PULSE CREDIT UNION LTD

heart of the community

ABN 35 087 651 670

AFS LICENCE 239293

# Directors' Report and Financial Statements For the year ended 30 June 2016

# PULSE CREDIT UNION LIMITED

**Board of Directors:**

| | | |
|---|---|---|
| **Chairman** | J Green | |
| **Deputy Chairman** | S. Young | |
| | M. Brand | |
| | D. Bulman | |
| | N. Mc Donald | |
| | P. McGrath | |
| | S. Muir | |
| | P. Talevski | |

**Administration:**

K. Warham - Chief Executive Officer
S. Neave - General Manager Finance

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

**Company Secretary**

K. Warham

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**Bankers**

National Australia Bank Ltd

**Auditors**

External Auditors: JTP Assurance
Internal Auditors: Aspire Management & Accounting Group Pty Ltd.

**Solicitors**

Velos Lawyers

**Insurer**

QBE Insurance

**Registered Office**

Level 6, 766 Elizabeth Street
Melbourne, Vic 3000
(03) 9347 9588

**Web Site**

http://www.pulsecredit.com.au

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**Contents** **Page**

# DIRECTORS' REPORT

Your directors submit their report for the year ended 30 June 2016

**DIRECTORS**

The names and details of the directors of the Company at the date of this report are:

**Names and qualifications**

| | |
|---|---|
| J Green (Chairman) | BEcon *Tas.*, LLB *Deakin*, FCSA, FCPA, FGIA, FAICD, MRMIA Business Consultant, Chairman of the Remuneration Committee. |
| S Young (Deputy Chairman) | BSc. *Adel*, MBA *Melb.* MCommrclLaw *Melb*, Retired Previously Senior Policy Officer, Chancellery IT, The University of Melbourne Member of Remuneration and Risk Committees. |
| M. Brand | FRMIT *Bus.Studs.* Certified Practice Manager. Medical Practice Executive Officer. Over 30 years experience in management, human resources and information technology in the Health and Information Technology industries, member of the Risk Committee |
| D. Bulman | FCPA. Diploma in Financial Management Current holder of a Private Practice Certificate providing financial services to Indigenous Community Organisations in the Goulburn Valley Region 15 years financial experience in the health industry Member of the Audit Committee |
| N McDonald | Retired. Previously Manager of Research, Faculty of Health Sciences, La Trobe University. Member of the Remuneration Committee and Chairman of the Risk Committee. |
| P McGrath | Bbus (Accounting) *RMIT*, GradDip Commercial Data Proc *RMIT*. Member of CPA Australia. Member of Institute of Internal Auditors – Australia (IIA-A). Chairman of the Audit Committee, member of the Risk Committee. |
| S. Muir | B.Ec (Hons.) M.Ec. *La Trobe*, Member ANZAM, Member of the Audit Committee |
| P. Talevski | CPA, Bachelor of Commerce, Diploma of Financial Services, Associate Diploma in Accounting Public Tax Accountant & Financial Advisor (own practice). Member of the Audit Committee |

**COMPANY SECRETARY**

K. Warham

**Attendance at Board, Audit, Remuneration and Strategy & Capital Planning Committees – 1st July 2015 to 30 June 2016**

| | Board | Audit Committee | Remuneration Committee | Risk Committee |
|---|---|---|---|---|
| | | | | |
| **Number of meetings held:** | 12 | 3 | 1 | 3 |
| **Number of meetings attended:** | | | | |
| J. Green | 11 | 3 | 1 | 3 |
| S. Young | 8 | | 1 | 3 |
| M. Brand | 12 | | | 3 |
| D. Bulman | 11 | 3 | | |
| P. McGrath | 11 | 3 | | 3 |
| N. Mc Donald | 12 | 3 | 1 | 3 |
| S. Muir | 11 | 3 | | |
| P. Talevski | 11 | 3 | | |

# DIRECTORS'REPORT

**DIRECTORS' BENEFITS**
No director has received or become entitled to receive during, or since the financial year, a benefit because of a contract made by the Credit Union, controlled entity, or a related body corporate with a director, a firm of which a director is a member or an entity in which a director has a substantial financial interest.

**PRINCIPAL ACTIVITY**
The principal activity of the Company during the year was receiving funds on deposits, advancing loans and providing insurance services to members

There has been no significant change in the nature of these activities during the year

**OPERATING RESULTS**
The amount of profit of the company for the financial year, after providing for income tax, was $194,247 (2015: Profit of $119,988).

**DIVIDENDS**
No dividends have been paid or declared since the end of the financial year and no dividends have been recommended or provided for by the directors of the Credit Union.

**REVIEW OF OPERATIONS**
The results of the Credit Union's operations from its activities of providing financial services to its members did not change significantly from those of the previous year.

**EVENTS SUBSEQUENT TO THE END OF THE REPORTING PERIOD**
The Directors are not aware of any events occurring after the reporting period which will have a material effect on the company's financial statements for the next succeeding year.

**SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS**
No significant changes.

**FUTURE DEVELOPMENTS**
The 2016/17 year will include the first stage of implementing a digital banking platform to enhance our member offering particularly in the area of on-line banking as well as eStatements and a Pulse branded credit card.

**ENVIROMENTAL REGULATION**
The company's operations are not regulated by any significant environment regulation under a law of the Commonwealth or State or Territory.

**INDEMNIFICATION OF OFFICERS**
During the year, a premium was paid in respect of a contract insuring the directors and officers of the company against liability. The officers of the company covered by the insurance contract include directors, executive officers, secretary and employees.

In accordance with normal commercial practice, disclosure of the total amount of premium payable under, and the nature of liabilities covered by, the insurance contract is prohibited by a confidentiality clause in the contract.

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

**AUDITOR'S INDEPENDENCE DECLARATION**
A copy of the auditor's independence declaration as required under section 307c of the Corporations Act 2001 is set out on page 4.

**OPTIONS**
No options over issued shares or interests in the company or a controlled entity were granted during or since the end of the financial year and there were no options outstanding at the date of this report.

No shares were issued during or since the end of the year as a result of the exercise of an option over unissued shares or interests.

**PROCEEDINGS ON BEHALF OF THE COMPANY**
No person has applied for leave of court to bring proceedings on behalf of the company or intervene in any proceedings to which the company is a party for the purpose of taking responsibility on behalf of the company for all or any part of those proceedings.

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

**ROUNDING**
The amounts contained in this report and in the financial statements have been rounded off under the option available in accordance with ASIC Class Order 98/100, as the company is one that has total assets in excess of $10,000,000.

