2019 financial report

FOR PERIOD ENDED
30 JUNE 2019

firstoption BANK

www.firstoptionbank.com.au

Chairman's Report

On behalf of the Board of Directors, I am pleased to present the Annual Report for 2019 to members of First Option Bank Ltd.

Overview

The 2018/19 financial year was impacted by the continuation of historically low interest rates, culminating with the RBA reducing the cash rate by a further 25 basis points on 5th June and again on 3rd July 2019 to a record low of 1.00%.

The domestic economy continues to slow, weighed down by low real wage growth, increasing unemployment, lower consumer and business confidence and slowing household spending, as that word "recession' remains present. Global issues relating to tariff threats between the US and China continue to exist and the failure to achieve a clear Brexit result have also impacted local investors.

During the latter part of the year, in an attempt to stimulate credit lending, the industry regulator, Australian Prudential Regulation Authority (APRA), relaxed growth caps placed on investment loans and interest-only loans and revised mortgage loan serviceability assessment criteria all of which were impacting current and potential borrowers.

The Banking Royal Commission final report was released in February 2019. The report provided the government and regulators with 76 recommendations relating to the banking, insurance and superannuation industries. The implementation of these recommendations will take many years to be formally adopted or regulated. The extent to which any of these recommendations will affect First Option is not yet fully known.

At the November 2018 Annual General Meeting members approved a motion to change our name to First Option Bank Ltd. Following the receipt of all regulatory approvals, implementation of the name change was completed during the year.

Despite the reduction to the cash rate and the economic headwinds, First Option achieved strong growth in loans, deposits and new members under 25 years old. This strong operating performance resulted in a creditable Operating Profit after Income Tax and prudential capital and liquidity ratios above the statutory limits.

Market and Regulatory Conditions

Barely twelve months ago, talk within the financial markets was of when and how high the next interest rate increase would be. However, quickly changing economic conditions lead to the RBA reducing interest rates twice in the space of two months in an attempt to stimulate the local economy. Your directors are constantly monitoring these changing conditions to ensure that there is no adverse financial impact to the organisation and that the quality of member services and products is not affected.

The expansion of non-bank lenders (un-regulated) continued during the year, this growth being assisted by tougher lending conditions imposed by APRA on regulated ADI's following the Royal Commission. As a result, these lenders have increased their market share, particularly in the personal loan products area. Additional regulatory oversight needs to be put in place to ensure a level playing field exists between these organisations and highly regulated institutions such as banks and credit unions.

From 1st July 2019, the Banking Executive Accountability Regime (BEAR) administered by APRA will apply to all APRA regulated entities, including First Option. BEAR establishes accountability obligations for ADI's and their senior executives along with deferred remuneration, key personnel and notification conditions. The outcome expected from BEAR is a major strengthening of accountability among the directors and senior managers of ADI's. First Option has completed all necessary action in relation to BEAR.

Financial and Operational Highlights

The 2018/19 financial year has been another very successful year, with the achievement of strong growth and pleasing financial performance in all areas.

Total Assets grew to $221 million, up $13.3 million (6.4%), Total Loans increased by $12.2 million (7.5%) to $175.2 million and Total Deposits reached $203.9 million, up $14.9 million (7.9%).

Against a backdrop of strong competition, ever increasing external costs and regulatory constraints, these growth levels demonstrate the capability of First Option to compete in the financial market place due to our competitive loan and deposit interest rates and high quality member services.

Operating profit before income tax for the full year was $572,512, down from FY18 result of $1,050,598 (or $691,101 after abnormal items including the sale of Cuscal shares). Impacting the FY19 profit level was a falling interest rate margin due primarily to strong competition. Interest rate matching became the norm within the industry as competition intensified, particularly in the mortgage and personal loans area.

Members' Equity increased by $0.3 million to $14.7 million.

At year-end, First Option's financial position was sound, with a capital adequacy ratio of 14.8% (minimum regulatory requirement 8%) and a level of liquidity at 19.8% (minimum regulatory requirement 9%).

During the year First Option received a five star rating from leading financial product rating agencies for our Access Saver Account and Credit Card products.

Since its launch in February 2018, Osko, the National Payments Platform for immediate electronic transfers, has continued to be embraced by members with transaction numbers and value steadily climbing, justifying our high value investment in this modern payment method.

Marketing campaigns to attract new members under 25 years old continue to produce results, with 196 new members choosing First Option due to our competitive interest rates, award winning products and, importantly to these young members, First Option's cutting edge mobile banking app and internet services.

Our award winning Kids Bonus Saver Account continues to grow with year-end balances totalling $5.9m.

Where to Next?

Lower Interest Rates – have they got further to go?

The RBA remains very concerned about the slowing Australian economy, with local data continually pointing to weak retail trading, depressed manufacturing, the impact of the ongoing drought and numerous global issues threatening trade balances. The RBA Governor has stated that further interest rate cuts may be necessary if conditions continue to deteriorate.

Any further interest rate cut will place enormous pressure on interest rate margins and hence the profitability levels of all financial institutions.

Central to the health of the Australian and Global economies is the outcome of the current trade/tariff war between the US and China and the management of Brexit, to a lesser extent. With global growth being impacted by these issues, talk about a looming recession will continue to persist.

Home affordability continues to be a major issue within the domestic property landscape, even though property prices have decreased over the last twelve months, particularly in Sydney and Melbourne. Record household debt coupled with cost of living pressures and low wages growth can impact a borrower's ability to repay loans, resulting in higher loan arrears balances across the industry.

To achieve the strategic goals necessary to grow First Option both financially and operationally within this changing operating environment, your directors will continue to invest in future technology and innovation, identify potential value-added products, strengthen host relationships and continue our friendly personalised member service.

A major strategy currently being developed by First Option is the commencement of digital banking. Entry into this fast moving real time area will provide enormous opportunities for your Bank to promote its award winning products and competitive interest rates to a wide audience.

Appreciations

I along with my fellow directors would like to offer our sincere thanks to Dean and our staff for their outstanding level of member service and contribution to the continuing success of First Option.

On behalf of the Directors and Management, I would like to express our gratitude to our industry hosts for their ongoing support.

I also thank my fellow directors for their dedication and contribution to what has been a challenging but very successful and rewarding year.

Finally, I thank all members for supporting First Option, as without this continuing support, the financial strength, quality member services and competitive products offered by your Bank could not be maintained.

Graeme Yeo
Chairman
September 2019

Directors' Report

Your Directors present their report on First Option Bank for the financial year ended 30 June 2019. The Bank is a company registered under the Corporations Act 2001.

Information on Directors

Name	Qualifications	Experience	Responsibilities
Graeme John Yeo	BBus (Acc), CPA	Director for 11 years (previously 25 years) Chairperson 10 years	Chairperson of the Board
Cathryn Mary Garrigan	BSpThy, MBA Graduate Australian Institute of Company Directors, Associate Australasian Compliance Institute	Director for 18 years	Chairperson of the Risk Committee, Member of the Audit Committee
Dharmendra Kumar	BA, MBA, Diploma in Financial Planning, Graduate Australian Institute of Company Directors Member Australian Institute of Company Directors, Senior Associate Financial Institute of Australasia, Member of Professional Risk Managers Association	Director for 10 years	Member of the Risk Committee, Member of the Audit Committee
Annette Susan Mathews	BAppSc (Comp), Graduate Australian Institute of Company Directors, Member Australian Institute of Company Directors, Organisational Coaching Certificate, Alumni Member Institute of Executive Coaching	Director for 24 years	Member of the Risk Committee, Member of the Audit Committee
Timothy Matthews	BBusSt, FCPA, Graduate Australian Institute of Company Directors	Director for 12 years (EECC for 16 years)	Chairperson of the Audit Committee, Member of the Risk Committee
Gregory Noel Moore		Director for 20 years	
Anthony McAvaney	BE (Chem) Hons, BComm, Member Australian Institute of Company Directors, Director of OC Connections, Trustee of the Gus Theobald Foundation	Director for 8 years	
Lorna Clerkin	BSc (Hons), MBA	Director for 3 years (OGCU for 11 years)	

Note: EECC denotes Ericsson Employees Credit Co-operative, OGCU denotes Old Gold Credit Union Co-Operative

Company Secretary

Name	Qualifications	Experience
Dean Jepsen	Bachelor of Economics (Acctg), AFAMI, FCPA	Chief Executive Officer for 5 years

Directors' Meeting Attendance

Director	Board		Audit Committee		Risk Committee	
	Eligible	Attended	Eligible	Attended	Eligible	Attended
Graeme Yeo	11	11	-	-	-	-
Cathryn Garrigan	11	9	4	3	4	3
Dharmendra Kumar	11	7	4	1	4	1
Annette Mathews	11	10	4	4	4	4
Timothy Matthews	11	11	4	4	4	4
Gregory Moore	11	11	-	-	-	-
Anthony McAvaney	11	9	-	-	-	-
Lorna Clerkin	11	8	-	-	-	-

Periods of Appointment

Graeme Yeo	2020 AGM	Timothy Matthews	2019 AGM
Cathryn Garrigan	2019 AGM	Gregory Moore	2020 AGM
Dharmendra Kumar	2021 AGM	Anthony McAvaney	2020 AGM
Annette Mathews	2019 AGM	Lorna Clerkin	2019 AGM

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 the Bank, controlled entity, or a related body corporate with a Director, a firm of which a Director is a member or an entity in which a Director has a substantial financial interest, other than that disclosed in note 33 of the complete set of financial statements.

Director and Officer Insurances and Indemnities

Insurance premiums have been paid to insure each of the Directors and Officers of the Bank, 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 the Bank. 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 the Bank.

Principal Activities

The principal activities of the Bank during the year were the provision of retail financial services to members in the form of taking deposits and giving financial accommodation as prescribed by its Constitution.

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

Operating Results

The operating profit of the Bank for the year after providing for income tax was $360,059 [2018: $768,444]. To provide a clearer comparison, the 2018 after tax profit excluding abnormal items was $501,048. The abnormal item was the one off gain on sale of Cuscal Shares during 2018.

Dividends

No dividends have been paid or declared since the end of the financial year and no dividends have been recommended or provided for by the Directors of the Bank.

Review of Operations

The results of the Bank's operations from its activities of providing financial services to its members did not change significantly from those of the previous year.

Significant Changes in State Of Affairs

Following a member vote at the 2018 AGM, the company name was changed from First Option Credit Union Limited to First Option Bank Ltd on 7th December 2018. This change did not alter the mutual structure of the business. There were no other significant changes in the state of the affairs of the company during the financial year.

Events Occurring after Balance Date

No other matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations, or state of affairs of the Bank in subsequent financial years.

Likely Developments and Results

No other matter, circumstance or likely development in our operations has arisen since the end of the financial year that has significantly affected or may significantly affect:

- The operations of the Bank;
- The results of those operations; or
- The state of affairs of the Bank

in the financial years subsequent to this financial year.

Auditors' Independence

The auditors have provided the declaration of independence to the board as prescribed by the Corporations Act 2001.

