Visa cards etc.

2. Financial Risk Management (continued)

(e) Capital management

The capital levels are prescribed by the Australian Prudential Regulation Authority (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 NICU is not engaged in a trading book for financial instruments.

Capital resources

Tier 1 Capital

The vast majority of Tier 1 capital comprises:

- General and other reserves; and
- Retained earnings.

Tier 2 Capital

Tier 2 capital consists of capital instruments that combine the features of debt and equity in that they are structured as debt instruments, but exhibit some of the loss absorption and funding flexibility features of equity. There are a number of criteria that capital instruments must meet for inclusion in Tier 2 capital resources as set down by APRA. The vast majority of NICU's Tier 2 capital comprises a General Reserve for Credit Losses. Capital in NICU and the Consolidated Group are made up as follows:

	Consolidated Group		Northern Inland Credit Union Ltd	
	2019	2018	2019	2018
	$	$	$	$
Tier 1 Common Equity				
General and Other reserves	**37,105,681**	33,841,192	**32,744,171**	29,557,026
Current years earnings	**1,021,520**	1,056,346	**972,234**	979,002
	38,127,201	34,897,538	**33,716,405**	30,536,028
Less deductions	**(4,340,901)**	(2,709,683)	**(3,290,505)**	(1,652,396)
Net Tier 1 capital	**33,786,300**	32,187,855	**30,425,900**	28,883,632
Tier 2				
General reserve for credit losses	**850,000**	850,000	**850,000**	850,000
Less deductions	**-**	-	**-**	-
Net Tier 2 capital	**850,000**	850,000	**850,000**	850,000
Total capital	**34,636,300**	33,037,855	**31,275,900**	29,733,632

NICU is required to maintain a minimum capital level of 8% as compared to the risk weighted assets at any given time. The risk weights attached to each asset are based on the weights prescribed by APRA in its Guidance AGN 112-1. The general rules apply the risk weights according to the level of underlying security.

2. Financial Risk Management (continued)

(e) Capital management (continued)

		Consolidated Group		Northern Inland Credit Union Ltd	
	Weight %	Carrying value	Risk weighted value	Carrying value	Risk weighted value
Cash and cash equivalents	0-20	1,240,997	-	1,240,797	-
Deposits in highly rated ADIs	20	23,775,727	4,755,145	23,492,125	4,698,425
Deposits in less highly rated ADIs	50	34,439,951	17,219,976	32,133,912	16,066,956
Standard/non-standard loans secured against eligible residential mortgages up to 80% LVR	35-75	205,754,882	81,520,691	205,754,882	81,520,691
Standard/non-standard loans secured against eligible residential mortgages over 80% LVR	50-100	18,910,251	9,008,568	18,910,251	9,008,568
Past due claims	100	2,792	2,792	2,792	2,792
Other assets	0-400	25,076,135	24,559,881	24,094,156	23,577,905
Total commitments undrawn		309,200,735	137,067,053	305,628,915	134,875,337

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

	2019 %	2018 %	2017 %	2016 %	2015 %
Consolidated Group	21.97	22.00	21.77	21.10	20.39
Northern Inland Credit Union	20.29	20.18	20.02	19.61	18.94

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 NICU's capital, NICU reviews the ratio monthly and monitors major movements in asset levels. Policies require that the Board is informed monthly of the capital ratio and APRA is informed on a quarterly basis. Stress testing of the capital ratio is undertaken on a bi-annual basis.

Pillar 2 Capital on Operational Risk

This capital component was introduced as from the 1 January 2013 and coincided with changes in the asset risk weightings for specified loans and liquid investments. Previously no operational charge was prescribed.

NICU 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 NICU's three year average net interest income and net non-interest income to its various business lines. Based on this approach, NICU's operational risk requirement is as follows:

	Amount $
Consolidated Group - Operational risk capital	17,197,177
Northern Inland Credit Union - Operational risk capital	15,897,277

2. Financial Risk Management (continued)

(e) Capital management (continued)

Internal capital adequacy management

NICU manages its internal capital levels for both current and future activities through a combination of the various committees. The outputs of the individual committees are reviewed by the Board in its capacity as the primary governing body. The capital required for any change in NICU's forecasts for asset growth, or unforeseen circumstances, are assessed by the ALCO and the Board. The Deputy CEO is responsible for updating the forecast capital resources models produced and determining the impact upon the overall capital position of NICU. In relation to the operational risks, the major factors for holding additional capital are:
1. Fraud;
2. Key service provider failure; and
3. Loss of key persons.

Notes to the Financial Statements
For the Year Ended 30 June 2019

3. Statement of Profit or Loss

(a) Interest income

	Consolidated Group		Northern Inland Credit Union Ltd	
	2019	2018	2019	2018
	$	$	$	$
Cash - deposits at call	**2,806**	4,167	**2,806**	4,167
Deposits with other financial institutions	**1,287,670**	1,233,456	**1,223,790**	1,174,914
Loans and advances	**11,392,631**	10,842,676	**11,392,631**	10,842,676
Total interest income	**12,683,107**	12,080,299	**12,619,227**	12,021,757

(b) Fees, commissions and other income

	Consolidated Group		Northern Inland Credit Union Ltd	
	2019	2018	2019	2018
	$	$	$	$
Fees and commissions				
Fee income on loans - other than loan origination fees	**289,086**	241,490	**289,086**	241,490
Fee income from member deposit	**977,378**	1,175,109	**588,399**	777,070
Insurance commissions	**162,181**	195,931	**162,181**	195,931
Other commissions	**87,417**	83,308	**12,917**	13,863
	1,516,062	1,695,838	**1,052,583**	1,228,354
Other income				
Dividend received on financial assets	**25,705**	51,496	**25,705**	51,496
Bad debts recovered	**19,606**	35,636	**19,606**	35,636
Income from property (rental income)	**125,598**	121,782	**75,208**	72,620
Miscellaneous revenue	**333,399**	265,269	**341,144**	270,937
	2,020,370	2,170,021	**1,514,246**	1,659,043

(c) Interest expense

	Consolidated Group		Northern Inland Credit Union Ltd	
	2019	2018	2019	2018
	$	$	$	$
Short term borrowings	**17,515**	2,446	**17,515**	2,446
Deposits from Members	**3,673,784**	3,277,423	**3,673,784**	3,277,423
	3,691,299	3,279,869	**3,691,299**	3,279,869

(d) Impairment losses

	Consolidated Group		Northern Inland Credit Union Ltd	
	2019	2018	2019	2018
	$	$	$	$
Loans and advances				
Increase in provision for impairment	**23,973**	(21,320)	**23,973**	(21,320)
Bad debts written off directly against profit	**818**	4,182	**818**	4,182
	24,791	(17,138)	**24,791**	(17,138)

Notes to the Financial Statements
For the Year Ended 30 June 2019

3. Statement of Profit or Loss (continued)

(e) Depreciation and amortisation expenses

	Consolidated Group		Northern Inland Credit Union Ltd	
	2019	2018	2019	2018
	$	$	$	$
Depreciation				
Property, plant and equipment				
Buildings	**127,610**	56,182	**127,610**	56,182
Plant and equipment	**161,216**	137,808	**158,801**	135,449
Leasehold improvements	**57,559**	22,692	**57,559**	22,692
Leases	**222,455**	-	**222,455**	-
	568,840	216,682	**566,425**	214,323
Investment property	**18,335**	18,335	**-**	-
	587,175	235,017	**566,425**	214,323
Amortisation				
Computer software	**204,916**	115,699	**204,916**	115,677
Other	**-**	405	**-**	405
	204,916	116,104	**204,916**	116,082
Depreciation and amortisation	**792,091**	351,121	**771,341**	330,405

(f) Other expenses

	Consolidated Group		Northern Inland Credit Union Ltd	
	2019	2018	2019	2018
	$	$	$	$
Occupancy costs				
Property operating lease payments	**44,448**	272,683	**44,448**	272,683
Other occupancy costs	**208,327**	221,227	**187,602**	193,436
	252,775	493,910	**232,050**	466,119
Other operating expenses				
Audit and review of financial statements				
Auditors of NICU - PKF	**77,745**	75,480	**77,745**	75,480
	77,745	75,480	**77,745**	75,480
Other services				
Taxation services - Auditors of NICU - PKF	**10,000**	8,500	**10,000**	8,500
Other services - PKF	**15,725**	5,560	**5,725**	5,560
	25,725	14,060	**15,725**	14,060
Loss on disposal of assets	**1,984**	1,066	**1,984**	1,066
Supervision levy paid to APRA	**17,820**	12,891	**17,820**	12,891
Other operating expenses	**4,014,542**	4,152,737	**3,946,232**	4,099,940
	4,137,816	4,256,234	**4,059,506**	4,203,437

