SUMMERLAND

2017 annual report

registered office

101 Molesworth Street
Lismore NSW 2480

Telephone
1300 802 222

Directors

Nicolas Harrison	Chairman
Graeme Green	
John Shanahan	
Graham Olrich	
Katrina Luckie	
Paul Spotswood	
David Bergmark	

Executive Team

Margot Sweeny	Chief Executive Officer
Sally-Anne Cumine	Chief Financial Officer
Donna Kildea	Chief Operating Officer
René Lange	Chief Information Officer
Andrew Tucker	Chief Customer Officer

Legal Counsel
Baker & McKenzie
Bright Law
COBA Legal
Daniels Bengtsson Pty Ltd
Maxwell & Co
Riley & Riley
Purcell Partners

Bankers
Australian Settlements Limited
Australia and New Zealand Banking Group Limited

Auditors
KPMG
Grant Thornton

Affiliations
Australasian Mutuals Institute
Credit Union Foundation Australia (CUFA Ltd)
CUFSS Limited
Customer Owned Banking Association (COBA)
The Australian Credit Union Historical Co-operative Ltd
World Council of Credit Unions

Acknowledgements
Summerland Credit Union - a Division of Summerland Financial Services, recognises the following organisations and individuals for the assistance they have provided on behalf of the credit union and its customers:

Our employer groups
Australian Prudential Regulation Authority
Bridges Financial Services
CGU Insurance
Data Action Pty Ltd
First Data Corporation
Football Federation Victoria
Fellow credit unions, building societies and mutual banks

contents

chairman's report

Given the challenges in the market, which naturally flow down to create uncertainties in consumers and impact their spending and loan decisions, the final year results for 2016/2017 are sound.

I am pleased to present the 2017 Annual Report on behalf of the Board.

The 2016/2017 financial year saw a record low interest rate market, strong competition from banks and changing political landscapes affecting consumer/business confidence and activity.

Given the challenges in the market, which naturally flow down to create uncertainties in consumers and impact their spending and loan decisions, the final year results for the 2016/2017 year are sound.

$666m
assets

$2.15m
profit

16.5%
capital adequacy ratio

Industry representation

It was a great honour both for me and the Credit Union, to be elected as a director for a three year term on the Board of the Customer Owned Banking Association [COBA] at the October 2016 AGM.

Our CEO has previously served on the COBA Board for three terms.

My occupying such a position ensures that the Credit Union is kept completely up-to-date on issues within the Mutual banking sector, and that we are able to positively assist the sector in future developments.

Positive changes to competition policy

The Federal Budget in May 2017 provided a significant opportunity for the mutual banking sector to leverage its role and provide real alternatives to the Big Five.

The Proposed Bank Levy announced by Federal Treasurer Scott Morrison means our sector is now much better placed to continue to grow and provide genuine financial support to our members.

Further levelling the field was the removal of restrictions on the use of the words 'bank' and 'banking' by credit unions and building societies to describe their business and activities.

Financial performance

Our credit union continued the successful results achieved last year and I am pleased to report a net profit of $2.15m this financial year.

Given the challenging market place this year, the result highlights strong and sound management. It is particularly pleasing that while prudently managing our finances we have been able to introduce new technology to provide options our customers are asking for and that improve customer experience.

This year our loans exceeded our budget target by $28m. An increase in the use of brokers has had a positive impact on our loans growth; and despite APRA imposing an industry wide 10% limit on investment loan growth and limits on interest only lending (30% of total book), we have had record annual loans growth of 11%.

Our Investor Variable and Fixed Home Loans both received CANSTAR 5 Star Rating for Outstanding Value as did our Visa Rewards Credit Card.

More pleasingly we have helped over 300 families, couples and individuals achieve their dream of home ownership by offering competitive rates and quality products.

Our credit team is to be congratulated on the important role they play in the home loan cycle by providing great customer service with their quick assessment of loan applications and careful consideration of an individual's circumstances to avoid financial hardship.

Sustainable and Strong

Once again against the backdrop of challenging market conditions and an increased pace of change I am proud to say that our credit union has shown strong results.

I would like to thank my fellow directors for their professionalism and valued contribution to the strategic and financial management of the credit union throughout another successful year.

Nicolas Harrison
Chairman

chief executive officer's report

strategic plan

In 2016 the Board and Executive confirmed the Strategic Plan 2020 which sets out the future direction of our credit union.

This plan is built on four strategic pillars:

1. People: - we must enable our staff as our key differentiator
2. Customers: - we must ensure the customer is at the heart of everything we do
3. Digital & Data: - we must embed digital technology and native capability in our business
4. Strength & Sustainability: - we must continue to build a strong and sustainable organisation.

In developing our strategic plan we gave much consideration to the rapid pace of change within our industry and the need to continually innovate and adapt in order to remain relevant to our customers in years to come.

The new world of banking will require different skills of our staff and a continued shift to a digital focus for our business.

The third strategic pillar in particular recognises our customers increasing preference toward digital banking channels and the increased investment required to continue to meet the needs of our customers, and staff, into the future.

Strategic Pillars:

1 **people**
we must enable our staff as our key differentiator

2 **customers**
we must ensure the customer is at the heart of everything we do

3 **digital & data**
we must embed digital technology and native capability in our business

4 **strength & sustainability**
we must continue to build a strong and sustainable organisation

our vision

At Summerland we believe that our purpose, why we all come to work every day, is to make a difference; for our families, our staff, our customers, the environment and our communities.

We believe in making a difference at both a local and international level. This belief in our ability and indeed our responsibility, to make a difference drives our actions, the partnerships we form and the experiences we deliver.

What makes us different is the way we do things.

Everyone from the Board of Directors to our newest employee work and live to a common set of Shared Beliefs and Guiding Principles which are encapsulated in our Values. It's the Summerland way.

guiding principles

we are guided in our actions by the following principles:

- live our values
- always act ethically
- be worthy of trust
- work and live cooperatively
- assume and inspire leadership
- be inclusive of others
- take responsibility
- show empathy

sustainability

We recognise that our future success and sustainability relies on the success and sustainability of our customers and communities and they on ours. We acknowledge this mutual relationship with our Stakeholders and the important role they play in our success, within our strategic plan.

We also acknowledge that we are part of a wider, global, community and for this reason Summerland has chosen to actively support the United Nations Sustainable Development Goals, a set of 17 goals set out by the UN to transform the world by 2032.

And while it may seem ambitious to think we, a financial institution headquartered in regional Australia, can contribute in any significant way to such wide reaching goals, we truly believe that through grass roots change global transformation can occur.

We feel so strongly about this that the 17 UN Sustainable Development Goals are incorporated into the plan's that underpin our strategic pillars and therefore shape our activities going forward.

In addition every year we will identify a number of key areas on which to concentrate our efforts in particular those of our Sustainability Team and in relation to our Return to Community program.

community

March 2017, saw many of our communities impacted by Cyclone Debbie. Our own Lismore branch was flooded and required extensive repairs.

With the help of Summerland's dedicated staff, customers, local community, volunteers and tradespeople, we were able to clean up, barricade off renovation areas and open for business within 3 days.

As the first financial institution to be operating in the Lismore CBD, we supported our local community by offering non-customers fee free access to our in-branch ATM, and coin exchange services until alternative arrangements could be made by the other financial institutions.

In addition, we distributed $40,000 through the Summerland Business Grant Program to help 22 business customers get back on their feet after Cyclone Debbie. The sooner local businesses are back trading profitably, the better for the owners, their business, staff, customers and the whole region.

Overall this year we supported our local community groups and clubs by returning more than $1.2m through direct (e.g. sponsorship) and indirect (e.g. fee rebates, volunteering) support.

To support the communities in which we work, we have established a staff volunteering program. The program is designed to foster awareness amongst staff of the value of their skills, personal contributions and the need within the community to support understanding and acceptance. Staff can undertake volunteering without having to use their own leave entitlements.

This year our staff participated in 102 hours of volunteering (during work time) with many also contributing a large number of hours in the evenings and on weekends.

we have returned more than

$1.2m

to our communities through direct and indirect support.

summerland football

In May we re-branded our Banking Solutions for Football Fans initiative to Summerland Football in recognition of the important role it plays in our strategic plan.

Sharing the passion of more than a million Australians, Summerland Football supports grass roots football helping encourage individuals to work as part of a team, and participation of all peoples regardless of ability, religion, race or gender.

Socceroos legend Archie Thompson and Matilda's legend Melissa Barbieri continue as brand ambassadors for Summerland Football and are working with us to promote the game of football and our Cash 4 Clubs program; giving cash back to football clubs.

With the help of our Business Manager and Pararoo, Ben Roche, we saw Summerland Football make in roads in the Melbourne and Canberra markets through a number of strategic partnerships.

It is a very important aspect of our Strategic Plan to increase membership in a younger demographic and this brand not only allows us to support grass roots football and accessibility to sport, it allows us to work towards achieving this goal of engaging with a younger demographic.

Although initially we have focused on expanding growth of the brand in the states of Victoria and the ACT, access is not limited to these areas, anyone can open up an account with Summerland Football.

Summerland Football supports grass roots football, helping encourage individuals to work as part of a team and participation of all peoples regardless of ability, religion, race or gender.

global citizen

As a proud supporter of international development agency, CUFA, we are delighted to share the impact CUFA continued to have this past year, reaching millions of people across the Asia Pacific, effectively breaking the poverty cycle via economic development.

CUFA works to alleviate poverty in 4 key ways; economics, education, employment, and enterprise. Simply put, CUFA provides the resources and opportunities that the financially excluded and the poor really need in order to lift themselves out of poverty and to become financially independent.

CUFA's project outcomes, and the stories of the people themselves, consistently reflect CUFA's passion and unique expertise in the economic development space.

The Bougainville Youth Initiative is just one example where CUFA's financial literacy, employment, and micro-enterprise training had a profound impact on more than 16,000 youths who participated.

Similarly, CUFA's training and personalised mentoring provided via the SEED project, Cambodia, helped widow and single mother, Mean Savy, increase her income by 7 times, from $2.50/ day to $17.50/ day.

