

Annual Report 2014 - 2015



Dnister Ukrainian Credit Co-operative Limited

ABN 59 087 651 394 | AFSL 240673



Contents

| | |
|--------------------------------|----|
| Chairman's Report | 2 |
| Directors' Report | 5 |
| Corporate Governance Statement | 11 |
| Financial Statements | 13 |
| Corporate Directory | 55 |

Chairman's Report

On behalf of the Board of Directors and Staff at Dnister Ukrainian Credit Co-operative, I am pleased to present our Annual Report for the year ended 30 June 2015.

The Co-operative's profit before tax of \$966,000 is particularly pleasing. The result was achieved under continuing and difficult economic conditions of historically low interest rates, weak business and consumer confidence and subdued credit demand. Nevertheless, the Co-operative achieved very good results despite these challenges. It was predominantly achieved as a result of our cost saving initiatives, growth in assets, new corporate bond investments and revaluation of our investment properties. We continue to manage our loan delinquency well, with our provision for doubtful debts remaining low.

The Co-operative's financial position continued to strengthen, with total assets under management increasing by \$10m to \$149m and our Member equity increasing by \$1.4m to \$18.9m. We have also continued to satisfy all of our regulatory and compliance requirements.

New loan demand remained subdued and repayments to existing loans remained at very high levels due to the current economic conditions and increased competition. As a result, the Co-operative experienced a slight decline in our loan portfolio, decreasing by \$3.2m to \$100m. Conversely, the Co-operative's deposit portfolio grew strongly again, increasing by \$9.1m to \$128m, as Members invested surplus cash in investment accounts.

We provided further value for Members by absorbing \$157k in fees and charges during the year, continuing our delivery of significant rebates and excellent value for money. We also continued our strong tradition of community support by providing direct and indirect assistance in support of our community. Including financial and logistical support for the visits to Australia of Patriach Sviatoslav and President Poroshenko.

The Co-operative's good financial performance and strong financial position provides a solid platform for us to invest in growth strategies, further develop our range of products and services, and maintain our very competitive interest rates and fees for our Members. Dnister's strategy is to drive profitable growth to support a long-term sustainable future and comprises four key components:

1. Increasing value to Dnister's Members through great products and services, competitive rates and fees, and excellent service, and in turn supporting the Ukrainian Community, its individuals and their families.
2. Increasing profitability by increasing the number of products and services utilised by our Members, attracting new Members and improving our overall cost structures.
3. Delivering on Member expectations and improving the Member experience.
4. Having 'the right people with the right attitude, the right skills and the right tools'.

Chairman's Report

continued . . .

The Board's focus for 2014-15 and beyond is to continue with implementation of the key elements of our Strategic Plan. Consistent with that Plan and the above four components, we are continuing to implement a range of strategic and operational projects including the following:

- Implemented a new eStatement solution providing a secure, convenient and environmentally friendly way for Members to receive and store their statements.
- Commenced a project to deliver a new Visa card solution that will enable Members to process payments and manage their money more efficiently.
- Committed to invest in the New Payments Platform that will transform the payments market in Australia and provide Members with a range of real time and data rich services.
- Continued to improve our underlying cost structures and focus on generating revenue increases from a lower cost base.
- Continued to invest time and resources into process improvement teams to drive more efficient internal processes.
- Established a new Bond investments portfolio to improve the returns on our liquidity investments and satisfy new compliance requirements.
- Continued to actively participate in the Customer Owned Banking Association's 'Industry Strategic Project' which will redefine the mutual industry with a focus on a consistent value proposition, performance framework, structural cost reductions and innovation.
- Completed the rebranding of our branches to ensure that they have a consistent look and feel.
- Implemented a staff development program to increase capabilities and further develop organisational culture.
- Continued to invest time and resources into regulatory and compliance projects.

We remain determined to capitalise on the opportunity for Dnister to continue to evolve the business, embrace the changing nature of banking, and remain a genuine retail banking alternative. We will continue to invest in our business – our people, our products, our services, and our distribution channels. We will also maintain our competitive position – loan rates as low as possible, deposit rates as high as possible, and fees & charges at reasonable levels.

On behalf of the Board, I would like to thank our CEO Liam Tiernan, his Executive team and staff for achieving these results and for continuing to develop the business.

I would like to thank my fellow Directors for their valuable contribution during the year. Since the last AGM, two of our Directors in John Kotowskyj and Bohdan Wojewidka resigned from their positions due to other commitments. Subsequently, David Hassett and Andrew Pavuk were appointed to the Board on a casual basis to fill the vacant positions until the next AGM.

I would like to express the Board's gratitude to John and Bohdan for their significant contributions. We also appreciate both David and Andrew's contributions to the Board during the current year. David provides extensive IT and business consultancy skills and experience, while Andrew provides a wealth of financial legal experience.

Most importantly, I would like to thank you, our Members, for your loyalty and support. I encourage you to fully utilise the products and services that Dnister offers to continue building the strength of your Co-operative. You can help Dnister grow and prosper by making Dnister your main financial services provider.

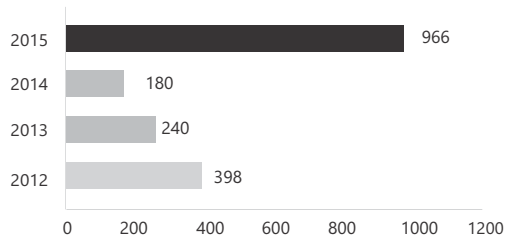
As a Member-owned financial institution, we remain committed to providing value for our Members – great products and services, competitive rates and fees, and excellent service – rather than profit for shareholders. We will continue to strive hard to balance the different needs of our deposit and lending Members. We also remain committed to supporting the Ukrainian community, its individuals, and their families.



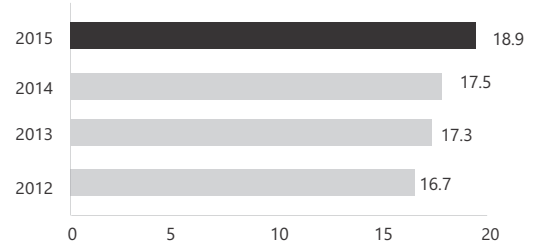
Wal Mykytenko
Chairman

Highlights

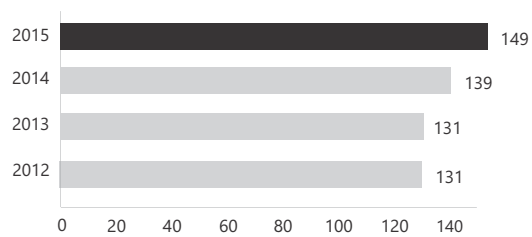
PROFIT BEFORE TAX IN \$000's



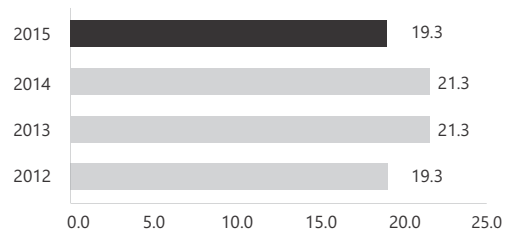
MEMBERS EQUITY IN \$M



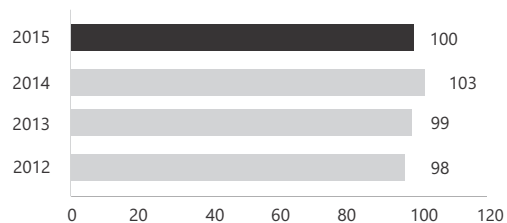
TOTAL ASSETS IN \$M



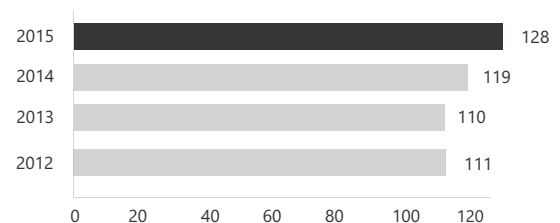
CAPITAL ADEQUACY RATIO %



LOANS UNDER MANAGEMENT IN \$M



MEMBER DEPOSITS IN \$M



Directors' Report

Your directors submit their report for the year ended 30 June 2015:

DIRECTORS

The names and details of the Co-operative's Directors in office during the financial year or until the date of this report are as follows. Directors were in office for this entire period unless otherwise stated.

WALENTYN MYKYTENKO (Non-Executive Chairman)

B.E., Post Grad Dip. Eng.Mgt., Dip. Elec.Eng., Dip. Financial Services, AMP (MUBS), FAMI and MAICD.

Non-executive Chairman and Corporate Governance Committee Chairman.

Wal is a retired General Manager of a multi-national aviation company and is a Non-executive Director of the Co-operative. Wal has been a Non-executive Director of the Co-operative for eleven years, including the last seven years as Chairman, and is the Chair of the Corporate Governance Committee.

MICHAEL KORNITSCHUK (Non-Executive Deputy Chairman)

B.Sci., Dip.App.Bio, MAICD.

Non-Executive Deputy Chairman and Audit, Risk and Corporate Governance Committees Member

Michael combines his work as a Managing Director of a leading Australian supplier of medical goods and services with his role as Non-executive Director of the Co-operative.

Michael has been a Non-executive Director of the Co-operative for twenty-one years, including nine as Chairman, During the past ten years he has also served as Chairman of the Ukrainian Orthodox Church- Essendon.

JOHN KOTOWSKYJ (Director)

B.C.E. (civil) M.I.E. (Aust), MAICD.

Non-executive Director- Resigned 18 November 2014

John combined his work as Principal and owner of a structural engineering and building consultancy practice with his role as Non-executive Director of the Co-operative.

John was a Non-executive Director of the Co-operative for eight years,. Before retiring as a Director he was the Chair of the Capital Committee and a member of the Audit and Risk Committee.

MARKO MISKO (Director)

LLB (Hons 1), B.Com., MAICD.

Non-executive Director, Corporate Governance Committee Member.

Marko combines his work as a Partner at Clayton Utz in the national infrastructure and major projects group with his role as Non-executive Director of the Co-operative. Marko was responsible for the negotiation and finalisation of the project contracts for the redevelopment of the Kalyna Care facilities (and continues to provide Kalyna Care with ongoing legal advice). Marko was also responsible for preparing documents for the redevelopment of the CYM property in Healesville and will be responsible for the project development agreements for the redevelopment of the AUV properties in Essendon.

Marko is also the chair of DOFUS and has been a Non-executive Director of the Co-operative for six years.

Directors' Report

continued . . .

MICHAEL KWAS (Director)

B.Bus Acc, MAICD.

Non-executive Director, Audit Committee Chair and Risk Committee Member.

Michael is a retired Accountant and has well over forty years' experience in the industry. Michael has been involved in numerous community organisations such as: a Scout Leader for over twenty-five years for the Plast Ukrainian Scouts Association (State and Federal Executive), a member of the Ukrainian Golf Club, a member of the Association of Ukrainians in Victoria and Sunshine and the Ukrainian Church in Ardeer.

Michael has been a Non-executive Director of the Co-operative for four years.

LIANA SLIPETSKY (Director)

B.Arts, MAICD.

Non-executive Director, Corporate Governance Committee Member.

Liana is currently an Owner and Director of Slipetsky Property and has been in the real estate industry for over twenty-five years. She is an active member in the Association of Ukrainians (Noble Park branch) and also holds membership in Plast Ukrainian Scouting Association and the Ukrainian Women's Association. She worked as a journalist for the Ukrainian Radio program on SBS, taught at Ukrainian school in Noble Park and completed Ukrainian studies at Monash University.

Liana has been a Non-executive Director of the Co-operative for four years.

BOHDAN WOJEWIDKA (Director)

BASppSc [Computer Studies], MBA (Adel), Diploma Company Directors Course – GAICD, MAICD.

Non-executive Director - Resigned 30 April 2015

Bohdan has an extensive background in strategic and operational management. Previously he was employed at ABB Grain Ltd as Executive Manager (Business Process and Information Systems), South Australian Chamber of Mines and Energy (Assistant Chief Executive) and at Newmont Australia as (Executive General manager – Business Information and Communications Technology).

Bohdan was a Non-executive Director of the co-operative for four years.

DAVID HASSETT (Director)

B.Sc [Hons], Ph.D, Grad.Dip App. Sci (Comp. Sci)

Non-executive Director, Risk Committee Chair and Audit Committee Member

David trained as a scientist and worked for Universities in Australia and the United States before co-founding an IT and Business Services Consultancy in 1997. A key focus of David's work is the smooth integration of IT systems with business processes and aiding clients to streamline and improve existing business processes. David has served as Parish Treasurer for the Cathedral of Sts Peter and Paul, has been on the state Committee of Plast Ukrainian Scouts in Victoria since 2005 and served as Chairperson of the Dnister Community Advisory Committee from 2003-2008.