Signed in accordance with a resolution of the directors

John Green..........................................
Director
Melbourne,

Neil McDonald..........................................
Director

JTP ASSURANCE
10th Floor, 446 Collins Street
Melbourne, VIC 3000
P.O. Box 627, Collins Street West
VIC 8007
T: +61 3 9602 1494
F: +61 3 9602 3606
E: audit@jtpassurance.com.au
www.jtpassurance.com.au

**AUDITOR'S INDEPENDENCE DECLARATION**
**UNDER SECTION 307C OF THE CORPORATIONS ACT 2001**
**TO THE MEMBERS OF PULSE CREDIT UNION LTD**

I declare that, to the best of my knowledge and belief, during the year ended 30 June 2016 there have been:

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

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

JTP Assurance

**JTP ASSURANCE**
**Chartered Accountants**

**SAM CLARINGBOLD**
**Partner**

**Signed at Melbourne this** 29th **day of** September **2016**

# STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2016

| | Note | 2016 | 2015 |
|---|---|---|---|
| | | **$'000** | $'000 |
| **INTEREST INCOME** | 2 | **3,588** | 3,859 |
| **INTEREST EXPENSE** | 2 | **(1,366)** | (1,572) |
| **NET INTEREST INCOME** | | **2,222** | 2,287 |
| **OTHER REVENUE** | 3 | **505** | 447 |
| **BAD AND DOUBTFUL DEBTS (EXPENSE)/WRITEBACK** | 4 | **(8)** | (4) |
| **EMPLOYEE BENEFITS EXPENSE** | 4 | **(1,141)** | (1,190) |
| **OCCUPANCY EXPENSES** | 4 | **(214)** | (235) |
| **DEPRECIATION AND AMORTISATION EXPENSE** | 4 | **(107)** | (112) |
| **RESTRUCTURING COSTS** | 4(b) | **(79)** | - |
| **OTHER EXPENSES** | 4 | **(952)** | (1,049) |
| **PROFIT BEFORE INCOME TAX** | | **226** | 144 |
| **TOTAL COMPREHENSIVE INCOME FOR THE PERIOD** | | **226** | 144 |
| **INCOME TAX REVENUE/(EXPENSE)** | 5 | **(31)** | (24) |
| **TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO MEMBERS** | | **195** | 120 |

## STATEMENT OF CHANGES IN MEMBER EQUITY FOR THE YEAR ENDED 30 June 2016

| | General Reserve $'000 | Retained Profits $'000 | Reserve for Credit Losses $'000 | Asset Revaluation Investment Property $'000 | Total $'000 |
|---|---|---|---|---|---|
| **Total at 1 July 2015** | **5,838** | **-** | **203** | **820** | **6,861** |
| **Net Profit for the period** | - | 195 | - | - | 195 |
| **Total comprehensive income** | - | 195 | - | - | - |
| **Transfers to (from) Reserves** | 143 | (195) | - | 52 | - |
| **Total at 30 June 2016** | 5,981 | - | 203 | 872 | 7,056 |
| | | | | | |
| **Total at 1 July 2014** | 5,738 | - | 183 | 820 | 6,741 |
| **Net Profit for the period** | - | 120 | - | - | 120 |
| **Total comprehensive income** | - | 120 | - | - | - |
| **Transfers to (from) Reserves** | 100 | (120) | 20 | - | - |
| **Total at 30 June 2015** | 5,838 | - | 203 | 820 | 6,861 |

The accompanying notes form part of the financial statements

# STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2016

| | | 2016 | 2015 |
|---|---|---|---|
| | | $'000 | $'000 |
| **ASSETS** | | | |
| Cash and liquid assets | | 3,062 | 2,394 |
| Advances to other financial institutions | 6 | 44,826 | 42,014 |
| Receivables | 7 | 398 | 362 |
| Loans and advances | 8 | 43,788 | 44,991 |
| Investments | 9 | 1,199 | 1,194 |
| Investment Property | 10 | 2,000 | 1,925 |
| Property, plant and equipment | 10 | 215 | 227 |
| Intangible Assets | 10 | 282 | 341 |
| Deferred tax assets | 11 | 152 | 161 |
| Other assets | 12 | 101 | 95 |
| Provision for tax | 15 | - | - |
| **TOTAL ASSETS** | | 96,023 | 93,704 |
| **LIABILITIES** | | | |
| Deposits and short term borrowings | 13 | 87,181 | 84,812 |
| Creditor accruals and settlement accounts | 14 | 1,120 | 1,321 |
| Deferred tax liability | 11 | 374 | 352 |
| Provision for Tax | 15 | - | - |
| Provisions | 16 | 292 | 358 |
| **TOTAL LIABILITIES** | | 88,967 | 86,843 |
| **NET ASSETS** | | 7,056 | 6,861 |
| **EQUITY** | | | |
| Reserves | 17 | 7,056 | 6,861 |
| Retained earnings | 18 | - | - |
| **TOTAL EQUITY** | | 7,056 | 6,861 |

The accompanying notes form part of the financial statements

# STATEMENT OF CASHFLOWS FOR THE YEAR ENDED 30 June 2016

| | Note | 2016 | 2015 |
|---|---|---|---|
| | | $'000 | $'000 |
| **OPERATING ACTIVITIES** | | | |
| **Revenue Inflows** | | | |
| Interest received | | **3,588** | 3,859 |
| Other non-interest income received | | **580** | 439 |
| Interest paid | | **(1,366)** | (1,572) |
| General Expenses Paid | | **(2,689)** | (2,004) |
| Income tax paid | | **0** | 48 |
| **Net cash provided by (used in) operating activities** | 25b | **113** | 770 |
| **Cash flows from investing activities** | | | |
| Net (decreases)/increases in loans | | **1,195** | 2,771 |
| Payments for property, plant and equipment and software | | **(224)** | (113) |
| Purchase of investments | | **(5)** | (500) |
| Proceeds on sale of property, plant and equipment | | **32** | - |
| Net expenditure on investing activities | | **(2,812)** | (12,809) |
| **Net Cash from Investing Activities** | | (1,814) | (10,651) |
| **Cash flows from Financing Activities** | | | |
| Net increase in members' deposits | | **2,369** | 8,691 |
| **Net Cash from Financing Activities** | | **2,369** | 8,691 |
| Total Net Cash increase / (decrease) | | **668** | (1,190) |
| Cash at Beginning of Year | | **2,394** | 3,584 |
| Cash at End of Year | 25a | 3,062 | 2,394 |

The accompanying notes form part of the financial statements

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 June 2016

The financial statements cover Pulse Credit Union Limited as an individual entity, incorporated and domiciled in Australia. Pulse Credit Union Limited is a company limited by guarantee.

## 1. STATEMENT OF ACCOUNTING POLICIES

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

Australian Accounting Standards set out accounting policies that the AASB has concluded would result in financial statements containing relevant and reliable information about transactions, events and conditions. Material accounting policies adopted in the preparation of these financial statements are presented below and have been consistently applied unless stated otherwise.

The financial statements, except for the cash flow information, have been prepared on an accruals basis and are based on historical costs, modified, where applicable, by the measurement at fair value of selected non-current assets, financial assets and financial liabilities. The amounts presented in the financial statements have been rounded to the nearest thousand dollars.

