annual report 2019

SUMMERLAND

registered office

101 Molesworth Street
Lismore NSW 2480

Telephone
1300 802 222

Directors

Katrina Luckie	Chair
John Shanahan	
Graham Olrich	
Nicolas Harrison	
Paul Spotswood	
David Bergmark	
Julie Osborne	

Executive Team

John Williams	Chief Executive Officer
Sally-Anne Cumine	Chief Financial Officer / Deputy CEO
Donna Kildea	Chief Operating Officer / Chief Risk Officer
René Lange	Chief Information Officer
Andrew Tucker	Chief Customer Officer

Auditors
KPMG
Grant Thornton

Summerland Credit Union acknowledges the Traditional Custodians of the land on which we live and work in Australia. We pay our respects to elders past, present and emerging, and acknowledge the ongoing connection that Aboriginal and Torres Strait Islander peoples have with Australia's land and waters.

contents

Sue and Rob, Tweed Valley Whey Farmhouse Cheeses
"Summerland have definitely helped us grow our business. Through small steps, we've got where we are today".

a message from the chair

I am delighted to announce that it has been another strong year for us as an organisation, with a growth in loans of $40 million. Overall our assets grew from $689 million to $748 million over the last financial year. This growth is despite the substantial challenges and changes in the market.

Other successes of note include our newly renovated branches in Bangalow and Evans Head, mobile app upgrade, and becoming the first financial institution in NSW to be recognised as a Gold Partner of the NSW Government's Department of Environment and Heritage's Sustainability Advantage Program.

Having been closely involved in Summerland's sustainability journey, since it began in 2008, environmental sustainability is a passion I have championed, as a Director and now Chair. The 11-year process that contributed to achieving Gold Partner status involved embedding systems across the whole organisation, such as building our sustainability commitment into staff induction and regular training; using products and materials for building upgrades and internal use that have minimal environmental impact, are recycled, or have been sustainably sourced; reporting and tracking our resource use; and supporting our local community through staff volunteering and grant opportunities. The recognition illustrates our sustainable and environmental practices and reflects our staff's ongoing commitment to one of our core values.

In a year of change, we explored a potential merger with Coastline Credit Union and the benefits a merger between the two credit unions could provide to our respective members. After a thorough due diligence process and following numerous discussions between the respective Boards and Management of the credit unions, the Summerland Board reached a decision not to proceed with the merger as it was not in the best interests of Summerland, our staff or members at that time.

The reforms following the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry have had a major impact on the whole industry, resulting in new conditions such as the Banking Executive Accountability Regime (BEAR). In response, Summerland has improved our risk management practices, developed new processes to understand our culture and registered our accountable persons (Board and Executive) as required by the BEAR.

The Customer Owner Banking Association (COBA) Chief Executive, Michael Lawrence has emphasised how the final report focuses on major bank practices; and is not indicative of the customer owned financial institutions or the industry as a whole. As a customer owned financial institution, we are in a position of strength. Our values, ethics and adherence to regulations ensures we will continue to act in the best interests of our members who are the owners of Summerland.

The Board has for some time been looking at renewal and succession planning for the future, which has involved a competitive recruitment process. With this in mind, there have been changes that I would like to acknowledge.

This year we have said goodbye to CEO, Margot Sweeny, who stepped down after 20 years as CEO and 5 years prior to that as a Summerland Director. Margot oversaw the organisation grow from $99 million to just under $750 million in assets during her time.

I have been fortunate to work with Margot for the last 15 years. She has been a significant mentor in my career and I have benefited from her commercial insight and how to apply this to the not-for-profit sector. It is important to recognise Margot's role in the finance industry as a strong female leader, increasing the representation of women in leadership and governance roles in the industry.

With Margot's departure, I would like to welcome our new CEO, John Williams. John has a long history in the customer owned banking sector, with 20 years of senior leadership roles at Heritage Bank and more recent experience in the fintech and neo banking environments. His highly developed technical and commercial skills are complemented by a strong commitment to developing and coaching his staff to maximise career development and organisational culture and performance. John's capabilities include strategy development, implementation, business transformation, portfolio and project management.

I'm sure you will join myself, the Board, the Executive team and our staff in offering our sincere thanks and appreciation to Margot for her contribution to Summerland and a warm welcome to John.

At the Board level, I would like to take this opportunity to thank Nicolas Harrison for his stewardship as Chairman for the past 10 years. He has overseen some major changes during his time, and we are fortunate that he will remain as a Director to offer his expertise and knowledge in helping direct Summerland's future. Nick's constant presence on the board of COBA cannot be underestimated and he is highly valued as a voice and advocate for Summerland and keeping the Board updated on COBA's activities.

This year sees Director, John Shanahan step down after 11 years - John has also been Chair of the Credit Union's Board Audit and Risk Committee during this time. Some of you may not be aware, but John was formerly Deputy Chancellor of Southern Cross University and an Audit Partner at Deloitte. He is a recognised expert on financial reporting issues and the author of the textbooks Guide to Accounting Standards and Guide to Accounting Regulation. He has also conducted training courses and seminars for many national and state organisations including ASIC, the ASX, CPA Australia, the Institute of Chartered Accountants, FINSIA and the Federal Judicial Commission. We thank John for all that he has done for Summerland and the financial industry and wish him well in his future endeavours.

I would like to welcome our newest Director, Julie Osborne, who joined us in May this year. Julie has extensive experience across a range of sectors including financial services, insurance and not-for-profit organisations; having previously worked with both Westpac and KPMG. Her experience and knowledge will be invaluable in the coming months and years ahead.

Finally, I'd like to acknowledge the year of change we have had. We work in a constantly changing industry, so I'd like to thank my fellow Directors, our outgoing CEO Margot, our Executive team, with a particular thank you to Sally-Anne Cumine who stood in as Acting CEO during the CEO recruitment process and was instrumental in our merger discussions with Coastline Credit Union, and our staff for adapting to the changes we continue to face, in what has been a challenging year.

I would like to assure our members that Summerland continues to perform strongly as this year's financial results illustrate, and remains committed to meeting your financial needs in a constantly changing environment

Katrina Luckie
Chair

John Wilcox, Nimbin Hills Real Estate

"What I like about Summerland compared to some of the big banks is they're small enough to know you personally, but large enough to give you all the services you'd ever want".

John Ede, Reel Fishn Charters
“I’ve been with Summerland Credit Union for 23 years now and we’ve got a great relationship”.

a message from the ceo

It is a great pleasure to join Summerland and an exciting opportunity to have been selected to lead such a strong and community orientated organisation.

I would like to take this opportunity firstly to acknowledge Margot Sweeny and her outstanding contribution to Summerland. Margot ably led Summerland through many challenges over the past 20 years and grew the successful strong business we see today with more than $700 million in assets.

Since I started with Summerland in July I have had the opportunity of meeting a great many of our staff individually and have visited many of our branches getting to know the local towns and communities. What has struck me during my visits is the passion and enthusiasm of our staff for Summerland our members and broader communities.

This enthusiasm will be vital to our future as we seek new and innovative ways of delivering services and focus on meeting the challenges ahead.

Industry and market challenges

Our Chair has touched on some of the challenges flowing on from the Banking Royal Commission and the Banking Executive Accountability Regime (BEAR). Summerland, with our core values and underlying principles of mutuality, is in a strong position to meet these and any other changes that may arise.

I will be traveling to Canberra in September to attend the Customer Owned Banking Association (COBA) event "Hike the Hill". This event is a great chance for Summerland, and the mutual banking sector, to lobby for political support to improve the banking outcomes for our members and to achieve a level playing field for all ADIs. The key theme of this years meetings is to lobby for regulation and legislation that is proportionate to the Customer Owned Banking sector and to ensure competition (as well as stability) is

John Williams - Chief Executive Officer

considered in responses to the Banking Royal Commission.

Summerland ended the 2018 / 2019 financial year in a good position with a strong profit result and solid loans growth despite difficult market conditions.

We experienced a slight increase in orientation to variable rate lending over the year. With interest rates remaining low borrowers are not yet rushing to lock-in rates.

The investor lending growth benchmark was removed by APRA in October 2018. However by that time investor demand in the market had largely dissipated. This occurred as a result of the tighter underwriting conditions employed by lenders generally, but moreover, declining property values reducing the appeal of property investment.

There has pleasingly been strong growth in lending to first home owners, and while housing loans dominate we also experienced good growth in commercial loans.

With indications of further rate cuts the low interest rate environment is set to continue into the new financial year presenting ongoing challenges for both Summerland and the banking industry in general.

Amongst those challenges is the need to find a balance in our response to the RBA rate reductions taking into consideration both our borrowers and our depositors many of whom rely on their deposits for their retirement income.

Innovation

Looking to the next 12 months we will continue our investment in digital banking services providing our customers with the very best banking experience regardless of their chosen channel.

October will see Summerland introduce a new payment channel in the form of the New Payments Platform (NPP). NPP will enable our customers to make payments in near real-time 24 hours a day, 7 days a week, all without the need to remember their bsb and account number.

Speed and agility in delivering enhancements and improvements to our services is a critical success factor for Summerland. To ensure we are offering our customers the very best and latest in digital banking services we will be undertaking a minimum of three app upgrades over the coming 12 months.

Amongst the added features that will be delivered is the ability for customers to notify Summerland of travel plans so that we can more closely monitor transactions and identify any potential fraud, international money transfers, enhanced security through 2nd factor authentication on registration of a new device and improvements to navigation and user experience.

In closing

In closing I would like to say that I look forward to working closely with the Board and staff of Summerland to lead the credit union through the next stage of growth and transformation.

I would also like to thank our customers for their ongoing support of Summerland.

John Williams
Chief Executive Officer

our performance

$3.2m
profit

$748m
assets

16.47%
capital adequacy ratio

we have returned more than
$1.06m
to our communities through direct & indirect support

our people

100
staff members

62%
staff engagement

72%
full time

74:26
female to male ratio

4
whs incidents

2.56%
absentee rate

Luke Vassella, Singer/Songwriter
“I’m not impressed with what the big banks have done in this country, so I am proud to be a part of a local institution like Summerland”.

sustainability report

In the 2018/19 year, we saw major initiatives and achievements as part of our commitment to the environment we live in. The biggest cause for celebration saw us achieve the Gold Partner Accreditation from the NSW Government's Department of Environment and Heritage. The award recognises a business's position towards environmental and social sustainability.

In applying for Gold partner recognition, we were required to show leadership and commitment to sustainability; have well-established planning and management systems for environmental practices in place; show continuous improvement over time; and undertake an innovative project promoting sustainability.

As part of the award process, we implemented over 200 separate initiatives to reduce our impact on the environment, which has included recycling, reducing our wastage, utilising local suppliers wherever possible, an investment in hybrid cars and 70 new solar panels on our Lismore Head Office building. Through our solar panels, we generated 27,866 kwH last financial year; the equivalent of making the energy savings of two families of four for a year. Our eco loan products are supportive of our eco-friendly stance and commitment to sustainability through the loan being put towards environmental purposes.

This not only saw Summerland become the first financial institution in NSW to achieve this award but is illustrative of an organisation truly living their values. Congratulations go to our Environmental Team on their commitment to this 11-year journey and our Chair, Katrina Luckie for the passion and aptitude she brought to the project.

Within our branch network we promoted our first Sustainability Month, following Eco Month previously. One element of this was environmental sustainability and saw us highlight our commitment to the environment through the NSW Sustainability Advantage Program, and our stance of having no direct investments, nor any loans to fossil fuel/ CSG mining industries.


Margot Sweeny accepts the Summerland Credit Union Gold Partner plaque from Matt Kean, Minister for Energy and Environment

Sustainable Development Goals

As an ethical and sustainable organisation, Summerland have adopted four of the United Nations' Sustainable Development Goals (SDGs) which are in line with our values, shared beliefs and guiding principles:

- Gender equality
- Decent work and economic growth
- Sustainable cities and communities
- Climate action

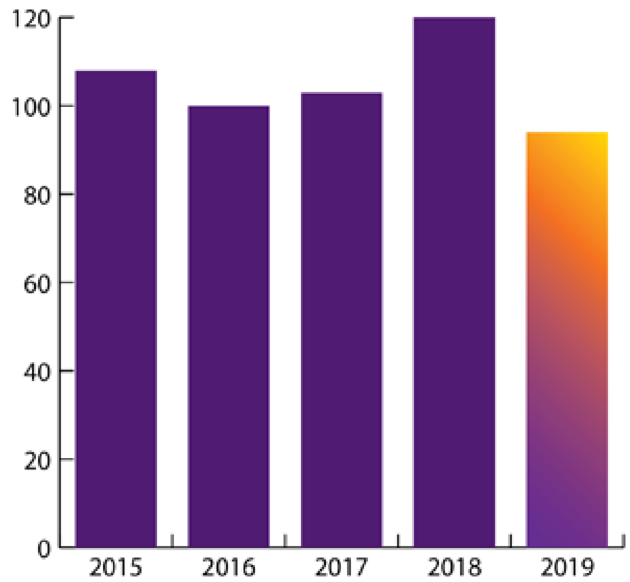
Gender Equality

Our staff work tirelessly to ensure that we provide a strong and united culture here at Summerland where employees and others in the workplace are treated fairly, with respect, and are free from discrimination, harassment, vilification and victimisation.

vehicles

The corporate vehicle fleet used 8,272 litres of fuel, 94 litres per FTE. This is a 21.95% reduction on the previous year.

