FIRST CHOICE CREDIT UNION LTD
ABN 63 087 649 867

FINANCIAL STATEMENTS
FOR THE YEAR ENDED
30 JUNE 2019

FIRST CHOICE CREDIT UNION LTD
ABN 63 087 649 867

Registered Office:
2/18 Sale Street
Orange NSW 2800
Phone: 02 6362 2944
Facsimile: 02 6362 6061

Postal Address:
PO Box 717
Orange NSW 2800

Email: enq@firstchoicecu.com.au
Website: www.firstchoicecu.com.au

Company Secretary:
Mr PR Dawson

Management:

Mr PR Dawson	General Manager
Mr AJ Bartimote	Assistant General Manager

Auditor:
Intentus Chartered Accountants

Internal Auditor:
DBP Consulting Pty Ltd

Solicitors:
Blackwell Short Lawyers, Orange
Daniels Bengtsson, Sydney

Bankers:
CUSCAL Limited
National Australia Bank

Australian Financial Services License Number: 240722
Australian Credit License Number: 240722

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ABN 63 087 649 867

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FIRST CHOICE CREDIT UNION LTD
ABN 63 087 649 867

DIRECTORS' REPORT

Your directors present their report on First Choice Credit Union Ltd (First Choice) for the financial year ended 30 June 2019.

DIRECTORS

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

Mr T Robinson	
Mrs P Taberner	
Mr R Dunkley	Retired 25/10/2018
Mrs K Boyde	
Mr D Butler	
Mrs B Solling	
Mrs F Smith	
Mr P Thornberry	

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

COMPANY SECRETARY

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

Mr Paul Dawson – Diploma in Financial Services and Graduate of the Institute of Company Directors. Mr Dawson has worked for First Choice Credit Union Ltd for the past seventeen years in the position of General Manager. Mr Dawson was appointed company secretary on 8 October 2001.

PRINCIPAL BUSINESS ACTIVITIES

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

OPERATING RESULTS

The profit earned by of First Choice for the financial year after providing for income tax was $192,929 (2018: $211,876).

REVIEW OF OPERATIONS

First Choice's Constitution prevents the payment of a dividend and accordingly the directors do not recommend payments of a dividend.

The accompanying balance sheet shows that First Choice's total assets grew by $4,400,000 (6.7%) during the year ended 30 June 2019 (2018 - $2,600,000). The increase in assets was most apparent in loans and advances to members, which increased $5,800,000.

The accompanying statement of comprehensive income for the year ended 30 June 2019 reveals a profit from ordinary activities after income tax of $192,929. This represents a decrease of $18,947 (2018 – increase of $20,209). Net interest margin in 2019 increased $65,000 compared with 2018 but this was offset by a significant increase in impairment losses of $49,000 and an increase in employee compensation of $32,000. The net profit for the year ended 30 June 2019 and asset quality as at 30 June 2019 provides First Choice with a level and quality of capital commensurate with the risks First Choice is exposed.

ENVIRONMENTAL REGULATION

First Choice's operations are not regulated by any significant environmental regulation under a law of the Commonwealth or of a state or territory.

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 of First Choice, the results of those operations, or the state of affairs of First Choice in future financial years.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS OF OPERATIONS

The key strategy of First Choice will continue to be to improve saving and loan services to members. The Directors are not aware of any likely developments that will materially affect the results of First Choice's operations in future years.

DIRECTORS' BENEFITS

Since the end of the previous financial year, no Director has received or become entitled to receive a benefit (other than a benefit included in the aggregate amount of emoluments as decided at the Annual General Meeting) by reason of a contract made by First Choice or a related corporation with a Director or with a firm of which he or she is a member, or with an entity in which he or she has a substantial financial interest.

INDEMNIFICATION OF OFFICERS

During the year, a premium was paid in respect of a contract insuring directors and officers of First Choice against liability. The officers of First Choice covered by the insurance contract include the directors, executive officers, secretary and employees. In accordance with normal commercial practice, disclosure of the total amount of premium payable under the insurance contract and the nature of liabilities covered is prohibited by a confidentiality clause in the contract. No insurance cover has been provided for the benefit of the auditors of First Choice.

PROCEEDINGS ON BEHALF OF CREDIT UNION

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

First Choice was not a party to any such proceedings during the year.

AUDITOR'S INDEPENDENCE

A copy of the auditor's independence declaration as required under s 307C of the Corporations Act 2001 is set out on page 6.

INFORMATION ON DIRECTORS

The Directors in office at the date of this report are:

Timothy Robinson

Position	-	Chair
		Audit Committee Member
		Risk Committee Member
		Remuneration Committee Member
Qualifications	-	Member of the Australasian Mutuals Institute
		Bachelor of Industrial Design
Employment	-	Contract Manager, Spotless
Experience	-	Board member since September 2015
Interest in shares	-	1 Ordinary share in First Choice

Fiona Smith

Position	-	Deputy Chair
		Corporate Governance Committee Member
Qualifications	-	Member of the Australasian Mutuals Institute
		Masters in Accounting
		CPA
Employment	-	Retired
Experience	-	Board member since May 2016
Interest in shares	-	1 Ordinary share in First Choice

Priscilla Taberner

Position	-	Director
		Corporate Governance Committee Chair
		Remuneration Committee Chair
Qualifications	-	Member of the Australasian Mutuals Institute
		Chartered Accountant
Employment	-	Registered Company Auditor, Orange Audit Pty Ltd
Experience	-	Board member since 01/04/14
Interest in shares	-	1 Ordinary share in First Choice

Karen Boyde

Position	-	Director
		Corporate Governance Committee Member
Qualifications	-	Member of the Australasian Mutuals Institute
		Graduate Diploma in Local Government Management
		Bachelor Social Science (Community Development)
Employment	-	Manager, First Choice Women’s Health Centre
Experience	-	Board member since October 2017
Interest in shares	-	1 Ordinary share in First Choice

DIRECTORS' REPORT
(Continued)

INFORMATION ON DIRECTORS (Continued)

Donald Butler

Position	-	Director
		Audit Committee Member
		Risk Committee Member
		Remuneration Committee Member
Qualifications	-	Member of the Australasian Mutuals Institute
		Bachelor of Business (Accounting)
Employment	-	Retired
Experience	-	Board member since 25/10/2017
Interest in shares	-	1 Ordinary share in First Choice

Beverly Solling

Position	-	Director
		Audit Committee Member
		Risk Committee Member
Qualifications	-	Member of the Australasian Mutuals Institute
Employment	-	Retired
Experience	-	Board member since 30/10/09
Interest in shares	-	1 Ordinary share in First Choice

Paul Thornberry

Position	-	Director
		Audit Committee Member
		Risk Committee Chair
		Remuneration Committee Member
Qualifications	-	Member of the Australasian Mutuals Institute
Employment	-	Maintenance Officer, Cabonne Council
Experience	-	Board member since 30/10/09
Interest in shares	-	1 Ordinary share in First Choice

FIRST CHOICE CREDIT UNION LTD

ABN 63 087 649 867

DIRECTORS' REPORT
(Continued)

GENERAL BOARD AND COMMITTEE ATTENDANCE

Details of Directors' meetings held and attended since the date of appointment to the Board and Committee in the current year.

	Board		Corporate Governance		Remuneration Committee	
	Meetings Held	**Meetings Attended**	**Meetings Held**	**Meetings Attended**	**Meetings Held**	**Meetings Attended**
Mrs K Boyde	11	11	4	3	n/a	n/a
Mr D Butler	11	10	n/a	n/a	1	1
Mr R Dunkley	4	3	n/a	n/a	n/a	n/a
Mr T. Robinson	11	10	2	2	1	1
Mrs F. Smith	11	11	4	4	n/a	n/a
Mrs. B. Solling	11	8	n/a	n/a	n/a	n/a
Mrs. P Taberner	11	10	4	4	1	1
Mr. P. Thornberry	11	10	n/a	n/a	1	1

	Audit Committee		Risk Committee	
	Meetings Held	**Meetings Attended**	**Meetings Held**	**Meetings Attended**
Mr D Butler	4	4	4	4
Mr. R. Dunkley	1	1	1	1
Mr T. Robinson	1	1	1	1
Mrs B Solling	4	4	4	4
Mr. P. Thornberry	4	4	4	4

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

Timothy Robinson
Director
Chair of Board

Donald Butler
Director
Chair of Audit Committee

Dated at Orange this 16 September 2019

AUDITOR'S INDEPENDENCE DECLARATION
UNDER SECTION 307C OF THE CORPORATIONS ACT 2001
TO THE DIRECTORS OF FIRST CHOICE CREDIT UNION LTD

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

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

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

intentus

intentus

14 Sale Street
Orange
Dated: 16 September 2019

Leanne Smith

Leanne Smith
Partner

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2019

	Notes	2019 $	2018 $
Interest revenue	4.1	2,642,635	2,521,378
Interest expense	4.2	(838,431)	(782,277)
Net interest income		1,804,204	1,739,101
Fees, commission and other income	5	249,236	268,033
Less **Non-interest expenses**			
Impairment losses on loans receivable from members	6.1	(91,978)	(42,523)
General Administration			
- Employees compensation and benefit	6.2	(712,943)	(680,819)
- Depreciation and amortisation	6.2	(41,922)	(35,574)
- Information technology		(237,644)	(234,395)
- Property expenses	6.2	(74,293)	(78,276)
- Loss on disposal of assets	6.2	-	-
- Other administration	6.2	(630,289)	(646,603)
Total non-interest expenses		(1,789,069)	(1,718,190)
Profit before income tax		264,371	288,944
Income tax expense	8	(71,442)	(77,068)
Profit after income tax		192,929	211,876
Other comprehensive income			
Total comprehensive income for the year		192,929	211,876

The accompanying notes form part of these financial statements

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2019

	Asset Revaluation Reserve	Reserve for Credit Losses	Retained Earnings	Total
	$	$	$	$
Balance at 30 June 2017	267,139	447,443	6,789,282	7,503,864
Profit for the year	-	-	211,876	211,876
At 30 June 2018	267,139	447,443	7,001,158	7,715,740
Profit for the year	-	-	192,929	192,929
At 30 June 2019	267,139	447,443	7,194,087	7,908,669

The accompanying notes form part of these financial statements.

STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2019

	Notes	2019 $	2018 $
ASSETS			
Cash and liquid assets	9	3,564,493	1,891,628
Receivables	10	159,806	193,968
Prepayments		30,716	28,941
Loans and advances to members	11	41,633,927	35,838,197
Investment securities	12	25,109,131	28,058,814
Property, plant and equipment	13	966,470	971,293
Intangibles	14	100,159	98,522
Deferred tax assets	17.2	54,497	64,418
TOTAL ASSETS		71,619,199	67,145,781
LIABILITIES			
Deposits from members	15	63,153,043	58,812,868
Payables and other liabilities	16	467,317	511,781
Current tax liabilities	17.1	5,177	20,368
Provisions	18	67,744	64,954
Deferred tax liabilities	17.1	17,249	20,070
TOTAL LIABILITIES		63,710,530	59,430,041
NET ASSETS		7,908,669	7,715,740
MEMBERS' EQUITY			
Asset revaluation reserve		267,139	267,139
Reserve for credit losses		447,443	447,443
Retained profits		7,194,087	7,001,158
TOTAL MEMBERS' EQUITY		7,908,669	7,715,740

The accompanying notes form part of these financial statements.

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2019

	Notes	2019 $	2018 $
CASH FLOWS FROM OPERATING ACTIVITIES			
Revenue Inflows			
Interest received on loans		1,936,129	1,797,134
Interest received on investments		752,074	743,321
Dividends received		3,289	6,578
Fees and commissions received		228,399	240,087
Other income		17,548	21,368
Revenue Outflows			
Interest paid on members' savings		(814,908)	(814,459)
Interest paid on borrowings		(383)	(294)
Payments to suppliers and employees		(1,684,162)	(1,750,925)
Income taxes paid		(79,537)	(69,640)
Net cash provided by revenue activities	31.3	358,449	173,170
Members’ loan repayments		13,457,739	11,926,476
Members’ loan funding		(19,345,447)	(13,817,505)
Net increase/(decrease) in member shares		10	920
Net increase/(decrease) in member savings		4,340,165	2,445,197
Net (increase)/decrease in deposits to other financial institutions		2,949,683	(136,328)
Net increase/(decrease) in members’ clearing		(48,998)	54,084
Net cash provided by (used in) operating activities		1,353,152	472,844
CASH FLOWS FROM INVESTING ACTIVITIES			
Payment for property, plant and equipment		(32,406)	(43,034)
Payment for intangible assets		(6,330)	-
Net cash provided by (used in) investing activities		(38,736)	(43,034)
NET INCREASE/(DECREASE) IN CASH HELD		1,672,865	602,980
Cash at beginning of year		1,891,628	1,288,648
CASH AT END OF YEAR	31.2	3,564,493	1,891,628

The accompanying notes form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

CONTENTS OF THE NOTES TO THE FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2019

1. BASIS OF PREPARATION

Reporting Entity

The financial statements are prepared for First Choice Credit Union Ltd as a single credit union, for the year ended 30 June 2019. The report was authorised for issue on 16 September 2019 in accordance with a resolution of the Board of Directors. First Choice Credit Union Ltd is a company limited by shares, incorporated and domiciled in Australia.

Statement of Compliance

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

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

Basis of Preparation

The financial statements have been prepared on an accruals basis and are based on historical costs, modified, where applicable, by the measurement at fair value of selected non-current assets and financial assets. The financial statements are presented in Australian dollars. The accounting policies are consistent with the prior year unless otherwise stated.

2 CHANGES IN ACCOUNTING POLICIES

Financial Instruments - Adoption of AASB 9

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

The Credit Union has adopted AASB 9 Financial Instruments for the first time in the current year with a date of initial adoption of 1 July 2018. When adopting AASB 9, the Credit Union has applied transitional relief and opted not to restate prior periods.

As part of the adoption of AASB 9, the Company adopted consequential amendments to other accounting standards arising from the issue of AASB 9 as follows:

- AASB 101 Presentation of Financial Statements requires the impairment of financial assets to be presented in a separate line item in the statement of profit or loss and other comprehensive income. This is consistent with the way in which the Credit Union had previously disclosed this line item.

2. CHANGES IN ACCOUNTING POLICIES (CONTINUED)

Financial Instruments - Adoption of AASB 9 (Continued)

The key changes to the Credit Union's accounting policy and the impact on these financial statements from applying AASB 9 are described below.

Classification of financial assets

The financial assets of the Company have been reclassified into one of the following categories on adoption of AASB 9 based on primarily the business model in which a financial asset is managed and its contractual cash flow characteristics:

- Measured at amortised cost;
- Fair value through other comprehensive income - equity instruments (FVOCI - equity); and
- Fair value through Profit and Loss (FVPL).

AASB 9 eliminates the previous categories of held to maturity, loans and receivables and available for sale. Classification of financial liabilities is largely unchanged. Refer table on next page for a reconciliation of changes in classification and measurement of financial instruments on adoption of AASB 9.

Measurement of equity instruments

Equity instruments are no longer subject to impairment testing and therefore all movements on equity instruments classified as fair value through other comprehensive income are taken to the relevant reserve.

Impairment of financial assets

The incurred loss model from AASB 139 has been replaced with an expected credit loss model in AASB 9 for assets measured at amortised cost, contract assets and fair value through other comprehensive income. This has resulted in the earlier recognition of credit loss (bad debt provisions).

2. CHANGES IN ACCOUNTING POLICIES (CONTINUED)

Classification of financial assets and financial liabilities

Transition adjustments

The impacts to reserves and retained earnings on adoption of AASB 9 at 1 July 2018 are shown below:

	Note	Original AASB 139 Category	New AASB 9 Category	Closing Balance 30 June 2018 (AASB 139) $	Reclassification (AASB 9) $	Remeasurements $	Opening Balance 1 July 2018 (AASB 9) $
Financial assets							
Equity securities	(i)	Available sale	FVOCI - equity	78,938	78,938	-	78,938
Trade and other receivables		Loans and receivables	Amortised cost	64,012,041	-	-	64,012,041
Loans to related parties		Loans and receivables	Amortised cost	-	-	-	-
Cash and cash equivalents		Loans and receivables	Amortised cost	1,891,628	-	-	1,891,628
Total financial assets				65,982,607	78,938	-	65,982,607
Financial liabilities							
Deposits from members		Other financial liabilities		58,821,868	-	-	58,812,868
Trade payables		Other financial liabilities		473,133	-	-	473,133
Total financial liabilities				59,286,001	-	-	59,286,001

Notes to the table:

(i) Reclassify investments from Available for Sale to FVOCI - equity

The Credit Union previously classified equity securities as available for sale with changes in value being taken through a financial asset reserve. On adoption of AASB 9, investments with a fair value of $78,938 were reclassified from the financial asset reserve to the financial asset at fair value through OCI reserve since they are not held for trading. There were no valuation adjustments in relation to these assets on transition to AASB 9 as, in the Credit Union's opinion, the carrying value at 30 June 2018 approximated fair value under AASB 9.

2. CHANGES IN ACCOUNTING POLICIES (CONTINUED)

Classification of financial assets and financial liabilities

Transition Adjustments (Continued)

There was no other impact on the Financial Statements for the current year.

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

Revenue from Contracts with Customers - Adoption of AASB 15

The Credit Union has adopted AASB 15 Revenue from Contracts with Customers for the first time in the current year with a date of initial application of 1 July, 2018.

Under AASB 15, the Credit Union must evaluate the separability of promised goods or services based on whether they are ‘distinct’. A promised good or service is ‘distinct’ if both of the following criteria are met:

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 Loans to members

(i) Basis of recognition

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

Loans to members are reported at their recoverable amount representing the aggregate amount of principal and unpaid interest owing to First Choice 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 senior management endorsed by the Board of Directors. The Australian Prudential Regulation Authority (APRA) has mandated that interest is not recognised as revenue after the irregularity exceeds 90 days for a loan facility.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1 Loans to members (Continued)

(ii) Interest earned

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

Overdraft – The 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 of each month.

Non-Accrual Loan Interest – while still legally recoverable, interest is not brought where a loan is impaired consistent with the requirements of AASB 9 and the assessment of loans in Stage 3 of impairment – refer 3.2 (i). Loan Impairment.

(iii) Loan origination fees and discounts

Material 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. The amounts brought to account are included as part of interest revenue.

(iv) Transaction costs

Transaction costs are expenses that are direct and incidental to the establishment of the loan. Material costs are initially deferred as part of the loan balance, and are brought to account as a reduction to the income over the expected life of the loan. The amounts brought to account are 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.

3.2 Loan impairment

(i) Provision for impairment

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

First Choice Credit Union considers a broad range of information when assessing credit risk and measuring expected credit losses, including past events, current conditions, reasonable and supportable forecasts that affect the expected collectability of the future cash flows of the instrument. In applying this forward-looking approach, a distinction is made between:

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

'Stage 3' would cover financial assets that have objective evidence of impairment (loans in default/non-performing) at the reporting date.

3. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Loan impairment (Continued)

(i) Provision for impairment (continued)

Measurement of ECL

'12-month expected credit losses' are recognised for the first category while 'lifetime expected credit losses' are recognised for the second category. Measurement of the expected credit losses is determined by a probability weighted estimate of credit losses over the expected life of the financial instrument. They are measured as follows:

- financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the Credit Union in accordance with the contract and the cash flows that the Credit Union expects to receive);
- financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows;
- undrawn loan commitments: as the present value of the difference between the contractual cash flows that are due to the Credit Union if the commitment is drawn down and the cash flows that the Credit Union expects to receive; and
- financial guarantee contracts: the expected payments to reimburse the holder less any amounts that the Credit Union expects to recover.

Note 19.3(i) details the credit risk management approach for loans.

(ii) Reserve for credit losses

The Board recognises that in addition to the impairment provision, First Choice will 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 calculated on a portfolio basis, based upon the relative risk levels for different asset classes, with a base level of provisioning for the lowest risk asset class. Historical bad debt write-offs and underlying security are also considered as part of the portfolio assessment.

(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.

3.3 Bad debts written off

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

3. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.4 Property, plant and equipment

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

(i) Determination of carrying values

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

(i) Determination of carrying values (continued)

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

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

(ii) Depreciation

The depreciable amount of all fixed assets including building assets, but excluding freehold land, is depreciated on a diminishing value basis over the asset's useful life to the entity commencing from the time the asset is held ready for use.

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

Buildings	2.5%
Office furniture and equipment	10% to 50%
EDP equipment	12.5% to 50%
Motor vehicles	22.5%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains or losses are included in the statement of comprehensive income. When revalued assets are sold, amounts included in the revaluation reserve relating to that asset are transferred to retained earnings.

