annual report 2020

providing ethical banking solutions to fulfil life dreams

SUMMERLAND CREDIT UNION

Vale John Shanahan
Summerland Credit Union Director 2008 – 2019

Summerland Credit Union Directors and staff were deeply saddened by the passing of long-serving Director, John Shanahan, in January 2020, who stepped down from the Board in 2019.

John was an independent Director and contributed 11 years of service to Summerland. He was an active Director and during his term was the Chair of Board Audit Committee, a position held for 11 years; a member of the Governance Committee; and as recently as November 2018 was a member of Summerland's Board Risk Advisory Committee.

Summerland was fortunate to have a recognised expert on financial reporting issues on our Board for such an extended period. As the author of Guide to Accounting Standards (9th ed.) and Guide to Accounting Regulation (3rd ed.), both highly respected textbooks used in the industry, he imparted his extensive knowledge in the discipline of auditing and accounting.

Outside of Summerland he was an auditing and accounting consultant who advised on audit issues and prepared expert reports. He 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. Until 2001 he was an Audit Partner at Deloitte. He was formerly Deputy Chancellor of Southern Cross University and was also previously the Chair of the University's Audit and Risk Committee.

Professionally he was a Member of the Australian Institute of Company Directors and a Senior Fellow of the Financial Services Institute of Australia; and had been registered as a company auditor since 1971.

We will fondly remember John for his positivity, optimism and sense of humour. He will be sadly missed.

contents

Registered office
101 Molesworth Street
Lismore NSW 2480
1300 802 222

Auditors
Grant Thornton
KPMG

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.

who we are

At Summerland Credit Union, we're here to make a difference. Providing you with ethical banking options, advice you can trust, and supporting our communities is who we are. Whether that means you want help saving for a car or buying a first home – we'll be there to support your dreams in life.

We're not like a major bank; our profits don't go to external shareholders. When you become a customer, we promise to treat you like you own the place, because as a customer of Summerland, you do.

Being the first financial institution to become a Gold Partner in the NSW Department of Planning, Industry and Environment's Sustainability Advantage Program gives us the opportunity to become a role model and a voice for good in the financial industry.

Through feedback you give us, we'll continue to develop products and services that make an enduring difference to your financial success.

> "Sarah got to know us, our situation and what we were looking to achieve; which is totally different from other banks we've dealt with."
>
> Chris, Summerland Customer

Sustainability Advantage
Gold

Gold Partner Accreditation
Department of Planning, Industry and Environment
Sustainability Advantage Program

White Ribbon Workplace

White Ribbon Accredited Workplace

Business & Professional Services Award
Business Excellence Awards
Tweed Shire

Tweed Sustainability Award
Tweed Shire Council

Canstar 5 Star Award
Rewards Credit Card
($24k, $36k and $60k spends)

Canstar 5 Star Award
Personal Loans

chair and ceo report

Welcome! And if you're a long-time customer, welcome back.

As a sustainable and ethical lender, Summerland Credit Union is proud to announce strong financial results again, during what has been a disruptive year for the sector. Over the last financial year, we've shown we can be a real challenger to the major banks by offering award winning products and services.

Strong growth

We've seen a growth in loans of $49m - which is a rise of 8.1% in our loan portfolio. Our assets have increased from $748m to $848m during the same period, and of equal importance, our deposits have risen from $654m to $763m.

You may notice that our profitability results look a little different compared to last year. This is primarily because of the unexpected costs associated with COVID-19. Despite the unforeseen challenges this year, we've retained a strong liquidity of 20%. Our liquidity and strong capital position of 15.3% has allowed Summerland to offer some of the lowest home loan rates in our history for customers to enjoy.

The 2019-20 year has been one of change. The Executive team has been revitalised with some fresh faces and they have implemented a range of positive strategies, which has led to excellent results including strong staff engagement.

The progressive outlook of the Executive team is generating new and exciting ways to best serve our customers.

Changes to the Board

Later this year, Graham Olrich will step down from the Board. With extensive experience in the customer owned banking industry, Graham's knowledge and business acumen over the last 10 years has been invaluable for Summerland's success.

We are delighted to welcome two new Directors; Colin Sales and Jane Calder. The appointments of Colin and Jane provide a fresh perspective and a wealth of skills and expertise, working in regional Australia across a range of industries – including the customer owned banking sector. The appointment of Jane offers the opportunity for greater female representation on the Board and aligns with our values and objectives. We are confident that re-energising the Board's skills and knowledge will help create an exciting future for Summerland and our customers.

Making a difference

We have been incredibly proud of our staff during COVID-19. We rapidly activated our continuity plan; ensuring a safe and secure environment for staff and our customers. Our front line and back-office workforce adapted seamlessly to the new environment

Grafton Branch Upgrade

The contemporary design looks modern and has several sustainable features which reflect our organisational values. We hope our Grafton customers enjoy the welcome upgrade.


travel | business | insurance |

of physical distancing and increased health and safety measures – with most of our back-office staff working remotely from home.

To support our customers, we've kept our branches open throughout the pandemic. This has included helping customers with loan repayment deferrals and access to our hardship assistance program. We've also been here for small and medium sized businesses that have been impacted, with unsecured business support loans of up to $100,000 to help with their cash flow needs.

At the end of 2019 and early into 2020 we experienced the devastating impacts of the bushfires across the Northern Rivers and around Australia. Our Credit Team assessed which of our customers could be affected and how we could help them through our Bushfire Relief Package.

Owned Banking Association (COBA) for continuing to champion the industry. We've been active with COBA, particularly with their political engagement campaign in Canberra last year, to promote the strength of the customer owned banking industry to Parliament. Director, Nicolas Harrison, remains a voice for Summerland on the Board of COBA and we appreciate him keeping Summerland connected to developments within the sector.

Innovation and enhancements

We value the tireless energy of our staff on significant projects, through all the changes this year. The completion of the internal securitisation project, which is a liquidity support mechanism that allows us to turn a portion of our assets into cash quickly, is an example of this strong work ethic.

instantaneous payment experience in real-time, 24 hours a day, seven days a week – all without the need of a BSB or account number. In the coming months, we'll be adopting Apple and Google Pay, to further enhance the digital services available for our customers. Despite the impact of COVID-19, it has, in its own way offered opportunities for our staff to connect with new customers online. As an example, online memberships doubled during the months of March, April, May and June 2020 compared to the same period in 2019.

We are continuing to build on our Gold Partner Accreditation from the NSW Department of Planning, Industry and Environment's Sustainability Advantage Program, for our environmental achievements and leadership. This is prominent in our refreshed mission: providing people with ethical banking solutions

> We have been incredibly proud of our staff during COVID-19. We rapidly activated our continuity plan; ensuring a safe and secure environment for staff and our customers.

Industry and market challenges

We continue to see changes from the Australian Prudential Regulation Authority (APRA) following the 2018-19 Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry. A key focus from APRA is on organisational culture, and we believe this is one of our major strengths. We're proud that we are transparent and offer open lines of communication across all levels of the organisation, which includes a positive accountability approach taken by all staff.

With the fallout from the Banking Royal Commission, we've continued to see an increase in customers joining Summerland, who feel their values align closely with ours. Summerland's ethical approach and commitment to protecting the interests of our customers, is what sets us apart. We would like to thank the Customer

This last year has seen enhancements through our online offerings and within our branch network. One we'd like to touch on is our new look Grafton Branch. The contemporary design looks modern and has several sustainable features which reflect our organisational values. We hope our Grafton customers enjoy the welcome upgrade.

In the online sphere, our banking app updates every four months. This has included one of our most significant updates with the introduction of Spend Tracker, Travel Companion and Round Ups. The latter is an excellent feature for savers, who can collect their spare change from purchases in a digital style piggy bank. If you haven't already, we highly recommend you download our banking app.

To stay at the forefront of digital payments, we have introduced PayID, giving customers an almost

to fulfil their life dreams. In addition, we have refined our core values with a contemporary feel, that we hope will resonate with our customers. The new values illustrate a forward-thinking financial institution, with an ethical and sustainable conscience. Our refresh has included the reintroduction of "credit union" in our logo, to reflect our commitment to mutual banking and our ethical values.

Our Personal Loans and Rewards Credit Card were once again recognised for outstanding value by Canstar, Australia's Premier Financial Comparison site. That makes it five years in a row our Rewards Credit Card has received this award, since it was launched in 2015, and the fourth time our Personal Loans have received this accolade. This is an excellent achievement, given the competitiveness in the market, and complements our advantages as an organisation that reinvests its

Community Grants

"Summerland's grant will help us during these very difficult times, which has been made even worse for so many during COVID-19."
Theresa Mitchell
Founding Director, Agape Outreach

profits into high quality products and services.