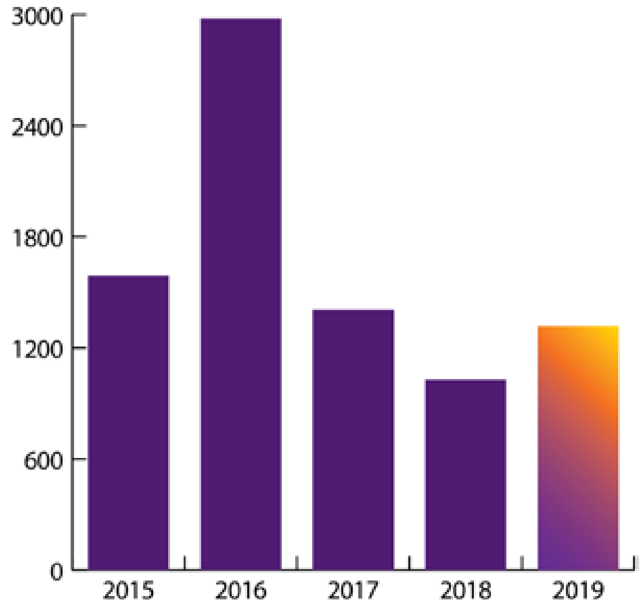
Utilising video or teleconferencing forms part of the assessment when making staff travel decisions.



air travel

Business travel by air in 2018/19 consisted of flights covering 116,223 kms, which equated to 1,319 km per FTE.

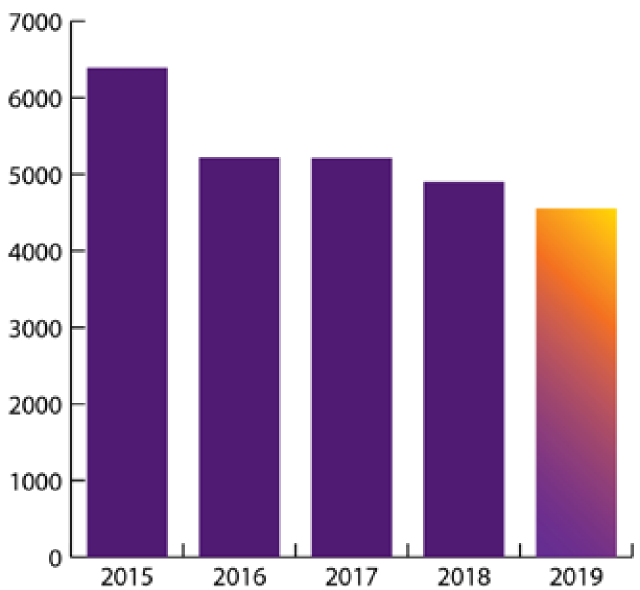
This is a 28% increase on the previous year.



power

There was a 7.19% decrease in energy consumption of Summerland owned and leased premises this year, with 4550 kWh consumed per FTE.

Accredited renewable energy take-up in electricity contracts is currently 10% pa for head office and 25% pa for branches.

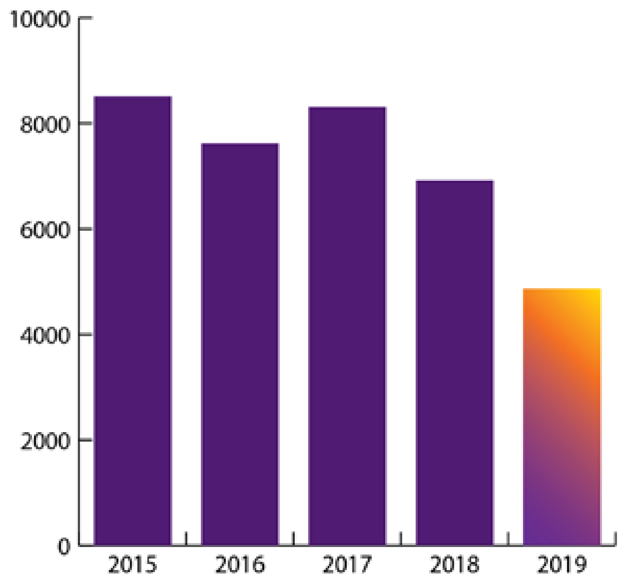


Prior year figures for vehicle, air-travel, power and paper have been adjusted to align with the data reported in our submission for the Gold Partner Accreditation.

paper

Internal paper usage for the 2018/19 year was 4,868 sheets of normal copy paper per FTE. This is a 29.60% drop on the previous year.

Improving the environmental impact of the paper we purchase and use in our marketing collateral and member communications, 100% of A4 copy paper and customer statement paper is certified carbon neutral under the National Carbon Offset Standard Carbon Neutral program.



Decent Work and Economic Growth

In the last year, we have seen unprecedented changes in the industry, and this has consequently brought its own tests. Last financial year we saw strong growth in our loans' portfolio ($40 m) and assets ($59m). These results are illustrative of the strong reputation of Summerland within the region and the quality of our staff and their ability to put our members first.

With our staff, we believe in empowering them by providing suitable learning and development opportunities to further their careers. This year we upskilled a number of our staff across the organisation in lending through our Learning and Development Department and have also recruited for management roles internally. This organic advancement of our staff is what breeds a positive and united culture here at Summerland and one which our Board and Executive are proud to support.

Last financial year, we invested in our communities in Evans Head and Bangalow, renovating the branches in those towns to be in line with the new modern styling we have incorporated across our branch network. The staff in those branches like the new look and we hope you, our members, enjoy the better member experience, through the open plan design, sustainable materials used and state-of-the-art technology on offer.

Sustainable Cities and Communities

As a member owned financial institution, every year we give back a proportion of our profits to the community. Last financial year we returned $1.06m to the community through direct and indirect support to some of the sponsored groups and events highlighted:

New South Wales

Ballina Meals on Wheels – In 2018/19, our Ballina branch staff have been making a difference by volunteering to assist older people and those with a disability by providing a smile, a conversation and a meal they can enjoy.

Bangalow Billy Cart Derby – We were the naming rights sponsor of the 2019 community event which attracted over 150 billy cart racers from across Northern NSW and Queensland. Our staff made a difference to the day by marshalling the finish line, commentating on the races and engaging with race attendees with a free map and kids colouring in banners.

Bangalow Blue Dogs – Having been a partner of the football club for more than 10 years, we continue to support the club through our Cash4Clubs referral program and as a shirt sponsor of the Men's and Women's Premier Teams.

Bangalow Koalas – We have been a supporter of the koala protection group through the use of our marquees and promoting their cause at our Bangalow branch.

Casino Beef Week – Summerland provided a Family Chill Out safe space for people attending Beef Week as well as running a successful chalk-art competition which generated a high number of engagements on social media.

Dunoon United –This season we helped support the club's Pink Day, to raise funds for cancer research, we also sponsored the third grade women's side, and provide fundraising opportunities to the club and its members through our Cash4Clubs program.

East Lismore Bowling Club – We sponsored of the Annual Classic Carnival, which attracted competitors from across the North Coast for this special event.

Hospital Staff Awards – These are provided to staff in hospitals at Lismore Base, Ballina, Byron Central and Tweed Heads. Staff appreciate the opportunity to recognise their efforts and Summerland staff provide home loan check ups for staff at the hospital sites during the year.

Jacaranda Festival - Summerland sponsored a Jacaranda Queen entrant, Jorga Turner, in the Grafton festival as well as participating in various community events associated with the festival.

Lismore Friendship Festival - This year, we sponsored the Tug-O-War at the festival, which is a celebration of Lismore's connection with everything Italian, which includes Lismore's sister-city relationship with Conegliano.

Lismore Thistles – Our partnership with Thistles and the sponsorship of their women's premier side continued this year, with support for their junior gala day and junior end of season awards, with our ambassador, Archie Thompson being present. This is a big part of our commitment to grassroots football and the Lismore community.

Mullum 2 Bruns Paddle – We were delighted to once again be involved in this wonderful community event as a principal sponsor and by providing kids in attendance the opportunity to take part in our chalk art competition.

Southern Cross University – We have been a supporter of the university and its students through the Rising Stars Scholarship program for over 25 years. This is a cause we continue to be involved in this year through our sponsorship students with their studies.

The Salvation Army – As part of The Salvos annual Red Door Knock Appeal we were pleased to accept funds to help support a range of social and community services across the region. Summerland also made a significant donation to this cause.

Wollongbar Alstonville Rugby Club – As a Cash4Clubs beneficiary, the club has received generous donations through club member engagements with us.

Queensland
Gold Coast Female Soccer Academy – We have been a major sponsor of the all-girls academy this year, and saw their u16 side take home the Kanga Cup in Canberra in July. Off the pitch, we have been working with the club with their ongoing growth towards becoming a fully-fledged club.

Intellectual Disability Annual Conference - Summerland sponsored the Chill Out Space offering an area for attendees to relax and replenish between sessions.

ACT
Canberra United – As the Official Banking partner of the W-League side, we gave away match day tickets during every home round to fans and provided opportunities to take part in our Score and Win competition at half time to win cash prizes. On our home match day in January, we engaged with the crowd as well as providing VIP tickets to 10 Summerland members on the day.

Capital Football – We continued our partnership with the football federation for ACT as well as the monthly Summerland Football Club Hero awards, which celebrates the contribution of volunteers in the community, which has become a popular addition to the ACT football community.

Victoria
Melbourne Chinese Soccer Association - We have sponsored the organisation during the last year; which helps migrants and those who have recently come to Australia play the game they love.

In addition, there were a number of primary and pre-schools we assisted with financial and other donations throughout the last financial year.

Hazzard Mapping
In the next 12 months Summerland will be embarking on a long-term project to assess the effect of climate change. To commence this project, we will be working with an environmental consultant to develop a database that assesses the effect of climate change on the North Coast of NSW and then overlay our mortgage book to identify future risks. This information will provide data which will assist us make decisions in the future regarding lending policy

Directors' report

Your Directors present their report on the credit union for the financial year ended 30 June 2019.

Summerland Credit Union (the credit union) is a division of Summerland Financial Services Limited, a credit union registered under the Corporations Act 2001.

Information on Directors

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

Katrina Luckie

B.App Sc(Hons), MAMI, MEAINZ, GAICD, FIML

- Director since 2010
- Chair since 2018
- Member, Risk Advisory Committee
- Member, Governance Committee
- Member, Nominations Committee
- Chair, Governance Committee 2015 – 2018

Katrina Luckie is the Executive Manager of Strategy and Engagement for Social Futures, one of the largest employers in Lismore, providing community services from Byron Bay to Broken Hill. Katrina has strong skills in business development, community engagement, project development, research, strategy, insights and leadership. She is the former CEO of Regional Development Australia (RDA) Northern Rivers, and former Executive Director of the Northern Rivers Regional Development Board. She has an extensive background in building industry capability, regional strategy and environmental planning. Katrina champions and supports management with pursuing Summerland's environmental sustainability journey.

John Shanahan

M.Com (Hons), FCA, MAICD, FCPA, SF Fin, MAMI

- Director since 2008
- Chair, Audit Committee
- Member, Governance Committee

John Shanahan was formerly Deputy Chancellor of Southern Cross University. He is a recognised expert on financial reporting issues and the author of the textbooks *Guide to Accounting Standards* and *Guide to Accounting Regulation*. He was formerly an Audit Partner at Deloitte.

He has conducted training courses and seminars for many national and state organisations including ASIC, the ASX, CPA Australia, the Institute of Chartered Accountants, FINSIA and the Federal Judicial Commission.

Graham Olrich

Dip FS, Dip FS CUD, FAICD, FAMI

- Director since 2010
- Member, Risk Advisory Committee
- Chair, Governance Committee 2018 - 2019
- Chair, Risk Advisory Committee 2015 - 2018

Graham Olrich currently runs his own management consultancy business.

He has had a distinguished career in banking including credit union executive and senior management experience.

He has held the top position in Australia's largest credit union and is currently the Chair of Regional Australia Bank Ltd; and a Director of The Capricornian Ltd.

David Bergmark

BComm, MAICD, ICAA, F Fin, MAMI

- Director since 2014
- Chair, Risk Advisory Committee
- Member, Audit Committee

David Bergmark is a founding partner and CEO of the Protecht Group and consults on a variety of market, credit, liquidity and operational risk management issues to a wide range of corporates, financial services institutions and government agencies within Australia. He has been actively involved in audit and risk management within the banking sector since 1990.

Nicolas Harrison

B.A, LL.B, FAICD, FGIA, FAMI, SA Fin

- Director since 2003
- Chair, Governance Committee
- Member, Audit Committee
- Member, Risk Advisory Committee
- Chairman 2008 - 2018

Nicolas Harrison is a Barrister-at-law, Company Director, and a Director of the Customer Owned Banking Association (COBA). He is actively involved in the not-for-profit sector, being a Director and Chairman of CASPA Services Ltd.

He is a former Deputy Senior Crown Prosecutor, Councillor of the NSW Law Society, Adjunct Professor at Southern Cross University, and RAAF Reserve Legal Officer.

Paul Spotswood

B.Ec, MAICD, MAMI

- Director since 2010
- Member, Audit Committee
- Member, Governance Committee

Paul is Owner/Director of Spotswood Communications Pty Ltd and Sales Marketing Manager for Horizon Motorhomes. He co-founded Social and Digital Australia Pty Ltd and preceding this was General Manager for APN News and Media (now News Corp) across a number of regional markets, for 15 years. Prior to this Paul was a publisher with Reed Business Information, Reed Elsevier, Australia for 9 years, publishing Business-to-Business information in the form of business magazines, websites, e-commerce applications and other digital products to industry sectors, including the financial sector, with publications such as Money Management and Super Review.