Assets with a cost less than $500 are not capitalised.

3. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.5 Intangible assets

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

Intangible assets are carried at cost less, where applicable, any accumulated amortisation and impairment losses. The amortization rates used for intangibles are 37.50% to 50% unless it is determined that the intangible has an indefinite life.

The carrying amount of software is reviewed annually by the directors to ensure it is not in excess of the recoverable amount of these assets.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the entity and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the statement of comprehensive income during the financial period in which they are incurred.

3.6 Financial instruments

(i) Initial recognition and measurement

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

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

(ii) Classification and subsequent measurement

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

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

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

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

3. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.6 Financial instruments (Continued)

(ii) Classification and subsequent measurement (continued)

Policy applicable before 1 July 2018

a. Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortised cost.

b. Held-to maturity investments

Held-to-maturity investments are non-derivative financial assets that have fixed maturities and fixed or determinable payments, and it is First Choice's intention to hold these investments to maturity. They are subsequently measured at amortised cost.

Term deposits and negotiable certificates of deposit (NCDs) 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.

c. Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are either not capable of being classified into other categories of financial assets due to their nature or they are designated as such by management. They comprise investments in the equity of other entities where there is neither a fixed maturity nor fixed or determinable payments.

They are subsequently measured at fair value with change in such fair value (i.e. gains or losses) recognised in other comprehensive income (except for impairment losses). When the financial asset is derecognised, the cumulative gain or loss pertaining to that asset previously recognised in other comprehensive income is reclassified into profit or loss.

d. Financial liabilities

Non-derivative financial liabilities (excluding financial guarantees) are subsequently measured at amortised cost.

(ii) Classification and subsequent measurement (continued)

Policy applicable from 1 July 2018

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

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

Subsequent measurement of financial assets

Financial assets at amortised costs

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

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

After initial recognition, these are measured at amortised cost using the effective interest method. Discounting is omitted where the effect of discounting is immaterial. First Choice Credit Union's cash equivalents (NCD, FRN & TDs) fall into this category of financial instruments and were previously classified as held to maturity under AASB 139.

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

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

Fair Value through Other Comprehensive Income (FVOCI)

Investments in equity instruments that are not held for trading are eligible for an irrevocable election at inception to be measured at FVOCI. Subsequent movements in fair value are recognised in other comprehensive income and are never reclassified to profit or loss. Dividends from these investments continue to be recorded as other income within the profit or loss unless the dividend clearly represents return of capital. This category includes unlisted equity securities in CUSCAL Ltd that were previously classified as 'available for sale' under AASB 139.

(iii) Impairment

At the end of each reporting period, First Choice assesses whether there is objective evidence that a financial instrument has been impaired. In the case of available-for-sale financial instruments, a prolonged decline in the value of the instrument is considered to determine whether impairment has arisen. Impairment losses are immediately recognised in profit or loss. Also, any cumulative decline in fair value previously recognised in other comprehensive income is reclassified to profit or loss at this point.

3. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.6 Financial instruments (Continued)

(iv) De-recognition

Financial assets are derecognised where the contractual rights to receipt of cash flows expire or the asset is transferred to another party whereby the entity no longer has any significant continuing involvement in the risks and benefits associated with the asset. Financial liabilities are derecognised where the related obligations are either discharged, cancelled or expire. The difference between the carrying value of the financial liability extinguished or transferred to another party and the fair value of consideration paid, including the transfer of non-cash assets or liabilities assumed, is recognised in profit or loss.

3.7 Members' deposits

(i) Basis for measurement

Member savings and term investments are initially measured at fair value plus transaction costs, and subsequently measured at amortised cost.

(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 an accrual basis in accordance with the interest rate terms and conditions of each savings and term deposit account as varied from time to time. The amount of the accrual is shown as part of payables in the Statement of Financial Position.

3.8 Employee benefits

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

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

Other employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those benefits discounted using national government bond rates. Provision for long service leave is on a pro-rata basis from commencement of employment with the Credit Union based on the present value of its estimated future cash flows.

Annual leave is accrued in respect of all employees on pro-rata entitlement for part years of service and leave entitlement due but not taken at the reporting date. Annual leave is reflected as part of the sundry creditors and accruals. Contributions are made by First Choice to an employee's superannuation fund and are charged to the income statement on an accruals basis.

3. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.9 Cash and cash equivalents

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

3.10 Income tax

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

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

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

3.11 Goods and services tax

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

Revenue, expenses and assets are recognised net of the amount of GST, except where the amount of the GST incurred is not recoverable from the Australian Tax Office (ATO). In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to the ATO, is included as a current asset or current liability in the Statement of Financial Position.

Cash flows are included in the Statement of Cash Flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

3. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.12 Accounting estimates and judgements

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

Management have made critical accounting estimates when applying First Choice's accounting policies with respect to the impairment provisions for loans - refer Note 11.

3.13 New standards applicable for the current year

The Credit Union has adopted all standards which became effective for the first time at 30 June 2019, refer to Note 2 for details of the changes due to standards adopted.

3.14 New Accounting Standards for Application in Future Periods

The AASB has issued new and amended Accounting Standards and Interpretations that have mandatory application dates for future reporting periods. The Credit Union has decided not to early adopt these Standards. The following table summarises those future requirements, and their impact on the Credit Union where the standard is relevant:

AASB Reference	Nature of Change	Application date	Impact on Initial Application
AASB 16 *Leases*	AASB 16 will cause the majority of leases to be brought onto the statement of financial position. There are limited exceptions relating to short-term leases and low value assets which may remain off-balance sheet. The calculation of the lease liability will take into account appropriate discount rates, assumptions about lease term and increases in lease payments. A corresponding right to use asset will be recognised which will be amortised over the term of the lease. Rent expense will no longer be shown, the profit and loss impact of the leases will be through amortisation and interest charges.	30 June 2020	*The entity does not have any leases therefore they have assessed this change as having no impact.* However, based on the entity's preliminary assessment, the Standard is not expected to have a material impact on the transactions and balances recognised in the financial statements when it is first adopted for the year ending 30 June 2020, since the Credit Union owns its premises and other operating leases are minimal.

4. INTEREST REVENUE AND INTEREST EXPENSE

The following table shows the interest for each of the major categories of interest bearing assets and liabilities.

	2019 $	2018 $
4.1 Interest revenue		
Investment securities	706,506	724,244
Loans and advances (non-commercial)	1,881,402	1,719,264
Commercial loans	54,727	77,870
	2,642,635	2,521,378
4.2 Interest expense		
Deposits from members	838,048	781,984
Short-term borrowings	383	293
	838,431	782,277
Net interest income	1,804,204	1,739,101

5. FEE, COMMISSIONS AND OTHER INCOME

	2019 $	2018 $
Fee and commission revenue		
Fee income on loans	45,216	44,066
Fee income from member deposits	156,595	162,583
Insurance commissions	10,310	15,873
Other commissions	16,278	17,565
Total fee and commission revenue	228,399	240,087
Other income		
Dividends received on available for sale assets	3,289	6,578
Bad debts recovered	11,212	7,749
Miscellaneous revenue	1,410	7,746
Rental income	4,926	5,873
Total fee, commission and other income	249,236	268,033

6. NON INTEREST EXPENSE

6.1 Impairment losses

	2019 $	2018 $
Loans and advances		
Increase in provision for impairment	80,292	42,523
Bad debts written off directly to profit and loss	11,686	-
Total impairment losses	91,978	42,523

6. NON INTEREST EXPENSE (Continued)

6.2 Individually significant items of expenditure

The following items of expense are shown as part of Administration expenses and are considered to be significant to the understanding of the financial performance:-

	2019 $	2018 $
Loss on disposal of assets	-	-
Depreciation and amortisation		
Depreciation	37,229	28,853
Amortisation of intangible assets	4,693	6,721
Total depreciation and amortisation	41,922	35,574
Property expenses		
Occupancy expenses	39,395	40,833
Agency costs	34,898	37,443
	74,293	78,276
Employee benefits expense		
Salaries	618,388	591,835
Superannuation contributions	63,079	59,974
Annual and long service leave	3,601	(5,606)
Other	27,875	34,616
Total employee benefits	712,943	680,819
General administrative expenses		
Board costs	63,830	69,989
Legal fees	4,814	2,910
Loan establishment costs	7,827	8,734
Marketing and promotion	24,516	23,696
Member chequing	57,962	54,567
Member protection	138,866	141,028
Office administration	67,470	79,221
Redicard costs	186,649	193,675
Other	78,355	72,783
Total general and administration	630,289	646,603

	2019 $	2018 $
7. AUDITOR'S REMUNERATION		
Amounts received or due and receivable by the auditors of First Choice for:		
- Audit of the financial statements	50,400	37,720
- Other regulatory audit services	4,771	10,391
	55,171	48,111
8. INCOME TAX		
8.1 Current Tax Expense		
Represented by:		
Current tax expense	64,343	76,728
Restatement of deferred tax assets and liabilities	-	-
Increase/(decrease) in deferred tax liability	(2,822)	(3,488)
(Increase)/decrease in deferred tax asset	9,921	3,828
Total	71,442	77,068
Income tax relating to the components of other comprehensive income:		
Deferred tax relating to revaluation of land & buildings	-	-
8.2 Reconciliation of Current Year Tax Payable to Income Tax Expense		
The prima facie tax on profit from operations before income tax is reconciled to the income tax as follows:		
Prima facie tax payable on profit from ordinary activities before income tax at 27.5% (2018: 27.5%)	72,702	79,460
Plus / (Less) tax effect of:		
- Dividend rebate	(1,022)	(1,809)
- Non-deductible building depreciation	(473)	(583)
- Prior year adjustment	235	-
	71,442	77,068
The applicable weighted average tax rates	27.5%	27.5%
8.3 Franking Credits		
Franking credits held by the Credit Union after adjusting for franking credits that will arise from the payment of income tax payable as at the end of the financial year	3,047,161	2,963,394

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2019
(Continued)

9. CASH AND LIQUID ASSETS

	2019 $	2018 $
Cash on hand	297,757	279,850
Imprest accounts (CUSCAL Limited)	316,736	411,778
Cash on deposit	2,950,000	1,200,000
	3,564,493	1,891,628

10. ACCRUED RECEIVABLES

	2019 $	2018 $
Clearing accounts	2,324	(9,082)
Interest receivable on deposits with other financial institutions	157,482	203,050
	159,806	193,968