David joined the Board to fill a casual vacancy in February 2015.

ANDREW PAVUK (Director)

B.Arts, Dip of Ed, B.Law, Solicitor and Member of the Law Society of NSW.

Non-executive Director, Audit and Risk Committees' Member.

Andrew established Pavuk Legal in 2007 and with over 25 years experience is a specialist in the areas of Financial Services, Corporate Law, Taxation, Life Insurance, Superannuation, Managed Funds, Estate Planning and Succession. Andrew has acted for Plast KPS Executive, the Ukrainian Catholic Church in Australia, various parishes, priests and Charitable Funds.

Andrew joined the Board to fill a casual vacancy in May 2015.

Directors' Report

continued . . .

COMPANY SECRETARY

Current

LIAM TIERNAN

BBus (Acc), CPA

Liam was appointed Chief Executive Officer of the Co-operative on 17 September 2012 and was appointed the Company Secretary on 16 October 2012.

PRINCIPAL ACTIVITIES

The principal activities of the Co-operative during the financial year were the provision of retail financial services, which includes receiving funds on deposits, advancing loans, providing insurance products, and the leasing of Dnister property.

OPERATING AND FINANCIAL REVIEW

The Co-operative's net profit after income tax for the year ending 30 June 2015 is \$670,000 (2014: \$183,000). The net profit included a valuation increase of \$265,000 on investment property (2014: no change).

DIVIDENDS

In accordance with the constitution, no dividend is paid in respect of any shares.

BOARD MONITORING OF PERFORMANCE

Management and the Board monitor the Co-operative's overall performance from the implementation of the mission statement and strategic plan through to the performance of the company against budget.

The Board, together with management, have identified key performance indicators (KPIs) that are used to monitor performance. Management monitors KPIs and reviews performance against them monthly. Directors receive KPIs for review prior to each Board meeting allowing all Directors to actively monitor the Co-operative's performance.

LIQUIDITY AND FUNDING

The Co-operative has a short-term overdraft facility of \$350,000 (2014: \$350,000). The Co-operative has sufficient funds to finance its operations and maintains these facilities primarily to allow the Co-operative to take advantage of favourable credit union financing opportunities. The Co-operative also has a \$10,000,000 wholesale funding facility with IOOF.

RISK MANAGEMENT

The Co-operative takes a pro-active approach to risk management. The Board is responsible for ensuring that risks, and also opportunities, are identified on a timely basis and that the Co-operative's objectives are aligned with those risks and opportunities.

The Board has a number of mechanisms in place to ensure that management's objectives and activities are aligned with the risks and opportunities identified by the Board. These include the following:

- Board approval of the Strategic Plan, which encompasses the Co-operative's vision, mission and goals, designed to meet members' needs and manage business risk.
- Implementation of Board approved operating plans and budgets and Board monitoring of progress against budget, including the establishment and monitoring of KPIs of both a financial and non-financial nature.
- The establishment of committees to report on specific business risks.

SIGNIFICANT CHANGES IN STATE OF AFFAIRS

Total Equity has increased from \$17,460,000 to \$18,888,000, an increase of \$1,428,000 while Loans and Advances decreased from \$102,948,000 to \$99,748,000. Member Deposits increased from \$118,565,000 to \$127,643,000.

SIGNIFICANT EVENTS AFTER BALANCE DATE

There were no significant events to be brought to the attention of members for the financial year ended 30 June 2015.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS

The operations of the Co-operative are expected to continue in line with current objectives and strategies.

INDEMNITY AND INSURANCE

To the extent permitted by law and that the officer or auditor is not indemnified by Directors and Officers' Liability Insurance (2015: \$5,562 in premiums) maintained by the Co-operative, the Co-operative indemnifies every person who has been an officer or auditor of the Co-operative against any liability.

Directors' Report

continued . . .

DIRECTORS' MEETINGS

The number of Directors' meetings attended by each Director and the number of meetings Directors were eligible to attend for the financial year were as shown in the table below:

| | Meetings of Committees | | | |
|------------------------------|------------------------|------------------|-----------------|----------------------|
| | Board Meetings | Audit Committee* | Risk Committee* | Corporate Governance |
| Number of meetings held: | 12 | 4 | 4 | 5 |
| Number of meetings attended: | | | | |
| W Mykytenko | 12 | - | - | 5 |
| M Kornitschuk | 11 | 4 | 3 | 4 (of 4) |
| J Kotowskyj | 1 (of 4) | 1 (of 1) | - | - |
| M Misko | 3 | - | - | 3 (of 5) |
| L Slipetsky | 9 | 2 (of 2) | 2 (of 2) | 1 (of 2) |
| B Wojewidka | 10 (of 10) | 2 (of 2) | 1 (of 1) | 1 |
| M Kwas | 11 | 4 | 3 | - |
| D Hassett | 5 (of 5) | 2 (of 2) | 2 (of 2) | 1 |
| A Pavuk | 2 (of 2) | 1 (of 2) | 1 (of 2) | - |

* Audit & Risk Committee attendance included in Audit Committee figures. The Capital Committee was subsumed within the Risk Committee.

COMMITTEE MEMBERSHIP

As at the date of this report, the Co-operative had an Audit Committee, Risk Committee and Corporate Governance Committee.

Members of the Board acting on the committees of the Board at the end of the year were:

AUDIT COMMITTEE

M Kwas (Chair)

D Hassett

M Kornitschuk

A Pavuk

RISK COMMITTEE

D Hassett (Chair)

M Kwas

M Kornitschuk

A Pavuk

CORPORATE GOVERNANCE COMMITTEE

W Mykytenko (Chair)

M Misko

M Kornitschuk

L Slipetsky

ROUNDING

The amounts contained in this report and in the financial report have been rounded to the nearest \$1,000 (where rounding is applicable) under the option available to the company under ASIC CO 98/100. The Co-operative is an entity to which the Class Order applies.



Ernst & Young
8 Exhibition Street
Melbourne VIC 3000 Australia
GPO Box 67 Melbourne VIC 3001

Tel: +61 3 9288 8000
Fax: +61 3 8650 7777
ey.com/au

Auditor's Independence Declaration to the Directors of Dnister Ukrainian Credit Co-operative Limited

In relation to our audit of the financial report of Dnister Ukrainian Credit Co-operative Limited for the financial year ended 30 June 2015, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.

Ernst & Young

Sarah Lowe
Partner
29 September 2015

Non-Audit Services

The following non-audit services were provided by the entity's auditor Ernst & Young. The directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The nature and scope of each type of non-audit service provided means that auditor independence was not compromised. Ernst & Young received or are due to receive the following amounts for the provision of non-audit services:

| | |
|-------------------------|----------|
| Tax compliance services | \$15,000 |
|-------------------------|----------|

The report is signed in accordance with a resolution of the directors of the Co-operative.

On behalf of the Board



Walentyn Mykytenko
Chairman of the Board
29 September 2015



Michael Kwas
Chairman of the Audit Committee
29 September 2015

Corporate Governance Statement

The Board of Directors of Dnister Ukrainian Credit Co-operative Limited is responsible for the corporate governance of the Co-operative. The Board guides and monitors the business and affairs of the Co-operative on behalf of the members by whom they are elected and to whom they are accountable. An important feature of the Board is to ensure compliance with the prudential and solvency requirements of the Australian Prudential Regulatory Authority (APRA) and the Australian Securities & Investments Commission (ASIC).

The key responsibilities of the Board include:

- Approving the strategic direction and related objectives and monitoring management performance in the achievement of these objectives.
- Adopting an annual budget and monitoring the financial performance of the Co-operative.
- Overseeing the establishment and maintenance of internal controls and effective monitoring systems.
- Ensuring all major business risks are identified and effectively managed.
- Ensuring the Co-operative meets its legal and statutory obligations.

The Board of Directors undertook the annual Board performance assessment for the year ended 30 June 2015. The key outcomes of this review are:

- Identification of skill enhancements
- Further training requirements for the Board members

STRUCTURE OF THE BOARD

Directors of the Co-operative are considered to be independent and free from any business or other relationship that could interfere with, or could be perceived to materially interfere with the exercise of their unfettered and independent judgement.

From November 2014 and in line with APRA Prudential Standard CPS 220, the previous Audit & Risk Committee was split into the Audit Committee and the Risk Committee.



Corporate Governance Statement

AUDIT AND RISK COMMITTEES

The Board has both an Audit Committee and Risk Committee, which operate under charters approved by the Board. It is the Board's responsibility to ensure that an effective internal control framework exists in the entity. This includes internal controls to deal with both the effectiveness and efficiency of significant business processes, the safeguarding of assets, the maintenance of proper accounting records, and the reliability of financial information.

The Audit Committee provides the Board with additional assurance regarding the reliability of financial information for inclusion in the financial reports. The Board has delegated the responsibility for the establishment and maintenance of a risk framework to the Risk Committee.

The members of the Audit Committee and Risk Committee at the end of the year were:

| AUDIT | RISK |
|---------------|---------------|
| M Kwas (c) | D Hassett (c) |
| M Kornitschuk | M Kornitschuk |
| A Pavuk | A Pavuk |
| D Hassett | M Kwas |

No Director, since the end of the previous financial year, has received or become entitled to receive a benefit (other than a benefit in the aggregate amount of emoluments received or due and receivable by the Directors as shown in the accounts) by reason of a contract made by the company with a Director or with a firm of which he is member or with a company in which he has a substantial financial interest.

The term in office held by each Director at the date of this report is as follows:

| | |
|---------------|----------|
| M Kornitschuk | 21 years |
| W Mykytenko | 11 years |
| M Misko | 6 years |
| M Kwas | 4 years |
| L Slipetsky | 4 years |
| D Hassett | 5 months |
| A Pavuk | 2 months |

CORPORATE GOVERNANCE COMMITTEE

The Board has a Corporate Governance Committee, which operates under a charter approved by the Board. It is the Board's responsibility to ensure that there is sound and prudent management of the Co-operative. The Board has delegated the responsibility for the establishment and maintenance of principles of Good Corporate Governance and Best Practice to the Corporate Governance Committee.

It is the Co-operative's objective to provide maximum stakeholder benefit through the retention of an executive team by remunerating key executives fairly and appropriately with reference to employment market conditions. To assist in achieving this objective, the Corporate Governance Committee links the nature and amount of the executive's emoluments to the company's financial and operational performance.

The members of the Corporate Governance Committee at the end of the year were:

| | |
|-----------------|-------------|
| W Mykytenko (c) | M Misko |
| M Kornitschuk | L Slipetsky |

Financial Statements

| | |
|-----------------------------------|----|
| Directors Declaration | 14 |
| Independent Auditor's Report | 15 |
| Statement of Comprehensive Income | 17 |
| Statement of Financial Position | 18 |
| Statement of Changes in Equity | 19 |
| Statement of Cash Flows | 20 |
| Notes to the Financial Statements | 21 |

Notes

NOTES TO THE FINANCIAL STATEMENT

| Note | Page | Note | Page | | |
|------|--|------|------|--|----|
| 1 | Corporate Information | 21 | 15 | Other financial investments | 38 |
| 2 | Summary of significant accounting policies | 21 | 16 | Other assets | 38 |
| 3 | Interest and similar income | 31 | 17 | Member Deposits | 38 |
| 4 | Interest and similar expense | 31 | 18 | Other liabilities | 38 |
| 5 | Net fees and commission income | 31 | 19 | Provisions | 39 |
| 6 | Other operating income | 31 | 20 | Retained earnings and reserves | 40 |
| 7 | Credit loss expense | 31 | 21 | Additional cash flow information | 41 |
| 8 | Other operating expenses | 31 | 22 | Community grants and sponsorship | 41 |
| 9 | Income Tax | 32 | 23 | Fair value of financial assets and liabilities | 42 |
| 10 | Cash and cash equivalents | 33 | 24 | Risk Management | 44 |
| 11.1 | Short term financial investments held to maturity | 33 | 25 | Capital | 50 |
| 11.2 | Long term financial investments available for sale | 33 | 26 | Related party disclosures | 51 |
| 12 | Loans and advances to members | 33 | 27 | Contingent liabilities and commitments | 53 |
| 13 | Investment Properties | 36 | 28 | Remuneration of external auditors | 54 |
| 14.1 | Property and equipment | 36 | 29 | Subsequent events | 54 |
| 14.2 | Intangibles | 37 | 30 | Segment information | 54 |

Directors' Declaration

for the year ended 30 June 2015

In accordance with a resolution of the Directors of Dnister Ukrainian Credit Co-operative Limited, we state that:

1. In the opinion of the directors:

- (a) the financial statements and notes of the Co-operative are in accordance with the Corporations Act 2001 including:
 - giving a true and fair view of the company's financial position as at 30 June 2015 and of its performance for the year ended on that date; and
 - complying with Accounting Standards in Australia and the Corporations Regulations 2001;
- (b) there are reasonable grounds to believe that the Co-operative will be able to pay its debts as and when they become due and payable; and
- (c) the financial statements and notes also comply with International Financial Reporting Standards as disclosed in note 2.