Julie Osborne

BEc, LLM, MAICD

- Director since 2019
- Member, Audit Committee

Julie Osborne is an Audit and Risk Chair with extensive experience across a range of sectors including financial services, insurance and not-for-profits. She currently serves on the boards of Assetinsure Pty Limited and the Woolcock Institute of Medical Research. She chairs the Audit and Investment Committees and is a member of the Risk and Human Resources Committees at Assetinsure and chairs the Finance and Risk Committee at the Woolcock. Julie also consults to the Audit and Risk Consulting Division of KPMG. During her career, Julie was an Executive Director at Westpac Banking Corporation where she led the Structured Finance business within the Treasury Division and served on various Westpac Group subsidiary companies in Australia and the United States.

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

Directors meeting attendance

Director	Board of Directors		Audit Committee		Risk Advisory Committee		Governance Committee	
	E	A	E	A	E	A	E	A
Katrina Luckie	10	10			4	4	7	7
John Shanahan	10	9	4	4	2	1	7	7
Graham Olrich	10	8			4	2	7	7
David Bergmark	10	9	4	3	4	3		
Nicolas Harrison	10	9	4	3	2	1	4	4
Paul Spotswood	10	9	4	4			3	3
Julie Osborne (Appointed 28/5/2019)	2	2	1	1				

E = Eligible to attend A = Attended

Donna Kildea

BSocSci., CAHRI

- Company Secretary (Appointed 2/7/19)

Donna has been the Chief Operating Officer since 2003 and was appointed Company Secretary in 2019.

Donna Kildea has had responsibility for compliance, risk, human resources, property, security and fraud during her time with Summerland. She has also been active in the community where she has been the Chair of the NSW Business Chamber Northern Rivers, board member of the Northern Rivers Conservatorium Of Music and a two year term as an elected staff representative on Southern Cross University Council.

Margot Sweeny

MEc, BBus, FCPA, SF Fin, FAMI, MACS, MAICD, JP

- Company Secretary (Retired 2/7/19)

Margot was the Company Secretary and Chief Executive Officer since 1999.

Margot Sweeny is an active community member and public speaker. Her numerous community positions include being the current Chair of Credit Union Foundation Australia (CUFA), the development agency for the Australian Credit Union Movement; and Director of Australian Securities Limited (ASL). Margot has strong connections with Southern Cross University and has just completed a 14 year term on the University Council, which was a combination of a two (2) year term as an elected staff representative and a 12 year term as an appointed independent financial expert. During her term she was Chair of the Audit Committee (2006 - 2010), and Chair of the Finance Committee (2010 - 2018). Margot received an Honorary Award - Doctor of the University (DUniv)(honoris causa) from Southern Cross University in 2017.

Directors' benefits

No Director has received or become entitled to receive, during or since the end of the financial year, a benefit because of a contract made by the credit union, a subsidiary, or a related body corporate with a Director, a firm of which a Director is a member or an entity in which a Director has a substantial financial interest, other than that disclosed in Note 7 of the Financial Report.

Indemnifying officer or auditor

Insurance premiums have been paid to insure each of the Directors and officers of the credit union against any costs and expenses incurred by them in defending any legal proceeding arising out of their conduct while acting in their capacity as an officer of the credit union. In accordance with normal commercial practice, disclosure of the premium amount and the nature of the insured liabilities is prohibited by a confidentiality clause in the contract.

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

Principal activities

The principal activities of the credit union during the year were the provision of retail financial services to customers in the form of taking deposits and giving financial accommodation as prescribed by the Constitution.

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

Operating results

The net profit of the credit union for the year after providing for income tax was $3.22m (2018: $3.10m).

Dividends

No dividends have been paid or declared since the end of the financial year and no dividends have been recommended or provided for by the Directors of the credit union.

Review of operations

The credit union's operations, being focused on the provision of financial services to its customers, did not change significantly from the previous year.

Significant changes in state of affairs

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

Events occurring after balance date

There were no matters or circumstances arising since the year end which significantly affected or may significantly affect the operations, the results of these operations or state of affairs of the credit union in subsequent financial years.

Environmental regulations

All activities have been undertaken in compliance with environmental regulations that apply to credit unions.

Likely developments, business strategies and prospects

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

- (i) The operations of the credit union;
- (ii) The results of those operations; or
- (iii) The state of affairs of the credit union

in the financial years subsequent to this financial year.

There are no likely developments in the entity's operations in the future financial years.

Rounding

The amounts contained in this financial report have been rounded to the nearest one thousand dollars in accordance with ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191. The credit union is permitted to round to the nearest one thousand ($'000) for all amounts except prescribed disclosures that are shown in whole dollars.

Prudential disclosures

Full disclosure of the regulatory capital and the remuneration disclosure are available on the credit union website.
https://summerland.com.au/governance

Auditor's independence

The auditor has provided the following declaration of independence to the Board as prescribed by the Corporations Act 2001.

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

Katrina Luckie
Chair

John Shanahan
Chair Audit Committee

Lismore 25 September 2019

Grant Thornton

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Sydney NSW 2000

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Locked Bag Q800
QVB Post Office
Sydney NSW 1230

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F +61 2 9299 4445
E info.nsw@au.gt.com
W www.grantthornton.com.au

Auditor's Independence Declaration

To the Directors of Summerland Financial Services Limited

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the audit of Summerland Financial Services Limited for the year ended 30 June 2019, I declare that, to the best of my knowledge and belief, there have been:

a no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and

b no contraventions of any applicable code of professional conduct in relation to the audit.

Grant Thornton

Grant Thornton Audit Pty Ltd
Chartered Accountants

Claire Scott

Claire Scott
Partner – Audit & Assurance

Sydney, 25 September 2019

Statement of Profit or Loss and Other Comprehensive Income

FOR THE YEAR ENDED 30 JUNE 2019

	Note	2019	2018
		$'000	$'000
REVENUE			
Interest revenue	2	28,178	26,549
Interest expense	2	(10,703)	(9,591)
NET INTEREST REVENUE		17,475	16,958
Non-interest revenue	3	4,282	3,976
EXPENSES			
Impairment expense	12	(18)	(27)
Employee benefits expense	4	(8,933)	(8,282)
Occupancy expense	4	(453)	(473)
Depreciation and amortisation expense	4	(998)	(1,183)
Other expenses	4	(6,805)	(6,734)
Total expenses		(17,207)	(16,699)
PROFIT BEFORE INCOME TAX		4,550	4,235
Income tax expense	5	(1,328)	(1,138)
PROFIT FOR THE YEAR NET OF TAX		3,222	3,097
OTHER COMPREHENSIVE INCOME NET OF TAX			
Items that may be reclassified to profit and loss			
Gain/(Loss) on cash flow hedges taken to equity		(153)	35
Items that will not be reclassified to profit and loss			
Movement in fair value of land and buildings		245	-
OTHER COMPREHENSIVE INCOME FOR THE YEAR NET OF TAX		92	35
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		3,130	3,132
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO MEMBERS OF THE CREDIT UNION		3,130	3,132

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

Statement of Financial Position

AS AT 30 JUNE 2019

	Note	2019	2018
		$'000	$'000
ASSETS			
Cash and cash equivalents	8	23,557	17,291
Financial assets at amortised cost	11	100,695	91,768
Trade and other receivables	9	8,018	5,122
Other assets	10	1,191	579
Loans and advances	12	603,314	563,329
Financial assets at fair value through other comprehensive income		2	2
Investment property	15	4,929	4,547
Property, plant and equipment	14	5,155	5,045
Current tax assets	5	-	102
Deferred tax assets	5	1,234	1,029
Intangible assets	16	394	336
TOTAL ASSETS		748,489	689,150
LIABILITIES			
Deposits	17	653,836	598,864
Trade and other payables	18	17,677	11,163
Derivatives	13	282	64
Borrowings	20	13,260	18,310
Current tax liability	5	139	-
Deferred tax liabilities	5	805	724
Provisions	19	923	931
TOTAL LIABILITIES		686,922	630,056
NET ASSETS		61,567	59,094
MEMBERS EQUITY			
Redeemable preference share capital account	21	516	506
Reserves	22	6,644	6,834
Retained earnings		54,407	51,754
TOTAL MEMBERS EQUITY		61,567	59,094

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

Statement of Changes in Member Equity

FOR THE YEAR ENDED 30 JUNE 2019

	Redeemable Preference Share Capital Account	General Reserve	Capital Profits Reserve	Hedging Reserve	Reserve for Credit Losses	Asset Revaluation Reserve	Retained Earnings	Total Equity
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
BALANCE AT 1 JULY 2017	496	1,376	860	(75)	2,008	2,509	48,788	55,962
Profit for the year	-	-	-	-	-	-	3,097	3,097
Other comprehensive income net of tax	-	-	-	35	-	-	-	35
Transfers to / from retained earnings:								
- Redeemable preference share account	10	-	-	-	-	-	(10)	-
- Reserve for credit losses	-	-	-	-	121	-	(121)	-
BALANCE AT 30 JUNE 2018	506	1,376	860	(40)	2,129	2,509	51,754	59,094
BALANCE AT 1 JULY 2018	506	1,376	860	(40)	2,129	2,509	51,754	59,094
Changes on initial adoption of AASB 9 (Note 1)							(661)	(661)
Changes on initial adoption of AASB 15 (Note 1)							(180)	(180)
ADJUSTED BALANCE AT 1 JULY 2018	506	1,376	860	(40)	2,129	2,509	50,913	58,253
Profit for the year	-	-	-	-	-	-	3,222	3,222
Other comprehensive income net of tax	-	-	-	(153)	-	245	-	92
Transfers to / from retained earnings:								
- Redeemable preference share account	10	-	-	-	-	-	(10)	-
- Reserve for credit losses	-	-	-	-	(282)	-	282	-
BALANCE AT 30 JUNE 2019	516	1,376	860	(193)	1,847	2,754	54,407	61,567

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

Statement of Cash Flows

FOR THE YEAR ENDED 30 JUNE 2019

	Note	2019	2018
		$'000	$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest received		28,072	26,680
Other income		642	2,504
Interest paid		(10,103)	(9,441)
Payments to suppliers and employees		(10,629)	(13,594)
Movement in operating assets and liabilities			
Net movement in liquid investment balances		(8,926)	16,771
Net movement in loans		(40,845)	(40,001)
Net movement in deposits		54,972	20,932
		5,201	2,298
Income taxes paid		(1,212)	(1,112)
Net cash used in operating activities	30 (c)	11,971	2,739
CASH FLOWS FROM INVESTING ACTIVITIES			
Payment for property, plant and equipment		(622)	(587)
Payment for intangibles		(277)	(93)
Increase in other liabilities		244	-
Net cash used in investing activities		(655)	(680)
CASH FLOWS FROM FINANCING ACTIVITIES			
(Repayments) / proceeds from borrowings		(5,050)	(3,300)
Net cash provided by financing activities		(5,050)	(3,300)
Net increase / (decrease) in cash and cash equivalents held		6,266	(1,241)
Cash and cash equivalents at the beginning of the financial year		17,291	18,532
Cash and cash equivalents at the end of the financial year	30 (a)	23,557	17,291

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

NOTE 1

Statement of Significant Accounting Policies

This general purpose financial report has been prepared in accordance with Australian Accounting Standards, including Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board (AASB) and the Corporations Act 2001.

Summerland Financial Services Limited is a public credit union limited by shares, incorporated and domiciled in Australia. The nature of the credit union's operations and principal activities are disclosed in the Directors' Report. The credit union is a for-profit entity for financial reporting purposes under Australian Accounting Standards.

Basis of preparation

Australian Accounting Standards set out accounting policies that the AASB has concluded would result in financial statements containing relevant and reliable information about transactions, events and conditions. Compliance with Australian Accounting Standards ensures that the financial statements and notes information comply with International Financial Reporting Standards.

Except for cash flow information, this financial report has been prepared on an accruals basis and is based on historical costs modified by the revaluation of land and buildings, and certain financial assets and financial liabilities for which the fair value basis of accounting has been applied. The statement of financial position has been prepared in order of liquidity.

The credit union is of a kind referred to in Corporations Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to ‘rounding-off’. Amounts in this report have been rounded off in accordance with that Corporations Instrument to the nearest thousand dollars, or in certain cases, the nearest dollar.

The financial report was authorised for issue on 25 September 2019 by the Board of Directors.

Changes in significant accounting policies – New standards applicable for the current year

(a) 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 applies 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. In accordance with the transition guidance, AASB 15 has only been applied to contracts that are incomplete as at 1 July 2018.

The adoption of AASB 15 has had an impact on the following for the credit union.

ANNUAL PRODUCT FEES

A number of the credit union’s loan products offered to customers comprise an annual fee that is paid by the customer and comprise a variety of performance obligations including, but not limited to, establishment of product and relevant associated costs to third parties, account maintenance fees, unlimited account transactions and access to a credit card. Under AASB 15, the credit union 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 credit union does not provide a significant service integrating, modifying or customising it).

While this represents significant new guidance, the implementation of this new guidance did have an impact on the timing and amount of revenue recognised by the credit union during the year. The impacts are outlined on the next page.

On the date of initial application of AASB 15, 1 July 2018, the impact to retained earnings of the credit union was as follows:

Impacted area	Other equity	Retained earnings	Total equity
	$'000	$'000	$'000
Product Fee income	-	(180)	(180)

The tables below highlight the impact of AASB 15 on the credit union's statement of profit or loss and other comprehensive income and the statement of financial position for the year ended 30 June 2019. The adoption of AASB 15 did not have a material impact on the credit union's statement of cash flows.

