Annual Report 2023

SUMMERLAND
CREDIT UNION

Certified
B
Corporation

Contents

Registered office
101 Molesworth Street
Lismore NSW 2480
1300 802 222

Auditors
Grant Thornton
KPMG

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

Summerland Credit Union is a business name of Summerland Financial Services Limited ABN 23 087 650 806. AFSL 239 238. Australian Credit Licence 239 238.

Directors' Report

Your Directors present their report on the credit union for the financial year ended 30 June 2023.

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

On 1 November 2023 Summerland Credit Union will see a name change to Summerland Bank. Our mission remains unchanged: to help people realise their potential as individuals, families, business owners, and customers of thriving and connected Northern Rivers NSW and regional communities.

Information on Directors

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

Colin Sales

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

- Director since 2020
- Board Chair 2022 - current
- Member, Audit Committee
- Member, Governance and Culture Committee

Jane Calder

BSc (Hons), GAICD

- Director since 2020
- Chair, Risk Committee
- Member, Governance and Culture Committee

Kevin Franey

FCA, CIA, CRM, RCA, GAICD

- Director since 2020
- Chair, Audit Committee

Sally Gibson

B.Ec/LLB (Hons) (USyd), LLM (Hons) (Cantab), GAICD

- Director since 2021
- Chair, Governance and Culture Committee
- Member, Risk Committee

Andrew Yost

B Leg S, LLM, Grad Dip ACG, FGIA, FCG (CS, CGP), MAICD

- Director since 2021
- Member, Risk Committee
- Member, Audit Committee

Robert Hale (Appointed 26/09/22)

- Director since September 2022
- Member, Risk Committee
- Board Representative on Information Security Steering Committee

Katrina Luckie (Retired 16/11/22)

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

- Director since 2010
- Board Chair 2018 - 2022
- Chair, Governance Committee
- Member, Audit Committee
- Member, Nominations Committee

David Bergmark (Retired 16/11/22)

BComm, ICAA, F Fin, MAMI

- Director since 2014
- Member, Risk Committee

Damian Buchanan (Appointed 1/1/2023)

LLB, GradDipLegPrac, BSc

- Company Secretary

Donna Kildea (Resigned 31/12/2022)

BSocSci., CAHRI

- Company Secretary

Directors' meeting attendance

Director	Board of Directors		Audit Committee		Risk Committee		Governance and Culture Committee	
	Eligible	Attended	Eligible	Attended	Eligible	Attended	Eligible	Attended
Colin Sales	7	7	4	4			3	3
Jane Calder	7	7			4	4	1	1
Kevin Franey	7	7	4	4				
Sally Gibson	7	7			4	4	3	3
Andrew Yost	7	7	4	4	4	4		
Robert Hale (Commenced 26/09/22)	7	7			3	3		
Katrina Luckie (Retired 16/11/22)	2	2	1	1			2	2
David Bergmark (Retired 16/11/22)	2	1			2	1		

Directors' benefits

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

Indemnifying officer or auditor

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

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

Principal activities

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

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

Operating results

The net profit of the credit union for the year after providing for income tax was $7.265m (2022: $2.975m). The current year profit result has been driven by the upside of the initial phase of an increasing interest rate change cycle with minimal inflationary pressure. This coupled with strong lending growth has provided the credit union with a strong year of performance.

The growth in lending portfolio this year represents the largest growth on record for the credit union. The growth in lending came from a continued commitment to the branch network and regional presence, diversification of the lending portfolio throughout Australia and product innovation to support the credit union's values for sustainability through its product offering. Deposit growth for the year was down on prior years as customer behaviour saw greater consumption in savings that had accumulated throughout the prior years.

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 saw no significant changes during the year. All branches were open with over 100 staff supporting the business across the retail network and corporate office. The credit union remains centred on it's strategic pillars of Growth, Brand, Transformation, People and Sustainability. The region continues its journey through rebuilding from the early floods of 2022 however the progress that has been made over the last 12 months in the region whether it be physical structures or the sense of strength of community is stronger than ever.

Significant changes in state of affairs

Except for those outlined under the review of operations section above, there were no other significant changes in the state of the affairs of the credit union during the year.

Events occurring after balance date

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

Environmental regulations

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

Likely developments, business strategies and prospects

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

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

in the financial years subsequent to this financial year. There are no likely developments in the entity's operations in the future financial years.

Rounding

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

Prudential disclosures

As of 1 January 2023, the Credit Union is no longer required to prepare regulatory disclosures in accordance with APS 330 as a result of the revised prudential standard issued by APRA in December 2022. The disclosures for the quarters ended up to and including December 2022 are available on the website at www.summerland.com.au/governance.

Auditor's independence

The auditor has provided the following declaration of independence to the Board as prescribed by the Corporations Act 2001. This report is made in accordance with a resolution of the Board of Directors and is signed for and on behalf of the Directors by:

Colin Sales
Chair

Kevin Franey
Chair Audit Committee

Signed and dated on 27 September 2023

Grant Thornton

Grant Thornton Audit Pty Ltd
Level 17
383 Kent Street
Sydney NSW 2000
Locked Bag Q800
Queen Victoria Building NSW
1230

T +61 2 8297 2400

Auditor's Independence Declaration

To the Directors of Summerland Financial Services Limited

In accordance with the requirements of section 307C of the *Corporations Act 2001*, as lead auditor for the audit of Summerland Financial Services Limited for the year ended 30 June 2023, 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 Audit Pty Ltd
Chartered Accountants

Liam Te-Wierik
Partner – Audit & Assurance

Sydney, 27 September 2023

Statement of Profit or Loss and Other Comprehensive Income

For the year ended 30 June 2023

	Note	2023	2022
		$'000	$'000
Revenue			
Interest revenue	2	40,942	24,103
Interest expense	2	(13,143)	(2,886)
Net interest revenue		27,799	21,217
Non-interest revenue	3	4,159	4,480
Expenses			
Impairment (expense)/benefit	12	154	(172)
Employee benefits expense	4	(10,896)	(9,300)
Occupancy expense	4	(421)	(705)
Depreciation and amortisation expense	4	(1,306)	(1,567)
Information technology expenses	4	(2,976)	(2,593)
Fees and commissions	4	(3,650)	(2,690)
Revaluation of investment properties	4	-	(2,207)
Other expenses	4	(3,143)	(2,489)
Total expenses		(22,238)	(21,723)
Profit before income tax		9,720	3,974
Income tax expense	5	(2,455)	(999)
Profit for the year net of tax		7,265	2,975
Other comprehensive income net of tax			
Items that may be reclassified to profit and loss			
Gain/(Loss) on cash flow hedges taken to equity		(619)	2,126
Items that will not be reclassified to profit and loss			
Movement in fair value of land and buildings		237	(681)
Other comprehensive income for the year net of tax		(382)	1,445
Total comprehensive income attributable to members of the credit union		6,883	4,420