2. This declaration has been made after receiving the declarations required to be made by the Directors in accordance with section 295A of the Corporations Act 2001 for the financial period ending 30 June 2015.

On behalf of the Board



Walentyn Mykytenko
Chairman of The Board
29 September 2015



Michael Kwas
Chairman of the Audit Committee
29 September 2015



Ernst & Young
8 Exhibition Street
Melbourne VIC 3000 Australia
GPO Box 67 Melbourne VIC 3001

Tel: +61 3 9288 8000
Fax: +61 3 8650 7777
ey.com/au

Independent auditor's report to the members of Dnister Ukrainian Credit Co-operative Limited

Report on the financial report

We have audited the accompanying financial report of Dnister Ukrainian Credit Co-operative Limited, which comprises the statement of financial position as at 30 June 2015, 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 company Dnister Ukrainian Credit Co-operative Limited 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 controls as the directors determine are necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 2, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require 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 judgment, 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 controls 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 controls. 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*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the directors' report. We confirm that the Auditor's Independence Declaration would be in the same terms if given to the directors as at the time of this auditor's report.



Opinion

In our opinion:

- a. the financial report of Dnister Ukrainian Credit Co-operative Limited is in accordance with the *Corporations Act 2001*, including:
 - i giving a true and fair view of the company's financial position as at 30 June 2015 and of its performance for the year ended on that date; and
 - ii complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- b. the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 2.

A handwritten signature in black ink that reads 'Ernst & Young' in a cursive style.

Ernst & Young

A handwritten signature in black ink that reads 'Sarah Lowe' in a cursive style.

Sarah Lowe
Partner
Melbourne
29 September 2015

Statement of Comprehensive Income

for the year ended 30 June 2015

| | Notes | 2015 \$'000 | 2014 \$'000 |
|---|-------------|----------------|----------------|
| INCOME | | | |
| Interest and similar income | 3 | 6,286 | 6,247 |
| Interest and similar expense | 4 | (3,559) | (3,671) |
| Net interest income | | 2,727 | 2,576 |
| Fees and commission income | 5 | 124 | 92 |
| Net fees and commission income | | 124 | 92 |
| Other operating income | 6 | 1,374 | 1,081 |
| Total operating income | | 4,225 | 3,749 |
| Credit loss expense | 7 | (55) | (39) |
| Net operating income | | 4,170 | 3,710 |
| Salaries and associated costs | | 1,543 | 1,795 |
| Depreciation and amortisation | 14.1 & 14.2 | 86 | 91 |
| Community grants and sponsorship | 22 | 20 | 27 |
| Other operating expenses | 8 | 1,555 | 1,617 |
| Total operating expenses | | 3,204 | 3,530 |
| Profit before tax | | 966 | 180 |
| Income tax benefit/(expense) | 9(a) | (296) | 3 |
| NET PROFIT ATTRIBUTABLE TO MEMBERS | | 670 | 183 |
| OTHER COMPREHENSIVE INCOME | | | |
| Fair value revaluation of land and buildings | | 810 | - |
| Adjustment to deferred tax due to timing differences on revalued assets | | (52) | - |
| Other comprehensive income for the period, net of tax | | 758 | - |
| Total comprehensive income for the period | | 1,428 | 183 |

The above Statement of Comprehensive Income should be read in conjunction with the accompanying notes.

Statement of Financial Position

as at 30 June 2015

| | Notes | 2015 \$'000 | 2014 \$'000 |
|--|-------|----------------|----------------|
| ASSETS | | | |
| Cash and cash equivalents | 10 | 6,650 | 9,097 |
| Financial investments - held to maturity | 11.1 | 17,840 | 15,748 |
| Financial investments - available for sale | 11.2 | 12,983 | - |
| Loans and advances to members | 12 | 99,748 | 102,948 |
| Investment properties | 13 | 2,849 | 2,584 |
| Property & equipment | 14.1 | 8,498 | 7,736 |
| Intangibles | 14.2 | 92 | 36 |
| Other financial investments | 15 | 184 | 133 |
| Other assets | 16 | 316 | 289 |
| Total Assets | | 149,160 | 138,571 |
| LIABILITIES AND EQUITY | | | |
| Member deposits | 17 | 127,643 | 118,565 |
| Current tax liabilities | | 194 | 76 |
| Other liabilities | 18 | 1,348 | 1,489 |
| Provisions - employees | 19 | 296 | 402 |
| Deferred net tax liabilities | 9(d) | 791 | 579 |
| Total Liabilities | | 130,272 | 121,111 |
| Retained earnings | 20 | 10,528 | 10,077 |
| Credit loss reserve | 20 | 489 | 260 |
| Foundation reserve | 20 | - | 10 |
| Business combination reserve | 20 | 2,303 | 2,303 |
| Asset revaluation reserve | 20 | 5,568 | 4,810 |
| Total Equity | | 18,888 | 17,460 |
| TOTAL LIABILITIES AND EQUITY | | 149,160 | 138,571 |

The above Statement of Financial Position should be read in conjunction with the accompanying notes.

Statement of Changes in Equity

as at 30 June 2015

| | Retained Earnings | Other Reserves see (note 20) | Total |
|--|----------------------|---------------------------------|---------------|
| | \$'000 | \$'000 | \$'000 |
| TOTAL AT 1 JULY 2014 | 10,077 | 7,383 | 17,460 |
| Net profit attributable to members | 670 | - | 670 |
| Other comprehensive income | - | 758 | 758 |
| Total comprehensive income | 670 | 758 | 1,428 |
| Increase in statutory amount set aside for potential losses on loans & advances | (229) | 229 | - |
| Transfers | 10 | (10) | - |
| TOTAL AT 30 JUNE 2015 | 10,528 | 8,360 | 18,888 |

| | Retained Earnings | Other Reserves see note (20) | Total |
|--|----------------------|---------------------------------|---------------|
| | \$'000 | \$'000 | \$'000 |
| TOTAL AT 1 JULY 2013 | 9,812 | 7,465 | 17,277 |
| Net profit attributable to members | 183 | - | 183 |
| Other comprehensive income | - | - | - |
| Total comprehensive income | 183 | - | 183 |
| Decrease in statutory amount set aside for potential losses on loans & advances | 82 | (82) | - |
| TOTAL AT 30 JUNE 2014 | 10,077 | 7,383 | 17,460 |

The above Statement of Changes in Equity should be read in conjunction with the accompanying notes.

Statement of Cash Flows

for the year ended 30 June 2015

| | Notes | 2015 \$'000 | 2014 \$'000 |
|---|-------|-----------------|----------------|
| OPERATING ACTIVITIES | | | |
| Profit before tax | | 966 | 180 |
| Adjustments for: | | | |
| - Changes in operating assets | 21 | (19) | (50) |
| - Changes in operating liabilities (including tax payable) | 21 | (281) | (1,229) |
| - Non-cash items included in profit before tax | 21 | (123) | 130 |
| - Income tax paid | | (47) | (57) |
| - Net increase in member deposits | | 9,078 | 8,491 |
| - Net (increase)/decrease in loans and advances | | 3,199 | (4,096) |
| Net cash flows from operating activities | | 12,773 | 3,369 |
| INVESTING ACTIVITIES | | | |
| Net negotiable certificate deposit investments sold/(purchased) | | (2,092) | 3,150 |
| Net purchase of available for sale investments | | (12,983) | - |
| Net increase in other investments | | (51) | - |
| Purchases of property and equipment and intangible assets | | (94) | (40) |
| Net cash flows from/(used in) investing activities | | (15,220) | 3,110 |
| FINANCING ACTIVITIES | | | |
| Net increase/(decrease) wholesale borrowings | | - | - |
| Net cash flows from financing activities | | - | - |
| Net increase/(decrease) in cash and cash equivalents | | (2,447) | 6,479 |
| Cash and cash equivalents at 1 July | | 9,097 | 2,618 |
| Cash and cash equivalents at 30 June | 21 | 6,650 | 9,097 |
| OPERATIONAL CASH FLOWS FROM INTEREST AND DIVIDENDS | | | |
| Interest received | | 6,275 | 6,233 |
| Interest and other costs of finance paid | | 2,491 | 3,931 |
| Dividends received | | 18 | 21 |

The above Statement of Cash Flows should be read in conjunction with the accompanying notes.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2015

1. CORPORATE INFORMATION

Dnister Ukrainian Credit Co-operative Limited is a company incorporated in Australia.

Dnister is a member owned Co-operative specialising in serving the financial needs of Australians of Ukrainian decent, heritage or cultural affinity. The nature of the operations and principal activities of the Co-operative are described in the Directors' Report.

The financial report of the Co-operative for the year ended 30 June 2015 was authorised for issue in accordance with a resolution of directors on 29 September 2015.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 BASIS OF PREPARATION

The financial report is a general purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001, Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board. It has been prepared as a 'for profit entity' as per AASB1054.8. The financial report has also been prepared on a historical cost basis, except for investment properties and land and buildings, which have been measured at fair value.

The financial report is presented in Australian dollars and all values are rounded to the nearest thousand dollars (\$000) unless otherwise stated.

2.2 STATEMENT OF COMPLIANCE

The financial report complies with Australian Accounting Standards issued by the Australian Accounting Standards Board (AASB) and International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB).

2.3 NEW ACCOUNTING STANDARDS AND INTERPRETATIONS

(i) Changes in Accounting Policy

There are certain Australian Accounting Standards that have recently been issued or amended and have been adopted by the Co-operative for the annual reporting period ending 30 June 2015. The assessment of the impact of these new standards and interpretations (to the extent relevant to the Co-operative) is set out as follows:

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2015

| Reference | Title | Summary | Application date of standard* | Impact on financial report | Application date |
|-------------------|--|--|-------------------------------|--|------------------|
| AASB 2013-3 | Amendments to Australian Accounting Standard Disclosures - Impairment of Assets | AASB 2013-3 amends the disclosure requirements in AASB 136 Impairment of Assets. The amendments include the requirement to disclose additional information about the fair value measurement when the recoverable amount of impaired assets is based on fair value less costs of disposal. | 1 January 2014 | The amendments did not have a material impact on the financial statements. | 1 July 2014 |
| AASB 1031 | Materiality | The revised AASB1031 is an interim standard that cross-references to other Standards and the Framework (issued December 2013) that contain guidance on material. AASB1031 will be withdrawn when references to AASB1031 in all Standards and Interpretations have been removed. | 1 January 2014 | These amendments are only affected the presentation of the Co-operative's financial report and had no direct impact on the measurement and recognition of amounts disclosed in the financial report. | 1 July 2014 |
| AASB 2012-3 | Amendments to Australian Accounting Standard - Offsetting Financial Assets and Liabilities | AASB 2012-3 adds application guidance to AASB 132 Financial Instruments: Presentation to address inconsistencies identified in applying some of the offsetting criteria of AASB 132, including clarifying the meaning of "currently has a legally enforceable right of set-off" and that some gross settlement systems may be considered equivalent to net settlement. | 1 January 2014 | The amendments did not have a material impact on the financial statements. | 1 July 2014 |
| Interpretation 21 | Levies | This interpretation confirms that a liability to pay a levy is only recognised when the activity that triggers the payment occurs. Applying the going concern assumption does not create a constructive obligation. | 1 January 2014 | The amendments did not have a material impact on the financial statements. | 1 July 2014 |

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2015

| Reference | Title | Summary | Application date of standard* | Impact on financial report | Application date |
|-----------|---|--|-------------------------------|--|------------------|
| AASB 1053 | Application of Tiers of Australian Accounting Standards | <p>This Standard establishes a differential financial reporting framework consisting of two tiers of reporting requirements for preparing general purpose financial statements:</p> <p>(a) Tier 1: Australian Accounting Standards</p> <p>(b) Tier 2: Australian Accounting Standards - Reduced Disclosure Requirements</p> <p>Tier 2 comprises the recognition, measurement and presentation requirements of Tier 1 and substantially reduced disclosures corresponding to those requirements.</p> <p>The following entities apply Tier 1 requirements in preparing general purpose financial statements:</p> <p>(a) For-profit entities in the private sector that have public accountability, (as defined in this standard)</p> <p>(b) The Australian Government and State, Territory and Local governments</p> <p>The following entities apply either Tier 2 or Tier 1 requirements in preparing general purpose financial statements:</p> <p>(a) For-profit private sector entities that do not have public accountability</p> <p>(b) All not-for-profit private sector entities</p> <p>(c) Public sector entities other than the Australian Government and State, Territory and Local Governments.</p> | 1 July 2013 | These amendments did not have a material impact on the financial statements. | 1 July 2014 |