Mr Graeme Yeo	Mr Timothy Mathews
Chairman of the Board	Chairman of the Audit Committee

Signed and dated this 17th September 2019

Auditor's Independence Declaration

To the Directors of First Option Bank Limited

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the audit of First Option Bank Limited for the year ended 30 June 2019, I declare that, to the best of my knowledge and belief, there have been:

a no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and

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

Grant Thornton

Grant Thornton Audit Pty Ltd
Chartered Accountants

Claire Scott

Claire Scott (nee Gilmartin)
Partner – Audit & Assurance

Melbourne, 17 September 2019

Independent Auditor's Report

To the Members of First Option Bank Limited

Report on the audit of the financial report

Opinion

We have audited the financial report of First Option Bank Limited (the Company), which comprises the statement of financial position as at 30 June 2019, the statement of profit or loss and other comprehensive income, statement of changes in equity and 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 Company is in accordance with the *Corporations Act 2001*, including:

a giving a true and fair view of the Company's financial position as at 30 June 2019 and of its performance for the year ended on that date; and

b complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Company in accordance with the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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

Information other than the financial report and auditor's report thereon

The Directors are responsible for the other information. The other information comprises the information included in the Company's annual report for the year ended 30 June 2019, but does not include the financial report and our auditor's report thereon.

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

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

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

Responsibilities of the 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*. The Directors' responsibility also includes such internal control as the Directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial report

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

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

Grant Thornton

Grant Thornton Audit Pty Ltd
Chartered Accountants

Claire Scott

Claire Scott (nee Gilmartin)
Partner – Audit & Assurance

Melbourne, 17 September 2019

Directors' Declaration

In the opinion of the directors of First Option Bank Ltd:

1. The financial statements and accompanying notes of the company are in accordance with the Corporations Act 2001, including:

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

    b. giving a true and fair view of the company's financial position as at 30 June 2019 and of its performance for the financial year ended on that date.

2. There are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

3. The financial statements comply with International Financial Reporting Standards as stated in Note 2.

This declaration is made in accordance with a resolution of the Board of Directors and is signed for and on behalf of the directors by:

Chairman ____________________

Mr Graeme Yeo

Dated this 17th day of September 2019.

Statement of Profit or Loss and Other Comprehensive Income
for the year ended 30th June 2019

	Note	2019 $	2018 $
Interest revenue	7.a	7,715,608	7,417,173
Interest expense	7.c	3,220,183	3,035,761
Net interest income		4,495,425	4,381,412
Other income	7.b	684,497	1,591,784
Net Income		5,179,922	5,973,196
Non interest expenses			
Impairment losses on loans and advances	7.d	51,821	45,021
General administration			
- Employees compensation and benefits		1,860,765	1,827,138
- Depreciation and amortisation		79,063	80,067
- Information technology		1,270,848	1,701,479
- Office occupancy		200,700	187,608
- Other administration		449,400	446,772
Total general administration		3,860,776	4,243,064
Other operating expenses		694,813	634,513
Total non interest expenses		4,607,410	4,922,598
Operating Profit before Income Tax		572,512	1,050,598
Income tax expense	8	212,453	282,154
Operating Profit after Income Tax		360,059	768,444
Other Comprehensive Income		-	-
Total Comprehensive Income		360,059	768,444

This statement should be read in conjunction with the attached notes

Statement of Changes in Member Equity
for the year ended 30 June 2019

	Redeemed Capital Reserve $	Reserve for Credit Losses $	General Reserves $	Retained Profits $	Total $
Total at 1 July 2017	23,458	384,789	13,152,149	-	13,560,396
Profit for the year	-	-	-	768,444	768,444
Totals brought forward	23,458	384,789	13,152,149	768,444	14,328,840
Transfers to (from) Reserves	2,888	16,745	748,811	(768,444)	-
Total as at 30 June 2018	26,346	401,534	13,900,960	-	14,328,840
Total at 1 July 2018	26,346	401,534	13,900,960	-	14,328,840
Adjustment on adoption of AASB 9	-	-	(30,519)	-	(30,519)
Adjusted balance 1 July 2018	26,346	401,534	13,870,441	-	14,298,321
Profit for the year	-	-	-	360,059	360,059
Totals brought forward	26,346	401,534	13,870,441	360,059	14,658,380
Transfers to (from) Reserves	1,678	22,952	335,429	(360,059)	-
Total as at 30 June 2019	28,024	424,486	14,205,870	-	14,658,380

This statement should be read in conjunction with the attached notes

Statement of Financial Position
as at 30 June 2019

	Note	2019 $	2018 $
ASSETS			
Cash	9	12,883,307	11,715,146
Liquid investments	10	31,696,739	31,576,739
Receivables	11	476,008	627,473
Loans and advances to members	12 & 13	175,216,407	163,038,472
Investments	14	-	-
Property, plant and equipment	15	262,883	298,110
Taxation assets	16	213,075	299,104
Intangible assets	17	120,925	14,389
Total Assets		220,869,344	207,569,433
LIABILITIES			
Short term borrowings	18	-	2,000,000
Deposits from members	19	203,895,948	188,989,549
Creditors	20	1,635,806	1,615,598
Taxation liabilities	21	4,444	19,073
Provisions	22	674,766	616,373
Total Liabilities		206,210,964	193,240,593
Net Assets		14,658,380	14,328,840
MEMBERS’ EQUITY			
Capital reserve	23	28,024	26,346
Reserve for credit losses	24	424,486	401,534
General Reserve	25	14,205,870	13,900,960
Total Members' Equity		14,658,380	14,328,840

This statement should be read in conjunction with the attached notes

Statement of Cash Flows
for the year ended 30 June 2019

	Note	2019	2018
OPERATING ACTIVITIES		$	$
Interest received		7,500,199	7,414,069
Interest paid		(3,156,239)	(3,035,761)
Other income		1,069,127	520,878
Income Tax Paid		(141,053)	(257,083)
Cash Paid to Suppliers & Employees		(4,619,933)	(5,837,855)
Net cash used in (from) revenue operations	37.b	652,101	(1,195,752)
Other operating activities			
Net increase in deposits and other borrowings		14,989,666	17,273,499
Net increase in loans and advances		(12,203,233)	(11,276,034)
Total cash from operations		3,438,534	4,801,713
INVESTING ACTIVITIES			
Increase in deposits with other ADIs		(120,001)	(3,259,800)
Purchase of equipment and software		(150,372)	104,026
Disposal of equipment and software		-	(293,000)
Movement in investments		-	880,370
Net cash used in investing activities		(270,373)	(2,568,404)
FINANCING ACTIVITIES			
Repayment of borrowings		(2,000,000)	-
Net cash used in financing activities		(2,000,000)	-
Net increase / (decrease) in cash held		1,168,161	2,233,309
Cash at the beginning of reporting period		11,715,146	9,481,837
Cash at the End of the Reporting Period	37.a	12,883,307	11,715,146

This statement should be read in conjunction with the attached notes

Notes to the Financial Statements

1. Nature of operations

First Option Bank's principal activities include the provision of retail financial services to members in the form of deposit-taking and provision of financial loans to members.

2. General information and statement of compliance

This financial report is prepared for First Option Bank Ltd (First Option Credit Union Limited prior to 7th December 2018) for the year ended 30 June 2019. The general purpose financial statements of the bank have been prepared in accordance with the requirements of the Corporations Act 2001, Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board (AASB). Compliance with Australian Accounting Standards ensures compliance with the International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB).

First Option Bank Ltd is a for-profit entity for the purpose of preparing the financial statements.

First Option Bank Ltd is a Public Company incorporated and domiciled in Australia. The address of its registered office and its principal place of business is Level 6, 437 St Kilda Rd, Melbourne VIC 3004.

The report was authorised for issue on 17th September 2019 in accordance with a resolution of the board of Directors. The financial report is presented in Australian dollars.

3. Basis of measurement

The financial statements have been prepared on an accruals basis, and are based on historical costs.

The accounting policies are consistent with the prior year unless otherwise stated.

4. Changes in Significant Accounting Policies – New Standards applicable for the Current Year

AASB 15 Revenue from contracts with customers

AASB 15 replaces AASB 118 Revenue, AASB 111 Construction Contracts and several revenue-related Interpretations. The new Standard has been applied as at 1 July 2018 using the modified retrospective approach. Under this method, the cumulative effect of initial application is recognised as an adjustment to the opening balance of retained earnings at 1 July 2018 and comparatives are not restated. In accordance with the transition guidance, AASB 15 has only been applied to contracts that are incomplete as at 1 July 2018.

The adoption of AASB 15 has had an impact on the following for the Bank:

- Account fees
- Insurance commissions

Account fees

Many of the Bank's savings and current account contracts with members comprise a variety of performance obligations including, but not limited to processing of transfers, use of ATMs for cash withdrawals, the issue of original debit cards, and provision of account statements. Under AASB 15, the Bank must evaluate the separability of the promised goods or services based on whether they are 'distinct'. A promised good or service is 'distinct' if both of the following criteria are met:

- the customer benefits from the good or service either on its own or together with other readily available resources; and
- the entity's promise to transfer the good or service to the customer is separately identifiable from other promises in the contract (i.e. the Bank does not provide a significant service integrating, modifying or customising it).

While this represents significant new guidance, the implementation of this new guidance had no impact on the timing or amount of revenue recognised by the Bank during the year.

Insurance commission

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

The adoption of AASB 15 did not impact the timing or amount of fee and commission income from contracts with customers and the related assets and liabilities of the Bank.

AASB 9 Financial Instruments

AASB 9 Financial Instruments replaces AASB 139 Financial Instruments: Recognition and Measurement. It makes major changes 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, the Bank 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.

AASB 9 also contains new requirements on the application of hedge accounting. As at the 30th June 2019 the Bank did not use hedge accounting.

The adoption of AASB 9 has impacted the following areas:

Classification and measurement of the Bank's financial assets.

AASB 9 allows for three classification categories for financial assets:

- Amortised cost
- FVOCI (Fair Value through Other Comprehensive Income)
- 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 cash flows. AASB 9 eliminates previous categories of held to maturity, loans and receivables and available for sale. Classification of financial liabilities is largely unchanged. Refer table on next page for a reconciliation of changes in classification and measurement of financial instruments on adoption of AASB 9.

Impairment of the Bank's financial assets

The Bank's 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. The Bank measures loss allowances at an amount equal to lifetime expected credit losses (ECL), except for the following, for which they are measured as 12 months ECL.

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

An impairment allowance of $30,519 was included on 1 July 2018 in respect of loans and advances to members. No impairment allowance was recognised for other investments. Further detail of how the Bank has applied the ECL policy is included in Note 13.