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

Statement of Financial Position

As at 30 June 2023

	Note	2023	2022
		$'000	$'000
Assets			
Cash and cash equivalents	8	38,762	41,512
Investments with other financial institutions	11	159,669	216,784
Other receivables	9	3,979	6,487
Other assets	10	2,535	2,869
Loans and advances	12	832,238	750,975
Financial assets at fair value through other comprehensive income		2	2
Derivatives	13	2,239	2,853
Investment property	15	3,089	3,516
Property, plant and equipment	14	4,165	4,206
Right-of use assets	17	1,325	1,416
Deferred tax assets	5	89	44
Intangible assets	16	154	254
Total assets		1,048,246	1,030,918
Liabilities			
Deposits	18	957,188	943,735
Trade and other payables	19	8,100	11,279
Current tax liability	5	337	198
Lease liabilities	17	1,185	1,256
Provisions	20	1,197	1,094
Total liabilities		968,007	957,562
Net assets		80,239	73,356
Members equity			
Redeemable preference share capital account	21	543	537
Reserves	22	8,098	9,046
Retained earnings		71,598	63,773
Total members equity		80,239	73,356

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

Statement of Changes in Member Equity

For the Year Ended 30 June 2023

	Redeemable Preference Share Capital Account	General Reserve	Capital Profits Reserve	Hedging Reserve	Reserve for Credit Losses	Asset Revaluation Reserve	Retained Earnings	Total Equity
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Balance at 1 July 2021	531	1,376	860	6	2,241	2,964	60,958	68,936
Profit for the year	-	-	-	-	-	-	2,975	2,975
Other comprehensive income net of tax	-	-	-	2,126	-	(681)	-	1,445
Transfers to / from retained earnings:								
- Redeemable preference share account	6	-	-	-	-	-	(6)	-
- Reserve for credit losses	-	-	-	-	154	-	(154)	-
Balance at 30 June 2022	537	1,376	860	2,132	2,395	2,283	63,773	73,356
Balance at 1 July 2022	537	1,376	860	2,132	2,395	2,283	63,773	73,356
Profit for the year	-	-	-	-	-	-	7,265	7,265
Other comprehensive income net of tax	-	-	-	(619)	-	237	-	(382)
Transfers to / from retained earnings:								
- Redeemable preference share account	6	-	-	-	-	-	(6)	-
- Reserve for credit losses	-	-	-	-	(565)	-	565	-
Balance at 30 June 2023	543	1,376	860	1,513	1,830	2,520	71,597	80,239

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

Statement of Cash Flows

For the Year Ended 30 June 2023

	Note	2023	2022
		$'000	$'000
Cash flows from operating activities			
Interest received		40,561	23,812
Other income		7,218	7,123
Interest paid		(9,917)	(2,927)
Payments to suppliers and employees		(27,590)	(19,284)
Movement in operating assets and liabilities			
Net movement in liquid investment balances		57,115	(60,637)
Net movement in loans		(80,978)	(27,351)
Net movement in deposits		13,453	115,383
		(10,410)	36,119
Income taxes paid		(2,441)	(902)
Net cash used in operating activities	31 (c)	2,579	35,217
Cash flows from investing activities			
Payment for property, plant and equipment		(342)	(853)
Payment for investment property		(150)	(68)
Payment for intangibles		-	(37)
Proceeds – sale of investment property		827	-
Net cash used in investing activities		335	(958)
Cash flows from financing activities			
(Repayments) / proceeds from borrowings		-	(22,488)
Lease principal payments		(488)	(586)
Interest paid		(18)	(20)
Net cash provided by financing activities		(506)	(23,094)
Net change in cash and cash equivalents held		(2,750)	11,165
Cash and cash equivalents at the beginning of the financial year		41,512	30,347
Cash and cash equivalents at the end of the financial year	31 (a)	38,762	41,512

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

Notes to the Financial Statements

For the year ended 30 June 2023

Note 1: Statement of Significant Accounting Policies

The general purpose financial statements have been prepared in accordance with the requirements of the Corporations Act 2001, the Australian Accounting Standards and with other authoritative pronouncements of the Australian Accounting Standards Board ('AASB'). Compliance with Australian Accounting Standards ensures compliance with International Financial Reporting Standards ('IFRS's') as issued by the International Account Standards Board ('IASB').

Summerland Financial Services 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

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

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

The financial report was authorised for issue on 27 September 2023 by the Board of Directors.

REPO Securitisation Trust Consolidation

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

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

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

Significant accounting policies

The following provides a list of the significant accounting policies adopted in the preparation of these financial statements to the extent they have not already been disclosed in the other notes below.

(a) Critical accounting estimates and judgements

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management base its judgements, estimates and assumption on historical experience and on other factors, including reasonable expectations of future events by way of trend analysis and economic data sourced both externally and within the credit union.

The resulting accounting judgements and estimates will seldom equal the related actual results. The judgements, estimates and assumptions that have significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are outlined below.

Key estimates

Impairment:	refer to Note 12
Property:	refer to Note 14
Investment property:	refer to Note 15
Intangibles:	refer to Note 16

Uncertainty around property valuations

All land and buildings were independently valued by Herron Todd White Ltd as at 30 June 2023. These valuations have been conducted on the basis of market value and have been performed through a review of sale and rental values of comparable properties within close proximity.

Investment properties are revalued every three years based on independent assessments by a member of the Australian Property Institute having recent experience in the location and category of investment property being valued. Valuations are based on current prices in an active market for similar properties of the same location and condition, subject to similar leases and takes into consideration occupancy rates and returns on investment (i.e. the income capitalisation approach).

When calculating the income capitalisation approach, the net market rent has a strong interrelationship with the adopted capitalisation rate given the methodology involves assessing the total net market income receivable from the property and capitalising this in perpetuity to derive a capital value. An increase/decrease in the net market rent and an increase (softening)/decrease (tightening) in the adopted capitalisation rate could potentially offset the impact to the fair value. A directionally opposite change in the net market rent and the adopted capitalisation rate could potentially magnify the impact to the fair value.

The key assumptions and estimates used in the valuation approach, include:

- future rental income, based on location, type and quality of property, which are supported by the terms of any existing leases, external evidence such as current market rents for similar properties;
- lease assumption based on current and expected future market conditions;
- the capitalisation rate derived from recent comparable market transactions; and
- assessment of the property on an ‘as is’ basis including reasonable estimation of capital works to reinstate or repairs to the base building conditions.

The property valuations are based on information available at the reporting date. In the event that the circumstances are more material or prolonged than anticipated, this may further impact the fair value of the company's properties.