11. LOANS AND ADVANCES

	2019 $	2018 $
Loans and advances carried at amortised cost:		
Overdrafts	532,633	556,929
Term loans	41,131,995	35,358,316
	41,664,628	35,915,245
Less: Provision for impaired loans	(30,701)	(77,048)
	41,633,927	35,838,197

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2019
(Continued)

11. LOANS AND ADVANCES (Continued)

11.1 Credit quality – security held against loans

	2019 $	2018 $
Secured by mortgage over real estate	32,299,949	26,288,012
Partly secured by goods mortgage	7,709,452	8,045,678
Assigned savings	19,388	12,804
Wholly unsecured	1,635,839	1,568,751
	41,664,628	35,915,245

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

	2019 $	2018 $
Security held as mortgages against real estate		
- loan to valuation ratio of less than 80%	28,287,551	24,035,862
- loan to valuation ratio of more than 80% but mortgage insured	3,631,407	2,252,150
- loan to valuation ratio of more than 80% but not mortgage insured	380,991	-
	32,299,949	26,288,012

11.2 Concentration of loans

First Choice has an exposure to groupings of individual loans which concentrate risk and create exposure to particular segments as follows:

	2019 $	2018 $
(i) Loans to individual or related groups of members which exceed 10% of capital – aggregate value	-	-

(ii) Loans to members are mainly concentrated in Central Western New South Wales

(iii) Loans by customer type were:

	2019 $	2018 $
Housing loans and facilities	31,911,110	26,288,012
Personal loans and facilities	8,960,749	8,701,590
Commercial loans and facilities	792,769	925,643
	41,664,628	35,915,245

11. LOANS AND ADVANCES (Continued)

11.3 Movement in the provision for impairment

	2019 $	2018 $
Opening balance	77,048	78,659
Bad debts written off against provision	(126,641)	(44,133)
Loans provided for during the year	81,185	81,615
Write back of provision required	(891)	(39,093)
	30,701	77,048

11.4 Impaired Loans Written Off

	2019 $	2018 $
Amounts written off against the provision	126,641	44,133
Amounts written off directly to profit and loss	11,686	-
Bad debts expense	91,978	42,523
Bad debts recovered in the period	(11,212)	7,749

11.5 Amounts arising from ECL

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

	Gross Carrying Value 2019 $'000	ECL Allowance 2019 $'000	Carrying Value 2019 $'000	Gross Carrying Value 2018 $'000	Provision for Impairment 2018 $'000	Carrying Value 2018 $'000
Loans to members						
Mortgage	31,580,817	-	31,580,817	25,948,631	-	25,948,631
Personal	8,927,080	30,701	8,896,379	8,665,442	77,048	8,588,394
Commercial	624,098	-	624,098	744,244	-	744,244
Overdrafts	532,633	-	532,633	556,928	-	556,928
Total	41,664,628	30,701	41,633,927	35,915,245	77,048	35,838,917

The Credit Union has performed an analysis of the ECL allowance and have determined, based on internal analysis, management judgements and other historical data, that the entire allowance for 2019 is classified as Stage 2.

11. LOANS AND ADVANCES (Continued)

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

	2019 Carrying Value $	2019 Provision $	2018 Carrying Value $	2018 Provision $
0 to 90 days in arrears	651,712	-	432,895	30,000
90 to 180 days in arrears	31,862	12,745	1,154	461
180 to 270 days in arrears	-	-	5,570	3,342
270 to 365 days in arrears	22,352	17,882	53,985	43,188
Over 365 days in arrears	-	-	-	-
Over limit facilities over 14 days	122	74	142	57
Total	706,048	30,701	493,746	77,048

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

11.7 Loans with repayments past due but not regarded as impaired

There are loans with a value of $651,712 (2018: $362,246) past due which are not considered to be impaired, due to the very short number of days past due. It is not practicable to identify the security over all loans past due. These all fall within the 0-90 day category.

	2019 $	2018 $
11.8 Assets acquired via enforcement of security		
Assets acquired via enforcement of security (excluding loans reported)	-	-

The policy is to sell the assets via auction at the earliest opportunity after measures to assist the members to repay the debts have been exhausted.

11.9 Loans that would otherwise be past due or impaired whose terms have been renegotiated

	2019 $	2018 $
Loans with renegotiated terms	19,192	21,874

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2019
(Continued)**

11. LOANS AND ADVANCES (Continued)

11.10 Key assumptions in determining impairment

In the course of the preparation of the annual report, First Choice has determined whether there has been a significant increase in credit risk for all loan facilities using past due information and/or reasonable and supportable forward-looking information, such as job loss or deteriorating economic conditions. For facilities where credit risk is assessed as significantly higher, the change in lifetime expected losses has been recognised as an impairment loss or gain in the profit and loss and an impairment provision raised.

12. INVESTMENT SECURITIES

	2019 $	2018 $
Investment securities at amortised cost		
Negotiable Certificate of Deposits	9,396,621	-
Floating Rate Notes	-	-
Term Deposits	15,633,572	-
Equity investment securities designated as FVOCI		
Cuscal	78,938	-
Available for sale investment securities		
Cuscal	-	78,938
Assets held to maturity		
Negotiable Certificate of Deposits	-	12,846,377
Floating Rate Notes		-
Term Deposits	-	15,133,499
Total Value of Investments	**25,109,131**	**28,058,814**

Cuscal supplies end-to-end payments services. At 1 July 2018, the Credit Union designated its investment in Cuscal equity securities as at FVOCI. In FY 2018, these investments were classified as available-for-sale and measured at cost. The shares are able to be traded but within a limited market and to other Mutual ADIs.

Policy applicable before 1 July 2018

In 2018 First Choice Credit Union held the Cuscal Shares at historical cost. The value of the Cuscal Shares at historical cost was $0.60 per share and this item was classified as Available for Sale.

Policy applicable after 1 July 2018

Management have used observable inputs to assess the fair value of the shares and has determined that the estimated fair value of these shares to the Credit Union are not materially different to their carrying value at 30 June 2018, and as such, no change in value has been recorded during the current financial year.

First Choice Credit Union is not intending, nor able to, dispose of these shares.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2019
(Continued)

13. PROPERTY, PLANT AND EQUIPMENT

	2019 $	2018 $
Land - at valuation	370,653	370,653
Buildings - at valuation	489,347	489,347
Less: provision for depreciation	(24,162)	(12,234)
	465,185	477,113
Plant and equipment - at cost	402,317	372,303
Less: provision for depreciation	(300,670)	(277,516)
	101,647	94,787
Motor vehicles – at cost	20,020	20,020
Less: provision for depreciation	(14,725)	(13,187)
	5,295	6,833
Office Fit out	25,467	23,072
Less: provision for depreciation	(1,777)	(1,165)
	23,690	21,907
Total property, plant and equipment	966,470	971,293

Units 1, 2, 3 and 6, 18 Sale Street, Orange were independently valued at $860,000 as at 9 May 2017 by Ms Phillipa Simmons, of Herron, Todd & White, and Valuer #69925. In valuing the property, the Independent valuer relied upon two different valuation approaches, being the capitalization of net income approach and the direct comparison (improvements) approach.

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

	Beginning balance	Revaluation	Additions	Disposals	Depreciation Write Back	Depreciation expense	Carrying amount at year end
Land	370,653	-	-	-	-	-	370,653
Buildings	477,113	-	-	-	-	(11,928)	465,185
Office Fitout	21,907	-	2,395	-	-	(612)	23,690
Motor vehicles	6,833	-	-	-	-	(1,538)	5,295
Plant and equipment							
Furniture & Fittings	18,427	-	-	-	-	(2,855)	15,572
Office Equipment	8,131	-	1,598	-	-	(2,186)	7,543
EDP Equipment	68,229	-	28,413	-	-	(18,110)	78,532
Totals	971,293	-	32,406	-	-	(37,229)	966,470

	2019 $	2018 $
14. INTANGIBLES		
Intangibles – at cost	61,996	55,666
Accumulated amortisation	(51,897)	(51,100)
	10,099	4,566
Visa Service Fee – at cost	105,006	105,006
Accumulated amortisation	(14,946)	(11,050)
	90,060	93,956
Total Intangibles	100,159	98,522

Movement in carrying amounts for each class of intangibles between the beginning and end of the current financial year.

	Beginning balance	Additions	Revaluations and impairment decrements or reversals	Disposals	Depreciation Write Back	Depreciation expense	Carrying amount at year end
Intangibles	98,522	6,330				(4,693)	100,159

	2019 $	2018 $
15. DEPOSITS FROM MEMBERS		
Member deposits carried at amortised cost:		
- at call	37,629,390	37,440,851
- at term	25,485,603	21,333,977
Member withdrawable shares	38,050	38,040
	63,153,043	58,812,868

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

15.1 Concentration of member deposits

	2019 $	2018 $
Member deposits from individual or related groups of members which exceed 10% of capital – aggregate value	7,810,920	5,724,913

	2019 $	2018 $

16. PAYABLES AND OTHER LIABILITIES

	2019 $	2018 $
Payables and accrued expenses	140,950	171,772
Accrued interest payable	191,203	168,063
Members' clearing accounts	95,706	133,298
Annual Leave	39,458	38,648
	467,317	511,781

16.1 Financial liabilities at amortised cost classified as trade and other payables

	2019 $	2018 $
Trade and other payables	467,317	511,781
Less annual leave entitlements	(39,458)	(38,648)
Financial liabilities as trade and other payables	427,859	473,133

17. TAXATION

17.1 Taxation liabilities

	2019 $	2018 $
Income tax	5,177	20,368
Property	17,249	20,070
	22,426	40,438

17.2 Taxation assets

	2019 $	2018 $
Provision for impairment	8,442	21,188
Employee leave entitlements	29,481	28,491
Property	-	-
Other	16,574	14,739
	54,497	64,418

17.3 Reconciliation of deferred taxation balances

(i) Gross movements

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

	2019 $	2018 $
Opening balance	44,348	44,688
Charge/(credit) to income statement	(7,099)	(340)
Charged to equity	-	-
Charged to income statement as a result of change in tax rate	-	-
Closing balance	37,249	44,348

17. TAXATION (Continued)

17.3 Reconciliation of deferred taxation balances (Continued)

(ii) Deferred tax liability

The movement in deferred tax liability for property during the year as follows:

	2019 $	2018 $
At 1 July	(20,070)	(23,558)
Charged to income statement	2,821	3,488
Charged to equity	-	-
Charged to income statement as a result of change in tax rate	-	-
At 30 June	(17,249)	(20,070)

(iii) Deferred tax assets

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

	2019 $	2018 $
Provision for impaired loans		
At 1 July	21,188	21,631
Charged to income statement	(12,746)	(443)
Charged to income statement as a result of change in tax rate	-	-
At 30 June	8,442	21,188
Employee leave entitlements		
At 1 July	28,491	30,032
Charged to income statement	990	(1,541)
Charged to income statement as a result of change in tax rate	-	-
At 30 June	29,481	28,491

17. TAXATION (Continued)

17.3 Reconciliation of deferred taxation balances (Continued)

(iii) Deferred tax assets (Continued)

	2019 $	2018 $
Other		
At 1 July	14,739	16,583
Charged to income statement	1,835	(1,844)
Charged to income statement as a result of change in tax rate	-	-
At 30 June	16,574	14,739

18. PROVISIONS

	2019 $	2018 $
Long Service Leave	67,744	64,954
	67,744	64,954

19. RISK MANAGEMENT OBJECTIVES AND POLICIES

For each type of risk arising from financial instruments, an entity shall disclose:

(i) the exposures to risk and how they arise;
(ii) it's objectives, policies and processes for managing risk and the methods used to measure the risk; and
(iii) any changes in (i) or (ii) from the previous period.