(ii) Accounting Standards issued but not yet effective

There are certain Australian Accounting Standards that have recently been issued or amended but are not yet effective or have not been adopted by the Co-operative for the annual reporting period ending 30 June 2015. The assessment of the impact of these new standards and interpretations (to the extent relevant to the Co-operative) is set out as follows:

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2015

| Reference | Title | Summary | Application date of standard* | Impact on financial report | Application date |
|-----------|-----------------------|--|-------------------------------|--|------------------|
| AASB 9 | Financial Instruments | <p>AASB 9 includes requirements for the classification and measurement of financial assets. It was further amended by AASB 2010-7 to reflect amendments to the accounting for financial liabilities.</p> <p>These requirements improve and simplify the approach for classification and measurement of financial assets compared with the requirements of AASB 139. The main changes are described below.</p> <p>(a) Financial assets that are debt instruments will be classified based on (1) the objective of the entity's business model for managing the financial assets; (2) the characteristics of the contractual cash flows.</p> <p>(b) Allows an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. Dividends in respect of these investments that are a return on investment can be recognised in profit or loss and there is no impairment or recycling on disposal of the instrument.</p> <p>(c) Financial assets can be designated and measured at fair value through profit or loss at initial recognition if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities, or recognising the gains and losses on them, on different bases.</p> <p>(d) Where the fair value option is used for financial liabilities the change in fair value is to be accounted for as follows:</p> <ul style="list-style-type: none"> - The change attributable to changes in credit risk are presented in other comprehensive income (OCI) - The remaining change is presented in profit or loss <p>If this approach creates or enlarges an accounting mismatch in the profit or loss, the effect of the changes in credit risk are also presented in profit or loss.</p> <p>Further amendments were made by AASB 2012-6 which amends the mandatory effective date to annual reporting periods beginning on or after 1 January 2015. AASB 2012-6 also modifies the relief from restating prior periods by amending AASB 7 to require additional disclosures on transition to AASB 9 in some circumstances.</p> | 1 January 2018 | These amendments are only expected to affect the presentation of the Co-operative's financial report and will have no direct impact on the measurement and recognition of amounts disclosed in the financial report. | 1 July 2018 |

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2015

| Reference | Title | Summary | Application date of standard* | Impact on financial report | Application date |
|-------------------|--|--|-------------------------------|--|------------------|
| AASB 2015-3 | Amendments to Australian Accounting Standard arising from the Withdrawal of AASB 1031 Materiality | The Standard completes the AASB's project to remove Australian guidance on materiality from the Australian Accounting Standards. | 1 January 2014 | The amendments are not expected to have a material impact on the financial statements. | 1 July 2014 |
| IFRS 15 (AASB 15) | Revenue from Contracts with Customers | <p>IFRS 15 establishes principles for reporting useful information to users of financial information statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers.</p> <p>The core principle of IFRS 15 is that an entity recognised revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity recognises revenue in accordance with that core principle by applying the following steps:</p> <p>a) Step 1: Identify the contract(s) with a customer b) Step 2: Identify the performance obligations in the contract c) Step 3: Determine the transaction price d) Step 4: Allocate the transaction price to the performance obligations in the contract. e) Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation.</p> | 1 January 2018 | The International Accounting Standards Board (IASB) in its July 2015 meeting decided to confirm its proposal to defer the effective date of IFRS 15 (the international equivalent of AASB 15) from 1 January 2017 to 1 January 2018. The amendment to give effect to the new effective date for IFRS 15 is expected to be issued in September 2015. At this time, it is expected that the AASB will make a corresponding amendment to AASB 15, which will mean that the application date of this standard for the Group will move from 1 July 2017 to 1 July 2018. | 1 July 2018 |
| 2014-4 | Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to AASB 116 and AASB 138) | <p>AASB 116 and AASB 138 both establish the principle for the basis of depreciation and amortisation as being the expected pattern of consumption of the future economic benefits of an asset.</p> <p>The IASB has clarified that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset.</p> <p>The amendment also clarified that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset. This presumption, however, can be rebutted in certain limited circumstances.</p> | 1 January 2016 | The amendments are not expected to have a material impact on the financial statements. | 1 July 2016 |

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2015

2.4 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

In the process of applying the Co-operative's accounting policies, Management has used its judgements and made estimates in determining amounts recognised in the financial statements. The most significant use of judgements and estimates are as follows:

RECOVERY OF DEFERRED TAX ASSETS

Deferred tax assets are recognised for deductible temporary differences as Management considers that it is probable that future taxable profits will be available to utilise those temporary differences.

FAIR VALUE OF FINANCIAL INSTRUMENTS

Where the fair values of financial assets and financial liabilities recorded on the Statement of Financial Position cannot be derived from active markets they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values.

IMPAIRMENT LOSSES ON LOANS AND ADVANCES

The Co-operative assesses at each Statement of Financial Position date whether a financial asset or group of financial assets is impaired.

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition).

There are three ways that impairment losses on loans and advances are accounted for. They are as follows:

- Prescribed Provisions, which are prescribed collectively according to category of loan and weighted according to days in arrears, and is an APRA requirement.
- Credit Loss Reserve provides for impairment based on risk weighted assets, delinquencies and an allowance for the size of the total loans portfolio. It is an APRA requirement.
- Specific Provisions are determined by Management together with the Board of Directors where they consider it prudent to put extra provisions aside for a specific loan on an individual basis.

The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the loss is recognised in Statement of Comprehensive Income.

The Co-operative assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and the group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in Statement of Comprehensive Income, to the extent that the carrying amount of the asset does not exceed its amortised cost at the reversal date.

PROPERTY

Some of the Co-operative's property is leased out on a commercial basis. Those buildings that are fully leased are now classified as investment properties. The main 'banking building' is still classified as owner-occupied because a significant section of the property is used by the Co-operative for its banking activities. These judgments are consistent with AASB140 Investment Property classification.

TAXATION

The Co-operative's accounting policy for taxation requires Management's judgement as to the types of arrangements considered to be a tax on income in contrast to an operating cost. Judgement is also required in assessing whether deferred tax assets and certain deferred tax liabilities are recognised on the Statement of Financial Position. Deferred tax assets, including those arising from unrecouped tax losses, capital losses and temporary differences, are recognised only when it is considered more likely than not that they will be recovered, which is dependent on the generation of sufficient future taxable profits.

Assumptions about the generation of future taxable profits depend on Management's estimates of future cash flows. These depend on estimates of future sales volume, operating costs, restoration costs, capital expenditure, dividends and other capital Management transactions. Judgements are also required about the application of income tax legislation. These judgements and assumptions are subject to risk and uncertainty, hence there is a possibility that changes in circumstances will alter expectations, which may impact the amount of deferred tax assets and deferred tax liabilities recognised on the Statement of Financial Position and the amount of other tax losses and temporary differences not yet recognised. In such circumstances, some or all of the carrying amounts of recognised deferred tax assets and liabilities may require adjustment, resulting in a corresponding credit or charge to the Statement of Comprehensive Income.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2015

2.5.1 FINANCIAL INSTRUMENTS - INITIAL RECOGNITION AND SUBSEQUENT MEASUREMENT

(i) DATE OF RECOGNITION

Purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the marketplace are recognised on the trade date. I.e. the date that the Co-operative commits to purchase or sell the asset.

(ii) INITIAL RECOGNITION OF FINANCIAL INSTRUMENTS

The classification of financial instruments depends on the purpose for which the financial instruments were acquired and their characteristics.

(iii) HELD TO MATURITY INSTRUMENTS

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Co-operative has the positive intention and ability to hold to maturity. Investments that are intended to be held-to-maturity are subsequently measured at amortised cost.

The cost is computed as the amount initially recognised minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initially recognised amount and the maturity amount less impairment.

(iv) LOANS AND ADVANCES TO MEMBERS

Assets, such as loans and advances, are carried at amortised cost using the effective interest method. Gains and losses are recognised in the Statement of Comprehensive Income when the loans and advances are derecognised or impaired. These are included in current assets, except for those with maturities greater than 12 months after balance date, which are classified as non-current. Loan interest is calculated on the daily balance outstanding and is charged in arrears to a member'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.

2.5.2 DERECOGNITION OF FINANCIAL ASSETS AND LIABILITIES

(i) FINANCIAL ASSETS

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired; or
- the Co-operative has transferred its rights to receive cash flows from the asset or has assumed the obligation to pay the received cash flows in full without material delay to a third party under a 'pass through' arrangement; and
- either:
 - (a) the Co-operative has transferred substantially all the risks and rewards of the asset, or
 - (b) the Co-operative has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

(ii) FINANCIAL LIABILITIES

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expired.

2.5.3 IMPAIRMENT OF FINANCIAL ASSETS

(i) LOANS AND ADVANCES TO MEMBERS

Loans and advances are measured at amortised cost after assessing required provisions for impairment. Loans are considered bad and written off when all avenues of legal and other action to recover the debt have been exhausted. All loans and advances are reviewed and graded according to the anticipated level of credit risk. The classification adopted is described as follows:

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2015

- Impaired loans are loans and advances where the recovery of all interest and principal is considered to be reasonably doubtful and hence provisions for impairment are recognised.
- Restructured Loans arise when the borrower is granted a concession due to continuing difficulties in meeting the original terms and revised terms are not comparable to new facilities. Loans with revised terms are included in past due or impaired loans.
- Assets acquired through the enforcement of security are assets acquired in full or partial settlement of a loan or similar facility through the enforcement of security arrangements.
- Past Due Loans are loans where payments of principal and/or interest are at least 90 days in arrears. Full recovery of both principal and interest is expected.

2.5.4 RECOGNITION OF INCOME AND EXPENSES

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Co-operative and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

(i) INTEREST AND SIMILAR INCOME

Revenue is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

(ii) FEE AND COMMISSION INCOME

The Co-operative earns fee and commission income from a diverse range of services it provides to its members. Fee income can be divided into the following two categories:

Fee income earned from services that are provided over a certain period of time are accrued over that period

Fees earned for the provision of services over that period.

Spread Fees earned for servicing and administering securitised loans.

Fee income from providing transaction services

Fees arising from negotiating or participating in the negotiation of a transaction or with a third party are recognised on the completion of the underlying transaction.

(iii) DIVIDEND INCOME

Revenue is recognised when the Co-operative's right to receive the payment is established.

(iv) RENTAL INCOME

Rental income arising from investment and other properties is accounted for on a straight line basis over the lease terms on ongoing leases and is recorded in the Statement of Comprehensive Income in 'other operating income'.

2.5.5 CASH AND CASH EQUIVALENTS

Cash and cash equivalents in the Statement of Financial Position comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

The amounts included in cash are held for the purpose of meeting short term cash deposits.

For the purposes of the Statement of Cash Flows, cash and cash equivalents consist of cash and cash equivalents as defined above and net outstanding bank overdrafts.

2.5.6 INVESTMENT PROPERTIES

The Co-operative holds certain properties as investments to earn rental income, for capital appreciation or both. Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the Statement of Financial Position date. Gains or losses arising from changes in the fair values of investment properties are included in 'other operating income' in the year in which they arise. The Co-operative engaged Charter Keck Cramer to value the Essendon properties and McLean Gladstone Pty Ltd to value the Hindmarsh properties. Both are accredited independent valuers. Fair value is determined by direct reference to recent market transactions on arm's length terms for land and buildings comparable in size and location to those held by the Co-operative, and to market based yields for comparable properties. The effective date of the revaluation was 30 June 2015.

Investment properties are derecognised either when they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognised in Statement of Comprehensive Income in the year of retirement.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2015

2.5.7 PROPERTY, EQUIPMENT & INTANGIBLE ASSETS

(i) COST

Equipment is stated at cost less accumulated depreciation and any accumulated impairment losses. Land and buildings are measured at fair value less any impairment losses recognised after the date of revaluation.

Under Australian Accounting Standards, items of computer software which are not integral to the computer hardware owned by the Co-operative are classified as intangible assets.

(ii) IMPAIRMENT

The carrying values of equipment are reviewed for impairment at each reporting date, with the recoverable amount being estimated when events or changes in circumstances indicate that the carrying amount may be impaired.