But CUFA doesn't just teach the poor how to make more money. CUFA also teaches how to use money wisely, and connects the community with their local savings bank or credit union so that they can safely save for their family, their goals, and for their future.

We are proud to be a CUFA supporter and hope you are also inspired by the powerful work and results CUFA continued to achieve this past year.

"Without the OTJ program I don't have any idea how to get a job. I am glad that I have a stable job now to help my family."

Max Tarure, 22 years (above) was one of 16,000+ whose life has changed forever as a result of CUFA's training, via the Bougainville Youth Initiative.

our people

Summerland considers our people our greatest asset. We work hard to ensure we provide an environment where employees and others in the workplace are treated fairly, with respect, and are free from discrimination, harassment, vilification and victimisation.

Every year Summerland submits an annual report to the Workplace Gender Equality Agency (WGEA) detailing actions taken in the previous twelve months to enhance access to equal opportunities at work.

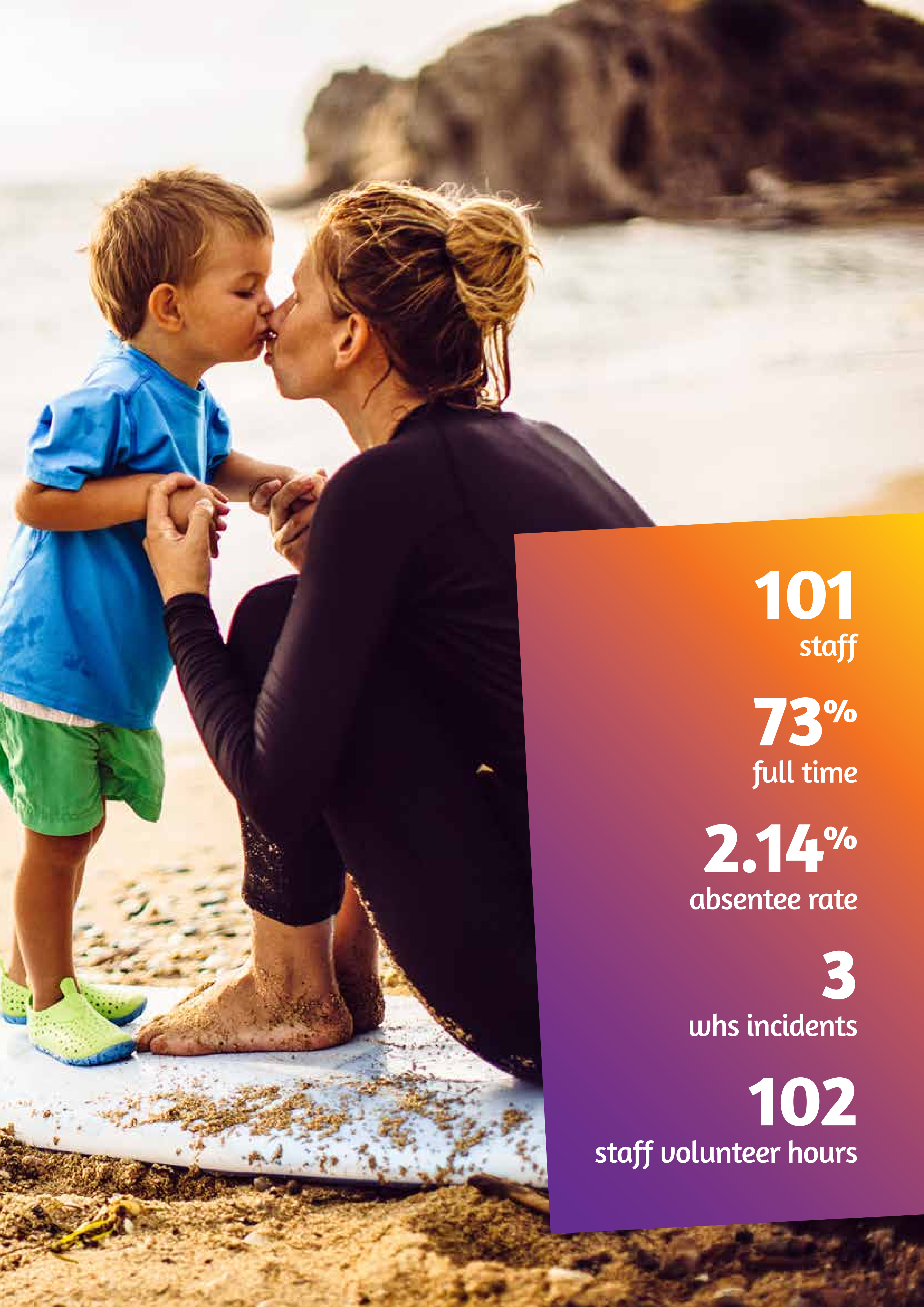
We also conduct an annual Employee Engagement Survey utilising the services of an external provider. This anonymous survey allows staff to provide feedback to the Executive and Management Teams on how they feel about working for Summerland.

We love to hear positive feedback from our customers and the wider community – who doesn't? This year three of our branches won awards recognising excellence in the provision of their services.

Summerland's Lismore Branch won two awards, 'Business of the Year' and 'Employer of Choice' at the Lismore Chamber of Commerce Business Excellence Awards. This is an outstanding achievement and our staff are to be congratulated on receiving this recognition and the highly sought after Business of the Year award.

As one of our stratetgic goals has been to be an employer of choice in the region, the latter award is evidence of our success in this area.

These awards are entirely due to the professionalism and genuine care and quality of service given to our customers every day by our staff. We are so proud to have such dedicated staff working with us.



101
staff

73%
full time

2.14%
absentee rate

3
whs incidents

102
staff volunteer hours

innovation

97%
electronic transactions

7.3%
increase in internet banking usage

16.74%
increase in banking app usage

16.22%
increase in eStatements

We continue to introduce new digital banking experiences and make improvements to our existing technology so we meet the needs of our customers and provide an exceptional customer experience.

Areas of improvement this year include the launch of our new website, upgrades to our banking app, the ability for customers to change their PIN via internet banking, and upgrades to our internet banking system. We also continued our focus on ensuring new customers receive a smooth and seamless experience when commencing their association with Summerland.

Future innovations our customers can look forward to are 'wearables', similar to a watch that customers can use in a similar way to 'tap and go'; and the introduction of the New Payment Platform (NPP) where payments will be made in real-time.

The roll-out of refurbished branches continues to give a new look and provide tools such as iPads, and self-service options for customers. As our customers change the way they prefer to do their banking, so must we adapt and change to meet their needs.

Technology is now also being used to create efficiencies in the way our staff communicate by utilising online meeting options, such as 'Go-To-Meeting' for meetings between branches and staff training. This creates cost savings and reduces staff travel time. In the future, the introduction of Office 365 will add to the efficiencies.

protection

The introduction of a dedicated, full-time Fraud Analyst to focus solely on monitoring transactions and fraudulent activities has proven to be very successful as fraud events are being detected, or reported much sooner.

Given that identity fraud, phishing scams and other forms of fraud are increasing and becoming more sophisticated with the use of technology, the provision of education to staff and customers regarding how to spot a potential scam, and how to protect themselves against fraud will be an ongoing focus of Summerland.

protecting the environment

Sustainability is one of the core business values underlying Summerland's operations. Care for our physical environment is a key component in being a Sustainable organisation.

Following a path to environmental sustainability has been part of the Summerland business culture for many years, with annual reporting since 2010 illustrating transparency and corporate responsibility.

Since 2013 we have been proud to say that we have no direct investments in, nor do we provide any loans to, fossil fuel/CSG mining industries.

This stance is extremely important to our customers and our staff who want to know that their assets are not being used to actively damage or impact our environment.

Achieving sustainable management and efficient use of natural resources, and reducing waste generation through prevention, reduction, recycling and reuse are continued areas of focus.

We benchmark ourselves against robust targets each year, and invest in environmental initiatives that best align with our values.

Reducing our environmental costs and therefore the impact on our community is reflected in the changes achieved against our benchmarks in power, fuel, air travel, and paper, which contributed to cost to income improvements in 2016/17.

14%
reduction in power consumption

9%
increase in paper usage

9%
reduction in fuel consumption

55%
reduction in air travel

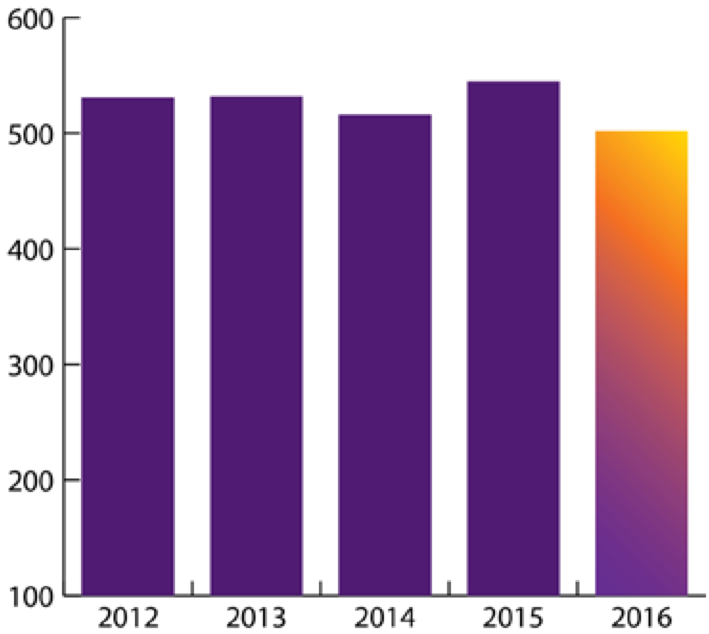
6.22 tCO2e/FTE
gross carbon emissions

benchmark reporting

power

There was a 14% reduction in energy consumption per FTE this year, with 4807 kWh consumed per FTE or 124 kWh per m2 of Summerland owned and leased premises.