If quantitative data at the reporting date is not representative of the entity's exposure to risk, further information will be provided that is representative of the respective risk exposure.

Introduction

The Board has developed and approved a Risk Management Framework (RMF) to support risk-based decision making and a sound governance framework. The framework supports the Boards primary objective of ensuring First Choice acts within the best interests of its members and conducts its affairs with integrity. Underpinning the framework is the Board's desired risk culture, including integrity in all dealings, compliance with regulatory expectations and behaviour which is consistent with member and community expectations. The framework is commensurate with the complexity and First Choice's operations and First Choice's risk profile.

The Board approved Risk Management Strategy (RMS) identifies the following material risks: market risk, liquidity risk, credit risk, operational risk, culture and governance risk, cyber risk and data protection risk, conduct risk, fraud risk, business continuity risk, strategic risk and insurance risk. The Board of Directors risk management function is supported by the Board Audit Committee (BAC), Board Risk Committee (BRC), Board Remuneration Committee and Board Corporate Governance Committee.

19. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Board

The Board is First Choice's primary governing and oversight body. It quantifies and qualifies First Choice's risk appetite and approves the framework for mitigating these risks and an adequate reporting system to measure and review these risks.

Board Risk Committee (BRC)

The BRC assists the Board in its oversight of managements' implementation of the Board approved RMF and RMS. The key functions of the committee are:

- Sponsoring a sound risk aware and compliance culture
- Assessing First Choice's risk profile in the context of its operating environment
- Assessing Management's implementation of the RMF, RMS and adherence to Board Risk Appetite
- Facilitating a channel of communication between the Chief Risk Officer and the Board
- Ensuring the completeness of the risk register
- Providing recommendations to the Board with regard to risk appetite

Board Audit Committee (BAC)

The BAC assists the Board in providing an objective non-executive review of the effectiveness of First Choice's RMF. The key functions of the committee are:

- Oversight of statutory obligations
- Engagement and scoping of the external and internal audit functions
- Reviewing Managements approach to ensuring regulatory compliance
- Sponsoring First Choice's risk and compliance culture
- Facilitating a channel of communication between the external audit function and the Board
- Informing Board of regulatory changes
- Liaising with APRA as required

Board Remuneration Committee (BRC)

The BRC the instrument First Choice uses to ensure that the Board Remuneration Policy is complied with.

The objectives of the remuneration policy are:

- To ensure that First Choice's remuneration arrangements are in accordance with Prudential Standard CPS 510 Remuneration and Prudential Practice Guide APG 511 Remuneration.

- To ensure the independence of risk and control personnel in the performance of their role.

- To attract and retain capable and motivated Managers

- To ensure remuneration arrangements are consistent with the Board's RMS including First Choice's culture of risk and compliance and prudent decision making.

First Choice ensures that risk and financial control personnel are remunerated independently of the businesses they oversee, through the provision of remuneration packages that only include a fixed component
.

19. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Board Corporate Governance Committee

The Committee considers any matters relating to the policy and practice of corporate governance within First Choice.

The duties of the Committee are to:

- Monitor corporate governance developments and bring to the Board's attention matters of importance and recommendations for improvement.
- Review and recommend amendments to the guidelines for Directors and monitor compliance.
- Recommend policies and guidelines for matters of governance generally, including the process of disclosure of information from the Board to members.
- Review and recommend to the Board the statement of corporate governance for inclusion in the Annual Report.
- Review and recommend preferred attributes for the nomination of potential Board appointed directors.
- Recommend where necessary amendments to the constitution to including maximum protection from hostile demutualisation actions.
- Develop and oversee a director educational programme which includes the attendance of conferences and seminars.
- Consideration of any other matter relating to corporate governance which the Board or Committee considers necessary.

Internal Audit

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

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

- Liquidity risk policy
- Market risk policy
- Credit Risk Management and Credit Quality Policies
- Capital Management policy
- Corporate Governance policy
- Operations Risk policy
- Business Continuity
- Fraud
- Fit and Proper
- Cyber Risk

First Choice has undertaken the following strategies to minimise the risks arising from financial instruments

19. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

19.1 Market risk policy

The primary tool First Choice uses to manage market risk is the Market Risk Policy. The policy recognises that First Choice is susceptible to the pressure of interest rate changes and is a market follower by reason of size. First Choice's source of fund raising and lending will be from and to members drawn from the First Choice membership, as defined within First Choice's constitution. The policy outlines:

- Expectations in regards to Management's use of market intelligence relating to interest rates
- The process for monitoring interest rate risk on a daily basis and reporting the risk to the Board. This is primarily through re-pricing and portfolio analysis.
- Limits for Senior Management to adjust interest rate changes.
- Funding base mix (at call versus term deposits)
- Investment decisions

Interest Rate Risk

Interest rate risk is the risk of variability of the fair value or future cash flows arising from financial instruments due to the changes in interest rates.

Most banks are exposed to interest rate risk within its treasury operations. First Choice does not have a treasury operation and does not trade in financial instruments.

Interest rate risk in the banking book

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

The interest rate risk on the banking book is reported to the Board monthly.

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

Interest Rate Risk

The table set out at Note 22 displays the period that each asset and liability will mature as at the balance date. This risk is not considered significant enough to warrant the use of derivatives to mitigate this risk.

Method of managing risk

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

19. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

19.1 Market risk policy (Continued)

Interest rate sensitivity

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

The policy of First Choice to manage the risk is to maintain a balanced 'on book' strategy by ensuring the net interest rate gaps between assets and liabilities are not excessive. The gap is measured monthly to identify any large exposures to the interest rate movements and to rectify the excess through targeted fixed rate interest products available through investment assets and term deposits liabilities to rectify the imbalance to within acceptable levels. The policy of First Choice is not to utilise derivatives to match the interest rate risks. First Choice's exposure to interest rate risk is set out in Note 23 which details the contractual interest change profile.

The Board monitors interest rate risk using independent reports from CUSCAL Ltd and other management reports.

Based on the calculations as at 30 June 2019, the net profit impact for a 1% (2018: 1%) movement in interest rates would be $27,395 (2018: $12,964).

First Choice performs a sensitivity analysis to measure market risk exposures.

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

- the interest rate change would be applied equally over the loan products and term deposits;
- the rate change would be as at the beginning of the 12 month period and no other rate changes would be effective during the period;
- the term deposits would all reprice to the new interest rate at the term maturity, or be replaced by deposits with similar terms and rates applicable;
- savings deposits would not reprice in the event of a rate change;
- the value and mix of call savings to term deposits will be unchanged; and
- the value and mix of personal loans to mortgage loans will be unchanged.

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

19.2 Liquidity risk

The risk that First Choice has insufficient funds to meet its obligations as and when they fall due and jeopardises the security of depositors' funds.

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.

19. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

19.2 Liquidity risk (Continued)

The primary tools used to manage liquidity risk are the Liquidity Policy and Liquidity Management Strategy. The policy and strategy outline:

- The inherent risk of First Choice's operations due to external forces at play.
- The Board's appetite for liquidity risk
- The Senior Management and staff structure used to manage the risk
- Hard risk tolerances
- Requirement for compliance with regulatory obligations including APRA requirements such as the Minimum Liquidity Holdings Ratio.
- Day-to-day monitoring systems
- Triggers for heightened liquidity management

First Choice manages liquidity risk by:

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

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

First Choice 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. First Choice policy is to apply at least 15% of funds as high quality liquid assets to maintain adequate funds for meeting member withdrawal requests. The ratio is monitored daily. Should the liquidity ratio fall below this level management and the Board are to address the matter using the Liquidity Management Strategy and ensure that the liquid funds are obtained from new deposits or borrowing facilities available. Note 26 describes the borrowing facilities at the reporting date. These facilities are in addition to the support from CUFSS.

The maturity profile of the financial liabilities based on the contractual repayment terms are set out in the specific Note 22. The ratio of liquid funds over the past year is set out below:

19. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

19.2 Liquidity risk (Continued)

APRA	2019	2018
Total liabilities	68,714,824	63,668,074
As at 30 June	18.95%	23.27%
Average for the year	19.32%	23.42%
Minimum during the year	18.95%	22.90%
Total member deposits	63,153,043	58,812,868
HQLA as a percentage of total member deposits as at 30 June	20.62%	25.20%

19.3 Credit risk

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

(i) Credit risk - loans

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

Loans to:	2019 Carrying value $	2019 Off statement of financial position $	2019 Maximum Exposure $	2018 Carrying value $	2018 Off statement of financial position $	2018 Maximum Exposure $
Households	31,580,817	3,605,306	35,186,123	25,948,631	2,785,513	28,734,144
Personal	8,927,080	739,133	9,666,213	8,665,442	554,572	9,220,014
Overdrafts	363,962	214,538	578,500	375,529	350,970	726,499
Total to natural persons	40,871,859	4,558,977	45,430,836	34,989,602	3,691,055	38,680,657
Commercial						
Borrowers	624,098	38,984	663,082	744,244	158,379	902,623
Overdrafts	168,671	406,329	575,000	181,399	388,601	570,000
Total	**41,664,628**	**5,004,290**	**46,668,918**	**35,915,245**	**4,238,035**	**40,153,280**

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, and overdraft facilities). The details are shown in Note 24.

19. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

19.3 Credit risk (Continued)

(i) Credit risk – loans (Continued)

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 11.2.

The method of managing credit risk is by way of strict adherence to First Choice's credit assessment policies before the loan is approved and closer monitoring of defaults in the repayment of loans thereafter on a daily 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) and compliant with ASIC Responsible Lending guidelines.

First Choice has established policies over the:

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

A regular review of compliance is conducted as part of the internal audit scope and by the Chief Risk Officer; the results are which are given to the Board. The Board also receives comprehensive loan reporting each month to support their assessment of First Choice's credit risk profile.

Past due and impaired

Impaired Assets are defined as any facility where there is doubt over the timely collection of the full amount of cash flows contracted to be received.

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 First Choice that requires interest and a portion of the principle to be paid every month. On the first day of the next month, if the agreed repayment amount has not been paid, the loan is past due. Past due does not mean that a counter party will never pay, but it can trigger various actions such as a hardship variation, formal renegotiation, enforcement of covenants, or legal proceedings. Once the past due exceeds 90 days the loans is regarded as impaired, unless other factors indicate the impairment should be recognised sooner.

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

19. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

19.3 Credit risk (Continued)

(i) Credit risk – loans (Continued)

Past due and impaired (Continued)

At each reporting date the credit risk of the loan portfolio is assessed collectively and as is practical individually e.g. loans with arrears. Where it is found that the credit risk for a facility or group of facilities has remained unchanged since the time of loan funding, an impairment provision is recognised for the 12-month expected losses. Where Management judges that credit risk for a facility has increased significantly since the prior reporting date, the life time losses associated with the facility are estimated and recognised.

Credit risk assessments are based upon past due information and /or reasonable and supportable forward-looking information which is available to First Choice without undue cost or effort.

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

Further details are as set out in Note 11.

Bad debts

Amounts are written off when collection of the loan or advance is considered to be remote. All write offs are on a case by case basis, 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 11.

Collateral securing loans

A sizeable portfolio of the loan book is secured against residential property in Australia. Therefore, First Choice is exposed to the risk of a reduction in the Loan to Value (LVR) cover should the property market be subject to a decline. Stress testing is conducted quarterly to assess LVRs in a declining property value environment and the impact on capital.

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

19. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

19.3 Credit risk (Continued)

(i) Credit risk – loans (Continued)

Concentration risk – individuals

Concentration risk is a measurement of First Choice's exposure to an individual counterparty (or group of related parties). If prudential limits are exceeded as a proportion of First Choice's regulatory capital (10 per cent) a large exposure is considered to exist. No capital is required to be held against these but the 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 exposures is set out in Note 11 and Note 15 respectively. Concentration exposures to counterparties are closely monitored with annual reviews being prepared for all exposures over 5 per cent of the capital base.

Concentration risk – industry

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

First Choice has a concentration in the retail lending for members who reside within the First Choice region of New South Wales. This concentration is considered acceptable as this is an area of great diversity in industry. First Choice does not have a concentration risk to any single industry.

(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 First Choice incurring a financial loss. This usually occurs when debtors fail to settle their obligations owing to First Choice.

The Liquidity Policy requires investments with any individual Authorised Deposit Taking Institution to meet the requirements under APS 221 Large Exposures.

The credit policy is that investments are only made to institutions that are credit worthy.

19.4 Operational risk

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

19. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

19.4 Operational risk (Continued)

First Choice's objective is to manage operational risk so as to balance the avoidance of financial losses through the implementation of controls, whilst avoiding procedures which inhibit innovation. These risks are managed through the implementation of polices and systems to monitor the likelihood of the events and minimise the impact. Systems of internal control are enhanced through:

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

IT systems

The worst case scenario would be the failure of First Choice's core banking and IT network suppliers, to meet customer obligations and service requirements. First Choice 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 on First Choice by the industry body CUSCAL to service the settlements with other financial institutions for direct entry, ATM & Visa cards, and B pay 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.

19.5 Culture and Governance Risk

Culture and Governance risk encompasses the risks that arise from:

- A poor risk culture including inadequate Board probity
- An inadequate and ineffective risk management framework
- inconsistent management direction
- inadequate and inconsistent risk and control based policies
- responsibility for risk management failing to reside with the Board or as delegated to the General Manager.
- The failure to develop a risk based culture that encourages ethical behaviour and integrity.

First Choice manages this risk through appropriate Board policies for each material risk. The Board and Senior Management reinforce to staff the Board's expected values of integrity and ethical behaviour. Further all staff are encouraged to bring any matters of concern to Management and/or the Board's attention as appropriate.

The Board Governance Committee meets quarterly to assess that adequate governance constructs are in place and are effective.

19. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

19.6 Cyber Risk and Data Protection Risk

Cyber Risk and Data Protection risk is the risk that the security of First Choice's information including customer data is compromised. The risk exposure covers threats to electronic and hard copy information. A Cyber Risk Management Framework is used to manage the instance of cyber data breaches. The framework identifies all data sources, the vulnerabilities of these sources and how these vulnerabilities are mitigated. To more generally manage data risk including hard copy data, First Choice uses a Privacy Policy and compliance procedure, has a Data Breach Response Plan and requires all staff to complete privacy training annually.

19.7 Conduct Risk

Conduct risk is this risk that First Choice does not comply with prudential and regulatory requirements. This risk is primarily managed using an experienced and well - resourced compliance function. All staff receive training in the regulation affecting their responsibilities, including privacy, Anti Money Laundering and Counter Terrorism Financing, Credit and Financial Services and the Customer Owned Banking Code of Conduct. The compliance function is supported by a software compliance tool to remind staff of the timing of compliance obligations.

19.8 Fraud Risk

Fraud risk including the misappropriation of assets is managed using appropriate Board policy and terms and conditions of employment. Management sponsors a prudent risk and compliance culture to encourage staff to act with integrity and all staff routinely participate in fraud training. This training encourages staff to discuss any concerns with Management and the Board as they see fit.

First Choice has systems in place which are considered to be robust enough to prevent any material fraud. However, in common with all retail ADIs, fraud is potentially a real cost to First Choice.

19.9 Business Continuity

Business Continuity risk is the risk that critical business operations cannot be maintained and/or recovered in a timely manner, in the event of a disruption, resulting in significant costs, members deposits being jeopardised. This risk is managed through a Business Continuity Policy and Business Continuity Plan. The adequacy of the plan is externally reviewed each year and staffs ability to implement the plan is also tested.

19.10 Strategic Risk

Strategic risks are those threats or opportunities that materially affect the ability of First Choice to survive. First Choice manages this risk through formal strategic planning with a 3 year time horizon. The achievement of strategic objectives is reviewed by the Board monthly and the plan is adjusted as necessary when reviews are conducted. Revisions take account of emerging strategic risks and developments in the external environment and Management recommendations.

19.11 Insurance Risk

Insurance risk is the risk that First Choice has not transferred sufficient risk to a third party (insurer) if a major insurable loss event takes place e.g. cybercrime, placing First Choice depositors interests at risk. Insurance Risk is mange through the purchase of general insurance for unmitigated risk exposures and the use of internal controls and risk management frameworks.

19. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

19.12 Capital management

Capital risk is the risk that First Choice will have an inadequate quantum and quality of capital to absorb unanticipated losses from its activities and, in the event of problems, will be unable to continue to operate in a sound and viable manner until the problems are resolved. It is a resultant risk from the total risk exposures First Choice faces and as such is not identified as a material risk in itself.

First Choice's capital primarily comprises accumulated reserves generated over the years.

Capital management is an integral part of First Choice's risk management framework aligning First Choice's risk appetite and risk profile with First Choice's capacity to absorb losses. Capital is managed through a comprehensive Internal Capital Adequacy Assessment Process which outlines a strategy for ensuring adequate capital is maintained to buffer against the material risks First Choice faces.

Capital resources

Regulatory Capital (Total Capital) consists of:

Tier 1 Capital is Gone concern capital: capital against which losses can be written off while an ADI continues to operate. Going-concern capital will also absorb losses should the ADI ultimately fail and comprises: Common Equity Tier 1 Capital and Additional Tier 1 Capital.

First Choice's Common Equity Tier 1 Capital consists of Retained Earnings, Current Year Earnings and the Asset Revaluation Reserve. First Choice has nil Additional Tier 1 Capital.

Tier 2 Capital is Going-concern capital: capital that would absorb losses until such time as an ADI is wound up or the capital is otherwise written off.

First Choice's Tier 2 Capital comprises the General Reserve for Credit Losses, to a maximum of 1.25% of total credit risk-weighted on-balance sheet and off-balance sheet assets.

As at 30 June 2019, minimum capital thresholds and First Choice's capital ratios are:

Capital ratios and buffers	**2019 (%)**	**2018 (%)**
Common Equity Tier 1 (as a percentage of risk -weighted assets)	18.18	18.13
Tier 1 (as a percentage of risk-weighted assets)	18.18	18.13
Total capital (as a percentage of risk-weighted assets)	**19.30**	**19.26**
Buffer requirement (minimum CET1 requirements of 4.5% plus capital conservation buffer of 2.5% plus any countercyclical buffer requirements expressed as a percentage of risk-weighted assets)	7.00	7.00
of which: capital conservation buffer requirements	2.50	2.50
of which: ADI-specific countercyclical buffer requirements	-	-
Common Equity Tier 1 available to meet buffers (as a percentage of risk-weighted assets)	11.30	11.26

19. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

19.12 Capital management (Continued)

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

First Choice uses the following mechanisms to measure, monitor and report capital to the Board:

- Capital is calculated in accordance with the prudential standards monthly in the current environment
- Capital is reported to the Board monthly and in a deteriorating capital environment more frequently, per the guidelines in the Capital Policy and the Internal Capital Adequacy Assessment Process
- Capital is stress tested under various adverse operating conditions quarterly. The results of this testing is reported to the Board.
- Confirmation is sought that the mitigants for each identified category of risk are listed within the Compliance Monitoring Software and has been completed.

Operational risk capital charge

First Choice uses the Standardised approach for calculating Operational Risk, as outlined under Prudential Standard APS 114. The standardised approach 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 First Choice's three year average net interest income and net non-interest income to First Choice's various business lines.

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

	2019	2018
	$	$
Operational Risk Capital	319,082	308,006

Prudential Standard APS 330 Public Disclosures

The mandatory public disclosures under APS 330 including the Common Disclosure Template can be found at http://www.firstchoicecu.com.au/disclosures.html.