Statement of Profit or Loss and Other Comprehensive Income (Extract)	Amounts under AASB 118	Adjustmen ts	Amounts under AASB 15
	$'000	$'000	$'000
Non-interest income	4,303	(21)	4,282
Profit for the year	3,243	(21)	3,222

Statement of Financial Position (Extract)	Amounts under AASB 118	Adjustmen ts	Amounts under AASB 15
	$'000	$'000	$'000
Trade and other payables	17,656	21	17,677
Total Liabilities	686,901	21	686,922

(b) AASB 9 Financial Instruments

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

When adopting AASB 9, the credit union has applied transitional relief and opted not to restate prior periods. Differences arising from the adoption of AASB 9 in relation to classification, measurement, and impairment are recognised in opening retained earnings as at 1 July 2018.

AASB 9's impairment requirements (applied from 1 July 2018) use more forward looking information to recognise expected credit losses - the ECL model. Instruments within the scope of the new requirements include loans and advances and other debt-type financial assets measured at amortised cost and Fair Value Through Other Comprehensive Income (FVOCI), trade receivables and loan commitments and some financial guarantee contracts (for the issuer) that are not measured at Fair Value Through Profit or Loss (FVPL).

AASB 9 also contains new requirements on the application of hedge accounting. The new hedge accounting looks to align hedge accounting more closely with entities' risk management activities by increasing the eligibility of both hedged items and hedging instruments and introducing a more principles-based approach to assessing hedge effectiveness.

The adoption of AASB 9 has impacted the following areas:

CLASSIFICATION AND MEASUREMENT OF THE CREDIT UNION'S FINANCIAL ASSETS

AASB 9 allows for three classification categories for financial assets – amortised cost, FVOCI and FVPL. 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 held to maturity, loans and receivables and available for sale. Classification of financial liabilities is largely unchanged. Refer to table on next page for a reconciliation of changes in classification and measurement of financial instruments on adoption of AASB 9.

A deferred fee income adjustment of $136,000 was included on 1 July 2018 in respect of loans and advances to customers.

A deferred expense adjustment of $124,000 was included on 1 July 2018 for prepaid commission in respect of loans and advances to customers.

IMPAIRMENT OF THE CREDIT UNION'S FINANCIAL ASSETS

The credit union's financial assets carried at amortised cost and those carried at FVOCI are subject to AASB 9's new three-stage expected credit loss model. The credit union measures loss allowances at an amount equal to ECL. The credit union 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 instrument.

In applying this forward-looking approach, a distinction is made between:

- financial instruments that have not deteriorated significantly in credit quality since initial recognition, or that have low credit risk (performing loans) ('Stage 1'); and
- financial instruments that have deteriorated significantly in credit quality since initial recognition and whose credit risk is not low ('Stage 2').
- 'Stage 3' would cover financial assets that have objective evidence of impairment (loans in default) at the reporting date.

An additional impairment allowance of $649,000 was included on 1 July 2018 in respect of loans and advances to customers. No impairment allowance was recognised for other investments. Further detail of how the ECL policy has been applied is included in Note 12.

HEDGE ACCOUNTING

The credit union has elected, as an accounting policy choice under AASB 9, to continue to apply the hedge accounting requirements of AASB 139. Refer to Note 13.

RECONCILIATION OF FINANCIAL INSTRUMENTS ON ADOPTION OF AASB 9

On the date of initial application, 1 July 2018, the financial instruments of the credit union were reclassified as follows:

	Measurement Category		**Carrying Amount**		
	Original AASB 139 category	**New AASB 9 category**	**Closing balance 30 Jun 2018 (AASB 139)**	**Adoption of AASB 9**	**Adjusted opening balance 1 Jul 2018 (AASB 9)**
Financial assets at amortised cost	Held to maturity	Amortised cost	91,768	-	91,768
Loans and advances to customers	Loans and receivables	Amortised cost	563,329	* (785)	562,544
Other assets	Other assets	Amortised cost	579	124	703
Financial assets at FVOCI	Available for sale	FVOCI	2	-	2
Trade and other payables	Amortised cost	Amortised cost	11,163	-	11,163
Deposits	Amortised cost	Amortised cost	598,864	-	598,864
Borrowings	Amortised cost	Amortised cost	18,310	-	18,310

*Includes the impairment allowance and deferred income adjustment

Significant accounting policies

The following is a summary of the material accounting policies adopted by the credit union in the preparation of the financial report. Except where stated, the accounting policies have been consistently applied.

(a) Critical accounting estimates and judgements

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

KEY ESTIMATES

Provision for income tax:	refer to Note 5
Impairment:	refer to Note 12
Property:	refer to Note 14
Investment property:	refer to Note 15
Employee provisions:	refer to Note 19

(b) Comparative figures

Where required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation in the current year.

(c) Goods and services tax (GST)

As a financial institution the credit union is input taxed on all income except other income from commissions and some fees. An input taxed supply is not subject to GST collection, and similarly the GST paid on purchases cannot be recovered. As some income is charged GST, the GST on purchases are generally recovered on a proportionate basis. In addition certain prescribed purchases are subject to reduced Input Tax Credits, of which 75% of the GST paid is recoverable.

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Taxation Office (ATO). In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables are stated with the amount of GST included where GST is applicable. The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the statement of financial position. Cash flows are included in the statement of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

(d) New or emerging Accounting Standards not yet mandatory

The following Australian Accounting Standards issued or amended are applicable to the credit union but are not yet effective for the 2019 financial year and have not been adopted in preparation of the financial statements at reporting date. The known impacts of each Accounting Standard on the credit union's financial reporting in future periods is noted below.

AASB Reference	Nature of Change	Application Date	Impact on Initial Application
AASB 16 Leases Replaces AASB 117	AASB 16: replaces AASB 117 *Leases* and some lease-related Interpretations; requires all leases to be accounted for 'on-balance sheet' by lessees, other than short-term and low value asset leases; provides new guidance on the application of the definition of lease and in sale and lease back accounting; and requires new and different disclosures about leases.	Periods beginning on or after 1 January 2019.	When this Standard is first adopted for the year ending 30 June 2020, the impact is that a right to use asset and lease liability will be recognised on balance sheet. An approximation of the amount is still to be finalised.

	2019	2018
	$’000	$’000

NOTE 2

Interest Revenue and Interest Expense

INTEREST REVENUE		
Cash and cash equivalents	189	220
Financial assets at amortised cost	2,902	2,707
Loans and advances	24,807	23,398
Derivatives	280	224
TOTAL INTEREST REVENUE	28,178	26,549
INTEREST EXPENSE		
Deposits	10,338	9,202
Borrowings	25	71
Derivatives	340	318
TOTAL INTEREST EXPENSE	10,703	9,591

NOTE 3

Revenue

INTEREST REVENUE	28,178	26,549
NON-INTEREST REVENUE		
Fees and commissions		
- fee income on loans - other than loan origination fees	825	802
- fee income from customer deposits	827	867
- other fee income	686	737
- insurance commissions	257	290
- other commissions	642	651
	3,237	3,347
Bad debts recovered	34	14
Income from property (rent)	458	446
Fair value increase - investment property	174	-
Profit on sale of assets	213	34
Other	166	135
TOTAL NON-INTEREST REVENUE	4,282	3,976
TOTAL REVENUE	32,460	30,525

Recognition and Measurement

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

Loan Interest Revenue

Loan interest is calculated on the daily loan balance outstanding and is charged in arrears to the loan accounts on the last day of each month.

Non-Accrual Loan Interest

While still legally recoverable, loan interest is not brought to account if a loan is classified as non-accrual or generally if a loan has been transferred to a debt collection agency or a judgement has been obtained. However accrued interest may be recovered as part of the recovery of the debt.

Investment Interest Revenue

Investment interest revenue is recognised on a proportional basis taking into account the interest rates applicable to the financial assets.

Fees and Commissions Revenue

Fees and commissions are brought to account on an accrual basis once a right to receive consideration has been attained.

Loan Origination Fees Revenue

Loan establishment fees and discounts are initially deferred as part of the loan balance, and are brought to account as income over the expected life of the loan as interest revenue.

Transaction costs

Transaction costs are expenses which are direct and incremental to the establishment of the loan. These costs are initially deferred as part of the loan balance, and are brought to account as a reduction to income over the expected life of the loan, and included as part of interest revenue.

Fees on Loans

The fees charged on loans after origination of the loan are recognised as income when the service is provided or costs are incurred.

	2019	2018
	$'000	$'000

NOTE 4

Profit Before Income Tax Expense

Profit before income tax expense has been determined after:

EXPENSES		
Interest expense	10,703	9,591
NON-INTEREST EXPENSES		
Impairment of assets	18	27
Employee benefit expenses		
- net movement in provisions for annual leave	28	(19)
- net movement in provisions for long service leave	(7)	(16)
- other employee expenses	8,912	8,317
	8,933	8,282
DEPRECIATION AND AMORTISATION EXPENSE		
Depreciation expense		
- buildings	190	190
- plant and equipment	320	385
Amortisation expense		
- software	219	284
- leasehold improvements	269	324
	998	1,183
OTHER EXPENSES		
Fees and commissions	2,257	2,394
General and administration expenses	307	312
IT expenses	1,918	1,841
Loss on sale of assets	8	8
Occupancy expenses	453	473
Other operating expenses	1,950	1,790
Rental expense on operating leases	365	389
	7,258	7,207
TOTAL NON-INTEREST EXPENSES	17,207	16,699
TOTAL EXPENSES	27,910	26,290

	2019	2018
	$'000	$'000

NOTE 5

Income Tax

INCOME TAX EXPENSE		
Prima facie tax payable on profit at 27.5% (2018: 30%)	1,251	1,271
ADJUST FOR TAX EFFECT OF:		
Capital allowance deduction	-	(20)
Adjustment for previous year	43	(113)
Change in company tax rate from 30% to 27.5%	34	-
Income tax expense attributable to the entity	1,328	1,138
Applicable weighted average effective tax rate	27.5%	30%
THE COMPONENTS OF INCOME TAX EXPENSE COMPRISE		
Current tax	1,445	1,166
Deferred tax	(117)	(28)
	1,328	1,138
CURRENT AND DEFERRED TAX RECOGNISED DIRECTLY IN EQUITY		
Aggregate current and deferred tax arising during the reporting period and not recognised in profit and loss but directly debited or credited to equity:		
FRANKING CREDITS		
Franking credits held by the Credit Union after adjusting for franking credits that will arise from the payment of income tax payable as at the end of the financial year is:	18,862	17,353
CURRENT TAX		
Current income tax (receivable) / payable	139	(102)
DEFERRED TAX ASSETS		
Deferred tax assets comprise temporary differences attributable to:		
AMOUNTS RECOGNISED IN PROFIT AND LOSS		
Plant and equipment	298	372
Provision for impairment	215	39
Provision for employee benefits	433	452
Accrued expenses	80	137
Deferred loan fee asset	135	12
	1,161	1,012
AMOUNTS RECOGNISED DIRECTLY IN EQUITY		
Hedge reserve	73	17
Total deferred tax assets	1,234	1,029

	2019	2018
	$’000	$’000
DEFERRED TAX LIABILITIES		
Deferred tax liabilities comprise temporary differences attributable to:		
AMOUNTS RECOGNISED IN PROFIT AND LOSS		
Investment properties	47	-
AMOUNTS RECOGNISED DIRECTLY IN EQUITY		
Land and buildings	758	724
Total deferred tax liabilities	805	724

Recognition and Measurement

CURRENT TAX EXPENSE

The charge for current income tax expense is based on the profit for the year adjusted for any non-assessable or disallowed items. It is calculated using the tax rates that have been enacted or substantially enacted at balance date.

DEFERRED TAX

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or liability is settled. Deferred tax is credited in the statement of comprehensive income except where it relates to items that may be credited directly to equity, in which case the deferred tax is adjusted directly against equity.

Deferred tax assets are recognised to the extent that it is probable that future tax profits will be available against which deductible temporary differences can be utilised.

The amount of benefits brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income tax legislation and the anticipation that the credit union will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

NOTE 6

Remuneration of Auditors

Remuneration of the auditor for:		
Auditing of the financial report	74,980	74,175
Other services		
- taxation services	5,410	5,355
- compliance	26,265	25,985
	106,655	105,515

	2019	2018
	$'000	$'000

NOTE 7

Related Party Transactions

(a) Key management personnel

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

KMP has been taken to comprise the Directors and the six executive and senior management responsible for the day-to-day financial and operational management of the credit union.

The names of the Directors of the credit union who have held office during the financial year are:

- Katrina Luckie
- Graham Olrich
- Nicolas Harrison
- Julie Osborne (Appointed 28/5/19)
- John Shanahan
- David Bergmark
- Paul Spotswood

(b) Remuneration of key management personnel

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

	2019 $'000	2018 $'000
Short-term employee benefits	1,713	1,537
Post-employment benefits	146	122
Other long-term benefits	288	258
	2,147	1,917

Remuneration shown as short-term benefits means (where applicable) wages, salaries, paid annual leave and paid sick leave, short-term performance incentives, value of fringe benefits received, but excludes out of pocket expense reimbursements.

(c) Related parties

The other related parties include close family members of KMP and entities that are controlled or jointly controlled by those KMP, individually or collectively with their close family members.

(d) Loans to key management personnel and other related parties

The credit union's policy for lending to Directors is that all loans are approved and deposits accepted on the same terms and conditions that applied to customers for each class of loan or deposit. KMP who are not Directors receive a concessional rate of interest on their loans and facilities. These benefits, where subject to Fringe Benefits Tax, are included in the remuneration in Note 7(b) above.

There are no loans that are impaired in relation to the loan balances with KMP or with their close family relatives.

There are no benefits or concessional terms and conditions applicable to the close family members of the KMP.

