2015

Australian Defence Credit Union
56th Annual Report

ADCU
Australian Defence Credit Union

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2015

Directors' Report

It's my pleasure to report to you on another year of significant progress for your Credit Union.

Chairman's Summary

It's my pleasure to report to you on another year of significant progress for your Credit Union.

Financial Strength and Growth

Our total assets grew by 14% during 2014 / 15 which is well above banking system growth. ADCU continues to grow its membership and attract more business from existing members. I can assure you we take very seriously the responsibility of looking after more than $1.1 billion in members' assets.

In a record low interest rate environment ADCU was able to maintain net profit after tax at $4 million. We worked hard during the year to achieve cost savings to offset the decline in interest margins. We continue to focus on our competitiveness to ensure we can continue to offer good value to our members.

Another notable result during the year was the improvement in credit quality. Our loan delinquency rate reduced to 0.36% at the end of June 2015. ADCU strives to be a responsible lender so that borrowing members are not saddled with debt they cannot afford to service. In achieving this improved credit result we acknowledge the diligent repayment history of our members.

Outside of ADCU, the Financial Services Inquiry (FSI) reported back to the Australian Government making a range of recommendations. A number of these recommendations were directed at levelling the playing field for financial services competition. ADCU is generally supportive of the FSI report and APRA's subsequent action to increase the capital risk weights for the big four banks. While the big four banks still do not hold as much capital against loans as ADCU does, we believe these developments improve the financial system overall.

To summarise our financial position, ADCU remains very strong and comfortably meets and exceeds all prudential standards.

Improving Member Service

Part of our brand credo is to be modern and easy to do business with. Over the course of the last 12 months we have listened to members and introduced the following service enhancements:

- Launched a capital guaranteed super and pension product to help members safeguard their retirement nest egg;
- Deployed 12 new rediATM's on Defence bases around Australia providing members with increased convenience from a direct charge free service;
- Enhanced our DHOAS home loan product range;
- Offered members a 0% 12 month balance transfer rate by switching their credit card to the award winning ADCU credit card;
- Refurbished 4 of our 33 branches;
- Redesigned our website to be easier to navigate and be mobile responsive;
- Simplified our online forms for improved convenience;
- Launched a new functionality rich mobile app that provides members a fantastic service at their finger tips.

ADCU remains committed to the Defence Community and improving its service to members. We appreciate that as members' needs and preferences change so must we. I look forward to reporting on further significant service enhancements in the near future.

ADCU in the Community

In addition to directly serving our members, ADCU also prides itself in being supportive of "life on base" including banking for on base business, messes and the encashment of Defence Travel Cards.

Over the course of 2014/15, ADCU proudly supported a range of Defence related initiatives such as The Long Ride, White Ribbon Golf Day, DCO Days, ADFAR and many other localised Defence events. We enjoyed being part of these events as a way of investing back in the Defence Community.

Australian Military Bank

At last year's Annual General Meeting the Board advised the meeting it was seriously contemplating becoming a mutual bank. As a mutual bank we would continue to be owned by the membership and work for the membership. This would NOT involve listing on the stock exchange and prioritising profit over members benefits.

A significant reason for proposing to become a mutual bank rests with our desire to be more readily understandable and attractive to younger members. ADCU primarily attracts new members as they enter the Australian Defence Organisation. Many of these new recruits are relatively young and many have little understanding about what a Credit Union is. We find this is an impediment to attracting new members and propose to adopt the language of our prospective members - by calling ourselves Australian Military Bank. This proposed name says "who we serve and what we do" and overcomes an impediment to attracting new members. Both existing and new members are essential to our long term future. Accordingly, your Board unanimously supports the adoption of "Australian Military Bank" and asks that you vote in favour of this name change.

Acknowledgements and Thanks

In conclusion, I'd like to thank you - our members - for choosing and supporting ADCU. It remains our privilege to serve the Defence Community and we look forward to continuing to improve our offering to you in 2015 / 16.

Our ability to serve the Defence Community is of course made possible by the co-operation of the Australian Defence Organisation and other key stakeholder groups such as the RSL movement. We acknowledge and appreciate the opportunity to serve those who serve our country.

I'd also like to thank the CEO, John Ford, the management and staff of ADCU for their continued efforts in operating and improving the Credit Union. The team has worked diligently to improve our product and service offering in order to support the ever changing needs of our members. As mentioned earlier, the financial services landscape is changing and I commend the team on positively responding to the many changes in the technology, regulatory and economic environment.

Finally, I'd like to extend my thanks to my fellow Directors for their contribution to the good governance of ADCU. ADCU operates in a highly regulated sector and there are significant expectations placed on our organisation to comply with the highest prudential standards. I am grateful for the other Directors' support and make particular mention of outgoing Director Mike Pike. After 21 years service to ADCU, Mike retired from the Board in June 2015, after making a tremendous contribution over his entire tenure. The Board wishes Mike all the best for the future.

I look forward to meeting as many members as possible at our upcoming Annual General Meeting in Sydney on Wednesday 28th October 2015.

RADM Clint Thomas AM, CSC RAN

Chairman

30 September 2015

Your Directors present their report on Australian Defence Credit Union Limited (ADCU) for the financial year ended 30 June 2015. ADCU is a company registered under the *Corporations Act 2001*.

Directors (L to R): Michael Pike, BRIG Jane Spalding, Graham Weber, Warren Thomas, John Brooks, RADM Clinton Thomas CSC, RAN and Bruce Scott.

2015 Office bearers

Rear Admiral Clinton William Thomas AM, CSC, RAN

Qualifications

Graduate RAN College and RAN Staff College

Member of the Australasian Mutuals Institute

Member of the Risk Management Institute of Australasia

Associate Member of the Australian Institute of Project Management

Graduate Member of the Australian Institute of Company Directors

Fellow of the Chartered Institute of Logistics and Transport Australia

Diploma Applied Science (UNSW)

Diploma Company Directors

Diploma of Government (Contract Management)

Advanced Diploma of Government (Strategic Procurement)

Advanced Diploma of Project Management

Graduate Diploma of Resource Management

Master of Management (Operations/Logistics) (MGSM)

Experience and Responsibilities

Credit Union Director for 15 years

39 years in the Royal Australian Navy and Defence

Past President of the RAN Australian Football Association (8 years)

Current Patron of the RAN Australian Football Association

Past Chairman of the Navy Canteens Board (3 years)

Currently the Commander Joint Logistics Command

Member of the ADCU Renewal Committee

Member of the ADCU Remuneration Committee

Chair of the ADCU Board

John Robert Brooks

Qualifications

Bachelor of Arts

Graduate of the Royal Air Force Staff College

Fellow of the Australian Defence College

Member of the Australasian Mutuals Institute

Member of the Australian Institute of Company Directors

Graduate Diploma in Strategic Studies

Experience and Responsibilities

Credit Union Director for 15 years

28 years in the RAAF Logistics Branch

Owner of Brooks Newsagency, Orange, NSW

Chair of the ADCU Risk Committee

Michael Morrison Pike

Qualifications

Graduate RAN College and RAN Staff College

Graduate Joint Services Staff College

Fellow of the Australian Institute of Management

Member of the Australasian Mutuals Institute

Member of the Australian Institute of Company Directors

Graduate Diploma in Management

Graduate Diploma in Strategic Studies

Master of Management Economics (UNSW)

Diploma Company Directors

Experience and Responsibilities

Credit Union Director for 22 years

29 years full-time service in the Royal Australian Navy (Supply Branch)

Active Naval Reservist

Member of the Risk Committee

Bruce Andrew Robert Scott, CSC

Qualifications

Graduate Member of the Australian Institute of Company Directors

Graduate of Command and Staff College

Member of the Australasian Mutuals Institute

Experience and Responsibilities:

Credit Union Director for 2 years

40 years service and experience in the Australian Army

Member of the ADCU Audit Committee

Chair of the ADCU Remuneration Committee

Director Shooting Australia

Brigadier Jane Maree Spalding, AM, CSC

Qualifications

Bachelor of Social Science (Human Resource Development)

Master of Arts (Military Studies)

Master of Defence Studies

Master of Arts (Strategic Studies)

Graduate of the Royal Military College of Science (United Kingdom)

Graduate of the Australian Army Command and Staff College

Graduate of the Centre for Defence and Strategic Studies

Graduateship of the City and Guilds of London Institute

Member of the Australasian Mutuals Institute

Member of the Australian Institute of Management

Graduate Member of the Australian Institute of Company Directors

Experience and Responsibilities

Credit Union Director for 8 years

32 years in the Australian Regular Army

Currently Director General Explosive Ordnance, Joint Logistics Command

Head of Corps Royal Australian Army Ordnance Corps

Chair of the Audit Committee

Previously a member of the TAFE Riverina Institute Advisory Council

Warren Raymond Thomas

Qualifications

Graduate Diploma in Company Directorship

Member of the Australasian Mutuals Institute

Graduate Member of the Australian Institute of Company Directors

Member of the Club Directors Institute of NSW

Experience and Responsibilities

37 years in Dept of Defence, including Army service in Vietnam

20 years experience in high level financial management in various Navy and Army Commands

President of Cronulla RSL sub-Branch (2008-present)

Director of Cronulla RSL Memorial Club (2005- present)

Credit Union Director for 19 years

Past Deputy Chairman of the ADCU Board

Served on the ADCU Risk Committee for 4 years

Chairman of the ADCU Renewal Committee

Member of the ADCU Audit Committee

Graham Anthony Weber

Qualifications

Fellow Australian Society of Certified Practising Accountants (FCPA)

Bachelor of Commerce in Accounting

Member of the Australasian Mutuals Institute

Member Australian Institute of Company Directors

Experience and Responsibilities

6 years in Accounting Firms and Advisory Services

21 years in State and Commonwealth Agencies in Financial Management, budgeting and performance reporting

Currently Chief Finance Officer – Air Force

Credit Union Director for 7 years

Member of the ADCU Risk Committee

Deputy Chairman of the ADCU Board

Member of the ADCU Executive Committee

John Ronald Ford

Qualifications

Graduate of the Australian Institute of Company Directors (GAICD)

Bachelor of Arts

Graduate Diploma of Business Studies

Fellow of the Institute of Financial Services

Fellow of the Australasian Mutuals Institute

Advanced Diploma of Superannuation

Member of the Association of Superannuation Funds of Australia Limited

Experience and Responsibilities

Chief Executive Officer – Australian Defence Credit Union Limited

26 years management experience in Banks, Building Societies and Credit Unions

Company Secretary

Grazier

Mark McCall

Qualifications

Member CPA Australia (CPA)

Bachelor of Economics – Monash University

Experience and Responsibilities

Over 25 years in the Banking and Finance Industry

Head of ADCU Finance since November 2014

Company Secretary

Meetings attended

	Board meetings		Annual Gen Meeting		Board Committee Meetings: Executive		Audit		Risk		Renewal		Remuneration	
Directors	H	A	H	A	H	A	H	A	H	A	H	A	H	A
Clinton Thomas	11	11	1	1	12	11	–	–	–	–	4	4	3	3
John Brooks	11	11	1	–	–	–	–	–	5	5	–	–	–	–
Michael Pike	11	10	1	1	–	–	–	–	5	4	–	–	3	3
Bruce Scott	11	9	1	1	–	–	7	5	–	–	–	–	3	3
Jane Spalding	11	10	1	1	–	–	7	5	–	–	–	–	–	–
Warren Thomas	11	11	1	1	–	–	7	7	–	–	4	4	–	–
Graham Weber	11	10	1	1	12	12	–	–	5	4	–	–	–	–

H – No. of meetings held that Director was eligible to attend

A – No of meetings attended

Director benefits

Directors are required to make an annual declaration of any benefits or interests that may have occurred because of their association with ADCU. As at 30 June 2015, no Director has received or become entitled to receive any such benefit.