This year, we introduced the Net Promoter Score (NPS) measure to find out how likely customers are to refer us to family and friends. This is a common measure across many industries, but particularly in the financial industry. The average monthly NPS score for this year was 55; which is an outstanding result. It's a fine example of the quality of service provided by our staff, given that the average NPS score of the major banks in March 2020 was 1.2, according to Roy Morgan. It's why so many new customers have joined us over the past 12 months.

Closing statement

Even with the disruption of COVID-19 this year, the Board and Executive team are incredibly proud of how our staff have adapted to the sudden changes. It has been an unprecedented period not only for us, but the rest of the world. We have no doubt that the impact of COVID-19 will ripple across the financial sector in the coming year.

Signing off, we'd like to reiterate to our customers that Summerland will continue to be here for you and your community. It's been an uncertain time for a lot of people, but we're confident about the strong foundations we have in place for an exciting future ahead.

Thank you for your support.

Katrina Luckie
Chair

John Williams
CEO

"In the past, I knew of Summerland, but I didn't know that all the decisions were made locally within the Northern Rivers, which obviously speeds up the process. Compared to the big banks, where I would have had to wait up to 14 working days for a decision, there's no comparison."

Ruth, Summerland Customer

our people

100	74%	74:26
STAFF MEMBERS	STAFF ENGAGEMENT	FEMALE TO MALE RATIO

KINCENTRIC›
Best Employers
AUSTRALIA 2020

Summerland Credit Union is honoured to be recognised by Kincentric as one of Australia's Best Employers. As an employer of choice, we work hard and have fun along the way. Given the impact of COVID-19 this year, the Summerland Board and Executive Team are incredibly proud of the resilience of our staff. We are an ethical organisation that will continue to support our staff in every step of their careers with opportunities for growth and development. This is a reflection of one of our core values – people matter most.

our performance

TOTAL DEPOSITS (m)

$599	$654	$763
2018	2019	2020

GROSS LOANS BALANCE (m)

$564	$604	$653
2018	2019	2020

TOTAL ASSETS (m)

$689	$748	$848
2018	2019	2020

GROSS PROFIT (m)

$3.1	$3.2	$2.1
2018	2019	2020

Our profitability results look a little different compared to last year. This is primarily because of the unexpected costs associated with COVID-19. Despite the unforeseen challenges this year, we've retained a strong liquidity of 20%. Our liquidity and strong capital position of 15.3% has allowed Summerland to offer some of the lowest home loan rates in our history for customers to enjoy.

sustainability report

This year's report builds on our success as the first financial institution to become a Gold Partner in the NSW Department of Planning, Industry and Environment's Sustainability Advantage Program.

It's also the second year of our adoption of four of the United Nations' Sustainable Development Goals – Climate Action; Gender Equality; Decent Work and Economic Growth; and Sustainable Cities and Communities. Known also as global goals, they are regarded as the blueprint to achieve a better and more sustainable future.

Climate Action

We love the environment we live in. There have been several initiatives to support environmental not-for-profit groups and reduce our impact:

- We worked with environmental groups through the donation of funds to promote the regeneration of our natural environment (Clarence Landcare), rescuing native birds and animals (Australian Seabird Rescue), and working to prevent the potential extinction of koalas (Bangalow Koalas).
- Using recycled and environmentally friendly materials where we could in our Evans Head and Grafton branch upgrades.
- Reducing our carbon footprint during the pandemic with 41% of our staff working from home. This resulted in a reduction of 43% in vehicle fuel and a 74% drop in air travel per employee, compared to the 2018-19 financial year.
- Proactively connected with customers who were impacted by the 2019 bushfires.
- This year Tweed Shire Council acknowledged our commitment to the environment by presenting Summerland with the inaugural Tweed Sustainability Award.

Gender Equality

Summerland is a White Ribbon (WR) accredited workplace. The recent revitalisation of WR through Communicare, has provided us and our WR Committee the opportunity to build on our current processes of helping people at risk, including our elders, people with disabilities and those impacted by financial and domestic abuse.

Examples of where we've met our target for workplace gender equity are:

- The Board has a male to female split of 4:3, with a female Chair.
- Our Executive team is evenly balanced, with a 50:50 gender split.
- The Leadership Team including Branch Managers are 58% female.

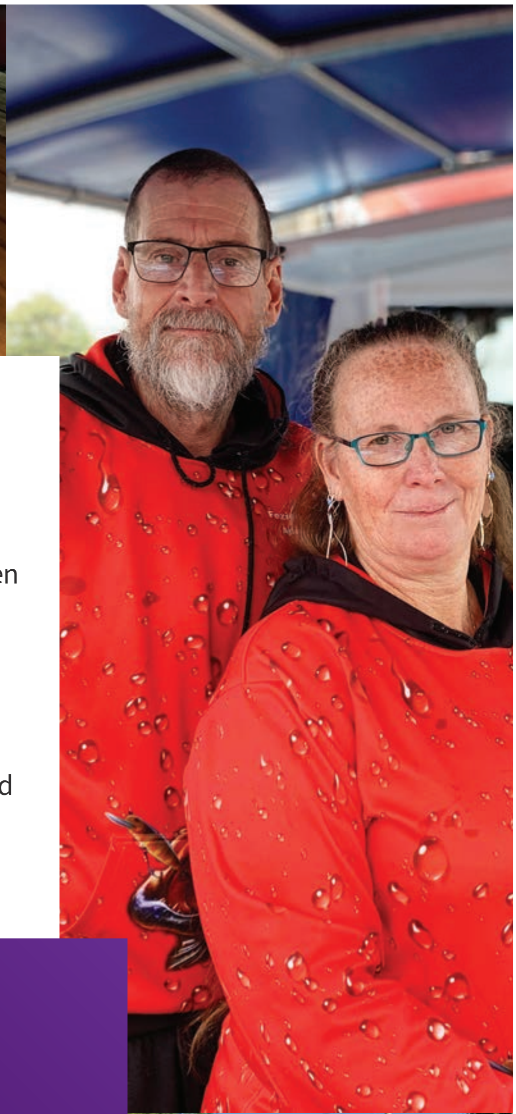
Decent Work and Economic Growth

During the course of the last year, we have seen a substantial rise in staff engagement. In June 2019, our employee engagement survey result was a respectable 62%. By June 2020, this had risen to 74%, which included a survey participation rate of 93% from staff. This result reflects the support and opportunities for people at Summerland:

- We have provided continual learning and development opportunities for staff. This includes 34% of our Banking Advisors completing a five-month level one lending program, within the last financial year. 78% of all our Banking Advisors are now level one lending competent.
- Our staff volunteering program saw staff support a variety of

“Less toys being bought means less landfill and hopefully the fostering of an ethos that embraces less consumption and more sharing of resources.”

Flora Zigterman, Committee Member, Lismore Toy Library



not-for-profit organisations. As part of this, Summerland provides staff one day a year to support our communities through volunteering.

Sustainable Cities and Communities

Building and strengthening our local communities is an integral part of our business. As a customer owned financial institution, we support our geographic footprint each year.

Through our Business and Community Grants we've given funds back to several businesses and causes across the region.

People across the Northern Rivers have been severely impacted by the bushfires and more recently COVID-19. We have put several packages and schemes in place to support our customers and communities in need.

During the bushfires, our Credit Team worked tirelessly to identify which of our customers had been affected, and consequently released a Bushfire Relief Package, with financial support options to help support them. In our branches, we saw the generosity of Summerland customers and staff as we raised over $10,000 for the Salvation Army's Bushfire Disaster Appeal.

With COVID-19 impacting all aspects of our lives, a response page on our website was developed with information and hardship assistance for both personal and business customers. As part of this, we were approved by the Commonwealth Government to be a participating lender in its Coronavirus SME Guarantee Scheme, to support small and medium businesses that had been impacted by COVID-19. This provided small and medium businesses with unsecured business loans of up to $100,000 to support current and upcoming cash flow needs, which included working capital, liquidity and operating expenditure.

Community Grant Recipients

Agape Outreach
Bangalow Koalas
Care-Ring Children's Centre
Coolangatta Croquet Club
Dorroughby Glenview Community Centre
Dirawong Reserve
Eltham Public School P and C
Lismore Friendship Festival
Lismore Toy Library
RED Inc
Riding for the Disabled
South Gundurimba Hall
Wollongbar Alstonville Rugby Club

Business Grant Recipients

Bee Folk
Container of Dreams
For Sage
Fozies Fishing Adventures
R and R Nursery
The Green Bank
Upcycled Slippers

Top left to right: Upcycled Slippers, Fozzies Fishing Adventures, Riding for the Disabled.

