2018-2019

Annual Report

Dnister Ukrainian Credit Co-operative Limited
ABN 59 087 651 394 | AFSL 240673

60 YEARS
1959 - 2019

Contents

Chairman's Report

On behalf of the Board of Directors, Executive and Staff of Dnister Ukrainian Credit Co-operative Ltd, I am pleased to present our Annual Report for the year ended 30 June 2019.

In 1949, Ukrainian 'displaced persons' who had completed their two years of service to the Australian Community after coming to Australia from a devastated post-war Europe, formed a Ukrainian catholic parish at St Augustine's in Bourke St, Melbourne. Their lack of assets and credit history meant that Banks would not lend them money to buy houses or establish businesses. In 1951, these pioneers, having overcome far more severe obstacles to survive the terrors and horrors of World War II and migrate half-way around the globe to Australia, formed a group called Self-Reliance and its members pooled their money and loaned it to one another. By 1959, government rules and regulations required groups such as this to register with the government and on September 21,1959 Dnister Ukrainian Credit Cooperative Ltd was born from Self-Reliance.

Since then, Dnister has united with other credit unions:

- Kalyna Ukrainian Credit Union (Perth, registered 1978) on June 30, 2000
- Hoverla Ukrainian Credit Cooperative (Adelaide, registered 1961) on May 1, 2008
- Latvian Australia Credit Cooperative (registered 1960) on September 01, 2016

As of June 30 2019:

- Dnister has over 8,100 members spread across all Australian states and territories:
  - Members of Ukrainian and Latvian heritage and their families
  - Members outside of the Ukrainian and Latvian communities introduced to Dnister by existing members
- Dnister has branches or agencies in Perth, Adelaide, Melbourne, Geelong and Sydney
- Dnister manages:

Assets:	$186.4 M	+$13.0 M
Members deposits:	$155.0 M	+$10.2 M
Loans to members:	$135.1 M	+$20.8 M
Members Equity:	$24.3 M	+$0.2 M

- Profit before tax for FY2018-19 of $314,000, driven by very strong loan growth in a challenging market with on-going record low interest rates and very competitive market pressures.

The financial services industry has changed drastically in the last ten years, let alone in the sixty years since the establishment of Dnister, or the 68 years since the founding of Self-Reliance. The recent Royal Commission revealed the profit-at-any-cost focus of many institutions and the corresponding appalling treatment of many of their customers. Dnister, however, continues to respect and honour its heritage through an ongoing commitment to providing the best products and services to our members and providing valuable support to their communities.

In the last twelve months that support totaled $301k, delivered as:

- $239k of fees and charges absorbed by Dnister through our member loyalty fee rebate program.
- $16k supporting schools and playgroups that bank with Dnister.
- $8K supporting Parishes that bank with Dnister.
- $19k provided as Beneficiary Payments to Community Organisations participating in Dnister's Community Benefit Program and nominated by members operating myCommunity Saver accounts
- $19k in sponsorship of events held by community groups

The support provided in the last twelve months brings the total of such support provided by Dnister in the last ten years to $2.25 million!

The rate of change in the financial services industry is only increasing. To enable Dnister to maintain itself as a strong and viable provider of services to its members, the Board has commissioned a detailed Organisational Review to be conducted by Bohdan Wojewidka. This review commenced in March 2019 and the Board will use the resulting report to develop a strategy for improving the range of products and services offered to members and inform its decisions on the best models for delivering those services.

Corporate governance continues to be a priority for your Board of Directors with our strategic plan being continually reviewed and updated. The next review of the strategic plan will be significantly informed by the recommendations from the Organisational Review.

Dnister continues to satisfy its regulatory and compliance obligations. The scope of these obligations increased markedly during the past few months with the implementation of the Bank Executive Accountability Regime (BEAR). This regime requires senior staff and Board members to be accepted by, and registered with, the Australian Prudential Regulation Authority (APRA) before they can be commence as an 'accountable' position within Dnister or its governance structures.

On behalf of the Board, I thank our CEO Liam Tiernan, the Executive team and all our staff for their hard work and dedication to serving the needs of our Members and for the achievement of these results.

I thank my fellow Directors for their valuable contributions during the year and, in particular, I acknowledge and thank Marko Misko, who resigned in February after nine years on the Dnister Board.

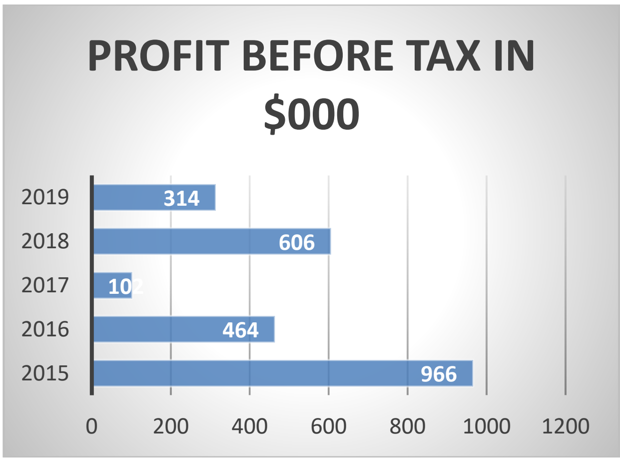
Most importantly, I thank you, our Members, for your continued loyalty and support. I encourage you to fully utilise the products and services that Dnister offers to continue building the strength of your Co-operative. You can help Dnister grow and prosper by using Dnister as your main financial services provider and encouraging friends and family to do the same.

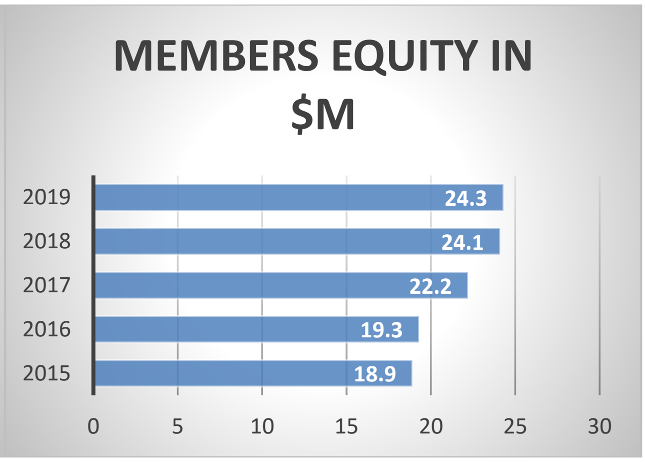
As Dnister celebrates 60 years since its registration in 1959, we continue to build upon the foundations laid by those pioneers who formed Self-Reliance in Melbourne, Kalyna Ukrainian Credit Union in Perth, Hoverla Ukrainian Credit Cooperative in Adelaide and Latvian Australia Credit Cooperative in Melbourne, Sydney and Adelaide and we strive to honour their efforts by making Dnister stronger with each passing year.

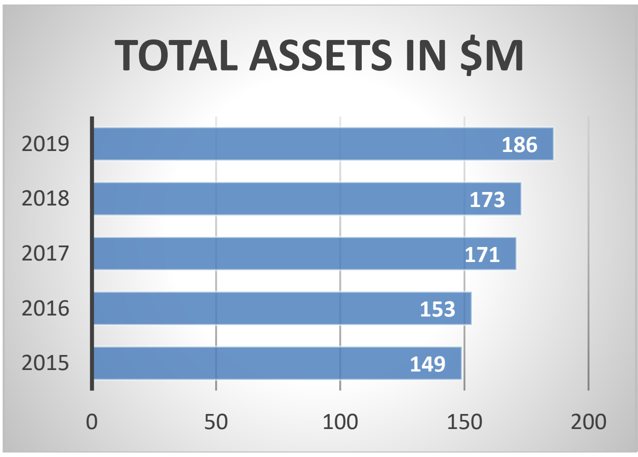
Strength in Unity!