Indemnity of Directors and Officers

ADCU has paid insurance premiums in respect of Directors' and Officers' liability and legal expenses. The Directors have not included details of the nature of the liabilities covered or the amount of the premium paid in respect of Directors' and Officers' liability and legal expenses, as such disclosure is prohibited under the insurance contract. No insurance cover has been provided for the benefit of the ADCU auditors, Grant Thornton Audit Pty Ltd.

Principal activities

The principal activities of ADCU 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 the Constitution.

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

Operating and financial review

Operating results

The net profit of ADCU for the year after providing for income tax was $4,000,766 [2014 $4,012,939].

Review of Operations

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

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 ADCU.

Significant changes in state of affairs

There were no significant changes in the state of the affairs of ADCU during the year.

Events occurring after balance date

No 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 ADCU in subsequent financial years.

Likely developments and results

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

- the operations of ADCU;
- the results of those operations; or
- the state of affairs of ADCU

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* as set out on page 11.

Rounding

The amounts contained in the financial statements have been rounded to the nearest one thousand dollars in accordance with ASIC Class Order 98/100 (as amended by 06/51). ADCU is permitted to round to the nearest one thousand ($'000) for all amounts except prescribed disclosures which are shown in whole dollars.

Board resolution

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

RADM Clinton Thomas AM, CSC RAN
Chairman

Graham Anthony Weber
Deputy Chairman

30 September 2015

Director's Declaration

In the opinion of the Directors of Australian Defence Credit Union Limited:

1. The financial statements and notes of Australian Defence Credit Union Limited and its controlled entities are in accordance with the Corporations Act 2001, including

    a) giving a true and fair view of its financial position as at 30 June 3015 and of its performance for the financial year ended on that date; and

    b) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*, and

2. There are reasonable grounds to believe that Australian Defence Credit Union Limited 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 1.

Signed in accordance with a resolution of the Directors:

RADM Clinton Thomas AM, CSC RAN
Chairman

30 September 2015

Grant Thornton

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Auditor's Independence Declaration
To the Directors of Australian Defence Credit Union Limited

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the audit of Australian Defence Credit Union Limited for the year ended 30 June 2015, 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.

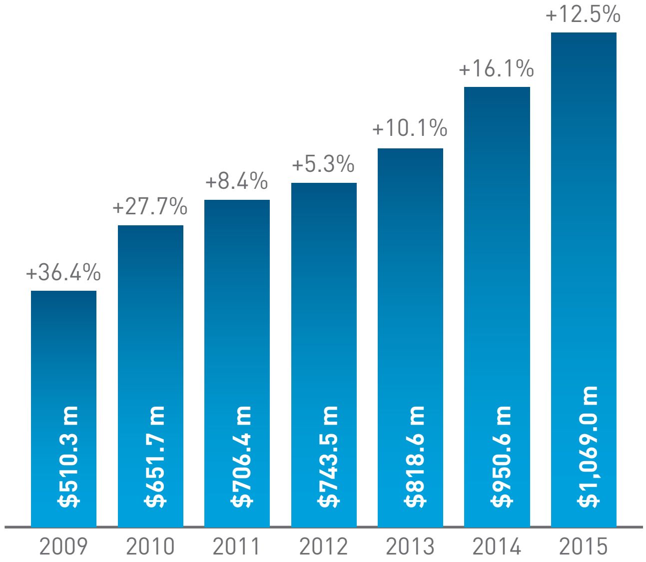
Grant Thornton

GRANT THORNTON AUDIT PTY LTD
Chartered Accountants

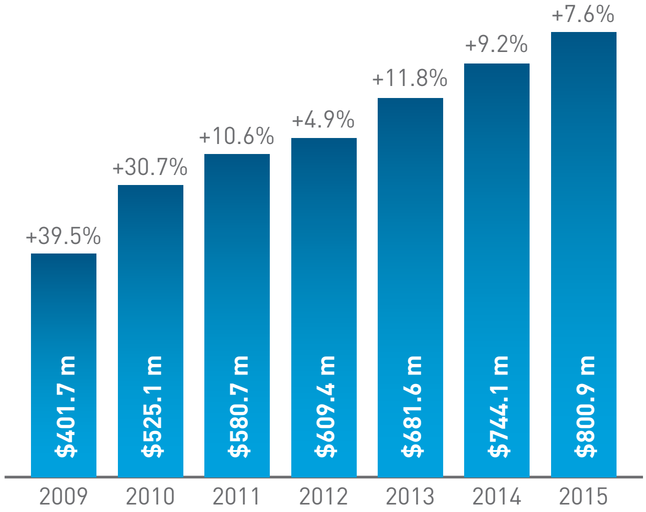
G S Layland
Director - Audit & Assurance

Sydney, 30 September 2015

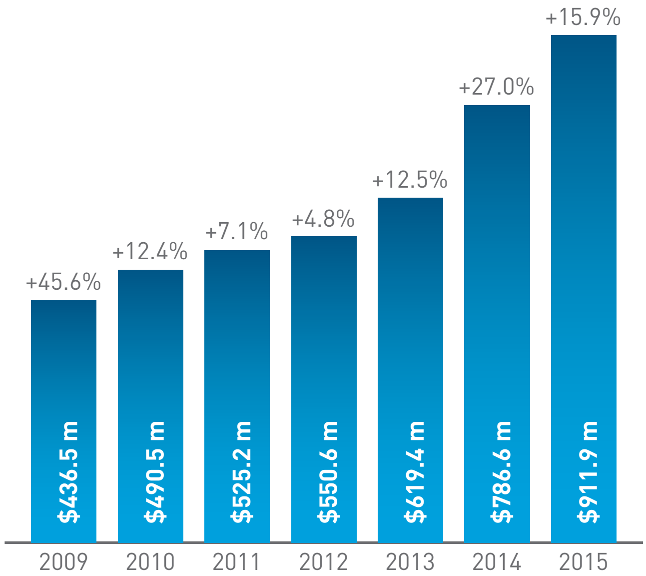
Key Performance Measures



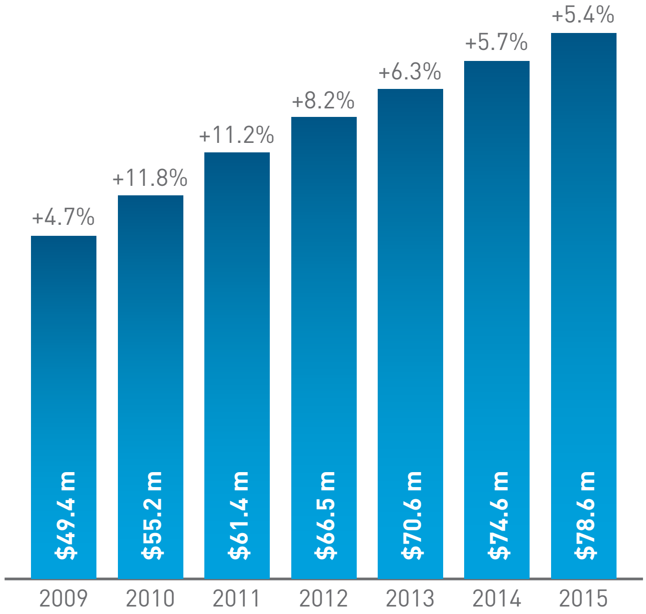
Balance Sheet Assets



Net Balance Sheet Loans



Deposits



Member's Equity

ADCU in the Community

The Victorian ADCU team at the 2015 Avalon Air Show.

Chris Burnell (Regional Manager Sydney) at the 2015 Liverpool Anzac Centenary Commemoration Event.

Kerry Wakelin (Regional Manager SA and NT) and Charmaine Palmer with MAJ James Weaver at the ADF Mens All Stars training session at Port Adelaide Football Club.

Dr Brendan Nelson, Andrew Moebus (Regional Manager ACT/South Coast and Southern), ACM Mark Binskin, AC and CMDR Guy Blackburn, RAN at the launch of the 2014 Long Ride at the Australian War Memorial, Canberra.

ADCU in the Community

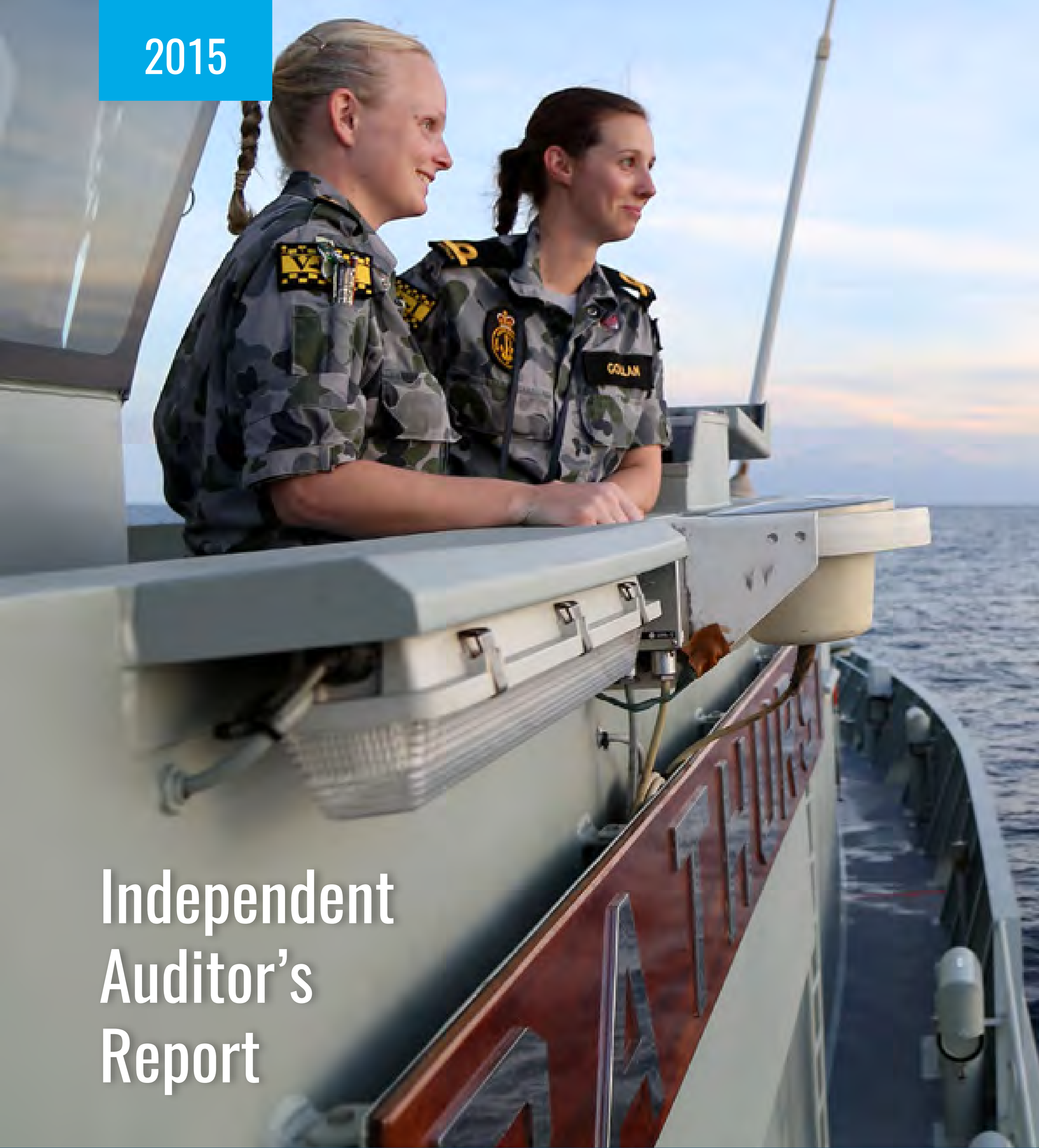
The ADCU team and participants at the 2014 Yungaburra Soldier On Triathlon.