3. Statement of Profit or Loss (continued)

(g) Employee costs

	Consolidated Group		Northern Inland Credit Union Ltd	
	2019	**2018**	**2019**	**2018**
	$	**$**	**$**	**$**
Net movement in provisions for annual leave	**(7,942)**	(41,323)	**(13,960)**	(40,842)
Net movement in provisions for long service leave	**(14,076)**	43,421	**(22,243)**	39,820
Net movement in provisions for sick leave	**(11,047)**	14,951	**(11,047)**	14,951
Other personnel costs	**4,420,546**	4,337,204	**4,069,525**	4,005,878
	4,387,481	4,354,253	**4,022,275**	4,019,807

4. Income Tax Expense

Current income tax expense	**402,736**	450,692	**368,795**	413,194
Less franking credit	**(11,016)**	(22,032)	**(11,016)**	(22,032)
Decrease/(increase) in deferred tax asset	**(2,025)**	27,987	**2,199**	28,138
Total income tax expense	**389,695**	456,647	**359,978**	419,300

Notes to the Financial Statements
For the Year Ended 30 June 2019

4. Income Tax Expense (continued)

(a). **Reconciliation of income tax to accounting profit:**

	Consolidated Group		Northern Inland Credit Union Ltd	
	2019	**2018**	**2019**	**2018**
	$	**$**	**$**	**$**
Prima facie tax payable on profit from ordinary activities before income tax at 27.5%				
- Consolidated Group	**396,075**	421,320	**-**	-
- Parent entity	**-**	-	**366,358**	384,533
- Other members of the income tax consolidated group	**-**	-	**29,419**	36,787
	396,075	421,320	**395,777**	421,320
Add:				
Tax effect of:				
- Franking credit adjustment	**(7,986)**	(15,975)	**(7,986)**	(15,974)
- Change in tax rate on opening DTA / DTL balances	**-**	50,083	**-**	49,522
- Other non-deductible expenses	**1,606**	1,219	**1,606**	1,219
Income tax attributable to operating profit	**389,695**	456,647	**389,397**	456,087
Allocation of income tax expense to wholly owned subsidiary and unit trust under tax sharing arrangement	**-**	-	**(29,419)**	(36,787)
	389,695	456,647	**359,978**	419,300

5. Cash and cash equivalents

	Consolidated Group 2019 $	Consolidated Group 2018 $	Northern Inland Credit Union Ltd 2019 $	Northern Inland Credit Union Ltd 2018 $
Cash on hand	**1,240,997**	1,742,809	**1,240,797**	1,742,609
Deposits at call	**14,159,887**	12,921,065	**13,876,651**	12,642,519
	15,400,884	14,663,874	**15,117,448**	14,385,128

Notes to the Financial Statements
For the Year Ended 30 June 2019

6. Liquid investments

	Consolidated Group		Northern Inland Credit Union Ltd	
	2019	2018	2019	2018
	$	$	$	$
Investments at fair value				
Negotiable Certificate of Deposits	**989,335**	990,823	**989,335**	990,823
Floating Rate Notes	**22,114,230**	23,633,976	**22,114,230**	23,633,976
	23,103,565	24,624,799	**23,103,565**	24,624,799
Investments at amortised cost				
Receivables(a)				
Term Deposits	**20,720,000**	11,020,988	**18,420,000**	8,920,988
Total liquid investments	**43,823,565**	35,645,787	**41,523,565**	33,545,787
(a) Dissection of receivables				
Deposits with other societies	**11,920,000**	7,020,000	**11,920,000**	6,420,000
Deposits with banks	**8,800,000**	4,000,988	**6,500,000**	2,500,988
	20,720,000	11,020,988	**18,420,000**	8,920,988

7. Receivables

	Consolidated Group		Northern Inland Credit Union Ltd	
	2019	2018	2019	2018
Interest receivable on deposits with other financial institutions	**232,225**	198,513	**225,820**	188,072
Sundry debtors and accrued income	**90,322**	74,219	**51,006**	33,648
	322,547	272,732	**276,826**	221,720

8. Loans and advances

(a) Amounts due comprise:

	Consolidated Group		Northern Inland Credit Union Ltd	
	2019	**2018**	**2019**	**2018**
	$	**$**	**$**	**$**
Overdrafts and revolving credit	**2,527,957**	2,627,431	**2,527,957**	2,627,431
Term loans	**240,985,225**	227,978,377	**240,985,225**	227,978,377
	243,513,182	230,605,808	**243,513,182**	230,605,808
Less:				
Provision for doubtful debts	**(38,695)**	(14,722)	**(38,695)**	(14,722)
	243,474,487	230,591,086	**243,474,487**	230,591,086
Less:				
Unamortised loan fees	**(401,258)**	(426,265)	**(401,258)**	(426,265)
Net loans and advances	**243,073,229**	230,164,821	**243,073,229**	230,164,821

(b) Credit quality - security held against loans

Secured by mortgage over real estate	**224,665,133**	212,069,019	**224,665,133**	212,069,019
Partly secured by goods mortgage	**15,667,310**	15,202,514	**15,667,310**	15,202,514
Wholly unsecured	**3,142,044**	3,319,553	**3,142,044**	3,319,553
	243,474,487	230,591,086	**243,474,487**	230,591,086

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 residential mortgage security on a portfolio basis is as follows:

Security held as mortgage against real estate is on the basis of:				
- loan to valuation ratio of less than or equal to 80%	**205,754,882**	194,622,789	**205,754,882**	194,622,789
- loan to valuation ratio of more than 80% but mortgage insured	**17,492,581**	15,668,750	**17,492,581**	15,668,750
- loan to valuation ratio of more than 80% and not mortgage insured	**1,417,670**	1,777,480	**1,417,670**	1,777,480
	224,665,133	212,069,019	**224,665,133**	212,069,019

Where the loan value is less than 80% there is a 20% margin to cover the costs of any sale, or potential value reduction.

Notes to the Financial Statements
For the Year Ended 30 June 2019

8. Loans and advances (continued)

	Housing	Personal	Commercial	Overdrafts	Total
	$	$	$	$	$
2019 Consolidated Group					
Tamworth	74,738,308	4,170,404	4,541,871	1,229,580	84,680,163
Narrabri	52,728,029	2,504,376	3,565,553	423,732	59,221,690
Gunnedah	18,896,909	1,289,321	542,973	240,337	20,969,540
Other Northern NSW	48,351,138	2,294,796	3,243,851	452,677	54,342,462
Other NSW	15,395,417	226,286	699,942	93,823	16,415,468
Other States	7,448,270	303,435	11,844	81,615	7,845,164
	217,558,071	10,788,618	12,606,034	2,521,764	243,474,487
2018 Consolidated Group					
Tamworth	73,931,707	4,429,732	3,853,082	1,211,039	83,425,560
Narrabri	50,739,296	2,608,822	3,867,434	546,747	57,762,299
Gunnedah	16,876,496	1,227,222	253,752	208,413	18,565,883
Other Northern NSW	41,824,323	2,627,618	3,102,882	541,449	48,096,272
Other NSW	13,981,173	265,037	789,356	52,477	15,088,043
Other States	7,283,896	285,602	17,259	66,272	7,653,029
	204,636,891	11,444,033	11,883,765	2,626,397	230,591,086

9. Provision on impaired loans

(a) Total provision comprises

	Consolidated Group		Northern Inland Credit Union Ltd	
	2019	2018	2019	2018
	$	$	$	$
Balance at the beginning of the year	**14,722**	36,042	**14,722**	36,042
Transfers from/(to) Statement of Profit or Loss	**23,973**	(21,320)	**23,973**	(21,320)
	38,695	14,722	**38,695**	14,722

9. Provision on impaired loans (continued)

(b) Movement in the provision for impairment

Reconciliation of changes in the provision for impairment of receivables is as follows:

	Consolidated Group 2019 $	Northern Inland Credit Union Ltd 2019 $
Balance at beginning of the year (calculated in accordance with AASB 139)	**14,722**	**14,722**
Amount restated through opening retained earnings on adoption of AASB 9	**-**	**-**
Opening impairment allowance calculated under AASB 9	**14,722**	**14,722**
Additional impairment loss recognised	**25,088**	**25,088**
Amounts written off as uncollectible		
Directly to P&L	**(1,115)**	**(1,115)**
Balance at end of the year	**38,695**	**38,695**

Key assumptions in determining the provision for impairment of receivables

The key inputs into the measurement of the provision for impairment includes the following variables:
- probability of default (PD);
- loss given default (LGD); and
- exposure at default (EAD).

These parameters are generally derived from internal analysis, management judgements and other historical data. They are adjusted to reflect forward-looking information as described below.