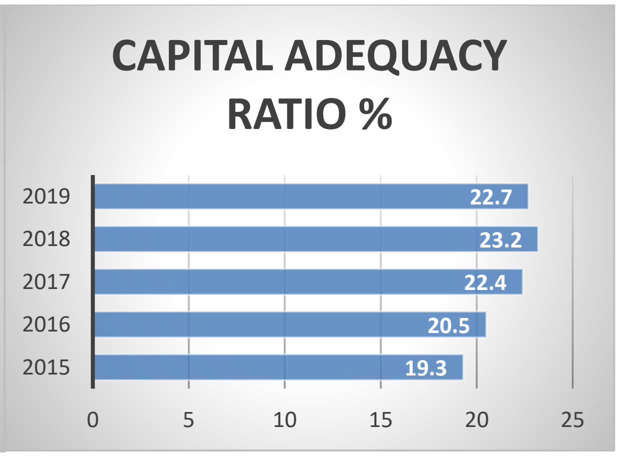
David Hassett
Chair

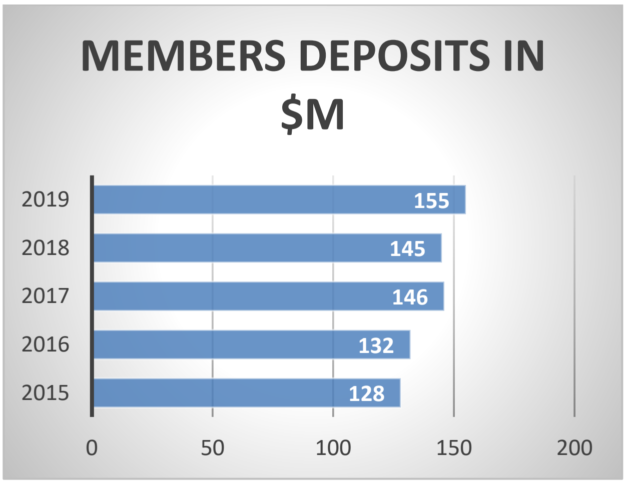
Highlights

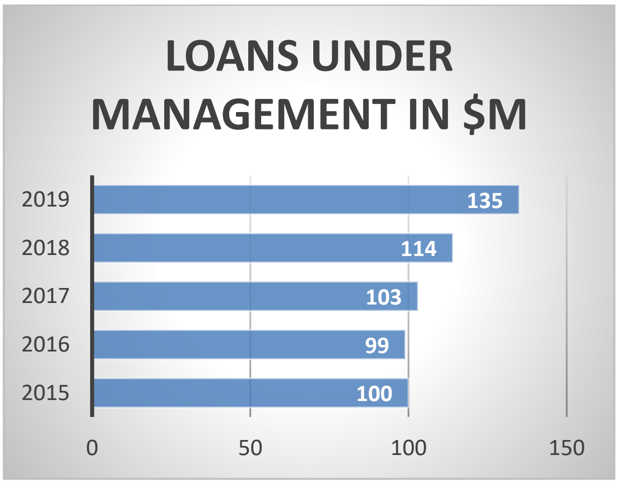

PROFIT BEFORE TAX IN $000
2019
2018
2017
2016
2015
314
606
102
464
966
0
200
400
600
800
1000
1200


MEMBERS EQUITY IN $M
2019
2018
2017
2016
2015
24.3
24.1
22.2
19.3
18.9
0
5
10
15
20
25
30


TOTAL ASSETS IN $M
2019
2018
2017
2016
2015
186
173
171
153
149
0
50
100
150
200


CAPITAL ADEQUACY RATIO %
2019
2018
2017
2016
2015
22.7
23.2
22.4
20.5
19.3
0
5
10
15
20
25


MEMBERS DEPOSITS IN $M
2019
2018
2017
2016
2015
155
145
146
132
128
0
50
100
150
200


LOANS UNDER MANAGEMENT IN $M
2019
2018
2017
2016
2015
135
114
103
99
100
0
50
100
150

Directors' Report

Your Directors submit their report for the year ended 30 June 2019:

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.

DAVID HASSETT (Chair)

B.Sc (Hons), Ph D, Grad Dip App Sci (Comp Sci) MAICD.
Non-Executive Chair, Corporate Governance Committee Chair
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 Ss Peter and Paul, was on the state Committee of Plast Ukrainian Scouts in Victoria (2005 – 2017) and has been member of the Plast Federal Council since 2016. David served as Chair of the Dnister Community Advisory Committee (Melbourne) from 2003-2008.
David has been a Non-Executive Director of the Co -operative for four years.

BOHDAN WOJEWIDKA (Deputy Chair)

B.App. Sc (Comp. Sci), MBA, GAICD.
Non-Executive Deputy Chair, Risk and Audit Committees Member
Bohdan is an experienced executive leader having led transformational and change initiatives through technology within the resources, agribusiness, utility services and, more recently, the banking sectors. This broad industry experience has provided him with a high degree of knowledge and practical experience in addressing the day to day operational challenges, strategic issues and regulatory framework requirements facing these sectors. Bohdan's specific focus has been on strategy planning and implementation, day-to-day operations, budgeting and financial management, vendor management, risk management, and organisational and change management. His experience has also included leading technology due diligence and integration during mergers and acquisitions. Bohdan has served as President of Plast Ukrainian Scouts in South Australia and is presently Vice-President of the Association of Ukrainians in South Australia. He served as Chair of the Dnister Community Advisory Committee in South Australia in 2008.
Bohdan was a Non-Executive Director of the Co-operative between 2011 and 2015. Bohdan rejoined the Board in November 2017.

MICHAEL KORNITSCHUK (Director)

MBA, B.Sci., Grad Cert . Mgt., Dip Mgt., Dip.App.Bio., MAICD.
Non-Executive Director, Audit Committee Chair and Risk Committee 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-four years, including nine as Chair. During the past fourteen years he has also served as Chair of the Ukrainian Orthodox Church- Essendon.

Directors' Report

Continued . . .

WALENTYN MYKYTENKO (Director)

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

Non-Executive Director, Risk Committee Chair and Corporate Governance Committee Member.

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 fifteen years, including nine years as Chair.

MARKO MISKO (Director)

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

Non-Executive Director, Corporate Governance Committee Member

Marko is a Partner at HBL Ebsworth. 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 C Y M property in Healesville and will be responsible for the project development agreements for the redevelopment of the A U V properties in Essendon.

Marko is also the chair of DOFUS and was a Non-Executive Director of the Co-operative for nine years, before resigning on 22 February 2019.

MICHAEL KWAS (Director)

B.Bus (Acc), MAICD.

Non-Executive Director, Audit and Risk Committees 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-seven 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 eight years.

ANDREW PAVUK (Director)

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

Non-Executive Director, Audit and Corporate Governance 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 K P S Executive, the Ukrainian Catholic Church in Australia, various parishes, priests and Charitable Funds.

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

Directors' Report

Continued . . .

COMPANY SECRETARY

LIAM TIERNAN

B.Bus (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.

TONY O'BRIEN

B.Bus (Acc), BA (Politics), CA

Tony was appointed Chief Financial Officer of the Co-operative on 16 January 2017 and was appointed an alternative Company Secretary on 27 June 2017.

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 before income tax for the year ending 30 June 2019 is $314,000 (2018: $606,000). A director valuation of Dnister-owned property was undertaken, with property values held at 2018 levels. (The net profit for 2018 included an independent valuation increase on property of $480,000 before tax).