	2019	2018
	$'000	$'000
The aggregate value of loans to KMP and other related parties as at balance date amounted to	1,791	2,728
The total value of revolving credit facilities to KMP and other related parties as at balance date amounted to	964	1,366
Less amounts drawn down and included above	(160)	(177)
Net balance available	804	1,189
During the year the aggregate value of loans and revolving credit facilities approved and/or disbursed to KMP and other related parties amounted to	947	1,347
Interest and other revenue earned on loans and revolving credit facilities to KMP and other related parties amounted to	93	100

(e) Other transactions with key management personnel and other related parties

KMP and other related parties have received interest on deposits with the credit union during the financial year. Interest has been paid on terms and conditions no more favourable than those available on similar transactions to customers of the credit union.

Total value of term and savings deposits from KMP and other related parties	1,122	501
Total interest paid on deposits to KMP and other related parties	8	10

The credit union's policy for receiving deposits from other related parties and in respect of other related party transactions, is that all transactions are approved and deposits accepted on the same terms and conditions that apply to customers for each type of deposit.

There are existing service contracts where KMP or their close family members are an interested party. These contracts see services being provided at arm's length on the same terms and conditions as other contracted services to the credit union. The total value of services provided by associated entities of KMP (Protecht Group) is $122k (2018: $97k). The total value of services provided for membership, settlement and system services through COBA and ASL was $635k (2018: $631k).

NOTE 8

Cash and Cash Equivalents

Cash on hand	1,335	1,368
Deposits at call	22,222	15,923
	23,557	17,291

Recognition and Measurement

Cash and cash equivalents include cash on hand and unrestricted short term highly liquid balances held in Authorised Deposit-taking Institutions (ADIs) with maturity less than three months or at call. They are carried at amortised cost which is equal to fair value in the statement of financial position.

The effective interest rate on short-term bank deposits was 2.42% (2018: 2.85%).

	2019	2018
	$'000	$'000

NOTE 9
Trade and Other Receivables

Accrued interest	559	453
Other receivables	28	44
Sundry debtors	7,431	4,625
	8,018	5,122

Trade and other receivables are based on their carrying amount net of the specific provision for impairment.

NOTE 10
Other Assets

Prepayments	1,191	579

NOTE 11
Financial Assets at Amortised Cost

Deposits with ADIs	100,695	91,768

Recognition and Measurement

ACCOUNTING POLICY APPLICABLE AFTER 1 JULY 2018

FINANCIAL ASSETS AT AMORTISED COST

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 credit union's cash and cash equivalents, and trade receivables fall into this category of financial instruments as well as deposits with ADIs that were previously classified as held to maturity under AASB 139.

ACCOUNTING POLICY APPLICABLE PRIOR TO 1 JULY 2018

HELD TO MATURITY INVESTMENTS

HTM investments are non-derivative financial assets with fixed or determinable payments and fixed maturity other than loans and receivables. Investments are classified as HTM if the credit union has the intention and ability to hold them until maturity. The credit union currently holds Term Deposits, Negotiable Certificates of Deposit (NCD), Floating Rate Notes, and Fixed Rate Notes in this category. If more than an insignificant portion of these assets are sold or redeemed early then the asset class will be reclassified as available-for-sale financial assets.

IMPAIRMENT OF FINANCIAL ASSETS

HTM investments are measured subsequently at amortised cost using the effective interest method. If there is objective evidence that the investment is impaired, determined by reference to external credit ratings, the financial asset is measured at the present value of estimated future cash flows. Any changes to the carrying amount of the investment, including impairment losses, are recognised in profit or loss. The effective interest rate on financial assets held to maturity was 2.86% (2018: 2.72%); these deposits have an average maturity of 180 days.

	2019	2018
	$'000	$'000

NOTE 12

Loans and Advances

Term loans	593,438	553,363
Overdrafts and revolving credit	10,908	10,138
Gross loans and advances	604,346	563,501
Less: Unamortised loan origination fees	(251)	(41)
	604,095	563,460
Less: Provision for impaired loans	(781)	(131)
Net loans and advances	603,314	563,329

Recognition and Measurement

ACCOUNTING POLICY APPLICABLE AFTER 1 JULY 2018

Loans and advances captions in the statement of financial position include:

- loans and advances measured at amortised cost; they are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method;
- Loans and advances were non-derivative financial assets with fixed or determinable payments that were not quoted in an active market and that the credit union did not intend to sell immediately or in the near term.

Loans and advances were initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method.

ACCOUNTING POLICY APPLICABLE PRIOR TO 1 JULY 2018

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

Loans to customers are reported at their recoverable amount representing the aggregate amount of principal and unpaid interest owing to the credit union at the reporting date, less any allowance or provision against impairment for debts considered doubtful. A loan is classified as impaired where recovery of the debt is considered unlikely as determined by the Board of Directors.

All loan transaction costs that are direct and incremental to the establishment of the loan are deferred and amortised as a component of the calculation of the effective interest rate. Loan transaction costs are brought to account as a reduction of interest income over the expected life of the loan.

(a) Credit quality – Security held against loans

Secured by mortgage over real estate	593,688	552,209
Partly secured by goods mortgage	4,333	4,685
Cash secured	1,191	1,428
Unsecured	5,134	5,179
Gross loans and advances	604,346	563,501

	2019	2019
	$'000	$'000

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

Security held as mortgage against real estate is on the basis of:		
- Loan to valuation ratio of less than or equal to 80%	522,723	487,571
- Loan to valuation ratio of more than 80% but mortgage insured	57,967	51,210
- Loan to valuation ratio of more than 80% and not mortgage insured	12,998	13,428
Total	593,688	552,209

(b) Concentration of loans

The values discussed below include on statement of financial position values and off statement of financial position undrawn facilities as described in Note 23.

There are no loans to individual or related groups of customers which exceed 10% of reserves in aggregate.

(i) Geographical concentrations

2019	Housing	Personal	Business	Total
NSW – Northern Rivers	495,450	15,628	42,283	553,361
NSW – Other regions	49,383	755	613	50,751
Other states, territories & jurisdictions	63,516	1,996	1,917	67,429
Total	608,349	18,379	44,813	671,541

2018	Housing	Personal	Business	Total
NSW – Northern Rivers	466,819	16,304	40,315	523,438
NSW – Other regions	37,661	783	624	39,068
Other states, territories & jurisdictions	63,278	2,156	1,862	67,296
Total	567,758	19,243	42,801	629,802

	2019	2019
	$'000	$'000
(ii) Concentration of loans by purpose		
Loans to customers (natural persons and corporate borrowers)		
- Residential loans and facilities	608,349	567,758
- Personal loans and facilities	18,379	19,243
- Business loans and facilities	44,813	42,801
Total	671,541	629,802

(c) Provision on impaired loans

(i) Amounts arising from ECL

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

2019	**Gross Carrying Value**	**ECL Allowance**	**Carrying Value**
Loans to customers			
- Residential loans and facilities	608,349	(219)	608,130
- Personal loans and facilities	18,379	(89)	18,290
- Business loans and facilities	44,813	(473)	44,340
Total	671,541	(781)	670,760

2018	**Gross Carrying Value**	**Provision for Impairment**	**Carrying Value**
Loans to customers			
- Residential loans and facilities	567,758	-	567,758
- Personal loans and facilities	19,243	(94)	19,149
- Business loans and facilities	42,801	(37)	42,764
Total	629,802	(131)	629,671

An analysis of the credit union's credit risk exposure per class of financial asset and "stage" without reflecting the effects of any collateral or other credit enhancements is demonstrated in the following tables. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts.

	Stage 1 12 month ECL 2019	**Stage 2 Lifetime ECL 2019**	**Stage 3 Lifetime ECL 2019**	**Total 2019**	**Total 2018**
Loans to customers					
- Residential loans and facilities	596,284	10,362	1,703	608,349	567,758
- Personal loans and facilities	18,225	76	78	18,379	19,243
- Business loans and facilities	43,554	1,259	-	44,813	42,801
	658,063	11,697	1,781	671,541	629,802
Loss allowance	(728)	(46)	(7)	(781)	(131)
Carrying amount	657,335	11,651	1,774	670,760	629,671

The reconciliations from the opening to the closing balance of the allowance for impairment by class of financial instrument is shown in the table below.

	Stage 1 12 month ECL 2019	Stage 2 Lifetime ECL 2019	Stage 3 Lifetime ECL 2019	Total 2019	Total 2018
Loans to customers					
Balance at 1 July per AASB 139				131	122
Adjustment on initial application of AASB 9				649	
Balance at 1 July per AASB 9	658	14	108	780	
Changes in the loss allowance - net movement due to change in credit risk					
- Transfer to stage 1					
- Transfer to stage 2		32	(80)	(48)	
- Transfer to stage 3		-	(21)	(21)	
Net movement due to change in credit risk	-	32	(101)	(69)	27
Net new and increased individual provisions	84	-	-	84	
Write offs	(14)	-	-	(14)	(18)
Balance at 30 June	728	46	7	781	131

	2019	2018
	$'000	$'000
Amounts processed directly to Profit and Loss:		
- Write off of overdrawn accounts (informal credit facilities) not within the ECL framework	(4)	(4)
- Recoveries of amounts previously written off	34	14
Profit increase / (decrease)	30	10

(ii) Impaired financial assets – Comparative information under AASB 139

The following table shows an analysis of loans that are impaired or potentially impaired by class. In the note below:

- Carrying value is the amount of the statement of financial position
- Impaired loans value is the 'on statement of financial position' loan balances which are past due by 90 days or more
- Provision for impairment is the amount of the impairment provision allocated to the class of impaired loans

	Carrying value 2018	Value of Impaired Loans 2018	Provision for Impairmen t 2018
Loans to customers (natural persons and corporate borrowers)			
- Residential loans and facilities	517,339	-	-
- Personal loans and facilities, including credit cards	11,975	116	94
- Business loans and facilities	34,186	843	37
Total	563,501	959	131

The following table show loans with repayments past due but not regarded as impaired.

There are loans with a value of $4,261k past due which are not considered to be impaired as the value of related security over residential property is in excess of the loan due. It is not practicable to determine the fair value of all collateral as at the reporting date due to the variety of assets and condition.

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

2018	1-3 Months	3-6 Months	6-12 Months	1 Year or more	Total
- Residential loans and facilities	2,313	1,225	493	207	4,238
- Personal loans and facilities, including credit cards	23	-	-	-	23
- Business loans and facilities	-	-	-	-	-
Total	2,336	1,225	493	207	4,261

Key assumptions in determining the provision for impairment (days in arrears) is outlined below:

	Overdrafts	Unsecured loans	Secured loans
Period of impairment	% of balance	% of balance	% of balance
14 days to 89 days	40	-	-
90 days to 181 days	75	40	5
182 days to 272 days	100	60	10
273 days to 364 days	100	80	15
365 days or more	100	100	20

	2019	2018
	$'000	$'000
(d) General reserve for credit losses		
This reserve records an amount maintained to comply with the standards set down by the Australian Prudential Regulation Authority (APRA).		
Balance at beginning of the financial year	2,129	2,008
Add: increase (decrease) transferred from retained earnings	(282)	121
Balance at end of the financial year	1,847	2,129

Recognition and Measurement

ACCOUNTING POLICY APPLICABLE AFTER 1 JULY 2018

MEASUREMENT OF ECL

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

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

The credit union has elected to use the following segments when assessing credit risk for Stages 1 and 2 of the impairment model:

- Residential owner-occupied mortgages, including owner-occupied overdrafts;
- Residential investment mortgages, including investment overdrafts;
- Commercial loans, including commercial overdrafts; and
- Personal loans, including credit cards and personal overdraft facilities.

The approach to determining the ECL includes forward-looking information. The credit union has performed historical analysis and identified the key economic variables impacting credit risk and expected credit losses for each portfolio segment. Consideration has also been given to the level of undue cost and effort involved in utilising complex statistical models, which is not considered appropriate for the size and complexity of the portfolio.

The credit union incorporates forward-looking information into its ECL methodology. Considerations include the impact of future changes in unemployment rates, property prices, regulatory change and external market risk factors. Based on advice from the credit union's Risk Committee and consideration of a variety of external actual and forecast information, the credit union formulates a 'outlook' view of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios. The external information used includes economic data and forecasts published by the Reserve Bank of Australia, APRA and other bodies.

The credit union considers the ECL to represent its best estimate of the possible outcomes and is aligned with information used by the credit union for other purposes such as strategic planning and budgeting.

Significant increase in credit risk

The credit union is not required to develop an extensive list of factors in defining a 'significant increase in credit risk'. In assessing significant increases in credit risk where a loan or group of loans must move to Stage 2 the following factors have been considered in the credit union's current model:

- Loans 30 days or more past due;
- Loans with more than 2 instances of arrears 30 days or more in the previous 12 months; and
- Loans with approved hardship or modified terms.

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the credit union considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the credit union's historical experience and expert judgement, relevant external factors and including forward-looking information.

General Reserve for credit Losses

In addition to the provision for impairment, a general reserve for credit losses is maintained to cover risks inherent in the loan portfolio. Movements in the general reserve for credit losses are recognised as an appropriation of retained earnings.

Restructured Loans

Restructured loans are loans which are subject to renegotiated repayment terms, generally in the process of extending hardship assistance to our customers. Arrears are not diminished and interest continues to accrue to income. Each restructured loan is retained at the full arrears position until the restructured repayment is maintained for 6 months. These loans can then be reinstated as a performing loan, subject to the loan being on the same risk terms as a new loan for its class.