**Departure from Australian Accounting Standard**

All applicable Australian Accounting Standards have been complied with.

In the 2015 financial statement a restructuring process involving the transfer of one branch's operations to 766 Elizabeth Street, Melbourne and the redundancy of a number of staff members was initiated in early July 2015 and continued for most of the 2015/2016 financial year.

Employee termination benefits incurred as part of a restructuring are accounted for in accordance with *AASB 119 Employee Benefits* and *AASB 137 Provisions, Contingent Liabilities and Contingent Assets*. The standards require a provision for redundancy to be recorded once a "*constructive obligation*" to restructure has occurred Subsequent to the 30 June 2015 year end a bona fide redundancy payment of $79,000 will be made to one employee whose position in the Credit Union has been made redundant. In applying the accounting standards a provision for redundancy for this employee should be recorded as at year end. The directors have concluded in accordance with *AASB 101 Presentation of Financial Statements*, that compliance with these standards in the current circumstances does not present fairly the Credit Union's financial position, financial performance and cash flows for the year ended 30 June 2015.

Whilst acknowledging the accounting standards recognition requirements for redundancy payments, the directors believe that applying these requirements in the circumstances of the Credit Union does not present fairly to users of the financial statements including members and employees of the Credit Union and the Australian Prudential Regulation Authority the actual financial performance for the year ended 30 June 2015, the impacts on its cash flows and the capital base of the Credit Union The directors believe that recognition of the redundancy payment in the subsequent year when the termination becomes effective and in which the redundancy payment is made to the effected party provides a fairer reflection of the performance of the Credit Union and its current restructuring activities.

Had the accounting standards been applied the statement of comprehensive income for the period ending 2014/2015 of $144,000 would have been $65,000. Whilst material to the comprehensive income for the year it has no impact on cash flows for the year and represents less than 1.2% of the credit union's equity.

All other applicable Australian Accounting Standards except that noted above had been complied with.

The financial statements were authorised for issue on 21st September 2016 by the directors of the company.

**a) Loans to Members**

**(i) Basis of recognition**

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

Loans to members are reported at their recoverable amount representing the aggregate amount of principal and unpaid interest owing to the Credit Union at balance date, less any allowance or provision against debts considered doubtful.

**(ii) Interest Earned**

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

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

**Non-Accrual Loan Interest** – while still legally recoverable, interest is not brought to account as income where a loan is impaired. A loan is classified as impaired where recovery of the debt is considered unlikely as determined by the Board of Directors.

**Non-Accrual Loan Interest** – while still legally recoverable, interest is not brought to account as income where a loan is impaired. A loan is classified as impaired where recovery of the debt is considered unlikely as determined by the Board of Directors.

**b) Loan Impairment**

**(i) Specific Provision**

Losses for impaired loans are recognised when there is objective evidence that the impairment of a loan has occurred. Impairment losses are calculated on individual loans in arrears. The specific provision for doubtful debts is determined by management and the Board to recognise the probability of loan amounts not being collected in accordance with terms of the loan agreement.
Irrespective of the determination a minimum provision is maintained, based on specific percentages of the loan balance which are contingent upon the length of time the repayments are in arrears.

**(ii) Reserve for Credit Losses (formerly held as a General Provision)**

In addition to the above specific provision, the Board has recognised the need to make an allocation from General Reserves to ensure there is adequate protection for members against the prospect that some members will experience loan repayment difficulties. The reserve is a minimum of 0.50% of total assets weighted in accordance with APRA Prudential Standards.
As a result of changes to Accounting Standards prescribed by AIFRS, the General Provision is no longer eligible for recognition as a provision to be offset against the gross balance of loans. The provision for general credit risk in the loan portfolio is now recognised as the Reserve for Credit Losses.

**c) Bad Debts Written Off**

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

**d) Property, Plant and Equipment**

Property, plant and equipment with the exception of freehold land and dual investment property, are depreciated on a straight line basis so as to write off the net cost of each asset over its expected useful life to the Credit Union.

Estimated useful lives are as follows:

- Buildings - 40 years.
- Leasehold Improvements - 10 years.
- Plant and Equipment - 3 to 15 years.
- Assets less than $300 are not capitalised.

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 recognised in profit or loss when the item is derecognised. When revalued assets are sold, amounts included in the revaluation surplus relating to that asset are transferred to retained earnings.

**e) Investment Property**

Investment property is carried at fair value, supported by Director's and independent property valuations. These valuations are reviewed on a regular basis and any changes to the fair value are recorded in the income statement. The property at 766 Elizabeth Street, Melbourne is primarily held for sale. Revaluation increments are apportioned in terms of the applicable accounting standards for Investment Property (tenanted portion).

**f) Deposits with Other Financial Institutions**

Term deposits 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 Balance Sheet.

**g) Equity Investments and Other Securities**

Investments in shares where a market value is readily available are revalued to market value, with the gains and losses reflected in Equity through the Asset Revaluation reserve. Investments in shares which do not have ready market and are not capable of being reliably valued are recorded at the lower of cost or recoverable amount. Investments in shares where no market value is readily available are carried at cost less any provision for impairment. All investments are in Australian currency.

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 June 2016

**h) Member Savings**

**(i) Basis for Determination**

Member savings and term investments are quoted at the aggregate amount of money owing to depositors

**(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 amounts payable.

**i) Provision for Employee Entitlements**

Provision is made for the credit union's liability for employee entitlements arising from services rendered by employees to balance date. Employee entitlements expected to be settled within one year together with entitlements arising from wages and salaries, annual leave which will be settled after one year, have been measured at their nominal amount. Other employee entitlements payable later than one year have been measured at the present value of the estimates of future cash outflows to be made for those entitlements

Provision for long service leave is on a pro-rata basis after 5 years anniversary 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 year of service and leave entitlement due but not taken at balance date. Contributions are made by the Credit Union to an employee's superannuation fund and are charged to expense as incurred.

**j) Leasehold on premises**

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

**k) Income Tax**

The Credit Union adopts the liability method of tax-effect accounting whereby the income tax expense shown in the Income Statement is based on the operating profit before income tax adjusted for any permanent differences between accounting profit and taxable income. Timing differences which arise due to the different periods in which items of revenue and expense are recognised for tax purposes are brought to statement as either provision for deferred income tax or an asset described as future income tax benefit, at the rate of income tax applicable to the period in which the benefit will be received or the liability will become payable. Timing differences are presently assessed at 30%.

Future income tax benefits are not brought to statement unless realisation of the asset is assured beyond any reasonable doubt. 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.

**l) Intangible Assets**

Under the AIFRS, items of computer software which are not integral to the computer hardware owned by the credit union are classified as Intangible Assets, not as part of Plant and Equipment. Computer software held as intangible assets is amortised over the expected useful life of the software. These lives range from 2 to 10 years.