Total Assets increased by $13.0m to $186.4m with Members' Equity increasing by $0.2m to $24.3m. Our loan portfolio increased by $20.8m to $135.1m and our deposit portfolio increased by $10.2m to $155.0m.

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 (2018: $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 $20.0m wholesale funding facility with IOOF, with a Board approved limit of $10.0m.

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 $24.1m to $24.3m, an increase of $0.2m while Loans and Advances increased from $114.3m to $135.1m. Member Deposits increased from $144.8m to $155.0m.

SIGNIFICANT EVENTS AFTER BALANCE DATE

There were no significant events after balance date to be brought to the attention of Members for the financial year ended 30 June 2019.

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

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

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:	14	8	11	6
Number of meetings attended:				
W Mykytenko	14	2 (of 2)	8 (of 8)	6
M Kornitschuk	13	8	11	1 (of 1)
M Misko	0 (of 9)	-	-	0 (of 3)
M Kwas	12	8	11	-
D Hassett	13	-	-	6
A Pavuk	14	4 (of 6)	3 (of 3)	6
B Wojewidka	14	8	11	1 (of 1)

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 COMITTEE

M Kornitschuk (Chair)
M Kwas
A Pavuk
B Wojewidka

RISK COMMITTEE

W Mykytenko (Chair)
M Kwas
M Kornitschuk
B Wojewidka

CORPORATE GOVERNANCE COMMITTEE

D Hassett (Chair)
W Mykytenko
A Pavuk

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 Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191*.

PUBLIC PRUDENTIAL DISCLOSURE

In accordance with APS330 Public Disclosure requirements, the Co-operative is to publicly disclose certain information in respect of:

- Details on the composition and features of capital and risk weighted assets; and
- Both qualitative disclosure and quantitative disclosures for Senior Managers and material risk-takers.

These disclosures can be viewed on the Co-operative's website:
https://www.dnister.com.au/wp-content/uploads/2019/09/Prudential-Disclosure-APS330-Jun-2019-Remuneration.pdf

Auditor's Independence Declaration

Crowe

Auditor Independence Declaration Under S307C of the *Corporations Act 2001* to the Directors of Dnister Ukrainian Credit Co-Operative Limited

I declare that, to the best of my knowledge and belief, during the year ended 30 June 2019 there have been no contraventions of:

i. the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and

ii. any applicable code of professional conduct in relation to the audit.

Crowe Melbourne

CROWE MELBOURNE

David Munday

David Munday
Partner

Melbourne, Victoria
30 September 2019

Non-Audit Services

The following non-audit services were provided by the entity`s auditor Crowe Melbourne. 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. Crowe Melbourne received or are due to receive the following amounts for the provision of non-audit services:

Tax Compliance Service	$10,000
AML/CTF Review	$4,000
Accounting Advice	$3,000

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

On behalf of the Board

David Hassett
Chairman of the Board
24 September 2019

Michael Kornitschuk
Chairman of the Audit Committee
24 September 2019

Corporate Governance Statement

The Board of Directors of Dnister Ukrainian Credit Co-operative Limited are 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 2019. 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.

Corporate Governance Statement

AUDIT COMMITTEE

The Board has an Audit Committee which operates under a charter 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 Members of the Audit Committee at the end of the year were:

M Kornitschuk (c)
B Wojewidka
M Kwas
A Pavuk

RISK COMMITTEE

The Board has a Risk Committee which operates under a charter approved by the Board. The Board has delegated the responsibility for the establishment and maintenance of a risk framework to the Risk Committee.

The Members of the Risk Committee at the end of the year were:

W Mykytenko (c)
B Wojewidka
M Kwas
M Kornitschuk

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. The Co-operative does not pay any performance based bonuses.

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

D Hassett (c)
W Mykytenko
A Pavuk

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

M Kornitschuk	25 years
W Mykytenko	15 years
M Kwas	8 years
D Hassett	4 years
A Pavuk	4 years
B Wojewidka	2 years

Financial Statements

Notes

NOTES TO THE FINANCIAL STATEMENTS

Directors' Declaration

for the year ended 30 June 2019

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 2019 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 2019.

On behalf of the Board

David Hassett
Chair of the Board
24 September 2019

Michael Kornitschuk
Chair of the Audit Committee
24 September 2019

Independent Auditor’s Report

Crowe

Independent Auditor’s Report to the Members of Dnister Ukrainian Credit Co-operative Limited

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Dnister Ukrainian Credit Co-Operative Limited (the Company), which comprises the statement of financial position as at 30 June 2019, the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying financial report of the Company is in accordance with the *Corporations Act 2001*, including:

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

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

Basis for Opinion

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

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

Other Information

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

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

Crowe

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

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

Responsibilities of the Directors for the Financial Report

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

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

Auditor's Responsibilities for the Audit of the Financial Report

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

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during the audit.

Crowe Melbourne

CROWE MELBOURNE

David Munday

David Munday

Partner

Melbourne, Victoria

30 September 2019

Statement of Profit or Loss and Other Comprehensive Income

for the year ended 30 June 2019

	Notes	2019 $'000	2018 $'000
INCOME			
Interest and similar income	3	6,116	5,800
Interest and similar expense	4	(2,609)	(2,519)
Net interest income		3,507	3,281
Fees and commission income	5	123	119
Net fees and commission income		123	119
Other operating income	6	1,210	1,599
Total operating income		4,840	4,999
Credit loss expense	7	(14)	(12)
Net operating income		4,826	4,987
Salaries and associated costs		2,175	2,218
Depreciation and amortisation	14.1 & 14.2	312	170
Community sponsorships, support and beneficiary contributions	22	62	59
Other operating expenses	8	1,963	1,934
Total operating expenses		4,512	4,381
Profit before tax		314	606
Income tax benefit/(expense)	9(a)	(89)	(170)
NET PROFIT ATTRIBUTABLE TO MEMBERS		225	436
OTHER COMPREHENSIVE INCOME			
Fair value revaluation of land and buildings		-	1,995
Fair value revaluation of FVOCI investments		(32)	(38)
Adjustment to deferred tax due to timing differences on revalued assets		9	(549)
Other comprehensive income for the period, net of tax		(23)	1,408
Total comprehensive income for the period		202	1,845

The above Statement of Profit or Loss and Other Comprehensive Income should be read in conjunction with the accompanying notes.

Statement of Financial Position

as at 30 June 2019

	Notes	2019	2018
		$'000	$'000
ASSETS			
Cash and cash equivalents	10	7,937	6,533
Financial investments - NCDs	11.1	2,934	10,837
Financial investments – Bonds and Shares	11.2	25,079	26,533
Loans and advances to Members	12	135,071	114,273
Investment properties	13	3,454	3,454
Property & equipment	14.1	11,113	10,894
Intangibles	14.2	560	502
Deferred Tax Asset	9(d)	130	161
Other financial investments	15	20	20
Other assets	16	162	361
Total Assets		186,460	173,568
LIABILITIES AND EQUITY			
Member deposits	17	154,964	144,811
Current tax liabilities		63	23
Other liabilities	18	5,173	2,648
Provisions - employees	19	357	354
Deferred tax liabilities	9(d)	1,580	1,583
Total Liabilities		162,137	149,419
Retained earnings	20	11,781	11,637
Credit loss reserve	20	710	657
Business combination reserve	20	4,437	4,437
Asset revaluation reserve	20	7,154	7,154
FVOCI investments reserve	20	241	264
Total Equity		24,323	24,149
TOTAL LIABILITIES AND EQUITY		186,460	173,568