Probability of default (PD) estimates are calculated based on arrears over 90 days and other loans and facilities where the likelihood of future repayments is low. The definition of default is consistent with the definition of default used for internal credit risk management and regulatory reporting purposes. Instruments which are 90 days past due are generally considered to be in default.

Loss given default (LGD) is the magnitude of the likely loss if there is a default. NICU estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD percentage applied considers the structure of the loan, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset. For loans secured by retail property, Loan to Value Ratios (LVR) are a key parameter in determining LGD. LGD estimates are recalibrated for different economic scenarios and for real estate lending, reflect possible changes in property values.

9. Provision on impaired loans (continued)

(b) Movement in the provision for impairment (continued)

Exposure at default (EAD) represents the expected exposure in the event of a default. EAD is derived from the current exposure to the counterparty and potential changes to the current amount allowed under the contract including amortisation. The EAD of a financial asset is its gross carrying amount. For lending commitments and financial guarantees, the EAD includes the amount drawn as well as potential future amounts that may be drawn under the contract, which are estimated based on historical observations and future expectations.

Significant increase in credit risk

NICU is not required to develop an extensive list of factors in defining a ‘significant increase in credit risk’. In assessing significant increase in credit risk, the following factors have been considered in NICU’s current model:

- Loans more than 30 days past due; and
- Loans with approved hardship or modified terms.

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, NICU considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on NICU’s historical experience and expert judgement, relevant external factors and including forward-looking information.

NICU presumes that the credit risk on a financial asset has increased significantly since initial recognition when the exposure is more than 30 days past due unless reasonable and supportable information demonstrates otherwise.

The approach in determining the ECL includes forward-looking information. NICU has performed historical analysis and identified the key economic variables impacting credit risk and expected credit losses for each portfolio segment. Given the lack of loss experience by NICU and across the wider industry, more emphasis has been applied to the historical data available as opposed to forward looking information. 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.

NICU 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 not deemed to have a material impact and therefore no adjustment has been made to the ECL for such factors. NICU considers the ECL to represent its best estimate of the possible outcomes and is aligned with information used by NICU for other purposes such as strategic planning and budgeting. Periodically NICU carries out stress testing of more extreme shocks to calibrate its determination of other potential scenarios.

9. Provision on impaired loans (continued)

(c) Analysis of loans that are impaired by class

The provision for impairment as of the year end by class and by exposure, by asset under AASB 9 are summarised in the table below. Comparative amounts for 2018 represent the provision for impairment measured under AASB 139.

	2019 Carrying value	2019 Value of impaired loans	2019 Provision for impairment - AASB 9	2018 Carrying value	2018 Value of impaired loans	2018 Provision for impairment - AASB 139
	$	$	$	$	$	$
Loans to Members:						
- Mortgages	217,558,070	-	-	204,636,891	-	-
- Personal	10,821,122	235,939	32,505	11,457,720	36,747	13,686
- Overdrafts	1,840,428	13,985	6,190	2,010,384	6,779	14
	230,219,620	249,924	38,695	218,104,995	43,526	13,700
Corporate borrowers	13,293,562	-	-	12,500,814	2,044	1,022
	243,513,182	249,924	38,695	230,605,809	45,570	14,722

Past due value is the ‘on balance sheet’ loan balances which are past due by 90 days or more. 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.

An analysis of NICU's credit risk exposure by class and by exposure of loans to members and by "stage" without reflecting on the effects of any collateral or other credit enhancements is demonstrated in the tables below. Unless specifically indicated, the amounts in the table represent gross carrying amounts.

	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Northern Inland Credit Union Ltd	$	$	$	$
Year ended 30 June 2019				
Loans to Members				
Mortgages	-	-	-	-
Personal	5,447	27,058	-	**32,505**
Overdrafts	-	6,190	-	**6,190**
Corporate borrowers	-	-	-	-
Changes in loss allowance	-	-	-	-
Carrying amount	**5,447**	**33,248**	**-**	**38,695**

9. Provision on impaired loans (continued)

(c) Analysis of loans that are impaired by class (continued)

The reconciliation from the opening balance of the provision for impairment by class of financial asset is shown in the table below.

	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL	Lifetime ECL	Total
Northern Inland Credit Union Ltd	$	$	$	$
Reconciliation from Opening to Closing Balance				
Loans to Members				
Balance at 1 July 2018 per AASB 139	-	7,877	6,845	14,722
Adjustment on initial application of AASB 9	-	-	-	-
Balance at 1 July 2018 per AASB 9	-	7,877	6,845	14,722
Changes in loss allowance				
- Transfer to Stage 1	5,447	-	-	5,447
- Transfer to Stage 2	-	-	-	-
- Transfer to Stage 3	-	-	-	-
- Net movement due to change in credit risk	-	25,371	(5,730)	19,641
- Write-offs	-	-	(1,115)	(1,115)
Balance at 30 June 2019 per AASB 9	5,447	33,248	-	38,695

(d) Impaired loans written off

	Consolidated Group		Northern Inland Credit Union Ltd	
	2019	2018	2019	2018
	$	$	$	$
Bad debts written off directly	**818**	4,182	**818**	4,182
Bad debts recovered in the period	**17,286**	31,371	**17,286**	31,371
	18,104	35,553	**18,104**	35,553

9. Provision on impaired loans (continued)

(e) Analysis of loans that are impaired or potentially impaired based on age of repayments outstanding

	2019 Carrying value	2019 Provision - AASB 9	2018 Carrying value	2018 Provision - AASB 139
	$	$	$	$
Non impaired up to 30 days	243,063,742	5,447	230,535,088	-
30 to 90 days in arrears	442,248	27,058	44,485	7,956
90 to 180 days in arrears	-	-	11,460	5,730
Overlimit facilities	7,192	6,190	14,776	1,036
Total	243,513,182	38,695	230,605,809	14,722

The impaired loans are generally not secured against residential property. 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 all collateral as at the balance date due to the variety of assets and condition.

(f) Loans with repayments past due but not regarded as impaired

There are currently no past due loans which are not considered impaired as the value of the related security over residential property is in excess of the loan due. It is not possible to determine the fair value of the collateral as at balance date due to the variety of assets and condition. Loans with repayments past due but not impaired are in arrears: 2019: $0 (2018: $0).

(g) Assets acquired by enforcement of security

There are no assets acquired by NICU. The policy is to arrange sale of the security at the earliest opportunity after measures to assist the Members to repay the debts have been exhausted.

(h) Key assumptions in determining the provision for impairment

NICU is required to determine a likely impairment loss on loans that have not maintained the loan repayments in accordance with their loan contract and have consequently fallen into arrears, or for some other reason are deemed to be at risk of suffering impairment.

In identifying the likely loss due to impairment, each loan that falls into this category is reviewed for the likelihood of full or partial recovery and the extent of possible loss. Depending on the loan’s characteristics, the recoverability of the debt and any special arrangements put in place for repayment, a percentage is then applied to the balance outstanding to ascertain that portion of the loan that is deemed to be at risk of non-recovery. This is aggregated across all loans deemed to be at risk of impairment to arrive at a total likely impairment loss for NICU.

Notes to the Financial Statements

For the Year Ended 30 June 2019

10. Investments

Equity investment securities designated as FVOCI

	Consolidated Group		Northern Inland Credit Union Ltd	
	2019	**2018**	**2019**	**2018**
	$	**$**	**$**	**$**
Shares in subsidiaries (Note 26)	**-**	-	**1**	1
Shares in unlisted companies (i)	**1,233,820**	656,919	**1,233,820**	656,919
Less: provision for impairment	**-**	-	**-**	-
Total Investments net of provision	**1,233,820**	656,919	**1,233,821**	656,920

(i) CUSCAL Limited (Cuscal)

The shareholding in CUSCAL is measured at fair value. CUSCAL is a company that was created to supply services to member Credit Unions and does not have an independent business focus. These shares are held to enable NICU to receive aggregated banking services. The shares are not able to be publicly traded.

The fair value has been determined by NICU based on a review of available CUSCAL information compared to an internal dividend discount model, and is subject to review on an annual basis.