LTCOL Allan Hollink, Andrew Moebus (Regional Manager ACT/South Coast and Southern), CDRE Robert Morrison, CSC RAN and RADM Clint Thomas AM, CSC RAN at the 2014 White Ribbon and ADCU Charity Golf Day.

The ADCU team at the 2014 Long Ride fundraising event at Puckapunyal Army Base.

Anne Marie, Jackie and Nikki from our South Coast team competing at the City to Surf.

2015



Independent Auditor's Report

To the members of Australian Defence Credit Union Limited.

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Independent Auditor's Report
To the Members of Australian Defence Credit Union Limited

We have audited the accompanying financial report of Australian Defence Credit Union Limited (the "Company"), which comprises the statement of financial position as at 30 June 2015, 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, notes comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the company .

Directors' responsibility 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. The Directors also state, in the notes to the financial report, in accordance with Accounting Standard AASB 101 Presentation of Financial Statements, the financial statements comply with International Financial Reporting Standards.

Auditor's responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error.

In making those risk assessments, the auditor considers internal control relevant to the Company's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial report.

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

Independence

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

Auditor's opinion

In our opinion:

a the financial report of Australian Defence Credit Union Limited is in accordance with the Corporations Act 2001, including:

  i giving a true and fair view of the Company's financial position as at 30 June 2015 and of its performance for the year ended on that date; and

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

b the financial report also complies with International Financial Reporting Standards as disclosed in the notes to the financial statements.

Grant Thornton

GRANT THORNTON AUDIT PTY LTD
Chartered Accountants

G S Layland
Director - Audit & Assurance

Sydney, 30 September 2015

Consolidated Statement of Profit or Loss and Other Comprehensive Income for the year ended 30 June 2015

	Note	2015 $'000	2014 $'000
Interest revenue	2.a	50,770	49,267
Interest expense	2.c	(27,024)	(25,555)
Net interest income		23,746	23,712
Fee commission and other income	2.b	8,234	9,304
		31,980	33,015
Non interest expenses			
Impairment losses on loans receivable from members	2.d	981	1,501
Fee and commission expenses		3,560	3,508
General administration expenses			
– Employees compensation and benefits		13,552	13,392
– Depreciation and amortisation	2.e	477	434
– Information technology		2,054	2,405
– Office occupancy	2.f	1,356	1,378
– Other administration		2,661	2,518
Other operating expenses		1,587	2,064
Total non interest expenses		26,227	27,202
Profit before income tax		5,752	5,813
Income tax expense	3	1,752	1,800
Profit after income tax		**4,001**	**4,013**
Other comprehensive income, net of income tax		**–**	**–**
Total comprehensive income for the period		**4,001**	**4,013**

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

Consolidated Statement of Changes in Member Equity for the year ended 30 June 2015

	Capital Reserve $'000	Reserve for Credit Losses $'000	Retained Earnings $'000	Total $'000
Total as at 1 July 2013	**112**	**1,506**	**69,005**	**70,623**
Total net profit for the year – as reported	–	–	4,013	4,013
Sub-total	112	1,506	73,018	74,636
Transfers to (from) reserves				
Transfer to capital account on redemption of shares	6	–	(6)	–
Total as at 30 June 2014	**118**	**1,506**	**73,012**	**74,636**
Balance as at 1 July 2014	118	1,506	73,012	74,636
Total net profit for the year – as reported	–	–	4,001	4,001
Sub-total	118	1,506	77,013	78,637
Transfers to (from) reserves				
Transfer to capital account on redemption of shares	6	–	(6)	–
Total as at 30 June 2015	**124**	**1,506**	**77,007**	**78,637**

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

Consolidated Statement of Financial Position for the year ended 30 June 2015

	Note	2015 $'000	2014 $'000
Assets			
Cash	4	29,469	55,658
Liquid Investments	5	222,357	145,526
Receivables	6	10,548	1,966
Prepayments		88	303
Loans to members	7.a	800,853	744,092
Available for sale equity investments	9	2,780	907
Property, plant and equipment	10	1,162	478
Taxation assets	11	1,002	1,003
Intangible assets	12	730	672
Total assets		1,068,994	950,606
Liabilities			
Short term borrowings	13	57,660	72,722
Deposits from members	14	911,916	786,573
Creditor accruals and settlement accounts	15	12,356	10,340
Taxation liabilities	16	2,317	525
Provisions	17	1,109	810
Long term borrowings	18	5,000	5,000
Total liabilities		990,357	875,970
Net Assets		**78,637**	**74,636**
Members' equity			
Capital reserve account	19	124	118
General reserve for credit losses	20	1,506	1,506
Retained earnings		77,007	73,012
Total members' equity		**78,637**	**74,636**

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

Consolidated Statement of Cash Flows for the year ended 30 June 2015

	Note	2015 $'000	2014 $'000
Operating activities			
Revenue inflows			
Interest received		50,408	49,281
Fees and commissions received		7,495	8,552
Dividends received		128	166
Other income		635	520
Revenue outflows			
Interest paid		(27,854)	(24,762)
Suppliers and employees		(30,610)	(25,512)
Income taxes paid		36	(1,589)
Net cash from revenue activities	34.b	**238**	**6,656**
Inflows (outflows) from other operating activities			
Increase in member loans (net movement)		(57,786)	(63,960)
Increase in member deposits and shares (net movement)		125,344	166,519
Decrease in deposits to other financial institutions (net)		(76,830)	(21,788)
Net cash from operating activities		**(8,034)**	**87,427**
Investing activities			
Inflows			
Proceeds on sale of property, plant and equipment		–	26
Outflows			
Purchase of property, plant and equipment		(956)	(326)
Purchase of intangible assets		(263)	(413)
Money placed on security deposit		(1,873)	(78)
Net cash from investing activities		**(3,092)**	**(791)**
Financing activities			
Inflows (outflows)			
Increase in borrowings (net movement)		(15,062)	(37,389)
Net cash from financing activities		**(15,062)**	**(37,389)**
Total net cash increase/(decrease)		(26,189)	49,247
Cash at beginning of year		55,658	6,411
Cash at end of year	34.a	**29,469**	**55,658**

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

Notes to the Financial Statements

For the year ended 30 June 2015.

1 Statement of accounting policies

This financial report is prepared for Australian Defence Credit Union Limited and its subsidiaries' (ADCU), for the year ended 30 June 2015.

The financial report was authorised for issue on 30th September 2015 in accordance with a resolution of the Board of Directors. The financial report is presented in Australian dollars.

The financial report is a general purpose financial report which has 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. Compliance with Australian Accounting Standards ensures compliance with the International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB). Australian Defence Credit Union Limited is a for-profit entity for the purpose of preparing the financial statements.

a. Basis of measurement

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

b. REPO Securitisation trust consolidation

ADCU has initiated the creation of a trust which holds rights to a portfolio of mortgage secured loans to enable ADCU to secure funds from the Reserve Bank of Australia if required to meet emergency liquidity requirements. ADCU continues to manage these loans and receives all residual benefits from the trust and bears all losses should they arise. Accordingly,

a. the trust meets the definition of a controlled entity and,

b. as prescribed under the accounting standards, since ADCU has not transferred all risks and rewards to the trust, the assigned loans are retained on the books of ADCU and not derecognised.

ADCU has elected to present one set of financial statements to represent both ADCU as an individual entity and consolidated entity on the basis that the impact of consolidation is not material to the entity.

c. Classification and subsequent measurement of financial assets

Financial assets and financial liabilities are recognised when ADCU becomes a party to the contractual provisions of the financial instrument, and are measured initially at fair value 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.

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 profit or loss or in 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. ADCU'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, 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 ADCU.

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. All derivative financial instruments fall into this category, except for those designated and effective as hedging instruments, for which the hedge accounting requirements apply (see below).

Assets in this category are measured at fair value with gains or losses recognised in profit or loss. The fair values of financial assets in this category are determined by reference to active market transactions or using a valuation technique where no active market exists.

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 ADCU has the intention and ability to hold them until maturity. ADCU currently holds Term Deposits, Negotiable Certificates of Deposit (NCD) and Floating Rate Notes 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.

Available For Sale (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. ADCU's AFS financial assets include the equity investment in Cuscal Limited.

The equity investment in Cuscal Limited is measured at cost less any impairment charges, as its fair value cannot currently be estimated reliably. Impairment charges are recognised in profit or loss.

All other AFS financial assets are measured at fair value. Gains and losses on these assets are recognised in other comprehensive income and reported within an AFS reserve within equity, except for impairment losses, which are recognised in profit or loss. When the asset is disposed of or is determined to be impaired, the cumulative gain or loss recognised in other comprehensive income is reclassified from the equity reserve to profit or loss, and presented as reclassification adjustments within other comprehensive income. Interest calculated using the effective interest method and dividends are recognised in profit or loss within 'finance income'.

Reversals of impairment losses are recognised in other comprehensive income, except for financial assets that are debt securities which are recognised in profit or loss only if the reversal can be objectively related to an event occurring after the impairment loss was recognised.

d. Classification and subsequent measurement of financial liabilities

ADCU's financial liabilities include borrowings, and trade and other payables.

Financial liabilities are measured subsequently at amortised cost using the effective interest method, except for financial liabilities held for trading or designated at FVTPL, that are carried subsequently at fair value with gains or losses recognised in profit or loss. All derivative financial instruments that are not designated and effective as hedging instruments are accounted for at FVTPL.

e. Loans to members

(i) Basis of recognition

All loans are initially recognised at fair value, net of loan origination fees and inclusive of transaction costs incurred. Loans are subsequently measured at amortised cost. Any difference between the proceeds and the redemption amount is recognised in the profit or loss 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 ADCU at balance date, less any allowance or provision against impairment for debts considered doubtful. A loan is classified as impaired where recovery of the debt is considered unlikely as determined by the Board of Directors.

(ii) Interest earned

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

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

Credit cards – the interest is calculated initially on the basis of the daily balance outstanding and is charged in arrears to a member's account on the 2nd day of each month, on cash advances and purchases in excess of the payment due date. Purchases are granted up to 55 days interest free until the due date for payment.

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

(iii) 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.

(iv) 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.

(v) 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.

(vi) 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.

f. Loan Impairment

(i) Specific and collective provision for impairment

A provision for losses on impaired loans is recognised when there is objective evidence that the impairment of a loan has occurred. Estimated impairment losses are calculated on either a portfolio basis for loans of similar characteristics, or on an individual basis. 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 key assumptions used in the calculation are as set out in Note 8. Note 21 details the credit risk management approach for loans.

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 reporting date to determine whether there is objective evidence that a specific financial asset or a group of financial assets is impaired. Evidence of impairment may include indications that the borrower has defaulted, is experiencing significant financial difficulty, or where the debt has been restructured to reduce the burden to the borrower.

(ii) 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.