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

Statement of Changes in Equity

for the year ended 30 June 2019

	Retained Earnings $'000	Other Reserves see (note 20) $'000	Total $'000
TOTAL AT 1 JULY 2018	11,637	12,512	24,149
Net profit attributable to Members	225	-	225
Other comprehensive income	-	(23)	(23)
Total comprehensive income	225	(23)	202
Net change in Deferred Tax Assets and Deferred Tax Liability	(28)	-	(28)
Increase in general reserve for credit losses	(53)	53	-
Net change from merger	-	-	-
TOTAL AT 30 JUNE 2019	11,781	12,542	24,323

	Retained Earnings $'000	Other Reserves see (note 20) $'000	Total $'000
TOTAL AT 1 JULY 2017	11,113	11,070	22,183
Net profit attributable to Members	436	-	436
Other comprehensive income	-	1,408	1,408
Total comprehensive income	436	1,408	1,844
Net change in Deferred Tax Assets and Deferred Tax Liability	125	-	125
Increase in statutory amount set aside for potential losses on loans and advances	(37)	37	-
Net change from merger	-	(3)	(3)
TOTAL AT 30 JUNE 2018	11,637	12,512	24,149

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 2019

	Notes	2019 $'000	2018 $'000
OPERATING ACTIVITIES			
Profit before tax		314	606
Adjustments for:			
- Changes in operating assets	21	230	(38)
- Changes in operating liabilities (including tax payable)	21	513	(890)
- Non-cash items included in profit before tax	21	313	(298)
- Income tax paid		(89)	96
- Net increase in member deposits		10,153	(1,333)
- Net decrease in loans and advances		(20,798)	(10,925)
Net cash flows from operating activities		(9,364)	(12,782)
INVESTING AND FINANCING ACTIVITIES			
Net negotiable certificate deposit investments sold/(purchased)		1,454	4,695
Net purchase of available for sale investments		7,903	29
Net cash acquired through transfer of business		-	-
Net increase/(decrease) in wholesale borrowings		2,000	2,000
Purchases of property and equipment and intangible assets		(589)	(653)
Net cash flows used in investing and financing activities		10,768	6,071
Net increase/(decrease) in cash and cash equivalents		1,404	(6,711)
Cash and cash equivalents at 1 July		6,533	13,244
Cash and cash equivalents at 30 June	21	7,937	6,533
OPERATIONAL CASH FLOWS FROM INTEREST AND DIVIDENDS			
Interest received		6,116	5,774
Interest and other costs of finance paid		2,609	2,463
Dividends received		10	-

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 2019

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 and Latvian descent, 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 2019 was authorised for issue in accordance with a resolution of Directors on 24 September 2019.

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, land and buildings and FVOCI investments, which have been measured at fair value.

In accordance to *ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument2016/191*, 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) 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 2019. The assessment of the impact of these new standards and interpretations (to the extent relevant to the Co-operative) is set out as follows:

AASB Reference	Nature of Change	Application date	Impact on Initial Application
AASB 16 Leases	AASB 16 requires all leases to be accounted for 'on-balance sheet' by lessees, other than short term and low value asset leases. It also provides new guidance on the application of the definition of lease and on sale and lease back accounting and requires new and different disclosures about leases.	Annual reporting periods beginning on or after 1 January 2019 (i.e. Co-operative's financial statements for year ended 30 June 2020).	The Co-operative currently has a number of lease arrangements, in which it is the lessee. Based on the Co-operative's preliminary assessment, the Co-operative does not expect the implementation of AASB 16 to have a material effect on the financial statements.

(ii) 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 2019. The assessment of the impact of these new standards and interpretations (to the extent relevant to the Co-operative) is set out as follows:

AASB Reference	Nature of Change	Application date	Impact on Initial Application
AASB 9 Financial Instruments	Classification and measurement of financial assets AASB 9 allows for three classification categories for financial assets – amortised cost, fair value through other comprehensive income and fair value through profit or loss. Classification is based on the business model in which a financial asset is managed and the related contractual cashflows. AASB 9 eliminates previous categories of Amortised Cost, loans and receivables and FVOCI. Classification of financial liabilities is largely unchanged.	AASB 9 *Financial Instruments* replaces AASB 139 *Financial Instruments: Recognition and Measurement* from 1 July 2018.	All financial assets and financial liabilities of the Co-operative have remained at amortised cost, with the exception of the equity instruments classified as other financial assets. These other financial assets have transitioned from being held at cost (as an 'available-for-sale asset) under AASB 139, to fair value through other comprehensive income. ***Impairment of the Co-operative's financial assets*** The Co-operative's financial assets carried at amortised cost are now subject to AASB 9's new three-stage expected credit loss model, from an incurred loss model. This means earlier recognition of expected credit losses. ***Summary of impact on transition*** When adopting AASB 9, the Co-operative has applied transitional relief and opted not to restate the prior period. The impact on transition to this standard on 1 July 2018 was considered to be not significant. As a result, a transitional adjustment was not taken up.

AASB Reference	Nature of Change	Application date	Impact on Initial Application
AASB 15 Revenue from contracts with customers	AASB 15 replaces AASB 118 Revenue, AASB 111 Construction Contracts and several revenue-related Interpretations.	The new Standard has been applied as at 1 July 2018 using the modified retrospective approach. Under this method, the cumulative effect of initial application is recognised as an adjustment to the opening balance of retained earnings at 1 July 2018 and comparatives are not restated. As the impact on transition was not material, no adjustment was made. In accordance with the transition guidance, AASB 15 has only been applied to contracts that are incomplete as at 1 July 2018.	***Account fees*** Many of the Co-operative's savings and current account contracts with members comprise a variety of performance obligations including, but not limited to processing of transfers, use of ATMs for cash withdrawals, the issue of original debit cards, and provision of account statements. Under AASB 15, the Co-operative must evaluate the separability of the promised goods or services based on whether they are 'distinct'. A promised good or service is 'distinct' if both of the following criteria are met: •the customer benefits from the good or service either on its own or together with other readily available resources; and • the entity's promise to transfer the good or service to the customer is separately identifiable from other promises in the contract (i.e. the Co-operative does not provide a significant service integrating, modifying or customising it). While this represents significant new guidance, the implementation of this new guidance did not have a significant impact on the timing or amount of revenue recognised by the Co-operative during the year. ***Insurance commission*** Upfront commission – revenue in the form of a commission generated on successful placement of an insurance application is recognised at a point in time on inception of the policy.

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:

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

Significant judgements and estimates are applied by management in assessing impairment of loans and advances with regards to the expected credit loss modelling, including:

- Determining criteria for significant increase in credit risk: An asset moves to Stage 2 when its credit risk has increased significantly since initial recognition. In assessing whether the credit risk of an asset has significantly increased the Co-operative takes into account qualitative and quantitative reasonable and supportable forward-looking information;
- Choosing appropriate models and assumptions for the measurement of expected credit loss; and
- Establishing groups of similar financial assets for the purposes of measuring expected credit loss: When expected credit loss is measured on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics.

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 Other Comprehensive Income.

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.

Policy applicable from 1 July 2018

(i) CLASSIFICATION OF FINANCIAL ASSETS

Except for those trade receivables that do not contain a significant financing component and are measured at the transaction price, all financial assets are initially measured at fair value adjusted for transaction costs (where applicable).

For the purpose of subsequent measurement, financial assets other than those designated and effective as hedging instruments are classified into the following categories upon initial recognition:

- amortised cost
- fair value through profit or loss (FVPL)
- fair value through other comprehensive income (FVOCI)

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

Classifications are determined by both:

- the entity's business model for managing the financial asset and
- the contractual cash flow characteristics of the financial assets.