On the date of initial application, 1 July 2018, the financial instruments of the Bank were reclassified as follows:

	Measurement Category		**Carrying Amount**		
	Original AASB 139 category	**New AASB 9 category**	**Closing balance 30 Jun 2018 (AASB 139)**	**Adoption of AASB 9**	**Opening balance 1 Jul 2018 (AASB 9)**
Assets					
Loans and advances to members	Loans and receivables	Amortised cost	$163,038,472	($30,519)	$163,007,953
Receivables	Receivables	Amortised cost	$627,473	-	$627,473
Cash	Amortised cost	Amortised cost	$11,715,146	-	$11,715,146
Negotiable Certificates of Deposits (NCDs)	Held to maturity	Amortised cost	$10,000,000	-	$10,000,000
Floating Rate Notes / Term Deposits	Held to maturity	Amortised cost	$21,576,739	-	$21,576,739
Total financial assets			$206,957,830	($30,519)	$206,927,311
Liabilities					
Deposits from members and other financial institutions	Amortised cost	Amortised cost	$188,989,549	-	$188,989,549
Creditors	Amortised cost	Amortised cost	$1,615,598	-	$1,615,598
Bank borrowings	Amortised cost	Amortised cost	$2,000,000	-	$2,000,000
Total financial liabilities			$192,605,147	-	$192,605,147

5. Significant Accounting Policies

a) Financial assets and financial liabilities

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

Policy applicable from 1 July 2018

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 or loss (FVPL)
- 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 finance costs, finance income or other financial items, except for impairment of loans and receivables, which is presented within other expenses.

Classifications are determined by both:

- the entity'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 amortised costs

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

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

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

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

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

Fair Value through Other Comprehensive Income (FVOCI)

Investments 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.

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;

When the bank purchases a financial asset and simultaneously enters into an agreement to resell the asset (or a substantially similar asset) at a fixed price on a future date (reverse repo or stock borrowing), the arrangement is accounted for as a loan or advance, and the underlying asset is not recognised in the bank's financial statements.

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

Loans and advances to customers included those classified as loans and receivables.

Loans and advances were initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method.

Interest earned

Term loans - interest is calculated on the basis of the daily balance outstanding and is charged in arrears to a members account on the last day of each month.

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

Non accrual loan interest – while still legally recoverable, interest is not brought to account as income where the bank is informed that the member has deceased, or loan is impaired.

Loan origination fees and discounts

Loan establishment fees and discounts are initially deferred as part of the loan balance, and are brought to account as income over the expected life of the loan as interest revenue.

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, and included as part of interest revenue.

Fees on loans

The fees charged on loans after origination of the loan are recognised as income when the service is provided or costs are incurred.

Net gains and losses

Net gains and losses on loans to members to the extent that they arise from the partial transfer of business or on securitisation, do not include impairment write downs or reversals of impairment write downs.

Reclassifications

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the bank changes its business model for managing financial assets. There were no changes to any of the business models during the current year (prior year: nil).

Policy applicable before 1 July 2018

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:

- loans and receivables
- financial assets at fair value through profit or loss (FVTPL)
- held-to-maturity (HTM) investments
- available-for-sale (AFS) financial assets

The category determines subsequent measurement and whether any resulting income and expense is recognised in statement of profit or loss and other comprehensive income.

All financial assets except for those at FVTPL are subject to review for impairment at least at each reporting date to identify whether there is any objective evidence that a financial asset or a group of financial assets is impaired. Different criteria to determine impairment are applied for each category of financial assets, which are described below.

All income and expenses relating to financial assets that are recognised in profit or loss are presented within finance costs, finance income or other financial items, except for impairment of loans and receivables which is presented within other expenses.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition, these are measured at amortised cost using the effective interest method, less provision for impairment. The Bank's cash and cash equivalents, trade and most other receivables fall into this category of financial instruments.

Individually significant receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default. Receivables that are not considered to be individually impaired are reviewed for impairment in groups, which are determined by reference to the industry and region of a counterparty and other shared credit risk characteristics. The impairment loss estimate is then based on recent historical counterparty default rates for each identified group.

Financial assets at FVTPL

Financial assets at FVTPL include financial assets that are either classified as held for trading or that meet certain conditions and are designated at FVTPL upon initial recognition. The Bank does not operate a trading book.

HTM investments

HTM investments are non-derivative financial assets with fixed or determinable payments and fixed maturity other than loans and receivables. Investments are classified as HTM if the Bank has the intention and ability to hold them until maturity. The Bank currently holds Term Deposits, Negotiable Certificates of Deposit (NCD) and Floating Rate Notes (FRN) eligible for repurchase with the Reserve Bank of Australia in this category. If more than an insignificant portion of these assets are sold or redeemed early then the asset class will be reclassified as Available for Sale financial assets.

HTM investments are measured subsequently at amortised cost using the effective interest method. If there is objective evidence that the investment is impaired, determined by reference to external credit ratings, the financial asset is measured at the present value of estimated future cash flows. Any changes to the carrying amount of the investment, including impairment losses, are recognised in profit or loss.

AFS financial assets

AFS financial assets are non-derivative financial assets that are either designated to this category or do not qualify for inclusion in any of the other categories of financial assets. The Bank has no financial assets classified as AFS.

Classification and subsequent measurement of financial liabilities

The Bank's financial liabilities include borrowings, and other payables. Financial liabilities are measured subsequently at amortised cost using the effective interest method.

Loans to Members

Basis of recognition

All loans are initially recognised at fair value, net of transaction costs incurred and inclusive of loan origination fees. Loans are subsequently measured at amortised cost. Any difference between the proceeds and the redemption amount is recognised in the statement of profit or loss and other income over the period of the loans using the effective interest method.

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

b) 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.

The Bank considers a broader range of information 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, a distinction is made between:

- financial instruments that have not deteriorated significantly in credit quality since initial recognition or that have low credit risk (performing loans) ('Stage 1'); and
- financial instruments that have deteriorated significantly in credit quality since initial recognition and whose credit risk is not low ('Stage 2').

'Stage 3' would cover financial assets that have objective evidence of impairment (loans in default) 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 to the Bank in accordance with the contract and the cash flows that the Bank expects to receive);
- 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: as the present value of the difference between the contractual cash flows that are due to the Bank if the commitment is drawn down and the cash flows that the Bank expects to receive; and

- financial guarantee contracts: the expected payments to reimburse the holder less any amounts that the Bank expects to recover.

The critical assumptions used in the calculation are as set out in note 13. Note 38d details the credit risk management approach for loans.

Restructured financial assets

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

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

Credit-impaired financial assets

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

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

A loan that has been renegotiated due to 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 an undrawn component, and the Bank cannot identify the ECL on the loan commitment component separately from those on the drawn component: The Bank presents a combined loss allowance for both components. The combined amount is presented as a deduction

from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision.

Write-off

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

Policy applicable before 1 July 2018

Specific & Collective Provision for Impairment

Provisions for losses on impaired loans are recognised when there is objective evidence that the impairment of a loan has occurred. Estimated impairment losses are calculated on individual loans in arrears. The amount provided is determined by management and the board to recognise the probability of loan amounts not being collected in accordance with terms of the loan agreement. The critical assumptions in the calculation are as set out in note 13.

The APRA Prudential Standards require a minimum provision to be maintained, based on specific percentages on the loan balance which are contingent upon the length of time the repayments are in arrears. This approach is used to assess the collective provisions for impairment.

An assessment is made at each statement of financial position date to determine whether there is objective evidence that a specific financial asset is impaired. Evidence may include that the borrower has defaulted, is experiencing financial difficulty, or where the debt has been restructured to reduce the burden to the borrower. Where this is identified, a specific provision is raised.

Reserve for Credit Losses

In addition to the above specific provision, the Board has recognised the need to make an allocation from retained earnings to ensure there is adequate protection for members against the prospect that some members will experience loan repayment difficulties in the future. The reserve is based on estimation of potential risk in the loan portfolio based upon:

- the level of security taken as collateral; and
- the concentration of loans taken by employment type.

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 6 months.

c) Property, plant and equipment

Property, plant and equipment are depreciated on a straight line basis so as to write-off the net cost of each asset over its expected useful life to the Bank. The useful lives are adjusted if appropriate at each reporting date. Estimated useful lives as at the reporting date are as follows:

- Leasehold Improvements - up to 10 years
- Plant and Equipment - 3 to 7 years
- Assets less than $1000 are not capitalised

d) Provision for employee benefits

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

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

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

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

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

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

e) Leasehold on premises

Leases where the lessor retains substantially all the risks and rewards of ownership of the net asset are classified as operating leases. Payments made under operating leases (net of incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

f) Income tax

The income tax expense shown in profit or loss is based on the profit before income tax adjusted for any non-deductible, or non-assessable items between accounting profit and taxable income. Deferred tax assets and liabilities are recognised using the statement of financial position liability method in respect of temporary differences arising between the tax bases of assets or liabilities and their carrying amounts in the financial statements. Current and deferred tax balances relating to amounts recognised directly in equity are also recognised directly in equity.

Deferred tax assets and liabilities are recognised for all temporary differences between carrying amounts of assets and liabilities for financial reporting purposes and their respective tax bases at the rate of income tax applicable to the period in which the benefit will be received or the liability will become payable. These differences are presently assessed at 27.5%.

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

g) Intangible Assets

Items of computer software which are not integral to the computer hardware owned by the Bank are classified as intangible assets. All intangible assets are accounted for using the cost model whereby capitalised costs are amortised on a straight-line basis over their estimated useful lives, as these assets are considered finite. These useful lives range from 2 to 5 years. Residual values and useful lives are reviewed at each reporting date.

When an intangible asset is disposed of, the gain or loss on disposal is determined as the difference between the proceeds and the carrying amount of the asset, and is recognised in profit or loss within other income or other expenses.

h) Impairment of assets

At each reporting date the Bank assesses whether there is any indication that individual assets are impaired. Where impairment indicators exist, recoverable amount is determined, and impairment losses are recognised in profit or loss where the asset's carrying value exceeds its recoverable amount. Recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purpose of assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where it is not possible to estimate recoverable amount for an individual asset, recoverable amount is determined for the cash-generating unit to which the asset belongs.

i) Goods and services tax (GST)

As a financial institution the Bank 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 statement of financial position. 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.

j) Cash and cash equivalents

Cash comprises cash on hand and demand deposits.

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

k) Accounting estimates and judgements

Management have made critical accounting estimates when applying the Bank's accounting policies with respect to the measurement of expected credit loss (ECL) allowance – refer Note 13. In the current year, the approach to estimation of impairment losses has been revised following adoption of AASB 9 effective 1 July 2018. Key areas of judgement to be considered under the new standard include:

- Recognition of credit losses based on "Stage 1" 12 month expected losses and "Stage 2" and "Stage 3" lifetime expected credit losses.
- Determining criteria for significant increase in credit risk: An asset moves to stage 2 when its credit risk has increased significantly since initial recognition. In assessing whether the credit risk of an asset has significantly increased the Bank takes into account qualitative and quantitative reasonable and supportable forward looking information.
- Choosing appropriate models and assumptions tor the measurement of ECL.
- Establishing groups of similar financial assets for the purposes of measuring ECL: When ECLs are measured on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics.

6. New or Emerging Standards not yet Mandatory

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2019 reporting period. The Bank's assessment of the impact of these new standards and interpretations is set out below. Changes that are not likely to impact the financial report of the Bank have not been reported.