2020	2019	2018	2017
4944	4868	6915	8316

SHEETS OF PAPER PER STAFF MEMBER*

* certified carbon neutral under the National Carbon Offset Standard Carbon Neutral program

kWh

2020	2019	2018	2017
3868	4550	4903	5213

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

2020	2019	2018	2017
54	94	120	103

LITRES OF FUEL PER STAFF MEMBER

2020	2019	2018	2017
354	1319	1028	1405

AIR TRAVEL KMs PER STAFF MEMBER

$1.1M RETURNED TO OUR COMMUNITY

"Our hall is the hub of the local community, and this grant will help to protect this valuable community facility."

Stephen Jackson, Committee Member, Dorroughby Glenview Community Centre

our directors

Katrina Luckie

Katrina Luckie is the Executive Manager of Strategy and Engagement for Social Futures, one of the largest employers and community services providers in Northern NSW. 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.

Nicolas Harrison

Nicolas Harrison is a Barrister-at-law, Company Director, and a Director of the Customer Owned Banking Association. 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.

David Bergmark

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 APAC and EMEA. He has been actively involved in audit and risk management within the banking sector since 1990.

Graham Olrich

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.

Paul Spotswood

Paul is owner/director of Spotswood Communications Pty Ltd and Sales Marketing Manager for Horizon Motorhomes. Prior to this, Paul was Executive Management at APN News and Media (now News Corp) and Publisher with Reed Business Information, Reed Elsevier Australia, publishing business-to-business information in the form of business journals, magazines, websites, e-commerce applications and other digital products including; financial products - Money Management and Super Review.

Julie Osborne

Julie Osborne is a Non-Executive Director and 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, Auto & General Insurance Company Ltd, NSW Crown Holiday Parks Land Manager and the Woolcock Institute of Medical Research. For the past 3.5 years Julie has also consulted to the Audit and Risk Consulting Division of KPMG. In her executive 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.

Colin Sales

Colin Sales has extensive executive and non-executive director experience across a range of sectors including banking, superannuation, government, education and disability services. He is currently Chair of the Mai-Wel Group, a large disability services provider. During his executive career Colin has held the positions of Chief Executive Officer of a regional credit union, and Chief Operating Officer at a national superannuation fund.

Jane Calder

Jane has extensive experience in marketing, products and digital services in the financial industry. Jane has most recently held the role of Chief Product and Marketing Officer, Heritage Bank. Prior to this she has held positions as a Marketing Executive at BUPA, Newcastle Permanent Building Society and BT Funds Management Australia. Jane was a Director on the Customer Owned Banking Association (COBA) Board.

Directors' report

Your Directors present their report on the credit union for the financial year ended 30 June 2020.

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), MEAINZ, GAICD, FIML

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

Julie Osborne

BEc, LLM, GAICD

- Director since 2019
- Chair, Audit Committee
- Member, Risk Advisory Committee

Graham Olrich

Dip FS, Dip FS CUD, FAICD, FAMI

- Director since 2010
- Member, Risk Advisory Committee
- Member, Audit Committee

Jane Calder

BSc (Hons), GAICD

- Director since June 2020

David Bergmark

BComm, MAICD, ICAA, F Fin, MAMI

- Director since 2014
- Chair, Risk Advisory Committee

Colin Sales

B.Com, CPA, GAICD, FGIA, F Fin, FAMI

- Director since June 2020
- Member, Audit Committee

Nicolas Harrison

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

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

John Shanahan (Retired 1/11/19)

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

- Director from 2008-2019

Paul Spotswood

B.Ec, MAICD, MAMI

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

Donna Kildea

BSocSci., CAHRI

- Company Secretary

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	11	11			4	3	4	4
Graham Olrich	11	11	1	1	4	4	1	1
David Bergmark	11	9	1	0	4	4		
Nicolas Harrison	11	10	4	4	1	1	3	3
Paul Spotswood	11	11	4	4			4	4
Julie Osborne	11	11	4	4	3	3		
Jane Calder (Appointed 22/6/20)	1	1						
Colin Sales (Appointed 22/6/20)	1	1	1	1				
John Shanahan (Retired 1/11/19)	4	4	1	1			2	2

E = Eligible to attend A = Attended

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 $2.09m (2019: $3.22m).

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, providing financial services to customers, was impacted during the year with the onset of the global pandemic (COVID-19). The pandemic has resulted in significant health, societal and economic impacts in our region, and more broadly affected the population nationally and across the world. The impact of COVID-19 is expected to continue to be felt into the future. As a result of the difficult and uncertain environment there have been many responses made by the Government and the credit union to assist both customers and businesses to navigate through these unexpected and uncertain times.

For customers, both personal and business customers, there has been a number of relief measures put in place by the Government to help with employment, income support and specific business guarantee support to keep them open and operating. In March 2020 (and ongoing) the credit union has offered customers access to loan repayment deferral options to help manage their circumstance as well as a hardship assistance program.

Specifically for the banking industry, the Government provided to all Authorised Deposit-taking Institutions a 3-year Term Funding Facility to provide access to lower cost and additional funding to ultimately allow ADIs to support borrowers in this uncertain time.

The general business operations of the credit union were also impacted during COVID-19. The credit union implemented its Pandemic crisis plan in March 2020 with many changes to operations, such as:

- Almost all back-office staff worked remotely and many continue to do so now.
- Branches remained open and available for customers to use, with the addition of new hygiene measures.
- Resourcing in our contact centre was lifted to accommodate higher levels of customer enquiry over the phone and internet.

During these uncertain times of COVID-19 the credit union has remained focused on ensuring the business remains sustainable and meeting the needs of customers. There has been continued strong loan demand against a backdrop of record low interest rates, and a strong liquidity position has been maintained – well in excess of internal targets and regulatory limits. Provisions for impairment did increase in the year due to the downturn in conditions and economic outlook resulting from COVID-19 for some borrowers. Whilst we may want to assume the worst is behind us, there is a great deal of caution as we move forward in these uncharted times, knowing there will be long term economic impacts.

Significant changes in state of affairs

Except for those outlined under the review of operations section above, there were no other 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

Julie Osborne
Chair Audit Committee

Lismore 30 September 2020

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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 2020, 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

Madeleine Mattera

Madeleine Mattera
Partner – Audit & Assurance

Sydney, 30 September 2020

#3835806v2

Statement of profit or Loss and other Comprehensive Income

FOR THE YEAR ENDED 30 JUNE 2020

	Note	2020	2019
		$'000	$'000
REVENUE			
Interest revenue	2	26,172	28,178
Interest expense	2	(8,819)	(10,812)
NET INTEREST REVENUE		17,353	17,366
Non-interest revenue	3	4,160	4,282
EXPENSES			
Impairment expense	12	(704)	(18)
Employee benefits expense	4	(9,083)	(8,933)
Occupancy expense	4	(469)	(453)
Depreciation and amortisation expense	4	(1,499)	(998)
Information technology expenses	4	(2,115)	(1,918)
Member transaction costs	4	(2,411)	(2,192)
Other expenses	4	(2,296)	(2,586)
Total expenses		(18,577)	(17,098)
PROFIT BEFORE INCOME TAX		2,936	4,550
Income tax expense	5	(839)	(1,328)
PROFIT FOR THE YEAR NET OF TAX		2,097	3,222
OTHER COMPREHENSIVE INCOME NET OF TAX			
Items that may be reclassified to profit and loss			
Gain/(Loss) on cash flow hedges taken to equity		135	(153)
Items that will not be reclassified to profit and loss			
Movement in fair value of land and buildings		62	245
OTHER COMPREHENSIVE INCOME FOR THE YEAR NET OF TAX		197	92
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		2,294	3,130
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO MEMBERS OF THE CREDIT UNION		2,294	3,130