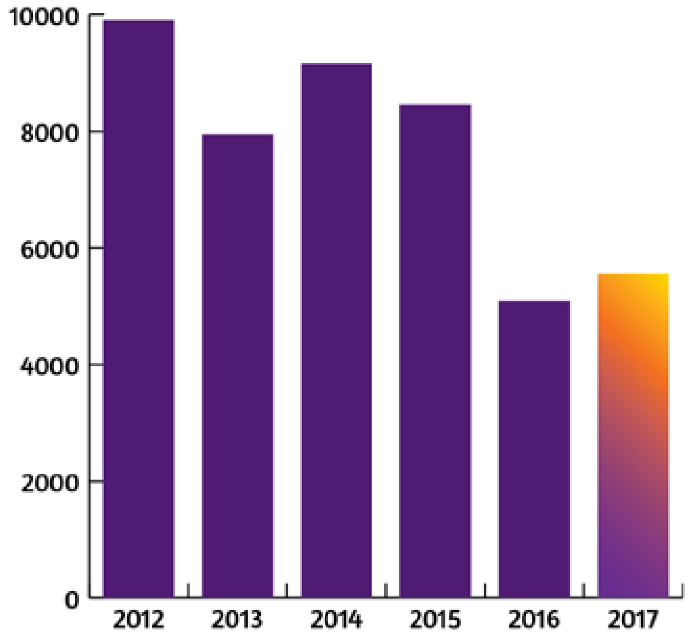
Accredited renewable energy take-up in electricity contracts is currently 10%pa.



paper

Internal paper usage for the 2016/17 year was 5,555 sheets of normal copy paper per FTE. This is a 9% increase on the previous year.

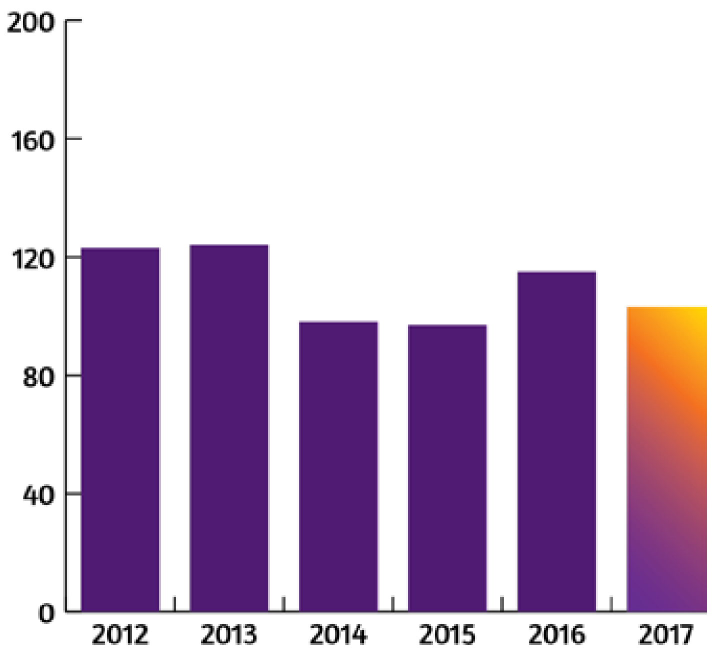
Improving the environmental impact of the paper we purchase and use in our marketing collateral and member communications, 100% of A4 copy paper and customer statement paper is certified carbon neutral under the National Carbon Offset Standard Carbon Neutral program.



vehicles

The corporate vehicle fleet used 9,680 litres of fuel; or 103 litres per FTE. This is a 9% reduction on the previous year.

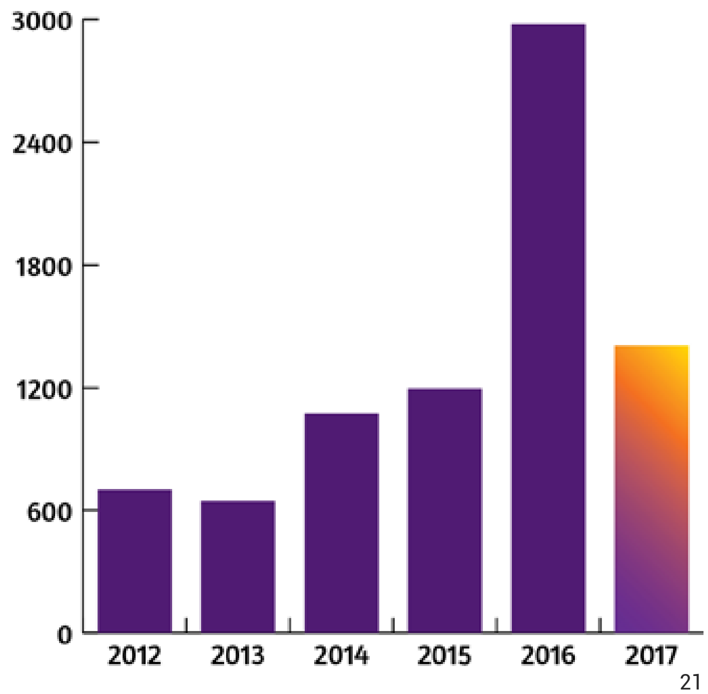
Utilising video or teleconferencing forms part of the assessment when making staff travel decisions.



air travel

Business travel by air in 2016/17 consisted of flights covering 131,199 kms, which equated to 1405 kms per FTE. This is a 55% reduction on the previous year.

This reduction can be attributed to the appointment of an on-the-ground business manager for Summerland Football in the southern states.



suppliers

Summerland's Purchasing Policy provides guidance for using local providers of goods and services; using suppliers that embrace environmentally sustainable practices; and establishing a framework to ensure the efficient, effective and ethical use of resources.

facilities

As normal procedure, sustainability features have been utilised in branch refurbishments, which this year occurred in Ballina and Coolangatta:

Lower footprint features - examples include:

- all local contractors used in construction.
- carpet - ECS Level 4, the top grading in the ACCS Environmental Certification Scheme for the environmental performance of carpet.
- acoustic wall fabric – accredited under ISO 9001 & ISO 14001 Quality & Environmental Management systems. Has low embodied energy, minimum 60% recycled content from PET bottles, supports safer indoor air quality.
- floor tiles – rated A+ for ISO 16000, Low VOC emissions (volatile organic compounds) and CMR compounds (toxic emissions)
- lights – high efficiency LEDs used throughout
- all board material and Laminate used in the refurbishment is certified and rated E0 meaning it has extremely low toxic emissions including VOCs (volatile organic compounds).

carbon emissions

Our total CO2e emissions are the sum of our emissions in scope 1, 2 and 3 in tonnes of carbon dioxide equivalent.

Scope 1 emissions comprises emissions from our use of vehicle fuel and air conditioning refrigerants.

Scope 2 comprises emissions from our use of electricity, including renewable electricity. Data collated in scope 1 and 2 only comprises the energy used in buildings where Summerland has management control plus leased retail branches.

Scope 3 comprises emissions from our business travel by air and car, plus emissions from waste sent to landfill.

For air travel, we gather information on short, medium and long-haul flights. Car travel data is derived from business travel of corporate lease cars, and estimated kilometres for taxi travel for business purposes.

Total gross emissions by staff for 2016/17 was 6.22 tCO2e/FTE.

financial report

Directors' report

Your Directors present their report on the credit union for the financial year ended 30 June 2017.

Summerland Credit Union (the credit union) is a division of Summerland Financial Services Limited, a company registered under the Corporations Act 2001. The registered company name was changed from Summerland Credit Union Limited to Summerland Financial Services Limited on 1st July 2017.

Information on Directors

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

Nicolas Harrison

B.A, LL.B, FAMI, FAICD, MIML

Director since 2003
Chair since 2008
Chair, Executive Committee
Member, Nominations Committee
Member, Governance Committee

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

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.

Graeme Green

Dip FS, FAMI

Director since 2008
Member, Audit Committee

Graeme Green has had 39 years of credit union experience, including 27 years as a credit union Chief Executive Officer and 3 years in a credit union Senior Management role. He has served on numerous management boards and working committees within the credit union industry.

John Shanahan

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

Director since 2008
Member, Executive Committee
Chair, Audit Committee
Member, Risk Advisory Committee
Member, Governance Committee

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

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

Graham Olrich

Dip FS, Dip FS CUD, FAICD, FAMI

Director since 2010
Chair, Risk Advisory Committee
Member, Governance Committee

Graham Olrich currently runs his own management consultancy company.

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 Community Mutual Ltd (trading as Regional Australia Bank), Chairman of E-Commerce Holdings Pty Ltd (trading as The System Works Group – TSWG), and a Director of The Capricornian Ltd.

Paul Spotswood

B.Ec, MAMI, MAICD

Director since 2010
Member, Audit Committee

Paul Spotswood is a director/partner of Social and Digital Australia Pty Ltd, a media services company that concentrates on regional markets across Australia to assist businesses understand and utilise social media and digital marketing channels to generate business. Paul was formerly General Manager for APN Australian Regional Media (now News Regional Media) across a number of regional markets publishing newspapers, websites and associated publications for 15 years. Prior to this Paul was a publisher with Reed Business Information, Reed Elsevier, Australia for 9 years, publishing Business-to-Business information in the form of magazines, websites, e-commerce applications and other digital products to the financial, architecture, construction, entertainment and marketing industries.

Katrina Luckie

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

Director since 2010
Chair, Governance Committee
Member, Risk Advisory Committee

Katrina Luckie is the Executive Manager of Strategy and Engagement for Social Futures, one of the largest community service providers in Northern NSW. Katrina has strong skills in project concept development, research, strategy, insight 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.

Katrina has an extensive background in developing regional strategy and environmental planning on the North Coast of NSW and a strong interest in social justice issues. Katrina champions and supports management with pursuing Summerland's environmental sustainability journey.