Bad Debts

ACCOUNTING POLICY APPLICABLE AFTER 1 JULY 2018

Loans and debt securities are written off (either partially or in full) when there is no realistic prospect of recovery. On secured loans the write-off takes place on ultimate realisation of collateral value, or following claim on any mortgage insurance. This is generally the case when the credit union determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the credit union's procedures for recovery of amounts due

ACCOUNTING POLICY APPLICABLE PRIOR TO 1 JULY 2018

Bad debts are written off when collection of the loan or advance is considered to be remote. All write-offs are on a case-by-case basis, taking into account the exposure at the date of the write-off. On secured loans the write-off takes place on ultimate realisation of collateral value, or following claim on any lender's mortgage insurance.

Bad debts are written off against the provision for impairment where an impairment has previously been recognised in relation to a loan. If no provision for impairment has previously been recognised, write-offs for bad debts are recognised as expenses in the statement of comprehensive income.

In the course of the preparation of the annual report the credit union has determined the likely impairment loss on loans which have not maintained loan repayments in accordance with the loan contract, or where there is other evidence of potential impairment such as industrial restructuring, job losses or economic circumstances. In identifying the impairment likely from these events the credit union is required to estimate the potential impairment using the length of time the loan is in arrears and the historical losses arising in past years.

Given the relatively small number of impaired loans, the circumstances may vary for each loan over time resulting in higher or lower impairment losses. An estimate is based on the period of impairment.

	2019	2018
	$'000	$'000

NOTE 13
Derivatives

Liability

Interest rate swap contracts - cash flow hedge	282	64

Recognition and Measurement

The credit union transacts interest rate swaps to manage interest rate risk. These are recognised at fair value at the date of the contract and are reported at fair value at subsequent reporting dates. Resulting gains or loss are recognised in profit or loss immediately unless the swap is determined to be an effective hedging instrument. Where the hedge is effective, fair value losses and gains are recognised in other comprehensive income. Interest rate swaps are designated as hedges of highly probable forecast transactions (cash flow hedges).

Derivative instruments used by the credit union

The credit union enters into derivative transactions in the normal course of business to hedge exposure to fluctuations in interest rates in accordance with the credit union's interest rate risk management policies. The fair value of interest rate swaps is calculated as the present value of estimated future cash flows.

Interest rate swap contracts - cash flow hedges

The credit union's loans currently bear an average variable rate of interest of 4.20% (2018: 4.39%). It is the credit union's policy to hedge loans at fixed rates of interest by entering into interest rate swap contracts under which the credit union is obliged to receive interest at variable rates and to pay interest at fixed rates. Swaps currently in place are timed to expire as loan portfolio repayments fall due. Fixed interest rates range between 2.07% - 2.56% and variable rate ranges between 0.30% - 0.49% over to the 90 day bank bill swap rate which at balance date was 1.20% (2018: 2.11%).

The notional principal amounts and periods of expiry of the interest rate swap contracts are as follows:

Within 1 year	2,000	5,000
1-2 years	9,000	2,000
2-5 years	3,000	9,000
	14,000	16,000

The contracts require settlement of net interest receivable or payable each 90 days. Settlement dates coincide with the dates on which interest is payable on the underlying debt. The contracts are settled on a net basis. Below is a schedule indicating, at balance date, the periods when the hedged cash flows are expected to occur and when they are expected to affect profit or loss.

2019	Within 1 year	1-2 years	2-5 years
	$'000	$'000	$'000
Cash inflows	207	141	38
Cash outflows	(273)	(184)	(44)
Net cash flows	(66)	(43)	(6)

2018	Within 1 year	1-2 years	2-5 years
	$'000	$'000	$'000
Cash inflows	278	212	142
Cash outflows	(325)	(241)	(161)
Net cash flows	(47)	(29)	(19)

	2019	2018
	$'000	$'000

NOTE 14

Property, Plant and Equipment

LAND		
At fair value	420	315
BUILDINGS		
At fair value	3,901	3,708
LEASEHOLD IMPROVEMENTS		
At cost	1,501	1,419
Accumulated amortisation	(1,276)	(1,014)
	225	405
PLANT AND EQUIPMENT		
At cost	2,228	2,074
Accumulated depreciation	(1,619)	(1,457)
	609	617
Total Property, Plant and Equipment	5,155	5,045

Recognition and Measurement

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

PROPERTY

Freehold land and buildings are measured at their fair value, being the price that would be received to sell the asset in an orderly transaction between market participants at the measurement date, less subsequent depreciation. It is the policy of the credit union to have an independent valuation of land and buildings every three years in accordance with the requirements of AASB 116 Property, Plant & Equipment.

Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset.

A revaluation increment is credited to the asset revaluation surplus included within members equity unless it reverses a revaluation decrement on the same asset previously recognised in the statement of comprehensive income. A revaluation decrement is recognised in the statement of comprehensive income unless it directly offsets a previous revaluation increment on the same asset in the asset revaluation surplus. On disposal, any revaluation surplus relating to sold assets is transferred to retained earnings.

PLANT AND EQUIPMENT

Plant and equipment are measured at cost less depreciation and impairment losses.

The carrying amount of property, plant and equipment is reviewed annually by the Directors to ensure it is not in excess of the recoverable amount of these assets. The recoverable amount is assessed on the basis of expected net cash flows that will be received from the asset's employment and subsequent disposal. Any decrement in the carrying amount is recognised as an impairment expense in the statement of comprehensive income in the reporting period in which the impairment loss occurs. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

DEPRECIATION

The depreciable amount of all property, plant and equipment with the exception of freehold land, is depreciated over their useful lives to the credit union commencing from the time the asset is held ready for use. Leasehold improvements are amortised over the shorter of either the unexpired term of the lease or the estimated useful life of the improvements.

Property, plant and equipment is depreciated on a straight-line basis over the following periods.

	Years		Years
Buildings	40	Motor Vehicles	5
Computer Hardware	3-6	Leasehold Improvements	3
Office Furniture	3	Office Equipment	3

Assets under $500 are not capitalised and are expensed directly to the statement of comprehensive income. The asset's residual values and useful lives are reviewed, and adjusted if appropriate, at each balance date.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are included in the statement of comprehensive income.

MOVEMENTS IN CARRYING AMOUNTS

Reconciliations of the carrying amounts of each class of property, plant and equipment between the beginning and end of the current financial year are set out below.

2019	**Property**	**Plant & equipment**	**Leasehold improvements**	**Total**
	$'000	$'000	$'000	$'000
Balance at beginning of the financial year	4,023	617	405	5,045
Write back prior year depreciation	473	-	-	473
Net revaluation increment	245	-	-	245
Additions	145	388	89	622
Disposals	(167)	(76)	-	(243)
Depreciation expense	(190)	(320)	-	(510)
Amortisation expense	-	-	(269)	(269)
Change in use adjustment	(208)	-	-	(208)
Carrying amount at end of the financial year	4,321	609	225	5,155

2018	**Property**	**Plant & equipment**	**Leasehold improvements**	**Total**
	$'000	$'000	$'000	$'000
Balance at beginning of the financial year	4,213	610	558	5,381
Additions	-	410	177	587
Disposals	-	(18)	(6)	(24)
Depreciation expense	(190)	(385)	-	(575)
Amortisation expense	-	-	(324)	(324)
Carrying amount at end of the financial year	4,023	617	405	5,045

	2019	2018
	$'000	$'000
If land and buildings were stated at historical cost, amounts would be as follows:		
Cost	8,043	7,923
Accumulated depreciation	(4,179)	(3,980)
Net book value	3,864	3,943

Historical cost stated for land and buildings includes both owner-occupied and investment property.

NOTE 15
Investment Property

Investment property includes real estate properties in Australia, which are owned to earn rentals and capital appreciation. The fair values of investment properties were estimated using observable data on recent transactions and rental yields for similar properties. Changes to the carrying amounts are as follows:

	2019	2018
Balance at beginning of the financial year	4,547	4,547
Net gain / (loss) from fair value adjustments	174	-
Change in use adjustment	208	-
Carrying amount at end of the financial year	4,929	4,547

Recognition and Measurement

Investment property, comprising freehold office complexes, is held to generate long-term rental yields. All tenant leases are on an arm's length basis. Investment property is carried at fair value, determined as stated below, and adjusted to reflect the current market value of the property in accordance with the requirements of AASB 140 Investment Property. Changes in fair value of investment property are reflected in the statement of comprehensive income for the year.

Rental income and operating expenses from investment property are reported within revenue and other expenses respectively, and are recognised as described in Notes 3 and 4.

FAIR VALUE OF INVESTMENT PROPERTY

The credit union determines the fair value from:

- External valuations conducted by registered valuers; and
- Directors' valuations.

The fair value of the investment property located at 101 Molesworth Street Lismore and 256 Molesworth Street Lismore was independently valued by Mr Jeremy Rutledge AAPI, as at 30 June 2019. This valuation was conducted on the basis of market value and was performed through a review of sale and rental values of comparable properties within close proximity. The Directors have used the information contained within this report, in addition to other market data in order to assess the fair value as at 30 June 2019.

Investment properties are leased out on operating leases. Rental income amounts to $457,941 (2018: $446,420) and is included within revenue. Direct operating expenses not recovered as outgoings from the tenants of the relevant property were reported within other expenses.

Uncertainty around property valuations

Fair value of investment property is the price at which the property could be exchanged between knowledgeable, willing parties in an arm's length transaction. A 'willing seller' is not a forced seller prepared to sell at any price. The best evidence of fair value is given by current prices in an active market for similar property in the same location and condition.

The fair value of investment property has been adjusted to reflect market conditions at the end of the reporting period as disclosed. While this represents the best estimate of fair value as at the reporting date, the current market uncertainty means that if investment property is sold in future the price achieved may be higher or lower than the most recent valuation, or higher or lower than the fair value recorded in the financial statements.

	2019	**2018**
	$'000	$'000

NOTE 16

Intangible Assets

Computer software		
At cost	3,012	2,735
Accumulated amortisation	(2,700)	(2,507)
	312	228
Other Intangible Assets		
At cost	294	294
Accumulated amortisation	(212)	(186)
	82	108
Total Intangible Assets	394	336

Movements in carrying amounts

Reconciliations of the carrying amounts of each class of intangible asset between the beginning and end of the current financial year are set out below.

	Computer Software	**Other Intangible Assets**	**Total**
	$'000	$'000	$'000
Balance at the beginning of the financial year	228	108	336
Additions	277	-	277
Disposals	-	-	-
Amortisation expense	(193)	(26)	(219)
Carrying amount at the end of the financial year	312	82	394

Recognition and Measurement

Computer Software

Items of computer software which are not integral to the computer hardware owned by the credit union are classified as intangible assets. Computer software is amortised on a straight line basis over the expected useful life of the software, typically linked to software contracts. These lives range from 3-5 years.

Other Intangible Assets

Other intangible assets include product development costs and other product establishment costs. Other intangible assets that are deemed to have a definite life are amortised over 3-5 years.

	2019	2018
	$'000	$'000

NOTE 17

Deposits

At call deposits (including withdrawable shares)	360,985	359,322
Term deposits	269,351	225,190
Wholesale deposits	23,500	14,352
	653,836	598,864

Recognition and Measurement

Deposits are measured at the aggregated amount of money owing to depositors. Interest on deposits is brought to account on an accrual basis. Interest accrued at balance date is shown as a part of payables.

CONCENTRATION OF DEPOSITS

There is no concentration of deposits in excess of 10% of total liabilities.

NOTE 18

Trade and Other Payables

Accrued interest payable on deposits and borrowings	2,602	2,002
Sundry creditors and accrued expenses	1,676	926
Employee benefits - annual leave	603	575
Trade creditors	440	129
Clearing accounts	12,356	7,531
	17,677	11,163

This includes interest payable and unrealised expenses payable for which the carrying amount is considered to be a reasonable estimate of net fair value.

Recognition and Measurement

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

SHORT-TERM OBLIGATIONS

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave expected to be wholly settled within 12 months after the end of the period in which the employees render the related service are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. Short-term employee benefit obligations are presented as payables.

	2019	2018
	$'000	$'000

NOTE 19

Provisions

Employee benefits - long service leave	923	931
Analysis of liability		
Expected to be settled within 12 months	129	95
Expected to be settled after 12 months	794	836
	923	931

Recognition and Measurement

Other long-term employee benefit obligations

The liability for long service leave which is not expected to be wholly settled within 12 months after the end of the period in which the employees render the related service, 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 end of the reporting period. 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 end of the reporting period on corporate bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

NOTE 20

Borrowings

Borrowings	13,000	18,000
Subordinated debt	260	310
	13,260	18,310

Recognition and Measurement

Borrowings and subordinated debt are initially measured at fair value plus transaction costs, and subsequently measured at their amortised cost using the effective interest method, except where the credit union chooses to carry the liabilities at fair value through profit or loss. The credit union has a wholesale borrowing option available up to $40 million should it be required to borrow to maintain sufficient liquidity levels.

The subordinated debt instruments held were issued on the following terms and conditions:

- Issued in AUD
- Unsecured debt instruments
- Interest is payable quarterly in arrears based on a margin above the 90 day BBSW
- 10 year term

NOTE 21

Redeemable Preference Share Capital Account

Under the Corporations Act 2001 member shares are classified as redeemable preference shares. The redemption of these shares is required under the Act to be made from profits.

The value of the shares that have been paid to members is in accordance with the terms and conditions of the share issue and the redemption account represents the amount of profits appropriated.

For values please refer to the statement of changes in member equity.

	2019	2018
	$'000	$'000

NOTE 22

Reserves

For values please refer to the statement of changes in member equity.

General reserve

The general reserve records funds set aside for future expansion of the credit union.

Capital profits reserve

The capital profits reserve records non-taxable profits on sale of investments.

Asset revaluation surplus

The asset revaluation surplus records revaluations of non-current assets net of income tax.