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

Statement of Financial position

AS AT 30 JUNE 2020

	Note	2020	2019
		$'000	$'000
ASSETS			
Cash and cash equivalents	8	38,006	23,557
Financial assets at amortised cost	11	137,672	100,695
Trade and other receivables	9	5,355	8,018
Other assets	10	1,415	1,191
Loans and advances	12	651,195	603,314
Financial assets at fair value through other comprehensive income		2	2
Investment property	15	5,502	4,929
Property, plant and equipment	14	5,144	5,155
Right-of use assets	17	1,700	-
Deferred tax assets	5	1,130	1,234
Intangible assets	16	711	394
TOTAL ASSETS		847,832	748,489
LIABILITIES			
Deposits	18	762,555	653,836
Trade and other payables	19	7,992	17,677
Derivatives	13	251	282
Borrowings	21	9,479	13,260
Current tax liability	5	160	139
Deferred tax liabilities	5	801	805
Lease liabilities	17	1,540	-
Provisions	20	1,193	923
TOTAL LIABILITIES		783,971	686,922
NET ASSETS		63,861	61,567
MEMBERS EQUITY			
Redeemable preference share capital account	22	524	516
Reserves	23	7,070	6,644
Retained earnings		56,267	54,407
TOTAL MEMBERS EQUITY		63,861	61,567

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 2020

	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 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
BALANCE AT 1 JULY 2019	516	1,376	860	(193)	1,847	2,754	54,407	61,567
Profit for the year	-	-	-	-	-	-	2,097	2,097
Other comprehensive income net of tax	-	-	-	135	-	62	-	197
Transfers to / from retained earnings:								
- Redeemable preference share account	8	-	-	-	-	-	(8)	-
- Reserve for credit losses	-	-	-	-	229	-	(229)	-
BALANCE AT 30 JUNE 2020	524	1,376	860	(58)	2,076	2,816	56,267	63,861

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

Statement of Cash Flows

FOR THE YEAR ENDED 30 JUNE 2020

	Note	2020	2019
		$'000	$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest received		26,102	28,072
Other income		7,486	642
Interest paid		(9,728)	(10,103)
Payments to suppliers and employees		(26,114)	(10,629)
Movement in operating assets and liabilities			
Net movement in liquid investment balances		(36,977)	(8,926)
Net movement in loans		(48,676)	(40,845)
Net movement in deposits		108,719	54,972
		23,066	5,201
Income taxes paid		(717)	(1,212)
Net cash used in operating activities	32 (c)	20,095	11,971
CASH FLOWS FROM INVESTING ACTIVITIES			
Payment for property, plant and equipment		(1,157)	(622)
Payment for intangibles		(588)	(277)
Increase in other liabilities		59	244
Net cash used in investing activities		(1,686)	(655)
CASH FLOWS FROM FINANCING ACTIVITIES			
(Repayments) / proceeds from borrowings		(3,781)	(5,050)
Lease principal payments		(160)	-
Interest paid		(19)	-
Net cash provided by financing activities		(3,960)	(5,050)
Net increase / (decrease) in cash and cash equivalents held		14,449	6,266
Cash and cash equivalents at the beginning of the financial year		23,557	17,291
Cash and cash equivalents at the end of the financial year	32 (a)	38,006	23,557

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 30 September 2020 by the Board of Directors.

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

The credit union has applied the following standards and amendments for the first time for their annual reporting period commencing 1 July 2019:

- AASB 16 Leases
- *Interpretation 23* Uncertainty over Income Tax Treatments.

AASB 16 LEASES

The standard replaces AASB 117 Leases and has for lessees removed the current distinction between operating and finance leases. The standard requires recognition of an asset (the right to use the leased item) and a financial liability to pay rentals for virtually all lease contracts. An optional exemption exists for short-term and low-value leases.

The new standard has been applied as at 1 July 2019 using the retrospective approach but has not restated comparatives for the 2019 reporting period, as permitted under the specific transition provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 July 2019. The new accounting policies are disclosed below.

The credit union has elected to apply the practical expedient to grandfather the assessment of which transactions are leases. As such the group has relied on its assessment made applying AASB 117 and Interpretation 4 Determining whether an Arrangement contains a Lease for contracts entered into before the transition date and has applied AASB 16 to those contracts. Contracts not previously identified as leases under AASB 117, and Interpretation 4 have not been reassessed for whether there is a lease under AASB 16. Therefore, the definition of a lease under AASB 16 has only been applied to contracts entered into or changed on or after 1 July 2019.

In applying AASB 16 for the first time, the credit union has the ability to use the following practical expedients permitted by the standard:

- accounting for operating leases with a remaining lease term of less than 12 months as at 1 July 2019 as short-term leases; and
- using hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

IMPACT OF ADOPTION OF AASB 16

On adoption of AASB 16, the credit union recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of AASB 117. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as at the time the leases were entered into. The weighted average lessee's incremental borrowing rate applied to the lease liabilities ranged from 1-7% reflective of the rates at the time when each lease was entered into.

Measurement of lease liabilities

	2019
	$'000
Operating lease commitments disclosed as at 30 June 2019	623
Discounted using the lessee's incremental borrowing rate of at the date of initial application	(50)
Add/(less): contracts reassessed as lease contracts	1,414
Lease liability recognised as at 1 July 2019	1,987
Of which are:	
Current lease liabilities	447
Non-current lease liabilities	1,540
	1,987

Adjustments recognised in the balance sheet on 1 July 2019

The change in accounting policy affected the following items in the balance sheet on 1 July 2019:

	Carrying amount at 30 June 2019 $	**Remeasurement $**	**AASB 16 carrying amount at 1 July 2019 $**
Right-of-use assets	-	2,180	2,180
Lease Liabilities	-	(1,987)	(1,987)
Provision – Make good	-	(193)	(193)
Total	**-**	**-**	**-**

There was no impact on retained earnings on 1 July 2019 from the adoption of the standard.

INTERPRETATION 23 (INT 23) UNCERTAINTY OVER INCOME TAX TREATMENTS

Int 23 clarifies the application of AASB 112 to accounting for income tax treatments that have yet to be accepted by tax authorities, in scenarios where it may be unclear how tax law applies to a particular transaction or circumstance, or whether a taxation authority will accept an entity's tax treatment. There was no effect from the adoption of Int 23 in relation to accounting for uncertain tax positions.

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 preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management base its judgements, estimates and assumption on historical experience and on other factors, including reasonable expectations of future events by way of trend analysis and economic data sourced both externally and within the credit union. The resulting accounting judgements and estimates will seldom equal the related actual results. The judgements, estimates and assumptions that have significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are outlined below.

KEY ESTIMATES

Impairment:	refer to Note 12
Property:	refer to Note 14
Investment property:	refer to Note 15

CORONAVIRUS (COVID-19)

Judgement has been exercised in considering the impacts that COVID-19 has had, or may have, on the credit union based on known information. This consideration extends to the nature of the products and services offered, customers, staffing and geographic regions in which the credit union operates. Other than as addressed in specific notes (above), there does not currently appear to be any significant impact upon the financial statements nor any significant uncertainties with respect to events or conditions which may impact the credit union unfavourably as at the reporting date. However, the current ongoing nature of COVID-19 may impact the estimation uncertainty due to the extent and duration of actions by governments, business and consumers to containing the spread and economic impact of the virus.

(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) REPO securitisation trust consolidation

The credit union has initiated the creation of a Trust which holds rights to a portfolio of mortgage secured loans to enable the credit union to secure funds from the Reserve Bank of Australia (RBA) if required to meet emergency liquidity requirements. The credit union continues to manage these loans and receives all residual benefits from the trust and bears all losses should they arise. Accordingly,

(a) The Trust meets the definition of a controlled entity and,
(b) As prescribed under the accounting standards, since the credit union has not transferred all risks and rewards to the Trust, the assigned loans are retained on the books of the credit union and are not de-recognised.

The credit union has elected to present one set of financial statements to represent both the credit union as an individual credit union and consolidated credit union on the basis that the impact of consolidation is not material to the credit union.

(e) New or emerging Accounting Standards not yet mandatory

There are currently no new or emerging Accounting Standards amendments applicable to the credit union.

	2020	2019
	$'000	$'000

NOTE 2

Interest Revenue and Interest Expense

INTEREST REVENUE		
Cash and cash equivalents	60	189
Financial assets at amortised cost	2,213	2,902
Loans and advances	23,783	24,807
Derivatives	116	280
TOTAL INTEREST REVENUE	26,172	28,178
INTEREST EXPENSE		
Deposits	8,291	10,338
Borrowings	217	134
Derivatives	292	340
Leases	19	-
TOTAL INTEREST EXPENSE	8,819	10,812

NOTE 3

Revenue

INTEREST REVENUE	26,172	28,178
NON-INTEREST REVENUE		
Fees and commissions		
- fee income on loans - other than loan origination fees	1,122	825
- fee income from customer deposits	792	827
- other fee income	556	686
- insurance commissions	196	257
- other commissions	616	642
	3,282	3,237
Bad debts recovered	18	34
Income from property (rent)	511	458
Fair value increase - investment property	-	174
Profit on sale of assets	52	213
Other	297	166
TOTAL NON-INTEREST REVENUE	4,160	4,282
TOTAL REVENUE	30,332	32,460

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.