David Bergmark

BComm, MAICD, ICAA, F Fin, MAMI

Director since 2014
Member, Risk Advisory Committee

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

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

Director's meeting attendance

Director	Board of Directors		Audit Committee		Risk Advisory Committee		Governance Committee	
	E	A	E	A	E	A	E	A
Nicolas Harrison	7	7			3	3	2	2
Graeme Green	7	7	4	4	3	3		
John Shanahan	7	6	4	4	4	4	2	2
Graham Olrich	7	7			4	4	2	2
Katrina Luckie	7	6			4	4	2	2
Paul Spotswood	7	7	4	4	3	3		
David Bergmark	7	7			4	4		

E = Eligible to Attend   A = Attended

Margot Sweeny

DUniv, MEc, BBus, FCPA, F Fin, MAICD, FAMI, MACS, JP

Company Secretary

Margot Sweeny has worked extensively in both the commercial and public sectors, in a variety of fields including construction, computing, accounting, financial management and taxation. Her community positions include: Director of Australian Securities Limited (ASL), Director and Chair of CUFA Ltd and Member of the Cooperatives Alliance.

Margot has strong connections with Southern Cross University and has just completed a 14 year term on the University Council, which was a combination of a two (2) year term as an elected staff representative and a 12 year term as an appointed independent financial expert. During her term she was Chair of the Audit Committee (2006 - 2010), and Chair of the Finance Committee (2010 - 2017). Margot is patron of the Friends of the Koala Inc in the Far North Coast of NSW.

Directors' benefits

No Director has received or become entitled to receive, during or since the financial year, a benefit because of a contract made by the credit union, 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.

Financial performance disclosures

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 $2.15m (2016: $3.33m).

A flood occurred in Lismore in late March 2017. All costs relating to repairing the premises were fully recovered from the credit union's insurance provider.

Dividends

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

Review of operations

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

Significant changes in state of affairs

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

Events occurring after balance date

On 1st July 2017 the company name was changed from Summerland Credit Union Limited to Summerland Financial Services Limited.

Apart from this, there were no matters or circumstances arising since the year end which significantly affected or may significantly affect the 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 and results

No other 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.

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.

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:

Mr Nicolas Harrison
Chair

Mr John Shanahan
Chair Audit Committee

Lismore 27 September 2017

Grant Thornton

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Sydney NSW 2000

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Sydney NSW 1230

T +61 2 8297 2400
F +61 2 9299 4445
E info.nsw@au.gt.com
W www.grantthornton.com.au

Auditor's Independence Declaration to the Directors of Summerland Financial Services Limited (formerly Summerland Credit Union 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 (Summerland Credit Union Limited) for the year ended 30 June 2017, I declare that, to the best of my knowledge and belief, there have been:

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

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

Grant Thornton

GRANT THORNTON AUDIT PTY LTD
Chartered Accountants

Claire Gilmartin

C L Gilmartin
Partner - Audit & Assurance

Sydney, 27 September 2017

Statement of Comprehensive Income

FOR THE YEAR ENDED 30 JUNE 2017

	Note	2017	2016
		$'000	$'000
REVENUE			
Interest income	2	25,537	27,561
Interest expense	2	(9,931)	(11,821)
NET INTEREST INCOME		15,606	15,740
Non-interest income	3	4,025	4,460
EXPENSES			
Impairment expense	13	(8)	46
Employee benefits expense	4	(8,108)	(7,648)
Occupancy expense	4	(491)	(592)
Depreciation and amortisation expense	4	(1,102)	(790)
Other expenses	4	(6,874)	(6,483)
Total Expenses		16,583	15,467
PROFIT BEFORE INCOME TAX		3,048	4,733
Income tax expense	5	(894)	(1,400)
PROFIT FOR THE YEAR NET OF TAX		2,154	3,333
OTHER COMPREHENSIVE INCOME NET OF TAX			
Items that may be reclassified to profit and loss			
Gain/(Loss) on cash flow hedges taken to equity		94	(73)
Items that will not be reclassified to profit and loss			
Movement in fair value of land and buildings		-	85
OTHER COMPREHENSIVE INCOME FOR THE YEAR NET OF TAX		94	12
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		2,248	3,345
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO MEMBERS OF THE CREDIT UNION		2,248	3,345

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

Balance sheet

AS AT 30 JUNE 2017

	Note	2017	2016
		$'000	$'000
ASSETS			
Cash and cash equivalents	8	18,532	28,929
Financial assets held to maturity	11	108,539	113,394
Trade and other receivables	9	3,400	4,512
Other assets	10	641	647
Loans and advances	13	523,337	471,878
Financial assets available for sale	12	2	2
Investment property	16	4,547	4,547
Property, plant and equipment	15	5,381	5,465
Current tax asset	21	147	-
Deferred tax assets	17	1,016	891
Intangible assets	18	527	639
TOTAL ASSETS		666,069	630,904
LIABILITIES			
Deposits	19	577,932	554,793
Trade and other payables	20	8,801	8,868
Derivatives	14	117	249
Borrowings	24	21,610	11,610
Current tax liability	21	-	82
Deferred tax liabilities	22	732	765
Provisions	23	915	823
TOTAL LIABILITIES		610,107	577,190
NET ASSETS		55,962	53,714
MEMBERS EQUITY			
Redeemable preference share capital account	25	496	482
Reserves	26	6,678	6,431
Retained earnings		48,788	46,801
TOTAL MEMBERS' EQUITY		55,962	53,714

The above Balance sheet should be read in conjunction with the accompanying notes.

Statement of Changes in Equity

FOR THE YEAR ENDED 30 JUNE 2017

	Redeemable Preference Share Capital Account	General Reserve	Capital Profits Reserve	Hedging Reserve	Reserve for Credit Losses	Asset Revaluation Surplus	Retained Earnings	Total Members' Equity
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
BALANCE AT 1 JULY 2015	467	1,376	860	(96)	1,841	2,424	43,497	50,369
Profit for the year	-	-	-	-	-	-	3,333	3,333
Other comprehensive income net of tax	-	-	-	(73)	-	85	-	12
Transfers to / from retained earnings:								
- Redeemable preference share account	15	-	-	-	-	-	(15)	-
- Reserve for credit losses	-	-	-	-	14	-	(14)	-
BALANCE AT 30 JUNE 2016	482	1,376	860	(169)	1,855	2,509	46,801	53,714
BALANCE AT 1 JULY 2016	482	1,376	860	(169)	1,855	2,509	46,801	53,714
Profit for the year	-	-	-	-	-	-	2,154	2,154
Other comprehensive income net of tax	-	-	-	94	-	-	-	94
Transfers to / from retained earnings:								
- Redeemable preference share account	14	-	-	-	-	-	(14)	-
- Reserve for credit losses	-	-	-	-	153	-	(153)	-
BALANCE AT 30 JUNE 2017	496	1,376	860	(75)	2,008	2,509	48,788	55,962

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

Statement of Cash Flows

FOR THE YEAR ENDED 30 JUNE 2017

	Note	2017	2016
		$'000	$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest received		25,793	27,728
Other income		5,195	4,498
Interest paid		(10,389)	(12,613)
Payments to suppliers and employees		(15,338)	(15,109)
Movement in operating assets and liabilities			
Net movement in liquid investment balances		4,855	(10,433)
Net movement in loans		(51,455)	(10,920)
Net movement in deposits		23,139	16,464
		(18,200)	(385)
Income taxes paid		(1,282)	(1,323)
Net cash used in operating activities	35 (c)	(19,482)	(1,708)
CASH FLOWS FROM INVESTING ACTIVITIES			
Payment for property, plant and equipment		(747)	(1,061)
Payment for intangibles		(177)	(275)
Proceeds - sale of non-current assets		9	1,207
Net cash used in investing activities		(915)	(129)
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of borrowings		-	(1,300)
Proceeds from borrowings		10,000	10,000
Net cash provided by financing activities		10,000	8,700
Net (decrease) / increase in cash and cash equivalents held		(10,397)	6,863
Cash and cash equivalents at the beginning of the financial year		28,929	22,066
Cash and cash equivalents at the end of the financial year	35 (a)	18,532	28,929

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

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2017

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 (formerly Summerland Credit Union Limited) is a public company 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 balance sheet has been prepared in order of liquidity.

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) Income tax

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 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 income 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.

(b) Financial instruments recognition and measurement

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

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

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

(c) Cash and cash equivalents

Cash and cash equivalents include cash on hand and unrestricted short term highly liquid balances held in Authorised Deposit-taking Institutions (ADIs).

Cash and cash equivalents are carried at cost which is equal to fair value in the balance sheet.

(d) Held-to-maturity investments

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

HTM investments are measured subsequently at amortised cost using the effective interest method. If there is objective evidence that the investment is impaired, determined by reference to external credit ratings, the financial asset is measured at the present value of estimated future cash flows. Any changes to the carrying amount of the investment, including impairment losses, are recognised in profit or loss.

(e) Loans and advances

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

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

(f) Equity investments

Investments in shares are classified as available for sale financial assets where they do not qualify for classification as loans and receivables, or investments held for trading. Investments in shares not listed on the stock exchange or, which do not have a ready market or are not capable of being readily valued, are recorded at the lower of cost or recoverable amount.

(g) Deposits

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.

(h) Borrowings and subordinated debt

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.

(i) Revenue

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 origination fees are deferred as part of the loan balance and are brought to account as loan origination fee revenue over the expected life of the loan.

Fees on Loans

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

Net Gains and Losses

Net gains or losses on loans to the extent that they will arise from the partial transfer of business or on securitisation, do not include impairment write downs or reversals of impairment write downs.

(j) Loan transaction costs - effective interest method

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

(k) Impairment - loans and advances

A provision for losses on impaired loans is recognised when there is objective evidence that impairment of a loan has occurred. All loans are subject to continuous management review to assess whether there is any objective evidence that any loan or group of loans is impaired. Evidence of impairment may include indications that the borrower has defaulted, is experiencing significant financial difficulty, or where the debt has been restructured to reduce the burden to the borrower.