(iii) 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.

g. Bad debts written off (direct reduction in loan balance)

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

h. 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 ADCU. The useful lives are adjusted if appropriate at each reporting date. Estimated useful lives as at the balance date are as follows:

- Leasehold improvements – 5 -10 years.
- Plant and equipment – 3 to 7 years.
- Assets less than $300 are not capitalised.

i. Receivables from other financial institutions

Term deposits and Negotiable Certificates of Deposit with other financial institutions are unsecured and have a carrying amount equal to their principal amount. Interest is paid on the daily balance at maturity. All deposits are in Australian currency.

The accrual for interest receivable is calculated on a proportional basis of the expired period of the term of the investment. Interest receivable is included in the amount of receivables in the statement of financial position.

j. Equity investments and other securities

Investments in marketable financial instruments

Available for sale financial instruments held for trading are measured at fair value.

Realised net gains and losses on available for sale financial assets taken to the profit or loss account comprises only gains and losses on disposal.

Investments in shares

Investments in shares are classified as available for sale financial assets where they do not qualify for classification as loans and receivables, or investments held for trading.

Investments in shares listed on the stock exchanges are revalued to fair value based on the market bid price at the close of business on the reporting date.

Investments in shares which do not have a ready market and are not capable of being reliably valued are recorded at the lower of cost or recoverable amount.

All investments are in Australian currency.

k. Member Deposits

(i) Basis for measurement

Member savings and term investments are quoted at the aggregate amount payable to depositors as at the reporting date.

(ii) Interest payable

Interest on savings is calculated on the daily balance and posted to the accounts periodically, or on maturity of the term deposit. Interest on savings is brought to account on the amount of money owing to depositors on an accrual basis in accordance with the interest rate terms and conditions of each savings and term deposit account as varied from time to time. The amount of the accrual is shown as part of amounts payable.

l. Borrowings

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

m. Provision for Employee Benefits

Short-term employee benefits are current liabilities included in employee benefits, measured at the undiscounted amount that the Group expects to pay as a result of the unused entitlement.

Provision is made for ADCU's liability for employee benefits arising from services rendered by employees to 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 national Government bond rates.

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

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

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

n. 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 the profit or loss on a straight-line basis over the period of the lease.

o. Income Tax

The income tax expense shown in the profit or loss is based on the profit before income tax adjusted for any non tax deductible, or non-assessable items between accounting profit and taxable income. Deferred tax assets and liabilities are recognised using the 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 recognised at the company tax rate of 30%.

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 ADCU 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.

p. Intangible Assets

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

Computer software is amortised over the expected useful life of the software. These lives range from 2 to 5 years.

q. Goods and Services Tax (GST)

As a financial institution ADCU 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 GST. To the extent that the full amount of the GST incurred is not recoverable from the Australian

Taxation 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 where applicable GST is collected. 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 ATO are classified as operating cash flows.

r. 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.

s. Impairment of Assets

At each reporting date ADCU 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 the 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 to sell 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.

t. Accounting Estimates and Judgements

Management have made judgements when applying ADCU's accounting policies with respect to derecognition of loans assigned to a special purpose vehicle used for securitisation purposes – refer Note 7.

Management have made critical accounting estimates when applying ADCU's accounting policies with respect to the impairment provisions for loans – refer Note 8.

u. New standards applicable for the current year

There were no new or revised accounting standards applicable for financial years commencing from 1 July 2015 that had any significant impact on the financial statements of ADCU.

v. New or emerging standards not yet mandatory

Certain new accounting standards and interpretations have been published that are not mandatory for the 30 June 2015 reporting period. ADCU'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 ADCU have not been reported.

AASB reference	Nature of Change	Application date:	Impact on Initial Application
AASB 9 Financial Instruments	Amends the requirements for classification and measurement of financial assets. The following requirements have generally been carried forward unchanged from AASB 139 Financial Instruments: Recognition and Measurement into AASB 9:– Classification and measurement of financial liabilities; and Derecognition requirements for financial assets and liabilities. However, AASB 9 requires that gains or losses on financial liabilities measured at fair value are recognised in profit or loss, except that the effects of changes in the liability's credit risk are recognised in other comprehensive income. Financial assets that are debt instruments will be classified according to the objectives of the business model for managing those assets and the characteristics of their cash flows. Recognition of credit losses are to no longer be dependent on the ADI first identifying a credit loss event. The ADI will consider a broader range of information when assessing credit risk and measuring expected credit losses including past experience of historical losses for similar financial instruments. The rules for hedge accounting have been overhauled to better reflect the ADI's underlying risk management activities in the financial statements.	Periods beginning on or after 1 July 2019	Due to the recent release of these amendments and that adoption is only mandatory for the 30 June 2019 year end and the revised Standard is not permitted to be early adopted until at least the year ended 30 June 2016, the entity has not yet made a detailed assessment of the impact of these amendments. However, based upon a preliminary assessment, the Standard is not expected to have a material impact upon the transactions and balances recognised when it is first adopted.
AASB 15 Revenue from Contracts with Customers	Revenue from financial instruments is not covered by this new Standard, but AASB 15 establishes a new revenue recognition model for other types of revenue.	Periods beginning on or after 1 January 2017	ADCU is yet to make a detailed assessment of the impact of AASB 15. However, based upon a preliminary assessment, the Standard is not expected to have a material impact upon the transactions and balances recognised when it is first adopted.

2 Income Statement

	2015 $'000	2014 $'000
a. Analysis of interest revenue		
Interest revenue on assets carried at amortised cost		
Cash – deposits at call	195	29
Receivables from financial institutions	6,501	5,156
Loans to members	44,074	44,082
Total interest revenue	**50,770**	**49,267**
b. Fee, commission and other income		
Fee and commission revenue		
Fee income on loans – other than loan origination fees	1,319	1,775
Fee income from member deposits	3,727	4,295
Insurance commissions	1,845	1,971
Other commissions	580	552
Total fee and commission revenue	**7,470**	**8,593**
Other income		
Dividends received on available for sale equity assets	128	166
Bad debts recovered	525	504
Gain on disposal of assets		
– Property, plant and equipment	–	24
Miscellaneous revenue	111	16
Total other income	764	710
Total fee, commission and other income	**8,234**	**9,303**
c. Interest expenses		
Interest expense on liabilities carried at amortised cost		
Short term borrowings	289	1,426
Deposits from members	24,663	21,549
Long Term Borrowings	427	431
Other	1,644	2,150
Total interest expense	**27,024**	**25,556**
d. Impairment losses		
Available for sale assets		
Loans and advances		
Increase in provision for impairment	(180)	(71)
Bad debts written off directly against profit	1,161	1,572
Total impairment losses	**981**	**1,501**
e. Other prescribed disclosures		
General administration – employee compensation and benefits includes:		
– net movement in provisions for employee annual leave	(34)	188
– net movement in provisions for employee long service leave	(31)	(65)
	(65)	**123**
General administration – depreciation expense includes:		
– Plant and equipment	118	115
– Leasehold improvements	153	120
– Amortisation of software	205	200
	477	**435**

	2015 $'000	2014 $'000

3 Income Tax expense

a. The income tax expense comprises amounts set aside as:

	2015 $'000	2014 $'000
Current tax provision	1,756	1,806
Adjustments for previous years	(9)	110
Total current income tax expense	**1,747**	**1,916**
Deferred tax		
Origination and reversal of temporary differences	5	(115)
Total movement in temporary differences	(1)	(115)
Total income tax expense in income statement	**1,752**	**1,801**

b. The prima facie tax payable on profit is reconciled to the income tax expense in the accounts as follows:

	2015 $'000	2014 $'000
Profit	**5,752**	**5,813**
Prima facie tax payable on profit before tax at 30%	1,726	1,744
Add tax effect of expenses not deductible	30	10
Subtotal	1,756	1,754
Less		
– Franking rebate	(55)	(50)
Income tax expense attributable to current year profit	**1,701**	**1,704**

c. Franking credits

	2015 $'000	2014 $'000
Franking credits held by ADCU after adjusting for franking credits that will arise from the payment of income tax payable at the end of the financial year is:–	27,570	24,810

4 Cash

	2015 $'000	2014 $'000
Cash on hand	1,557	954
Deposits at call	27,912	54,704
	29,469	**55,658**

5 Liquid Investments

a. Investments at amortised cost – Hold to maturity

	2015 $'000	2014 $'000
Negotiable Certificates of Deposit	66,730	37,931
Floating Rate Notes	57,627	17,935
Term Deposits	98,000	89,661
	222,357	**145,527**

b. Dissection of receivables

	2015 $'000	2014 $'000
Deposits with industry bodies – Cuscal (refer Note 29)	–	37,931
Deposits with other societies	41,905	17,935
Deposits with banks	180,452	89,661
	222,357	**145,527**

Amounts expected to be repaid within 12 months are as described in Note 28

	2015 $'000	2014 $'000

6 Receivables

	2015 $'000	2014 $'000
Interest receivable on deposits with other financial institutions	1,037	674
Sundry debtors and settlement accounts	9,511	1,293
	10,548	**1,967**

7 Loans to members

a. Amount due comprises:

	2015 $'000	2014 $'000
Overdrafts and revolving credit	26,862	27,134
Term loans	774,984	718,106
Subtotal	**801,845**	**745,240**
Less:		
Unamortised loan origination fees	(160)	(160)
Unearned income	(25)	–
Subtotal	**801,659**	**745,080**
Less:		
Provision for impaired loans (Note 8)	(807)	(987)
Total	**800,853**	**744,093**

b. Credit quality – security held against loans

	2015 $'000	2014 $'000
Secured by mortgage over real estate	699,478	633,601
Partly secured by goods mortgage	50,875	59,669
Wholly unsecured	51,492	51,970
	801,845	**745,240**

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

	2015 $'000	2014 $'000
Security held as mortgage against real estate is on the basis of:		
– loan to valuation ratio of less than 80%	449,600	414,425
– loan to valuation ratio of more than 80% but mortgage insured	235,070	208,896
– loan to valuation ratio of more than 80% and not mortgage insured	14,808	10,280
Total	**699,478**	**633,601**

c. Concentration of loans

The values discussed below include on balance sheet values and off balance sheet undrawn facilities as described in Note 25.

	2015 $'000	2014 $'000
(i) Loans to individual or related groups of members which exceed 10% of reserves in aggregate	–	–
Total	**–**	**–**

(ii) Loans to members are concentrated to individuals employed in the Australian Defence industry.

(iii) Geographical concentrations
Loans have been made to individuals throughout Australia. There are no concentrations of borrowers in any state or region.

(iii) Concentration of loans by purpose

	2015 $'000	2014 $'000
Loans to natural persons		
Residential loans and facilities	699,478	633,601
Personal loans and facilities	102,367	111,669
Business loans and facilities	–	–
	801,845	**745,270**
Loans to corporations	**–**	**–**

	2015 $'000	2014 $'000
d. Securitised loans		
The value of securitised loans which are not qualifying for derecognition as the conditions do not meet the criteria in AASB 139	35,550	50,265
	35,550	**50,265**

8 Provision on impaired loans

a. Total provision comprises		
Collective provisions	807	987
Total Provision	**807**	**987**
b. Movement in the provision for impairment		
Balance at the beginning of year	987	1,058
Add (deduct):		
Transfers from (to) profit or loss	(180)	(71)
Balance at end of year	**807**	**987**

Details of credit risk management is set out in Note 20.

c. Impaired loans written off		
Amounts written off directly to expense	1,161	1,572
Total bad debts	**1,161**	**1,572**
Bad debts recovered in the period	525	504
	637	**1,068**

d. Analysis of loans that are impaired or potentially impaired by class

In the note below:

– carrying value is the amount recorded on the statement of financial position;

– impaired loans value is the 'on balance sheet' loan balances which are past due by 90 days or more;

– provision for impairment is the amount of the impairment provision allocated to the class of impaired loans.