AASB Reference	Nature of Change	Application date	Impact on Initial Application
AASB 16 *Leases Replaces AASB 117*	AASB 16: replaces AASB 117 *Leases* and some lease-related Interpretations; requires all leases to be accounted for 'on-balance sheet' by lessees, other than short-term and low value asset leases; provides new guidance on the application of the definition of lease and on sale and lease back accounting; and requires new and different disclosures about leases.	Periods beginning on or after 1 January 2019.	Based on the Bank's preliminary assessment, the first-time adoption of AASB 16 for the year ending 30 June 2020 may have a material impact on the transactions and balances recognised in the financial statements. The bank is currently undertaking a detailed assessment.

7.	Statement of Profit or Loss and Other Comprehensive Income	2019 $	2018 $
a.	**Analysis of interest revenue**		
	Cash – deposits at call	202,860	195,746
	Receivables from financial institutions	216,179	286,140
	Investment Securities	613,993	422,431
	Loans and advances to members	6,682,576	6,512,856
	Total interest revenue	**7,715,608**	**7,417,173**
b.	**Other Income**		
	Fee income	352,369	419,948
	Insurance commissions	103,379	76,675
	Other commissions	189,095	182,561
	Dividends received	-	(25,678)
	Bad debts recovered	22,213	29,958
	Miscellaneous revenue	17,441	27,950
	Gain on sale of Cuscal shares	-	880,370
	Total other income	**684,497**	**1,591,784**
c.	**Analysis of interest expense**		
	Deposits from members	3,189,170	2,970,947
	Borrowings	31,013	64,814
	Total interest expense	**3,220,183**	**3,035,761**
d.	**Impairment losses on loans and advances**		
	Increase in provision for impairment	51,821	45,021
	Total impairment losses on loans and advances	**51,821**	**45,021**
e.	**Prescribed expense disclosures**		
	General Administration - employees costs include:		
	Net movement in provisions for annual leave	9,224	29,231
	Net movement in provisions for LSL	15,694	23,699
	General Administration - depreciation expense:		
	Plant and equipment	67,006	62,033
	Amortisation of software	12,057	18,034
	General Administration – office occupancy costs:		
	Property operating lease payments		
	- minimum lease payments	182,240	170,674
	Other Operating expenses include:		
	Defined contribution superannuation expenses	136,740	143,255
	Net movement in provisions for other liabilities	33,475	(594)
	Auditor's remuneration (excluding GST)		
	- Audit fees - Grant Thornton	53,700	50,700
	- Other services – Taxation - Other	-	-
	Total auditor's remuneration	**53,700**	**50,700**

		2019	2018
8.	**Income Tax Expense**	**$**	**$**
a.	**Income tax expense comprises amounts set aside as:**		
	Provision for income tax - current year	162,367	276,155
	Decrease / (Increase) in deferred tax	50,086	5,999
	Under provision from the previous year	-	-
	Income tax expense attributable to profit	**212,453**	**282,154**
b.	**The prima facie tax payable on profit is reconciled to the income tax expense in the accounts as follows:**		
	Prima facie tax payable on profit before tax at 27.5%	157,441	288,914
	Add/(less) tax effect of:		
	Other deductible expenses	-	(7,061)
	Non-deductible expenses	286	301
	Adjustment to deferred tax asset	54,726	-
	Income tax expense attributable to profit	**212,453**	**282,154**

		2019	2018
9.	**Cash**	**$**	**$**
	Cash on hand	237,288	199,592
	Deposits at call	12,646,019	11,515,554
		12,883,307	**11,715,146**

10. Liquid Investments

a. Investments at amortised cost

Held to maturity – Negotiable Certificates of Deposit	9,000,000	10,000,000
Held to maturity – Bonds	10,000,000	10,000,000
Receivables – Term Deposits / Other Deposits	12,696,739	11,576,739
	31,696,739	**31,576,739**

b. Dissection of receivables

Deposits with banks	7,620,000	3,000,000
Deposits with credit unions	5,076,739	8,576,739
	12,696,739	**11,576,739**

11. Receivables

Interest receivable	388,725	172,942
Prepayments	87,283	53,393
Sundry debtors	-	401,138
	476,008	**627,473**

12. Loans to Members

a. Amount due comprises

Overdrafts and revolving credit	2,355,264	2,425,647
Term loans	172,951,206	160,676,659
Subtotal	175,306,470	163,102,306
Less:		
Unearned Income	2,096	1,165
Subtotal	175,304,374	163,101,141
Less:		
Provision for impaired loans (note 13)	87,967	62,669
	175,216,407	**163,038,472**

12. Loans to Members - continued	2019 $	2018 $
b. Credit quality - security held against loans		
Secured by mortgage over business assets	3,706,883	4,183,386
Secured by mortgage over real estate or cash	164,700,341	151,909,492
Partly secured by goods mortgage	3,352,009	3,378,157
Wholly unsecured	3,547,237	3,631,271
	175,306,470	**163,102,306**

It is not practicable to value all collateral as at the reporting 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:

	2019 $	2018 $
Loan to valuation ratio of less than 80%	159,721,421	150,846,756
Loan to valuation ratio of more than 80% but mortgage insured	4,539,880	1,740,267
Loan to valuation ratio of more than 80% and not mortgage insured	553,862	559,115
	164,815,163	**153,146,138**

c. Concentration of loans

	2019 $	2018 $
(i) Total of loans to individual or related groups of members which exceed 10% of member funds in aggregate	-	-

(ii) Loans to members are concentrated to individuals employed in the gaming, leisure, hospitality, telecommunications and energy industries.

(iii) Geographical concentrations	2019 $	2018 $
New South Wales	84,387,834	82,930,106
Victoria	81,677,885	70,834,939
Queensland	5,009,472	5,140,870
South Australia	1,895,502	2,533,093
Western Australia	683,722	308,969
Tasmania	783,285	813,212
Northern Territory	3,199	3,524
Australian Capital Territory	775,508	473,759
	175,216,407	**163,038,472**

(iv) Loans by customer type	2019 $	2018 $
Residential loans and facilities	164,331,358	151,260,780
Personal loans and facilities	6,994,898	7,403,132
Business loans and facilities	3,890,151	4,374,560
	175,216,407	**163,038,472**

13. Provision on Impaired Loans

a. Amounts arising from Expected Credit Losses (ECL)

The loss allowance as of the year end by class of asset are summarised in the table below. Comparative amounts for 2018 represent allowance account for credit losses and reflect measurement basis under AASB 139.

	2019 Gross Carrying Value $	2019 ECL Allowance $	2019 Carrying Value $	2018 Gross Carrying Value $	2018 Provision for Impairment $	2018 Carrying Value $
Mortgage	168,405,922	-	168,405,922	155,859,028	-	155,859,028
Personal	4,545,284	(60,991)	4,484,293	4,817,631	(49,863)	4,767,768
Credit cards	1,855,152	(23,600)	1,831,552	1,779,960	(9,102)	1,770,858
Overdrafts	500,112	(3,376)	496,736	645,687	(3,704)	641,983
Total	**175,306,470**	**(87,967)**	**175,218,503**	**163,102,306**	**(62,669)**	**163,039,637**

An analysis of the Bank's credit risk exposure per class of financial asset and "stage" without reflecting the effects of any collateral or other credit enhancements is demonstrated in the following tables. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts.

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

	2019 Stage 1 12 month ECL $	2019 Stage 2 Lifetime ECL $	2019 Stage 3 Lifetime ECL $	2019 Total $	2018 Total $
Mortgage	-	-	-	-	-
Personal	(44,332)	(2,526)	(14,133)	(60,991)	(49,863)
Credit cards	(11,018)	(552)	(12,030)	(23,600)	(9,102)
Overdrafts	(3,175)	(39)	(162)	(3,376)	(3,704)
Loss allowance	(58,525)	(3,117)	(26,325)	(87,967)	(62,669)
Gross Carrying Amount	172,408,738	2,109,061	788,671	175,306,470	163,039,637

13. Provision on Impaired Loans continued

Impairment allowance reconciliation

The reconciliation from the opening to the closing balance of the allowance for impairment is shown in the table below:

	2019 Stage 1 12 month ECL $	**2019** Stage 2 Lifetime ECL $	**2019** Stage 3 Lifetime ECL $	**2019** Total $	**2018** Total $
Loans to members					
Balance at 1 July per AASB 139	-	-	-	(62,669)	(88,769)
Adjustment on initial application of AASB 9	-	-	-	(30,519)	-
Balance at 1 July per AASB 9	(62,589)	(4,458)	(26,141)	(93,188)	(88,769)
Changes in the loss allowance					
- Transfer to stage 1	(37,469)	-	-	(37,469)	-
- Transfer to stage 2	-	1,342	-	1,342	-
- Transfer to stage 3	-	-	(29,634)	(29,634)	-
- Net movement due to change in credit risk	-	-	-	-	(15,063)
- Write-offs	41,532	-	7,238	48,770	71,121
- Recoveries of amounts previously written off	-	-	22,213	22,213	(29,958)
Balance at 30 June	**(58,525)**	**(3,116)**	**(26,325)**	**(87,967)**	**(62,669)**

13. Provision on Impaired Loans continued

Key assumptions in determining the ECL

Measurement of ECL

The key inputs into the measurement of ECL include the following variables:

- probability of default (PD);
- loss given default (LGD);
- exposure at default (EAD); and
- discounting.

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.

PD estimates are calculated based on arrears over 90 days and other loans and facilities where the likelihood of future payments 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.

LGD is the magnitude of the likely loss if there is a default. The Bank 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, to reflect possible changes in property prices. They are calculated on a discounted cash flow basis using the effective interest rate as the discounting factor.

EAD represents the expected exposure in the event of a default. The Bank derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract including amortization. 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.

Where appropriate, in calculating the ECL, future cash flows are discounted at the original effective interest rate of the exposure.

Grouping of similar assets

Since the loans are homogenous in terms of borrower type and contractual repayment terms, the portfolio is currently managed through the dissection of the portfolio arrears reports. The Bank has grouped exposures by type on the basis of shared risk characteristics that include:

- instrument type
- credit risk grading
- collateral type
- LVR ratio for retail mortgages

13. Provision on Impaired Loans continued

The Bank has elected to use the following segments when assessing credit risk for Stages 1 and 2 of the impairment model:

- Residential owner occupied mortgages
- Residential investment mortgages
- Commercial loans
- Personal loans
- Other – representing credit cards, overdrafts.

Stage 3 of the impairment model will be assessed on an individual basis.

The groupings are subject to regular review to ensure that exposures within a particular group remain appropriately homogeneous.

Significant increase in credit risk

In assessing significant increases in credit risk where a loan or group of loans must move to Stage 2 the following factors have been considered in the Bank's current model:

- Loans more than 30 days past due
- Probability of default - based on historical loans in stage 2 proceeding to stage 3
- Loss given default - based on historical data for loans written off

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Bank 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 the Bank’s historical experience and expert judgement, relevant external factors and including forward-looking information.

The Bank 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 the Bank has reasonable and supportable information that demonstrates otherwise.