Impairment loss is measured as the difference between the loan's carrying amount and the value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the loan's original effective interest rate. Impairment losses are recognised in the statement of comprehensive income and reflected in a provision account against loans and advances. Interest on impaired loans and advances continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of the impairment loss to decrease the impairment loss is reversed through the statement of comprehensive income.

Provision for Impairment

The amount provided for impairment of loans is determined by management and the Board. The Prudential Standards issued by APRA enable the minimum provision to be based on specific percentages of the loan balance, contingent upon the length of time the repayments are in arrears, and the security held. A further provision is made where there is any objective evidence that any loan or group of loans is impaired and unlikely to be recoverable.

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

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

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

(l) Securitisation

The credit union has participated in a loan securitisation programme whereby housing mortgage loans are sold as securities to a Trust, thus removing the asset from the credit union's balance sheet. The contractual arrangements of this programme meet the criteria for transferring assets off balance sheet.

The credit union acts as an agent to promote and complete loans on their behalf, for on-sale to an investment trust. The credit union bears no risk exposure in respect of these loans.

The credit union is not obliged to support any losses incurred by investors in the Trust and does not intend to provide such support. The credit union has no right to repurchase any of the securitised loans.

In addition the credit union is able to assign mortgage secured loans at the book value of the loans, subject to acceptable documentation criteria. During the year the credit union assigned Nil (2016: $0.02m) in loans. These loans qualify for de-recognition on the basis that the assignment transfers all the risks and rewards associated with the loan and there is no residual benefit to the credit union. The credit union receives a management fee to recover the costs of ongoing administration of the processing of loan repayments and the issue of statements. The amount of securitised loans under management at 30 June 2017 is Nil (2016: Nil).

(m) Property, plant and equipment

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.

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

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

Plant and Equipment

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

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

Depreciation

The depreciable amount of all property, plant and equipment including buildings and capitalised leased assets but excluding 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. A summary of the rates used is:

Buildings	2.5%
Motor Vehicles	20.0%
Computer Hardware	16.7%-33.3%
Office Furniture and Equipment	33.3%
Leasehold Improvements	33.3%

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.

(n) Investment property

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 by independent valuers, and adjusted to reflect the current market value of the property. Changes in fair value of investment property are reflected in the statement of profit or loss and other comprehensive income for the year.

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

(o) Intangible assets

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. Some establishment costs have an indefinite life and are not amortised by the credit union. Other intangible assets that are deemed to have a definite life are amortised over 3 – 5 years.

(p) Leases

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

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

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

(q) Employee benefits

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.

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.

(r) Superannuation contributions – accumulation fund

Contributions are made by the credit union to employee superannuation funds and are charged as expenses when incurred.

(s) Derivative instruments held for risk management purposes

The credit union uses derivative financial instruments such as interest rate swaps to hedge its risks associated with interest rate fluctuations.

Derivatives used for risk management purposes are measured at fair value in the balance sheet. The fair value of interest rate swap contracts is determined by reference to market values for similar instruments.

For the purpose of hedge accounting, interest rate swaps are classified as a cash flow hedge as they hedge exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a forecasted transaction.

For further details of interest rate swaps used by the credit union refer to Note 14.

When a derivative is designated as a hedge of the variability in cash flows attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction that could affect profit or loss, the effective portion of the changes in the fair value of the derivative are recognised directly in equity. The amount recognised in equity is removed and included in the statement of comprehensive income, in the same period as the hedged cash flows affect profit or loss, under the same line item in the statement of comprehensive income as the hedged item. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in the statement of comprehensive income.

If the derivative expires or is sold, terminated, or exercised, or no longer meets the criteria for cash flow hedge accounting, or the designation is revoked, then hedge accounting is discontinued and the amount recognised in equity remains in equity until the forecast transaction affects profit or loss. If the forecast transaction is no longer expected to occur, the hedge accounting is discontinued and the balance in equity is recognised immediately in the statement of comprehensive income.

(t) Comparative figures

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

(u) 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 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 Balance sheet. 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.

(v) 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.

(w) Critical accounting estimates and judgements

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

Key estimates - Impairment

The credit union assesses impairment at the end of the reporting period by evaluating conditions specific to the credit union that may be indicative of impairment triggers. Recoverable amounts of relevant assets are reassessed using value-in-use calculations which incorporate various key assumptions.

Estimation has been exercised when applying the credit union's accounting policies with respect to determining the provision for impairment of loans as disclosed in Note 13.

Key estimates – Fair value of investment property

The credit union determines the fair value from:

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

UNCERTAINTY AROUND PROPERTY VALUATIONS

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

The fair value of investment property has been adjusted to reflect market conditions at the end of the reporting period. 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.

(x) Rounding of amounts

The company 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.

(y) New or emerging Accounting Standards

The following Australian Accounting Standards issued or amended are applicable to the credit union but are not yet effective for the 2017 financial year and have not been adopted in preparation of the financial statements at reporting date. The known impacts of each Accounting Standard on the credit union's financial reporting in future periods is noted below.

AASB Reference	Nature of Change	Application Date	Impact on Initial Application
AASB 9 Financial Instruments (December 2014)	The new standard replaces AASB 139 and supersedes AASB p versions previously issued in December 2010. It amends the requirements for classification and measurement of financial assets. AASB 9 requirements regarding hedge accounting represent a substantial overhaul of hedge accounting that enables entities to better reflect their risk management activities in the financial statements. Furthermore, AASB 9 introduces a new impairment model based on expected credit losses. Recognition of credit losses are to no longer be dependent on the credit union first identifying a credit loss event. The credit union will consider a broader range of information when assessing credit risk and measuring expected credit losses including past experience of historical losses for similar financial instruments.	Periods beginning on or after 1 January 2018.	The credit union has carried out a preliminary assessment of the impact of the new standard. The classification and measurement of financial assets is expected to remain largely unchanged with HTM investments to be reclassified to amortised cost and FVOCI categories and the AFS investments reclassified as FVOCI. The requirements for general hedge accounting have been simplified for hedge effectiveness testing and are not expected to impact materially the credit union based on its existing interest rate swap contracts. The new expected loss impairment model will require more timely recognition of expected credit losses. *The overall impact of applying AASB 9 has not yet been determined by the credit union*. Adjustments during the transition process will be recognised either in opening retained earnings or the general reserve for credit losses. *The range of potential outcomes are best estimates and actual outcomes will be based in the size and credit characteristics of the portfolio on adoption of the standard*.

AASB 15 Revenue from Contracts with Customers	Revenue from financial instrument is not covered by this Standard, but AASB 15 establishes a new revenue recognition model for other types of revenue. AASB 15 is based on the principle that revenue is recognised when control of a good or service transferred to a customer. The standard replaces AASB 118 Revenue, AASB 111 Construction Contracts and related revenue interpretations.	Periods beginning on or after 1 January 2018.	*Based upon a preliminary assessment, the Standard is not expected to have material impact upon the transactions and balances recognised when it is first adopted, as most of the credit union's revenue arises from the provision of financial services which are governed by AASB 9 Financial Instruments. Few revenue transactions of the credit union are impacted by the new standard.*
AASB 16 Leases Replaces AASB 117	AASB 16: replaces AASB 117 *Leases* and some lease-related Interpretations; requires all leases to be accounted for 'on-balance sheet' by lessees, other than short-term and low value asset leases; provides new guidance on the application of the definition of lease and in sale and lease back accounting; and; requires new and different disclosures about leases.	Periods beginning on or after 1 January 2019.	*Based on a preliminary assessment, The Standard is not expected to have a material impact on the transactions and balances recognised in the financial statements.*
AASB 2016-1 Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 112.	AASB 2016-1 amends AASB 112 Income Taxes to clarify how to account for deferred tax assets related to debt instruments measured at fair value, particularly where changes in the market interest rate decrease the fair value of a debt instrument below cost.	1 January 2017	*When these amendments are first adopted for the year ending 30 June 2018 there will be no material impact on the financial statements.*
AASB 2016-2 Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 107.	AASB 2016-2 amends AASB 107 Statement of Cash Flows to require entities preparing financial statement in accordance with Tier 1 reporting requirements to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.	1 January 2017	*When these amendments are first adopted for the year ending 30 June 2018 there will be no material impact on the financial statements.*
Transfers of Investment Property (Amendments to IAS40).	The amendments clarify that transfers to, or from, investment property are required when, and only when, there is a change in use of property supported by evidence. The amendments also re-characterise the list of circumstances appearing in IAS 40, 57 (a) – (d) as a non-exhaustive list of examples of evidence that a change in use has occurred. In addition, the IASB has clarified that a change in management's intent, by itself, does not provide sufficient evidence that a change in use has occurred. Evidence of a change in use must be observable.	1 January 2018	*When these amendments are first adopted for the year ending 30 June 2018 there will be no material impact on the financial statements.*

There were no new and amended Australian Accounting Standards adopted by the credit union during the year.

(z) Date of issue

The financial report was authorised for issue on 27 September 2017 by the Board of Directors.