(b) Comparative figures

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

(c) Goods and services tax (GST)

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

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

(d) New or emerging Accounting Standards not yet mandatory

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

Note 2: Interest Revenue and Interest Expense

	2023 $'000	2022 $'000
Interest revenue		
Cash and cash equivalents	965	15
Investments with other financial institutions	5,376	1,514
Loans and advances	33,108	22,508
Derivatives	1,493	66
Total interest Revenue	40,942	24,103
Interest expense		
Deposits	11,035	2,084
Borrowings	1,706	481
Derivatives	384	301
Leases	18	20
Total interest expense	13,143	2,886

Note 3: Revenue

	2023 $'000	2022 $'000
Interest Revenue	40,942	24,103
Non-interest Revenue		
Fees and commissions		
- fee income on loans - other than loan origination fees	691	965
- fee income from customer deposits	704	703
- other fee income	590	532
- insurance commissions	174	151
- other commissions	751	634
	2,910	2,985
Bad debts recovered	6	10
Rental income from property	408	505
Fair value increase - investment property	287	-
Profit on sale of investment property	10	-
Profit on sale of assets	64	-
Insurance proceeds	80	500
Other	394	480
Total non-interest Revenue	4,159	4,480
Total Revenue	45,101	28,583

Recognition and Measurement

Revenue represents revenue from contracts with customers, where the credit union has provided services to a customer in exchange for consideration that is not the provision of a lease, an insurance product or a financial instrument. The following specific criteria must also be met before revenue is recognised.

Loan Interest Revenue

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

Non-Accrual Loan Interest

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

Investment Interest Revenue

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

Fees and Commissions Revenue

Fees and commissions are brought to account as non-interest income on an accrual basis once a right to receive consideration has been attained (i.e. when the service is provided). The credit union's performance obligation is to provide ongoing services related to account maintenance and customer related services, a service from which the customer benefits from as it is provided and is recognised over-time. Due to the nature of the services, they are recognised as a series of services comprising a single performance obligation. Unless otherwise discounted and included in the initial measurement of a loan, fees are charged at their stand-alone selling price and recognised as non-interest revenue in the period for which services are delivered.

Loan Origination Fees Revenue

Loan establishment fees and discounts are initially deferred as part of the loan balance and are brought to account as non-interest revenue over the expected life of the loan. The expected life of loans is reviewed annually and adjusted to reflect changes in trends in the actual life of loans. These adjustments may accelerate or decelerate the amortisation rate of the deferred origination fee revenue.

Transaction costs

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

Note 4: Profit Before Income Tax Expense

Profit before income tax expense has been determined after:

	Note	2023 $'000	2022 $'000
Expenses			
Interest expense		13,143	2,886
Non-interest expenses			
Employee benefit expenses			
- net movement in provisions for annual leave		75	52
- net movement in provisions for long service leave		189	(80)
- superannuation		878	760
- other employee expenses		9,754	8,568
		10,896	9,300
Impairment of assets	12 (c)	(154)	172
Depreciation and Amortisation expense			
Depreciation expense			
- buildings		77	97
- plant and equipment		365	503
- right-of-use assets		508	567
Amortisation expense			
- software		100	158
- leasehold improvements		256	242
		1,306	1,567
Revaluation of investment properties		-	2,207
Other expenses			
Fees and commissions		3,650	2,690
General and administration expenses		305	237
IT expenses		2,976	2,593
Occupancy expenses		421	705
Risk and compliance expenses		1,621	1,271
Other operating expenses		1,217	981
		10,190	8,477
Total non-interest expenses		22,238	21,723
Total expenses		35,381	24,609

Note 5: Income Tax

	2023	2022
	$'000	$'000
Income tax expense		
Prima facie tax payable on profit at 25% (2022: 25%)	2,432	988
Adjust for tax effect of:		
Adjustment for previous year	23	11
Income tax expense attributable to the entity	2,455	999
Applicable average effective tax rate	25%	25%
The components of income tax expense comprise		
Current tax	2,395	1,364
Deferred tax	60	(365)
	2,455	999

Current and deferred tax recognised directly in equity

Aggregate current and deferred tax arising during the reporting period and not recognised in profit and loss but directly debited or credited to equity:

Franking credits

	2023	2022
Franking credits held by the Credit Union after adjusting for franking credits that will arise from the payment of income tax payable as at the end of the financial year is:	24,646	22,412

The 2022 Franking Credits has been restated in this annual report to reflect the correct balance.

	2023	2022
Current tax		
Current income tax (receivable) / payable	337	198
Deferred tax assets		
Deferred tax assets comprise temporary differences attributable to:		
Amounts recognised in profit and loss		
Plant and equipment	249	232
Provision for impairment	284	323
Provision for employee benefits	475	423
Accrued expenses	188	118
Carry forward capital loss	77	-
Deferred loan fee asset	(122)	(62)
AASB 16 Adjustments	13	7
	1,164	1,041
Amounts recognised directly in equity		
Hedge reserve	(504)	(707)
Land and buildings	(79)	227
Total deferred tax assets	581	561

	2023	2022
	$'000	$'000
Deferred tax liabilities		
Deferred tax liabilities comprise temporary differences attributable to:		
Amounts recognised in profit and loss		
Investment properties	492	517
Amounts recognised directly in equity		
Land and buildings	-	-
Total deferred tax liabilities	492	517
Net deferred tax assets	89	44

Recognition and Measurement

Current tax expense

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

Deferred tax

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

Changes in deferred tax assets or liabilities are recognised as a component of tax income or expense in profit or loss, except where they relate to items that are recognised in other comprehensive income (such as the revaluation of land) or directly in equity, in which case the related deferred tax is also recognised in other comprehensive income or equity, respectively.

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

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

Note 6: Remuneration of Auditors

	2023	2022
	$	$
Audit services		
- Auditing of the financial report	92,700	81,988
Other assurance services		
- Regulatory audit of AFSL and APRA prudential audits	31,930	28,737
Other assurance services		
- Taxation compliance services	16,995	17,845
	141,625	128,570

	2023	2022
	$'000	$'000

Note 7: Related Party Transactions

(a) Key management personnel

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

KMP has been taken to comprise the Directors, the Company Secretary and the six executives responsible for the day-to-day financial and operational management of the credit union.