Notes to the Financial Statements
For the Year Ended 30 June 2019

11. Property, plant and equipment

	Consolidated Group		Northern Inland Credit Union Ltd	
	2019	2018	2019	2018
	$	$	$	$
LAND AND BUILDINGS				
Freehold land				
At cost	**1,280,000**	958,428	**1,280,000**	958,428
Buildings				
At cost	**2,687,574**	1,525,984	**2,687,574**	1,525,984
Accumulated depreciation	**(174,435)**	(901,728)	**(174,435)**	(901,728)
	2,513,139	624,256	**2,513,139**	624,256
Total land and buildings	**3,793,139**	1,582,684	**3,793,139**	1,582,684
PLANT AND EQUIPMENT				
Plant and equipment				
At cost	**1,967,822**	1,930,668	**1,937,732**	1,900,475
Accumulated depreciation	**(1,544,014)**	(1,393,396)	**(1,518,255)**	(1,369,539)
	423,808	537,272	**419,477**	530,936
Improvements				
At cost	**419,763**	372,424	**419,763**	372,424
Accumulated depreciation	**(312,091)**	(254,533)	**(312,091)**	(254,533)
Total improvements	**107,672**	117,891	**107,672**	117,891
Leasing assets - Right of use				
At cost	**592,833**	-	**592,833**	-
Accumulated depreciation	**(222,455)**	-	**(222,455)**	-
Total Leasing assets	**370,378**	-	**370,378**	-
Total property, plant and equipment	**4,694,997**	2,237,847	**4,690,666**	2,231,511

(a) Land and Building - Valuation

The valuation of land and buildings at 481 Peel Street, Tamworth NSW 2340 has been based upon an independent valuation performed by MVS Valuers as at 14 March 2018. The increase in valuation is reflected in the Asset Revaluation Reserve. Refer to Note 20.

(b) Right-of-use asset

The right-of-use asset recognised this year refers to the leases held over the premises of NICU's Narrabri, Gunnedah and West Tamworth branches. This asset has been recognised due to the early adoption of AASB 16 Leases. Refer to Note 1 (c) for accounting policies applied during the year.

Notes to the Financial Statements

For the Year Ended 30 June 2019

11. Property, plant and equipment (continued)

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

Movement in the carrying amounts for each class of property, plant and equipment between the beginning and the end of the current financial year:

	Land	Buildings	Plant and Equipment	Leasehold Improvements	Right of Use Asset	Total
Consolidated Group	**$**	**$**	**$**	**$**	**$**	**$**
Year ended 30 June 2019						
Balance at the beginning of year	**958,428**	**624,256**	**537,272**	**117,891**	**-**	**2,237,847**
Additions	**-**	**17,895**	**49,736**	**47,339**	**592,833**	**707,803**
Disposals	**-**	**-**	**(1,983)**	**-**	**-**	**(1,983)**
Depreciation expense	**-**	**(127,610)**	**(161,216)**	**(57,559)**	**(222,455)**	**(568,840)**
Revaluation	**321,572**	**1,998,598**	**-**	**-**	**-**	**2,320,170**
Balance at the end of the year	**1,280,000**	**2,513,139**	**423,809**	**107,671**	**370,378**	**4,694,997**
Year ended 30 June 2018						
Balance at the beginning of year	958,428	680,438	534,258	124,930	-	2,298,054
Additions	-	-	167,727	127,569	-	295,296
Adjustment on initial application of AASB 9	-	-	(26,905)	(111,916)	-	(138,821)
Depreciation expense	-	(56,182)	(137,808)	(22,692)	-	(216,682)
Balance at the end of the year	958,428	624,256	537,272	117,891	-	2,237,847
Northern Inland Credit Union Ltd						
Year ended 30 June 2019						
Balance at the beginning of year	**958,428**	**624,256**	**530,936**	**117,891**	**-**	**2,231,511**
Additions	**-**	**17,895**	**49,329**	**47,339**	**592,833**	**707,396**
Disposals	**-**	**-**	**(1,984)**	**-**	**-**	**(1,984)**
Depreciation expense	**-**	**(127,610)**	**(158,803)**	**(57,559)**	**(222,455)**	**(566,427)**
Revaluation	**321,572**	**1,998,598**	**-**	**-**	**-**	**2,320,170**
Balance at the end of the year	**1,280,000**	**2,513,139**	**419,478**	**107,671**	**370,378**	**4,690,666**
Year ended 30 June 2018						
Balance at the beginning of year	958,428	680,438	528,888	124,930	-	2,292,684
Additions	-	-	164,402	127,569	-	291,971
Disposals	-	-	(26,905)	(111,916)	-	(138,821)
Depreciation expense	-	(56,182)	(135,449)	(22,692)	-	(214,323)
Balance at the end of the year	958,428	624,256	530,936	117,891	-	2,231,511

Notes to the Financial Statements
For the Year Ended 30 June 2019

12. Investment Property

	Consolidated Group		Northern Inland Credit Union Ltd	
	2019	2018	2019	2018
	$	$	$	$
Balance at the beginning of the year	**937,845**	956,180	**-**	-
Depreciation	**(18,335)**	(18,335)	**-**	-
Balance at end of the year	**919,510**	937,845	**-**	-

13. Deferred tax asset

	Consolidated Group		Northern Inland Credit Union Ltd	
	2019	2018	2019	2018
Deferred tax asset	**578,542**	573,015	**567,007**	566,123
Deferred tax asset comprises:				
- Accrued expenses not deductible	**25,498**	26,120	**25,498**	26,119
- Provision for impairment on loans	**10,641**	4,049	**10,641**	4,049
- Provisions for staff entitlements	**422,727**	431,820	**412,671**	425,664
- Depreciation on fixed assets	**(4,115)**	(6,197)	**(5,594)**	(6,932)
- Deferred fees on loan origination	**110,346**	117,223	**110,346**	117,223
- Lease-related balances	**2,744**	-	**2,445**	-
- Revaluation of NEWCO shares	**11,000**	-	**11,000**	-
- Eliminated on consolidation	**(299)**	-	**-**	-
	578,542	573,015	**567,007**	566,123

14. Intangible Assets

	Consolidated Group		Northern Inland Credit Union Ltd	
	2019	2018	2019	2018
	$	$	$	$
Computer software				
At cost	**1,455,057**	1,416,951	**1,453,524**	1,415,418
Accumulated amortisation	**(1,192,513)**	(987,597)	**(1,190,980)**	(986,064)
	262,544	429,354	**262,544**	429,354
Other intangible assets				
Cost	**1,055,274**	1,055,274	**4,879**	4,879
Accumulated amortisation and impairment	**(4,879)**	(4,879)	**(4,879)**	(4,879)
Net carrying value	**1,050,395**	1,050,395	**-**	-
Intangible assets under development				
Cost	**1,794,141**	-	**1,794,141**	-
Total Intangibles	**3,107,080**	1,479,749	**2,056,685**	429,354

14. Intangible Assets (continued)

(a) Other intangible assets

Other intangible assets comprise the acquisition costs of investment portfolios held by the consolidated group - $1,050,395 (2018: $1,050,395) and trademarks - $Nil (2018: $Nil). An annual review of the cost of the investment portfolios is undertaken and it has been determined that there is no impairment of these assets as at the 30 June 2019 (2018: $Nil).

(b) Intangible assets under development

Intangible assets under development comprise of expenditure incurred during the year in relation to the implementation process of implementing a new core banking system. This project is ongoing and is expected to be completed during the subsequent financial year.

Movement in the assets balances during the year were:

Consolidated Group	Software $	Other $	Intangible assets under development $	Total $
Year ended 30 June 2019				
Balance at the beginning of the year	**429,354**	**1,050,395**	**-**	**1,479,749**
Additions	**38,106**	**-**	**1,794,141**	**1,832,247**
Amortisation	**(204,916)**	**-**	**-**	**(204,916)**
Closing value at 30 June 2019	**262,544**	**1,050,395**	**1,794,141**	**3,107,080**
Year ended 30 June 2018				
Balance at the beginning of the year	159,480	1,050,800	-	1,210,280
Additions	385,573	-	-	385,573
Amortisation	(115,699)	(405)	-	(116,104)
Closing value at 30 June 2018	429,354	1,050,395	-	1,479,749

Year ended 30 June 2019				
Balance at the beginning of the year	**429,354**	**-**	**-**	**429,354**
Additions	**38,106**	**-**	**1,794,141**	**1,832,247**
Amortisation	**(204,916)**	**-**	**-**	**(204,916)**
Closing value at 30 June 2019	**262,544**	**-**	**1,794,141**	**2,056,685**
Year ended 30 June 2018				
Balance at the beginning of the year	159,458	405	-	159,863
Additions	385,573	-	-	385,573
Amortisation	(115,677)	(405)	-	(116,082)
Closing value at 30 June 2018	429,354	-	-	429,354

15. Other Assets

	Consolidated Group		Northern Inland Credit Union Ltd	
	2019	2018	2019	2018
	$	$	$	$
Prepayments	**246,204**	255,154	**238,915**	249,539
Other assets and clearing accounts	**141,256**	240,186	**141,256**	240,186
	387,460	495,340	**380,171**	489,725

16. Deposits

	Consolidated Group		Northern Inland Credit Union Ltd	
	2019	2018	2019	2018
	$	$	$	$
Current				
Member deposits - at call	**137,083,954**	131,802,794	**137,539,877**	132,352,273
Member deposits - term	**130,401,350**	113,516,381	**130,401,350**	113,516,381
Withdrawable shares	**100,446**	110,214	**100,436**	110,224
	267,585,750	245,429,389	**268,041,663**	245,978,878

Trade and other payables are unsecured, non-interest bearing and are normally settled within 30 days. The carrying amounts are considered to be a reasonable approximation of fair value.