NOTE 2

Interest Income and Interest Expense

	2017	2016
	$'000	$'000
INTEREST REVENUE		
Cash and cash equivalents	260	384
Financial assets held to maturity	3,221	3,926
Loans and advances	21,784	22,877
Derivatives	272	374
TOTAL INTEREST INCOME	25,537	27,561
INTEREST EXPENSE		
Deposits	9,406	11,225
Borrowings	131	150
Derivatives	394	446
TOTAL INTEREST EXPENSE	9,931	11,821

NOTE 3

Revenue

INTEREST INCOME	25,537	27,561
NON-INTEREST INCOME		
Fees and commissions		
- fee income on loans – other than loan origination fees	769	818
- fee income from member deposits	910	916
- other fee income	865	923
- insurance commissions	336	312
- other commissions	619	524
	3,499	3,493
Bad debts recovered	44	28
Income from property (rent)	324	474
Fair value increase - investment property	-	251
Profit on sale of assets	1	2
Other	157	212
TOTAL NON-INTEREST INCOME	4,025	4,460
TOTAL REVENUE	29,562	32,021

NOTE 4

Profit Before Income Tax Expense

	2017	2016
	$'000	$'000
Profit before income tax expense has been determined after:		
EXPENSES		
Interest expense	9,931	11,821
NON-INTEREST EXPENSES		
Impairment of assets		
- loans and advances	8	(46)
Employee benefit expenses		
- net movement in provisions for annual leave	(29)	74
- net movement in provisions for long service leave	92	81
- other employee expenses	8,045	7,493
	8,108	7,648
Occupancy expenses	491	592
DEPRECIATION AND AMORTISATION EXPENSE		
Depreciation expense		
- buildings	190	86
- plant and equipment	375	320
Amortisation expense		
- software	277	234
- leasehold improvements	260	150
	1,102	790
OTHER EXPENSES		
Fees and commissions	2,272	1,888
General and administration expenses	358	390
IT expenses	1,750	1,593
Loss on sale of assets	16	-
Other operating expenses	2,034	2,089
Rental expense on operating leases	444	523
	6,874	6,483
TOTAL NON-INTEREST EXPENSES	16,583	15,467
TOTAL EXPENSES	26,514	27,288

NOTE 5

Income Tax

	2017	2016
	$'000	$'000
Prima facie tax payable on profit at 30% (2016: 30%)	914	1,420
ADJUST FOR TAX EFFECT OF:		
Capital allowance deduction	(20)	(20)
Dividend imputation tax credit	-	-
Income tax expense attributable to the entity	894	1,400
Applicable weighted average effective tax rate	30%	30%
THE COMPONENTS OF INCOME TAX EXPENSE COMPRISE		
Current tax	886	1,429
Deferred tax	8	(29)
	894	1,400

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:

	2017	2016
DEFERRED TAX		
Net movement on revaluation of land and buildings	-	(37)
Net movement on revaluation of cash flow hedges	(40)	32
	(40)	(5)

IMPUTATION CREDITS

	2017	2016
Balance of franking account imputation (franking) credits at year-end adjusted for franking credits or debits arising from payment of the provision for income tax or receipt of dividends available for subsequent reporting periods based on a tax rate of 30% (2016: 30%)	16,485	15,163

NOTE 6

Remuneration of Auditors

	2017	2016
	$	$
Remuneration of the auditor for:		
Auditing or reviewing the financial report	72,791	60,000
Other services		
- taxation services	5,255	4,000
- compliance	25,500	32,000
	103,546	96,000

NOTE 7

Related Party Transactions

(a) Key management personnel

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

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

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

- Nicolas Harrison
- Graeme Green
- John Shanahan
- Graham Olrich
- Katrina Luckie
- Paul Spotswood
- David Bergmark

(b) Remuneration of key management personnel

	2017	2016
	$'000	$'000
The aggregate compensation of KMP during the year comprising amounts paid or payable or provided for was as follows:		
(a) Short-term employee benefits	1,506	1,580
(b) Post-employment benefits	135	106
(c) Other long-term benefits	171	26
	1,812	1,712

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

All remuneration to Directors was approved by the members at the previous AGM of the credit union.

(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.

There are no benefits or concessional terms and conditions applicable to the close family members of the KMP. There are no loans that are impaired in relation to the loan balances with close family relatives of KMP.

	2017	2016
	$'000	$'000
The aggregate value of loans to KMP and other related parties as at balance date amounted to	2,947	1,886
The total value of revolving credit facilities to KMP and other related parties as at balance date amounted to	951	329
Less amounts drawn down and included above	(163)	(164)
Net balance available	788	165
During the year the aggregate value of loans and revolving credit facilities approved and/or disbursed to KMP and other related parties amounted to	2,520	410
Interest and other revenue earned on loans and revolving credit facilities to KMP and other related parties amounted to	77	71

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

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

Total value of term and savings deposits from KMP and other related parties	1,010	657
Total interest paid on deposits to KMP and other related parties	13	2

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 during the year was $712k (2016: $667k).

NOTE 8

Cash and Cash Equivalents

	2017	2016
	$'000	$'000
Cash on hand	1,556	1,610
Deposits with ADIs	16,976	27,319
	18,532	28,929

The effective interest rate on short-term bank deposits was 3.86% (2016: 3.38%); these deposits are all at call.

NOTE 9

Trade and Other Receivables

Accrued interest	585	841
Other receivables	118	39
Sundry debtors	2,697	3,632
	3,400	4,512

NOTE 10

Other Assets

Prepayments	641	647

NOTE 11

Financial Assets Held to Maturity

Deposits with ADIs	108,539	113,394

The effective interest rate on financial assets held to maturity was 3.09% (2016: 3.13%); these deposits have an average maturity of 180 days.

NOTE 12

Financial Assets Available for Sale

Shares in unlisted entities – at cost	2	2

NOTE 13

Loans and Advances

	2017	2016
	$'000	$'000
Gross loans and advances	523,503	472,048
Unamortised loan fees	(44)	(45)
	523,459	472,003
Provision for impairment	(122)	(125)
Net loans and advances	523,337	471,878

(a) Provisions for impairment

Opening balance	125	236
Impairment expense	8	(46)
Bad debts written off	(11)	(65)
Closing balance	122	125

(b) Provision for impairment calculation

Provision prescribed by Prudential Standards	102	111
Additional impairment provision	20	14
Closing balance	122	125

KEY ASSUMPTIONS IN DETERMINING THE PROVISION FOR IMPAIRMENT

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

In identifying the impairment likely from these events the credit union is required to estimate the potential impairment using the length of time the loan is in arrears and the historical losses arising in past years.

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

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

	2017	2016
	$'000	$'000

(c) Impairment expense

Movement in provisions for impairment	8	(46)
Bad debts written off	-	-
	8	(46)

(d) Assets acquired from loan recovery

There were no material assets acquired by the credit union during the financial year. The policy of the credit union is to sell the assets via auction at the earliest opportunity after all measures to assist the customers to repay the debts have been exhausted.

(e) Loans and advances by impairment class

Net impaired loans – refer 13(f)	852	8
Past due but not impaired – refer 13(g)	12,714	16,443
Neither past due or impaired – refer 13(h)	509,771	455,427
	523,337	471,878

(f) Impaired loans and advances

	2017	2016
	$'000	$'000
CREDIT RATING ANALYSIS		
Household		
- Owner occupied housing loans	-	91
- Investment housing loans	-	-
- Overdrafts	-	1
- Credit Cards	-	-
- Other personal purpose	88	39
Commercial	886	2
	974	133
Provision for impairment	(122)	(125)
Carrying amount	852	8

(g) Past due but not impaired loans and advances at reporting date

These loans are not considered impaired as the value of the related security over residential property is in excess of the loan due. Refer Note 13(i) for details of security held. Past due values are the 'on-balance sheet' loan balances.

	2017	2016
AGING ANALYSIS		
1 to 89 days	12,150	15,436
90 to 181 days	363	7
182 to 272 days	-	603
273 to 364 days	-	397
365 days or more	201	-
Carrying amount	12,714	16,443
CREDIT RATING ANALYSIS		
Household		
- Owner occupied housing loans	9,524	11,792
- Investment housing loans	915	2,451
- Overdrafts	593	325
- Credit cards	96	50
- Other personal purpose	225	106
Commercial	1,361	1,719
Carrying amount	12,714	16,443

(h) Neither past due nor impaired loans and advances at reporting date

	2017	2016
	$'000	$'000
Household		
- Owner occupied housing loans	329,426	287,513
- Investment housing loans	102,706	94,595
- Overdrafts	1,199	1,747
- Credit cards	1,292	817
- Other personal purpose	38,689	40,427
Commercial	36,459	30,328
Carrying amount	509,771	455,427

All loans and advances that are neither past due nor impaired are with customers who have a good credit history. The above values include the balance of restructured loans and advances.

(i) Loans and advances by impairment and security

	2017	2016
(i) Against individually impaired		
- Secured by mortgage over real estate	929	91
- Partly secured by goods mortgage	14	7
- Cash secured	4	-
- Unsecured	27	35
	974	133
(ii) Against past due but not impaired		
- Secured by mortgage over real estate	12,296	16,126
- Partly secured by goods mortgage	137	91
- Cash secured	20	-
- Unsecured	261	226
	12,714	16,443
(iii) Against neither past due nor impaired		
- Secured by mortgage over real estate	498,760	445,092
- Partly secured by goods mortgage	4,700	4,587
- Cash secured	1,767	1,626
- Unsecured	4,544	4,122
	509,771	455,427
	2017	2016

	$'000	$'000

It is not practical to value all collateral as at the balance date due to the variety of assets and conditions. 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 80%	443,690	401,003
- more than 80% but mortgage insured	48,075	42,314
- more than 80% and not mortgage insured*	20,220	17,992
	511,985	461,309

Where the loan to valuation ratio is less than 80% there is a 20% margin to cover the costs of any sale, or potential value reduction.

**At times, this category may include some interest only loans due to timing differences with interest charging and repayments.*

(j) Restructured loans

Book value of restructured loans at balance date	10,631	9,190
Book value of restructured loans which are well secured	10,498	9,072
Book value of restructured loans which are not well secured	132	118

Loans are considered well secured where they are secured by a registered mortgage over real estate.

The value of restructured loans may include loans reported as past due or impaired. See also Note 1(k).

NOTE 14

Derivatives

Liability

Interest rate swap contracts - cash flow hedge	117	249

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.

Interest rate swap contracts - cash flow hedges

The credit union's loans currently bear an average variable rate of interest of 4.45%. 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 each loan repayment falls due. Fixed interest rates range between 2.45% and 3.15% and variable rate ranges between 0.04% below and equivalent to the 90 day bank bill rate which at balance date was 1.75% (2016: 1.96%).

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

	2017	2016
	$'000	$'000
Within 1 year	5,000	5,000
1 – 2 years	5,000	5,000
2 – 5 years	2,000	7,000
	12,000	17,000

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.