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

- Colin Sales
- Jane Calder
- Kevin Franey
- Sally Gibson
- Andrew Yost
- Robert Hale (Appointed 26/09/22)
- Katrina Luckie (Retired 16/11/22)
- David Bergmark (Retired 16/11/22)

(b) Remuneration of key management personnel

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

	2023 $'000	2022 $'000
Short-term employee benefits	1,943	1,929
Post-employment benefits	166	161
Other long-term benefits	52	22
	2,161	2,112

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

(c) Related parties

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

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

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

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

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

	2023	2022
	$'000	$'000
The aggregate value of loans to KMP and other related parties as at balance date amounted to	1,274	2,275
The total value of revolving credit facilities to KMP and other related parties as at balance date amounted to	60	130
Less amounts drawn down and included above	(12)	(21)
Net balance available	48	109
During the year the aggregate value of loans and revolving credit facilities approved and/or disbursed to KMP and other related parties amounted to	2,639	624
Interest and other revenue earned on loans and revolving credit facilities to KMP and other related parties amounted to	52	63

(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	591	1,333
Total interest paid on deposits to KMP and other related parties	4	-

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

There are existing service contracts where KMP or their close family members are an interested party. These contracts see services being provided at arm's length on the same terms and conditions as other contracted services to the credit union. The total value of services provided by associated entities of KMP (TNR) is $60k (2022: $155k).

Note 8: Cash and Cash Equivalents

Cash on hand	1,554	1,702
Deposits at call	37,208	39,810
	38,762	41,512

Recognition and Measurement

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

The effective interest rate on short-term bank deposits was 2.87% (2022: 0.18%).

	2023	2022
	$'000	$'000

Note 9: Other Receivables

Accrued interest	1,090	709
Other receivables	2,889	5,778
	3,979	6,487

Recognition and Measurement

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

Note 10: Other Assets

Prepayments	1,974	2,301
Prepayments - SaaS	561	568
	2,535	2,869

Recognition and Measurement

Prepayments

Any expenses paid prior to the related goods provided or services rendered will be recorded as prepaid expenses.

Software-as-a-Service (SaaS) arrangements

SaaS arrangements are service contracts providing the credit union with the right to access the cloud provider's application software over the contract period. As such the credit union does not receive a software intangible asset at the contract commencement date. Costs are to be recognised as an operating expense over the term of the service contract creating a prepayment including fees for use of application software and customisation costs.

Costs incurred for the development of software code that enhances or modifies, or creates additional capability to, existing on-premise systems and meets the definition of and recognition criteria for an intangible asset are recognised as intangible software assets. Refer to Note 16 for an outline of accounting for intangible assets.

Note 11: Investments with Other Financial Institutions

Deposits with financial institutions	122,069	171,584
Government bonds	21,500	34,000
Mortgage-backed securities	16,100	11,200
	159,669	216,784

Recognition and Measurement

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

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

After initial recognition, these are measured at amortised cost using the effective interest method. Discounting is omitted where the effect of discounting is immaterial. Included as a deposit with ADIs is $6.2m (2022: $11.3m) which represents restricted cash relating to the Repo Securitisation Trust.

	2023	2022
	$'000	$'000

Note 12: Loans and Advances

	2023	2022
Term loans	825,668	744,451
Overdrafts and revolving credit	8,091	8,330
Gross loans and advances	833,759	752,781
Less: Unamortised loan origination fees	(386)	(513)
	833,373	752,268
Less: Provision for impaired loans	(1,135)	(1,293)
Net loans and advances	832,238	750,975

Recognition and Measurement

Loans and advances are classified as financial assets measured at amortised cost. Loans and advances are initially measured at fair value plus incremental direct transaction costs attributable to the origination of the loan or advance, which are primarily brokerage and origination fees. These costs are amortised over the useful life of the loan and subsequently measured at amortised cost using the effective interest method less impairment losses.

(a) Credit quality – Security held against loans

	2023	2022
Secured by mortgage over real estate	822,443	741,855
Partly secured by goods mortgage	5,627	5,852
Cash secured	1,334	722
Unsecured	4,355	4,352
Gross loans and advances	833,759	752,781

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

	2023	2022
Security held as mortgage against real estate is on the basis of:		
- Loan to valuation ratio of less than or equal to 80%	761,000	666,766
- Loan to valuation ratio of more than 80% but mortgage insured	51,066	66,045
- Loan to valuation ratio of more than 80% and not mortgage insured	10,377	9,044
Total	822,443	741,855

(b) Concentration of loans

Geographical and purpose concentrations

The values discussed below include on statement of financial position values and off statement of financial position undrawn facilities as described in Note 24.

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

2023	Housing	Personal	Business	Total
	$'000	$'000	$'000	$'000
NSW – Northern Rivers	603,959	15,367	39,296	658,622
NSW – Other regions	145,529	1,263	2,169	148,961
Other states, territories & jurisdictions	130,545	2,571	1,892	135,008
Total	880,033	19,201	43,357	942,591

2022	Housing	Personal	Business	Total
NSW – Northern Rivers	574,021	15,796	44,426	634,243
NSW – Other regions	116,567	1,556	2,533	120,656
Other states, territories & jurisdictions	86,823	2,130	1,043	89,996
Total	777,411	19,482	48,002	844,895

2023	2022
$'000	$'000

(c) Provision on impaired loans

Amounts arising from Expected Credit Losses (ECL)

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

2023	Gross Carrying Value	ECL Allowance	Carrying Value
	$'000	$'000	$'000
Loans to customers			
- Residential loans and facilities	880,033	(455)	879,578
- Personal loans and facilities	19,201	(95)	19,106
- Business loans and facilities	43,357	(585)	42,772
Total	942,591	(1,135)	941,456

2022	Gross Carrying Value	ECL Allowance	Carrying Value
Loans to customers			
- Residential loans and facilities	777,411	(458)	776,953
- Personal loans and facilities	19,482	(107)	19,375
- Business loans and facilities	48,002	(728)	47,274
Total	844,895	(1,293)	843,602

	Stage 1 12 month ECL 2023	Stage 2 Lifetime ECL 2023	Stage 3 Lifetime ECL 2023	Total 2023
	$'000	$'000	$'000	$'000
Loans to customers				
- Residential loans and facilities	868,539	7,894	3,599	880,032
- Personal loans and facilities	19,091	61	50	19,202
- Business loans and facilities	43,001	255	101	43,357
	930,631	8,210	3,750	942,591
Loss allowance	(1,092)	(20)	(23)	(1,135)
Carrying amount	929,539	8,190	3,727	941,456

	Stage 1 12 month ECL 2022	Stage 2 Lifetime ECL 2022	Stage 3 Lifetime ECL 2022	Total 2022
Loans to customers				
- Residential loans and facilities	764,189	10,109	3,113	777,411
- Personal loans and facilities	19,382	61	39	19,482
- Business loans and facilities	47,461	541	-	48,002
	831,032	10,711	3,152	844,895
Loss allowance	(1,242)	(39)	(12)	(1,293)
Carrying amount	829,790	10,672	3,140	843,602