(a) Concentration of member deposits

Geographical concentrations				
Tamworth	**137,756,753**	127,561,633	**138,212,662**	128,111,121
Narrabri	**53,839,156**	49,437,717	**53,839,156**	49,437,717
Gunnedah	**19,419,297**	17,166,027	**19,419,297**	17,166,027
Other Northern NSW	**41,637,534**	40,485,435	**41,637,534**	40,485,435
Other NSW	**7,251,093**	5,882,808	**7,251,093**	5,882,808
Other States	**7,681,917**	4,895,769	**7,681,921**	4,895,770
	267,585,750	245,429,389	**268,041,663**	245,978,878

17. Payables

Creditors and accruals	**2,726,447**	2,810,501	**2,710,913**	2,795,631
Interest payable	**863,500**	757,502	**863,500**	757,502
Accrued interest	**206,649**	214,006	**201,771**	208,641
Loan from associate	**-**	-	**5,697**	11,216
Lease liability	**371,272**	-	**371,272**	-
	4,167,868	3,782,009	**4,153,153**	3,772,990

Notes to the Financial Statements
For the Year Ended 30 June 2019

17. Payables (continued)

(a) Lease liability

The Lease liability recognised this year refers to the leases held over the premises of NICU's Narrabri, Gunnedah and West Tamworth branches. This liability has been recognised due to the early adoption of AASB 16 Leases. Refer to Note 1 (c) for accounting policies applied during the year.

18. Provisions

	Consolidated Group		Northern Inland Credit Union Ltd	
	2019	2018	2019	2018
	$	$	$	$
Long service leave	**928,737**	942,813	**910,331**	932,574
Sick leave	**234,855**	245,902	**234,855**	245,902
Annual leave	**373,598**	381,540	**355,434**	369,394
Make good	**8,000**	-	**8,000**	-
	1,545,190	1,570,255	**1,508,620**	1,547,870

19. Taxation liabilities

Current income tax liability	**74,614**	169,227	**81,317**	169,084
Current income tax liability/asset comprises:				
Opening balance	**169,227**	180,890	**169,084**	172,254
Amounts received/(paid)	**(169,227)**	(184,183)	**(169,084)**	(172,254)
Liability for income tax in current year	**391,718**	428,661	**382,080**	409,945
Instalments paid in current year	**(317,104)**	(256,141)	**(300,763)**	(240,861)
Closing balance	**74,614**	169,227	**81,317**	169,084
Deferred tax liability	**811,200**	-	**810,781**	-
Deferred tax liability comprises:				
Revaluation on CUSCAL shares	**169,650**	-	**169,650**	-
Revaluation on land and buildings	**638,047**	-	**638,047**	-
Deductible prepayments	**3,503**	-	**3,084**	-
Closing balance	**811,200**	-	**810,781**	-
Total Taxation liabilities	**885,814**	169,227	**892,098**	169,084

Notes to the Financial Statements
For the Year Ended 30 June 2019

20. Reserves

	Consolidated Group		Northern Inland Credit Union Ltd	
	2019	2018	2019	2018
	$	$	$	$
Members' shares reserve	**333,298**	321,202	**333,298**	321,202
Shares revaluation reserve	**850,000**	850,000	**850,000**	850,000
General reserve	**35,421,999**	34,412,575	**31,011,202**	30,051,065
Asset revaluation reserve	**1,682,124**	-	**1,682,124**	-
Shares revaluation reserve	**447,260**	-	**447,260**	-
	38,734,681	35,583,777	**34,323,884**	31,222,267
Members' shares reserve				
Opening balance	**321,202**	313,348	**321,202**	313,348
Transfers in	**12,096**	7,854	**12,096**	7,854
Closing balance	**333,298**	321,202	**333,298**	321,202
General reserve for credit losses				
Opening balance	**850,000**	850,000	**850,000**	850,000
Closing balance	**850,000**	850,000	**850,000**	850,000
General reserve				
Opening balance	**34,412,575**	33,364,083	**30,051,065**	29,079,918
Transfers in	**1,009,424**	1,048,492	**960,137**	971,147
Closing balance	**35,421,999**	34,412,575	**31,011,202**	30,051,065
Asset revaluation reserve				
Transfers in	**1,682,124**	-	**1,682,124**	-
Closing balance	**1,682,124**	-	**1,682,124**	-
Shares revaluation reserve				
Transfers in	**447,260**	-	**447,260**	-
Closing balance	**447,260**	-	**447,260**	-
Total reserves	**38,734,681**	35,583,777	**34,323,884**	31,222,267

Members' shares reserve

This reserve represents the amount of redeemable preference shares redeemed by NICU since 1 July 1999. The law requires that the redemption of the shares be made out of profits. Since the value of the shares has been paid to Members in accordance with the terms and conditions of the share issue, the account represents the amount of profits appropriated to the account.

General reserve for credit losses

This reserve records amounts previously set aside as a general provision and is maintained to comply with the Prudential Standards set down by APRA.

General reserve

Retained earnings are cleared out annually to this account and therefore this reserve represents the accumulated retained earnings balance as at the end of the financial year.

Asset revaluation reserve

This reserve relates to unrealised gains on NICU's land and buildings.

Shares revaluation reserve

This reserve relates to unrealised gains on NICU's equity investments designated as FVOCI.

Notes to the Financial Statements
For the Year Ended 30 June 2019

21. Financial Instruments Disclosure

(a) The following information classifies the financial instruments into measurement classes:

	Consolidated Group		Northern Inland Credit Union Ltd	
	2019	**2018**	**2019**	**2018**
	$	**$**	**$**	**$**
Cash assets	**15,400,884**	14,663,874	**15,117,448**	14,385,128
Receivables	**322,547**	272,732	**276,826**	221,720
Liquid investments	**20,720,000**	11,020,988	**18,420,000**	8,920,988
Loans to Members	**243,073,229**	230,164,821	**243,073,229**	230,164,821
	279,516,660	256,122,415	**276,887,503**	253,692,657
Equity investments classified as FVOCI	**1,233,820**	656,919	**1,233,821**	656,920
Negotiable Certificates of Deposits	**989,335**	990,823	**989,335**	990,823
Floating Rate Notes	**22,114,230**	23,633,976	**22,114,230**	23,633,976
	24,337,385	25,281,718	**24,337,386**	25,281,719
Total financial assets	**303,854,045**	281,404,133	**301,224,889**	278,974,376
Financial liabilities				
Creditors	**4,167,868**	3,782,020	**4,153,153**	3,772,990
Deposits from Members	**267,585,750**	245,429,389	**268,041,663**	245,978,878
	271,753,618	249,211,409	**272,194,816**	249,751,868

(b) Assets measured at fair value

	Balance	Level 1	Level 2	Level 3
	$	$	$	$
Consolidated Group - 2019				
Equity investments classified as FVOCI	1,233,820	-	-	1,233,820
Negotiable Certificates of Deposits	989,335	989,335	-	-
Floating Rate Notes	22,114,230	22,114,230	-	-
Total	24,337,385	23,103,565	-	1,233,820
Northern Inland Credit Union Ltd - 2019				
Equity investments classified as FVOCI	1,233,821	-	-	1,233,821
Negotiable Certificates of Deposits	989,335	989,335	-	-
Floating Rate Notes	22,114,230	22,114,230	-	-
Total	24,337,386	23,103,565	-	1,233,821

The fair value hierarchy has the following levels:

(a) quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);

(b) inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices) (Level 2); and

(c) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).