2017	**Within 1 year**	**1-2 years**	**2-5 years**
	$'000	$'000	$'000
Cash inflows	161	74	21
Cash outflows	(247)	(111)	(30)
Net cash flows	(86)	(37)	(9)

2016	**Within 1 year**	**1-2 years**	**2-5 years**
	$'000	$'000	$'000
Cash inflows	331	205	133
Cash outflows	(414)	(259)	(161)
Net cash flows	(83)	(54)	(28)

NOTE 15

Property, Plant and Equipment

	2017	2016
	$'000	$'000
Land		
At fair value	315	315
Buildings		
At fair value	4,088	4,088
Accumulated depreciation	(190)	-
	3,898	4,088
Leasehold improvements		
At cost	1,580	1,428
Work in progress	-	168
Accumulated amortisation	(1,022)	(1,187)
	558	409
Plant and equipment		
At cost	1,926	1,675
Work in progress	-	59
Accumulated depreciation	(1,316)	(1,081)
	610	653
Total Property, Plant and Equipment	5,381	5,465

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.

	Property	Plant & equipment	Leasehold improvements	Total
	$'000	$'000	$'000	$'000
Balance at beginning of the financial year	4,403	653	409	5,465
Additions	-	333	414	747
Disposals	-	(1)	(5)	(6)
Depreciation expense	(190)	(375)	-	(565)
Amortisation expense	-	-	(260)	(260)
Carrying amount at end of the financial year	4,213	610	558	5,381

	2017	2016
	$'000	$'000
If land and buildings were stated at historical cost, amounts would be as follows:		
Cost	7,861	7,855
Accumulated depreciation	(3,783)	(3,587)
Net book value	4,078	4,268

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

NOTE 16

Investment Property

Investment property includes real estate properties in Australia, which are owned to earn rentals and capital appreciation.

The fair values of investment properties were estimated using observable data on recent transactions and rental yields for similar properties. Changes to the carrying amounts are as follows:

	Total
	$'000
Balance at beginning of the financial year	4,547
Net gain / (loss) from fair value adjustments	-
Carrying amount at end of the financial year	4,547

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 2016. This valuation was conducted on the basis of market value and has been 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 2017. The Directors have examined market conditions as at 30 June 2017 and have assessed that no fair value adjustment should be recognised.

Investment properties are leased out on operating leases. Rental income amounts to $324,303 (2016: $474,159) included within revenue. Direct operating expenses not recovered as outgoings from the tenants of the relevant property were reported within other expenses, of which $38,522 (2016: $2,750) was incurred on vacant properties that did not generate rental income.

NOTE 17

Deferred Tax Assets

	2017	2016
	$'000	$'000
Deferred tax assets comprise temporary differences attributable to:		
AMOUNTS RECOGNISED IN PROFIT AND LOSS		
Plant and equipment	278	238
Provision for impairment	37	38
Provision for employee benefits	441	405
Accrued expenses	215	125
Deferred loan fee asset	13	13
	984	819
AMOUNTS RECOGNISED DIRECTLY IN EQUITY		
Hedge reserve	32	72
Total deferred tax assets	1,016	891

NOTE 18

Intangible Assets

	2017	2016
COMPUTER SOFTWARE		
At cost	2,690	2,550
Accumulated amortisation	(2,304)	(2,102)
	386	448
OTHER INTANGIBLE ASSETS		
At cost	294	310
Accumulated amortisation	(153)	(119)
	141	191
Total Intangible Assets	527	639

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	448	191	639
Additions	177	-	177
Disposals	(12)	-	(12)
Amortisation expense	(227)	(50)	(277)
Carrying amount at the end of the financial year	386	141	527

NOTE 19

Deposits

	2017	2016
	$'000	$'000
At call deposits	365,717	343,792
(including withdrawable shares)		
Term deposits	212,215	211,001
	577,932	554,793

CONCENTRATION OF DEPOSITS

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

NOTE 20

Trade and Other Payables

	2017	2016
Accrued interest payable on deposits and borrowings	1,853	2,311
Sundry creditors and accrued expenses	939	559
Employee benefits - annual leave	556	526
Trade creditors	29	223
Clearing accounts	5,424	5,249
	8,801	8,868

NOTE 21

Current Tax

	2017	2016
Current income tax (receivable) / payable	(147)	82

NOTE 22

Deferred Tax Liabilities

	2017	2016
	$'000	$'000
Deferred tax liabilities comprise temporary differences attributable to:		
AMOUNTS RECOGNISED IN PROFIT AND LOSS		
Investment properties	-	-
AMOUNTS RECOGNISED DIRECTLY IN EQUITY		
Land and buildings	732	765
Total deferred tax liabilities	732	765

NOTE 23

Provisions

Employee benefits - long service leave	915	823
ANALYSIS OF LIABILITY		
Expected to be settled within 12 months	57	52
Expected to be settled after 12 months	858	771
	915	823

NOTE 24

Borrowings

Borrowings	20,000	10,000
Subordinated debt	1,610	1,610
	21,610	11,610

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

- Issued in AUD
- Unsecured debt instruments
- Interest is payable quarterly in arrears based on a margin above the 90 day BBSW
- Terms range from 5 – 10 years

NOTE 25

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 equity.

NOTE 26

Reserves

General reserve

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

Capital profits reserve

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

Asset revaluation surplus

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

Reserve for credit losses

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

Hedging reserve

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

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

NOTE 27

Commitments

	2017	2016
	$'000	$'000

(a) Future capital commitments

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

(b) Operating lease commitments

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

	2017 $'000	2016 $'000
Not longer than 1 year	566	476
Longer than 1 and not longer than 5 years	329	369
	895	845

The above amounts include $61k (2016: $58k) of GST which is expected to be recovered from the Australian Taxation Office.

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

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

(c) Outstanding loan commitments

Loans and credit facilities approved but not funded or drawn at the end of the financial year:

	2017 $'000	2016 $'000
Loans approved but not funded	14,356	8,851
Loan redraw facilities available	38,053	35,303
Undrawn overdraft and credit facilities	12,565	10,798
Total loan commitments	64,974	54,952

(d) Operating leases receivable

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

	2017 $'000	2016 $'000
Not longer than 1 year	447	406
Longer than 1 and not longer than 5 years	290	219
	737	625

The property leases are non-cancellable leases with a one 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 of one to five years.

NOTE 28

Contingent Liabilities

The credit union is party to CUFSS Limited. CUFSS is a voluntary emergency liquidity support scheme that mutual banks, credit unions and building societies participate in.

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

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

The balance of the debt at 30 June 2017 was Nil (2016: Nil).

NOTE 29

Classes of Financial Assets and Liabilities

	2017	2016
	$'000	$'000

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

(a) Financial assets - measured at amortised cost

	2017 $'000	2016 $'000
Cash and cash equivalents	18,532	28,929
Trade and other receivables	3,400	4,512
Financial assets available for sale - unlisted shares at cost	2	2
Loans and advances	523,337	471,878
Financial assets held to maturity	108,539	113,394
Total	653,810	618,715

(b) Financial liabilities - measured at amortised cost

Deposits	577,932	554,793
Trade and other payables (excluding employee benefits)	8,246	8,342
Borrowings	21,610	11,610
Total	607,788	574,745

(c) Financial liabilities - measured at fair value

Derivatives	117	249

NOTE 30
Risk Management

Risk management policy and objectives

The credit union's risk management focuses on the major areas of market 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. Authority flows from the Board of Directors to the Board Risk Advisory Committee to the Executive Management Team, which are integral to the management of risk.

(a) Market risk and hedging policy

Market 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.

To mitigate this risk the credit union has entered into pay fixed/receive floating interest rate swaps. Interest rate risk on fixed rate loans/assets are hedged by entering pay fixed/receive floating 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 market 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 per cent 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.

	2017	**2016**
VaR after prepayments and hedges	$213,038	$240,291
VaR as % of capital	0.38%	0.44%

Repricing of financial assets and liabilities

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

	Floating Interest Rate $'000	Fixed interest rate maturing Within 1 year $'000	1 to 5 years $'000	Over 5 years $'000	Non Interest Sensitive $'000	Total $'000	Weighted Average Effective Interest Rate
Repricing Period at 30 June 2017							
FINANCIAL ASSETS							
Cash and cash equivalents	-	-	-	-	18,532	18,532	2.56%
Trade and other receivables	-	-	-	-	3,400	3,400	
Financial assets available for sale	-	-	-	-	2	2	
Financial assets held to maturity	-	104,189	4,350	-	-	108,539	2.69%
Loans and advances	385,780	31,284	106,273	-	-	523,337	4.40%
TOTAL FINANCIAL ASSETS	385,780	135,473	110,623	-	21,934	653,810	
FINANCIAL LIABILITIES							
Deposits	365,455	198,486	13,729	-	262	577,932	1.64%
Trade and other payables	-	-	-	-	8,246	8,246	
Derivatives	-	-	-	-	117	117	
Borrowings	-	21,610	-	-	-	21,610	7.34%
TOTAL FINANCIAL LIABILITIES	365,455	220,096	13,729	-	8,625	607,905	
OFF BALANCE SHEET ITEMS							
Interest rate swaps	-	12,000	-	-	-	12,000	2.64%
Undrawn loan commitments	64,974	-	-	-	-	64,974	
Repricing Period at 30 June 2016							
FINANCIAL ASSETS							
Cash and cash equivalents	-	-	-	-	28,929	28,929	3.48%
Trade and other receivables	-	-	-	-	4,512	4,512	
Financial assets available for sale	-	-	-	-	2	2	
Financial assets held to maturity	-	113,394	-	-	-	113,394	2.96%
Loans and advances	336,180	53,231	82,467	-	-	471,878	4.93%
TOTAL FINANCIAL ASSETS	336,180	166,625	82,467	-	33,433	618,715	
FINANCIAL LIABILITIES							
Deposits	343,496	205,253	5,748	-	296	554,793	2.00%
Trade and other payables	-	-	-	-	8,342	8,342	
Derivatives	-	-	-	-	249	249	
Borrowings	-	11,610	-	-	-	11,610	8.04%
TOTAL FINANCIAL LIABILITIES	343,496	216,863	5,748	-	8,887	574,994	
OFF BALANCE SHEET ITEMS							
Interest rate swaps	-	17,000	-	-	-	17,000	2.62%
Undrawn loan commitments	54,952	-	-	-	-	54,952	

(b) Credit risk

Credit risk is the risk that members, 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 balance sheet.