(ii) SUBSEQUENT MEASUREMENT OF FINANCIAL ASSETS

Financial assets at amortised costs

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

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

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

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

Financial assets that are within a different business model other than 'hold to collect' or 'hold to collect and sell' are categorised as fair value through profit or loss. Further, irrespective of business model financial assets whose contractual cash flows are not solely payments of principal and interest are accounted for at FVPL.

(ii) FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (FVOCI)

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

Policy applicable before 1 July 2018

(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) AMORTISED COST 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) FVOCI INSTRUMENTS

FVOCI (AFS) financial assets include debt securities. Debt securities in this category are those that are intended to be held for an indefinite period of time and that may be sold in response to needs for liquidity or in response to changes in the market conditions.

After initial measurement, AFS financial assets are subsequently measured at fair value with unrealized gains or losses recognized in other comprehensive income and credited in the AFS reserve until the investment is derecognized, at which time, the cumulative gain or loss is recognized in other operating income, or the investment is determined to be impaired, when the cumulative loss is reclassified from the AFS reserve to the statement of profit or loss in finance costs. Interest earned whilst holding AFS financial assets is reported as interest income using the effective interest rate method.

(v) 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 Profit or Loss when the loans and advances are de-recognised 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

Policy applicable before 1 July 2018

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: - 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.

Policy applicable after 1 July 2018

AASB 9's impairment requirements use forward-looking information to recognise expected credit losses – the "expected credit loss model" (ECL).

The Co-operative considers a broader range of information when assessing credit risk and measuring expected credit losses, including past events, current conditions, reasonable and supportable forecasts that affect the expected collectability of the future cash flows of the financial asset. In applying this forward-looking approach, a distinction is made between:

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

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

Measurement of ECL

The Co-operative applies a three-stage approach to measuring expected credit losses (ECLs) for financial assets that are not measured at fair value through profit or loss.

- 12-months ECL (Stage 1) - The portion of lifetime ECL associated with the probability of default events occurring within the next 12 months.
- Lifetime ECL – not impaired (Stage 2) - ECL associated with the probability of default events occurring throughout the life of an instrument.
- Lifetime ECL – impaired (Stage 3) - Lifetime ECL, but interest revenue is measured based on the carrying amount of the instrument net of the associated ECL.

Exposures are assessed on a collective basis in Stage 1, and on individual basis in Stage 2 and Stage 3.

At each reporting date, the Co-operative assesses the credit risk of exposures in comparison to the risk at initial recognition, to determine the stage that applies to the associated ECL measurement. If the credit risk

of an exposure has increased significantly since initial recognition, the asset will migrate to Stage 2. If no significant increase in credit risk is observed, the asset will remain in Stage 1. Should an asset become credit-impaired it will be transferred to Stage 3.

Evidence that a financial asset is credit-impaired includes the following observable data:

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

The measurement of ECL reflects:

- an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- the time value of money; and
- reasonable and supportable information that is available without undue cost of effort at the reporting rate about past events, current conditions and forecasts of future economic conditions.

Critical accounting estimates and judgments in the ECL
A number of significant judgments are required in applying the accounting requirements for measuring ECL, which are detailed below:

Assumptions used for estimating impairment
In assessing the impairment of financial assets under the expected credit loss model, the Co-operative defines default as occurring when a loan obligation is past 30 days due. The definition of default largely aligns with that applied by APRA for regulatory reporting purposes, and the criteria used for internal credit risk management purposes.

Assessment of significant increase in credit risk
In determining whether the risk of default has increased significantly since recognition, the Co-operative considers both quantitative and qualitative factors. These include:

- When a loan reaches 30 days past due;
- Loan with approved hardship or modified terms.

Calculation of expected credit losses
Expected credit losses (ECLs) are calculated using three main parameters i.e. a probability of default (PD), a loss given default (LGD) and an exposure at default (EAD). These parameters are derived from industry standards and historical loss models.

For accounting purposes, the 12-months and lifetime PD represent the expected point-in-time probability of a default over the next 12 months and remaining lifetime of the financial instrument, respectively, based on conditions existing at the balance sheet date.

The LGD represents expected loss conditional on default, taking into account the mitigating effect of collateral and its expected value when realised.

The EAD represents the expected exposure at default.

The 12-months ECL is equal to the sum over the next 12-month PD multiplied by LGD and EAD. Lifetime ECL is calculated using the sum of PD over the full remaining life multiplied by LGD and EAD.

Incorporation of forward looking information
The Co-operative has taken into consideration several macro-economic factors including unemployment rate, gross domestic product, housing price index and interest rates. The affects these data points have on ECL are reviewed regularly.

The Co-operative considers the ECL to represent its best estimate of the possible outcomes and is aligned with information used by the Co-operative for other purposes, such as strategic planning and budgeting. Periodically, the Co-operative carries out stress testing of more extreme shocks to calibrate its determination of other potential scenarios.

Grouping of loans for losses measured on a collective basis
For expected credit loss provisions modelled on a collective basis, a grouping of exposures is performed on the basis of shared risk characteristics, such that risk exposures within a group are homogenous. The Co-operative has elected to use the following segments when assessing credit risk for Stage 1 of the ECL model:

- Commercial loans;
- Housing loans – owner occupied.
- Housing loans - investment
- Personal loans – secured and unsecured
- Overdrafts / overdrawn

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 administrating 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 Profit or Loss 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 of 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. 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.

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 Profit or Loss in the year of retirement.

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. 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 Other Comprehensive Income.

Any revaluation decrease is recognised in Profit or Loss, 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 Profit or Loss 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 Profit or Loss 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:

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 high quality corporate 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 Profit or Loss.

(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 of 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 2019

	Notes	2019 $'000	2018 $'000
3. INTEREST AND SIMILAR INCOME			
Loans and advances to Members		5,102	4,526
Deposits with other financial institutions		974	1,197
Regulatory deposits		40	77
		6,116	5,800
4. INTEREST AND SIMILAR EXPENSE			
Member deposits		2,560	2,508
Other		49	11
		2,609	2,519
5. NET FEES AND COMMISSION INCOME			
Other fees received		123	119
		123	119
6. OTHER OPERATING INCOME			
Dividend income		10	-
Rental income		1,052	984
Change in fair value of investment property	13	-	480
Other		148	135
		1,210	1,599
7. CREDIT LOSS EXPENSE			
Bad Debts and Impairment Allowance		14	12
		14	12
8. OTHER OPERATING EXPENSES			
Marketing, printing & postage		123	121
Other tenancy expenses		372	396
Corporate governance, audit & compliance		349	311
Subsidised member transaction expenses		266	220
Data & communications		552	526
Other		301	360
		1,963	1,934

9. INCOME TAX

	2019 $'000	2018 $'000
(a) Income tax expense/(benefit)		
The major components of income tax expense are:		
Statement of Profit or Loss and Other Comprehensive Income		
Current Income Tax		
Current Income tax charge	70	(382)
Adjustments in respect of current income tax of previous years	(10)	(26)
Deferred Income Tax		
Relating to origination and reversal of temporary differences	29	578
Adjustment to income tax expense for recognition of deferred tax	-	-
Income tax expense/(benefit) reported in the Statement of Profit or Loss and Other Comprehensive Income	89	170
(b) Amounts charged or credited directly to equity		
Deferred income tax related to items charged or credited directly to equity		
Unrealised movement on land and buildings	-	-
Unrealised movement on FVOCI investments	9	489
Income tax expense reported in equity	9	489
(c) Reconciliation between aggregate tax expense recognised in the Statement of Profit or Loss and Other 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	314	606
At the Company's statutory income tax rate of 27.5% (2018:27.5%)	86	167
Income not assessable for income tax purposes	3	3
Adjustment in respect of current income tax of previous year	-	-
Franking credit rebate	-	-
Aggregate income tax expense	89	170
(d) Recognised deferred tax assets and liabilities		
Tax expense in Statement of Profit or Loss and Other Comprehensive Income	89	170
Amounts recognised in the Statement of Financial Position:		
Deferred tax asset	130	161
Deferred tax liability	(1,580)	(1,583)
Deferred Net Tax Liabilities	(1,450)	(1,421)