(iii) REVALUATIONS

Following initial recognition at cost, land and buildings are carried at a revalued amount which is the fair value. Fair value is determined by reference to market-based evidence, which is the amount for which the assets could be exchanged between a knowledgeable willing buyer and a knowledgeable willing seller in an arm's length transaction as at the valuation date. The Co-operative engaged Charter Keck Cramer to value the Essendon properties and McLean Gladstone Pty Ltd to value the Hindmarsh properties. Both are accredited independent valuers. Any revaluation increment is credited to the asset revaluation reserve included in the equity section of the Statement of Financial Position, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in the Statement of Comprehensive Income.

Any revaluation decrease is recognised in the Statement of Comprehensive Income, except that a decrease offsetting a previous revaluation increase for the same asset is debited directly to the asset revaluation reserve to the extent of the credit balance existing in the revaluation reserve for that asset.

Additionally, any accumulated depreciation as at the revaluation date is eliminated against the gross carrying amounts of the assets and the net amounts are restated to the revalued amounts of the assets.

Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings. Independent valuations are performed with sufficient regularity to ensure that the carrying amounts do not differ materially from the assets' fair values at the Statement of Financial Position date.

(iv) DERECOGNITION AND DISPOSAL

An item of property and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal.

Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the Statement of Comprehensive Income in the year the asset is derecognised.

(v) DEPRECIATION

Depreciation is calculated on a straight-line basis over the estimated useful life of the specific assets as follows:

- Furniture and equipment - 6.7 years
- Computer hardware - 4 years

(vi) AMORTISATION

Computer software held as intangible assets is amortised over the expected useful life of the software on a straight-line basis over 3 years.

2.5.8 RECEIVABLES

Receivables are carried at amortised cost using the effective interest method. Gains and losses are recognised in the Statement of Comprehensive Income when the receivables are derecognised or impaired.

Expected future payments are discounted.

2.5.9 PAYABLES

Trade payables and other payables are carried at amortised cost and represent liabilities for goods and services provided to the Co-operative prior to the end of the financial year that are unpaid and arise when the Co-operative becomes obliged to make future payments in respect of these goods and services. The payables are not secured and are generally paid within 30 days of recognition.

(i) PROVISIONS

Provisions are recognised when the Co-operative has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Such provisions include:

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2015

WAGES, SALARIES AND ANNUAL LEAVE

Liabilities for wages and salaries, including non-monetary benefits and annual leave expected to be settled within 12 months of the reporting date are recognised in provisions in respect of employees' services up to the reporting date. They are measured at the amounts expected to be paid when the liabilities are settled.

LONG SERVICE LEAVE

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures, and periods of service.

Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currencies that match, as closely as possible, the estimated future cash outflows.

2.5.10 CUSTOMER DEPOSITS AND SHORT-TERM BORROWINGS

(i) MEMBER DEPOSITS

Member deposits are classified under the categories of: at call and fixed term. The rate of interest offered on member deposits is dependent on the amount, the period invested/availability of funds and the nature of the deposit facility used. Member deposits are available for withdrawal subject to the advertised constraints of the facility.

For example, at call accounts can be accessed at any time, whereas no withdrawals can be made from a standard fixed term deposit without penalties.

(ii) BORROWING COSTS

Borrowing costs are recognised as an expense when incurred.

(iii) MEMBERSHIPS

Members must purchase shares to the value of \$10 in the Co-operative to open their account. Once a member has purchased shares they may open multiple accounts. When a member cancels or resigns their membership they are entitled to be refunded their initial \$10 investment. No interest or dividends are payable on the shares issued because they are withdrawn on the closure of membership. They are therefore recorded as a liability in the financial accounts as part of deposits at call, rather than as equity.

2.5.11 TAXES

(i) CURRENT TAX

Current tax assets and liabilities for the current and prior years are measured at the amount expected to be recovered from or paid to taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the Statement of Financial Position date.

(ii) DEFERRED TAX

Deferred income tax is provided on all temporary differences at the Statement of Financial Position date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences except when the deferred income tax liability arises from an asset or liability transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability settled, based on tax rates (and tax laws) that have been enacted or substantially enacted at the Statement of Financial Position date.

Income taxes relating to items recognised directly in equity are recognised in equity and not in Statement of Comprehensive Income.

(iii) GOODS AND SERVICES TAX (GST)

Revenues, expenses and assets are recognised net of the amount of GST except:

- Where the GST incurred from the purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost acquisition of the asset or part of the expense item as applicable.

- Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the Statement of Financial Position.

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

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2015

| | Notes | 2015 \$'000 | 2014 \$'000 |
|---|-------|----------------|----------------|
| 3. INTEREST AND SIMILAR INCOME | | | |
| Loans and advances to members | | 5,358 | 5,478 |
| Deposits with other financial institutions | | 908 | 723 |
| Regulatory deposits | | 20 | 46 |
| | | 6,286 | 6,247 |
| 4. INTEREST AND SIMILAR EXPENSE | | | |
| Member deposits | | 3,557 | 3,626 |
| Wholesale borrowings | | - | 43 |
| Other | | 2 | 2 |
| | | 3,559 | 3,671 |
| 5. NET FEES AND COMMISSION INCOME | | | |
| Other fees received | | 124 | 92 |
| | | 124 | 92 |
| 6. OTHER OPERATING INCOME | | | |
| Dividend income | | 18 | 21 |
| Rental income | | 942 | 871 |
| Change in fair value of investment property | 13 | 265 | - |
| Other | | 149 | 189 |
| | | 1,374 | 1,081 |
| 7. CREDIT LOSS EXPENSE | | | |
| Bad & doubtful debts to Members | | 55 | 39 |
| | | 55 | 39 |
| 8. OTHER OPERATING EXPENSES | | | |
| Marketing, printing & postage | | 83 | 110 |
| Other tenancy expenses | | 340 | 360 |
| Corporate governance, audit & compliance | | 232 | 225 |
| Subsidised member transaction expenses | | 157 | 171 |
| Data & communications | | 467 | 422 |
| Other | | 276 | 329 |
| | | 1,555 | 1,617 |

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2015

| | 2015 \$'000 | 2014 \$'000 |
|--|----------------|----------------|
| 9. INCOME TAX | | |
| (a) Income tax expense/(benefit) | | |
| The major components of income tax expense are: | | |
| <i>Statement of Comprehensive Income</i> | | |
| <i>Current Income Tax</i> | | |
| Current Income tax charge | 149 | 44 |
| Adjustments in respect of current income tax of previous years | (16) | (70) |
| <i>Deferred Income Tax</i> | | |
| Relating to origination and reversal of temporary differences | 140 | 11 |
| Adjustment to income tax expense for recognition of deferred tax | 23 | 12 |
| Income tax expense/(benefit) reported in the Statement of Comprehensive Income | 296 | (3) |
| (b) Amounts charged or credited directly to equity | - | - |
| <i>Deferred income tax related to items charged or credited directly to equity</i> | | |
| Unrealised movement on land and buildings | - | - |
| Income tax expense reported in equity | - | - |
| (c) Reconciliation between aggregate tax expense recognised in the Statement of Comprehensive Income and tax expense calculated per the statutory income tax rate. | | |
| A reconciliation between tax expense and the product of accounting profit before income tax multiplied by the Company's applicable income tax rate is as follows: | | |
| Accounting profit before income tax | 966 | 180 |
| At the Company's statutory income tax rate of 30% (2014:30%) | 290 | 54 |
| Income assessable for income tax purposes | - | 1 |
| Income not assessable for income tax purposes | 4 | - |
| Adjustment in respect of current income tax of previous year | 7 | (69) |
| Franking credit rebate | (5) | - |
| Recognition of previously unrecognised deferred tax amounts | - | 12 |
| Other adjustments | - | (1) |
| Aggregate income tax expense | 296 | (3) |
| (d) Recognised deferred tax assets and liabilities | | |
| Tax expense in Statement of Comprehensive Income | 296 | (3) |
| Amounts recognised in the Statement of Financial Position: | | |
| Deferred tax asset | 152 | 198 |
| Deferred tax liability | (942) | (777) |
| | (791) | (579) |

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2015

| | 2015 \$'000 | 2014 \$'000 |
|--|----------------|----------------|
| Deferred income tax | | |
| Deferred income tax at 30 June relates to the following: | | |
| <i>Deferred tax liabilities</i> | | |
| Rent receivable | (7) | (5) |
| Depreciable assets | (104) | (73) |
| Investment properties | (779) | (699) |
| Land and buildings | (52) | - |
| Deferred tax liabilities | (942) | (777) |
| <i>Deferred tax assets</i> | | |
| Allowance for doubtful debts | 27 | 12 |
| Land and buildings | 8 | 16 |
| Provisions and accruals | 117 | 170 |
| Deferred tax assets | 152 | 198 |
| 10. CASH AND CASH EQUIVALENTS | | |
| Cash on hand | 317 | 276 |
| Current account with banks | 733 | 1,971 |
| Overnight deposits with banks | 5,600 | 6,850 |
| | 6,650 | 9,097 |
| 11.1 FINANCIAL INVESTMENTS - HELD TO MATURITY | | |
| Term and negotiable certificates of deposits with banks (fully redeemable), not Longer than 3 months | 9,765 | 8,848 |
| Term and negotiable certificates of deposits with bank (fully redeemable), Longer than 3 months and not Longer than 12 months | 8,075 | 6,900 |
| | 17,840 | 15,748 |
| 11.2 FINANCIAL INVESTMENTS - AVAILABLE FOR SALE | | |
| Fixed Interest Bonds and Floating Rate Notes (fully redeemable), Longer than 12 months | 12,983 | - |
| | 12,983 | - |
| 12. LOANS AND ADVANCES TO MEMBERS | | |
| Overdraft and revolving credit | 3,910 | 3,896 |
| Term loans | 95,929 | 99,070 |
| Directors and related parties | - | 23 |
| Gross loans and advances | 99,839 | 102,989 |
| Less: Allowance for impairment losses | (91) | (41) |
| | 99,748 | 102,948 |

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2015

| | | 2015 \$'000 | 2014 \$'000 |
|---|---|----------------|----------------|
| (a) BY MATURITY | | | |
| Overdrafts | | 3,910 | 3,896 |
| Not longer than 3 months | | - | 788 |
| Longer than 3 months and less than 12 months | | 31 | 2,502 |
| Longer than 12 months and less than 5 years | | 8,313 | 7,453 |
| Longer than 5 years | | 87,585 | 88,350 |
| | | 99,839 | 102,989 |
| (b) BY PRODUCT TYPE | | | |
| Residential mortgages | | 89,770 | 91,434 |
| Consumer lending | | 6,978 | 7,717 |
| Corporate & small business lending | | 3,091 | 3,838 |
| | | 99,839 | 102,989 |
| (c) BY CONCENTRATION | | | |
| Loans in Victoria | At 30 June 2015 there were 12 loans totalling \$8.6m which exceeded | 74,931 | 74,435 |
| Loans in South Australia | 10% of the Co-operative's capital base(2014: \$7.4m) | 20,076 | 23,563 |
| In other states | | 4,832 | 4,991 |
| | | 99,839 | 102,989 |
| (d) BY SECURITY | | | |
| Secured by mortgage | | 97,755 | 101,125 |
| Secured by Other | | 1,343 | 1,314 |
| Unsecured | | 741 | 550 |
| | | 99,839 | 102,989 |
| IMPAIRMENT ALLOWANCE FOR LOANS AND ADVANCES TO MEMBERS | | | |
| A reconciliation of the allowance for impairment losses for loans and advances is as follows: | | | |
| (I) Total Provision | | 91 | 41 |
| (II) Movement in total provision | | | |
| Balance at the beginning of the year | | 41 | 12 |
| Charge for the year (note 7) | | 55 | 39 |
| Amounts written off already provided for | | (5) | (10) |
| Balance at the end of the year | | 91 | 41 |
| (III) The loans provision consists of: | | | |
| Collective provision | | 38 | 41 |
| Specific provision | | 53 | - |
| | | 91 | 41 |
| (IV) Impaired loans written off: | | | |
| Charge/(recovery) | | 5 | 10 |
| Total impaired loans written off | | 5 | 10 |

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2015

| Loans and Advances past due and impaired | 2015 | | | 2014 | | |
|---|--------------|------------|-----------------|------------|------------|-----------------|
| | Past Due | Impaired | Collateral Held | Past Due | Impaired | Collateral Held |
| | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 |
| HOUSING LOANS | | | | | | |
| 30 days and less than 60 days | 1,534 | - | 5,100 | 2 | - | 237 |
| 60 days and less than 90 days | 980 | - | 2,095 | - | - | - |
| 90 days and less than 182 days | 369 | - | 3,095 | 153 | - | 195 |
| 182 days and less than 273 days | - | - | - | - | - | - |
| 273 days and less than 365 | - | - | - | - | 146 | 140 |
| 365 days and over | - | 158 | 150 | - | - | - |
| | 2,883 | 158 | 10,440 | 155 | 146 | 572 |
| PERSONAL AND COMMERCIAL LOANS | | | | | | |
| 30 days and less than 60 days | - | - | - | 8 | - | 13 |
| 60 days and less than 90 days | 32 | - | 51 | 14 | 13 | 18 |
| 90 days and less than 182 days | 67 | - | 409 | 4 | - | 38 |
| 182 days and less than 273 days | - | - | - | - | - | - |
| 273 days and less than 365 | 13 | - | 21 | - | - | - |
| 365 days and over | 14 | - | - | - | - | - |
| | 126 | - | 481 | 26 | 13 | 69 |
| OVERDRAFTS | | | | | | |
| less than 14 days | - | - | - | - | - | - |
| 14 days and less than 90 days | - | - | - | 24 | 2 | - |
| 90 days and less than 182 days | - | - | - | - | - | - |
| 182 days and over | 343 | - | 500 | - | - | - |
| | 343 | - | 500 | 24 | 2 | - |
| Total Loans and Past Due or impaired | 3,352 | 158 | 11,421 | 205 | 161 | 641 |

Key Assumptions in determining the provision for impairment:

In the course of the annual report, the Co-operative has determined the likely impairment loss on loans which have not maintained the loan repayments in accordance with the loan contract, or where there is other objective evidence of potential impairment such as industrial restructuring, job losses or economic circumstances.