The risk weights attached to each asset are based on the weights prescribed by APRA in Prudential Standard APS 112. The general rules apply the risk weights according to the level of underlying security.

19. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

19.12 Capital management (Continued)

		Carrying Value 2019 $	Risk Weighted Value 2019 $	Carrying Value 2018 $	Risk Weighted Value 2018 $
Cash	0%	297,757	-	279,850	-
Deposits in ADI's - Credit Rating Grade 1	20%	5,898,855	1,179,772	4,245,477	849,094
Deposits in ADI's - Credit Rating Grade 2	20% to 50%	10,494,962	5,246,408	13,967,427	6,983,714
Deposits in ADI's - Credit Rating Unrated	20% to 50%	12,060,594	4,676,798	11,581,805	4,887,458
Standard eligible residential mortgage loan up to 80% LVR	35%	21,173,772	7,410,820	17,237,060	6,032,972
Standard eligible residential mortgages loan greater than 80% LVR	50% to 100%	380,991	190,496	-	-
Standard eligible residential mortgage loan up to 80% LVR, but mortgage insured	35%	664,463	232,562	780,988	273,345
Standard eligible residential mortgages loan greater than 80% LVR, but mortgage insured	35%	3,257,675	1,140,186	1,872,279	655,298
Non-Standard eligible Loans secured against eligible residential mortgages greater than 80% LVR	50% to 75%	5,901,358	3,888,962	5,561,893	3,568,095
Non-Standard eligible Loans secured against eligible residential mortgages greater than 80% LVR, but mortgage insured	75%	373,732	280,299	379,871	284,903
Past due claims	100%	54,336	54,336	60,851	60,851
Other assets	100%	10,827,107	10,827,107	10,936,407	10,936,407
Total		**71,385,602**	**35,127,746**	**66,903,908**	**34,532,137**

20. CATEGORIES OF FINANCIAL INSTRUMENTS

The following information classifies the financial instruments into measurement classes

Financial assets – carried at amortised cost	**Note**	**2019 $**	**2018 $**
Cash and cash equivalents	9	3,564,493	1,891,628
Investment securities	12	25,030,193	27,979,876
Accrued receivables	10	159,806	193,968
Loans to members	11	41,633,927	35,838,197
Total financials assets – carried at amortised cose		70,388,419	65,903,669
Available for sale investment securities	12	-	78,938
FVOCI investment securities	12	78,938	-
TOTAL FINANCIAL ASSETS		70,467,357	65,982,607
Financial liabilities – carried at amortised cost			
Deposits from members	15	63,153,043	58,812,868
Payables and other liabilities	16	427,859	473,133
TOTAL FINANCIAL LIABILITIES		63,580,902	59,286,001

21. FAIR VALUE MEASUREMENT

With the exception of Land and Buildings, the Credit Union does not currently measure any assets or liabilities at fair value on a recurring or non-recurring basis after initial recognition.

21.1 Disclosed fair value measurement

The Credit Union has obtained a valuation for its owned properties – units 1, 2, 3 and 6 at 18 Sale St, Orange – as at 9 May 2017.

The fair values obtained for the property was $860,000, this represents both the land and building components.

The buildings are valued at Level 2 of the Fair Value Hierarchy of AASB 13, measurements based on inputs other than quoted prices included in Level 1 (quoted prices) that are observable for the asset either directly (i.e. as prices) or indirectly (i.e. derived from prices).

22. MATURITY PROFILE OF FINANCIAL INSTRUMENTS

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

2019

	Book Value	Up to 3 months	3 – 12 months	1 – 5 years	After 5 years	At Call	Total Cash Flows
	$	$	$	$	$	$	$
(i) Financial assets							
Cash and liquid assets	3,566,805	3,269,048	-	-	-	297,757	3,566,805
Investment securities	25,185,363	16,617,309	7,812,037	880,000	-	-	25,309,346
Accrued receivables	2,324	-	-	-	-	2,324	2,324
Loans to members	41,633,927	1,270,987	3,771,885	17,147,175	45,606,111	-	67,796,158
FVOCI equity investments	78,938	-	-	-	-	78,938	78,938
Total financial assets	70,467,357	21,157,344	11,583,922	18,027,175	45,606,111	379,019	96,753,571
(ii) Financial liabilities							
Deposits	63,153,043	13,570,117	12,200,844	-	-	37,629,390	63,400,351
Payables and other liabilities	427,859	-	-	-	-	427,859	427,859
Total financial liabilities	63,580,902	13,570,117	12,200,844	-	-	38,057,249	63,828,210

2018	Book Value	Up to 3 months	3 – 12 months	1 – 5 years	After 5 years	At Call	Total Cash Flows
	$	$	$	$	$	$	$
(i) Financial assets							
Cash and liquid assets	1,893,398	1,613,548	-	-	-	279,850	1,893,398
Receivables due from other financial institutions	28,181,156	18,140,937	9,291,414	-	1,008,172	-	28,440,523
Accrued receivables	(9,082)	-	-	-	-	(9,082)	(9,082)
Loans to members	35,838,197	1,131,813	3,376,464	15,459,604	39,907,753	-	59,875,634
Available for sale investments	78,938	-	-	-	-	78,938	78,938
Total financial assets	65,982,607	20,886,298	12,667,878	15,459,604	40,915,925	349,706	90,279,411
(ii) Financial liabilities							
Deposits	58,812,868	13,104,629	8,444,214	-	-	37,440,851	58,989,694
Payables and other liabilities	473,133	-	-	-	-	473,133	473,133
Total financial liabilities	59,286,001	13,104,629	8,444,214	-	-	37,913,984	59,462,827

23. INTEREST RATE CHANGE PROFILE OF FINANCIAL INSTRUMENTS

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

2019	**Within 1 month**	**1 – 3 months**	**3 – 12 months**	**1 – 5 years**	**>5 years**	**Non-interest rate sensitive**	**Total**
	$	**$**	**$**	**$**		**$**	**$**
(i) Financial assets							
Cash and liquid assets	3,266,736	-	-	-	-	297,757	3,564,493
Investment securities	5,478,957	10,954,107	7,717,130	880,000	-	-	25,030,193
Accrued receivables	-	-	-	-	-	159,806	159,806
Loans to members	41,664,628	-	-	-	-	-	41,664,627
FVOCI equity investments	-	-	-	-	-	78,938	78,938
Total financial assets	50,410,321	10,954,107	7,717,130	880,000	-	536,501	70,498,057
(ii) Financial liabilities							
Deposits	41,613,309	9,510,119	11,991,565	-	-	38,050	63,153,043
Payables and other liabilities	-	-	-	-	-	427,859	427,859
Total financial liabilities	41,613,309	9,510,119	11,991,565	-	-	465,909	63,580,902

2018	**Within 1 month**	**1 – 3 months**	**3 – 12 months**	**1 – 5 years**	**>5 years**	**Non-interest rate sensitive**	**Total**
	$	**$**	**$**	**$**	**$**	**$**	**$**
(i) Financial assets							
Cash and liquid assets	1,611,778	-	-	-	-	279,850	1,891,628
Receivables due from other financial institutions	7,981,528	9,948,155	9,170,193	-	880,000	-	27,979,876
Accrued receivables	-	-	-	-	-	193,968	193,968
Loans to members	35,915,245	-	-	-	-	-	35,915,245
Available for sale investments	-	-	-	-	-	78,938	78,938
Total financial assets	45,508,551	9,948,155	9,170,193	-	880,000	552,756	66,059,655
(ii) Financial liabilities							
Deposits	43,614,953	6,857,381	8,302,494	-	-	38,040	58,812,868
Payables and other liabilities	-	-	-	-	-	473,133	473,133
Total financial liabilities	43,614,953	6,857,381	8,302,494	-	-	511,173	59,286,001

24. FINANCIAL COMMITMENTS

	2019 $	2018 $
Outstanding loan commitments		
The loans approved but not funded	2,022,254	1,297,573
Loan redraw facilities		
The loan redraw facilities available	2,361,169	2,200,891
Overdrafts		
Overdraft facilities available	620,867	739,571
Total Financial Commitments	5,004,290	4,238,035

25. EXPENDITURE COMMITMENTS

25.1 Future Capital Commitments

At 30 June 2019 First Choice has no future capital commitments (2018: nil).

25.2 Other

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

	2019 $	2018 $

26. STANDBY BORROWING FACILITIES

First Choice has gross borrowing facilities with CUSCAL Limited of:

Overdraft facility

	2019 $	2018 $
Gross	250,000	250,000
Current borrowing	-	-
Net available	250,000	250,000

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

27. CONTINGENT LIABILITIES

Credit Union Financial Support System

First Choice is a member of Credit Union Financial Support System (CUFSS). CUFSS is a voluntary scheme of all Credit Unions that are affiliated with CUSCAL Limited. As a member, First Choice is committed to keep 3.2% of total assets in a nominated account that may be used by CUFSS for providing financial support backed by a floating charge over assets of the borrowing Credit Union. No funds have been so provided as at 30 June 2019.

28. KEY MANAGEMENT PERSONNEL AND RELATED PARTY DISCLOSURES

28.1 Remuneration of key management personnel

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

Key Management Persons (KMP) have been taken to comprise the Directors and the members of the executive management team during the financial year, responsible for the day to day financial and operational management of First Choice.

28. KEY MANAGEMENT PERSONNEL AND RELATED PARTY DISCLOSURES (Continued)

28.1 Remuneration of key management personnel

	Short-term employee benefits $	Post-employment benefits $	Other long-term benefits $	Termination benefits $	Total $
Year ended 30 June 2019					
Directors	51,155	4,779	-	-	55,934
Other KMP	298,607	28,367	-	-	326,975
Year ended 30 June 2018					
Directors	55,339	5,134	-	-	60,473
Other KMP	282,961	26,881	-	-	309,842

Compensation includes all employee benefits as defined in AASB 119: *Employee Benefits* including employee benefits to which AASB 2: *Share-based Payment* applies. Employee benefits are all forms of consideration paid, payable or provided by First Choice, or on behalf of First Choice, in exchange for services rendered to First Choice.