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

	Stage 1 12 month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Loans to customers				
Balance at 1 July 2021	1,103	10	13	1,126
Changes in the loss allowance				
- Transfer to stage 1	-	-	-	-
- Transfer to stage 2	-	28	(4)	24
- Transfer to stage 3	-	-	1	1
Net movement due to change in credit risk	-	28	(3)	25
Net movement in individual provisions	139	1	2	142
Write offs	-	-	-	-
Balance at 30 June 2022	1,242	39	12	1,293
Changes in the loss allowance				
- Transfer to stage 1	27	(31)	-	(4)
- Transfer to stage 2	-	12	(4)	8
- Transfer to stage 3	-	-	14	14
Net movement due to change in credit risk	27	(19)	10	18
Net movement in individual provisions	(177)	-	1	(176)
Write offs	-	-	-	-
Balance at 30 June 2023	1,092	20	23	1,135
Amounts processed directly to Profit and Loss:				
- Write off of overdrawn accounts (informal credit facilities) not within the ECL framework			(4)	(3)
- Recoveries of amounts previously written off			4	10
Profit increase / (decrease)			-	7

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

(d) General reserve for credit losses

This reserve records an additional amount over and above specific provisions which, prior to the adoption of ECL based provisions, satisfied Australian Prudential Regulation Authority's (APRA) requirement to demonstrate total loan loss reserves that would be adequate at all times to absorb credit losses in an ADI's business. While that Regulatory requirement no longer exists, at this stage the reserve continues to be maintained in addition to the overall provisions calculated under the ECL methodology by the credit union (which itself includes but it is not limited to specific provisions). Under Australian Accounting Standards this reserve does not meet the definition of a provision and consequently is recognised as an appropriation of retained earnings in equity as shown in Note 23.

Critical accounting estimates and judgements

The recovery of the 2022 flood event in the Northern Rivers Region on the local economy and communities is well under way and is somewhat ongoing. However, fifteen months on from the flood event, the impact on the loan portfolio and provisioning for the credit union appears minimal.

The outlook in 2023 is quite different for a number of macro-economic indicators when compared to prior years. The key indicators that changed over the year included a move to an increasing rate environment, national and global increases in inflation, inconsistency in property market conditions and specific local considerations for property market, economic and employment conditions. The basis for Expected Credit Loss (ECL) modelling in the current year did not significantly change – the model continues to incorporate a considerable degree of judgement in its application and assessment of exposures during different economic cycles.

Recognition and Measurement

Measurement of ECL

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

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

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

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

The approach to determining the ECL includes forward-looking information. The credit union has performed historical analysis and identified the key economic variables impacting credit risk and expected credit losses for each portfolio segment. Consideration has also been given to the level of undue cost and effort involved in utilising complex statistical models, which is not considered appropriate for the size and complexity of the portfolio. The credit union incorporates forward-looking information into its ECL methodology. Considerations include the impact of future changes in unemployment rates, property prices, regulatory change and external market risk factors. Based on review by the credit union's Board and Board Audit Committee and consideration of external information, the credit union formulates an 'outlook' view of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios. The external information used includes economic data and forecasts published by the Reserve Bank of Australia and other bodies.

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

Credit risk

The provision is reflective of the credit risk in the credit union's loan portfolio. Total impairment provision decreased year-on-year by $158K to $1,135K at June 2023.

This decrease recognises particularly changes in current and expected future economic outcomes compared to what existed or was expected in June 2022. In particular, that there is minimal remaining impact on the loan portfolio or impairment provision stemming from the 2022 flood. The impairment was estimated on the facts and circumstances existing at 30 June 2023.

The model overlays forward-looking economic outlooks on the loan portfolio. The provisioning at Stage 1 & 2 decreased in the 2023 year with a small increase in Stage 3 provisioning.

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

- Loans 30 days or more past due;
- Loans with more than 2 instances of arrears 30 days or more in the previous 12 months; and
- Loans with approved hardship or modified terms, which could include loans affected by the recent flood event.

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

General reserve for credit losses

In addition to the provision for impairment, a general reserve for credit losses is maintained to cover risks inherent in the loan portfolio. Movements in the general reserve for credit losses are recognised as an appropriation of retained earnings as shown in Note 23.

Restructured Loans

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

Bad debts

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

Note 13: Derivatives

	2023	2022
	$'000	$'000
Asset		
Interest rate swap contracts - cash flow hedge	2,239	2,853

Recognition and Measurement

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

Derivative instruments used by the credit union

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

Interest rate swap contracts - cash flow hedges

The credit union's loans currently bear an average variable rate of interest of 6.13% (2022: 3.61%). It is the credit union's policy to hedge loans at fixed rates of interest by entering into interest rate swap contracts under which the credit union is obliged to receive interest at variable rates and to pay interest at fixed rates. Swaps currently in place are timed to expire as loan portfolio repayments fall due. Fixed interest rates range between 0.15% to 1.90% and variable rates range between 3.652% to 4.350% against the 90-day bank bill swap rate which at balance date was 4.350% (2022: 1.813%).

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

Within 1 year	25,000	3,000
1-2 years	21,000	24,000
2-5 years	4,000	26,000
	50,000	53,000

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.

2023	Within 1 year	1-2 years	2-5 years
	$'000	$'000	$'000
Cash inflows	1,524	557	211
Cash outflows	(305)	(161)	(93)
Net cash flows	1,219	396	118

2022	Within 1 year	1-2 years	2-5 years
	$'000	$'000	$'000
Cash inflows	370	413	179
Cash outflows	(322)	(368)	(246)
Net cash flows	48	45	(67)

Note 14: Property, Plant and Equipment

	2023 $'000	2022 $'000
Land		
At fair value	157	157
Buildings		
At fair value	3,254	2,887
Leasehold improvements		
At cost	1,776	1,758
Accumulated amortisation	(1,445)	(1,189)
	331	569
Plant and equipment		
At cost	2,367	2,310
Accumulated depreciation	(1,944)	(1,717)
	423	593
Total Property, Plant and Equipment	4,165	4,206

Recognition and Measurement

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

Property

Freehold land and buildings are measured at their fair value, being the price that would be received to sell the asset in an orderly transaction between market participants at the measurement date, less subsequent depreciation. It is the policy of the credit union to have an independent valuation of land and buildings every three years in accordance with the requirements of AASB 116 Property, Plant & Equipment. The fair value of the property located at 101 Molesworth Street Lismore was independently valued by Herron Todd White, as at 30 June 2023. This valuation was conducted on the basis of market value and was performed through a review of sale and rental values of comparable properties within close proximity.

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.

Refer to Note 1 for detail on the valuation and key judgements to be considered for the land and buildings of the credit union.

Valuation Techniques Used to Derive Fair Values For Property Assets

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 level 2 valuation inputs in the years where an independent valuation is undertaken.