The Loans and advances are determined to be past due or impaired by the amount of days that they are overdue. Per APRA provisioning a housing loan is determined to be past due at 30 days or greater. Personal and commercial loans are determined to be past due between 30 days and less than 90 days, and impaired after 90 days. Overdrafts are past due at one day to less than 14 days overdue and impaired if greater than 14 days overdue.

The loans and advances past due or impaired are secured by collateral, as described in note 24.2, that exceeds the value of loans and advances outstanding.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2015

13. INVESTMENT PROPERTIES

| | 2015 \$'000 | 2014 \$'000 |
|---------------------------------------|----------------|----------------|
| At 1 July | 2,584 | 2,584 |
| Net change from fair value adjustment | 265 | - |
| | 2,849 | 2,584 |

14.1 PROPERTY AND EQUIPMENT

| | Land & Buildings | Computer Hardware | Other Furniture & Equipment | Total |
|----------------------------------|---------------------|----------------------|-----------------------------------|--------------|
| | \$'000 | \$'000 | \$'000 | \$'000 |
| Cost or Fair value: | | | | |
| At 1 July 2014 | 7,541 | 157 | 1,251 | 8,949 |
| Additions | - | 19 | - | 19 |
| Disposals | - | (23) | (11) | (34) |
| Net change from revaluation | 810 | - | - | 810 |
| At 30 June 2015 | 8,351 | 153 | 1,240 | 9,744 |
| Accumulated depreciation: | | | | |
| At 1 July 2014 | - | 88 | 1,125 | 1,213 |
| Disposals | - | (23) | (11) | (34) |
| Depreciation charge for the year | - | 29 | 38 | 67 |
| At 30 June 2015 | - | 94 | 1,152 | 1,246 |
| At 30 June 2014 | | | | |
| Cost or fair value | 8,351 | 153 | 1,240 | 9,744 |
| Less: Accumulated depreciation | - | 94 | 1,152 | 1,246 |
| Net carrying amount | 8,351 | 59 | 88 | 8,498 |

| | 2015 \$'000 | 2014 \$'000 |
|--|----------------|----------------|
| If land and buildings were measured using the cost model the carrying amounts would be: | 3,894 | 3,894 |

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2015

| | Land & Buildings | Computer Hardware | Other Furniture & Equipment | Total |
|----------------------------------|---------------------|----------------------|-----------------------------------|--------------|
| | \$'000 | \$'000 | \$'000 | \$'000 |
| Cost or Fair value: | | | | |
| At 1 July 2013 | 7,541 | 186 | 1,244 | 8,971 |
| Additions | - | 15 | 24 | 39 |
| Disposals | - | (44) | (17) | (61) |
| Net change from revaluation | - | - | - | - |
| At 30 June 2014 | 7,541 | 157 | 1,251 | 8,949 |
| Accumulated depreciation: | | | | |
| At 1 July 2013 | - | 97 | 1,088 | 1,185 |
| Disposals | - | (39) | (6) | (45) |
| Depreciation charge for the year | - | 30 | 43 | 73 |
| At 30 June 2014 | - | 88 | 1,125 | 1,213 |
| At 30 June 2014 | | | | |
| Cost or fair value | 7,541 | 157 | 1,251 | 8,949 |
| Less: Accumulated depreciation | - | 88 | 1,125 | 1,213 |
| Net carrying amount | 7,541 | 69 | 126 | 7,736 |

14.2 INTANGIBLES

a. Intangible Assets Comprise:

| | 2015 \$'000 | 2014 \$'000 |
|--------------------------------|----------------|----------------|
| Computer Software | 301 | 236 |
| less: Accumulated amortisation | (209) | (200) |
| | 92 | 36 |

b. Movement in the intangible asset balances during the year was:

| | 2015 \$'000 | 2014 \$'000 |
|---------------------------|----------------|----------------|
| Opening balance | 36 | 53 |
| Additions | 75 | 1 |
| less: Amortisation charge | (19) | (18) |
| | 92 | 36 |

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2015

| | 2015 \$'000 | 2014 \$'000 |
|--|----------------|----------------|
| 15. OTHER FINANCIAL INVESTMENTS | | |
| Cuscal Shares | 76 | 76 |
| Indue class 'a' shares | 77 | 26 |
| Indue Limited SDD | 31 | 31 |
| | 184 | 133 |

The Indue and Cuscal shares above are held as part of the requirements of the service contracts we have with Indue and Cuscal, who facilitate some of our banking services. The shares are stated at cost and are not tradable. When the contract ceases, the shares would be returned to Cuscal or Indue and the cost price repaid to the Co-operative in return.

| | | |
|-----------------------------|------------|------------|
| 16. OTHER ASSETS | | |
| Accrued interest receivable | 269 | 258 |
| Prepayments | 30 | 21 |
| Other receivables | 17 | 10 |
| | 316 | 289 |

The maximum exposure to credit risk is the fair value of the receivables. Collateral is not held as security, nor is it policy to transfer (on-sell) receivables to special purpose entities.

| | | |
|-----------------------------|----------------|----------------|
| 17. MEMBER DEPOSITS | | |
| Current accounts | 46,029 | 48,411 |
| Term deposits | 81,614 | 70,154 |
| | 127,643 | 118,565 |
| Deposits in Victoria | 92,334 | 86,827 |
| Deposits in South Australia | 24,832 | 21,674 |
| In other states | 10,477 | 10,064 |
| | 127,643 | 118,565 |

| | | |
|--------------------------------------|--------------|--------------|
| 18. OTHER LIABILITIES | | |
| Interest payable on deposits | 754 | 519 |
| Rent received in advance | 26 | 52 |
| Trade creditors and sundry creditors | 568 | 918 |
| | 1,348 | 1,489 |

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2015

19. PROVISIONS - EMPLOYEES

| | 2015 \$'000 | 2014 \$'000 |
|---|----------------|----------------|
| Current provisions for employee entitlements | | |
| Long service leave | 91 | 131 |
| Annual leave | 143 | 210 |
| | 234 | 341 |
| NON-CURRENT PROVISION FOR EMPLOYEE ENTITLEMENTS | | |
| Long service leave | 62 | 61 |
| | 62 | 61 |

| A reconciliation of the provisions is as follows | Annual Leave | Long Service Leave | Total |
|--|--------------|--------------------|------------|
| As at 1 July 14 | 210 | 192 | 402 |
| Payments Made | (153) | (51) | (204) |
| Additional Provisions | 86 | 12 | 98 |
| As at 30 June 15 | 143 | 153 | 296 |
| As at 1 July 13 | 188 | 183 | 371 |
| Payments Made | (87) | (19) | (106) |
| Additional Provisions | 109 | 28 | 137 |
| As at 30 June 14 | 210 | 192 | 402 |

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2015

20. RETAINED EARNINGS AND RESERVES

| | Retained Earnings \$'000 | Credit Loss Reserve \$'000 | Foundation Reserve \$'000 | Business Combination Reserve \$'000 | Asset Revaluation Reserve \$'000 | Total Reserves \$'000 |
|--|--------------------------------|----------------------------------|---------------------------------|--|---|-----------------------------|
| As at 1 July 2014 | 10,077 | 260 | 10 | 2,303 | 4,810 | 7,383 |
| Increase in statutory amount set aside for potential losses on loans & advances | (229) | 229 | - | - | - | 229 |
| Net change from revaluation of property | - | - | - | - | 758 | 758 |
| Net profit attribute to members | 670 | - | - | - | - | - |
| Transfers | 10 | - | (10) | - | - | (10) |
| As at 30 June 2015 | 10,528 | 489 | - | 2,303 | 5,568 | 8,360 |
| As at 1 July 2013 | 9,812 | 342 | 10 | 2,303 | 4,810 | 7,465 |
| Increase in statutory amount set aside for potential losses on loans & advances | 82 | (82) | - | - | - | (82) |
| Net change from revaluation of property | - | - | - | - | - | - |
| Net profit attribute to members | 183 | - | - | - | - | - |
| Transfers | - | - | - | - | - | - |
| As at 30 June 2014 | 10,077 | 260 | 10 | 2,303 | 4,810 | 7,383 |

CREDIT LOSS RESERVE

The credit loss reserve is used to record the Co-operative's required provisioning (under the Standard) for setting aside an amount based on risk weighted assets and delinquencies as provision for possible bad debt write off. It represents an appropriation of retained earnings as further capital held against credit losses.

FOUNDATION RESERVE

The foundation reserve was used to record the retained earnings set aside for the anticipated foundation fund to be setup for the benefit of the Ukrainian community. The Board deemed that this Reserve was no longer required, cancelled the Reserve and funds were transferred back to Retained Earnings.

BUSINESS COMBINATION RESERVE

The business combination reserve is used to record increments and decrements in equity as a result of mergers with other businesses.

ASSET REVALUATION RESERVE

The asset revaluation reserve is used to record increments and decrements in the fair value of land and buildings to the extent that they offset one another.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2015

| | 2015 \$'000 | 2014 \$'000 |
|--|----------------|----------------|
| 21. ADDITIONAL CASH FLOW INFORMATION | | |
| CASH AND CASH EQUIVALENTS | | |
| Cash on hand | 317 | 276 |
| Current account with Bank | 733 | 1,971 |
| Overnight deposits with Bank | 5,600 | 6,850 |
| | 6,650 | 9,097 |
| CHANGE IN OPERATING ASSETS | | |
| Net change in interest receivable | 11 | 14 |
| Net change in debtors | 7 | (28) |
| Net change in prepayments | 9 | 16 |
| Net change in future tax receivable | (46) | (52) |
| | (19) | (50) |
| CHANGE IN OPERATING LIABILITIES | | |
| Net change in interest payable | 235 | (260) |
| Net change in interest payable | (26) | 50 |
| Net change in creditors and accruals | (350) | (1,126) |
| Net change in future tax payable | (34) | 76 |
| Provisions | (106) | 31 |
| | (281) | (1,229) |
| NON-CASH ITEMS INCLUDED IN PROFIT BEFORE TAX | | |
| Depreciation of property and equipment and amortisation of intangibles | 86 | 91 |
| Losses on disposal of property and equipment | 1 | - |
| Net impairment losses on financial assets | 55 | 39 |
| Revaluation of investment property | (265) | - |
| | (123) | 130 |
| 22. COMMUNITY GRANTS AND SPONSORSHIP | | |
| Community Sponsorship | 14 | 10 |
| School Support | - | 9 |
| Church Praznyk | 6 | 8 |
| | 20 | 27 |

Dnister Ukrainian Credit Co-operative Ltd makes payments to the Ukrainian Community via grants and sponsorship. In addition, Dnister Staff provide special support services to community organisations free of charge.