General reserve for credit losses

The reserve for credit losses records amounts maintained to comply with the APRA Prudential Standards.

Hedging reserve

The hedging reserve records movements in the fair value of effective cash flow hedges net of income tax.

NOTE 23

Commitments

Leases

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses in the periods in which they are incurred.

Lease incentives under operating leases are recognised as a liability and are amortised on a straight-line basis over the life of the lease term.

Lease income from operating leases is recognised in the statement of comprehensive income on a straight-line basis over the lease term. Initial direct costs incurred in negotiating operating leases are added to the carrying value of the leased asset and recognised as an expense over the lease term on a straight-line basis.

(a) Future capital commitments

At balance date the credit union has not entered into material contracts for the purchase of property, plant and equipment.

(b) Operating lease commitments

Non-cancellable operating leases contracted for but not capitalised in the financial statements, payable:

	2019	2018
Not longer than 1 year	397	541
Longer than 1 and not longer than 5 years	226	388
	623	929

	2019	2018
	$'000	$'000

The above amounts include $42k (2018: $63k) of GST which is expected to be recovered from the ATO.

Operating lease commitments relate to ATM leases which have original terms of five years and repayments payable monthly.

Property leases are non-cancellable leases with a two to five year term, with rent payable monthly in advance. An option exists to renew some of the leases at the end of the term for an additional term of two to five years.

(c) Outstanding loan commitments

	2019	2018
Loans and credit facilities approved with commitment to fund, but not funded at the end of the financial year:		
Loans approved but not funded	7,884	7,908
Loans and credit facilities with an undrawn portion at the end of the financial year:		
Loans amounts available but not yet drawn	2,851	4,019
Loan redraw facilities available	49,812	46,859
Undrawn overdraft and credit facilities	14,533	14,859
	67,196	65,737

(d) Operating leases receivable

Future minimum lease payments expected to be received in relation to non-cancellable sub-leases of operating leases:

	2019	2018
Not longer than 1 year	449	502
Longer than 1 and not longer than 5 years	233	673
	682	1,175

Property leases are non-cancellable leases with a three to five year term, with rent payable monthly in advance. An option exists to renew the leases at the end of the relevant term for an additional term up to five years.

NOTE 24

Contingent Liabilities

The credit union is party to CUFSS Limited. CUFSS is a voluntary emergency liquidity support scheme for Australian Mutual ADIs.

CUFSS is a credit union limited by guarantee, each participant's guarantee being $100.

As a party to the scheme, the credit union:

- may be required to advance funds of up to 3% (excluding permanent loans) of total assets to another Authorised Deposit-taking Institution (ADI) requiring financial support. There is a cap of $100 million (excluding permanent loans) on any requirement to advance funds to another ADI requiring financial support
- may be required to advance permanent loans of up to 0.2% of total assets per financial year to another ADI requiring financial support
- agrees, in conjunction with other participants, to fund the operating costs of CUFSS Limited.

The balance of the debt at 30 June 2019 was Nil (2018: Nil).

	2019	2018
	$'000	$'000

NOTE 25

Classes of Financial Assets and Liabilities

The following is a summary of the credit union's financial instruments by class.

(a) Financial assets - measured at amortised cost

	2019	2018
Cash and cash equivalents	23,557	17,291
Trade and other receivables	8,018	5,122
Loans and advances	603,314	563,329
Financial assets at amortised cost	100,695	91,768
Total	735,584	677,510

(b) Financial liabilities - measured at amortised cost

	2019	2018
Deposits	653,836	598,864
Trade and other payables (excluding employee benefits)	17,073	10,588
Borrowings	13,260	18,310
Total	684,169	627,762

(c) Financial assets - measured at fair value

	2019	2018
Financial assets at FVOCI	2	2

(d) Financial liabilities - measured at fair value

	2019	2018
Derivatives	282	65

Recognition and Measurement

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

Financial instruments are initially measured at fair value plus transaction costs except where the instrument is classified as at 'fair value through profit or loss' in which case transaction costs are expensed to profit or loss immediately.

Financial assets are de-recognised when the contractual rights to the cashflows from the asset expires or when all substantial risks and rewards are transferred. Financial liabilities are de-recognised when the contractual obligations are discharged or cancelled or when they expire.

For financial instruments traded in organised financial markets, fair value is the quoted market value for the asset. For investments where there is no quoted market value, a reasonable estimate of the fair value is determined by reference to the current market value of another instrument which is substantially the same.

NOTE 26

Risk Management

Risk management policy and objectives

The credit union's risk management focuses on the major areas of interest rate risk, credit risk, liquidity risk and operational risk. Risk management within the credit union is designed to mitigate and minimise any unplanned or negative impacts on capital levels. The Board of Directors outline their appetite for risk to enable the credit union to achieve its strategic goals through the Risk Appetite Statement (RAS). These risk tolerances are set in measurable terms setting a range that is acceptable to the Board for management to operate within. These risk indicators are known as the RAS KRIs and are reported to the Board and Board Risk Advisory Committee at each meeting for monitoring.

(a) Interest rate risk and hedging policy

Interest rate risk is the risk that changes in interest rates, foreign exchange rates or other prices and volatilities will have an adverse effect on the credit union's financial condition or results.

The credit union is not exposed to currency risk or other significant price risk and does not trade in the financial instruments it holds on its books. The credit union is only exposed to interest rate risk arising from changes in market interest rates in its banking book and manages this through various methods including the use of interest rate swaps.

Interest rate risk is the risk that a financial instrument's value will fluctuate as a result of changes in market interest rates. The credit union's exposure to interest rate risk is measured and monitored using the Value at Risk (VaR) methodology of estimating potential losses.

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

The credit union has a VaR limit to capital of 1.50%. The table below sets out the VaR position for the past two years.

	2019	2018
VaR after prepayments and hedges	$282,612	$140,368
VaR as % of capital	0.46%	0.24%

Repricing of financial assets and liabilities

The credit union's exposure to interest rate risk and the effective weighted average interest rate on classes of financial assets and financial liabilities is as follows:

	Floating Interest Rate $'000	Within 1 year $'000	1 to 5 years $'000	Over 5 years $'000	Non Interest Sensitive $'000	Total $'000	Weighted Average Effective Interest Rate
Repricing Period at 30 June 2019							
FINANCIAL ASSETS							
Cash and cash equivalents	22,222	-	-	-	1,335	23,557	2.12%
Trade and other receivables	-	-	-	-	8,018	8,018	
Financial assets at FVOCI	-	-	-	-	2	2	
Financial assets at amortised cost	-	80,325	20,370	-	-	100,695	2.86%
Loans and advances	458,928	43,373	101,013	-	-	603,314	4.23%
TOTAL FINANCIAL ASSETS	481,150	123,698	121,383	-	9,355	735,586	
FINANCIAL LIABILITIES							
Deposits	360,701	284,505	8,346	-	284	653,836	1.58%
Trade and other payables	-	-	-	-	17,073	17,073	
Derivatives	-	-	-	-	282	282	
Borrowings	-	13,260	-	-	-	13,260	5.90%
TOTAL FINANCIAL LIABILITIES	360,701	297,765	8,346	-	17,639	684,451	
OFF BALANCE SHEET ITEMS							
Interest rate swaps	-	14,000	-	-	-	14,000	2.37%
Undrawn loan commitments	74,627	-	-	-	-	74,627	
Repricing Period at 30 June 2018							
FINANCIAL ASSETS							
Cash and cash equivalents	15,923	-	-	-	1,368	17,291	2.41%
Trade and other receivables	-	-	-	-	5,122	5,122	
Financial assets available for sale	-	-	-	-	2	2	
Financial assets held to maturity	-	87,418	4,350	-	-	91,768	2.72%
Loans and advances	420,584	50,588	92,157	-	-	563,329	4.27%
TOTAL FINANCIAL ASSETS	436,507	138,006	96,507	-	6,492	677,512	
FINANCIAL LIABILITIES							
Deposits	359,024	213,678	11,513	-	297	584,512	1.52%
Trade and other payables	-	-	-	-	10,588	10,588	
Derivatives	-	-	-	-	64	64	
Borrowings	-	32,662	-	-	-	32,662	7.76%
TOTAL FINANCIAL LIABILITIES	359,024	246,340	11,513	-	10,949	627.826	
OFF BALANCE SHEET ITEMS							
Interest rate swaps	-	16,000	-	-	-	16,000	2.49%
Undrawn loan commitments	73,645	-	-	-	-	73,645	

(b) Credit risk

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

MAXIMUM CREDIT RISK EXPOSURE

The credit union's maximum credit risk exposure, without taking into account the value of any collateral or other security, in the event other parties fail to perform their obligations under financial instruments in relation to each class of recognised financial asset, is the carrying amount of those assets as indicated in the statement of financial position.

LOANS

In relation to loans, the maximum credit exposure is the value on the statement of financial position plus the undrawn facilities (loans approved not advanced, loan funds available but undrawn, redraw facilities, overdraft and credit card facilities). The credit union reduces the risk of losses from loans to customers by engaging responsible lending practices. This includes verifying a borrower's capacity to repay, reviewing financial position and performance, and making reasonable inquiries about the borrower's requirements and objectives. Loan security is generally taken to assist in the mitigation of credit risk.

The credit union maintains detailed policies relating to lending including: Loans Policy; Business Lending Policy; Credit Control; Large Exposures. Policy formation, credit control and lending compliance functions are segregated from loans origination to ensure credit quality.

CONCENTRATION RISK

The credit union minimises concentrations of credit risk in relation to loans by undertaking transactions with a large number of customers. Credit risk is managed in accordance with the Prudential Standards to reduce the credit union's exposure to potential failure of counterparties to meet their obligations under the contract or arrangement.

The geographical concentrations of credit risk on loans is set out in Note 12.

The credit union does not hold any loans to individual customers (including associated customers) with a value greater than 10% of capital.

LIQUID INVESTMENTS

The credit union uses the ratings of reputable rating agencies to assess the credit quality of all investment exposures, where applicable, using the credit quality assessment scale in APS 112 Capital Adequacy: Standardised Approach to Credit Risk. The credit quality assessment scale within this Prudential Standard has been complied with.

The table below sets out limits on maximum holdings per rating and counterparty.

Short term S & P Rating	**Maximum Holding** *(As a percentage of total liquidity portfolio)*	**Maximum per Counterparty** *(As a percentage of total eligible capital)*
A-1+	100%	25-30% *
A-1	100%	25%
A-2	80%	25%
A-3	15%	15%
Unrated	10%	10%
Unrated – Settlement accounts	15%	30%

*Selected counterparties within the A-1+ rating group have a 30% limit.

The exposure values associated with each credit quality class for the credit union's investments are as follows:

Actual Rating	2019 Balance $'000	2019 Balance %	2018 Balance $'000	2018 Balance %
A-1+	50,530	41	45,082	42
A-1	11,878	10	18,106	17
A-2	35,668	29	22,927	21
A-3	2,977	2	2,992	3
Unrated	7,000	6	7,000	6
Unrated – Settlement accounts	14,863	12	11,585	11
Total	122,916	100	107,692	100

(c) Liquidity risk

Liquidity risk is the risk that the credit union may encounter difficulties raising funds to meet commitments associated with financial instruments e.g. loan funding or customer withdrawal demands. It is the policy of the Board of Directors that the credit union maintains adequate cash reserves and access to wholesale funding options so as to meet the customer withdrawal demands when requested.

The credit union manages liquidity risk by:

- Continuously monitoring actual and daily cash flows and longer term forecasted cash flows
- Monitoring the maturity profile of financial assets and liabilities
- Maintaining adequate cash reserves and liquidity support facilities
- Monitoring the prudential liquidity ratio daily

The credit union is required to maintain at least 9% of total adjusted liabilities as liquid assets capable of being converted to cash within 48 hours under APS 210 Liquidity. The credit union's policy is to apply 13% as liquid assets to maintain adequate funds for meeting customer withdrawals. Should the liquidity ratio fall below this level then management and the Board are to address the matter and ensure that liquid funds are obtained from new deposits and the available borrowing facilities.

The ratio of liquid funds is set out below:

	2019	2018
Liquid funds to total adjusted liabilities:		
- As at 30 June	15.00%	14.36%
- Average for the year	14.81%	16.08%
- Minimum during the year	13.91%	13.95%
Liquid funds to total deposits:		
- As at 30 June	17.89%	15.50%

Monetary assets and liabilities have differing maturity profiles depending on the contractual term and in the case of loans the repayment amount and frequency. The associated table below shows the period in which different monetary assets and liabilities held will mature and be eligible for renegotiation or withdrawal. In the case of loans, the table shows the period over which the principal outstanding will be repaid based on the remaining period to the repayment date assuming contractual repayments are maintained. For term loans the dissection is based upon contractual conditions of each loan being strictly complied with and is subject to change in the event that current repayment conditions are varied.

Maturity profile of financial assets and liabilities

This table reflects the undiscounted contractual settlement terms for financial instruments of a fixed period of maturity as well as management's expectations of the settlement periods for all other financial instruments. As such the amounts disclosed may not reconcile to the statement of financial position.