	Note	2020	2019
		$'000	$'000

NOTE 4

Profit Before Income Tax Expense

Profit before income tax expense has been determined after:

	Note	2020	2019
EXPENSES			
Interest expense		8,819	10,812
NON-INTEREST EXPENSES			
Employee benefit expenses			
- net movement in provisions for annual leave		115	28
- net movement in provisions for long service leave		77	(7)
- other employee expenses		8,891	8,912
		9,083	8,933
Impairment of assets	12 (c)	704	18
DEPRECIATION AND AMORTISATION EXPENSE			
Depreciation expense			
- buildings		190	190
- plant and equipment		342	320
- right-of-use assets		481	-
Amortisation expense			
- software		272	219
- leasehold improvements		214	269
		1,499	998
OTHER EXPENSES			
Fees and commissions		2,363	2,148
General and administration expenses		287	307
IT expenses		2,115	1,918
Loss on sale of assets		10	8
Occupancy expenses		469	453
Other operating expenses		2,047	1,950
Rental expense on operating leases		-	365
		7,291	7,149
TOTAL NON-INTEREST EXPENSES		18,577	17,098
TOTAL EXPENSES		27,396	27,910

	2020 $'000	2019 $'000

NOTE 5

Income Tax

INCOME TAX EXPENSE

	2020 $'000	2019 $'000
Prima facie tax payable on profit at 27.5% (2019: 27.5%)	807	1,251
Adjust for tax effect of:		
Capital allowance deduction	-	-
Adjustment for previous year	32	43
Change in company tax rate from 30% to 27.5%	-	34
Income tax expense attributable to the entity	839	1,328
Applicable weighted average effective tax rate	27.5%	27.5%
The components of income tax expense comprise		
Current tax	774	1,445
Deferred tax	65	(117)
	839	1,328

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

	2020 $'000	2019 $'000
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:	19,415	18,862

CURRENT TAX

	2020 $'000	2019 $'000
Current income tax (receivable) / payable	160	139

DEFERRED TAX ASSETS

Deferred tax assets comprise temporary differences attributable to:

	2020 $'000	2019 $'000
Amounts recognised in profit and loss		
Plant and equipment	105	298
Provision for impairment	404	215
Provision for employee benefits	478	433
Accrued expenses	165	80
Deferred loan fee asset	(31)	135
AASB 16 Adjustments	9	-
	1,130	1,161
Amounts recognised directly in equity		
Hedge reserve	58	73
Total deferred tax assets	1,188	1,234

	2020	2019
	$'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	801	758
Total deferred tax liabilities	801	805

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	77,300	74,980
Other services		
- taxation services	27,500	5,410
- compliance audits	36,100	26,265
	140,900	106,655

	2020	2019
	$'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 to obtain benefits from its activities.

KMP has been taken to comprise the Directors and the six executives 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
- David Bergmark
- Paul Spotswood
- Jane Calder (Appointed 22/6/2020)
- Colin Sales (Appointed 22/6/2020)
- John Shanahan (Retired 1/11/2019)

(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:

	2020 $'000	2019 $'000
Short-term employee benefits	2,609	1,713
Post-employment benefits	160	146
Other long-term benefits	37	288
	2,806	2,147

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. Remuneration costs for the current year include costs relating to a management restructure and executive terminations.

(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.

	2020	2019
	$'000	$'000
The aggregate value of loans to KMP and other related parties as at balance date amounted to	544	1,791
The total value of revolving credit facilities to KMP and other related parties as at balance date amounted to	92	964
Less amounts drawn down and included above	(26)	(160)
Net balance available	66	804
During the year the aggregate value of loans and revolving credit facilities approved and/or disbursed to KMP and other related parties amounted to	88	947
Interest and other revenue earned on loans and revolving credit facilities to KMP and other related parties amounted to	15	93

(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	711	1,122
Total interest paid on deposits to KMP and other related parties	8	8

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 $134k (2019: $122k). The total value of services provided for membership to COBA was $132k (2019: $116k).

NOTE 8

Cash and Cash Equivalents

Cash on hand	1,527	1,335
Deposits at call	36,479	22,222
	38,006	23,557

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 0.87% (2019: 2.42%).

	2020	2019
	$'000	$'000

NOTE 9

Trade and Other Receivables

Accrued interest	629	559
Other receivables	164	28
Clearing accounts	4,562	7,431
	5,355	8,018

Recognition and Measurement

Trade and other receivables are recognised and accounted for as financial assets classified at amortised cost. Refer to Note 27 for recognition and measurement policies.

NOTE 10

Other Assets

Prepayments	1,415	1,191

NOTE 11

Financial Assets at Amortised Cost

Deposits with ADIs	137,672	100,695

Recognition and Measurement

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.

	2020	2019
	$'000	$'000

NOTE 12

Loans and Advances

Term loans	643,917	593,438
Overdrafts and revolving credit	9,105	10,908
Gross loans and advances	653,023	604,346
Less: Unamortised loan origination fees	(360)	(251)
	652,663	604,095
Less: Provision for impaired loans	(1,468)	(781)
Net loans and advances	651,195	603,314

Recognition and Measurement

Loans and advances captured 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.

(a) Credit quality – Security held against loans

Secured by mortgage over real estate	642,018	593,688
Partly secured by goods mortgage	5,027	4,333
Cash secured	1,411	1,191
Unsecured	4,567	5,134
Gross loans and advances	653,023	604,346

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%	562,676	522,723
- Loan to valuation ratio of more than 80% but mortgage insured	69,473	57,967
- Loan to valuation ratio of more than 80% and not mortgage insured	9,869	12,998
Total	642,018	593,688

(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 24.

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

(i) Geographical concentrations

2020	Housing	Personal	Business	Total
NSW – Northern Rivers	527,799	16,900	42,889	587,588
NSW – Other regions	80,512	1,016	1,717	83,245
Other states, territories & jurisdictions	63,952	1,855	1,779	67,586
Total	672,263	19,771	46,385	738,419

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

	2020	2019
	$’000	$’000
(ii) Concentration of loans by purpose		
Loans to customers (natural persons and corporate borrowers)		
- Residential loans and facilities	672,263	608,349
- Personal loans and facilities	19,771	18,379
- Business loans and facilities	46,385	44,813
Total	738,419	671,541

(c) Provision on impaired loans

(i) Amounts arising from Expected Credit Losses (ECL)

The loss allowance as of the year end by class of exposure / asset are summarised in the table below.

2020	Gross Carrying Value	ECL Allowance	Carrying Value
Loans to customers			
- Residential loans and facilities	672,263	(477)	671,785
- Personal loans and facilities	19,771	(121)	19,649
- Business loans and facilities	46,385	(869)	45,516
Total	738,419	(1,468)	736,951

2019	Gross Carrying Value	Provision for Impairment	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

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 2020	**Stage 2 Lifetime ECL 2020**	**Stage 3 Lifetime ECL 2020**	**Total 2020**	**Total 2019**
Loans to customers					
- Residential loans and facilities	649,892	19,282	3,089	672,263	608,349
- Personal loans and facilities	19,588	113	70	19,771	18,379
- Business loans and facilities	44,203	2,032	150	46,385	44,813
	713,683	21,427	3,308	738,418	671,541
Loss allowance	(1,306)	(135)	(26)	(1,468)	(781)
Carrying amount	712,377	21,292	3,282	736,951	670,760

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	**Stage 2 Lifetime ECL**	**Stage 3 Lifetime ECL**	**Total**
Loans to customers				
Balance at 1 July 2018	658	14	108	780
Changes in the loss allowance				
- 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)
Net new and increased individual provisions	84	-	-	84
Write offs	(14)	-	-	(14)
Balance at 30 June 2019	728	46	7	781
Changes in the loss allowance				
- Transfer to stage 1	-	-	-	-
- Transfer to stage 2	-	81	(1)	80
- Transfer to stage 3	-	(2)	21	19
Net movement due to change in credit risk	-	79	20	99
Net new and increased individual provisions	581	20	-	601
Write offs	(3)	(10)	-	(13)
Balance at 30 June 2020	1,306	135	27	1,468

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	18	34
Profit increase / (decrease)	14	30

The expense recognised as impairment expense in the profit and loss takes into account the movement in ECL provision for the year.