The amount allocated is approved by the Board of Directors.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2015

| | Carrying Value | Fair Value |
|---|----------------|----------------|
| | \$'000 | \$'000 |
| 23. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES | | |
| ASSETS 2015 | | |
| Financial Assets | | |
| Cash & balances with bank | 6,650 | 6,650 |
| Financial investments - Held to maturity | 17,840 | 17,850 |
| Financial investments - Available for sale | 12,983 | 12,983 |
| Loans and advances to members | 99,748 | 99,764 |
| Other investments | 184 | 184 |
| Accrued interest receivable | 269 | 269 |
| Other receivables | 47 | 47 |
| Total 2015 | 137,721 | 137,746 |
| LIABILITIES 2015 | | |
| Financial Liabilities | | |
| Member deposits | 127,643 | 127,697 |
| Wholesale borrowings | - | - |
| Total 2015 | 127,643 | 127,697 |
| ASSETS 2014 | | |
| Financial Assets | | |
| Cash & balances with bank | 9,097 | 9,097 |
| Financial investments - Held to maturity | 15,748 | 15,757 |
| Loans and advances to members | 102,948 | 102,931 |
| Other investments | 133 | 133 |
| Accrued interest receivable | 257 | 257 |
| Other receivables | 31 | 31 |
| Total 2014 | 128,214 | 128,206 |
| LIABILITIES 2014 | | |
| Financial Liabilities | | |
| Member deposits | 118,565 | 118,654 |
| Wholesale borrowings | - | - |
| Total 2014 | 118,565 | 118,654 |

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2015

FAIR VALUE HIERARCHY

All Financial Instruments for which fair value is recognised or disclosed are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 - Quoted market prices in an active market (that is unadjusted) for identical assets or liabilities

Level 2 - Valuation techniques (for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable)

Level 3 - Valuation techniques (for which the lowest level input that is significant to the fair value measurement is unobservable)

For financial instruments that are recognised at fair value on a recurring basis, the Co-operative determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

As at 30 June 2015, the Group held the following classes of financial instruments measured at (AASB13) fair value:

| | 30 June 15 | Level 1 | Level 2 | Level 3 |
|--|------------|---------|---------|---------|
| Financial Assets measure at fair value -2015 | | | | |
| Financial investments | 17,850 | - | - | 17,850 |
| Loans and advances to members | 99,764 | - | - | 99,764 |
| Financial Liabilities measure at fair value -2015 | | | | |
| Member deposits | 127,697 | - | - | 127,697 |
| | 30 June 14 | Level 1 | Level 2 | Level 3 |
| Financial Assets measure at fair value -2014 | | | | |
| Financial investments | 15,757 | - | - | 15,757 |
| Loans and advances to members | 102,931 | - | - | 102,931 |
| Financial Liabilities measure at fair value -2014 | | | | |
| Member deposits | 118,654 | - | - | 118,654 |

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2015

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

CASH AND LIQUID ASSETS

The carrying values of cash and liquid assets approximate their net fair value as they are short term in nature or are receivable on demand.

DEPOSITS WITH FINANCIAL INSTITUTIONS

The carrying values of deposits with financial institutions are categorised within the fair value hierarchy based on net present values.

LOANS AND ADVANCES

The carrying values of loans and advances are net of the total provision for doubtful debts. Interest rates on loans both fixed and variable equate to comparable products in the market place. The carrying values of loans and advances to members are categorised within the fair value hierarchy based on net present values.

MEMBER DEPOSITS

The carrying values of member deposits are categorised within the fair value hierarchy based on net present values.

OTHER INVESTMENTS

The carrying amount of other investments is at cost as these shares are bought and sold at the same amount they are held as part of our service contract with Cuscal and Indue, and are not available for sale.

ACCRUED INTEREST RECEIVABLE

The net fair value of accrued interest receivables represents the carrying amount. This represents the interest that has accrued to date on deposits with financial institutions.

OTHER RECEIVABLES

The net fair value of other receivables represents the carrying amount. This mainly represented rent owed to the Co-operative from the investment properties.

24. RISK MANAGEMENT

24.1 INTRODUCTION

Risk is inherent in the Co-operative's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Co-operative's continuing profitability and each individual within the Co-operative is accountable for the risk exposure relating to his or her responsibilities. The Co-operative is exposed to credit risk, liquidity risk and market risk. It is also subject to operating risks.

RISK MANAGEMENT STRUCTURE

The Board of Directors is ultimately responsible for identifying and controlling risks; however there is a Risk Committee. This Committee has the overall responsibility for the development of the risk strategy and implementing principles, frameworks, policies and limits. It is responsible for the fundamental risk issues and manages and monitors relevant risk decisions.

INTERNAL AUDIT

Risk management processes throughout the Co-operative are audited annually by the internal audit function, which examines both the adequacy of procedures and the Co-operative's compliance with the procedures. Internal Audit discusses the results of all assessments with Management, and reports its findings and recommendations to the Audit Committee.

24.2 CREDIT RISK

Credit risk is the risk that the Co-operative will incur a loss because a counterparty failed to discharge their obligations. The Co-operative manages and controls risk by setting limits on the amount it is willing to accept for debtors and loan categories, and by monitoring exposures to such limits.

With respect to credit risk arising from other financial assets of the Co-operative, the Co-operative's exposure to credit risk arises from default of the counterparty, with the current exposure equal to the fair value of these instruments as disclosed in the Statement of Financial Position. Future movements in fair value would increase or reduce that exposure.

Credit ratings are those published by Standards and Poor's.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2015

The table below show the credit quality by class of asset

| ASSETS | 2015 \$'000 | 2015 \$'000 | 2015 \$'000 | 2015 \$'000 |
|--|----------------|----------------|----------------|----------------------|
| Financial Assets | Total | High Grade | Other Grade | Past Due or Impaired |
| Loans and advances | 99,748 | 96,238 | - | 3,510 |
| | Total | AAA to A- | B to BBB+ | Other* |
| Cash & balances with bank | 6,650 | 5,600 | - | 1,050 |
| Financial investments - held to maturity | 17,840 | 16,192 | - | 1,648 |
| Financial investments - available for sale | 12,983 | 12,983 | - | - |
| Other investments | 184 | 76 | - | 108 |
| Accrued interest receivable | 269 | 265 | - | 4 |
| Other receivables | 47 | - | - | 47 |
| Total | 37,973 | 35,116 | - | 2,857 |
| ASSETS | 2014 \$'000 | 2014 \$'000 | 2014 \$'000 | 2014 \$'000 |
| Financial Assets | Total | High Grade | Other Grade | Past Due or Impaired |
| Loans and advances | 102,989 | 102,623 | - | 366 |
| | Total | AAA to A- | B to BBB+ | Other* |
| Cash & balances with bank | 9,097 | 6,850 | - | 2,247 |
| Financial investments - held to maturity | 15,748 | 12,650 | 1,450 | 1,648 |
| Other investments | 133 | 76 | - | 57 |
| Accrued interest receivable | 258 | 49 | 206 | 3 |
| Other receivables | 31 | - | - | 31 |
| Total | 25,267 | 19,625 | 1,656 | 3,986 |

The Loans and advances are determined to be past due or impaired by the amount of days that they are overdue. As per APRA provisioning, a Housing Loan is determined to be past due at 30 days or greater and impaired after 90 days. Personal and commercial loans are determined to be past due between 30 days and less than 90 days, and impaired after 90 days. Overdrafts are past due at one day to less than 14 days overdue and impaired if greater than 14 days overdue.

Financial assets that are neither past due or impaired are classified between those assets that are high grade and not high grade (other grade). To define what is a high grade financial asset, Dnister has referred to the prudential standards issued by the Australian Prudential Regulation Authority (APRA) in particular APS 112 which categorises the risk likelihood of default. APS 112 applies risk-weight percentages to indicate the quality of assets. A risk-weight of 50% or less indicates higher quality assets and this has been applied to define high grade assets for the table provided.

*Other consists of assets or liabilities which have not been rated or are of a non-rated nature.

All interest bearing securities were issued by Australian entities.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2015

COLLATERAL AND OTHER CREDIT ENHANCEMENTS

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

The main types of collateral obtained are as follows:

- for commercial lending, charges over real estate properties, inventory and trade receivables.
- for mortgage lending, mortgages over residential properties.

Management monitors the market value of collateral, requests collateral in accordance with the underlying agreement and monitors the market value of collateral obtained during its review of the adequacy of the allowance for impairment losses.

It is the Co-operative's policy to dispose of repossessed properties in an orderly fashion. The proceeds are used to reduce or repay the outstanding claim. In general, the Co-operative does not occupy repossessed properties for business use.

IMPAIRMENT ASSESSMENT

The main considerations for the loan impairment assessment include whether any payments of principal or interest are overdue by more than the specified period or there are any known difficulties in the cash flows of members, credit rating downgrades, or infringement of the original terms of the contract.

LOANS PAYABLE

During the current and prior year, there were no defaults or breaches on any of the loans.

24.3 LIQUIDITY RISK AND FUNDING MANAGEMENT

Liquidity risk is the risk that the Co-operative will be unable to meet its payment obligations when they fall due under normal and stress circumstances. To limit this risk, Management has arranged diversified funding sources. In addition to its core deposit base, the Co-operative manages assets with liquidity in mind, and monitors future cash flows and liquidity on a daily basis. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding if required.

The Co-operative has a \$350,000 overdraft facility which allows for the day to day fluctuations in a settlement account with Indue Ltd. The overdraft allows the settlement account to be overdrawn for one or two business days in the event that the withdrawals are greater than the settlement account balance. The Co-operative will then deposit within one or two business days the required funds to return the account to credit.

The Co-operative maintains a portfolio of highly marketable and diverse assets that can be easily liquidated in the event of an unforeseen interruption of cash flow. In addition, the Co-operative is required by the Australian Prudential Regulatory Authority to hold a minimum level of high quality liquid assets at any given time. The liquidity position is assessed giving due consideration to stress factors relating to both the market in general and specifically to the Co-operative. Net liquid assets consists of cash, short term bank deposits or negotiable certificate of deposits available for immediate sale.

The ratio during the year was as follows:

| | 2015 | 2014 |
|--------------------|------|------|
| | % | % |
| 30 June | 25.2 | 17.6 |
| Highest for period | 25.2 | 19.8 |
| Lowest for period | 17.6 | 14.5 |

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2015

24.3a MATURITY PROFILE OF FINANCIAL LIABILITIES

The tables below summarises the maturity profile of Dnister's financial liabilities at balance date based on contractual undiscounted repayment obligations. Dnister does not expect the majority of members to request repayment on the earliest date that Dnister could be required to pay and the tables do not reflect the expected cash flows indicated by Dnister's deposit retention history.

| | Less than 30 days | Less than 3 months | 3-12 months | Subtotal less than 12 months | 1 -5 years | Over 5 years | Subtotal over 12 months | Total |
|--------------------------|----------------------|-----------------------|----------------|---------------------------------------|---------------|-----------------|----------------------------------|----------------|
| | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 |
| 2015 | | | | | | | | |
| Liabilities | | | | | | | | |
| Bank overdrafts | - | - | - | - | - | - | - | - |
| Member deposits | 57,194 | 48,350 | 21,923 | 127,467 | 176 | - | 176 | 127,643 |
| Wholesale borrowings | - | - | - | - | - | - | - | - |
| Trade and other payables | 389 | - | 959 | 1,348 | - | - | - | 1,348 |
| Total | 57,583 | 48,350 | 22,882 | 128,815 | 176 | - | 176 | 128,991 |
| 2014 | | | | | | | | |
| Liabilities | | | | | | | | |
| Bank overdrafts | - | - | - | - | - | - | - | - |
| Member deposits | 65,558 | 17,266 | 35,531 | 118,355 | 210 | - | 210 | 118,565 |
| Wholesale borrowings | - | - | - | - | - | - | - | - |
| Trade and other payables | 695 | - | 794 | 1,489 | - | - | - | 1,489 |
| Total | 66,253 | 17,266 | 36,325 | 119,844 | 210 | - | 210 | 120,054 |

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2015

24.3b MATURITY PROFILE OF COMMITMENTS

The table below shows the contractual expiry of the maturity of Dnister's credit commitments and lease expenditure commitments. Dnister expects that not all of the commitments will be drawn before the expiry of the commitments.

| | Within 12 months | More than 1 year | Total |
|----------------------------|---------------------|---------------------|--------------|
| 2015 | | | |
| Liabilities | \$'000 | \$'000 | \$'000 |
| Approved but undrawn loans | 260 | - | 260 |
| Undrawn line of credit | 2,025 | - | 2,025 |
| Total | 2,285 | - | 2,285 |
| 2014 | | | |
| Liabilities | \$'000 | \$'000 | \$'000 |
| Approved but undrawn loans | 306 | - | 306 |
| Undrawn line of credit | 3,091 | - | 3,091 |
| Total | 3,397 | - | 3,397 |

24.4 MARKET RISK

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates. The Board has set limits on the level of market risk that may be accepted. The Co-operative has significant interest rate risk, but not excessive given the nature of our business. The level of interest rate risk is managed through maturity repricing analysis and limits the exposure based on a 2% interest rate movement, which is set by the Board and reported monthly to the Board. The Co-operative only deals in Australian Dollars and therefore is not exposed to currency risk. The Co-operative does not hold any investments which are subject to equity movement and therefore is not exposed to equity risk.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2015