**m) Goods and Services Tax**

Revenue, expenses and assets are recognised net of the amount of goods and services tax (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 where applicable GST is collected.

**n) Critical accounting estimates and judgements**

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

**Key Estimates**

*Impairment*
The freehold land and buildings are independently valued based on the fair value less cost to sell. The critical assumptions adopted in determining the valuation include the location of the land and buildings, the current strong demand for land and buildings in the area and recent sales data for similar properties.

At 30 June 2016 the directors reviewed the key assumptions made by the valuers They have concluded that these assumptions remain materially unchanged, and are satisfied that carrying value does not exceed the recoverable amount of land and buildings at 30 June 2016.

**o) New Accounting Standards for Application in Future Periods**

The AASB has issued a number of new and amended Accounting Standards and Interpretations that have mandatory application dates for future reporting periods, some of which are relevant to the company. The company has decided not to early adopt any of the new and amended pronouncements. The company's assessment of the new and amended pronouncements that are relevant to the company but applicable in future reporting periods is set out below:

- AASB 9: Financial Instruments and associated Amending Standards (applicable for annual reporting periods commencing on or after 1 January 2018). These Standards will be applicable retrospectively (subject to the provisions on hedge accounting outlined below) and include revised requirements for the classification and measurement of financial instruments, revised recognition and de-recognition requirements for financial instruments and simplified requirements for hedge accounting. The key changes that may affect the company on initial application of AASB 9 and associated Amending Standards include certain simplifications to the classification of financial assets, simplifications to the accounting of embedded derivatives, upfront accounting for expected credit loss and the irrevocable election to recognise gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. AASB 9 also introduces a new model for hedge accounting that will allow greater flexibility in the ability to hedge risk, particularly with respect to hedges of non-financial items Should the entity elect to change its hedge policies in line with the new hedge accounting requirements of AASB 9, the application of such accounting would be largely prospective. Although the directors anticipate that the adoption of AASB 9 may have an impact on the company's financial instruments, it is impracticable at this stage to provide a reasonable estimate of such impact

- AASB 16: Leases (applicable to annual reporting periods beginning on or after 1 January 2019). When effective, this Standard will replace the current accounting requirements applicable to leases in AASB 117: Leases and related Interpretations. AASB 16 introduces a single lessee accounting model that eliminates the requirement for leases to be classified as operating or finance leases. The main changes introduced by the new Standard include:
  -recognition of a right-to-use asset and liability for all leases (excluding short-term leases with less than 12 months of tenure and leases relating to low-value assets);
  -depreciation of right-to-use assets in line with AASB 116: Property, Plant and Equipment in profit or loss and unwinding of the liability in principal and interest components;
  -variable lease payments that depend on an index or a rate are included in the initial measurement of the lease liability using the index or rate at the commencement date;
  -by applying a practical expedient, a lessee is permitted to elect not to separate non-lease components and instead account for all components as a lease; and
  -additional disclosure requirements.
  The transitional provisions of AASB 16 allow a lessee to either retrospectively apply the Standard to comparatives in line with AASB 108 or recognise the cumulative effect of retrospective application as an adjustment to opening equity on the date of initial application. Although the directors anticipate that the adoption of AASB 16 will impact the Company's financial statements, it is impracticable at this stage to provide a reasonable estimate of such impact.

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 June 2016

## 2. INTEREST REVENUE AND BORROWING COSTS

The following tables show the average balance for each of the major categories of interest-bearing assets and liabilities, the amount of interest revenue or expense and the average interest rate. Most averages are month end averages

| | Note | Average Balance $'000 | Interest $'000 | Average Interest Rate % |
|---|---|---|---|---|
| **Interest Revenue 2016** | | | | |
| Deposits with other financial institutions | | **45,010** | **1,435** | **3.19** |
| Loans and advances | | 44,238 | 2,153 | 4.87 |
| | | 89,248 | 3,588 | 4.02 |
| **Borrowing Costs 2016** | | | | |
| Customer deposits | | **86,392** | **1,363** | **1.58** |
| Short-term borrowings | | - | 3 | - |
| | | 86,392 | 1,366 | 1.58 |
| **Net Interest Income 2016** | | | 2,222 | 2.44 |
| **Interest Revenue 2015** | | | | |
| Deposits with other financial institutions | | 40,225 | 1,399 | 3.47 |
| Loans and advances | | 46,202 | 2,460 | 5.32 |
| | | 86,427 | 3,859 | 4.40 |
| **Borrowing Costs 2015** | | | | |
| Customer deposits | | 81,961 | 1,569 | 1.91 |
| Short-term borrowings | | - | 3 | - |
| | | | 1,572 | 1.91 |
| **Net Interest Income 2015** | | | 2,287 | 2.49 |

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 June 2016

| | Note | 2016 | 2015 |
|---|---|---|---|
| | | **$'000** | **$'000** |
| **3. REVENUE FROM ORDINARY ACTIVITIES** | | | |
| Interest | | 3,588 | 3,859 |
| Fees and commissions | | 233 | 273 |
| Proceeds on disposal of fixed assets | | - | - |
| Bad debts recovered | | - | - |
| Revaluation Increment | | 75 | - |
| Other revenue | | 197 | 174 |
| | | 505 | 447 |
| | | 4,093 | 4,306 |
| **4. PROFIT FROM ORDINARY ACTIVITIES** | | | |
| **Profit from ordinary activities before Income tax expense has been determined after:** | | | |
| **(a) Expenses** | | | |
| Bad and doubtful debts | 8(d) | 8 | 4 |
| Depreciation and amortisation | | | |
| - plant and equipment | | 47 | 52 |
| - impairment | | - | - |
| - intangible assets | | 60 | 60 |
| Total depreciation and amortisation | | 107 | 112 |
| General and administration | | | |
| - personnel costs | | 1,220 | 1,190 |
| - computer costs | | 321 | 349 |
| - occupancy | | 214 | 235 |
| - audit and consultancies | | 85 | 110 |
| - general expenses | | 546 | 590 |
| | | 2,386 | 2,474 |

**(b) Restructuring Costs**

As outlined in note 1 of the financial statements in 2015 restructuring costs of $79,000 representing a bona fide redundancy payment to be made subsequent to 30 June 2015 had not been recognised as an expense in the year as the directors have concluded, that compliance with the standards in the circumstances does not present fairly the credit union's financial position, financial performance and cash flows for the year ended 30 June 2015