	2020	2019
	$'000	$'000
(d) General reserve for credit losses		
This reserve records an amount previously set aside as an additional specific provision and is maintained to comply with the standards set down by the Australian Prudential Regulation Authority (APRA) which under Australian Accounting Standards is excessive.		
Balance at beginning of the financial year	1,847	2,129
Add: increase (decrease) transferred from retained earnings	229	(282)
Balance at end of the financial year	2,076	1,847

Recognition and Measurement

The impact and duration of COVID-19 on the national and global economy, and how government, businesses and consumers respond, continues to be uncertain. This said the basis of Expected Credit Loss (ECL) modelling in the current year (second year of application) did not significantly change. The model continues to incorporate a considerable degree of judgement in its application and assessment of exposures during different economic cycles.

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 review from the credit union's Board and Risk Advisory 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 increase in provision is reflective of the increase in credit risk in the credit union's loan portfolio, stemming from COVID-19.

Total impairment increased year-on-year by $687K to $1,468K at June 2020. This increase recognises particularly the impact of COVID-19 on economic conditions and effect on the credit union's loan portfolio, which is likely to increase credit losses into the future. The impairment was estimated on the facts and circumstances existing at the time of preparing the financial statements.

Loans which are currently on repayment deferral were reviewed individually, and depending on risk characteristics, allocated to the appropriate stage of provisioning. The model overlays forward-looking economic outlooks on the loan portfolio. As a result of the deterioration in these outlooks, the provisioning at each Stage significantly increased in the 2020 year.

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

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.

	2020	2019
	$'000	$'000

NOTE 13

Derivatives

Liability

Interest rate swap contracts - cash flow hedge	251	282

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 3.65% (2019: 4.20%). 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 0.28% - 2.38% and variable rate ranges within -0.01% to 0.08% of the 90-day bank bill swap rate which at balance date was 0.10% (2019: 1.20%).

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

Within 1 year	9,000	2,000
1-2 years	3,000	9,000
2-5 years	3,000	3,000
	15,000	14,000

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.

2020	**Within 1 year**	**1-2 years**	**2-5 years**
	$'000	$'000	$'000
Cash inflows	227	53	8
Cash outflows	(13)	(5)	(3)
Net cash flows	214	48	5

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)

	2020	2019
	$'000	$'000

NOTE 14

Property, Plant and Equipment

LAND		
At fair value	360	420
BUILDINGS		
At fair value	3,389	3,901
LEASEHOLD IMPROVEMENTS		
At cost	1,899	1,501
Accumulated amortisation	(1,424)	(1,276)
	475	225
PLANT AND EQUIPMENT		
At cost	2,840	2,228
Accumulated depreciation	(1,920)	(1,619)
	920	609
Total Property, Plant and Equipment	5,144	5,155

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.

The leased portion of property increased during the year. The change in investment use of the property has been reflected in the balances at 30 June. This resulted in an increase in Investment Property value and an offsetting reduction in Land and Buildings value as shown in Note 14 and 15.

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.

2020	**Property**	**Plant & equipment**	**Leasehold improvements**	**Total**
	$’000	$’000	$’000	$’000
Balance at beginning of the financial year	4,321	609	225	5,155
Net revaluation increment	62	-	-	62
Additions	38	655	464	1,157
Disposals	-	(7)	-	(7)
Depreciation expense	(100)	(337)	(214)	(651)
Change in use adjustment	(572)	-	-	(572)
Carrying amount at end of the financial year	3,749	920	475	5,144

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)	(269)	(779)
Change in use adjustment	(208)	-	-	(208)
Carrying amount at end of the financial year	4,321	609	225	5,155

	2020	2019
	$'000	$'000
If land and buildings were stated at historical cost, amounts would be as follows:		
Cost	8,146	8,043
Accumulated depreciation	(4,382)	(4,179)
Net book value	3,764	3,864

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.

Changes to the carrying amounts are as follows:

	2020	2019
Balance at beginning of the financial year	4,929	4,547
Net gain / (loss) from fair value adjustments	-	174
Change in use adjustment	573	208
Carrying amount at end of the financial year	5,502	4,929

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.

During the year, there was an increase in the portion of property that was available for lease (Investment). Refer to Note 14 for detail.

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 2020 and determined there is no change in value.

Investment properties are leased out on operating leases. Rental income amounts to $510,839 (2019: $457,941) and is included within revenue as shown in Note 3. Direct operating expenses not recovered as outgoings from the tenants of the relevant property were reported within other expenses as shown in Note 4.

The lease contracts are all non-cancellable for either three or five years from the commencement of the lease. Refer to Note 27 for future minimum lease rentals.

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 reflects 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.

	2020	**2019**
	$'000	$'000

NOTE 16

Intangible Assets

	2020 $'000	2019 $'000
COMPUTER SOFTWARE		
At cost	3,458	3,012
Accumulated amortisation	(2,946)	(2,700)
	512	312
OTHER INTANGIBLE ASSETS		
At cost	437	294
Accumulated amortisation	(238)	(212)
	199	82
Total Intangible Assets	711	394

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	312	82	394
Additions	445	143	588
Disposals	-	-	-
Amortisation expense	(245)	(26)	(271)
Carrying amount at the end of the financial year	512	199	711

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 5 years

	2020	2019
	$'000	$'000

NOTE 17

Leases

(a) Amounts recognised in the balance sheet

The balance sheet shows the following amounts relating to leases:

	2020	2019
RIGHT-OF-USE ASSET		
Property	1,405	-
ATM	217	-
Other	78	-
	1,700	-
LEASE LIABILITIES		
Current	424	-
Non-current	1,116	-
	1,540	-

The credit union has leases for the branch network, ATM fleet and equipment. With the exception of short-term leases and leases of low-value underlying assets, each lease is reflected on the balance sheet as a right-of-use asset and a lease liability. Variable lease payments which do not depend on an index are excluded from the initial measurement of the lease liability and asset.

The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

The table below describes the nature of the credit union's leasing activities by type of right-of-use asset recognised on balance sheet:

Right-of-use asset	No of right-of-use assets leased	Range of remaining term	Average remaining lease term	No of leases with extension options	No of leases with termination options
Property	11	0-7 years	4 years	8	11
ATM	5	2 years	2 years	-	5
Other	3	5 years	5 years	-	-

Future minimum lease payments at 30 June 2020 were as follows:

	Minimum lease payments due			
2020	**Within 1 year**	**Between 2-5 years**	**After 5 years**	**Total**
	$'000	$'000	$'000	$'000
Lease payments	462	1,155	213	1,830
Finance charges	(38)	(191)	(61)	(290)
Net present values	**424**	**964**	**152**	**1,540**

2019	**Within 1 year**	**Between 2-5 years**	**After 5 years**	**Total**
	$'000	$'000	$'000	$'000
Lease payments	397	226	-	623
Finance charges	-	-	-	-
Net present values	**397**	**226**	**-**	**623**

	2020	2019
	$'000	$'000

(a) Amounts recognised in the statement of profit or loss

The statement of profit or loss shows the following amounts relating to leases:

DEPRECIATION CHARGE OF RIGHT-OF-USE ASSET		
Property	376	-
ATM	103	-
Other	1	-
	481	-
Interest expense (included in interest expense)	19	-

The total cash outflow for leases in 2020 was $179k.

Recognition and Measurement

At inception of a contract, the credit union assesses whether the contract is, or contains, a lease. A contract is or contains a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To apply this definition the credit union assesses whether the contract meets three key evaluations which are whether:

- the contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the credit union;
- the credit union has the right to obtain substantially all the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract
- the credit union has the right to direct the use of the identified asset throughout the period of use. The credit union assess whether it has the right to direct 'how and for what purpose' the asset is used throughout the period of use.

CREDIT UNION AS LESSEE

Contracts may contain both lease and non-lease components. At the commencement or modification of a contract that contains a lease component, the credit union allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices. However, for leases of property, the credit union has elected not to separate lease and non-lease components and instead accounts for these as a single lease component.

The credit union recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost comprising, the amount of the initial measurement of lease liability; adjusted for any lease payments made at or before the commencement date less any lease incentives received; plus any initial direct costs; and an estimate of the costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located.

The right-of-use asset is subsequently depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis, unless the lease transfers ownership of the underlying asset to the credit union at the end of the lease term or the credit union is reasonably certain to exercise a purchase option. In that case, the right-of-use asset is depreciated over the underlying asset's useful life, which is determined on the same basis as those of property, plant and equipment. In addition, the right of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain re-measurements of the lease liability.

The lease liability is initially measured at present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease. If that rate cannot be readily determined the credit union's incremental borrowing rate is used, being the rate that the credit union would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the credit union obtains interest rates from various external financing sources and makes certain adjustments to reflect the terms of the lease and the type of the asset leased (security).