Incorporation of forward-looking information

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

The Bank 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. This is reviewed and monitored for appropriateness on a quarterly basis. The Bank considers the ECL to represent its best estimate of the possible outcomes and is aligned with information used by the Bank for other purposes such as strategic planning and budgeting. Periodically the Bank carries out stress testing of more extreme shocks to calibrate its determination of other potential scenarios.

13. Provision on Impaired Loans continued

b. Impaired financial assets – Comparative information under AASB 139

In the note below:

- Carrying Value is the amount on the Statement of Financial Position gross of provision (net of deferred fees)

- Impaired loans value is the 'on Statement of Financial Position' loan balances which are past due by 90 days or more plus the value of other loans less than 90 days considered to be potentially impaired
- Provision for impairment is the amount of the impairment provision allocated to the class of impaired loans

	2018 Carrying Value $	2018 Impaired Loans $	2018 Provision for Impairment $
Mortgage	151,675,642	-	-
Personal	4,661,886	97,527	49,863
Credit cards	1,779,960	35,960	9,102
Overdrafts	610,258	5,454	3,704
Total to natural persons	**158,727,746**	**138,941**	**62,669**
Corporate borrowers	4,374,560	-	-
Total	**163,102,306**	**138,941**	**62,669**

Loans with repayments past due but not impaired

There are loans with a value of $1,308,926 past due which are not considered to be impaired as the value of related security over residential property is in excess of the loan due. It is not practicable to determine the fair value of all collateral as at the balance date due to the variety of assets and conditions.

	1- 3 Mths $	3-6 Mths $	6-12 Mths $	> 1 Year $	Total $
2018					
Mortgage secured	1,308,926	-	-	-	1,308,926
Personal loans	-	-	-	-	-
Credit cards	-	-	-	-	-
Overdrafts	-	-	-	-	-
Total	**1,308,926**	**-**	**-**	**-**	**1,308,926**

13. Provision on Impaired Loans continued

b. Impaired financial assets – Comparative information under AASB 139 - continued

Key assumptions in determining the provision for impairment

In the course of the preparation of the annual report the Bank has determined the likely impairment loss on loans which have not maintained the loan repayments in accordance with the loan contract, or where there is other evidence of potential impairment such as industrial restructuring, job losses or economic circumstances. In identifying the impairment likely from these events the Bank is required to estimate the potential impairment using the length of time the loan is in arrears and the historical losses arising in past years. Given the relatively small number of impaired loans, the circumstances may vary for each loan over time resulting in higher or lower impairment losses. An estimate is based on the period of impairment.

Period of impairment	% of balance
Up to 90 days	0
90 days to 181 days	40
181 days to 270 days	60
270 days to 265 days	80
Over 365 days	100

		2019	2018
14.	**Investments**	**$**	**$**
	Shares in unlisted companies – at cost	-	-
		-	**-**

		2019	2018
15.	**Property, Plant and Equipment**	**$**	**$**
	Total property, plant and equipment		
	Plant and equipment - at cost	503,457	471,678
	Less: provision for depreciation	(240,574)	(173,568)
		262,883	**298,110**

Movement in the assets balances during the year were:

	2019 Plant & equipment $	**2019** Total $	**2018** Plant & equipment $	**2018** Total $
Opening balance	298,110	298,110	338,380	338,380
Purchases	31,779	31,779	21,763	21,763
Less				
Assets disposed	-	-	-	-
Depreciation charge	67,006	67,006	62,033	62,033
Balance at the end of the year	**262,883**	**262,883**	**298,110**	**298,110**

		2019	2018
16.	**Taxation Assets**	**$**	**$**
	Current tax receivable	-	35,943
	Deferred tax asset comprise the tax effect of the following balances:		
	Accrued expenses not deductible until incurred	48,726	112,622
	Provisions for impairment on loans	24,191	17,234
	Provisions for employee benefits	140,158	133,305
		213,075	**299,104**

17.	**Intangible Assets**		
	Computer software	572,806	454,213
	Less provision for amortisation	(451,881)	(439,824)
		120,925	**14,389**
	Movement in the assets balances during the year were:		
	Opening balance	14,389	158,212
	Purchases	118,593	71,763
	Less		
	Assets disposed	-	197,552
	Amortisation charge	12,057	18,034
	Balance at the end of the year	**120,925**	**14,389**

18.	**Short Term Borrowings**		
	IOOF Wholesale Trust borrowings	-	2,000,000
	Total Short Term Borrowings	**-**	**2,000,000**

19.	**Deposits from Members**		
a.	**Total deposits comprises:**		
	Member Deposits		
	- At Call	116,608,985	113,007,586
	- Term	87,268,783	75,962,791
	Member withdrawable shares	18,180	19,172
	Total deposits and shares	**203,895,948**	**188,989,549**
b.	**Concentration of member deposits**		
	(i) Total of significant individual member deposits which in aggregate represent more than 10% of the total liabilities:	-	-

(ii) Member deposits at balance date were received from individuals employed in Australia and principally in the gaming, leisure, hospitality, telecommunications and energy industries.

		2019	2018
19.	**Deposits from Members - continued**	**$**	**$**

b. Concentration of member deposits - continued

	2019	2018
(iii) Geographical Concentrations		
New South Wales	108,018,456	103,539,907
Victoria	83,087,649	73,793,441
Queensland	8,517,792	7,457,505
South Australia	667,663	637,960
Western Australia	1,844,026	1,777,120
Tasmania	419,148	384,497
Northern Territory	259,038	267,744
Australian Capital Territory	1,082,176	1,131,375
	203,895,948	**188,989,549**

20. Creditors

	2019	2018
Creditors and accruals	426,936	553,940
Settlement and Clearing Accounts	202,019	305,205
Interest payable on borrowings	-	6,290
Interest payable on deposits	812,707	742,472
Overdraft clearing	194,144	7,691
Total amounts payable	**1,635,806**	**1,615,598**

21. Taxation Liabilities

	2019	2018
Current income tax liability	4,444	19,073
	4,444	**19,073**
Current income tax liability comprises:		
Balance – previous year	19,073	-
Less paid / refund received	(19,073)	-
Over/(under) provision for year	-	-
Liability for income tax in current year	162,367	276,155
Less instalments paid in current year	(157,923)	(257,082)
	4,444	**19,073**

22. Provisions

	2019	2018
Annual leave	197,706	188,482
Long service leave	311,958	296,264
Provisions – other	165,102	131,627
Total provisions	**674,766**	**616,373**

		2019	2018
23.	**Capital Reserve**	**$**	**$**
	Balance at the beginning of the financial year	26,346	23,458
	Transfer from retained earnings on share redemptions	1,678	2,888
	Balance at the end of financial year	**28,024**	**26,346**

Share redemption

The accounts represent the amount of redeemable preference shares redeemed by the Bank 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.

24.	**Reserve for Credit Losses**		
	General reserve for credit losses	424,486	401,534
	Total reserves	**424,486**	**401,534**

General reserve for credit losses

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

Balance at the beginning of the financial year	401,534	384,789
Increase transferred from retained earnings	22,952	16,745
Balance at the end of the financial year	**424,486**	**401,534**

25.	**General Reserves**		
	Balance at the beginning of the financial year	13,900,960	13,152,149
	Adjustment for AASB 9	(30,519)	-
	Adjusted balance at the beginning of the financial year	13,870,441	13,152,149
	Operating profit transferred from retained earnings	360,059	768,444
	Transfer from/(to) General Reserve for Credit Losses	(22,952)	(16,745)
	Transfer from/(to) Capital Reserve for Share redemption	(1,678)	(2,888)
	Balance at the end of the financial year	**14,205,870**	**13,900,960**

26. 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.

2019	Within 1 month $	1-3 months $	3-12 months $	1-5 years $	After 5 years $	Non interest bearing $	Total $
Assets							
Cash	12,646,019	-	-	-	-	237,288	12,883,307
Advances to other financial institutions	9,120,000	12,500,000	10,076,739	-	-	-	31,696,739
Receivables	-	-	-	-	-	476,008	476,008
Loans & Advances	165,259,696	35,983	6,332,386	2,771,932	906,473	-	175,306,470
Investments	-	-	-	-	-	-	-
Total Financial Assets	187,025,715	12,535,983	16,409,125	2,771,932	906,473	713,296	220,362,524
Liabilities							
Borrowings	-	-	-	-	-	-	-
Deposits from members	125,115,100	19,813,539	51,088,683	7,878,626	-	-	203,895,948
Creditors	-	-	-	-	-	849,120	849,120
Total Financial Liabilities	125,115,100	19,813,539	51,088,683	7,878,626	-	849,120	204,745,068

2018	Within 1 month $	1-3 months $	3-12 months $	1-5 years $	After 5 years $	Non interest bearing $	Total $
Assets							
Cash	11,515,554	-	-	-	-	199,592	11,715,146
Advances to other financial institutions	7,500,000	16,000,000	8,076,739	-	-	-	31,576,739
Receivables	-	-	-	-	-	627,473	627,473
Loans & Advances	154,949,642	650,441	3,299,013	4,127,744	75,466	-	163,102,306
Investments	-	-	-	-	-	-	-
Total Financial Assets	173,965,196	16,650,441	11,375,752	4,127,744	75,466	827,065	207,021,664
Liabilities							
Borrowings	2,000,000	-	-	-	-	-	2,000,000
Deposits from members	121,011,975	14,597,735	45,601,322	7,778,516	-	-	188,989,549
Creditors	-	-	-	-	-	1,615,599	1,615,598
Total Financial Liabilities	123,011,975	14,597,735	45,601,322	7,778,516	-	1,615,599	192,605,147

27. Maturity Profile of Financial Assets and Liabilities

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

2019	Within 1 month $	1-3 months $	3-12 months $	1-5 years $	Greater than 5 years $	No maturity $	Total $
Assets							
Cash	12,646,019	-	-	-	-	237,287	12,883,306
Advances to other financial institutions	9,122,310	12,522,208	10,888,545	-	-	-	32,533,063
Receivables	-	-	-	-	-	476,008	476,008
Loans & Advances	2,355,264	3,252,348	9,507,401	45,252,989	199,367,629	-	259,735,631
Investments	-	-	-	-	-	-	-
Total Financial Assets	24,123,593	15,774,556	20,395,946	45,252,989	199,367,629	713,295	305,628,008
Liabilities							
Borrowings	-	-	-	-	-	-	-
Deposits from members	121,636,769	20,134,913	52,282,552	8,300,819	-	-	202,355,052
Creditors	849,120	-	-	-	-	-	849,120
On balance sheet total	122,485,889	20,134,913	52,282,552	8,300,819	-	-	203,204,172
Undrawn Commitments	-	-	-	-	-	22,362,519	22,362,519
Total Financial Liabilities	122,485,889	20,134,913	52,282,552	8,300,819	-	22,362,519	225,566,691

2018	Within 1 month $	1-3 months $	3-12 months $	1-5 years $	Greater than 5 years $	No maturity $	Total $
Assets							
Cash	11,529,909	-	-	-	-	199,592	11,729,501
Advances to other financial institutions	7,523,685	16,043,787	8,987,934	-	-	-	32,555,406
Receivables	-	-	-	-	-	627,473	627,473
Loans & Advances	2,425,647	3,229,145	9,429,018	43,032,338	185,786,455	-	243,902,603
Investments	-	-	-	-	-	-	-
Total Financial Assets	21,479,241	19,272,932	18,416,952	43,032,338	185,786,455	827,065	288,814,983
Liabilities							
Borrowings	2,006,290	-	-	-	-	-	2,006,290
Deposits from members	121,131,694	14,831,487	46,630,366	8,221,975	-	-	190,815,522
Creditors	1,615,599	-	-	-	-	-	1,615,599
On balance sheet total	124,753,583	14,831,487	46,630,366	8,221,975	-	-	194,437,411
Undrawn Commitments	-	-	-	-	-	24,286,198	24,286,198
Total Financial Liabilities	124,753,583	14,831,487	46,630,366	8,221,975	-	24,286,198	218,723,609

28. Financial Assets and Liabilities Maturing Within 12 Months

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 within 12 months. 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.