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 June 2016

| | Note | 2016 | 2015 |
|---|---|---|---|
| | | $'000 | $'000 |
| **5. INCOME TAX** | | | |
| **a) The Components of tax (expense)/income compromise:** | | | |
| Current Tax Expense | | (4) | (26) |
| Deferred Tax Expense | | (39) | (24) |
| Recoupment of prior year tax losses | | 4 | 26 |
| Under Provision in respect to prior year | | 8 | - |
| | | (31) | (24) |
| **b) The prima facie tax on operating profit items differs from the income tax provided in the accounts as follows:** | | | |
| Prima facie tax on operating profit from ordinary activities before income tax at 30% (2015 – 30%) | | 68 | 43 |
| Add tax effect of: | | | |
| Other non-allowable items | | (13) | 19 |
| Under provision of Income Tax in the prior year | | - | - |
| Less | | | |
| Redeemable fully franked dividends | | (20) | (12) |
| Recoupment of prior year tax losses not previously brought to account | | (4) | (26) |
| Income tax expense / (benefit) attributable to operating profit | | 31 | 24 |
| The applicable weighted average effective tax rates are as follows | | 13.8%* | 16.7% |
| *Including tax effect of under provision from prior year (excluding adjustment, 17.4%) | | | |
| **6. ADVANCES TO OTHER FINANCIAL INSTITUTIONS** | | | |
| Interest earning deposits | | 44,826 | 42,014 |
| Maturity Analysis | | | |
| At call | | - | - |
| Not longer than 3 months | | 18,330 | 18,622 |
| Longer than 3 and not longer than 12 months | | 10,707 | 10,026 |
| Longer than 1 and not longer than 5 years | | 15,789 | 13,366 |
| | | 44,826 | 42,014 |
| **7. RECEIVABLES** | | | |
| Interest receivable | | 398 | 359 |
| Other | | - | 3 |
| | | 398 | 362 |

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 June 2016

| | Note | 2016 $'000 | 2015 $'000 |
|---|---|---|---|
| **8. LOANS AND ADVANCES** | | | |
| Overdrafts | | 972 | 839 |
| Term loans | | 42,839 | 44,167 |
| Provision for impairment | 8(d) | (23) | (15) |
| Total loans and advances (net) | | 43,788 | 44,991 |

| | 2016 $'000 | 2015 $'000 |
|---|---|---|
| (a) Maturity Analysis | | |
| Overdrafts and Lines of Credit | 972 | 839 |
| Not longer than 3 months | 509 | 15 |
| Longer than 3 and not longer than 12 months | 1,108 | 793 |
| Longer than 1 and not longer than 5 years | 2,005 | 2,033 |
| Longer than 5 years | 39,217 | 41,326 |
| | 43,811 | 45,006 |

(b) Concentration of Risk

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

| | 2016 $'000 | 2015 $'000 |
|---|---|---|
| - Victorian residents | 43,006 | 44,286 |
| - Other | 805 | 720 |
| | 43,811 | 45,006 |

| | 2016 $'000 | 2015 $'000 |
|---|---|---|
| (c) Loans in excess of 10% of Capital Base | | |
| - Number | - | - |
| - Balance | - | - |

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 June 2016

| | Note | 2016 | 2015 |
|---|---|---|---|
| | | **$'000** | $'000 |
| **8. LOANS AND ADVANCES (cont'd)** | | | |
| (d) Provision for Impairment | | | |
| Specific provision | | | |
| Opening balance | | **15** | 54 |
| Bad debts previously provided for written off during the year | | **8** | (39) |
| Doubtful debts provided for during the year | | - | - |
| Closing balance | | **23** | 15 |
| The specific provision is the prescribed provisions under the APRA Prudential Standards | | | |
| Bad and doubtful debts expense comprises: | | | |
| Specific provision | | **23** | 15 |
| Bad debts recognised directly | | - | - |
| | | **23** | 15 |
| (e) Impairment of Loans and Advances | | | |
| Non Accrual Loans | | | |
| Balances with specific provisions for impairment | | **23** | 15 |
| Specific provision for impairment | | **(23)** | (15) |
| Net non accrual loans | | - | - |
| Interest revenue on non-accrual and restructured loans | | - | - |
| Interest foregone on non-accrual loans and restructured loans | | - | - |
| **9. INVESTMENTS** | | | |
| Unlisted shares – Credit Union Services Corporation (at cost) | | **199** | 199 |
| ANZ Capital Notes | | **500** | 500 |
| Melbourne University Bonds | | **500** | 495 |
| | | **1,199** | 1,194 |

The shareholding in CUSCAL is measured at cost as its fair value could not be measured reliably

This company was created to supply services to the member credit unions. These shares are held to enable the Credit Union to receive essential banking services. The shares are not able to be traded and are not redeemable.

The financial reports of CUSCAL record net tangible asset backing of these shares exceeding their cost value. Based on the net assets of CUSCAL, any fair value determination on these shares is likely to be greater than their cost value, but due to the absence of a ready market and restrictions on the ability to transfer the shares, a market value is not able to be determined readily

The Melbourne University Bonds and ANZ Capital Notes are measured at cost value. The Bonds are not held for trading purposes.

| | Note | 2016 $'000 | 2015 $'000 |
|---|---|---|---|
| **10. PROPERTY, PLANT AND EQUIPMENT** | | | |
| **Investment Property** | | | |
| At independent valuation June 2016 | | 2,000 | - |
| At Directors valuation | | - | 1,925 |
| Total Investment/ Dual Use Property | | 2,000 | 1,925 |
| **Leasehold improvements** | | | |
| At cost | | 170 | 170 |
| Less accumulated depreciation | | (170) | (170) |
| Total leasehold improvements | | - | - |
| **Plant and equipment** | | | |
| At cost | | 1,275 | 1,265 |
| Less accumulated depreciation | | (1,060) | (1,038) |
| Total plant and equipment | | 215 | 227 |
| **Intangible Assets** | | | |
| At cost | | 426 | 426 |
| Less accumulated depreciation | | (144) | (85) |
| Loss impairment | | | |
| Total intangible assets | | 282 | 341 |

**Movement in the asset balances during the year were:**

| 2016 | Investment / Dual Use Property $,000 | Leasehold Improvements $,000 | Plant and Equipment $,000 | Intangible Assets $,000 | Total $,000 |
|---|---|---|---|---|---|
| Balance at the beginning of year | 1,925 | - | 227 | 341 | 2,493 |
| Purchases | - | - | 100 | - | 100 |
| Revaluation Increment/ (Decrement) | 75 | - | - | - | 75 |
| Disposals | - | - | (65) | - | (65) |
| Depreciation expense | - | - | (47) | (59) | (106) |
| | 2,000 | - | 215 | 282 | 2,497 |

| 2015 | Investment / Dual Use Property $,000 | Leasehold Improvements $,000 | Plant and Equipment $,000 | Intangible Assets $,000 | Total $,000 |
|---|---|---|---|---|---|
| Balance at the beginning of year | 1,925 | - | 171 | 396 | 2,492 |
| Purchases | - | - | 121 | - | 121 |
| Revaluation Increment/ (Decrement) | - | - | - | - | - |
| Disposals | - | - | (13) | - | (13) |
| Depreciation expense | - | - | (52) | (55) | (107) |
| | 1,925 | - | 227 | 341 | 2,493 |