Lease payments included in the measurement of the lease liability comprise:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable; and
- variable lease payment that are based on an index or a rate, initially measured using the index or rate as at the commencement date.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

The lease liability is measured at amortised cost using the effective interest rate method. It is re-measured when:

- there is a change in future lease payments arising from a change in an index or rate;
- if there is a change in the estimate of the amount expected to be payable under a residual value guarantee;
- if there is a change in the credit union's assessment of whether it will exercise a purchase, extension or termination option: or
- if there is a revised in-substance fixed lease payment.

When the lease liability is re-measured in this way, a corresponding adjustment is made to the carrying value of the right-of–use asset, unless the right-of-use asset has been reduced to zero in which case the adjustment is recorded in profit or loss.

Credit union as a lessor

The credit union's accounting policy under AASB 16 has not changed from the comparative period. As a lessor the Group classifies its leases as either operating or finance leases. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of the underlying asset and classified as an operating lease if it does not.

The credit union leases out investment properties under operating leases (see Note 15).

Critical judgements in determining the lease term

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

For leases of property the following factors are normally the most relevant:

- If there are significant penalties to terminate (or not extend), the credit union is typically reasonably certain to extend (or not terminate).
- If any leasehold improvements are expected to have a significant remaining value, the credit union is typically reasonably certain to extend (or not terminate).
- Otherwise, the credit union considers other factors including historical lease durations and the costs and business disruption required to replace the leased asset.

The credit union assesses at lease commencement date whether it is reasonably certain to exercise the extension options or not exercise a termination option.

The lease term is reassessed if an option is actually exercised (or not exercised) or the credit union becomes obliged to exercise (or not exercise) it. The assessment of reasonable certainty is only revised if a significant event or a significant change in circumstances occurs, which affects this assessment, and it is within the control of the lessee.

	2020	2019
	$'000	$'000

NOTE 18

Deposits

At call deposits (including withdrawable shares)	436,375	360,985
Term deposits	283,580	269,351
Wholesale deposits	42,600	23,500
	762,555	653,836

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 19

Trade and Other Payables

Accrued interest payable on deposits and borrowings	1,674	2,602
Sundry creditors and accrued expenses	1,046	1,676
Employee benefits - annual leave	718	603
Trade creditors	389	440
Clearing accounts	4,165	12,356
	7,992	17,677

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.

	2020	2019
	$'000	$'000

NOTE 20

Provisions

	2020	2019
Employee benefits - long service leave	1,000	923
Lease make good of premises	193	-
	1,193	923
ANALYSIS OF LIABILITY		
Expected to be settled within 12 months	179	129
Expected to be settled after 12 months	1,014	794
	1,193	923

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.

LEASEHOLD IMPROVEMENTS

A provision is recognised for the estimated make good costs on the operating leases, based on the net present value of the future expenditure at the conclusion of the lease term discounted 3-7%. Increases in the provision in future years due to the unwinding of the interest charge, is recognised as part of the interest expense.

NOTE 21

Borrowings

	2020	2019
Borrowings	9,479	13,000
Subordinated debt	-	260
	9,479	13,260

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 accessed funding through the Reserve Bank of Australia's Term Funding Facility (TFF) in April. This facility is for a three (3) year term and has a borrowing rate of 0.25%.

There were no subordinated debt instruments held at reporting date.

NOTE 22

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.

	2020	2019
	$'000	$'000

NOTE 23

Reserves

General reserve

The general reserve records funds set aside for future expansion of the credit union.	1,376	1,376

Capital profits reserve

The capital profits reserve records non-taxable profits on sale of investments.	860	860

Asset revaluation surplus

The asset revaluation surplus records revaluations of non-current assets net of income tax.	2,816	2,754

General reserve for credit losses

The reserve for credit losses records amounts maintained to comply with the APRA Prudential Standards.	2,076	1,847

Hedging reserve

The hedging reserve records movements in the fair value of effective cash flow hedges net of income tax.	(58)	(193)

NOTE 24

Commitments

(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) Outstanding loan commitments

Loans and credit facilities approved with commitment to fund, but not funded at the end of the financial year:

Loans approved but not funded	12,601	7,884
Loans and credit facilities with an undrawn portion at the end of the financial year:		
Loans amounts available but not yet drawn	5,145	2,851
Loan redraw facilities available	62,354	49,365
Undrawn overdraft and credit facilities	17,147	14,527
	84,646	66,743
Total outstanding loan commitments	97,247	74,627

	2020	2019
	$'000	$'000

(c) Operating leases receivable

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

Not longer than 1 year	505	449
Longer than 1 and not longer than 5 years	762	233
	1,267	682

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 25

Contingent Liabilities

Liquidity Support Scheme

The credit union is a member of CUFSS a company limited by guarantee, established to provide financial support to member Australian Mutual ADIs in the event of a liquidity or capital problem. As a member, the credit union is committed to maintaining 3.1% of the total assets as deposits with CUSCAL Limited or other ADIs approved by APRA.

Under the terms of the Industry Support Contract (ISC), the maximum call for each participating Mutual ADI would be 3.1% of the credit union's total assets (3% under loans and facilities and 0.1% under the cap on contributions to permanent loans). This amount represents the participating ADIs irrevocable commitment under the ISC. At the reporting date there were no loans issued under this arrangement.

Repurchase Obligations (REPO) Trust

To support the liquidity management the credit union has entered into an agreement to maintain a portion of the mortgage backed loans as security against any future borrowings from the Reserve Bank of Australia (RBA) as a part of the credit union's liquidity support arrangements.

NOTE 26

Entity Consolidation

The credit union has established arrangements for the transfer of loan contractual benefits of interest and repayments to support ongoing liquidity facilities. These arrangements are with the Repurchase Obligation (REPO) trust for securing the ability to obtain liquid funds from the RBA – these loans are not de-recognised as the credit union retains the benefits of the trust until such time as a drawing is required.

The MTG SCU Trust Repo Series No. 1 trust is a trust established by the credit union to facilitate the liquidity requirements under the prudential standards. The trust has an independent trustee and was established in June 2020. In the case of the REPO Trust the RBA receives a Note certificate to sell to the credit union should the liquidity needs not be satisfied by normal operational liquidity. The Note is secured over residential mortgage-backed securities (RMBS).

The credit union has financed the loans and received the net gains or losses from the trust after trustee expenses. The credit union has an obligation to manage the portfolio of the loans in the trust and to maintain the pool of eligible secured loans at the value equivalent to the value of the Notes received. The credit union retains the credit risk of losses arising from loan default or security decline, and the interest rate risk from movements in market interest rates.

As loan repayments occur, or if a loan becomes ineligible under the Trust criteria, an additional pool of eligible loans will be assigned to the Trust to maintain the Repo facility.

The value of securitised loans that are not de-recognised as at reporting date was $103,367,289. In each case the loans are variable interest rate loans, hence the book value of the loans equates to the fair value of those loans.

	2020	2019
	$'000	$'000

NOTE 27

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

	2020 $'000	2019 $'000
Cash and cash equivalents	38,006	23,557
Trade and other receivables	5,355	8,018
Loans and advances	651,195	603,314
Financial assets at amortised cost	137,672	100,695
Total	832,228	735,584

(b) Financial liabilities - measured at amortised cost

	2020 $'000	2019 $'000
Deposits	762,555	653,836
Trade and other payables (excluding employee benefits)	7,273	17,073
Borrowings	9,479	13,260
Total	779,307	684,169

(c) Financial assets - measured at fair value

	2020 $'000	2019 $'000
Financial assets at FVOCI	2	2

(d) Financial liabilities - measured at fair value

	2020 $'000	2019 $'000
Derivatives	251	282

Recognition and Measurement

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

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

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

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

Classifications are determined by both:

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

Amortised cost

Financial assets are classified at amortised cost when they are held within a business model to solely collect contractual cash flows and the contractual terms of the financial assets give rise on specified date to cash flows that are solely payments of principal and interest (SPPI). Amortised cost is calculated by taking into account any discount or premium on the issue of the asset and costs that are an integral part of the effective interest rate.

Gains and losses are recognised in the income statement when the financial assets are derecognised or impaired.

Fair Value through profit or loss

Financial assets that are within a different business model other than ‘hold to collect’ or ‘hold to collect and sell’ are categorised as fair value through profit or loss. Further, irrespective of business model financial assets whose contractual cash flows are not solely payments of principal and interest are accounted for at FVPL. Financial assets in this category relate to investments in listed equity securities. Realised and unrealised gains and losses arising from changes in the fair value of these assets are included in the income statement in the period in which they arise.