	2015			2014		
	Carrying Value $'000	Value of impaired loans $'000	Provision for impairment $'000	Carrying Value $'000	Value of impaired loans $'000	Provision for impairment $'000
Loans to members						
Mortgages	699,478	–	–	631,049	–	–
Personal	75,505	1,174	401	87,087	1,161	766
Credit cards and overdrafts	26,862	725	406	27,134	529	221
Total to natural persons	801,845	1,899	807	745,270	1,690	987
Corporate borrowers	–	–	–	–	–	–
Total	**801,845**	**1,899**	**807**	**745,270**	**1,690**	**987**

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

It is not practicable to determine the fair value of all the collateral as at the balance date due to the variety of assets and conditions.

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

	2015		2014	
	Carrying Value $'000	Provision for impairment $'000	Carrying Value $'000	Provision for impairment $'000
Non impaired up to 31 days	14,303	–	161	–
31 to 90 days in arrears	958	–	1,134	66
90 to 180 days in arrears	546	218	712	332
180 to 270 days in arrears	94	56	360	290
270 to 365 days in arrears	61	49	58	47
Over 365 days in arrears	115	115	31	31
Over limit facilities over 14 days	527	368	529	221
Total	**16,604**	**807**	**2,985**	**987**

f. Assets acquired by enforcement of security

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

g. Loans with repayments past due but not regarded as impaired

There are loans with a value of $238,096 past due which are not considered to be impaired as the value of the related security over residential property is in excess of the loan due.

Loans with repayments past due but not impaired are in arrears as follows:

Loans members

	1-3 Months	3-6 Months	6-12 Months	> 1 Year	Total
2015					
Mortgage secured	238	–	–	–	238
Personal loans	–	–	–	–	–
Credit cards and overdrafts less than 14 days	–	–	–	–	–
Total	**238**	**–**	**–**	**–**	**238**
2014					
Mortgage secured	–	–	–	–	–
Personal loans	978	–	–	–	978
Credit cards and overdrafts less than 14 days	161	–	–	–	161
Total	**1,139**	**–**	**–**	**–**	**1,139**

h. Key assumptions in determining the provision for impairment

In the course of the preparation of the annual report ADCU has determined the likely impairment loss on loans that have not maintained 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 ADCU 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	–
91 days to 180 days	40
181 days to 270 days	60
271 days to 365 days	80
Over 365 days	100

	2015 $'000	2014 $'000

9 Available for sale investments

	2015 $'000	2014 $'000
Shares in unlisted companies – at cost		
– Cuscal Limited	907	907
Total value of investments	**907**	**907**
Deposit		
Artemis Trust Reserves	1,873	–
Total	**2,780**	**907**

The deposit for the Reserves is a requirement under the Trust Deed and the deposits held with the National Australia Bank for the Artemis Trust.

Disclosures on shares held at cost

Cuscal Limited

The shareholding in Cuscal is measured at its cost value in the Statement of Financial Position. This company supplies services to the member organisations which are all Mutual Banks and Credit Unions. ADCU holds shares in Cuscal to enable it to receive essential banking services – refer to Note 31. The shares are able to be traded but within a market limited to other mutual ADI's. The volume of shares traded in the shares is low with few transactions in the last 3 years.

Management have used the unobservable inputs to assess the fair value of the shares. The financial reports of Cuscal record net tangible asset backing of these shares exceeding their cost value. Based on the net assets of Cuscal, any fair value determination on these shares is likely to be greater than their cost value, but due to the absence of a ready market, a market value is not able to be determined readily. The net dividend return in 2015 was 11 cents per share. Management has determined that the cost value of $0.60 per share is a reasonable approximation of fair value based on the likely value available on a sale. ADCU is not intending to dispose of these shares.

10 Property, plant and equipment

a. Fixed assets

	2015 $'000	2014 $'000
Plant and equipment – at cost	5,162	4,729
Less: provision for depreciation	(4,686)	(4,604)
Total plant and equipment	**476**	**125**
Capitalised leasehold improvements at cost	2,772	2,340
Less: provision for amortisation	(2,086)	(1,987)
Total capitalised leasehold improvements	686	353
	1,162	**478**

b. Movement in the assets balances during the year were:

	2015			2014		
	Plant & equipment $'000	Leasehold improvements $'000	Total $'000	Plant & equipment $'000	Leasehold improvements $'000	Total $'000
Opening balance	125	353	478	191	197	388
Purchases	469	486	956	51	276	327
Revaluation increase	–	–	–	–	–	–
Less						
Assets disposed	–	–	–	(2)	–	(2)
Depreciation charge	(118)	(153)	(272)	(115)	(120)	(235)
Balance at the end of the year	**476**	**686**	**1,162**	**125**	**353**	**478**

	2015 $'000	2014 $'000

11 Taxation assets

	2015 $'000	2014 $'000
Deferred tax assets	**1,008**	**1,003**
Deferred tax assets comprise:		
– Accrued expenses not deductible until incurred	43	42
– Provisions for impairment on loans	242	296
– Provisions for employee benefits	328	348
– Provisions for other liabilities	218	198
– Depreciation on fixed assets and intangible assets	176	119
	1,008	**1,003**

12 Intangible assets

	2015 $'000	2014 $'000
Computer Software	4,125	3,862
Less accumulated amortisation	(3,395)	(3,190)
	730	**672**
Movement in the assets balances during the year were:		
Opening Balance	672	459
Purchases	263	413
Less		
Depreciation charge	(205)	(200)
Balance at the end of the year	**730**	**672**

13 Short term borrowings

	2015 $'000	2014 $'000
Loans	57,660	51,444
Overdraft	–	21,278
	57,660	**72,722**

There were no defaults on interest and capital payments on these liabilities in the current or prior year.

14 Deposit from members

	2015 $'000	2014 $'000
Member deposits		
– At call	460,213	344,433
– Term	451,606	442,045
Member withdrawable shares	97	95
	911,916	**786,573**

Amounts expected to be repaid within 12 months are as described in Note 28

There were no defaults on interest and capital payments on these liabilities in the current or prior year.

Concentration of member deposits

	2015 $'000	2014 $'000
(i) 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 principally in the Australian Defence industry.

(iii) Geographical concentrations
Deposits have been made from individuals throughout Australia. There are no concentrations of depositors in any state or region.

	2015 $'000	2014 $'000

15 Creditor accruals and settlement accounts

Annual leave	713	747
Creditors and accruals	719	718
Interest payable on borrowings	28	387
Interest payable on deposits	4,913	5,384
Accrual for GST payable	80	109
Sundry creditors	5,803	2,995
	12,356	**10,340**

16 Taxation liabilities

Current income tax liability	**2,317**	**525**
Current income tax liability comprises:		
Balance – previous year	525	199
Less paid	(453)	(200)
Over / under statement in prior year	72	(1)
Liability for income tax in current year	1,756	1,806
Less instalments paid in current year	489	(1,280)
Balance – current year	**2,317**	**525**

17 Provisions

Long service leave	381	412
Provisions – other	728	398
Total Provisions	**1,109**	**810**
Provision movements comprises:		
Provision – other		
Balance – previous year	398	–
Less paid	–	–
Liability increase in current year	330	398
Less instalments paid in current year	–	–
Balance – current year	**728**	**398**

18 Long Term Borrowings

Subordinated Debt		
Balance at the beginning of the year	5,000	5,000
Increase due to debt issued	–	–
Balance at the end of year	**5,000**	**5,000**

On 16 November 2012, ADCU entered into a new agreement to issue $5m in Subordinated Debt. The loans mature on 16 November 2022. The terms include the payment of interest at the rate of 5.93% above the BBSW, payable quarterly. The transaction costs are amortised over the 10 year period of the loan to maturity.

	2015 $'000	2014 $'000

19 Capital reserve account

	2015 $'000	2014 $'000
Balance at the beginning of the year	118	112
Transfer from retained earnings on share redemptions*	6	6
Balance at the end of the year	**124**	**118**

*Share redemption

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

20 General reserve for credit losses

	2015 $'000	2014 $'000
General reserve for credit losses	1,506	1,506
	1,506	**1,506**

General reserve for credit losses

This reserve records amount maintained to comply with the Prudential Standards set down by APRA.

	2015 $'000	2014 $'000
Balance at beginning of year	1,506	1,506
Add: increase (decrease) transferred from retained earnings	–	–
Balance at the end of year	**1,506**	**1,506**

21 Financial Risk Management Objectives and Policies

Introduction

The Board has endorsed a policy of compliance and risk management to suit the risk profile of ADCU.

ADCU's risk management focuses on the major areas of market risk, credit risk and operational risk. Authority flows from the Board of Directors to the Risk Committee and the Audit Committee which are both integral to the management of risk.

The main elements of risk governance are as follows:

Board: This is the primary governing body. It approves the level of risk which ADCU 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 and is supported by management. 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 monthly review of operational reports and control assignments are reviewed by the Risk Committee monthly to confirm whether risks are within the parameters outlined by the Board.

The Risk Committee confirms there is 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 policy on a quarterly basis and reports in turn to the Board, where actual exposures to risks are measured against prescribed limits.

Audit Committee: Its key role in relation to 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 & Liability Committee (ALCO): This committee of senior management meets at least monthly and has responsibility for managing and reporting credit, liquidity, market and capital 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 put in place regarding the authorisation of new loans.

The ALCO 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 large credit exposure facilities above policy limits are approved by the ALCO or the Board. All exposures are checked daily against approved limits, independently of each business unit, and are reported to the ALCO.

All loans are managed weekly 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 Credit Risk Committee weekly and the Risk Committee monthly.

Arrears are strictly controlled. A dedicated credit control team, which reports to the ALCO, implements ADCU's credit risk policy. Additionally, 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.

ALCO meets monthly and has responsibility for managing interest rate risk exposures, and ensuring that the treasury and finance functions adhere to exposure limits as outlined in the policies for interest rate gap. The weekly scrutiny of market risk reports is intended to prevent any exposure breaches prior to the monthly review by the Risk Committee.

Head of Risk: This person has responsibility for both liaising with the operational function to ensure timely production of information for the risk committees and ensuring that instructions passed down from the Board via the Risk Committees are implemented.

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

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

- Risk Management Strategy
- Liquidity Risk Management Plan
- Capital Management Plan
- Market Risk Management Plan
- Funding Plan
- Credit Risk Management Policy
- Collections Policy
- Operational Risk Management Policy, which has a number of related documents, including the Compliance Program, AML/CTF Program, Data Risk Management Policy and other operational risk management policy documents.
- Internal Capital Adequacy Assessment Process Plan

ADCU has undertaken the following strategies to minimise the risks arising from financial instruments:

a. Market Risk

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

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

Most banks are exposed to interest rate risk within their treasury operations. ADCU does not have a trading book.

Interest rate risk in the banking book

ADCU is exposed to interest rate risk in its banking book due to mismatches between the repricing dates of assets and liabilities.

In the banking book the most common risk ADCU faces arises from fixed rate assets and liabilities. This exposes ADCU to the risk of sensitivity should interest rates change.

The level of mismatch on the banking book is set out in Note 24 below. The table set out in Note 24 displays the period that each asset and liability will reprice as at balance date.

This risk is not considered significant to warrant the use of derivatives to mitigate this risk.

Method of managing risk

ADCU manages its interest rate risk by the use of a value at risk (VaR) model the detail and assumptions used are set out below.