Plant and Equipment

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

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

Depreciation

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

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

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

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

Movements in carrying amounts

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

2023	Property	Plant & Equipment	Leasehold Improvements	Total
	$'000	$'000	$'000	$'000
Balance at beginning of the financial year	3,044	593	569	4,206
Net revaluation increment	317	-	-	317
Additions	91	233	18	342
Disposals	-	(39)	-	(39)
Depreciation expense	(77)	(365)	(256)	(698)
Change in use adjustment	37	-	-	37
Carrying amount at end of the financial year	3,412	422	331	4,165

2022	Property	Plant & Equipment	Leasehold Improvements	Total
	$'000	$'000	$'000	$'000
Balance at beginning of the financial year	3,936	871	324	5,131
Net revaluation decrement	(909)	-	-	(909)
Additions	70	296	487	853
Disposals	(1)	(73)	-	(74)
Depreciation expense	(99)	(501)	(242)	(842)
Change in use adjustment	47	-	-	47
Carrying amount at end of the financial year	3,044	593	569	4,206

	2023	2022
	$'000	$'000
If land and buildings were stated at historical cost, amounts would be as follows:		
Cost	6,849	8,309
Accumulated depreciation	(4,039)	(4,796)
Net book value	2,810	3,513

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

	2023	2022
	$'000	$'000

Note 15: Investment Property

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

Changes to the carrying amounts are as follows:

	2023	2022
Balance at beginning of the financial year	3,516	5,644
Additions	150	67
Disposals	(827)	-
Net gain / (loss) from fair value adjustments	287	(2,148)
Change in use adjustment	(37)	(47)
Carrying amount at end of the financial year	3,089	3,516

Recognition and Measurement

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

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

Fair value of investment property

The credit union determines the fair value from:

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

The fair value of the investment property located at 101 Molesworth Street Lismore was independently valued by Herron Todd White, as at 30 June 2023. This valuation was conducted on the basis of market value and was performed through a review of sale and rental values of comparable properties within close proximity.

Refer to Note 1 and Note 14 for detail on the valuation techniques and key judgements to be considered for the land and buildings of the credit union.

Investment properties are leased out on operating leases. Rental income amounts to $407,678 (2022: $504,638) and is included within revenue as shown in Note 3. Direct operating expenses not recovered as outgoings from the tenants of the relevant property were reported within other expenses as shown in Note 4.

The lease contracts are all non-cancellable for either three or five years from the commencement of the lease. Refer to Note 24 for future minimum lease rentals.

On 31st May 2023, the investment property held by the credit union at 256 Molesworth St, Lismore was sold for $850,000 (exc GST) and resulted in a profit of $10.4k. The settlement was completed on 29th June 2023, prior to the end of the financial year. The sale transaction has been reflected in this year's financial report.

	2023	2022
	$'000	$'000

Note 16: Intangible Assets

	2023	2022
Computer software		
At cost	965	965
Accumulated amortisation	(913)	(828)
	52	137
Other Intangible Assets		
At cost	437	437
Accumulated amortisation	(335)	(320)
	102	117
Total Intangible Assets	154	254

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	137	117	254
Additions	-	-	-
Disposals	-	-	-
Amortisation expense	(85)	(15)	(100)
Carrying amount at the end of the financial year	52	102	154

Recognition and Measurement

Computer Software

Items of computer software which are not integral to the computer hardware owned by the credit union are classified as intangible assets. Specifically, costs incurred for the development of software code that enhances or modifies, or creates additional capability to, existing on-premise systems and meets the definition of and recognition criteria for an intangible asset are recognised as intangible software assets. Computer software is amortised on a straight-line basis over the expected useful life of the software, typically linked to software contracts. These lives range from 3-5 years.

Other Intangible Assets

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

SaaS Arrangement Costs

During the financial year, the credit union recognised no costs as intangible assets in respect of customisation and configuration costs incurred in implementing SaaS arrangements.

	2023	2022
	$'000	$'000

Note 17: Leases

(a) Amounts recognised in the balance sheet

The balance sheet shows the following amounts relating to leases:

	2023	2022
Right-of-use asset		
Property	1,236	1,307
ATM	35	34
Other	54	75
	1,325	1,416
Lease liabilities		
Current	403	458
Non-current	782	798
	1,185	1,256

The credit union has leases for the branch network, ATM fleet and equipment. With the exception of short-term leases and leases of low-value underlying assets, each lease is reflected on the balance sheet as a right-of-use asset and a lease liability. Variable lease payments which do not depend on an index are excluded from the initial measurement of the lease liability and asset. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes. The table below describes the nature of the credit union's leasing activities by type of right-of-use asset recognised on balance sheet:

Right-of-use asset	No of right-of-use assets leased	Range of remaining term	Average remaining lease term	No of leases with extension options	No of leases with termination options
Property	12	0-6 years	2.1 years	3	13
Other	1	0-2 years	2.0 years	-	-

Future minimum lease payments at 30 June 2023 were as follows:

	Minimum lease payments due			
2023	**Within 1 year**	**Between 2-5 years**	**After 5 years**	**Total**
	$'000	$'000	$'000	$'000
Lease payments	438	933	13	1,384
Finance charges	(35)	(156)	(8)	(199)
Net present values	403	777	5	1,185

2022	**Within 1 year**	**Between 2-5 years**	**After 5 years**	**Total**
	$'000	$'000	$'000	$'000
Lease payments	494	951	-	1,445
Finance charges	(36)	(153)	-	(189)
Net present values	458	798	-	1,256

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

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

	2023 $'000	2022 $'000
Depreciation charge of right-of-use asset		
Property	480	445
ATM	-	96
Other	28	26
	508	567
Interest expense (included in interest expense)	18	20

The total cash outflow for leases in 2023 was $488k (2022: $586k).

Recognition and Measurement

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

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

Credit union as lessee

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

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

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

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

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

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

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

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

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

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

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

Credit union as a lessor

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

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

Critical judgements in determining the lease term

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

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

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

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

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

Note 18: Deposits

	2023 $'000	2022 $'000
At call deposits (including withdrawable shares)	586,874	700,836
Term deposits	313,314	240,899
Wholesale deposits	57,000	2,000
	957,188	943,735

Recognition and Measurement

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

Concentration of deposits

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

Note 19: Trade and Other Payables

	2023 $'000	2022 $'000
Accrued interest payable on deposits and borrowings	4,038	830
Sundry creditors and accrued expenses	1,480	934
Employee benefits - annual leave	803	708
Trade creditors	349	387
Other creditors	1,430	8,420
	8,100	11,279

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

Recognition and Measurement

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

Short-term obligations

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

	2023	2022
	$'000	$'000

Note 20: Provisions

Employee benefits - long service leave	1,005	904
Lease make good	192	190
	1,197	1,094
Provision Movement – Lease Make Good		
Balance at beginning of the financial year	190	155
Less paid	-	(20)
Liability (decrease)/increase	2	55
Balance at end of the financial year	192	190
Analysis of liability		
Expected to be settled within 12 months	832	726
Expected to be settled after 12 months	365	368
	1,197	1,094

Recognition and Measurement

Other long-term employee benefit obligations

The liability for long service leave which is not expected to be wholly settled within 12 months after the end of the period in which the employees render the related service, is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the end of the reporting period. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the end of the reporting period on corporate bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

Leasehold improvements

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

Note 21: 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 repaid to members is in accordance with the terms and conditions of the share issue and the redemption account represents the amount of profits appropriated. For values please refer to the statement of changes in member equity.