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 June 2016

| | Note | 2016 | 2015 |
|---|---|---|---|
| | | $'000 | $'000 |
| **11. TAX ASSETS** | | | |
| Deferred Tax Asset | | 152 | 161 |
| Deferred Tax Liability | | (374) | (352) |
| | | (222) | (191) |
| **12. OTHER ASSETS** | | | |
| Prepayments | | 101 | 95 |
| Other | | - | - |
| | | 101 | 95 |
| **13. DEPOSITS AND SHORT TERM BORROWINGS** | | | |
| Call deposits | | 47,831 | 45,448 |
| Term deposits | | 39,303 | 39,315 |
| Non-interest bearing deposits | | 47 | 49 |
| | | 87,181 | 84,812 |
| Maturity Analysis | | | |
| On call | | 47,878 | 45,497 |
| Not longer than 3 months | | 16,211 | 16,071 |
| Longer than 3 and not longer than 12 months | | 21,153 | 21,478 |
| Longer than 1 and not longer than 5 years | | 1,939 | 1,766 |
| | | 87,181 | 84,812 |
| Concentration of Deposits | | | |
| - Victoria | | 84,458 | 82,657 |
| - other States | | 2,723 | 2,155 |
| | | 87,181 | 84,812 |
| Deposits which represent 10% or more of total liabilities | | - | - |
| **14. CREDITOR ACCRUALS AND SETTLEMENT ACCOUNTS** | | | |
| Trade creditors | | 718 | 806 |
| Accrued interest payable | | 402 | 515 |
| | | 1,120 | 1,321 |

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 June 2016

| | Note | 2016 $'000 | 2015 $'000 |
|---|---|---|---|
| **15. TAX LIABILITIES** | | | |
| Provision for Income Tax | | - | - |
| | | - | - |
| **16. PROVISIONS** | | | |
| Employee entitlements | | 292 | 358 |

**(a) Restructuring Costs**

In 2015 a restructuring process involving the transfer of one branch's operations to 766 Elizabeth Street, Melbourne and the redundancy of a number of staff members was initiated in early July and continued for most of the 2015/2016 financial year. Economic benefits from that process provide assurance that it will not have a material affect on the Company's financial statements for the next succeeding year

As outlined in note 1 of the financial statements restructuring costs of $79,000 representing a bona fide redundancy payment to be made subsequent to 30 June 2015 had not been recognised as a liability in the year as the directors had concluded, that compliance with the standards in the circumstances did not present fairly the credit union's financial position, financial performance and cash flows for the year ended 30 June 2015.

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 June 2016

| | Note | 2016 | 2015 |
|---|---|---|---|
| | | $'000 | $'000 |
| **17. RESERVES** | | | |
| General Reserve | | **5,981** | 5,838 |
| Asset Revaluation Reserve – Investment / Dual Use Property | | **872** | 820 |
| General Reserve for Credit Losses | | **203** | 203 |
| | | 7,056 | 6,861 |
| **General reserve** | | | |
| Movements during the year | | | |
| Opening balance | | **5,838** | 5,738 |
| Transfer from retained earnings | | **143** | 120 |
| Transfer of reserves from merger | | - | - |
| Transfer (to) / from General Reserve for Credit Losses | | - | (20) |
| Closing balance | | **5,981** | 5,838 |
| **Asset revaluation reserve – Investment Property** | | | |
| Movements during the year | | | |
| Opening balance | | **820** | 820 |
| Revaluation increment arising on revaluing Dual Purpose Investment Property | | **52** | - |
| Closing balance | | **872** | 820 |
| **General Reserve for Credit Losses** | | | |
| This reserve records the amount set aside as a General Provision and is maintained to comply with APRA Prudential Standards | | | |
| Movements during the year | | | |
| Opening balance | | **203** | 183 |
| Transfer of reserves from merger | | - | - |
| Transfer (to) / from General Reserve | | - | 20 |
| Closing balance | | **203** | 203 |
| **18. RETAINED EARNINGS** | | | |
| Retained earnings at the beginning of the financial year | | - | - |
| Net operating profit/loss | | **195** | 120 |
| Transfer to General Reserve | | **(143)** | (120) |
| Transfer to Asset Revaluation Reserve – Investment Property | | **(52)** | - |
| Closing Balance | | - | - |

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 June 2016

| | Note | 2016 $'000 | 2015 $'000 |
|---|---|---|---|
| **19. EXPENDITURE COMMITMENTS** | | | |
| Operating lease commitments contracted for but not capitalised in the financial statements (non-cancellable) payable:- | | | |
| - not later than 1 year | | 81 | 81 |
| - later than 1 year but not later than 5 years | | - | - |
| - later than 5 years | | - | - |
| | | 81 | 81 |
| **20. CONTINGENT LIABILITIES AND CREDIT COMMITMENTS** | | | |
| Approved but undrawn loans and credit limits | | 5,121 | 4,759 |

The Co-operative is a participant in the Credit Union Financial Support System (CUFSS) The purpose of CUFSS is to protect the interests of co-operative members, increase stability in the industry and provide liquidity in excess of current borrowing limits in times of need

| | Note | 2016 $'000 | 2015 $'000 |
|---|---|---|---|
| **21. REMUNERATION AND RETIREMENT BENEFITS – Key Personnel** | 1(j) | | |
| - short-term employee benefits | | 341 | 360 |
| - superannuation contributions | | 30 | 58 |
| - long service leave provisions | | (2) | (15) |
| | | 369 | 403 |

The directors and key management personnel of Pulse Credit Union Ltd during the financial year were:

N. McDonald, J. Green, M. Brand, D. Bulman, P. McGrath, S. Muir, P. Talevski, S. Young, K. Warham, D. Andrews and S. Neave.

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 June 2016

| | Note | 2016 | 2015 |
|---|---|---|---|
| | | **$'000** | $'000 |
| **22. AUDITORS REMUNERATION** | | | |
| Amounts received or due and receivable by the auditors of Pulse Credit Union Ltd. for:- | | | |
| - audit of the financial statements | | **60** | 63 |
| - other services | | **4** | 4 |
| | | **64** | 67 |
| **23. RELATED PARTY TRANSACTIONS** | | | |
| Transactions with directors and key management personnel of Pulse Credit Union Ltd. | | | |
| As at 30 June 2016 the relevant directors and key management personnel who had loans or overdrafts with Pulse Credit Union Ltd were P Talevski, K Warham and S Neave. | | | |
| Total funding to loan and overdraft accounts | | **853** | 306 |
| Total repayments to loan and overdraft accounts | | **740** | 373 |

All loans made to directors and key management personnel have been made on normal terms and conditions which it would have been reasonable to expect the company to adopt if dealing with a member at arms length in the same circumstances.

All terms and conditions in respect of all loans to directors have not been breached.

**24. ECONOMIC DEPENDENCIES**

Material service contracts entered into and economically depended on by the Credit Union are:
Credit Union Services Corporation (Australia) Ltd (CUSCAL)
CUSCAL supplies the Credit Union with overdraft and other loan facilities and banking services in the form of cheque clearing, direct entry, settlement facilities and production of Redicards for use by members.