Value at Risk (VaR)

ADCU's exposure to market risk is measured and monitored using the VaR methodology of estimating potential losses. VaR is a technique which estimates the potential losses that could occur on risk positions taken due to movements in market rates and prices over a specified time period to a given level of confidence. VaR, as set out in the table below, has been calculated using historical simulations, using movements in market rates and prices, a 99 percent confidence level and taking into account historical correlations between different markets and rates.

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

	2015	2014
VaR	$182,478	$312,902

ADCU is therefore confident within a 99 per cent confidence level that, given the risks as at 30 June 2015, it will not incur a one day loss on its non-trading book of more than the amount calculated above, based on the VaR model used.

Although the use of VaR models calculates the interest rate sensitivity on the banking book, this is not reflected in the Pillar 1 capital requirement.

ADCU's exposure to banking book interest rate risk is not expected to change materially in the next year so existing capital requirements are considered to be an accurate measurement of capital needed to mitigate interest rate risk.

b. Liquidity Risk

Liquidity risk is the risk that ADCU may encounter difficulties raising funds to meet commitments associated with financial instruments e.g. borrowing repayments or member withdrawal demands. It is the policy of the Board of Directors that treasury maintains adequate cash reserves and committed credit facilities so as to meet the member withdrawal demands when requested.

ADCU 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.

ADCU 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 ADCU should this be necessary.

ADCU is required to maintain at least 9% of total adjusted liabilities as liquid assets capable of being converted to cash within 24 hours under the APRA Prudential standards. ADCU's policy is to operate within the range of 16% to 19% of funds as liquid assets to maintain adequate funds for meeting member withdrawal requests. The ratio is checked daily. Should the liquidity ratio fall below this range the management and Board are to address the matter and ensure that the liquid funds are obtained from new deposits, or borrowing facilities available. Note 28 describes the borrowing facilities as at the balance date. These facilities are in addition to the support from CUFSS.

The maturity profile of the financial assets and liabilities, based on the contractual repayment terms are set out in Note 23.

The ratio of liquid funds over the past year is set out below:

APRA liquid funds to total adjusted liabilities

	2015	2014
Prescribed liquidity %	9.00%	9.00%
As at 30 June	15.11%	19.23%
Average for the year	15.27%	19.47%
Minimum during the year	13.23%	17.78%

c. Credit Risk

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

(i) Credit Risk – Loans

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

Loan type	2015 Carrying value	2015 Commitments	2015 Maximum exposure	2014 Carrying value	2014 Commitments	2014 Maximum exposure
	$	$	$	$	$	$
Mortgages	699,748	69,748	769,226	631,049	36,328	667,376
Personal	75,505	850	76,356	87,087	7,914	95,001
Credit cards and overdrafts	26,862	21,260	48,122	27,134	20,409	47,543
Total to natural persons	**801,845**	**91,858**	**893,703**	**745,270**	**64,650**	**809,920**
Corporate borrowers	**–**	**–**	**–**	**–**	**–**	**–**
Total	**801,845**	**91,858**	**893,703**	**745,270**	**64,650**	**809,920**

Carrying value is the value on the statement of financial position. Maximum exposure is the value on the statement of financial position plus the undrawn facilities (loans approved not advanced, redraw facilities; line of credit facilities; overdraft facilities; credit cards limits). The details are shown in Note 27 and a summary is in Note 7c.

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 7c.

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

ADCU has established policies over the:

- credit assessment and approval of loans and facilities covering acceptable risk assessment, responsible lending regulations and security requirements;
- limits of acceptable exposure 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.

Past due and impaired

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

Daily reports monitor the loan repayments to detect delays in repayments. 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 with personal loans and facilities not secured by registered mortgage over real estate.

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

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

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

A provision for incurred losses is established on all past due loans after a specified period of repayment default where it is probable that some of the capital will not be repaid or recovered. Specific loans and portfolios of assets are provided against, depending on a number of factors including deterioration in country risk, changes in a counterparty's industry, and technological developments, as well as identified structural weaknesses or deterioration in cash flows.

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 set out in Note 8.

Bad debts

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

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

A reconciliation in the movement of both past due and impaired exposure provisions is provided in Note 8.

Collateral securing loans

A sizeable portfolio of the loan book is secured on residential property in Australia. Therefore, ADCU is exposed should the property market be subject to a decline.

The risk of losses from the loans undertaken is primarily reduced by the nature and quality of the security taken. Note 7.b describes the nature and extent of the security held against the loans held as at the balance date.

Concentration risk – individuals

Concentration risk is a measurement of ADCU's exposure to an individual counterparty (or group of related parties). If prudential limits are exceeded as a proportion of ADCU's regulatory capital 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 aggregate value of large exposure loans are set out in Note 7.c. ADCU 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% of the capital base.

ADCU's policy on exposures of this size is to insist on an initial Loan to Valuation ratio (LVR) of no more than 80% and bi-annual reviews of compliance with this policy are conducted.

Concentration risk – industry

ADCU has a concentration in the retail lending for members who comprise employees and family in the Defence industry. This concentration is considered acceptable on the basis that ADCU 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 7.c.

(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 ADCU incurring a financial loss. This occurs when a debtor fails to settle their obligations owing to ADCU.

The credit policy is that investments are only made to institutions that are credit worthy based on the assessment of independent credit rating agencies. The risk of losses from liquid investments is reduced by the nature and quality of the financial institutions used and limits to the concentration and amount of individual investments with an institution.

External credit assessment for institution investments

ADCU uses the ratings of reputable ratings agencies to assess the credit quality of all investment exposure, 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:

	2015			2014		
Investments with:	**Carrying value $**	**Past due value $**	**Provision $**	**Carrying value $**	**Past due value $**	**Provision $**
Cuscal – rated A-1	10,675	–	–	46,168	–	–
Banks – rated AA and above	28,997	–	–	32,848	–	–
Banks – rated below AA	168,338	–	–	103,280	–	–
Credit Unions – rated below AA	41,905	–	–	17,935	–	–
Total	**249,916**	**–**	**–**	**200,231**	**–**	**–**

Fraud

Fraud can arise from member card PINS and internet passwords being compromised where not protected adequately by the member. It can also arise from other systems failures. ADCU has systems in place which are considered to be robust enough to prevent any material fraud. However, in common with all ADI's, fraud is potentially a real cost. Fraud losses have arisen from card skimming, internet password theft and false loan applications.

IT systems

The worst case scenario would be the failure of ADCU's core banking and IT network suppliers to meet customer obligations and service requirements. ADCU has outsourced the IT systems management to an Independent Data Processing Centre (IDPC) which is owned by a collection of Credit Unions. This organisation has the experience in-house to manage any short-term problems and has a contingency plan to manage any related power or systems failures. Other network suppliers are engaged on behalf of ADCU by the industry body CUSCAL to service the settlements with other financial institutions for direct entry, ATM cards, Visa cards, and BPAY etc.

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

d. Capital Management

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

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

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

Capital resources

Tier 1 Capital

The vast majority of Tier 1 capital comprises:

- Retained profits; and
- Realised reserves.

Tier 2 Capital

Tier 2 Capital consists of capital instruments that combine the features of debt and equity in that they are structured as debt instruments, but exhibit some of the loss absorption and funding flexibility features of equity. There are a number of criteria that capital instruments must meet for inclusion in Tier 2 capital resources as set down by APRA.

Tier 2 capital generally comprises:

- General reserve for credit losses.
- Tier 2 capital instruments – subordinated debt.

Capital in ADCU is made up of the following:

	2015 $'000	2014 $'000
Tier 1 Common Equity		
Capital reserve	124	118
Retained earnings	77,007	73,011
		73,129
Less prescribed deductions	(2,800)	(2,129)
Net Tier 1 Common Equity	**74,331**	**71,000**
Tier 1 Additional Equity		
Additional Tier 1 Capital Instruments	–	–
Net Tier 1 Capital	–	–

	2015 $'000	2014 $'000
Tier 2 Capital		
Tier 2 Instruments	3,500	4,000
Reserve for credit losses	1,506	1,506
	5,006	**5,506**
Less prescribed deductions/ adjustments	–	(453)
Net Tier 2 Capital	**5,006**	**5,053**
Total Capital	**79,337**	**76,054**

Under the APRA Prudential Standards, ADCU 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 APS 112. The general 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:

2015	2014	2013	2012	2011
Basel III	**Basel III**	**Basel II**	**Basel II**	**Basel II**
15.30%	17.53%	18.16%	17.18%	15.81%

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

To manage capital, ADCU reviews the capital 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 trigger levels. Further, a 3 year 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 effective 1 January 2012 and coincided with changes in the asset risk weightings for specified loans and liquid investments. Previously no operational charge was prescribed.

ADCU 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 ADCU's three year average net interest income and net non-interest income to ADCU's various business lines.

Based on this approach, ADCU's operational risk requirement is as follows:

- Operational risk capital $4,361 (2014: $3,957).

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

Internal capital adequacy management

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

In relation to the operational risks, the major measurements for additional capital in 2014/2015 were fraud and system security risks. The optional additional capital charge recognised by the Board equates to $nil (2014: $nil).

22 Categories of financial instruments

The following information classifies the financial instruments into measurement classes

	Note	2015 $'000	2014 $'000
Financial assets			
Cash	4	29,469	55,658
Receivables from financial institutions	5	222,357	145,526
Loans to members	7 & 8	800,853	744,093
Receivables	6	1,037	2,290
Total loans and receivables carried at amortised cost		1,053,715	947,567
Available for sale investments – carried at cost	9	907	907
Total available for sale investments		**907**	**907**
Total financial assets		**1,054,622**	**948,474**
Financial Liabilities			
Short term borrowings	13	57,660	72,722
Creditors		5,660	6,490
Deposits from other institutions	14	112,602	139,510
Deposits from members	14	799,314	647,062
Long term borrowings	18	5,000	5,000
Total carried at amortised cost		**980,235**	**870,784**
Total financial liabilities		**980,235**	**870,784**

23 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 statement of financial position.

2015	Book Value $'000	Up to 3 months $'000	3 – 12 months $'000	1 – 5 years $'000	After 5 years $'000	No Maturity $'000	Total $'000
ASSETS							
Cash	29,469	27,912	–	–	–	1,557	29,469
Liquid Investments	222,357	117,431	76,546	31,492	–	–	225,469
Loans & advances	801,845	27,090	84,667	341,606	1,280,406	–	1,733,769
Total Financial Assets	**1,053,671**	**172,433**	**161,213**	**373,098**	**1,280,406**	**1,557**	**1,988,707**
LIABILITIES							
Borrowings	57,660	12,006	5,012	5,035	35,607	–	57,660
Creditors	719	719	–	–	–	–	719
Deposits from other financial institutions	112,602	98,758	14,438	–	–	–	113,195
Deposits from members-at call	460,310	460,213	–	–	–	97	460,310
Deposits from members-term	339,004	244,260	178,420	32,603	–	–	455,282
Subordinated debt	5,000	–	–	5,988	–	–	5,988
On Balance Sheet	**975,295**	**816,445**	**197,870**	**43,625**	**35,107**	**97**	**1,092,654**
Undrawn commitments	91,858	91,858	–	–	–	–	91,858
Total Financial Liabilities	**1,067,153**	**908,313**	**197,870**	**43,625**	**35,107**	**97**	**1,184,512**

2014	Book Value $'000	Up to 3 months $'000	3 – 12 months $'000	1 – 5 years $'000	After 5 years $'000	No Maturity $'000	Total $'000
ASSETS							
Cash	55,658	54,704	–	–	–	953	55,657
Liquid Investments	145,526	93,554	11,170	44,369	–	–	149,093
Loans & advances	745,270	21,015	63,479	264,055	915,712	–	1,264,261
Total Financial Assets	**946,454**	**169,273**	**74,649**	**308,424**	**915,712**	**953**	**1,469,011**
LIABILITIES							
Borrowings	72,722	19,067	2,336	–	51,444	–	72,847
Creditors	718	718	–	–	–	–	718
Deposits from members-at call	344,528	344,528	–	–	–	95	344,623
Deposits from members-term	442,045	276,621	163,798	6,142	–	–	446,561
Subordinated debt	5,000	–	–	–	8,608	–	8,608
On Balance Sheet	**865,013**	**640,934**	**166,134**	**6,142**	**60,052**	**95**	**873,357**
Undrawn commitments	64,650	64,650	–	–	–	–	64,650
Total Financial Liabilities	**929,663**	**705,584**	**166,134**	**6,142**	**60,052**	**95**	**938,007**

24 Current and non-current profile of financial assets and liabilities

The table below represents the above maturity profile summarised at discounted values.