	Within 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	No Maturity	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
2019							
FINANCIAL ASSETS							
Cash and cash equivalents	22,222	-	-	-	-	1,335	23,557
Trade and other receivables	8,018	-	-	-	-	-	8,018
Financial assets at FVOCI	-	-	-	-	-	2	2
Financial assets at amortised cost	6,990	10,955	27,880	54,870	-	-	100,695
Loans and advances	3,807	6,907	22,042	70,972	489,726	9,860	603,314
TOTAL FINANCIAL ASSETS	41,037	17,862	49,922	125,842	489,726	11,197	735,586
FINANCIAL LIABILITIES							
Deposits	37,304	88,334	164,335	8,828	-	360,985	659,786
Trade and other payables	17,073	-	-	-	-	-	17,073
Borrowings	5,012	2,007	6,484	-	-	-	13,503
Derivatives	-	-	20	262	-	-	282
	59,389	90,341	170,839	9,090	-	360,985	690,644
Undrawn loan commitments	74,627	-	-	-	-	-	74,627
TOTAL FINANCIAL LIABILITIES	134,016	90,341	170,839	9,090	-	360,985	765,271
2018							
FINANCIAL ASSETS							
Cash and cash equivalents	15,923	-	-	-	-	1,368	17,291
Trade and other receivables	5,122	-	-	-	-	-	5,122
Financial assets available for sale	-	-	-	-	-	2	2
Financial assets held to maturity	7,467	7,971	22,480	53,850	-	-	91,768
Loans and advances	4,367	7,008	23,309	64,024	454,726	9,895	563,329
TOTAL FINANCIAL ASSETS	32,879	14,979	45,789	117,874	454,726	11,265	677,512
FINANCIAL LIABILITIES							
Deposits	27,742	90,256	99,006	12,333	-	373,673	603,010
Trade and other payables	10,588	-	-	-	-	-	10,588
Borrowings	9,038	10,566	13,195	316	-	-	33,115
Derivatives	-	5	10	49	-	-	64
	47,368	100,827	112,211	12,698	-	373,673	646,777
Undrawn loan commitments	73,645	-	-	-	-	-	73,645
TOTAL FINANCIAL LIABILITIES	121,013	100,827	112,211	12,698	-	373,673	720,422

(d) Operational risk

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

The credit union's objective is to manage operational risk so as to balance the avoidance of financial losses through the implementation of controls, whilst avoiding procedures which inhibit innovation and creativity. These risks are managed through the implementation of policies and systems to monitor the likelihood of the events and minimise the impact.

(e) Capital management

Under the APRA Prudential Standards capital is determined in three components being Credit Risk, Interest Rate Risk (trading book) and Operational Risk.

The credit union is required to maintain a minimum regulatory capital level of 8% as compared to the risk weighted assets at any given time. The level of the capital ratio can be affected by growth in assets relative to growth in reserves and by changes in the mix of assets.

The interest rate risk component is not required as the credit union is not engaged in a trading book for financial instruments.

To manage the credit union's capital, the credit union reviews the capital ratio monthly and monitors major movements in asset levels. Policies have been implemented which require reporting to the Board and APRA if the capital ratio falls below 13%. Further, a 3 year forward projection of the capital levels is maintained to address how strategic decisions or trends may impact on the capital level, as part of the annual Internal Capital Adequacy Assessment Process (ICAAP).

The capital required for any change in the credit union's forecasts for asset growth, or unforeseen circumstances, is assessed by the Board using capital forecasting models to assess the impact upon the overall capital position of the credit union.

The credit union's regulatory capital comprises two tiers:

TIER 1 CAPITAL

Tier 1 Capital consists of:

1. Common Equity Tier 1 Capital (CET1) - which comprises the highest quality components that satisfy the following characteristics:
   - Provide a permanent and unrestricted commitment of funds
   - Are freely available to absorb losses
   - Do not impose any unavoidable servicing charge against earnings
   - Rank behind the claims of depositors and other creditors in the event of winding-up the issuer

   It typically consists of retained earnings, accumulated income, other disclosed reserves and revaluation reserves.
2. Additional Tier 1 Capital - the only difference to CET1 is that these instruments provide for fully discretionary capital distributions and rank behind claims of depositors and more senior creditors.

TIER 2 CAPITAL

Tier 2 Capital includes other components of capital that fall short of the quality of Tier 1 capital but still contribute to the overall strength of an ADI and its capacity to absorb losses, such as subordinated debt and reserve for credit losses.

The capital structure as at the end of the financial year, for the past two years is as follows:

Capital structure	2019	2018
	$'000	$'000
Net Tier 1 Capital	59,089	56,363
Net Tier 2 Capital	2,527	2,128
Total Capital Base	61,616	58,492
Total Risk Weighted Assets	374,140	347,544
Total Capital Ratio	16.47%	16.83%
Tier 1 Capital Ratio	15.79%	16.22%

NOTE 27

Valuation of Financial Instruments

Fair value of assets and liabilities

The credit union measures some of its assets and liabilities at fair value on either a recurring or non-recurring basis, depending on the requirements of the applicable Accounting Standard.

Fair value is the price the credit union would receive to sell an asset or would have to pay to transfer a liability in an orderly (i.e. unforced) transaction between independent, knowledgeable and willing market participants at the measurement date.

As fair value is a market-based measure, the closest equivalent observable market pricing information is used to determine fair value. Adjustments to market values may be made having regard to the characteristics of the specific asset or liability. The fair values of assets or liabilities that are not traded in an active market are determined using one or more valuation techniques. These valuation techniques maximise, to the extent possible, the use of observable market data.

To the extent possible, market information is extracted from either the principal market for the asset or liability (i.e. the market with the greatest volume and level of activity for the asset or liability) or, in the absence of such a market, the most advantageous market available to the entity at the end of the reporting period (i.e. the market that maximises the receipts from the sale of the asset or minimises the payments made to transfer the liability, after taking into account transaction costs and transport costs).

For non-financial assets, the fair value measurement also takes into account a market participant's ability to use the asset in the highest and best use or to sell it to another market participant that would use the asset in its highest and best use.

The fair value of liabilities may be valued, where there is no observable market price in relation to the transfer of such financial instrument, by reference to observable market information where such instruments are held as assets. Where this information is not available, other valuation techniques are adopted and, where significant, are detailed in the respective note to the financial statements.

Assets and liabilities measured at fair value are classified, into three levels, using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. Classifications are reviewed each reporting date and transfers between levels are determined based on a reassessment of the lowest level input that is significant to the fair value measurement.

FAIR VALUE ESTIMATE FOR FINANCIAL ASSETS AND LIABILITIES

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

	2019		2018	
	Carrying value	**Net fair value**	**Carrying value**	**Net fair value**
	$'000	$'000	$'000	$'000
ASSETS				
Cash and cash equivalents	23,557	23,557	17,291	17,291
Trade and other receivables	8,018	8,018	5,122	5,122
Financial assets at FVOCI	2	2	2	2
Financial assets at amortised cost	100,695	100,695	91,768	91,768
Loans and advances	603,314	604,643	563,329	563,131
LIABILITIES				
Deposits	653,836	655,715	598,864	585,430
Trade and other payables	17,677	17,677	11,163	11,163
Borrowings	13,260	13,260	18,310	18,310
Derivatives	282	282	65	65

FAIR VALUE HIERARCHY

The credit union measures fair values of assets and liabilities carried at fair value in the financial report using the following hierarchy that reflects the significance of the inputs used in making the measurements:

Level 1: Quoted market price (unadjusted) in an active market for an identical asset or liability.

Level 2: Valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes assets or liabilities valued using:

- Quoted market prices in active markets for similar assets or liabilities
- Quoted prices for identical or similar assets or liabilities in markets that are considered less than active
- Other valuation techniques where all significant inputs are directly or indirectly observable from market data

Level 3: Valuation techniques using significant unobservable inputs. This category includes all assets and liabilities where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the asset's or liability's valuation. This category includes assets and liabilities that are valued based on quoted prices for similar assets or liabilities where significant unobservable adjustments or assumptions are required to reflect differences between them.

Fair values for financial instruments or non-financial assets or liabilities traded in active markets are based on quoted market prices at reporting date. The quoted market price for financial assets is the current bid price. The fair value of financial instruments that are not traded in an active market are determined using valuation techniques. To the extent possible assumptions used are based on observable market prices and rates at the end of the reporting date.

The table below categorises financial instruments and non-financial assets, measured and recognised at fair value at the reporting date by the level of the fair value hierarchy into which the fair value measurement is categorised.

	Level 1	Level 2	Level 3	Total
	$'000	$'000	$'000	$'000
2019				
Recurring fair value measurements				
Land and Buildings	-	4,321	-	4,321
Investment properties	-	4,929	-	4,929
Derivatives	-	282	-	282
2018				
Recurring fair value measurements				
Land and Buildings	-	4,023	-	4,023
Investment properties	-	4,547	-	4,547
Derivatives	-	64	-	64

There have been no significant transfers into or out of each level during the year ended 30 June 2019 or the prior year.

Disclosed fair values

The credit union has a number of assets and liabilities which are not measured at fair value, but for which fair values are disclosed in the notes.

Cash and cash equivalents as well as receivables from other financial institutions are short-term liquid assets which approximate fair value.

The carrying value less impairment provision of receivables and payables is a reasonable approximation of their fair values due to their short-term nature. The fair value of fixed interest loans and advances for disclosure purposes is estimated by discounting the future contractual cash flows as the current market interest rate on similar loans offered in the market place. The carrying amount of variable interest loans and advances approximate their fair value.

The fair value of financial liabilities such as deposits for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the credit union for similar financial instruments.

Valuation Techniques Used to Derive Level 2 FAIR Values Recognised in the Financial Statements

Land & buildings and investment properties

Land and buildings are fair valued on an annual basis and independently valued every three years. At the end of each reporting period the credit union reassesses whether there has been any material movement to the fair value of land and buildings to determine whether the carrying amount in the financial statements requires adjustment. The credit union determines each property's value within a range of reasonable fair value estimates.

The best evidence of fair value in current prices is an active market for similar properties. Where such information is not available the credit union considers information from a variety of sources, including:

- Current prices in an active market for properties of different nature or recent prices of similar properties in less active markets, adjusted to reflect those differences
- Discounted cash flow projections based on rental yields

Due to the nature of the credit union's property it is considered to have only level 2 valuation inputs.

NOTE 28

Economic dependency

The credit union has an economic dependency on the following suppliers of service:

(a) First Data Corporation

This credit union processes direct entry transactions and also operates the electronic switching network used to link customer card transactions on ATMs and other approved POS devices with merchants, and to the credit union's core banking system. First Data Corporation as of the 29th July 2019 is now part of Fiserv.

(b) Data Action Pty Ltd

This credit union provides and maintains the banking application software for the credit union (i.e. core banking system).

(c) Australian Settlements Ltd

This entity provides settlement services for BPAY, card transactions, direct entry, chequing and RTGS (high value irrevocable transactions).

NOTE 29

Events occurring after the reporting period

No matters or circumstances have arisen since the end of the financial year that significantly affected or may significantly affect the operations of the credit union, the results of those operations, or the state of affairs in subsequent financial years.

	2019	2018
	$'000	$'000

NOTE 30

Statement of Cash Flows

(a) Reconciliation of cash

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

	2019	2018
Cash and cash equivalents	23,557	17,291

(b) Cash flows presented on a net basis

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

- deposits into and withdrawals from savings, money market and other deposit accounts
- sales and purchases of maturing certificates of deposit
- short-term borrowings; and
- provision of loans and the repayment of such loans

(c) Reconciliation of cash flow from operations with profit after income tax

	2019	2018
Profit after income tax	3,222	3,097
Non-cash flows in profit after income tax:		
Net Profit / (Loss) on sale of assets	164	24
Revaluation of Land & Buildings	(245)	-
Revaluation of Investment Property	(174)	-
Depreciation and amortisation	999	1,183
Write back prior year depreciation	(473)	-
Provision for loan impairment	649	9
AASB adjustments to retained earnings	(841)	-
Changes in assets and liabilities:		
Increase/(Decrease) in provisions	(7)	16
Increase in interest payable	600	149
(Increase)/Decrease in interest receivable	(106)	132
Increase in income taxes payable	240	45
Increase in deferred tax assets	(205)	(13)
Decrease in deferred tax liability	81	(8)
(Increase)/Decrease in other assets	(612)	62
Increase in trade and other payables	5,978	2195
Increase in trade and other receivables	(2,500)	(1,854)
	6,770	5,037
Net movement in liquid investment balances	(8,926)	16,771
Net movement in loans	(40,845)	(40,001)
Net movement in deposits	54,972	20,932
Net cash provided by operating activities	11,971	2,739

NOTE 31

Credit union details

The registered office of the credit union and the principal place of business is:
Summerland Financial Services Limited
101 Molesworth Street Lismore NSW 2480

Declaration by Directors

The Directors of Summerland Financial Services Limited declare that:

In the opinion of the Directors:

1. (a) The financial statements and notes of the credit union are in accordance with the Corporations Act 2001, including:

   i) giving a true and fair view of the financial position of the credit union as at 30 June 2019 and of its performance for the year ended on that date, and

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

   (b) There are reasonable grounds to believe that the credit union will be able to pay its debts as and when they become due and payable.

2. The notes to the financial statements include a statement of compliance with International Financial Reporting Standards.

This declaration is made in accordance with a resolution of the Board of Directors.

Katrina Luckie	***John Shanahan***
Chair	*Chair Audit Committee*

Lismore 25 September 2019

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Independent Auditor's Report

To the Members of Summerland Financial Services Limited

Report on the audit of the financial report

Opinion

We have audited the financial report of Summerland Financial Services 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, statement of changes in equity and 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 performance for the year ended on that date; 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 *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.

Information other than the financial report and auditor's report thereon

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

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

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

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

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*. The Directors' responsibility also includes such internal control as the Directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial report

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

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

Grant Thornton

Grant Thornton Audit Pty Ltd
Chartered Accountants

Claire Scott

Claire Scott
Partner – Audit & Assurance

Sydney, 25 September 2019

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Summerland Credit Union - a Division of
Summerland Financial Services Limited
ABN 23 087 650 806
AFSL 239 238
Australian Credit Licence 239 238