Fair value through other comprehensive income (FVOCI)

Financial assets including debt instruments are classified at fair value through other comprehensive income when they are held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and the contractual terms of the financial assets give rise on specified dates to cash flows that are SPPI.

All financial assets not classified as measured at amortised cost or fair value through other comprehensive income are measured at fair value through profit or loss. In certain circumstances, on initial recognition including for specific equity investments, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or fair value through other comprehensive income as fair value through profit or loss if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Fair Value Measurement for shares in unlisted equities (CUSCAL Ltd)

This company supplies services to the credit union. The credit union designated its investment in CUSCAL Ltd equity securities as at FVOCI. The shares are able to be traded but within a market limited to other mutual ADI’s. 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 28

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.

	2020	**2019**
VaR after prepayments and hedges	$297,511	$282,612
VaR as % of capital	0.47%	0.46%

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	Within 1 year	1 to 5 years	Over 5 years	Non Interest Sensitive	Total
	$'000	$'000	$'000	$'000	$'000	$'000
Repricing Period at 30 June 2020						
FINANCIAL ASSETS						
Cash and cash equivalents	36,479	-	-	-	1,527	38,006
Trade and other receivables	-	-	-	-	5,355	5,355
Financial assets at FVOCI	-	-	-	-	2	2
Financial assets at amortised cost	4,628	103,274	29,770	-	-	137,672
Loans and advances	496,620	38,433	116,142	-	-	651,195
TOTAL FINANCIAL ASSETS	537,727	141,707	145,912	-	6,884	832,230
FINANCIAL LIABILITIES						
Deposits	436,087	316,111	10,069	-	286	762,553
Trade and other payables	-	-	-	-	7,273	7,273
Derivatives	-	-	-	-	251	251
Borrowings	-	-	9,479	-	-	9,479
TOTAL FINANCIAL LIABILITIES	436,087	316,111	19,548	-	7,810	779,556
OFF BALANCE SHEET ITEMS						
Interest rate swaps	-	15,000	-	-	-	15,000
Undrawn loan commitments	97,247	-	-	-	-	97,247
Repricing Period at 30 June 2019						
FINANCIAL ASSETS						
Cash and cash equivalents	22,222	-	-	-	1,335	23,557
Trade and other receivables	-	-	-	-	8,018	8,018
Financial assets available for sale	-	-	-	-	2	2
Financial assets held to maturity	-	80,325	20,370	-	-	100,695
Loans and advances	458,928	43,373	101,013	-	-	603,314
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
Trade and other payables	-	-	-	-	17,073	17,073
Derivatives	-	-	-	-	282	282
Borrowings	-	13,260	-	-	-	13,260
TOTAL FINANCIAL LIABILITIES	360,701	297,765	8,346	-	17,639	684,451
OFF BALANCE SHEET ITEMS						
Interest rate swaps	-	14,000	-	-	-	14,000
Undrawn loan commitments	74,627	-	-	-	-	74,627

(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 (b). The mortgage insurance concentration is 10.82% of the loan portfolio secured by residential mortgage. Refer to Note 12 (a) for further detail.

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%	25%
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	**2020 Balance $'000**	**2020 Balance %**	**2019 Balance $'000**	**2019 Balance %**
A-1+	59,902	34	50,530	41
A-1	27,131	16	11,878	10
A-2	67,796	39	35,668	29
A-3	3,499	2	2,977	2
Unrated	7,156	4	7,000	6
Unrated – Settlement accounts	8,669	5	14,863	12
Total	174,153	100	122,916	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:

	2020	**2019**
Liquid funds to total adjusted liabilities:		
- As at 30 June	16.89%	15.00%
- Average for the year	15.03%	14.81%
- Minimum during the year	13.47%	13.91%
Liquid funds to total deposits:		
- As at 30 June	20.68%	17.89%

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
2020							
FINANCIAL ASSETS							
Cash and cash equivalents	36,479	-	-	-	-	1,527	38,006
Trade and other receivables	5,355	-	-	-	-	-	5,355
Financial assets at FVOCI	-	-	-	-	-	2	2
Financial assets at amortised cost	22,092	16,435	29,575	69,570	-	-	137,672
Loans and advances	3,836	6,784	20,245	81,950	530,759	7,621	651,195
TOTAL FINANCIAL ASSETS	67,762	23,219	49,820	151,520	530,759	9,150	832,230
FINANCIAL LIABILITIES							
Deposits	52,579	95,633	171,193	10,619	-	436,374	766,398
Trade and other payables	7,273	-	-	-	-	-	7,273
Borrowings	-	-	-	9,485	-	-	9,485
Derivatives	-	-	151	100	-	-	251
	59,852	95,633	171,344	20,204	-	436,374	783,407
Undrawn loan commitments	97,247	-	-	-	-	-	97,247
TOTAL FINANCIAL LIABILITIES	157,099	95,633	171,344	20,204	-	437,914	882,194
2019							
FINANCIAL ASSETS							
Cash and cash equivalents	22,222	-	-	-	-	1,335	23,557
Trade and other receivables	8,018	-	-	-	-	-	8,018
Financial assets available for sale	-	-	-	-	-	2	2
Financial assets held to maturity	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

(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	**2020**	**2019**
	$'000	$'000
Net Tier 1 Capital	60,802	59,089
Net Tier 2 Capital	3,461	2,527
Total Capital Base	64,264	61,616
Total Risk Weighted Assets	420,597	374,140
Total Capital Ratio	15.28%	16.47%
Tier 1 Capital Ratio	14.46%	15.79%

NOTE 29

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:

	2020		**2019**	
	Carrying value	**Net fair value**	**Carrying value**	**Net fair value**
	$'000	$'000	$'000	$'000
ASSETS				
Cash and cash equivalents	38,006	38,006	23,557	23,557
Trade and other receivables	5,355	5,355	8,018	8,018
Financial assets at FVOCI	2	2	2	2
Financial assets at amortised cost	137,672	137,672	100,695	100,695
Loans and advances	651,195	651,398	603,314	604,643
LIABILITIES				
Deposits	762,555	764,158	653,836	655,715
Trade and other payables	7,992	7,992	17,677	17,677
Borrowings	9,479	9,479	13,260	13,260
Derivatives	251	251	282	282

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
2020				
Recurring fair value measurements				
Land and Buildings	-	-	3,748	3,748
Investment properties	-	-	5,502	5,502
Derivatives	-	251	-	251
Financial assets at FVOCI	-	-	2	2
2019				
Recurring fair value measurements				
Land and Buildings	-	-	4,321	4,321
Investment properties	-	-	4,929	4,929
Derivatives	-	282	-	282
Financial assets at FVOCI	-	-	2	2

There have been no significant transfers into or out of each level during the year ended 30 June 2020 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 marketplace. 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 3 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 3 valuation inputs in the years where an independent valuation is not undertaken.

NOTE 30

Economic dependency

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

(a) Fiserv

This entity 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.

(b) Data Action Pty Ltd

This entity 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 31

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.

	2020	2019
	$'000	$'000

NOTE 32

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:

Cash and cash equivalents	38,006	23,557

(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

Profit after income tax	2,097	3,222
Non-cash flows in profit after income tax:		
Net Profit / (Loss) on sale of assets	7	164
Revaluation of Land & Buildings	(62)	(245)
Revaluation of Investment Property	-	(174)
Depreciation and amortisation	922	999
Write back prior year depreciation	-	(473)
Provision for loan impairment	704	18
AASB adjustments to retained earnings	-	(841)
Changes in assets and liabilities:		
Increase/(Decrease) in provisions	270	(7)
Increase in interest payable	(909)	600
(Increase)/Decrease in interest receivable	(70)	(106)
Increase in income taxes payable	21	240
Increase in deferred tax assets	104	(205)
Decrease in deferred tax liability	(3)	81
(Increase)/Decrease in other assets	(224)	(612)
Increase in trade and other payables	(8,561)	6,609
Increase in trade and other receivables	2,733	(2,500)
	(2,971)	6,770
Net movement in liquid investment balances	(36,977)	(8,926)
Net movement in loans	(48,676)	(40,845)
Net movement in deposits	108,719	54,972
Net cash provided by operating activities	20,095	11,971

NOTE 33

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 2020 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
Chair

Julie Osborne
Chair Audit Committee

Lismore 30 September 2020

Grant Thornton

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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 2020, 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 2020 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 2020, 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

Madeleine Mattera

Madeleine Mattera
Partner – Audit & Assurance

Sydney, 30 September 2020

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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