The contractual arrangements best represents the estimated minimum amount of repayment of 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 those balances to roll over. Loan repayments are at the discretion of the members and are not able to be reliably estimated.

	2015			2014		
	Within 12 months $'000	After 12 months $'000	Total $'000	Within 12 months $'000	After 12 months $'000	Total $'000
Financial Assets						
Cash	27,912	1,557	29,469	55,658	–	55,658
Liquid Investments	193,977	31,492	225,469	104,226	41,300	145,526
Loans & advances	111,757	1,622,012	1,733,769	34,872	710,398	745,270
Equity investments	1,873	907	2,780	–	907	907
Total Financial Assets	**335,520**	**1,655,967**	**1,991,487**	**194,756**	**752,605**	**947,361**
Financial Liabilities						
Borrowings	17,018	40,642	57,660	21,278	51,444	72,722
Creditors	719	–	719	718	–	718
Deposits from other financial institutions	113,195	–	113,195	139,510	–	139,510
Deposits from members-at call	460,213	–	460,213	344,528	–	344,528
Deposits from members-term	422,680	32,603	455,282	296,807	5,832	302,639
Subordinated debt	–	5,000	5,000	–	5,000	5,000
Total Financial Liabilities	**1,013,825**	**78,245**	**1,092,070**	**802,841**	**62,276**	**865,117**

25 Interest rate change of 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 contractual repricing date, or maturity date.

2015	**Within 1 month $'000**	**1 – 3 months $'000**	**3 – 12 months $'000**	**1 – 5 years $'000**	**After 5 years $'000**	**Non interest bearing $'000**	**Total $'000**
ASSETS							
Cash	27,912	–	–	–	–	1,557	29,469
Receivables	280	272	272	123	–	85	1,037
Liquid Investments	50,798	66,135	75,597	29,700	–	–	222,230
Loans & advances	716,910	9,590	28,055	45,055	362	–	799,972
Equity investments	1,873	–	–	–	–	907	2,780
Total Financial Assets	**797,774**	**76,000**	**103,724**	**74,878**	**362**	**2,549**	**1,055,488**
LIABILITIES							
Borrowings – other ADIs	47,607	5,000	–	–		–	52,607
Creditors	1,797	1,041	1,514	270	–	1,037	5,660
Deposits from other financial institutions	27,339	71,012	14,250	–	–	–	112,602
Deposits from members-at call	460,213	–	–	–	–	97	460,310
Deposits from members-term	61,628	83,345	161,211	31,225	–	–	337,409
Subordinated debt	–	5,000	–	–	–	–	5,000
On Balance Sheet	**598,585**	**165,398**	**176,976**	**31,495**	**–**	**1,134**	**973,588**
Undrawn commitments	91,858						91,858
Total Financial Liabilities	**690,443**	**165,398**	**176,976**	**31,495**	**–**	**1,134**	**1,065,446**

2014	**Within 1 month $'000**	**1 – 3 months $'000**	**3 – 12 months $'000**	**1 – 5 years $'000**	**After 5 years $'000**	**Non interest bearing $'000**	**Total $'000**
ASSETS							
Cash	54,704	–	–	–	–	954	55,658
Receivables	1,616	–	–	–	–	674	2,290
Liquid Investments	75,738	67,789	2,000		–	–	145,527
Loans & advances	672,275	1,715	7,045	64,235	–	–	745,270
Equity investments	–	–	–	–	–	907	907
Total Financial Assets	**804,333**	**69,504**	**9,045**	**64,235**	**–**	**2,535**	**949,652**
LIABILITIES							
Borrowings – other ADIs	18,073	52,371	2,278	–		–	72,722
Creditors	–	–	–	–	–	6,490	6,490
Deposits from other financial institutions	64,184	69,076	6,250	–	–	–	139,510
Deposits from members-at call	344,432	–	–	–	–	95	344,527
Deposits from members-term	63,635	78,663	154,509	5,833			302,640
Subordinated debt	–	5,000	–	–	–	–	5,000
On Balance Sheet	**490,324**	**205,110**	**163,037**	**5,833**	**–**	**6,585**	**870,889**
Undrawn commitments	64,650						64,650
Total Financial Liabilities	**554,974**	**205,110**	**163,037**	**5,833**	**–**	**6,585**	**935,539**

26 Fair value of financial assets and liabilities

The fair value is required to be disclosed where the financial instruments are not measured at fair value in the Statement of Financial Position. Disclosure of fair value is not required when the carrying amount is a reasonable approximation of fair value. For the financial and non financial assets where the fair values are reported below, all are measured using Level 3 unobservable inputs. The description of the valuation technique(s) and the inputs used in the fair value measurement are in the notes that follow.

Fair value has been determined on the basis of the present value of expected future cash flows under the terms and conditions of each financial asset and financial liability.

Significant assumptions used in determining the cash flows are that the cash flows 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 ADCU, and there is no active market to assess the value of the financial assets and liabilities.

The values reported have not been adjusted for the changes in credit ratings of the assets.

	2015			2014		
	Fair value $'000	Carrying value $'000	Variance $'000	Fair value $'000	Carrying value $'000	Variance $'000
FINANCIAL ASSETS						
Cash	29,469	29,469	–	55,658	55,658	–
Liquid Investments	223,151	222,357	794	146,470	145,526	944
Receivables (1)	1,037	1,037	–	2,290	2,290	–
Loans & advances	795,850	800,853	(5,003)	743,875	744,093	(218)
Investments	2,780	2,780	–	907	907	–
Total financial assets	**1,052,287**	**1,056,495**	**(4,209)**	**949,200**	**948,474**	**726**
FINANCIAL LIABILITIES						
Borrowings	57,670	57,660	10	78,738	72,722	6,016
Deposits from other financial institutions	112,733	112,602	131	139,635	139,510	125
Deposits from members						
– Call	460,213	460,213	–	344,433	344,433	–
– Term	338,945	339,004	(59)	303,718	302,535	1,183
Creditors (1)	5,839	5,839	–	6,490	6,490	–
Total financial liabilities	**975,400**	**975,318**	**81**	**873,014**	**865,690**	**7,324**

(1) For these assets and liabilities the carrying value approximates fair value.

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

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

Liquid assets and receivables from other financial institutions

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

Loans and advances

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

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

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

Deposits from members

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

Short term borrowings

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

27 Financial commitments

	2015 $'000	2014 $'000
a. Outstanding loan commitments		
Loans approved but not funded	**23,521**	**8,866**
b. Loan redraw facilities		
Loan redraw facilities available	**47,809**	**35,376**
c. Undrawn loan facilities		
Loan facilities available to members for overdrafts and line of credit loans are as follows:		
Total value of facilities approved	47,390	47,567
Less: Amount advanced	(26,862)	(27,158)
Net undrawn value	**20,528**	**20,409**
These commitments are contingent on members maintaining credit standards and ongoing repayment terms on amounts drawn.		
Total financial commitments	**91,858**	**64,651**
d. Computer expenditure commitments		
ADCU has entered into a contract to purchase computer equipment and software for which the amount is to be paid over the following periods:		
Within 1 year	537	1,623
Later than one year but not later than five years	553	614
Over five years	380	1,681
	1,471	**3,918**
e. Lease expense commitments for operating leases on property occupied by ADCU		
Not later than 1 year	936	879
Later than one year but not later than five years	4,284	4,047
Over five years	3,765	4,939
	8,985	**9,865**

Future minimum sublease payments expected to be received under non-cancellable subleases at the reporting date are $83,148 (2014: $190,814). 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 head office administration and 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 ADCU so as to limit the ability to undertake further leases, borrow funds or issue dividends.

28 Standby borrowing facilities

ADCU has a number of borrowing facilities.

	Gross	Current borrowing	Net available
	$'000	$'000	$'000
2015			
Overdraft facility – Cuscal	5,000	–	5,000
Loan facility – Other	50,000	–	50,000
Athena – Westpac committed facility	125,000	35,550	89,450
Total standby borrowing facilities	**175,000**	**35,550**	**139,450**
2014			
Overdraft facility – Cuscal	5,000	–	5,000
Athena – Westpac committed facility	125,000	51,444	73,556
Total standby borrowing facilities	**130,000**	**51,444**	**78,556**

Withdrawal of the loan facility is subject to the availability of funds at Cuscal. Cuscal holds an equitable mortgage charge over all of the assets of ADCU as security against loan and overdraft amounts drawn under the facility arrangements.

29 Contingent liabilities

Liquidity Support Scheme

ADCU is a member of the Credit Union Financial Support Scheme Limited (CUFSS) a company limited by guarantee, established to provide financial support to member Credit Unions in the event of a liquidity or capital problem. As a member, ADCU is committed to maintaining 3.2% of the total assets as deposits with Cuscal Limited.

Under the terms of the Industry Support Contract (ISC), the maximum call for each participating Credit Union would be 3.2% of the Credit Union's total assets (3% under loans and facilities and 0.2% under the cap on contributions to permanent loans). This amount represents the participating Credit Union's irrevocable commitment under the ISC. At balance date there were no loans issued under this arrangement.

Reserve Bank Repurchase Obligations (REPO) Trust

To support the liquidity management the ADI has entered into an agreement to maintain a portion of the mortgage backed loans as security against any future borrowings from the Reserve Bank as a part of the ADI's liquidity support arrangements.

30 Disclosures on Key Management Persons

a. Remuneration of Key Management Persons (KMP)

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

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

	2015	2014
	$'000	$'000
(a) short-term employee benefits	970	880
(b) post-employment benefits – superannuation contributions	71	151
(c) other long-term benefits – net increases in long service leave provision	–	–
(d) termination benefits	–	–
(e) share-based payment	–	–
Total	**1,041**	**1,031**

In the previous table, remuneration shown as short term benefits means (where applicable) wages, salaries and social security contributions, paid annual leave and paid sick leave, profit-sharing and bonuses, 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 ADCU. The amount approved for 2015 was $420,070 [2014 $353,000].

b. Loans to KMP

ADCU's policy for lending to Directors and management is that all loans are approved, and deposits accepted, on the same terms and conditions which applied to members for each class of loan or deposit with the exception of loans to Key Management Persons who are not Directors.