9. INCOME TAX
(Continued)

	2019	2018
Deferred income tax	$'000	$'000
Deferred income tax at 30 June relates to the following:		
Deferred tax liabilities		
Rent receivable	(6)	(11)
Depreciable assets	-	11
Investment properties	(858)	(858)
Land and buildings	(652)	(652)
Financial Investments – FVOCI	(64)	(73)
Deferred tax liabilities	(1,580)	(1,583)
Deferred tax assets		
Allowance for Impairment	3	4
Rent received in advance	-	22
Provisions and accruals	123	122
Merger Costs	-	13
Land and Buildings	4	-
Deferred tax assets	130	161

10. CASH AND CASH EQUIVALENTS

	2019	2018
Cash on hand	355	269
Current account with banks	3,978	764
Overnight deposits with banks	3,604	5,500
	7,937	6,533

11.1. FINANCIAL INVESTMENTS – NCD

	2019	2018
Term and negotiable certificates of deposits with banks (fully redeemable), not Longer than 3 months	191	8,653
Term and negotiable certificates of deposits with banks (fully redeemable), Longer than 3 months and not Longer than 12 months	2,743	2,184
	2,934	10,837

11.2. FINANCIAL INVESTMENTS – Bonds and Shares

	2019	2018
Fixed Interest Bonds and Floating Rate Notes (fully redeemable), Longer than 12 months	24,674	26,161
Shares	405	372
	25,079	26,533

12. LOANS AND ADVANCES TO MEMBERS

	2019 $'000	2018 $'000
Overdraft and revolving credit	5,561	3,748
Term loans	129,521	110,540
Gross loans and advances	135,082	114,288
Less: Allowance for impairment losses	(11)	(15)
	135,071	114,273
(a) BY MATURITY		
Overdrafts	5,561	3,748
Not longer than 3 months	742	-
Longer than 3 months and less than 12 months	2,104	1,545
Longer than 12 months and less than 5 years	8,873	11,328
Longer than 5 years	117,802	97,667
	135,082	114,288
(b) BY PRODUCT TYPE		
Residential mortgages	119,734	105,240
Consumer lending	811	2,248
Corporate & small business lending	14,537	6,800
	135,082	114,288
(c) BY CONCENTRATION		
Loans in Victoria	104,208	88,612
Loans in South Australia	16,168	16,840
In other states	14,706	8,836
	135,082	114,288
(d) BY SECURITY		
Secured by mortgage	133,755	112,090
Secured by Other	752	1,600
Unsecured	575	598
	135,082	114,288
(e) BY LVR		
Less than 80%	131,459	110,309
Greater than 80% with LMI	711	1,485
Greater than 80% no LMI	2,912	2,494
	135,082	114,288
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	11	15
(II) Movement in total provision		
Balance at the beginning of the year	15	54
Charge for the year (Note 7)	14	12
Amounts written off already provided for	(18)	(50)
Balance at the end of the year	11	15

* At 30 June 2019 there were 7 loans totaling $15.0m which each exceeded 10% of the Co-operative's capital base (2018: 5 loans totaling $10.7m)

(Continued)

	2019	2018
(III) The loans provision consists of:	$'000	$'000
Provision	11	15
	11	15
(IV) Impaired loans written off:		
Charge/(recovery)	18	50
Total impaired loans written off	18	50

(f) Loans Past Due or Impaired

	2019 Past Due	2019 Impaired	2019 Collateral Held	2018 Past Due	2018 Impaired	2018 Collateral Held
	$'000	$'000	$'000	$'000	$'000	$'000
HOUSING LOANS						
30 days and less than 60 days	477	-	800	1,137	-	1 ,954
60 days and less than 90 days	261	-	940	372	-	810
90 days and less than 182 days	217	-	550	681	-	1,825
182 days and less than 273 days	-	-	-	412	-	580
273 days and less than 365 days	-	-	-	-	-	-
365 days and over	-	-	-	7	-	1,250
	955	-	2,290	2,609	-	6 ,419
PERSONAL AND COMMERCIAL LOANS						
30 days and less than 60 days	8	-	-	9	-	-
60 days and less than 90 days	4	-	-	-	-	-
90 days and less than 182 days	46	-	-	13	-	-
182 days and less than 273 days	425	-	-	-	-	-
273 days and less than 365 days	-	-	-	9	-	-
365 days and over	6	-	-	-	-	-
	489	-	-	31	-	-
OVERDRAFTS						
less than 14 days	3	-	-	17	-	-
14 days and less than 90 days	1	-	-	2	-	-
90 days and less than 182 days	-	-	-	-	-	-
182 days and over	1	1	-	2	-	-
	5	1	-	21	-	-
Total Loans Past Due or impaired	1,449	1	2,290	2,661	-	6,419

* At 30 June 2019 there were no past due loans on which terms had been renegotiated.

13. INVESTMENT PROPERTIES

	2019 $'000	2018 $'000
At 1 July	3,454	2,974
Net change from fair value adjustment	-	480
	3,454	3,454

14.1 PROPERTY AND EQUIPMENT	Land & Buildings	Computer Hardware	Other Furniture & Equipment	Total
	$'000	$'000	$'000	$'000
Cost or Fair value:				
At 1 July 2018	10,546	310	1,510	12,366
Additions	-	35	295	330
Disposals	-	-	-	-
Net change from revaluation	-	-	-	-
At 30 June 2019	10,546	345	1,805	12,696
Accumulated depreciation:				
At 1 July 2018	-	188	1,283	1,471
Disposals	-	-	-	-
Depreciation charge for the year	-	53	59	112
At 30 June 2019	-	241	1,342	1,583
At 30 June 2019				
Cost or fair value	10,546	345	1,805	12,696
Less: Accumulated depreciation	-	(241)	(1,342)	(1,583)
Net carrying amount	10,546	104	463	11,113

	2019	2018
	$'000	$'000
If land and buildings were measured using the cost model, the carrying amounts would be:	3,894	3,894

14.1 PROPERTY AND EQUIPMENT
(Continued)

	Land & Buildings	Computer Hardware	Other Furniture & Equipment	Total
	$'000	$'000	$'000	$'000
Cost or Fair value:				
At 1 July 2017	8,551	190	1,395	10,136
Additions	-	120	115	235
Disposals	-	-	-	-
Net change from revaluation	1,995	-	-	1,995
At 30 June 2018	10,546	310	1,510	12,366
Accumulated depreciation:				
At 1 July 2017	-	156	1,243	1,399
Disposals	-	-	-	-
Depreciation charge for the year	-	32	40	73
At 30 June 2018	-	188	1,283	1,472
At 30 June 2018				
Cost or fair value	10,546	309	1,510	12,366
Less: Accumulated depreciation	-	(188)	(1,283)	(1,472)
Net carrying amount	10,546	121	227	10,894

14.2 INTANGIBLES

	2019	2018
	$'000	$'000
a. Intangible Assets Comprise:		
Asset at cost	1,129	870
Amortisation	(569)	(368)
	560	502
b. Movement in the intangible asset balances during the year was:		
Opening balance	502	181
Additions	258	418
Less: Write-downs	-	-
Less: Amortisation charge	(200)	(97)
	560	502