LOANS

In relation to loans, the maximum credit exposure is the value on the balance sheet plus the undrawn facilities (loans approved not advanced, 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 mitigate 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 currently 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 fall in the following categories:

	Maximum Credit Risk Exposure of Total Loans			
		2017		**2016**
Geographical Area	%	$'000	%	$'000
New South Wales	90	470,958	91	429,414
Queensland	8	41,904	7	33,932
Other	2	10,641	2	8,702

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

LIQUID INVESTMENTS

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

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

Short term S & P Rating	**Maximum Holding** *(As a percentage of total liquidity portfolio)*	**Maximum per Counterparty** *(As a percentage of total eligible capital)*
A-1+	100%	40%
A-1	100%	40%
A-2	80%	40%
A-3	15%	30%
Unrated	10%	10%
Unrated – Settlement accounts	20%	40%

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

Actual Rating	**2017** Balance $'000	**2017** Balance %	**2016** Balance $'000	**2016** Balance %
A-1+	36,086	29	37,290	27
A-1	21,472	17	25,546	18
A-2	39,747	32	57,694	41
A-3	10,442	8		
Unrated – Settlement accounts	17,768	14	20,183	14
Total	125,515	100	140,713	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 committed credit facilities 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:

	2017	**2016**
Liquid funds to total adjusted liabilities:		
- As at 30 June	17.94%	19.27%
- Average for the year	18.87%	20.02%
- Minimum during the year	16.68%	18.14%
Liquid funds to total deposits:		
- As at 30 June	20.96%	21.97%

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 balance sheet.

	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
2017							
FINANCIAL ASSETS							
Cash and cash equivalents	16,976	-	-	-	-	1,556	18,532
Trade and other receivables	3,400	-	-	-	-	-	3,400
Financial assets available for sale	-	-	-	-	-	2	2
Financial assets held to maturity	8,857	14,919	24,413	60,350	-	-	108,539
Loans and advances	4,498	6,857	23,349	58,816	420,243	9,574	523,337
TOTAL FINANCIAL ASSETS	33,731	21,776	47,762	119,166	420,243	11,132	653,810
FINANCIAL LIABILITIES							
Deposits	29,710	76,119	95,586	14,757	-	365,716	581,888
Trade and other payables	8,246	-	-	-	-	-	8,246
Borrowings	10,013	5,049	5,091	356	1,863	-	22,372
Derivatives	-	-	22	95	-	-	117
	47,969	81,168	100,699	15,208	1,863	365,716	612,623
Undrawn loan commitments	64,974	-	-	-	-	-	64,974
TOTAL FINANCIAL LIABILITIES	112,943	81,168	100,699	15,208	1,863	365,716	677,597
2016							
FINANCIAL ASSETS							
Cash and cash equivalents	27,319	-	-	-	-	1,610	28,929
Trade and other receivables	4,512	-	-	-	-	-	4,512
Financial assets available for sale	-	-	-	-	-	2	2
Financial assets held to maturity	9,922	16,950	26,322	60,200	-	-	113,394
Loans and advances	5,531	8,140	22,461	53,110	374,132	8,504	471,878
TOTAL FINANCIAL ASSETS	47,284	25,090	48,783	113,310	374,132	10,116	618,715
FINANCIAL LIABILITIES							
Deposits	48,208	115,115	127,136	8,737	-	343,793	642,989
Trade and other payables	8,342	-	-	-	-	-	8,342
Borrowings	-	-	10,296	491	2,326	-	13,113
Derivatives	-	-	18	231	-	-	249
	56,550	115,115	137,450	9,459	2,326	343,793	664,693
Undrawn loan commitments	54,952	-	-	-	-	-	54,952
TOTAL FINANCIAL LIABILITIES	111,502	115,115	137,450	9,459	2,326	343,793	719,645

(d) Operational risk

Operational risk is the risk of loss to the credit union resulting from deficiencies in processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks. Operational risks in the credit union relate mainly to those 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, Market 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 market 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 5 year budget 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 comprise 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	2017	2016
	$'000	$'000
Net Tier 1 Capital	53,217	51,265
Net Tier 2 Capital	3,308	3,155
Total Capital Base	56,525	54,420
Total Risk Weighted Assets	341,896	325,723
Total Capital Ratio	16.53%	16.71%
Tier 1 Capital Ratio	15.57%	15.74%

Full disclosure of the regulatory capital and the remuneration disclosure are available on the credit union website.

NOTE 31

Valuation of Financial Instruments

Net fair value estimates were determined by the following methodologies and assumptions set out below.

Liquid assets and receivables due from other financial institutions

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

Investment securities and other financial assets

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

Loans and advances

The fair value of loans, advances and other receivables is based on their carrying amount net of the specific provision for impairment.

Deposits

The fair value of deposits is based on their carrying amount.

Land and buildings

Determined by an independent valuer each 3 years in accordance with the requirements of Australian Accounting Standard 116 Property, Plant & Equipment.

Investment properties

Determined by an independent valuer in accordance with the requirements of Australian Accounting Standard 140 Investment property.

Payables and other liabilities

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

Subordinated debt

The carrying value of subordinated debt approximates its fair value as it reprices quarterly.

Derivatives

The fair value of interest rate swaps is calculated as the present value of estimated future cash flows.

Borrowings – long term

The fair value of borrowings is based on their carrying amount.

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:

	2017		2016	
	Carrying value	**Net fair value**	**Carrying value**	**Net fair value**
	$'000	$'000	$'000	$'000
ASSETS				
Cash and cash equivalents	18,532	18,532	28,929	28,929
Trade and other receivables	3,400	3,400	4,512	4,512
Financial assets available for sale	2	2	2	2
Financial assets held to maturity	108,539	108,539	113,394	113,394
Loans and advances	523,337	523,525	471,878	470,751
LIABILITIES				
Deposits	577,932	578,796	554,793	555,506
Trade and other payables	8,801	8,801	8,868	8,868
Borrowings	21,610	21,610	11,610	11,610
Derivatives	117	117	249	249

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
2017				
Recurring fair value measurements				
Land and Buildings	-	4,213	-	4,213
Investment properties	-	4,547	-	4,547
Derivatives	-	117	-	117
2016				
Recurring fair value measurements				
Land and Buildings	-	4,403	-	4,403
Investment properties	-	4,547	-	4,547
Derivatives	-	249	-	249

There have been no significant transfers into or out of each level during the year ended 30 June 2017 or the prior year.

Disclosed fair values

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

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

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

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

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

Land & buildings and investment properties

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

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

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

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

NOTE 32

Superannuation commitments

The credit union contributes to complying superannuation funds for the purpose of superannuation guarantee payments and payment of other superannuation benefits on behalf of employees.

The credit union has no interest in the superannuation funds (other than as a contributor) and is not liable for the performance of the funds, or the obligations of the funds.

NOTE 33

Economic dependency

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

(a) First Data Corporation

This company 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 company 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 34

Events occurring after the reporting period

Summerland Credit Union is a division of Summerland Financial Services Limited, a company registered under the Corporations Act 2001. The registered company name was changed from Summerland Credit Union Limited to Summerland Financial Services Limited on 1st July 2017.

NOTE 35

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 balance sheet as follows:

	2017	2016
	$'000	$'000
Cash and cash equivalents	18,532	28,929

(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:

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

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

	2017	2016
	$'000	$'000
Profit after income tax	2,154	3,333
Non-cash flows in profit after income tax:		
Net Profit / (Loss) on sale of assets	6	3
Revaluation of investment property	-	45
Depreciation and amortisation	1,102	791
Provision for loan impairment	(3)	(111)
Changes in assets and liabilities:		
Increase in provisions	92	81
(Decrease) in interest payable	(458)	(791)
Decrease in interest receivable	256	167
(Decrease)/Increase in income taxes payable	(229)	70
(Increase) in deferred tax assets	(125)	(91)
(Decrease)/Increase in deferred tax liability	(33)	97
Decrease/(Increase) in other assets	6	(74)
Increase in trade and other payables	355	83
Decrease/(Increase) in trade and other receivables	856	(422)
	3,979	3,181
Net movement in liquid investment balances	4,855	(10,433)
Net movement in loans	(51,455)	(10,920)
Net movement in deposits	23,139	16,464
Net cash provided by operating activities	(19,482)	(1,708)

NOTE 36

Company Details

The registered office of the company and the principal place of business is:
Summerland Financial Services Limited (formerly Summerland Credit Union Limited)
101 Molesworth Street Lismore NSW 2480

Declaration by Directors

The Directors of Summerland Financial Services Limited (formerly Summerland Credit Union 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 2017 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.

Mr Nicolas Harrison
Chair

Mr John Shanahan
Chair Audit Committee

Lismore 27 September 2017

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Independent Auditor's Report
To the members of Summerland Financial Services Limited (formerly Summerland Credit Union Limited)

Auditor's Opinion

We have audited the financial report of Summerland Financial Services Limited (formerly Summerland Credit Union Limited) (the Company), which comprises the balance sheet as at 30 June 2017, the statement of 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 Summerland Financial Services Limited 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 2017 and of its performance for the year ended on that date; and

b complying with Australian Accounting and complying with 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 confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the Directors of the Company, would be in the same terms if given to the Directors as at the time of this auditor's report.

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

The Directors are responsible for the other information. The other information comprises the information included in the annual report for the year ended 30 June 2017, 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 management either intends to liquidate the Company or to cease operations, or has 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_files/ar3.pdf. This description forms part of our auditor's report.

Grant Thornton

GRANT THORNTON AUDIT PTY LTD
Chartered Accountants

Claire Gilmartin

C L Gilmartin
Partner - Audit & Assurance

Sydney, 27 September 2017

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