Notes to the Financial Statements

For the Year Ended 30 June 2019

(c) Maturity profile of financial instruments

	< 1 month	1-3 months	3-12 months	1-5 years	> 5 years	Total
	$	$	$	$	$	$
2019						
Financial assets						
Cash	15,410,787	-	-	-	-	15,410,787
Liquid investments	6,583,591	8,021,051	11,831,473	13,669,075	3,940,698	44,045,888
Loans to Members	2,196,977	4,075,262	17,471,856	80,496,043	267,551,166	371,791,304
	24,191,355	12,096,313	29,303,329	94,165,118	271,491,864	431,247,979
Financial liabilities						
Creditors	3,304,368	-	-	-	-	3,304,368
Deposits from Members						
- at call	137,184,525	-	-	-	-	137,184,525
- term	24,904,634	45,660,423	55,055,907	5,643,758	-	131,264,722
On balance sheet	165,393,527	45,660,423	55,055,907	5,643,758	-	271,753,615
Undrawn commitments - Note 23	2,000,000	-	-	-	-	2,000,000
Total financial liabilities	167,393,527	45,660,423	55,055,907	5,643,758	-	273,753,615
2018						
Financial assets						
Cash	14,672,567	-	-	-	-	14,672,567
Liquid investments	3,516,059	6,115,047	4,045,784	18,717,816	3,440,902	35,835,608
Loans to Members	1,861,321	4,007,583	17,246,030	77,940,864	248,206,152	349,261,950
	20,049,947	10,122,630	21,291,814	96,658,680	251,647,054	399,770,125
Financial liabilities						
Creditors	3,024,504	-	-	-	-	3,024,504
Deposits from Members						
- at call	131,913,120	-	-	-	-	131,913,120
- term	20,067,172	44,585,259	47,245,533	2,375,808	-	114,273,772
On balance sheet	155,004,796	44,585,259	47,245,533	2,375,808	-	249,211,396
Undrawn commitments - Note 23	2,000,000	-	-	-	-	2,000,000
Total financial liabilities	157,004,796	44,585,259	47,245,533	2,375,808	-	251,211,396

Notes to the Financial Statements
For the Year Ended 30 June 2019

(c) Maturity profile of financial instruments (cont'd)

Maturity profile of financial assets and liabilities

The table below represents the above maturity profile summarised at discounted values. The contractual arrangements best represents the estimated minimum amount of repayment on the loans, liquid investments and on the Member deposits. While the liquid investments and Member deposits are presented in the table below on a contractual basis, as part of our normal banking operations we would expect a large proportion of these balances to roll over. Loan repayments are generally accelerated by Members choosing to repay loans earlier. These advance repayments are at the discretion of the Members and not able to be reliably estimated.

	Within 12 months	After 12 months	Total
	$	$	$
2019			
Financial assets			
Cash	15,410,787	-	15,410,787
Liquid investments	26,436,114	17,609,773	44,045,887
Loans to Members	23,744,095	348,047,209	371,791,304
Total financial assets	**65,590,996**	**365,656,982**	**431,247,978**
Financial liabilities			
Creditors	3,304,368	-	3,304,368
Deposits from Members - at call	137,184,525	-	137,184,525
Deposits from Members - term	125,620,964	5,643,758	131,264,722
Total financial liabilities	**266,109,857**	**5,643,758**	**271,753,615**
2018			
Financial assets			
Cash	14,672,567	-	14,672,567
Liquid investments	13,676,890	22,158,718	35,835,608
Loans to Members	23,114,934	326,147,016	349,261,950
Total financial assets	**51,464,391**	**348,305,734**	**399,770,125**
Financial liabilities			
Creditors	3,782,009	-	3,782,009
Deposits from Members - at call	131,913,120	-	131,913,120
Deposits from Members - term	111,897,964	2,375,808	114,273,772
Total financial liabilities	**247,593,093**	**2,375,808**	**249,968,901**

(d) Interest rate change profile of financial assets and liabilities

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.

Consolidated Group	Weighted average interest	Within 1 month $'000	1-3 months $'000	3-12 months $'000	1-5 years $'000	Non interest bearing $'000	Total $'000
2019							
Financial assets							
Cash	0.10	14,140	-	-	-	1,261	15,401
Liquid investments	2.55	20,486	14,538	8,800	-	-	43,827
Loans to Members	4.73	183,517	6,194	20,708	32,647	7	243,077
Equity investments	N/A	-	-	-	-	1,234	1,234
Receivables	N/A	-	-	-	-	323	323
Total financial assets		218,143	20,732	29,508	32,647	2,825	303,862
Financial liabilities							
Deposits from Members	1.41	103,548	48,419	69,664	45,955	-	267,587
Creditors	N/A	-	-	-	-	4,168	4,168
On balance sheet		103,548	48,419	69,664	45,955	4,168	271,755
Undrawn commitments - Note 22		16,571	-	-	-	-	16,571
Total financial liabilities		120,119	48,419	69,664	45,955	4,168	288,326
2018							
Financial assets							
Cash	0.11	12,904	-	-	-	1,760	14,664
Liquid investments	2.95	21,488	14,158	-	-	-	35,649
Loans to Members	4.71	160,337	5,044	22,469	42,307	8	230,169
Equity investments	N/A	-	-	-	-	657	657
Receivables	N/A	-	-	-	-	273	273
Total financial assets		194,729	19,202	22,469	42,307	2,698	281,412
Financial liabilities							
Deposits from Members	1.35	93,769	47,308	61,826	42,526	-	245,430
Creditors	N/A	-	-	-	-	3,782	3,782
On balance sheet		93,769	47,308	61,826	42,526	3,782	249,212
Undrawn commitments - Note 22		18,869	-	-	-	-	18,869
Total financial liabilities		112,638	47,308	61,826	42,526	3,782	268,081

(e) Fair value of financial assets and liabilities

Fair value has been determined on the basis of the present value of expected future cash flows under the terms and conditions of each financial asset and financial liability. Significant assumptions used in determining the cash flows are that the values and timings of cash flows will be consistent with the contracted terms.

The information is only relevant to circumstances at balance date and will vary depending on the contractual rates applied to each asset and liability, relative to market rates and conditions at the time. No assets held are regularly traded by NICU, and there is no active market to assess the value of the financial assets and liabilities.

The values reported have not been adjusted for the changes in credit ratings of the assets. Disclosure of fair value is not required when the carrying amount is a reasonable approximation of fair value.

	Consolidated Group		
	Fair Value	**Carrying Value**	**Variance**
	$'000	**$'000**	**$'000**
2019			
Financial assets			
Cash	**15,401**	**15,401**	**-**
Receivables	**323**	**323**	**-**
Liquid investments	**44,232**	**43,824**	**408**
Loans to Members	**242,053**	**243,073**	**(1,020)**
Equity investments	**1,234**	**1,234**	**-**
Total financial assets	**303,243**	**303,855**	**(612)**
Financial liabilities			
Deposits from Members	**268,615**	**267,586**	**1,029**
Creditors	**4,168**	**4,168**	**-**
	-	**-**	**-**
Total financial liabilities	**272,783**	**271,754**	**1,029**
2018			
Financial assets			
Cash	14,664	14,664	-
Receivables	273	273	-
Liquid investments	35,490	35,646	(156)
Loans for Members	228,838	230,165	(1,327)
Equity investments	657	657	-
Total financial assets	279,922	281,405	(1,483)
Financial liabilities			
Deposits from Members	246,162	245,429	733
Creditors	3,782	3,782	-
Total financial liabilities	249,944	249,211	733

(e) Fair value of financial assets and liabilities (cont'd)

Assets where the fair value is lower than the book value have not been written down in the accounts of NICU on the basis that they are to be held to maturity, or in the case of loans, all amounts due are expected to be recovered in full.

The fair value estimates were determined by the following methodologies and assumptions:

Liquid assets and receivables from other financial institutions

The carrying values of cash and liquid assets and receivables due from other financial institutions redeemable within 12 months approximate their fair value as they are short term in nature or are receivable on demand.

Loans and advances

The carrying value of loans and advances is net of unearned income and both general and specific provisions for doubtful debts.

For variable rate loans, (excluding impaired loans) the amount shown in the balance sheet is considered to be a reasonable estimate of fair value. The fair value for fixed rate loans is calculated by utilising discounted cash flow models (i.e. the net present value of the portfolio future principal and interest cash flows), based on the period to maturity of the loans. The discount rates applied were based on the current applicable rate offered for the average remaining term of the portfolio.

The fair value of impaired loans was calculated by discounting expected cash flows using a rate which includes a premium for the uncertainty of the flows.

Deposits from Members

The fair value of call and variable rate deposits, and fixed rate deposits repricing within 12 months, is the amount shown in the Balance Sheet. Discounted cash flows were used to calculate the fair value of other term deposits, based upon the deposit type and the rate applicable to its related period maturity.

Short term borrowings

The carrying value of payables due to other financial institutions approximate their fair value as they are short term in nature and reprice frequently.