	2023	2022
	$'000	$'000

Note 22: Reserves

General reserve

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

Capital profits reserve

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

Asset revaluation surplus

The asset revaluation surplus records revaluations of non-current assets net of income tax	2,520	2,283

General reserve for credit losses

The reserve for credit losses records amounts maintained to comply with the APRA Prudential Standards	1,830	2,395

Hedging reserve

The hedging reserve records movements in the fair value of effective cash flow hedges net of income tax	1,513	2,132

Note 23: Commitments

(a) Future capital commitments

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

(b) Outstanding loan commitments

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

	2023	2022
Loans approved but not funded	14,785	9,950

Loans and credit facilities with an undrawn portion at the end of the financial year:

	2023	2022
Loans amounts available but not yet drawn	5,068	5,567
Loan redraw facilities available	89,335	70,584
Undrawn overdraft and credit facilities	14,429	15,594
	108,832	91,745
Total outstanding loan commitments	123,617	101,695

	2023	2022
	$'000	$'000

(c) Operating leases receivable

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

Not longer than 1 year	467	440
Longer than 1 and not longer than 5 years	799	1,192
	1,266	1,632

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

Note 24: Contingent Liabilities

Liquidity Support Scheme

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

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

Repurchase Obligations (REPO) Trust

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

Flood recovery of buildings impacted by flood

The building owned by the credit union has not been fully refurbished to allow full tenancy of the building as at 30 June 2023. Management and the Board are in the final stages of approving the refurbishment works to be done to the building. It is estimated that to refit the building the capital cost to the credit union is $3.1m. The works are planned to occur in the coming financial year. If this work is completed, this would be reflected in future changes in the valuation of the buildings (Note 14 and 15).

Note 25: Entity Consolidation

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

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

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

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

The value of securitised loans that are not de-recognised as at reporting date was $96,847,850. In each case the loans are variable interest rate loans, hence the book value of the loans equates to the fair value of those loans.

NOTE 26: Classes of Financial Assets and Liabilities

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

	2023 $'000	2022 $'000
(a) Financial assets - measured at amortised cost		
Cash and cash equivalents	38,762	41,512
Other receivables	3,979	6,487
Loans and advances	832,238	750,975
Investments with other financial institutions	159,669	216,784
Total	1,034,648	1,015,758
(b) Financial liabilities - measured at amortised cost		
Deposits	957,188	943,735
Trade and other payables (excluding employee benefits)	7,299	10,575
Borrowings	-	-
Total	964,487	954,310
(c) Financial assets - measured at fair value		
Financial assets at FVOCI	2	2
Derivatives for hedge accounting	2,239	2,853
(d) Financial liabilities - measured at fair value		
Derivatives for hedge accounting	-	-

Recognition and Measurement

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

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

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

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

Classifications are determined by both:

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

Amortised cost

Financial assets are classified at amortised cost when they are held within a business model to solely collect contractual cash flows and the contractual terms of the financial assets give rise on specified date to cash flows that are solely payments of principal and interest (SPPI).

Amortised cost is calculated by taking into account any discount or premium on the issue of the asset and costs that are an integral part of the effective interest rate.

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

Fair Value through profit or loss

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

Fair value through other comprehensive income (FVOCI)

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

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

Note 27: Risk Management

Risk management policy and objectives

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

(a) Interest rate risk and hedging policy

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

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

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

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

The credit union has a VaR limit to capital of 2.50%. The table below sets out the VaR position for the past two years.

	2023	**2022**
VaR after prepayments and hedges	$112,174	$800,892
VaR as % of capital	0.14%	1.13%

Repricing of financial assets and liabilities

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

	Floating Interest Rate	Within 1 year	1 to 5 years	Over 5 years	Non Interest Sensitive	Total
	$'000	$'000	$'000	$'000	$'000	$'000
Repricing Period at 30 June 2023						
Financial assets						
Cash and cash equivalents	37,207	-	-	-	1,555	38,762
Other receivables	-	-	-	-	3,979	3,979
Derivatives	-	-	-	-	2,239	2,239
Financial assets at FVOCI	-	-	-	-	2	2
Investments with other financial institutions	6,169	35,660	117,840	-	-	159,669
Loans and advances	534,979	166,951	130,308	-	-	832,238
Total financial assets	578,355	202,611	248,148	-	7,775	1,036,889
Financial liabilities						
Deposits	643,250	304,307	9,006	-	624	957,187
Trade and other payables	-	-	-	-	7,299	7,299
Borrowings	-	-	-	-	-	-
Total financial Liabilities	643,250	304,307	9,006	-	7,923	964,486
Off balance sheet items						
Interest rate swaps	-	25,000	25,000	-	-	50,000
Undrawn loan commitments	123,617	-	-	-	-	123,617
Repricing Period at 30 June 2022						
Financial assets						
Cash and cash equivalents	39,810	-	-	-	1,702	41,512
Other receivables	-	-	-	-	6,487	6,487
Derivatives	-	-	-	-	2,853	2,853
Financial assets at FVOCI	-	-	-	-	2	2
Investments with other financial institutions	11,338	95,546	109,900	-	-	216,784
Loans and advances	445,122	78,188	227,665	-	-	750,975
Total financial assets	496,270	173,734	337,565	-	11,044	1,018,613
Financial liabilities						
Deposits	700,344	234,448	8,451	-	492	943,735
Trade and other payables	-	-	-	-	10,575	10,575
Borrowings	-	-	-	-	-	-
Total financial liabilities	700,344	234,448	8,451	-	11,067	954,310
Off balance sheet items						
Interest rate swaps	-	3,000	50,000	-	-	53,000
Undrawn loan commitments	101,696	-	-	-	-	101,696

(b) Credit risk

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

Maximum credit risk exposure

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

Loans

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

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

Concentration risk

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

The geographical concentrations of credit risk on loans is set out in Note 12 (b). The mortgage insurance concentration is 10.42% of the loan portfolio secured by residential mortgage. Refer to Note 12 (a) for further detail.

Liquid investments

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

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

Short term S & P Rating	**Maximum Holding %** *(As a percentage of total liquidity portfolio)*	**Maximum per Counterparty %** *(As a percentage of total eligible capital)*
A-1+	100	25-30*
A-1	100	25
A-2	80	25
A-3	15	25
Unrated	10	10
Unrated – Settlement accounts	15	15-40*

*Selected counterparties within the A-1+ rating group have a 30% limit and selected counterparties within the Unrated Settlement accounts group have a 40% limit.