Compensation includes:

(i) short-term employee benefits, such as wages, salaries and social security contributions, paid annual leave and paid sick leave, profit-sharing and bonuses (if payable within twelve months of the end of the period) and non-monetary benefits (such as medical care, housing, cars and free or subsidised goods or services) for current employees;
(ii) post-employment benefits such as pensions, other retirement benefits, post-employment life insurance and post-employment medical care;
(iii) other long-term employee benefits, including long-service leave or sabbatical leave, jubilee or other long-service benefits, long-term disability benefits and, if they are not payable wholly within twelve months after the end of the period, profit-sharing, bonuses and deferred compensation;
(iv) termination benefits; and
(v) share-based payments.

28. KEY MANAGEMENT PERSONNEL AND RELATED PARTY DISCLOSURES (Continued)

28.2 Loans to Key Management Personnel and their Close Members of Family

	Balance as at 1 July $	Interest charged $	Write-off $	Balance as at 30 June $	Number in group	Amount of impairment loss expense recognised $
Year ended 30 June 2019						
Directors	353,951	1,226	-	25,695	2	-
Other KMP	237,429	9,502	-	195,689	2	-
Close members of family	-	-	-	-	-	-
Year ended 30 June 2018						
Directors	357,184	10,919	-	353,951	3	-
Other KMP	205,244	9,468	-	237,429	2	-
Close members of family	19,113	289	-	25,581	4	-

**: None of this balance is securitised

All loans provided to key management personnel and their close members of family are on conditions no more favorable than those extended to members. Security has been obtained for these loans in accordance with First Choice's lending policy.

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

28.3 Other transactions

There were no other transactions during the financial year between First Choice and members of the Board.

28. KEY MANAGEMENT PERSONNEL AND RELATED PARTY DISCLOSURES (Continued)

28.4 KMP and their Close Members of Family Saving, Term Deposit and Revolving Credit Facility Accounts

	Balance as at 1 July	Interest Paid	Balance as at 30 June	Number in group
	$	$	$	
Year ended 30 June 2019				
Directors	226,375	2,667	364,458	8
Other KMP	57,039	35	96,006	2
KMP close members of family	25,581	226	18,161	4
Year ended 30 June 2018				
Directors	167,175	2,226	226,375	7
Other KMP	43,179	5	57,039	2
KMP close members of family	19,113	289	25,581	4

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

29. ECONOMIC DEPENDENCY

First Choice has an economic dependency on the following suppliers of services:

(i) CUSCAL Ltd - this entity supplies First Choice rights to members' cheques and Redicards in Australia and provides services in the form of settlement with bankers for member chequing, Redicard transactions and the production of members' cheque books and Redicards for use by members. It also provides central banking facilities and the switching service used to link Redicards and Visa debit cards operated through RediATMs, and other approved ATM suppliers, to First Choice EDP systems

(ii) Data Action Pty Ltd – this company provides and maintains the application software used by First Choice.

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

30. SEGMENTAL REPORTING

First Choice operates exclusively in the retail financial services industry within Australia.

31. CASH FLOW INFORMATION

31.1 Cash Flows Presented on a Net Basis

Cash arising from the following activities are presented on a net basis in the statement of cash flows:

(i) member deposits to and withdrawals from savings, money market and other deposit accounts;
(ii) sales and purchases of maturing certificates of deposit;
(iii) provision of member loans and the repayment of such loans.

31. CASH FLOW INFORMATION (Continued)

31.2 Reconciliation of Cash

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

	2019 $	2018 $
Reconciliation of cash		
Cash balance comprises:		
- Cash on hand	297,757	279,850
- Cash at bank	316,736	411,778
- Cash on deposit	2,950,000	1,200,000
	3,564,493	1,891,628

31.3 Reconciliation of Net Cash Provided by Operating Revenue Activities to Net Profit After Income Tax

	2019	2018
Net profit after tax	192,929	211,876
Non-cash items		
Depreciation and amortization	41,922	35,574
Bad debts written off	91,978	42,523
Movements in assets and liabilities		
Deferred income tax asset	9,921	3,828
Other assets	(1,775)	6,794
Provision for income tax	(15,191)	7,087
Accrued interest receivable	45,568	19,077
Accrued interest payable	23,140	(32,475)
Creditors and accruals	(30,822)	(112,021)
Provisions	3,600	(5,605)
Deferred income tax liability	(2,821)	(3,488)
Net cash provided by revenue activities	358,449	173,170

32. CORPORATE INFORMATION

First Choice is a company limited by shares, and is registered under the Corporations Act 2001.

The address of the registered office is:	First Choice Credit Union Ltd 2/18 Sale Street Orange NSW 2800
The address the principal place of business is:	2/18 Sale Street Orange NSW 2800

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

33. CORPORATE GOVERNANCE DISCLOSURES

Board

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

Each Director must be eligible to act under the constitution as a member of First Choice and *Corporations Act 2001* criteria. Directors need to also satisfy the Fit and Proper criteria set down by APRA and First Choice.

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

The Board:

- Ensures the adequacy and implementation of the Risk Management Framework including compliance with policies
- Ensures the implementation of the Strategic Plan
- Monitors the matters of operational risk management and APRA reporting obligations
- Monitors the compliance with applicable laws
- Approves one off significant expenditure (i.e. items over >$10,000)
- Endorses First Choices' remuneration policy and specifically the General Manager's remuneration package
- Monitors financial budgets and performance criteria
- Endorsement of General Manager expenses
- Endorsement of large loans or commercial loans
- Endorsement of interest rate changes

Board Remuneration

The Board receives remuneration from First Choice in the form of allowances agreed to each year at the AGM and out of pocket expenses. There are no other benefits received from First Choice by the Directors.

Board Risk Committee

The Board Risk Committee assists the Board in its oversight of Management's implementation of the Board approved Risk Management Framework. The committee is comprised of Directors however the General Manager and Chief Risk Officer also attends.

33. CORPORATE GOVERNANCE DISCLOSURES (Continued)

The Board Audit Committee

The Board Audit Committee assists the Board in providing an objective non-executive review of the effectiveness of First Choice's Risk Management Framework. The committee is comprised of Directors however the General Manager also attends.

Management Remuneration

All management are remunerated by Salary packages. The General Manager's salary is a fixed package sum. Remuneration of all management reflects the requirements of First Choice's Remuneration Policy and is governed by the Charter of the Remuneration Committee, both of which are consistent with the requirements of APRA standards' CPS 510 Governance and APG 511 Remuneration.

Policies

The Board has endorsed a policy of risk governance to suit the risk profile of First Choice's ethical guidelines to staff, and to reinforce the practice of providing efficient service to members with courtesy and recognition of members as owners. The ethical principles adopted by First Choice are in accordance with the Customer Owned Banking Code of Practice.

Key Risk Management Policies include:

- Risk Governance
- Capital adequacy including the Internal Capital Adequacy Assessment Program
- Liquidity Management
- Credit Risk Management
- Fraud Risk Management
- Data risk management
- Business Continuity Management
- Market Risk Management
- Outsourcing Management
- Operations Risk Management

Chief Risk Officer

First Choices' Chief Risk Officer is responsible for monitoring Management's implementation of the risk management framework on a day to day basis and reporting these findings to the BRC. They are also responsible for maintaining staff awareness of regulatory changes and responding to staff inquiries on compliance matters. The Manager also monitors Prudential Reporting, Financial Reporting, FSR and Credit License obligations and responds to all member complaints and disputes should they arise.

External Audit

The external audit is performed by Intentus Chartered Accountants. The Partners at Intentus have over 30 years' experience auditing small to medium sized credit unions.

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

Internal Audit

The internal audit function is performed by DBP Consulting Pty Ltd to deal with the areas of internal control compliance and regulatory compliance.

33. CORPORATE GOVERNANCE DISCLOSURES (Continued)

Regulation

First Choice is regulated by:

- Australian Prudential Regulation Authority (APRA) for the prudential risk management of First Choice.
- ASIC for adherence to Corporations Act, National Consumer Credit Protection Act 2009, Accounting Standards disclosures in the financial report and Financial Services Reform (FSR) requirements. The FSR legislation requires First Choice disclose details of products and services, maintains training for all staff that deal with the members, and provide an effective and independent complaints handling process.
- Office of the Australian Information Commissioner for privacy legislation
- AUSTRAC for Anti Money Laundering and Counter Terrorism legislation

Under the FSR licensing arrangements all staff which deal with the public are required to be trained and certified to a level of skill commensurate with the services provided.

Under the Credit Licensing arrangements all staff are deemed Credit Representatives and some are deemed Responsible Managers and must complete a minimum amount of continuing professional development each year. Responsible Managers must have a minimum level of experience and qualifications.

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

Workplace, Health & Safety (WHS)

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

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

Staff are trained in robbery procedures and offices are designed to detract from such acts by
- Little or no cash being held in accessible areas; and
- Cameras and monitoring equipment visible throughout the office.

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

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

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

FIRST CHOICE CREDIT UNION LTD

ABN 63 087 649 867

DIRECTORS' DECLARATION

The Directors of First Choice Credit Union Ltd declare that:

(a) The financial statements and notes set out on pages 7 to 63 are in accordance with the Corporations Act 2001 and:

(i) comply with Accounting Standards, which, as stated in accounting policy Note 3 to the financial statements, constitutes explicit and unreserved compliance with International Financial Reporting Standards (IFRS); and

(ii) give a true and fair view of the financial position as at 30 June 2019 and of the performance for the year ended on that date of First Choice.

(b) In the Directors' opinion there are reasonable grounds to believe that First Choice will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Board of Directors and is signed at Orange on the 16 day of September 2019 for and on behalf of the Directors by:

Timothy Robinson	Donald Butler
Director	Director
Chair of Board	Chair of Audit Committee

INDEPENDENT AUDIT REPORT TO THE MEMBERS OF
FIRST CHOICE CREDIT UNION LTD
ABN 63 087 649 867

Audit Opinion

We have audited the accompanying financial report of First Choice Credit Union Limited, which comprises the Statement of Financial Position as at 30 June 2019, and the Statement of Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows for the year ended on that date, a summary of significant accounting policies and other explanatory notes and the director's declaration.

In our opinion:

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

  (i) giving a true and fair view of the Credit Union's financial position as at 30 June 2019 and of its performance for the year ended on that date; and
  (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001* (Cwlth)

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

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Report section of our report. We are independent of the Company in accordance with the Corporations Act 2001 and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES110 Code of Ethics for Professional Accountants (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the Corporations Act 2001, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's report

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

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

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

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

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

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

Directors' responsibility for the financial statements

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

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

Auditor's Responsibilities for the Audit of the Financial Report

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

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

intentus

14 Sale Street
Orange
Dated: 16 September 2019

Leanne Smith
Director