Data Action Pty Limited
Data Action provides and maintains the Credit Union's core banking and accounting software It also provides the Credit Union with data processing requirements and disaster recovery facilities

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 June 2016

## 25. CASH FLOW INFORMATION

| | Note | 2016 $'000 | 2015 $'000 |
|---|---|---|---|
| (a) Cash at the end of the financial year as shown in the statement of cash flows is reconciled to the related items in the Balance Sheet as follows: | | | |
| Cash | | **836** | 350 |
| Deposits at Call | | 2,226 | 2,044 |
| | | 3,062 | 2,394 |
| (b) Reconciliation of Net Cash provided by Operating activities to Operating Profit after Income Tax | | | |
| Operating Profit after income tax | | **195** | 126 |
| **Add (Deduct)** | | | |
| Depreciation Expense | | **107** | 112 |
| Bad and doubtful debts | | **8** | 4 |
| Revaluation of Property | | **75** | - |
| Profit/Loss on disposal of fixed assets | | **6** | - |
| Unrealised gain in the value of unlisted shares | | - | - |
| *Changes in Assets and Liabilities* | | | |
| (increase)/decrease in assets: | | | |
| Trade and other receivables | | **(6)** | 93 |
| Other assets | | **(36)** | **(8)** |
| Deferred Tax Assets | | **9** | 18 |
| Increase/(decrease) in liabilities | | | |
| Trade Creditor and accruals | | **(201)** | 398 |
| Employee entitlement provisions | | **(66)** | **(21)** |
| Deferred tax liabilities | | **22** | - |
| Income tax payable | | - | 48 |
| **Net Cash From Operating Activities** | | **113** | 770 |

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 June 2016

## 26. FINANCIAL INSTRUMENTS

### (a) Terms, conditions and accounting policies

The Company's accounting policies, including the terms and conditions of each class of financial asset, financial liability and equity instrument, both recognised and unrecognised at the balance date, are as follows:

| | Balance Sheet Note | Accounting Policies | Terms and Conditions |
|---|---|---|---|
| ***(i) Financial assets*** | | | |
| Loans and Advances | 8 | The loan interest is calculated on the daily balance outstanding and is charged in arrears to a customer's account on the last day of each month. | All housing loans are secured by registered mortgages. The remaining loans are assessed on an individual basis. |
| Bills of exchange and promissory notes | - | Bills of exchange and promissory notes are stated at the lower of cost or net realisable value. | |
| Unlisted shares | 9 | Unlisted shares are carried at the lower of cost or recoverable amount. Dividend income is recognised when the dividends are received | |
| ***(ii) Financial liabilities*** | | | |
| Deposits and Short-term borrowings | 13 | Deposits are recorded at the principal amount. | Details of maturity terms are set out in note 13 Interest is calculated on the daily balance outstanding. |
| Payables and Other Liabilities | 14 | Liabilities are recognised for amounts to be paid in the future for goods and services received, whether or not billed to the company. | Trade liabilities are normally settled on 30 day terms. |

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 June 2016

**26. FINANCIAL INSTRUMENTS (cont'd)**

**(b) Interest rate risk**

The Company's exposure to interest rate risks and the effective interest rates of financial assets and financial liabilities, both recognised and unrecognised at the balance date, are as follows.

| Financial Instruments | Floating interest rate | | Fixed interest rate maturing in: | | | | | | Non-interest bearing | | Total carrying amount as per the balance sheet | | Weighted average effective interest rate | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | 1 year or less | | Over 1 to 5 years | | More than 5 years | | | | | | | |
| | 2016 $'000 | 2015 $'000 | 2016 $'000 | 2015 $'000 | 2016 $'000 | 2015 $'000 | 2016 $'000 | 2015 $'000 | 2016 $'000 | 2015 $'000 | 2016 $'000 | 2015 $'000 | 2016 % | 2015 % |
| ***(i) Financial assets*** | | | | | | | | | | | | | | |
| Cash and liquid assets | **2,719** | 2,043 | - | - | - | - | - | - | **343** | 351 | **3,062** | 2,394 | **N/A** | N/A |
| Due from other financial institutions | **2,691** | 5,050 | **29,037** | 28,127 | **13,098** | 8,837 | - | - | - | - | **44,826** | 42,014 | **3.19** | 3.47 |
| Unlisted shares | - | - | - | - | - | - | - | - | **199** | 199 | **199** | 199 | **N/A** | N/A |
| Accrued Receivables | - | - | - | - | - | - | - | - | **398** | 362 | **398** | 362 | **N/A** | N/A |
| Loans and advances | **36,752** | 38,843 | **2,258** | 1,182 | **4,801** | 3,964 | - | - | - | - | **43,811** | 43,989 | **4.87** | 5.32 |
| Total financial assets | **42,162** | 45,936 | **31,295** | 29,309 | **17,899** | 12,801 | - | - | **940** | 912 | **92,296** | 88,958 | - | - |
| ***(ii) Financial liabilities*** | | | | | | | | | | | | | | |
| Bank overdrafts | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Deposits and short term borrowings | **47,877** | 45,448 | **37,365** | 37,549 | **1,939** | 1,766 | - | - | **47** | 49 | **87,228** | 84,812 | **1.58** | 1.91 |
| Payables and other liabilities | - | - | - | - | - | - | - | - | **1,120** | 1,321 | **1,120** | 1,321 | **N/A** | N/A |
| Total financial liabilities | **47,877** | 45,448 | **37,365** | 37,549 | **1,939** | 1,766 | - | - | **1,167** | 1,370 | **88,348** | 86,133 | - | - |

N/A - not applicable for non-interest bearing financial instruments.

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 June 2016

**26. FINANCIAL INSTRUMENTS (cont'd)**

**(c) Net fair values**

The aggregate net fair values of financial assets and financial liabilities, both recognised and unrecognised, at the balance date, are as follows.

| | Total carrying amount as per the statement of financial position | | Aggregate net fair value (i). (ii) | |
|---|---|---|---|---|
| | **2016 $'000** | 2015 $'000 | **2016 $'000** | 2015 $'000 |
| ***Financial assets*** | | | | |
| Cash and liquid assets | **3,062** | 2,394 | **3,062** | 2,394 |
| Due from other financial institutions | **44,826** | 42,014 | **44,826** | 42,014 |
| Accrued Receivables | **398** | 362 | **398** | 362 |
| Unlisted Shares | **199** | 199 | **199** | 199 |
| Loans and advances | **43,811** | 43,989 | **43,811** | 43,989 |
| Total financial assets | **92,296** | 88,958 | **92,296** | 88,958 |
| ***Financial liabilities*** | | | | |
| Bank overdrafts | - | - | - | - |
| Deposits and short term borrowings | **87,228** | 84,812 | **87,228** | 84,812 |
| Payables and other liabilities | **1,120** | 1,321 | **1,120** | 1,321 |
| Total financial liabilities | **88,348** | 86,133 | **88,348** | 86,133 |

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

**Liquid Assets and Accrued Receivables**
The carrying values of cash and liquid assets and receivables approximate their net fair value as they are short term in nature or are receivable on demand

**Loans, Advances and Receivables from other Financial Institutions**
The carrying value of loans and advances is net of unearned income and specific provisions for doubtful debts.
The net fair value for loans, advances and receivables from other Financial Institutions is calculated by utilising discounted cash flow models based on the maturity of the loans and receivables. The discount rates applied were based on the current inflation rate.