There are no loans which are impaired in relation to the loan balances with Director's or other KMPs. Key Management Persons who are not Directors receive a concessional rate of interest on their loans and facilities. These benefits where subject to fringe benefits tax are included in the remuneration in 29.b above. Other benefits are as follows:

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

The details of transactions during the year are as follows:

	2015			2014		
	Mortgage secured	**Other term loans**	**Credit cards**	**Mortgage secured**	**Other term loans**	**Credit cards**
Funds available to be drawn	–	–	20	–	–	–
Balance	–	–	1	–	–	–
Amounts disbursed or facilities increased in the year	–	–	–	–	–	–
Interest and other revenue earned	–	–	–	–	–	–

	2015 $'000	**2014 $'000**
Other transactions between related parties include deposits from Directors, and other Key Management Persons are:		
Total value term and savings deposits from KMP	315	406
Total interest paid on deposits to KMP	**12**	**10**

ADCU's policy for receiving deposits from 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 other related parties

Other transactions between related parties include deposits from Director related entities or close family members of Directors, and other Key Management Persons.

ADCU'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 Key Management Persons.

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

31 Outsourcing Arrangements

ADCU 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*. ADCU has equity in the company. This organisation:

(i) provides the license rights to Visa Card in Australia and settlement with Bankers for ATM, Visa Card and cheque transactions, direct entry transactions, as well as the production of Visa and Redicards for use by members;

(ii) operates the computer network used to link Redicards and Visa cards operated through Reditellers and other approved ATM providers to ADCU's IT systems.

(iii) provides treasury and money market facilities to ADCU. ADCU invests a significant part of its liquid assets with Cuscal to maximise return on funds, and to comply with the Liquidity Support Scheme requirements.

The valuation of the Cuscal shares is based on the net assets backing as at the most recent financial report to recognise the company is not readily marketable, except within the current ADI membership of Cuscal. Refer Note 9 for details on the fair value assessment.

b. Ultradata Australia Pty Limited

Provides and maintains the application software utilised by ADCU.

c. Transaction Solutions Pty Limited

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

32 Superannuation Liabilities

ADCU contributes to the NGS Super Plan for the purpose of superannuation guarantee payments and payment of other superannuation benefits on behalf of employees. The plan is administered by an independent corporate trustee.

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

33 Transfer of financial assets

ADCU has established arrangements for the transfer of loan contractual benefits of interest and repayments to support ongoing liquidity facilities. These arrangements are with:

(i) Athena Trust which supports the independent financing of the loans. These loans are not derecognised as ADCU retains the benefits of the trust net income.

(ii) The Integris securitisation vehicle where ADCU acts as agent for the trust in arranging loans on behalf of Integris, and/or can transfer the contractual rights to the trust of pre-existing loans at market value.

(iii) The Repurchase Obligation Trust (REPO) trust for securing the ability to obtain liquid funds from the Reserve Bank – these loans are not derecognised as ADCU retains the benefits of the trust until such time as a drawing is required.

(iv) Bendigo Adelaide Bank (BEN) where ADCU has arrangements where it can transfer the contractual rights to the BEN of pre-existing loans at market value.

Only residential mortgage-backed securities (RMBS) that meet specified criteria are eligible to be transferred in each of the above situations.

a. Securitised loans retained on the balance sheet

The values of securitised loans which are not qualifying for derecognition as the conditions do not meet the criteria in the accounting standards are set out below. In each case the loans are variable interest rate loans, hence the book value of the loans transferred equates to the fair value of those loans.

The associated liabilities are equivalent to the book value of the loans reported.

	2015 $'000	2014 $'000
Statement of financial position values [s42E(a)]		
Loans and receivables		
Repurchase Obligation Trust (REPO)	80,593	66,376
Athena Securitisation Trust	35,550	50,265
	116,143	116,641
Fair value of associated liabilities		
Borrowings from other financial institutions	35,660	51,444
Net	(110)	(1,179)
Off statement of financial position commitments (redraws) [s42E(a)]		
Financial Commitments (Net)		
Repurchase Obligation Trust (REPO)	11,477	10,636
Athena Securitisation Trust	3,847	4,328
	15,324	14,964
Carrying amount of the loans as at the time of transfer		
Repurchase Obligation Trust (REPO)	38,044	
Athena Trust	38,044	–

b. Securitised loans not on the balance sheet – Derecognised in their entirety

The values of securitised loans which are qualifying for derecognition arising from transfer of interest in the loans, as the conditions do not meet the criteria in the accounting standards. In each case the loans are variable interest rate loans, hence the book value of the loans transferred equates to the fair value of those loans.

The associated liabilities are equivalent to the book value of the loans reported.

Carrying Amount		
Bendigo Adelaide Bank securitisation facility	–	–
Integris securitisation vehicle (bulk sale items only)	44,982	77,509
	44,982	77,509

Prescribed disclosures for transferred loans		
Fair value of continuing involvement in assets	–	–
Fair value of liabilities that represent continuing involvement in loans	–	–
Undiscounted cash outflows required to repurchase loans under an option agreement	–	–
The maximum exposure to loss from continuing involvement is	–	–
The gain or loss on the transfer of assets in the current years is	–	–
The net income received from the continuing involvement current year [this excludes income from receiving and remitting repayments]	372	515
The net income received from the continuing involvement – cumulatively [this excludes income from receiving and remitting repayments]	372	515
The total proceeds received in the year from transfer of bulk sale loans to BEN / Integris	–	–

The values of above securitised loans are qualifying for derecognition as they do not meet the criteria in the accounting standard AASB 139, where ADCU assumes the contractual obligation to pay all cash flows it received on the loans to the trust, but receives no benefit from the net gains or losses in the trust.

Nature of relationship and any continuing involvement

Integris Securitisation Services Pty Limited

The Trust is an independent securitisation vehicle established by the peak Credit Union body Cuscal.

ADCU has an arrangement with Integris Securitisation Services Pty Limited whereby it acts as an agent to promote and complete loans on their behalf, for on sale to an investment trust. ADCU also manages the loans portfolio on behalf of the trust. ADCU bears no risk exposure in respect of these loans. ADCU receives a management fee to recover the costs of administration of the processing of the loan repayments and the issue of statements to the members.

In addition ADCU is able to assign mortgage secured loans to Integris at the book value of the loans, subject to acceptable documentation criteria. During the year ADCU did not assign any loans to Integris. These loans qualify for derecognition on the basis that the assignment transfers all the risks and rewards to Integris and there is no residual benefits to ADCU. ADCU receives a management fee to recover the costs of on-going administration of the processing of the loan repayments and the issue of statements to the members.

ADCU does not have any obligations in connection with performance or impairment guarantees, or call options to repurchase the loans.

Bendigo Adelaide Bank (BEN) securitisation facility

Bendigo Adelaide Bank is an independent bank that has provided a securitisation facility to a number of Credit Unions in Australia.

ADCU is able to assign mortgage secured loans to BEN at the book value of the loans, subject to acceptable documentation criteria. During the year ADCU did not assign any loans to BEN.

The loans transferred qualify for derecognition on the basis that the assignment transfers all the risks and rewards to BEN and there are no residual benefits to ADCU. ADCU receives a management fee to recover the costs of ongoing administration for processing of the loan repayments and the issue of statements to the members.

Repurchase Obligations REPO Trust

The Reserve Bank REPO Trust is a trust established by ADCU to facilitate the liquidity requirements under the prudential standards. The trust has an independent trustee. In the case of the REPO Trust ADCU receives a Note certificate to sell to the Reserve Bank should the liquidity needs not be satisfied by normal operational liquidity. The Note is secured over residential mortgage-backed securities (RMBS).

ADCU has financed the loans and received the net gains or losses from the trust after trustee expenses. ADCU has an obligation to manage the portfolio of the loans in the trust and to maintain the pool of eligible secured loans at the value equivalent to the value of the Notes received. ADCU retains the credit risk of losses arising from loan default or security decline, and the interest rate risk from movements in market interest rates.

If a portion of the value of the portfolio in the REPO trust fails to meet the trust's criteria, ADCU is obliged to repurchase those loans and substitute equivalent qualifying loans into the trust.

Athena Securitisation Trust

The trust is a established by ADCU to facilitate the liquidity requirements. The trust has an independent trustee. In the case of the Athena securitisation trust ADCU transfers the rights and obligations to the trust in exchange for cash. The finance for the trust is arranged through the other financiers. ADCU receives an amount to recompense for the administration and collection of the funds on behalf of the trust.

This commission is based on the value of the loans managed. The commission received can be varied to a lower rate at the discretion of ADCU.

ADCU does not have any obligations in connection with performance or impairment guarantees, or call options to repurchase the loans.

Maturity analysis for undiscounted cash outflows to repurchase transferred assets derecognised in their entirety

ADCU has no obligation for cash flows that are required to be paid (e.g. forward contracts), or cash flows that may be required to pay (e.g. written put options).

ADCU may choose to pay to purchase the loans in a call option, but only with the consent of the trustees, and ADCU has no intention to make such payments at this time.

	2015 $'000	2014 $'000

34 Notes to cash flow statement

a. Reconciliation of cash

	2015 $'000	2014 $'000
Cash includes cash on hand, and deposits at call with other financial institutions and comprises:		
Cash on hand	1,557	954
Deposits at call	27,912	54,704
Total cash	**29,469**	**55,658**

b. Cash unavailable for use

	2015 $'000	2014 $'000
Cash which is excluded from the above amount of cash since it is not readily available for use by reason of it securing overnight settlement obligations.	–	–

c. Reconciliation of cash from operations to accounting profit

The net cash increase/(decrease) from operating activities is reconciled to the profit after tax.

	2015 $'000	2014 $'000
Profit after income tax	4,001	4,013
Add (Deduct):		
Bad debts written off	1,161	1,572
Depreciation expense	477	434
Decrease in provision for staff leave	(31)	(64)
Increase in provision for income tax	1,792	326
Increase in other provisions	299	398
Decrease in provision for loans	(180)	(71)
Increase in accrued expenses	2,875	(749)
Increase in interest payable	(830)	793
Loss (Gain) on sale of assets	–	(24)
Decrease in prepayments	215	170
Decreases in sundry receivables	(8,218)	(115)
Increase in deferred tax assets	(4)	–
Decrease in other assets	–	(27)
Decrease in interest receivable	(363)	–
	1,193	6,656
Net cash from revenue activities		
Add (Deduct) non revenue operations		
Reduction in loans balances	(56,579)	(63,960)
Reduction in liquid investment balances	(77,991)	(21,788)
Increase in deposit balances	125,343	166,519
Net cash from operating activities	**(8,034)**	**87,427**

35 Corporate Information

ADCU is a company limited by shares, and is registered under the *Corporations Act 2001*.

The address of the registered office is:

Level 18, 45 Clarence Street, Sydney NSW 2000.

The address of the principal place of business is:

Level 18, 45 Clarence Street, Sydney NSW 2000.

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

Australian Defence Credit Union

ABN 48 087 649 741 AFSL No. 237 988

Australian credit licence number 237 988

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Directors

RADM Clinton William Thomas, AM, CSC, RAN

John Robert Brooks

Michael Morrison Pike

BRIG Jane Maree Spalding, AM, CSC

Bruce Andrew Robert Scott, CSC

Warren Raymond Thomas

Graham Anthony Weber

Chief Executive Officer

John Ronald Ford

Auditors

Grant Thornton Audit Pty Ltd.

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Images Index

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Inside Front Cover

Australian Army soldier from 3rd Battalion, Royal Australian Regiment, prepares for a live-fire assault during the combined arms training activity at Townsville field training area between 1 and 18 June 2015.

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Aircraft maintenance personnel assist the pilot of an F/A-18A before participating in a mission over the Northern Territory as part of Exercise Arnhem Thunder.

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Junior Officer Under Training Sub Lieutenant Eleanor Snelling and Sub Lieutenant Sophie Gollan embarked on HMAS Bathurst with Attack Six crew during their transit to Singapore.

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