Notes to the Financial Statements
For the Year Ended 30 June 2019

22. Financial commitments

(a) Outstanding loan commitments

	Consolidated Group		Northern Inland Credit Union Ltd	
	2019	2018	2019	2018
	$	$	$	$
Loans and credit facilities approved but not funded or drawn at the end of the financial year:				
Loans approved but not funded	**1,023,909**	2,939,948	**1,023,909**	2,939,948
Loan redraw facilities available	**10,727,895**	10,936,134	**10,727,895**	10,936,134
Undrawn overdraft, line of credit and VISA:				
Total value of facilities approved	**7,346,974**	7,619,954	**7,346,974**	7,619,954
Less: amount advanced	**(2,527,956)**	(2,627,432)	**(2,527,956)**	(2,627,432)
	4,819,018	4,992,522	**4,819,018**	4,992,522
Total financial commitments	**16,570,822**	18,868,604	**16,570,822**	18,868,604

These commitments are contingent on Members maintaining credit standards and ongoing repayment terms on amounts drawn.

(b) Future capital commitments

	Consolidated Group 2019 $	Consolidated Group 2018 $	Northern Inland Credit Union Ltd 2019 $	Northern Inland Credit Union Ltd 2018 $
NICU has entered into contracts for the purchase of property, plant and equipment which has not been recognised as a liability and is payable as follows:				
Within 1 year	**55,693**	120,927	**55,693**	120,927

(c) Operating lease commitments

	Consolidated Group 2019 $	Consolidated Group 2018 $	Northern Inland Credit Union Ltd 2019 $	Northern Inland Credit Union Ltd 2018 $
Non cancellable operating leases contracted for but not capitalised in the financial statements, payable:				
Not later than one year	**-**	207,856	**-**	204,496
Later than 1 but not 5 years	**-**	219,734	**-**	213,574
	-	427,590	**-**	418,070

NICU has early adopted the AASB 16 Leases accounting standard. As a result a corresponded asset has been raised in Note 11 and liability has been raised in Note 17. Refer to Note 1 (c) for accounting policies applied during the year in relation to leases.

22. Financial commitments (continued)

(d) Computer Bureau expense commitments

	Consolidated Group		Northern Inland Credit Union Ltd	
	2019	**2018**	**2019**	**2018**
	$	**$**	**$**	**$**
Non cancellable expense commitments for the supply of computer support staff and services, not recognised as a liability and payable as follows:				
Within 1 year	**457,980**	456,000	**457,980**	456,000
Later than 1 year but not 5 years	**1,019,783**	1,473,784	**1,019,783**	1,473,784
	1,477,763	1,929,784	**1,477,763**	1,929,784

23. Standby borrowing facilities

NICU has a borrowing facility with CUSCAL of:

	Approved facility	Current borrowing	Net available
	$	**$**	**$**
2019			
Overdraft facility	**2,000,000**	**-**	**2,000,000**
Total standby borrowing facilities	**2,000,000**	**-**	**2,000,000**
2018			
Overdraft facility	2,000,000	-	2,000,000
Total standby borrowing facilities	2,000,000	-	2,000,000

The overdraft is secured by a $2 million Term Deposit held with CUSCAL.

24. Contingencies

Contingent Liabilities

NICU had the following contingent liabilities at the end of the reporting period:

NICU is a member of the Credit Union Financial Support Scheme Limited (CUFSS) a Company limited by guarantee, established to provide financial support to member credit unions in the event of a liquidity or capital problem. As a member, NICU is committed to maintaining 3% of the total assets as deposits with Cuscal Limited.

Under the terms of the Industry Support Contract (ISC), the maximum call for each participating credit union would be 3% of the credit union's total assets. This amount represents the participating credit union's irrevocable commitment under the ISC. At the balance date there were no loans issued under this arrangement.

An Industry Support Contract made on the 10 September 1999 between Credit Union Services Corporation (Australia) Limited (CUSCAL), CUFSS and participating credit unions required NICU to execute an equitable charge in favour of CUSCAL. The charge is a fixed and floating charge over the assets and undertakings of NICU and secures any advances, which may be made to NICU under the scheme. The balance of the debt at 30 June 2019 was Nil (2018: Nil).

25. Disclosures on Directors and Other Key Management Personnel

Key management persons are those persons having authority and responsibility for planning, directing and controlling the activities of NICU, directly or indirectly, including any Director (whether executive or otherwise) of NICU. Control is the power to govern the financial and operating policies of a credit union so as to obtain benefits from its activities.

Key management persons (KMP) have been taken to comprise the Directors and the members of the management team responsible for the day to day financial and operational management of NICU.

(a) Remuneration of Directors and Key Management Personnel (KMP)

The aggregate compensation of key management persons during the year comprising amounts paid or payable or provided for was as follows:

	2019 Directors	2019 Other KMP	2018 Directors	2018 Other KMP
(a) Short-term employee benefits	236,664	814,251	175,506	927,346
(b) Post-employment benefits - superannuation contributions	21,217	71,825	78,785	82,453
(c) Other long-term benefits - net increases in long service leave provision	-	37,012	-	25,088
(d) Other director benefits	-	-	-	-
	257,881	923,088	**254,291**	1,034,887

In the above table, remuneration shown as short-term benefits means (where applicable) wages, salaries, paid annual leave and paid sick leave, but excludes out of pocket expense reimbursements. All remuneration to directors was approved by the Members at the previous Annual General Meeting of NICU.

25. Disclosures on Directors and Other Key Management Personnel (continued)

(b) Loans to Directors and other Key Management Persons (KMP)

	2019	2018
	$	$
Aggregate value of loans at balance date	**2,749,294**	3,172,642
Aggregate value of loans disbursed - Term loans	**45,200**	866,697
Total value of overdraft facilities at balance date	**87,000**	77,000
Less: amounts drawn down:	**(12,894)**	(13,034)
Net balance available	**74,106**	63,966
Aggregate value of overdraft facility limits granted or increased	**10,000**	-
Interest earned on loans and overdraft facilities	**110,123**	118,907

NICU's policy for lending to Directors and management is that all loans are approved and deposits accepted on the same terms and conditions which applied to Members for each class of loan or deposit with the exception of loans to KMP who are not Directors.

There are no loans which are impaired in relation to the loan balances with KMPs. KMP who are not Directors receive a concessional rate of interest on their loans and facilities, which is based on the benchmark rate set for fringe benefits tax.

There are no benefits or concessional terms and conditions applicable to the close family members of the KMP. There are no loans which are impaired in relation to the loan balances with close family relatives of Directors and KMP.

(c) Other transactions between related parties including deposits from KMP are:

	2019	2018
Total value term and savings deposits from KMP	**5,213,493**	4,576,140
Total Interest paid on deposits to KMP	**61,344**	57,423

The policy of NICU for receiving deposits from related parties is that all transactions are approved and accepted on the same terms and conditions which applied to Members for each type of deposit, with the exception of interest on Term Deposits. Memberships in the name of KMP and/or their spouses but excluding Directors Memberships, superannuation funds and company Memberships are given 0.25% per annum above the applicable standard rate offered on Term Deposits invested with NICU.

26. Interests in Subsidiaries

The Parent Entity is Northern Inland Credit Union Ltd. Particulars in relation to controlled entities:

	Principal place of business / Country of Incorporation	Percentage Owned (%) 2019	Percentage Owned (%)* 2018
Subsidiaries:			
Northern Inland Investment Group Pty Ltd	Australia	**100**	100
Northern Inland Investment Services Pty Ltd	Australia	**59**	59

Northern Inland Investment Group Pty Ltd is the sole unit holder in the Northern Inland Investment Trust for which Northern Inland Credit Union Ltd is the trustee.

The Northern Inland Investment Trust has a 59% (2018 - 59%) ownership interest in the Northern Inland Investment Services Pty Ltd.

27. Outsourcing arrangements

NICU has arrangements with other organisations to facilitate the supply of services to Members:

a) Credit Union Services Corporation (Australia) Limited (CUSCAL): CUSCAL is an Approved Deposit Taking Institution registered under the Corporations Act 2001 and the Banking Act. NICU has equity in the company. This organisation:

i. Provides the licence rights to VISA Card in Australia and supplies services in the form of settlement with other institutions for ATM and VISA card transactions, cheque and direct entry transactions, as well as the production of VISA and Redicards for use by Members.

ii. Operates the computer network, including switching, used to link Redicards and VISA cards operated through approved ATM providers to NICU's computer systems.

iii. Provides treasury and money market facilities to NICU. NICU invests a part of its liquid assets with CUSCAL to comply with the Liquidity Support Scheme requirements. NICU has also established its borrowing facilities with CUSCAL.

b) TransActions Solutions Limited: this company operates the computer facility on behalf of NICU in conjunction with other credit unions. NICU has a management contract with the Bureau to supply computer support staff and services to meet the day-to-day needs of NICU and compliance with relevant Prudential Standards.

c) Ultradata Australia Pty Limited: this company provides and maintains the application software utilised by NICU.