	2019			2018		
	Within 12 months $	**After 12 months** $	**Total** $	**Within 12 months** $	**After 12 months** $	**Total** $
Financial assets						
Cash	12,883,307	-	12,883,307	11,515,554	199,592	11,715,146
Liquid assets	21,696,739	10,000,000	31,696,739	31,576,739	-	31,576,739
Loans & Advances	171,628,065	3,678,405	175,306,470	158,899,096	4,203,210	163,102,306
Receivables	476,008	-	476,008	-	627,473	627,473
Total Financial Assets	206,684,119	13,678,405	220,362,524	201,991,389	5,030,275	207,021,664
Financial liabilities						
Borrowings	-	-	-	2,000,000	-	2,000,000
Deposits from members	196,017,322	7,878,626	203,895,948	181,211,032	7,778,516	188,989,549
Creditors	849,120	-	849,120	1,615,599	-	1,615,598
Total Financial Liabilities	196,866,442	7,878,626	204,745,068	184,826,631	7,778,516	192,605,147

29. Fair Value of Financial Assets and Liabilities

A review of the fair value calculation indicated that there were no significant variances between the book and fair values for the Bank. As a result the fair value details have not been included. 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 they will be consistent with the contracted cash flows under the respective contracts.

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 the Bank and there is no active market to assess the value of the financial assets and liabilities. Assets where the fair value is lower than the book value have not been written down in the accounts of the Bank 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 3 months approximate their fair value as they are short term in nature or are receivable on demand.

29. Fair Value of Financial Assets and Liabilities - continued

Loans and advances

The carrying value of loans and advances is net of unearned income and specific provisions for doubtful debts. For variable rate loans, (excluding impaired loans) the amount shown in the Statement of Financial Position 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 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 carrying value is not significantly different from fair value due to the majority of First Option's loans being variable rate loans.

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 non interest bearing, call and variable rate deposits and fixed rate deposits repricing within six months is the amount shown in the Statement of Financial Position as at June 30. Discounted cash flows (based upon the deposit type and its related maturity) were used to calculate the fair value of other term deposits.

The carrying value is not significantly different from the fair value due to the majority of the fixed rate deposits maturing in less than six months.

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.

		2019	2018
30.	**Financial Commitments**	**$**	**$**
a.	**Outstanding loan commitments**		
	Loans approved but not funded	2,236,840	5,448,419
b.	**Loan redraw facilities**		
	Loan redraw facilities available	16,063,068	15,058,388
c.	**Undrawn loan facilities**		
	Loan facilities available to members for overdrafts and line of credit loans are as follows:		
	Total value of facilities approved	6,417,875	6,205,038
	Less: Amount advanced	(2,355,264)	(2,425,647)
	Net undrawn value	**4,062,611**	**3,779,391**

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

d. Future capital commitments

The Bank has entered into a contract to purchase (computer equipment and software) for which the amount is to be paid over the following periods:-

	2019	2018
Within 1 year	1,496	-
1 to 2 years	2,992	-
2 to 5 years	2,992	-
	7,480	**-**

e. Lease expense commitments for operating leases on property occupied by the bank

	2019	2018
Not later than one year	192,913	183,028
Later than one year but not later than five years	319,652	504,192
Over five years	-	-
	512,565	**687,220**

The operating leases are in respect of property used for providing branch services to members. There are no contingent rentals applicable to leases taken out. The terms of the leases are for between 2 to 5 years and options for renewal are usually obtained for a further 3 years.

There are no restrictions imposed on the Bank so as to limit the ability to undertake further leases, borrow funds or issue dividends.

31. Standby Borrowing Facilities

The Bank has a borrowing facility with Credit Union Services Corporation (Australia) Limited (CUSCAL) of:

	2019		
	Gross $	Current borrowing $	Net available $
Overdraft facility	500,000	-	500,000
Total standby borrowing facilities	500,000	-	500,000

	2018		
	Gross $	Current borrowing $	Net available $
Overdraft facility	500,000	-	500,000
Total standby borrowing facilities	500,000	-	500,000

Withdrawal of the overdraft facility is subject to the availability of funds at CUSCAL.

Secured by cash on deposit with Cuscal

32. Contingent Liabilities

Liquidity support scheme

The Bank 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 / Mutuals in the event of a liquidity or capital issue. As a member, the Bank is committed to maintaining 3% of its total assets as either deposits with CUSCAL or investments held within the Austraclear system.

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

Guarantees

The Bank has issued guarantees on behalf of members for the purpose of security bond. The guarantee is payable only on the member defaulting on the contractual repayments to the Lessor / supplier. The guarantees are fully secured against registered first mortgages or cash deposits. The total value of guarantees as at 30 June 2019 was $388,000 (2018: $395,500).

33. Disclosures on Directors and Other Key Management Personnel

a. Remuneration of key management persons [KMP]

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

KMP have been taken to comprise the Directors and the 3 (2018: 3) members of the executive management responsible for the day to day financial and operational management of the Bank.

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

		2019 $	2018 $
(i)	Short-term employee benefits	483,821	460,697
(ii)	Director fees	63,967	61,005
(iii)	Other long-term benefits – net increases in long service leave provision	16,198	15,350
	Total compensation	**563,986**	**537,052**

In the above table, remuneration shown as short term benefits means (where applicable) wages, salaries, paid annual leave, paid sick leave, bonuses and the value of fringe benefits received, but excludes out of pocket expense reimbursements.

All remuneration to Directors was approved by the members at the previous Annual General Meeting of the Bank.

b. Loans to Directors and KMP

2019	**Mortgage Secured** **$**	**Other Term Loans** **$**	**Credit Cards /Revolving Credit** **$**
Funds available to be drawn (redraws, overdrafts, credit cards, LOC)	225,881	250	58,587
Balance as at end of year	2,348,867	34,583	11,682
Amounts disbursed or facilities increased during the year	1,404,944	-	-
Interest and other revenues earned	85,149	2,586	655

2018	**Mortgage Secured** **$**	**Other Term Loans** **$**	**Credit Cards /Revolving Credit** **$**
Funds available to be drawn (redraws, overdrafts, credit cards, LOC)	247,053	-	82,181
Balance as at end of year	2,408,942	18,190	25,665
Amounts disbursed or facilities increased during the year	567,000	-	-
Interest and other revenues earned	70,371	1,126	131

33. Disclosures on Directors and Other Key Management Personnel - continued

b. Loans to Directors and KMP - continued

The Bank'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.

There are no loans which are impaired in relation to the loan balances with Directors or other KMP.

Staff may have received a concessional rate of interest on their loans and facilities as. 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 other KMP.

Other transactions between related parties include deposits from Directors and other KMP:

	2019 $	2018 $
Total value term and savings deposits from Directors/KMP	1,225,660	1,086,795
Total Interest paid on deposits to Directors/KMP	17,866	18,729

The Bank's policy for receiving deposits from Directors/KMP is that all transactions are approved and deposits accepted on the same terms and conditions which applied to members for each type of deposit.

c. Transactions with related parties

Other transactions between related parties include deposits from Director related entities or close family members of Directors and other KMP.

The Bank's policy for receiving deposits from related parties is that all transactions are approved and deposits accepted on the same terms and conditions which applied to members for each type of deposit.

There are no benefits paid or payable to the close family members of the KMP.

There are no service contracts to which KMP or their close family members are an interested party.

34. Outsourcing Arrangements

The Bank has arrangements with other organisations to facilitate the supply of services to members.

a. Cuscal Limited

CUSCAL is an Approved Deposit Taking Institution registered under the Corporations Act 2001 and the Banking Act. This entity:

(i) Acts as the Bank's banker

(ii) Provides the licence rights to Visa Card in Australia and settlement with other financial institutions for ATM, Visa card, direct entry and cheque transactions, as well as the production of Visa cards for use by members;

(iii) Provides treasury and money market facilities to the Bank. The Bank has invested sufficient liquid assets to comply with the Liquidity Support Scheme requirements; and

(iv) Operates the computer network used to link Redicards and Visa cards operated through RediATMs and other approved ATM suppliers to the Bank's EDP systems.

b. Ultradata Australia Pty Limited

Provides and maintains the application software utilised by the Bank.

c. Transaction Solutions Limited

This entity operates the computer facility on behalf of the Bank in conjunction with other Banks. The Bank has a management contract with the company to supply computer support staff and services to meet the day to day needs of the Bank and compliance with the relevant Prudential Standards.

d. ETOS Australia

This entity acts as a Proxy Settlement service for settling transactions in the Austraclear system on behalf of the Bank.

35. Superannuation Liabilities

The Bank mainly contributes to the NGS Super Plan 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.

The Bank 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.

36. Securitisation

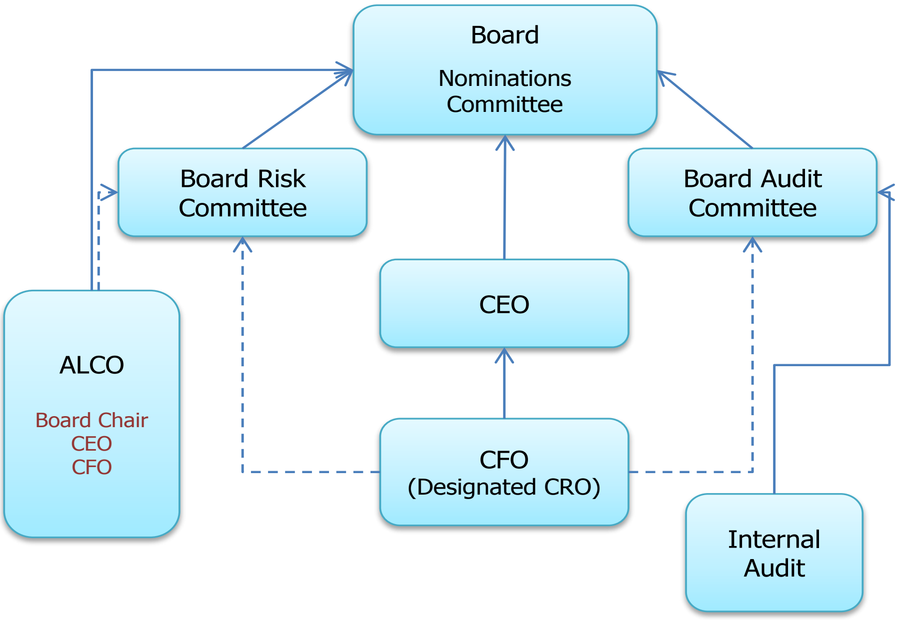
The Bank has an arrangement with Bendigo and Adelaide Bank (BEN) whereby it may engage in the bulk sale transfer of the interest in loans to BEN. The Bank manages the loans portfolio on behalf of BEN the Bank bears no risk exposure in respect of these loans. The amount of securitised loans under management as at 30 June 2019 is $0 (2018: $224,989).