	2019 $'000	2018 $'000
15. OTHER FINANCIAL INVESTMENTS		
Shares – Shared Services	20	20
	20	20

16. OTHER ASSETS		
Accrued interest receivable	109	296
Prepayments	15	63
Other receivables	38	2
	162	361

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	65,152	62,881
Term deposits	89,812	81,930
	154,964	144,811
BY CONCENTRATION		
Deposits in Victoria	119,848	116,572
Deposits in South Australia	18,319	16,430
In other states	16,797	11,809
	154,964	144,811

18. OTHER LIABILITIES		
Interest payable on deposits	630	575
Rent received in advance	-	48
Trade creditors and accruals	543	25
Wholesale Borrowings	4,000	2,000
	5,173	2,648

19. PROVISIONS - EMPLOYEES

	2019 $'000	2018 $'000
Current provisions for employee entitlements		
Long service leave	154	153
Annual leave	155	168
	309	321
NON-CURRENT PROVISION FOR EMPLOYEE ENTITLEMENTS		
Long service leave	48	33
	48	33

A reconciliation of the provisions is as follows	Annual Leave	Long Service Leave	Total
As at 1 July 18	168	186	354
Payments Made	(133)	(12)	(145)
Additional Provisions	120	28	148
As at 30 June 19	155	202	357
As at 1 July 17	159	192	351
Payments Made	(108)	(18)	(125)
Additional Provisions	117	12	129
As at 30 June 18	168	186	354

20. RETAINED EARNINGS AND RESERVES

	Retained Earnings	Credit Loss Reserve	Financial instruments classified as Fair Value through Other Comprehensive Income (FVOCI)	Business Combination Reserve	Asset Revaluation Reserve	Total Reserve
	$'000	$'000	$'000	$'000	$'000	$'000
As at 1 July 2018	11,637	657	264	4,437	7,154	12,512
Increase in statutory amount set aside for potential losses on loans & advances	(53)	53	-	-	-	53
Net profit attribute to Members	225	-	-	-	-	-
Net change from revaluation of AFS	-	-	(23)	-	-	(23)
Net change in DTA and DTL	(28)	-	-	-	-	-
Net change from revaluation of asset	-	-	-	-	-	-
As at 30 June 2019	11,781	710	241	4,437	7,154	12,542
As at 1 July 2017	11,113	620	302	4,440	5,708	11,070
Increase in statutory amount set aside for potential losses on loans & advances	(37)	37	-	-	-	37
Net change from merger (Latvian CU)	-	-	-	(3)	-	(3)
Net change in DTA and DTL	-	-	-	-	-	-
Net Profit Attribute to Members	436	-	(38)	-	-	(38)
Net change from revaluation of AFS	125	-	-	-	1,446	1,446
As at 30 June 2018	11,637	657	264	4,437	7,154	12,512

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.

FVOCI RESERVE

The FVOCI reserve (previously the available for sale reserve) is used to record increments and decrements in the fair value of FVOCI investments, i.e. bonds.

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.

	2019 $'000	2018 $'000
21. ADDITIONAL CASH FLOW INFORMATION		
CASH AND CASH EQUIVALENTS		
Cash on hand	356	269
Current account with Bank	3,978	764
Overnight deposits with Bank	3,603	5,500
	7,937	6,533
CHANGE IN OPERATING ASSETS		
Net change in interest receivable	187	27
Net change in debtors	(36)	(24)
Net change in prepayments	48	(45)
Net change in future tax receivable	31	4
	230	(38)
CHANGE IN OPERATING LIABILITIES		
Net change in interest payable	56	(56)
Net change in interest payable	-	31
Net change in creditors and accruals	453	(1,442)
Net change in future tax payable	3	574
Net change in provisions	1	3
	513	(890)
NON-CASH ITEMS INCLUDED IN PROFIT BEFORE TAX		
Depreciation of property and equipment	313	170
Losses on disposal of property and equipment	-	-
Net impairment losses on financial assets	-	12
Net Revaluation of investment property	-	(480)
	313	(298)
22. COMMUNITY SPONSORSHIPS, SUPPORT AND BENEFICIARY CONTRIBUTIONS		
Community Sponsorship	19	23
School Support	16	10
Church Praznyk	8	8
Community Access Accounts – Beneficiary Contributions	19	18
	62	59

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.

23. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

	Carrying Value	Fair Value
	$'000	$'000
ASSETS 2019		
Financial Assets		
Cash & balances with bank	7,937	7,937
Financial investments- Amortized Cost	2,934	2,227
Financial investments – FVOCI	25,079	25,046
Loans and advances to Members	135,071	134,373
Other investments	20	20
Accrued interest receivable	109	109
Other receivables and prepayments	53	53
Total 2019	171,203	169,765
LIABILITIES 2019		
Financial Liabilities		
Member deposits and wholesale borrowings	158,964	156,934
Total 2019	158,964	156,934
ASSETS 2018		
Financial Assets		
Cash & balances with bank	6,533	6,533
Financial investments - Amotised Cost	10,837	10,833
Financial investments – FVOCI	26,533	26,533
Loans and advances to Members	114,273	113,334
Other investments	20	20
Accrued interest receivable	296	296
Other receivables	66	65
Total 2018	158,558	157,614
LIABILITIES 2018		
Financial Liabilities		
Member deposits	146,811	146,835
Total 2018	146,811	146,835

23. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

Continued...

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 2019, the Co-operative held the following classes of financial instruments measured at (AASB13) fair value:

	30 June 19	Level 1	Level 2	Level 3
Financial Assets measured at fair value -2019				
Financial investments – FVOCI	25,079	-	-	25,079

	30 June 18	Level 1	Level 2	Level 3
Financial Assets measured at fair value -2018				
Financial investments – FVOCI	26,533	-	-	26,533

	30 June 19	30 June 18
Reconciliation of Financial Assets measured at level 3		
Financial investments – FVOCI		
At 1 July	26,533	26,562
Matured	(1,422)	(2,005)
Purchases	-	2,014
Gains/(losses) - FVOCI	(32)	(38)
At 30 June	25,079	26,533

23. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

Continued...

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 fair value as these shares are FVOCI.

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.

24. RISK MANAGEMENT

Continued...

The table below shows the credit quality by class of asset **ASSETS** Financial Assets	2019 $'000 Total	2019 $'000 High Grade	2019 $'000 Other Grade	2019 $'000 Past Due or Impaired
Loans and advances	135,071	133,615	-	1,450
	Total	AAA to A-	B to BBB+	Other*
Cash & balances with bank	7,937	3,603	-	4,334
Financial investments - Amortised Cost	2,934	2,934	-	-
Financial investments - FVOCI	25,079	25,079	-	-
Other investments	20	-	-	20
Accrued interest receivable	109	109	-	-
Other receivables and prepayments	53	-	-	53
Total	36,132	31,725	-	4,407

ASSETS Financial Assets	2018 $'000 Total	2018 $'000 High Grade	2018 $'000 Other Grade	2018 $'000 Past Due or Impaired
Loans and advances	114,273	111,612	-	2,661
	Total	AAA to A-	B to BBB+	Other*
Cash & balances with bank	6,533	5,500	-	1,033
Financial investments - Amortised Cost	10,837	9,089	-	1,748
Financial investments – Available for sale	26,533	26,533	-	-
Other investments	20	-	-	20
Accrued interest receivable	296	293	-	3
Other receivables and prepayments	66	-	-	66
Total	44,284	41,414	-	2,869

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.

24. RISK MANAGEMENT

Continued...

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

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.