INTEREST RATE RISK

Interest rate risk is the risk that fair value or future cashflows of the Co-operative's financial instruments will fluctuate because of changes in market interest rate.

| | Floating Interest Rate | Fixed interest maturing in | | Non-interest bearing | Total carrying amount as per Statement of Financial Position |
|--|------------------------|----------------------------|-------------------------|----------------------|--|
| | \$'000 2015 | \$'000 1 year or less | \$'000 +1 to 5 years | \$'000 2015 | \$'000 2015 |
| FINANCIAL ASSETS | | | | | |
| Cash & balances with bank | 6,333 | - | - | 317 | 6,650 |
| Financial investments - held to maturity | - | 18,403 | - | - | 18,403 |
| Financial investments - available for sale | - | - | 12,420 | - | 12,420 |
| Shares (Cuscal and Indue) | - | - | - | 184 | 184 |
| Other receivables | - | - | - | 316 | 316 |
| Loans and advances to members | 91,893 | 2,665 | 5,190 | - | 99,748 |
| FINANCIAL LIABILITIES | | | | | |
| Member deposits | 46,029 | 81,445 | 169 | - | 127,643 |
| Wholesale borrowings | - | - | - | - | - |

| | Floating Interest Rate | Fixed interest maturing in | | Non-interest bearing | Total carrying amount as per Statement of Financial Position |
|--|------------------------|----------------------------|-------------------------|----------------------|--|
| | \$'000 2014 | \$'000 1 year or less | \$'000 +1 to 5 years | \$'000 2014 | \$'000 2014 |
| FINANCIAL ASSETS | | | | | |
| Cash & balances with bank | 8,821 | - | - | 276 | 9,097 |
| Financial investments - held to maturity | - | 15,748 | - | - | 15,748 |
| Shares (Cuscal and Indue) | - | - | - | 133 | 133 |
| Other receivables | - | - | - | 289 | 289 |
| Loans and advances to members | 97,693 | 1,087 | 4,168 | - | 102,948 |
| FINANCIAL LIABILITIES | | | | | |
| Member deposits | 48,411 | 69,944 | 210 | - | 118,565 |
| Wholesale borrowings | - | - | - | - | - |

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2015

INTEREST RATE SENSITIVITY

The following tables demonstrate the sensitivity to a reasonable possible change in interest rates: to post tax profit and equity.

| | | Post Tax Profit Higher / (Lower) | |
|--------------------------|--------------------------|-------------------------------------|--------|
| 2015 | 2014 | 2015 | 2014 |
| | | \$'000 | \$'000 |
| +0.50% (50 Basis Points) | +0.50% (50 Basis Points) | 99 | 189 |
| -0.50% (50 Basis Points) | -0.50% (50 Basis Points) | (99) | (189) |

| | | Equity Higher / (Lower) | |
|--------------------------|--------------------------|----------------------------|--------|
| 2015 | 2014 | 2015 | 2014 |
| | | \$'000 | \$'000 |
| +0.50% (50 Basis Points) | +0.50% (50 Basis Points) | 99 | 189 |
| -0.50% (50 Basis Points) | -0.50% (50 Basis Points) | (99) | (189) |

The above interest rate risk sensitivity is unrepresentative of the risks inherent in the financial assets and financial liabilities, as the sensitivity analysis does not reflect the maturing of fixed interest financial assets and financial liabilities within the next 12 months.

25. CAPITAL

The Co-operative maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Co-operative's capital is monitored using, among other measures, the rules and ratios established by the Australian Prudential Regulatory Authority (APRA). The capital ratio of 19.3% as at 30 June 2015 exceeds the APRA minimum requirement. Should capital fall to 17% a 3 year forecast is performed to ensure that the capital is monitored closely and starts to trend upwards. The capital ratio is reported to the Board at the monthly Board Meetings and more frequently during periods of volatility or when the capital ratio falls below 17%. During the past year, the Co-operative has complied in full with all its internally and externally imposed capital requirements.

The capital ratio is derived by dividing the capital base by the risk weighted assets. The Co-operative adheres to the regulations set down by APRA in regard to which capital items can or cannot be included and also the different risk weightings put on the various assets. These risk weightings are set by APRA and are based on the risk associated with each different asset class.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2015

CAPITAL MANAGEMENT

The primary objectives of the Co-operative's capital management are to ensure the Co-operative complies with internally and externally imposed capital requirements and that the Co-operative maintains strong credit and healthy capital ratios in order to support its business and maximize member value.

In September 2012, APRA published the final standards relating to the implementation of the Basel III capital reforms in Australia. An important component of the requirements under Basel III in relation to the capital measurement and capital standards is the public disclosure of regulatory information. These requirements are outlined in APRA Prudential Standard APS 330 Public Disclosure. The standard sets minimum requirements for the public disclosure of information on the Co-operative's risk profile, risk management, capital adequacy, capital instruments and remuneration practices. The Co-operative has adopted the new regulatory requirements and published the required information on our website www.dnister.com.au

| REGULATORY CAPITAL | 2015 | 2014 |
|----------------------------|--------------|--------------|
| | \$'000 | \$'000 |
| Capital base | 15,293 | 14,779 |
| Risk weighted assets | 79,141 | 69,409 |
| | % | % |
| Total capital ratio | 19.3% | 21.3% |

26. RELATED PARTY DISCLOSURES

a. DETAILS OF KEY MANAGEMENT PERSONNEL

The Followings persons were Directors of the Co-operative during the financial year:

| | |
|----------------|--------------|
| M. Misko | W. Mykytenko |
| M. Kornitschuk | L. Slipetsky |
| B. Wojewidka | M. Kwas |
| J. Kotowskyj | A. Pavuk |
| D. Hassett | |

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2015

| b. COMPENSATION OF KEY MANAGEMENT PERSONNEL OF THE CO-OPERATIVE | 2015 \$'000 | 2014 \$'000 |
|--|----------------|----------------|
| Short-term employment benefits - salaries | 225 | 222 |
| Post employment - superannuation contributions | 21 | 19 |
| Long term benefits - LSL expense | 5 | 5 |
| Total | 251 | 246 |

| c. DIRECTORS' REMUNERATION (INCLUDED IN 26b. ABOVE) | 2015 \$'000 | 2014 \$'000 |
|--|----------------|----------------|
| Aggregate remuneration of Directors included in the figure above | 42 | 45 |

d. TRANSACTIONS WITH KEY MANAGEMENT PERSONAL OF THE CO-OPERATIVE

The Co-operative enters into transactions, arrangements and agreements involving Directors and the Chief Executive Officer in the ordinary course of business.

The following table provides the aggregate value of loan, investment and deposit products to the Chief Executive Officer, Directors, spouses and related entities:

| | 2015 \$'000 | 2014 \$'000 |
|---|----------------|----------------|
| Loans: | | |
| Opening balance owing | 23 | 16 |
| New loans advanced | 14 | 11 |
| Net repayments | (7) | (4) |
| Movement from changes in key management personnel | - | - |
| Balance owing at 30 June | 30 | 23 |
| Revolving Credit Facilities: | | |
| Total value extended | - | 260 |
| Balance utilised at 30 June | - | 23 |
| Savings and term deposit services: | | |
| Amounts deposited at 30 June | 873 | 964 |

All loans disbursed are approved on the same terms and conditions applied to members generally for each class of their loan. All other transactions between the Key Management Personnel and the Co-operative were conducted on normal commercial terms and there has been no breach of these terms.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2015

27. CONTINGENT LIABILITIES AND COMMITMENTS

To meet the financial needs of Members, the Co-operative does enter into irrevocable commitments and contingent liabilities. Even though these obligations may not be recognised on the Statement of Financial Position, they do contain credit risk and are therefore part of the overall risk of the Co-operative. The maximum amount of credit exposure risk for guarantees for 2015 of \$340,180 (2014: \$340,180) is deemed insignificant.

The total outstanding commitments and contingent liabilities are as follows:

| | 2015 | 2014 |
|--|--------------|--------------|
| | \$'000 | \$'000 |
| CONTINGENT LIABILITIES | | |
| Financial guarantees | 490 | 315 |
| COMMITMENTS | | |
| Undrawn commitments to lend | 260 | 306 |
| Unused overdraft facilities of members | 2,025 | 3,091 |
| Total | 2,775 | 3,712 |

CONTINGENT LIABILITIES

Letters of credit and guarantees commit the Co-operative to make payments on behalf of Members in the event of a specific act. Guarantees and standby letters of credit carry the same risk as loans.

UNDRAWN COMMITMENTS TO LEND

Commitments to extend credit represent contractual commitments to make loans and revolving credits. Commitments generally have fixed expiry dates, or other termination clauses. Since commitments expire without being drawn upon, the total contract amounts do not necessarily represent future cash requirements.

However, the potential credit loss is less than the total unused commitments since most commitments to extend credit are contingent upon members maintaining specific standards.

OPERATING LEASE COMMITMENTS RECEIVABLES - CO-OPERATIVE AS LESSOR

Leases in which the Co-operative retains substantially all the risks and benefits of ownership of the leased asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the lease asset and recognised as an expense over the lease term on the same basis as rental income.

The Co-operative has entered into commercial property leases on its investment portfolio, consisting of the Co-operative's surplus office buildings.

These non-cancellable leases have remaining terms of between 1 and 3 years. All leases include a clause to enable upward revision of the rental charge on an annual basis.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2015

Future minimum rentals receivable under non-cancellable operating leases as at 30 June are as follows:

| | 2015 \$'000 | 2014 \$'000 |
|--|----------------|----------------|
| Within one year | 711 | 831 |
| After one year but not more than three years | 513 | 605 |
| After three years but not more than five years | 4 | - |
| Total minimum lease payments | 1,228 | 1,436 |

LEGAL CLAIMS

The Co-operative had no material unresolved legal claims as at 30 June 2015 (2014: none).

ECONOMIC DEPENDENCY

The Co-operative has service contracts with, and has an economic dependency on, the following organisations:

(a) *Indue* - This entity supplies the Co-operative with services in the form of settlement with bankers for ATM transactions, member cheques and direct entry services and the production of debit cards for use by members.

(b) *First Data International* - This company operates the computer switch used to process transactions from the use of Co-operative's debit cards through approved ATM and EFTPOS networks.

(c) *DataAction* - This company provides and maintains core banking software currently utilised by the Co-operative. DataAction is a major supplier of software to credit unions throughout Australia.

28. REMUNERATION OF EXTERNAL AUDITORS

During the years the auditors of the Co-operative earned the following remuneration:

| | 2015 | 2014 |
|---------------------|---------------|---------------|
| Audit of Financials | 30,000 | 47,000 |
| Regulatory Audit | 10,000 | 15,000 |
| Taxation Services | 15,000 | 15,000 |
| | 55,000 | 77,000 |

29. SUBSEQUENT EVENTS

There were no subsequent events to be brought to the attention of members for the financial year ended 30 June 2015.

30. SEGMENT INFORMATION

The principal activities of the Co-operative during the year were for the provision of retail financial services to all members and the Ukrainian Community of Australia. This takes form of deposit taking facilities and loan facilities as prescribed by the Constitution. The entity operates primarily in one geographical area, Australia.

Corporate Directory

| | |
|---------------------------------|---|
| ESTABLISHED | Dnister was incorporated in Victoria under the Co-operative Act on 21 September 1959 |
| REGISTERED OFFICE | Head Office : 912 Mt Alexander Road, Essendon VIC 3040 Tel (03) 9375 1222 Fax (03) 9370 5361 |
| BRANCHES | Adelaide : 62 Orsmond St, Hindmarsh SA 5007 Tel (08) 8346 6174 Fax (08) 8346 2262 Geelong : 3/29-35 Milton Street, Bell Park VIC 3215 Tel (03) 5278 5950 Fax (03) 5277 9108 Perth : 20 Ferguson Street, Maylands WA 6051 Tel Fax (03) 9271 5984 |
| EXTERNAL AUDITORS | Ernst & Young, 8 Exhibition Street, Melbourne VIC 3000 |
| INTERNAL AUDITORS | KS Nathan, Siva Harris & Trotter Pty Ltd, Chartered Accountants. PO Box 1148, Tullamarine VIC 3042 |
| LEGAL CORPORATE ADVISORS | Wisewould Mahony Lawyers, 419 Collins Street, Melbourne VIC 3000 |
| BANKERS | Indue Ltd, Level 3, 601 Coronation Drive Toowong QLD 4066 Westpac Banking Corporation, 260 Queen Street, Brisbane QLD 4000 |
| INSURERS | QBE Insurance Group Ltd, Level 2, 82 Pitt Street, Sydney NSW 2000 |