28. Superannuation liabilities

NICU contributes to various superannuation plans for the purpose of superannuation guarantee payments and payment of other superannuation benefits on behalf of employees. The plans are administered by independent corporate trustees.

NICU has no interest in the superannuation plans (other than as a contributor) and is not liable for the performance of the plans, or the obligations of the plans.

29. Segmental reporting

The consolidated group operates predominantly in the retail financial services industry within Australia. The operations comprise the acceptance of deposits from and the making of loans to Members.

Notes to the Financial Statements
For the Year Ended 30 June 2019

30. Cash flow information

(a) Reconciliation of net profit/(loss) after tax to cashflows from revenue activities

	Consolidated Group		Northern Inland Credit Union Ltd	
	2019	**2018**	**2019**	**2018**
	$	**$**	**$**	**$**
Operating profit after income tax	**1,027,529**	1,075,424	**972,233**	979,001
Non-cash flows:				
- amortised fees on loans	**(25,007)**	56,469	**(25,007)**	56,469
- amortisation of intangible assets	**57,559**	22,692	**57,559**	22,692
- depreciation expense	**734,530**	328,431	**713,782**	307,713
- loss / gain on disposal of fixed assets	**1,985**	(625)	**1,985**	(624)
- provision for loan impairment	**24,790**	(17,138)	**24,790**	(17,138)
- employee entitlements	**(33,065)**	17,049	**(47,249)**	13,929
- fair value loss	**28,794**	57,702	**28,794**	57,702
- investment loss	**40,009**	-	**40,009**	-
- leasing costs	**(213,561)**	-	**(213,561)**	-
Changes in assets, liabilities and reserves				
- provision for income tax	**(94,612)**	(11,663)	**(87,767)**	(3,170)
- creditors and accruals	**(91,411)**	1,169,497	**(91,585)**	1,304,720
- interest payable	**105,998**	31,439	**105,998**	31,346
- interest receivable	**(33,712)**	2,739	**(37,748)**	5,444
- prepayments	**8,952**	(30,480)	**10,624**	(33,570)
- deferred tax assets	**811,201**	27,987	**810,781**	28,138
- future income tax benefits	**(5,528)**	-	**(884)**	-
- revaluation reserves	**(784,648)**	-	**(807,697)**	-
Net cashflow from revenue activities	**1,559,803**	2,729,523	**1,455,057**	2,752,652

30. Cash flow information (continued)

(b) Reconciliation of cash

	Consolidated Group		Northern Inland Credit Union Ltd	
	2019	2018	2019	2018
	$	$	$	$
Cash includes cash on hand, and deposits at call with other financial institutions and comprises:				
Cash on hand	**1,240,997**	1,742,809	**1,240,797**	1,742,609
Deposits at call	**14,159,887**	12,921,065	**13,876,651**	12,642,519
	15,400,884	14,663,874	**15,117,448**	14,385,128

31. Events Occurring After the Reporting Date

The financial report was authorised for issue on 1 October 2019 by the Board of Directors.

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

32. Company Details

The registered office of the credit union is:
Northern Inland Credit Union Limited
481 Peel Street
Tamworth NSW 2340

General information

Branches:
- 481 Peel Street Tamworth
- Shop 22 Shoppingworld Tamworth
- 73 Maitland Street Narrabri
- 252 Conadilly Street Gunnedah

33. Heads of Department Information

Derek McIntyre, Chief Executive Officer: employee since 1996. The CEO is responsible for the direction of the business, its development and growth, and coordination and management of the Heads of Department. Derek's background has been in the areas of marketing, operations, IT and product development, having held the roles of Marketing Manager, Senior Manager Operations, Executive Manager Operations, and General Manager Retail Service. Derek is a Nominated Responsible Officer for Northern Inland's Australian Financial Services Licence and Australian Credit Licence.

Academic record:
2017: Currently studying Graduate Diploma Data Science, University of Southern Queensland
2009: Graduate Certificate Applied Finance, Kaplan
2008: Diploma, Australian Institute of Company Directors
2007: Master of Science, Mercy College, New York
2002: Master of eBusiness, University of Southern Queensland
Tier 2 Certification, Institute of Financial Services Inc
1999: Graduate Certificate Internet Marketing, Charles Sturt University
1997: Bachelor of Commerce, University of New England

Kathy Beavan, Deputy CEO: employee since 1998. The Deputy CEO is responsible for the direction of business and overall development and growth in nominated specific areas, managing capital, operating income and expenditure budgets and forecasts. Kathy's experience in finance and accounting has encompassed the roles of Manager Finance & Administration, Executive Manager Finance, and Chief Financial Officer. Kathy is a Nominated Responsible Officer for Northern Inland's Australian Financial Services Licence.

Academic record:
2017: Currently studying Master of Science (Applied Statistics), Swinburne University of Technology
2013: Master of Applied Finance, Charles Sturt University
2011: Company Directors Course, Australian Institute of Company Directors, Sydney
2008: CPA accreditation
2004: Graduate Diploma of Personal Financial Planning, University of Southern Queensland
2003: Tier 2 Certification, Institute of Financial Services Inc.
2002: Bachelor of Business (Accounting), Charles Sturt University.
1996: Certificate IV in Finance and Banking, IFS Inc
1995: Advanced Certificate in Finance and Banking, IFS Inc

Anna Clark, Company Secretary: employee since 2002. Anna's background has included the positions of Solicitor & Compliance Manager, Executive Manager Compliance, HR & Training, and Head of Compliance and Risk. Responsible for compliance and regulatory areas, she acts in the roles of Privacy Officer, Complaints Officer, Company Secretary and Chief Risk Officer. Anna is a Nominated Responsible Officer for Northern Inland's Australian Financial Services Licence.

Academic record:
2015: Diploma of Management, Institute of Financial Services Inc
2011: Certificate 4 Frontline Management, Institute of Financial Services Inc
Company Directors Course, Australian Institute of Company Directors, Sydney
2010: Certificate 4 Financial Services, Institute of Financial Services Inc
2002: Tier 2 Certification, Institute of Financial Services Inc.
1997: Admission to Practice as Legal Practitioner, Supreme Court, New South Wales
1996: Accreditation with College of Law, St Leonards NSW
1995: Bachelor of Law with Bachelor of Arts (Anthropology), Macquarie University

Brian Rae, Executive Manager Lending & Credit Risk: employee since 2004. With 22 years experience in business banking and lending, Brian has overseen the operations, controls and planning for the lending department and staff since 2005. Brian is a Nominated Responsible Officer for Northern Inland's Australian Financial Services Licence with respect to consumer credit and general insurance products, and Northern Inland's Australian Credit Licence.

Academic record:
2004: Certificate 3 in Financial Service, Commonwealth Bank Australia
1993: Bachelor of Commerce, University of Newcastle

Directors' Declaration

The Directors of the NICU declare that:

1. the financial statements and notes for the year ended 30 June 2019 are in accordance with the *Corporations Act 2001* and:

    a. comply with Accounting Standards, which, as stated in accounting policy Note 1. to the financial statements, constitutes explicit and unreserved compliance with International Financial Reporting Standards (IFRS); and

    b. give a true and fair view of the financial position and performance of the NICU and consolidated group;

2. In the Directors' opinion, there are reasonable grounds to believe that the NICU and consolidated group 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.

Chair of Board ....
Robert James Studte

Dated 1 October 2019

Northern Inland Credit Union Limited

Independent Audit Report to the Members of Northern Inland Credit Union Limited

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Northern Inland Credit Union Limited (the Company) and its subsidiaries (the Group), which comprises the statement of financial position as at 30 June 2019, the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the Group's financial position as at 30 June 2019 and of its financial performance for the year ended; and

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

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement. Our responsibilities under those standards are further described in the Auditor's Responsibility section of our report.

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

Independence

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

Responsibilities of Directors for the Financial Report

The Directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the Directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error. In Note 1, the Directors also state, in accordance with Australian Accounting Standard AASB 101 Presentation of Financial Statements, that the financial report complies with International Financial Reporting Standards.

In preparing the financial report, the Directors are responsible for assessing the Group'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 consolidated entity or to cease operations, or have no realistic alternative but to do so.

Independent Audit Report to the Members of Northern Inland Credit Union Limited

Auditor's Responsibilities for the Audit of the Financial Report

Our responsibility is to express an opinion on the financial report based on our audit. 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 Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor’s judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company’s preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, internal omissions, misrepresentations, or the override of internal control.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial report.

We conclude on the appropriateness of the Directors’ use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor’s report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the consolidated entity to cease to continue as a going concern.

We evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

We obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the consolidated entity to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

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

The Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements. We also provide the Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

PKF
Chartered Accountants

SCOTT TOBUTT
Partner

Sydney, NSW

Dated 1 October 2019