**Unlisted Shares**
Unlisted shares are carried at net market/net fair value.

**Deposits From Members**
The net fair value of deposits from members is calculated by utilising discounted cashflow models. The discount rates used were based on the current inflation rate.

**Short Term Borrowings and other payables**
The carrying value of payables approximate their net fair value as they are short term in nature and reprice frequently.

### 26. FINANCIAL INSTRUMENTS (cont'd)

#### (d) Credit risk exposures

The Company's maximum exposures* to credit risk at balance date in relation to each class of recognised financial asset is the carrying amount of those assets as indicated in the statement of financial position

***Concentrations of credit risk***
The Company minimises concentrations of credit risk in relation to loans receivable by undertaking transactions with a large number of members within Victoria However, the majority of those members are concentrated in the health industry

Concentrations of credit risk on loans receivable arise in the following categories:

| | Maximum credit risk exposure* for each concentration | | | |
|---|---|---|---|---|
| | Percentage of total loans receivable (%) | | $'000 | |
| Domicile | 2016 | 2015 | 2016 | 2015 |
| Victorian Residents | 98.16 | 98.40 | 43,006 | 44,284 |
| Other | 1.84 | 1.60 | 805 | 720 |
| | 100.00 | 100.00 | 43,811 | 45,004 |

Credit risk in loans receivable is managed in the following ways:

- a risk assessment process is used for all customers; and
- credit insurance is obtained for high risk customers.

* The maximum credit risk exposure does not take into account the value of any collateral or other security held, in the event other entities/parties fail to perform their obligations under the financial instruments in question.

### 27. CAPITAL MANAGEMENT

Capital is managed by a quarterly analysis by the Board of:

- The 5 year Capital Management plan that contains assessments of trends and future growth plans in key business areas of loans, deposits and investments.
- The Internal Capital Adequacy Assessment which monitors current capital adequacy against potential significant adverse movements in interest rates, the value of Credit Union's investment in real estate, credit risk and operations risk.

Capital Adequacy is derived in accordance with APRA prescribed formulae by risk weighting assets for Credit Risk and applying a charge for Operational Risk.

As at 30 June 2016 Capital Adequacy was 15.30% (2015 -15.71%).

### 28. EVENTS AFTER REPORTING DATE

The Directors are not aware of any events occurring after the reporting period which will have a material effect on the company's financial statements for the next succeeding year.

**29. Risk Management Objectives and Policies**

The credit union has undertaken the following strategies to minimise the risks arising from financial instruments.

**Market risk and Hedging policy**

The credit union is not exposed to currency risk, and other price risk. The credit union does not trade in the financial Instruments it holds on its books.

The credit union is exposed to interest rate risk arising from changes in market interest rates The policy of the credit union is to maintain a balanced 'on book' hedging strategy by ensuring the net interest rate gaps between assets and liabilities are not excessive. Details of the interest rate risk profile are set out in Note 26(b)

**Market Risk -Sensitivity Analysis**

- **Interest Rate Risk**
  As at 30 June 2016, if interest rates relevant to variable rate financial assets and liabilities had been 1% lower over the year with all other factors unchanged pre-tax profit would have been approximately $29,000 less. Conversely if rates had been 1% higher pre-tax profit would have been approximately $29,000 higher On a post-tax basis equity would have decreased or increased by approximately $8,700. Interest Rate risk sensitivity is analysed quarterly and the result is one of the determinants in the internal assessment of Capital Adequacy.
- **Property**
  The Credit Union owns its premises at 766 Elizabeth Street, Melbourne. The property value is assessed on a regular basis. The effect of a 20% devaluation of that property would reduce the Revaluation Reserve by $400,000 to $495,300 (ex deferred taxation liability).

**Credit risk – loans**

The risk of losses from the loans undertaken is primarily reduced by the nature and quality of the security taken. The board closely monitors lending activity and delinquency reports on a monthly basis to ensure that lending policy is receiving compliance and to provide early detection of deterioration in lending quality As at 30 June 2016 loans totalling $39,166,206 (89% of total loans) were secured by mortgages over land and buildings where the loan to valuation ratio was less than 80%. The remaining loan balances are secured by goods mortgages over property or are unsecured

**Credit risk – Liquid Investments**

The risk of losses from the liquid investments undertaken is reduced by the nature and quality of the independent rating of the investee and the limits to concentration on any one entity and the current Government Guarantee for deposits less than $250,000.

**Liquidity Risk**

The credit union is required to maintain at least 9% of total adjusted liabilities as liquid assets capable of being converted to cash within 24 hours under the APRA Prudential standards. The credit union policy is to apply a minimum 12% of funds as liquid assets to maintain adequate funds for meeting member withdrawal requests. The ratio is checked daily.

**30. Company Details**

The registered office of the company is:

Level 6
766 Elizabeth Street
MELBOURNE VIC 3000

# DIRECTORS' DECLARATION

The directors of Pulse Credit Union Limited declare that:

1 The financial statements and notes, as set out on pages 5 to 27 are in accordance with the Corporations Act 2001:
   a. comply with Accounting Standards and the Corporations Regulations 2001; and
   b. give a true and fair view of the financial position as at 30 June 2016 and of the performance for the year ended on that date.

2. In the directors' opinion there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

On behalf of the Board

John Green
Director

Neil McDonald
Director

**Melbourne,**

JTP | JTP ASSURANCE

10th Floor, 446 Collins Street
Melbourne, VIC 3000
P.O. Box 627, Collins Street West
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## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF PULSE CREDIT UNION LTD.
## ABN 35 087 651 670

### Report on the Financial Report

We have audited the accompanying financial report of Pulse Credit Union Ltd., which comprises the statement of financial position as at 30 June 2016, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

### Directors' Responsibility for the Financial Report

The directors of the credit union are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

### Independence

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

**Opinion**

In our opinion the financial report of Pulse Credit Union Ltd is in accordance with the *Corporations Act 2001*, including:

a. giving a true and fair view of the credit union's financial position as at 30 June 2016 and of its performance for the year ended on that date; and
b. complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and

JTP Assurance

**JTP ASSURANCE**
**Chartered Accountants**

**SAM CLARINGBOLD**
**Partner**

**Signed at Melbourne this** 29th **day of September 2016**