37.	Notes to Consolidated Statement of Cash Flows	2019 $	2018 $
a.	**Reconciliation of cash**		
	Cash includes cash on hand, and deposits at call with other financial institutions and comprises:		
	Cash on hand	237,288	199,592
	Deposits at call	12,646,019	11,515,554
	Total Cash	**12,883,307**	**11,715,146**
b.	**Reconciliation of cash from operations to accounting profit**		
	Operating Profit after income tax	360,059	768,444
	Non-cash movements:		
	Provision for Impairment	(5,221)	26,110
	Depreciation & Amortisation of fixed assets	79,064	80,067
	Changes in assets and liabilities:		
	Receivables	24,461	(189,813)
	Investments	-	(587,370)
	Taxation assets	86,029	5,998
	Payables	63,945	(1,377,624)
	Taxation liabilities	(14,629)	19,073
	Provisions for employee entitlements	24,917	52,930
	Other provisions	33,476	6,433
	Total operating cash flows	**652,101**	**(1,195,752)**

38. Financial Risk Management Objectives and Policies

a. Introduction

The Board has endorsed a framework of compliance and risk management to suit the risk profile of the Bank. The Bank's risk management focuses on the major areas of liquidity risk, market risk, credit risk, operational risk and governance risk. Authority flows from the Board of Directors to the Risk Committee and to the Audit Committee which are integral to the management of risk. The following diagram gives an overview of the risk management structure:



The main elements of risk governance are as follows:

Board of Directors

This is the primary governing body. It approves the level of risk which the Bank is exposed to and the framework for reporting and mitigating those risks.

Risk Committee

This is a key body in the control of risk. It has representatives from the board as well as the Chief Risk Officer. The Risk 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 Risk Committee through quarterly review of operational reports and control assignments are reviewed by the Risk Committee to confirm whether risks are within the parameters outlined by the board.

The Risk Committee carries out a regular review of all operational areas to ensure that operational 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.

The Risk Committee monitors compliance with the framework laid out in the policy on a quarterly basis and reports in turn to the board, where actual exposures to risks are measured against prescribed limits.

38. Financial Risk Management Objectives and Policies - continued

a. Introduction - continued

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 the risk committee for their consideration.

Asset and Liability Committee (ALCO)

This committee of Senior Management and the Chair of the Board meets regularly and has responsibility for managing credit and market risk exposure. It scrutinises operational reports and monitors exposures against limits determined by the board. The ALCO also determines the credit risk of loans in the banking book, ensures provisioning is accurate and determine controls that need to be in put in place regarding the authorisation of new loans.

The ALCO Committee has responsibility for implementing policies to ensure that all large credit exposures are properly pre-approved, measured and controlled. Details concerning a prospective borrower are subject to a criteria-based decision-making process. Criteria used for this assessment include: credit references, loan-to-value ratio on security and borrower's capacity to repay which vary according to the value of the loan or facility.

All loans are managed regularly through the monitoring of the scheduled repayments. Accounts where the arrears are over 90 days or over limit facilities over 14 days, have collective provisions charged against them. Other provisions are taken up on accounts considered doubtful and the status of these loans is reported to the Board monthly.

Arrears are strictly controlled. The size of the loan book is such that it is possible to monitor each individual exposure to evaluate whether specific provisions are necessary and adequate. A collective provision is held to cover any losses where there is objective evidence that losses are present in components of the loans and advances portfolio at the statement of financial position date.

The ALCO also has responsibility for managing interest rate risk exposures and ensuring the the Finance function adheres to exposure limits as outlined in policy.

Chief Risk Officer

This person has responsibility for the daily oversight of the risk and compliance functions, including both liaising with the operational function to ensure timely production of information for the Board, Audit Committee and Risk Committee and ensuring that instructions passed down from the Board and committees are implemented.

Internal Audit

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

Risk management policies

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

* Market (Interest rate) risk
* Liquidity management
* Credit risk management
* Operational risk management including data risk management

38. Financial Risk Management Objectives and Policies - continued

b. Market and interest rate risk

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

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

Interest rate risk

Interest rate risk is the risk of variability of the fair value or future cash flows arising from financial instruments due to the changes in interest rates. Most banks are exposed to interest rate risk within its Treasury operations. This Bank does not have a treasury operation and does not trade in financial instruments. The Bank 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 reviewed by the Board. The level of mismatch in the banking book is set out in note 26. The table set out at note 26 displays the period that each asset and liability will reprice as at the balance date. This risk is not considered significant to warrant the use of derivatives to mitigate this risk.

Method of managing interest rate risk

The Bank manages its interest rate risk by the use of interest rate sensitivity analysis, the detail and assumptions used are set out below.

Interest rate sensitivity

The Bank's exposure to market risk is measured and monitored using interest rate sensitivity models.

The policy of the Bank to manage the risk is to maintain a balanced 'on book' strategy by ensuring the net interest rate gaps between assets and liabilities are not excessive. Large exposures to interest rate movements are measured monthly with any being rectified through targeted fixed rate interest products (available through investment assets), and term deposits liabilities to rectify the imbalance to within acceptable levels. The policy of the Bank is not to undertake derivatives to match the interest rate risks. The Banks exposure to interest rate risk is set out in note 21 which details the contractual interest change profile.

The Bank performs a sensitivity analysis to measure market risk exposures.

Based on the calculations as at 30 June 2019, the pre-tax profit impact for a 0.75% decrease in interest rates over the next 12 months would be $119,674 (2018: $123,031).

The method used in determining the sensitivity was to evaluate the profit based on the timing of the interest repricing on the banking book of the Bank for the next 12 months. In doing the calculation the assumptions applied were that:

* the rate change would be as at the beginning of the 12 month period and no other rate changes would be effective during the period;
* the term deposits would all reprice to the new interest rate at the term maturity, or be replaced by deposit with similar terms and rates applicable;
* savings deposits would reprice in 1 month;

38. Financial Risk Management Objectives and Policies - continued

b. Market risk - continued

* fixed rate loans would all reprice to the new interest rate at the contracted date;
* mortgage loans would all reprice to the new interest rate in 3 months;
* personal loans would reprice to the new interest rate in 3 months;
* all loans would be repaid in accordance with the current average repayment rate (or contractual repayment terms);
* the value and mix of call savings to term deposits will be unchanged; and
* the value and mix of personal loans to mortgage loans will be unchanged.

There has been no change to the Bank's exposure to market risk or the way the Bank manages and measures market risk in the reporting period.

The interest rate sensitivity is not representative of the risk inherent in the financial instruments during the financial year due to the changes in asset mix of fixed rate loans and longer term deposits / investments.

c. Liquidity risk

Liquidity risk is the risk that the Bank may encounter difficulties in 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 the Bank maintains adequate cash reserves and committed credit facilities so as to meet the member withdrawal demands when requested.

The Bank manages liquidity risk by:

* Continuously monitoring actual daily cash flows and longer term forecasted cash flows;
* Monitoring the maturity profiles of financial assets and liabilities;
* Maintaining adequate reserves, liquidity support facilities and reserve borrowing facilities; and
* Monitoring the prudential liquidity ratio daily.

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

The Bank is required to maintain at least 9% of total adjusted liabilities as liquid assets capable of being converted to cash within 2 business days under the APRA Prudential standards. The Bank policy is to apply 12.5% of total adjusted liabilities as liquid assets to maintain adequate funds for meeting member withdrawal requests. The ratio is checked daily. Should the liquidity ratio fall below this level, management and Board will review the situation and act according to the Liquidity Management Policy. Note 31 describes the borrowing facilities as at balance date. These facilities are in addition to the support from CUFSS.

The maturity profile of the financial assets and liabilities, based on the contractual repayment terms are set out in the specific note 27.

38. Financial Risk Management Objectives and Policies - continued

d. Credit risk

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

(i) Credit risk - loans

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

	2019 Carrying value $	2019 Undrawn Facilities $	2019 Maximum exposure $	2018 Carrying value $	2018 Undrawn Facilities $	2018 Maximum exposure $
Mortgage	164,123,280	17,324,607	181,447,887	151,675,642	14,266,433	165,942,075
Personal	5,022,515	504,957	5,527,472	4,661,886	392,295	5,054,181
Credit cards	1,855,152	2,571,175	4,426,327	1,779,960	2,432,965	4,212,925
Overdrafts	415,372	1,367,953	1,783,325	610,258	1,194,022	1,804,280
Total to natural persons	171,416,319	21,768,692	193,185,011	158,727,746	18,285,714	177,013,460
Corporate borrowers	3,890,151	593,827	4,483,978	4,374,560	552,065	4,926,625
Total	175,306,470	22,362,519	197,668,989	163,102,306	18,837,779	181,940,085

Carrying value is the value on the balance sheet. Maximum exposure is the value on the balance sheet plus the undrawn facilities (Loans approved not advanced, redraw facilities, overdraft facilities and credit cards limits). The details are shown in note 30 and a summary is in note 12a.

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 12c.

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

The Bank has established policies over the:

* Credit assessment and approval of loans and facilities covering acceptable risk assessment, security requirements;
* Limits of acceptable exposure over the value to individual borrowers, non mortgage secured loans, commercial lending and concentrations to geographic and industry groups considered at high risk of default;
* Reassessing and review of the credit exposures on loans and facilities;
* Establishing appropriate provisions to recognise the impairment of loans and facilities;
* Debt recovery procedures; and
* Review of compliance with the above policies.

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

38. Financial Risk Management Objectives and Policies - continued

(i) Credit risk - loans - continued

Past due loans

A financial asset is past due when the counterparty has failed to make a payment when contractually due. As an example, a member enters into a lending agreement with the Bank 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.

Daily reports monitor the loan repayments to detect delays in repayments and recovery action is undertaken after 7 days. For loans where repayments are doubtful, external consultants are engaged to conduct recovery action once the loan is over 90 days in arrears. The exposures to losses arise predominantly in the personal loans and facilities not secured by registered mortgages over real estate.

If such evidence exists, the estimated recoverable amount of that asset is determined and any impairment loss, based on the net present value of future anticipated cash flows, is recognised in the statement of profit or loss and other comprehensive income. In estimating these cash flows, management makes a judgement about the counterparty's financial situation and the net realisable value of any underlying collateral.