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 liquidity ratio during the year was as follows:

	2019 %	2018 %
30 June	19.8	23.2
Highest for period	23.2	27.1
Lowest for period	19.8	21.9

24. RISK MANAGEMENT

Continued...

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
2019								
Liabilities								
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Member deposits	90,338	30,283	28,979	149,600	5,365	-	5,365	154,965
Trade and other payables	-	4,000	1,173	5,173	-	-	-	5,173
Total	90,338	34,283	30,152	154,773	5,365	-	5,365	160,138
2018								
Liabilities								
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Member deposits	76,695	27,820	39,022	143,537	1,275	-	1,275	147,811
Trade and other payables	-	2,000	648	2,648	-	-	-	2,648
Total	76,695	29,820	39,670	146,185	1,275	-	1,275	147,459

24. RISK MANAGEMENT

Continued...

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. There were no lease expenditure commitments at year end.

	Within 12 months	More than 1 year	Total
2019			
Liabilities			
	$'000	$'000	$'000
Approved but undrawn loans	1,859	-	1,859
Undrawn line of credit	5,393	-	5,393
Total	7,252	-	7,252
2018			
Liabilities			
	$'000	$'000	$'000
Approved but undrawn loans	790	-	790
Undrawn line of credit	4,551	-	4,551
Total	5,341	-	5,341

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 2019

24. RISK MANAGEMENT

Continued...

INTEREST RATE RISK

Interest rate risk is the risk that fair value or future cash flow 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
	2019 $'000	1 year or less $'000	+1 to 5 years $'000	2019 $'000	2019 $'000
FINANCIAL ASSETS					
Cash & balances with bank	7,937	-	-	-	7,937
Financial investments - Amortised Cost	-	2,579	-	355	2,934
Financial investments - FVOCI Shares	22,569	-	2,510	-	25,079
Shares – shared services	-	-	-	20	20
Other receivables	-	-	-	162	162
Loans and advances to Members	123,352	2,846	8,873	-	135,071
FINANCIAL LIABILITIES					
Member deposits	65,152	84,447	5,365	-	154,964
Wholesale borrowings	4,000	-	-	-	4,000

	Floating Interest Rate	Fixed interest maturing in		Non-interest bearing	Total carrying amount as per Statement of Financial Position
	2018 $'000	1 year or less $'000	+1 to 5 years $'000	2018 $'000	2018 $'000
FINANCIAL ASSETS					
Cash & balances with bank	6,264	-	-	269	6,533
Financial investments - Amortised Cost	-	10,837	-	-	10,837
Financial investments – AFS Shares	23,131	-	3,029	372	26,532
Shares – shared services	-	-	-	20	20
Other receivables	-	-	-	361	361
Loans and advances to Members	101,400	1,545	11,328	-	114,273
FINANCIAL LIABILITIES					
Member deposits	62,880	80,656	1,275	-	144,811
Wholesale borrowings	2,000	-	-	-	2,000

24. RISK MANAGEMENT
Continued...

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)	
2019	2018	2019	2018
		$'000	$'000
+0.50% (50 Basis Points)	+0.50% (50 Basis Points)	166	133
-0.25% (25 Basis Points)	-0.25% (25 Basis Points)	(83)	(66)

		Equity Higher / (Lower)	
2019	2018	2019	2018
		$'000	$'000
+0.50% (50 Basis Points)	+0.50% (50 Basis Points)	166	133
-0.25% (25 Basis Points)	-0.25% (25 Basis Points)	(83)	(66)

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 22.7% as at 30 June 2019 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 the 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.

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

REGULATORY CAPITAL	2019	2018
	$'000	$'000
Capital base	21,064	20,062
Risk weighted assets	92,666	87,131
	%	%
Total capital ratio	22.7	23.2

26. RELATED PARTY DISCLOSURES

a. DETAILS OF KEY MANAGEMENT PERSONNEL

The following list of persons includes Directors of the Co-operative holding office during the financial year and the Chief Executive Officer:

M. Kornitschuk
W. Mykytenko
M. Misko
M. Kwas
D. Hassett
A Pavuk
B. Wojewidka

L. Tiernan (CEO)

26. RELATED PARTY DISCLOSURES

b. COMPENSATION OF KEY MANAGEMENT PERSONNEL OF THE CO-OPERATIVE

	2019 $'000	2018 $'000
Short-term employment benefits - salaries	249	244
Post employment - superannuation contributions	25	25
Long term benefits - LSL expense	5	4
	279	273

c. DIRECTORS' REMUNERATION

	2019 $'000	2018 $'000
Aggregate remuneration of Directors	52	52
Payable to Bohdan Wojewidka for Professional Services conducting an organisational review. It was the decision of the Board that these services are not related to the performance of Bohdan Wojewidka's role as a Director and are thus eligible for separate payment. Payment for the provision of these Professional Services is not due until acceptance of the Report produced. Payment was accrued but not made in the reporting period and has been carried forward to the FY 2019-20 year.	30	-

d. TRANSACTIONS WITH KEY MANAGEMENT PERSONNEL 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:

	2019 $'000	2018 $'000
Loans:		
Opening balance owing	1,293	530
New loans advanced	-	807
Net repayments	(65)	(44)
Movement from changes in key management personnel	-	-
Balance owing at 30 June	1,228	1,293
Savings and term deposit services:		
Amounts deposited at 30 June	240	442

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.

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 2019 of $12,639 (2018: $12,639) is deemed insignificant.

The total outstanding commitments and contingent liabilities are as follows:	2019	2018
	$'000	$'000
CONTINGENT LIABILITIES		
Financial guarantees	13	13
COMMITMENTS		
Undrawn commitments to lend	1,859	790
Unused overdraft facilities of Members	5,393	4,550
Total	7,265	5,353

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.

CREDIT UNTION FINANCIAL SUPPORT SCHEME LIMITED

The Co-operative has volunteered to participate in the Credit Union Financial Support Scheme (CUFSS). CUFSS is a company limited by guarantee with each credit union's guarantee being $100.

As a member of CUFSS, the Co-operative may be required to advance funds up to 3% (excluding permanent loans) of total assets to another credit union requiring financial support. The Co-operative agrees, in conjunction with other members, to fund the operating costs of CUFSS.

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.

27. CONTINGENT LIABILITIES AND COMMITMENTS

Continued...

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

	2019 $'000	2018 $'000
Within one year	986	729
After one year but not more than three years	705	569
After three years but not more than five years	288	147
Total minimum lease payments	1,979	1,445

LEGAL CLAIMS

The Co-operative had no material unresolved legal claims as at 30 June 2019 (2018: 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 financial institutions throughout Australia.

28. REMUNERATION OF EXTERNAL AUDITORS

During the years the auditors of the Co-operative earned the following remuneration:	2019	2018
Audit of Financials	39,720	36,000
Regulatory Audit	10,200	10,000
Taxation Services	10,000	6,000
AML/CTF Review	4,000	-
Accounting advice	3,000	-
Total	66,920	52,000

29. SUBSEQUENT EVENTS

There were no significant subsequent events after balance date to be brought to the attention of Members for the financial year ended 30 June 2019.

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 and Latvian 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
BRANCHES	Adelaide: 62 Orsmond St, Hindmarsh SA Geelong: 3 / 29-35 Milton Street, Bell Park VIC 3215 Perth: 20 Ferguson Street, Maylands WA 6051 Strathfield: 32-34 Parnell Street, Strathfield NSW 2135
EXTERNAL AUDITORS	Crowe Melbourne, Level 17, 181 William 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	Primarily QBE Insurance Group Ltd, Level 2, 82 Pitt Street, Sydney NSW 2000

Dnister Ukrainian Credit Co-operative Limited

ABN 59 087 651 394 | AFSL 240673