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

Balance sheet provisions are maintained at a level that management deems sufficient to cover expected credit losses in the Bank's loan portfolio from homogenous portfolios of assets and individually identified loans.

A provision for expected credit 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 counterparties industry, and technological developments, as well as identified structural weaknesses or deterioration in cash flows.

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

Past due value is the 'on balance sheet' loan balances which are past due by 90 days or more. Details are as set out in note 13.

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 intp account 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 of the movement of both past due and impaired exposure provisions is provided in note 13.

38. Financial Risk Management Objectives and Policies - continued

(i) Credit risk - loans - continued

Collateral securing loans

A sizeable portfolio of the loan book is secured on residential property in Australia. Therefore, the Bank is exposed to risks in the reduction 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.

Concentration risk – individuals

Concentration risk is a measurement of the Bank's exposure to an individual counterparty (or group of related parties). If prudential limits are exceeded as a proportion of the Bank's regulatory 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.

The Bank holds no significant concentrations of exposures to members. Concentration exposures to counterparties are closely monitored with annual reviews being prepared for all exposures over 5 per cent of Tier 1 Capital.

The Bank's policy on exposures of this size is to insist on an initial LVR of 80 per cent or less and annual reviews of compliance with this policy are conducted.

Concentration risk – industry

The Bank has a concentration in retail lending to members who comprise employees and family in the gaming, leisure, hospitality, telecommunications and energy industries. This concentration is considered acceptable on the basis that the Bank was formed to service these members, and the employment concentration is not exclusive. Should members leave the industry the loans continue and other employment opportunities are available to the members to facilitate the repayment of the loans. The details of the geographical and industry concentrations are set out in note 12.

38. Financial Risk Management Objectives and Policies - continued

(ii) Credit risk - liquid investments

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

The Bank's credit policy is that investments are only made to institutions that are creditworthy. Directors have established policies that enforce maximum exposure limits to different counterparties. These policies have been determined in line with APRA prudential standards.

The risk of losses from the liquid investments undertaken is reduced by the nature and quality of the independent rating of the investment body and the maximum exposure limits. Also the relative size of the Bank as compared to the industry is relatively low such that the risk of loss is reduced.

Under the Liquidity Support Scheme at least 3% of total assets must be invested in Cuscal and/or other CUFSS-approved ADI to allow the scheme to have adequate resources to meet its obligations if needed.

Board policy limits investments outside of Cuscal to Australian Authorised Deposit-Taking Institutions (ADI) with a rating of BBB- or higher. ADIs with a rating less than this may be approved at the discretion of the Board of Directors. Investments in non-ADIs may also be permitted at the discretion of the Board of Directors.

External Credit Assessment for Institution Investments

The Bank uses the ratings of reputable ratings agencies to assess the credit quality of all investment exposures, where applicable, using the credit quality assessment scale in APRA prudential guidance AGN 112. The credit quality assessment scale within this standard has been complied with.

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

	2019 Carrying value $	**2019** Past due value $	**2019** Provision $	**2018** Carrying value $	**2018** Past due value $	**2018** Provision $
Cuscal (A+)	6,120,000	-	-	500,000	-	-
Banks (A+ and above)	8,000,000	-	-	2,000,000	-	-
Banks (between BBB and A+)	12,500,000	-	-	18,500,000	-	-
Unrated ADI	5,076,739	-	-	10,576,739	-	-
Total	31,696,739	-	-	31,576,739	-	-

38. Financial Risk Management Objectives and Policies - continued

e. Capital management

The capital levels are prescribed by Australian Prudential Regulation Authority (APRA). Under the APRA prudential standards capital is determined in three components:

* Credit risk
* Market risk (trading book)
* Operational risk

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

Common Equity Tier 1 Capital (CET1)

Common Equity Tier 1 capital comprises:

* Retained profits
* Realised reserves

Additional Tier 1 Capital (AT1)

The Bank holds no Additional Tier 1 capital.

Tier 2 Capital (T2)

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.

Tier 2 capital comprises the General Reserve for Credit Losses.

Capital in the Bank is made up as follows:

	2019 $	2018 $
Tier 1 Capital		
Common Equity Tier 1 Capital:		
General/Capital reserve	13,873,835	13,158,862
Retained earnings	360,059	768,444
	14,233,894	13,927,306
Less prescribed deductions	333,999	277,549
Net Common Equity Tier 1 Capital	13,899,895	13,649,757
Additional Tier 1 Capital	-	-
Total Tier 1 Capital	13,899,895	13,649,757
Tier 2 Capital		
General reserve for credit losses	424,486	401,534
	424,486	401,534
Less prescribed deductions	-	-
Net tier 2 Capital	424,486	401,534
Total Capital	**14,324,381**	**14,051,291**

38. Financial Risk Management Objectives and Policies - continued

e. Capital management - continued

The Bank 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 Standard APS 112. The rules apply the risk weights according to the level of underlying security.

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

2019	2018	2017	2016	2015
Basel III	Basel III	Basel III	Basel III	Basel III
14.79%	15.35%	14.54%	14.29%	13.94%

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 capital the Bank reviews the ratio monthly and monitors major movements in the asset levels. Policies have been implemented to require reporting to the Board and the regulator if the capital ratio falls below certain levels. Further a capital budget projection of the capital levels is maintained annually to address how strategic decisions or trends may impact on the capital level.

Pillar 2 Capital on Operational Risk

This capital component was introduced as from 1 January 2008 and coincided with changes in the asset risk weightings for specified loans and liquid investments. Previously no operational charge was prescribed.

The Bank uses the Standardised approach which is considered to be most suitable for its business given the small number of distinct transaction streams. The Operational Risk Capital Requirement is calculated by mapping the Bank's three year average net interest income and net non-interest income to the Bank's various business lines.

Operational risk requirement	2019:	$11,993,758	2018:	$11,205,986

It is considered that the Standardised approach accurately reflects the Bank's operational risk other than for the specific items set out below.

Internal capital adequacy assessment process (ICAAP)

The Bank 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 the Bank's forecasts for asset growth, or unforeseen circumstances, are assessed by the Board. The finance department then update the forecast capital resources models produced and the impact upon the overall capital position of the Bank is reassessed.

The Bank has assessed the need for additional capital charges under its ICAAP and has determined that prudential capital is sufficient to cover growth and unforeseen circumstances.

Additional capital charge	2019:	-	2018:	-

39. Categories of Financial Instruments

a. Financial instruments classified by measurement class

	Note	2019 $	2018 $
Financial assets - carried at amortised cost			
Cash	9	12,883,307	11,715,146
Negotiable Certificates of Deposit	10	9,000,000	10,000,000
Receivables from financial institutions	10	22,696,739	21,576,739
Receivables	11	476,008	627,473
Loans to members	12 & 13	175,216,407	163,038,472
Total loans and receivables		**220,272,461**	**206,957,830**
FVOCI investments	14	-	-
		-	-
Total Financial Assets		**220,272,461**	**206,957,830**
Financial liabilities - carried at amortised cost			
Short term borrowings	18	-	2,000,000
Creditors	20	1,635,806	1,615,598
Deposits from members	19	203,895,948	188,989,549
Total Financial Liabilities		**205,531,754**	**192,605,147**

40. Events occurring after the reporting period

There are no events occurring after the reporting period that materially impact the financial statements measurement of assets and liabilities.

41. Corporate Information

The Bank is a company limited by shares, and is registered under the Corporations Act 2001.

Registered office: Level 6 437 St Kilda Road Melbourne Victoria

Principal place of business: Level 6 437 St Kilda Road Melbourne Victoria

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

Corporate Governance Disclosures

Board

The Board has responsibility for the overall management and strategic direction of First Option Bank. All Board members are independent of management and are elected by members on a rotation of every 3 years.

Each Director must be eligible to act, under the Constitution of the Bank and the Corporations Act 2001. Directors also need to satisfy the Fit and Proper policy of the Bank.

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

Board Remuneration

The Board receives remuneration from the Bank in the form of allowances agreed to by members each year at the AGM. Directors are reimbursed for any out-of-pocket expenses. Directors receive no other benefits from the Bank.

Board Committees

A Risk Committee and Audit Committee operate to assist the Board in relevant matters of financial prudence. The Directors form these committees with CEO and management participation.

A Nominations Committee has been formed to assess the fit and proper status of persons seeking to become a Director, in line with APRA's Prudential Standard CPS 520: Fit and Proper. This committee comprises all Directors who are not standing for re-election in the current year.

Policies

The Board has endorsed a framework of compliance and risk management to suit the risk profile of the Bank's ethical guidelines to staff, to reinforce the practice of providing courteous and efficient service to members and recognition of members as owners.

Compliance Function

The Bank has a Compliance Function responsible for maintaining the awareness of staff for all changes in legislation and responding to staff inquiries on compliance matters. The Compliance Function also monitors the FSR Licence obligations and responds to all member complaints and disputes should they arise.

External Audit

The external audit is performed by Grant Thornton Audit Pty Ltd, a major international accounting body. The firm utilises sophisticated Computer Assisted Audit Software to supplement compliance testing.

Internal Audit

An internal audit function has been established using the services of an independent third party to review areas of internal control compliance and regulatory compliance only. The work performed by the internal auditor is examined by the Audit Committee and Risk Committee to ensure appropriate management action is taken in relation to issues raised. The findings of the internal auditor are also made available to the external auditor.

This role is also supplemented by other external compliance reviews performed by security audits on the Data Processing centre for adequacy of the back up, disaster recovery and internet security systems.

Regulation

The Bank is regulated by:

- APRA – for the prudential risk management of the Bank.
- ASIC – for adherence to Corporations Act 2001, Accounting Standards disclosures in the financial report, Financial Services Reform (FSR) requirements. The FSR legislation requires that the Bank disclose details of products and services; maintains training for all staff that deals with the members, and provide an effective and independent complaints handling process. ASIC also oversees Responsible Lending and credit licensing requirements.

Under the financial services and credit licensing requirements, all staff who deal with the public are required to be trained and certified to a level of skill commensurate with the services provided.

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

Workplace Health & Safety (WHS)

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

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

- holding little or no cash in accessible areas
- utilisation of security measures including cameras and counter screens, card only secure access and onsite security personnel

Office premises are examined regularly to ensure that the electrical safety and physical safety measures are appropriate to ensure the safety of the public and staff. All matters of concern are reported to the CEO for actioning by management and reported to the Board. Secure cash handling policies are in place, and injury from lifting heavy weights and RSI are managed by proper techniques to minimise the risk of damage.

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

2019 financial report

MELBOURNE

Level 6, 437 St Kilda Road
Melbourne VIC 3004

SYDNEY

1 Memorial Drive
Granville NSW 2142

T: 1300 855 675
F: 1800 356 675

E: info@firstoption.com.au
BSB : 802 876

firstoption BANK

www.firstoptionbank.com.au
First Option Bank Ltd ABN 95 087 650 735 AFSL /
Australian Credit Licence no. 236 509