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

Actual Rating	2023 Balance $'000	2023 Balance %	2022 Balance $'000	2022 Balance %
A-1+	82,289	42	105,330	41
A-1	37,742	19	35,600	14
A-2	50,375	26	70,010	27
A-3	3,485	2	8,986	4
Unrated	6,129	3	16,643	6
Unrated – Settlement accounts	16,857	8	20,025	8
Total	196,877	100	256,594	100

(c) Liquidity risk

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

The credit union manages liquidity risk by:

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

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

The ratio of liquid funds is set out below:

	2023	2022
Liquid funds to total adjusted liabilities:		
- As at 30 June	16.78%	19.81%
- Average for the year	18.28%	20.97%
- Minimum during the year	16.78%	19.81%

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

Maturity profile of financial assets and liabilities

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

	Within 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	No Maturity	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
2023							
Financial assets							
Cash and cash equivalents	37,207	-	-	-	-	1,555	38,762
Other receivables	3,979	-	-	-	-	-	3,979
Derivatives	-	-	1,049	1,190	-	-	2,239
Financial assets at FVOCI	-	-	-	-	-	2	2
Investments with other financial institutions	12,654	7,425	21,750	117,840	-	-	159,669
Loans and advances	2,338	4,702	17,108	89,527	711,632	6,931	832,238
Total financial assets	56,178	12,127	39,907	208,557	711,632	8,488	1,036,889
Financial liabilities							
Deposits	54,978	114,052	196,133	15,252	-	586,875	967,290
Trade and other payables	7,299	-	-	-	-	-	7,299
Borrowings	-	-	-	-	-	-	-
	62,277	114,052	196,133	15,252	-	586,875	974,589
Undrawn loan commitments	123,617	-	-	-	-	-	123,617
Total financial liabilities	185,894	114,052	196,133	15,252	-	586,875	1,098,206
2022							
Financial assets							
Cash and cash equivalents	39,810	-	-	-	-	1,702	41,512
Other receivables	6,487	-	-	-	-	-	6,487
Derivatives	-	-	65	2,788	-	-	2,853
Financial assets at FVOCI	-	-	-	-	-	2	2
Investments with other financial institutions	35,477	28,957	42,450	109,900	-	-	216,784
Loans and advances	2,284	4,461	19,308	98,260	619,638	7,024	750,975
Total financial assets	84,058	33,418	61,823	210,948	619,638	8,728	1,018,613
Financial liabilities							
Deposits	42,165	80,433	113,021	8,602	-	700,836	945,057
Trade and other payables	10,575	-	-	-	-	-	10,575
Borrowings	-	-	-	-	-	-	-
	52,740	80,433	113,021	8,602	-	700,836	955,632
Undrawn loan commitments	101,696	-	-	-	-	-	101,696
Total financial liabilities	154,436	80,433	113,021	8,602	-	700,836	1,057,328

(d) Operational risk

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

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

(e) Capital management

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

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

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

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

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

The credit union's regulatory capital comprises two tiers:

Tier 1 Capital

Tier 1 Capital consists of:

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

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

Tier 2 Capital

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

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

Capital structure	2023	2022
	$'000	$'000
Net Tier 1 Capital	76,166	68,530
Net Tier 2 Capital	1,829	2,394
Total Capital Base	77,995	70,924
Total Risk Weighted Assets	400,681	478,900
Total Capital Ratio	19.47%	14.81%
Tier 1 Capital Ratio	19.01%	14.31%

Note 28: Valuation of Financial Instruments

Fair value of assets and liabilities

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

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

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

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

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

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

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

Fair value estimate for financial assets and liabilities

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

	2023		2022	
	Carrying value	**Net fair value**	**Carrying value**	**Net fair value**
	$'000	$'000	$'000	$'000
Assets				
Cash and cash equivalents	38,762	38,762	41,512	41,512
Other receivables	3,979	3,979	6,487	6,487
Derivatives	2,239	2,239	2,853	2,853
Financial assets at FVOCI	2	2	2	2
Investments with other financial institutions	159,669	159,669	216,784	216,784
Loans and advances	832,238	826,371	750,975	746,205
Liabilities				
Deposits	957,188	958,279	943,735	944,010
Trade and other payables	8,100	8,100	11,279	11,279
Interest bearing liabilities	-	-	-	-

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
2023				
Recurring fair value measurements				
Land and Buildings	-	3,411	-	3,411
Investment properties	-	3,089	-	3,089
Derivatives	-	2,239	-	2,239
Financial assets at FVOCI	-	-	2	2
2022				
Recurring fair value measurements				
Land and Buildings	-	3,043	-	3,043
Investment properties	-	3,516	-	3,516
Derivatives	-	2,853	-	2,853
Financial assets at FVOCI	-	-	2	2

Apart from the sale of an investment property during the year, there have been no significant transfers into or out of each level during the year ended 30 June 2023.

Disclosed fair values

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

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

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

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

Note 29: Economic dependency

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

(a) Fiserv

This entity processes direct entry transactions and also operates the electronic switching network used to link customer card transactions on ATMs and other approved POS devices with merchants, and to the credit union's core banking system.

(b) Data Action Pty Ltd

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

(c) Australian Settlements Ltd

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

(d) Indue Limited

This entity provides settlement services for New Payment Platform (NPP) transactions, Mobile Payments and provides fraud transactional monitoring services.

Note 30: Events occurring after the reporting period

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

	2023	2022
	$'000	$'000

NOTE 31: Statement of Cash Flows

(a) Reconciliation of cash

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

Cash and cash equivalents	38,762	41,512

(b) Cash flows presented on a net basis

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

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

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

Profit after income tax	7,265	2,975
Non-cash flows in profit after income tax:		
Net Profit / (Loss) on sale of assets	39	74
Revaluation of land & buildings	-	-
Revaluation of investment property	(287)	2,148
Depreciation and amortisation	1,305	1,566
Provision for loan impairment	(158)	167
Changes in assets and liabilities:		
Decrease in provisions	103	(53)
Increase in interest payable	3,226	(40)
(Increase)/Decrease in interest receivable	(381)	(293)
(Decrease)/Increase in income taxes payable	139	(254)
Increase in deferred tax assets	(20)	470
(Increase)/Decrease in deferred tax liability	(104)	(119)
Increase in other assets	334	(140)
Decrease in trade and other payables	(6,520)	759
Increase/(Decrease) in other receivables	2,890	562
	7,831	7,822
Net movement in liquid investment balances	57,115	(60,637)
Net movement in loans	(80,978)	(27,351)
Net movement in deposits	13,453	115,383
Net cash provided by operating activities	(2,579)	35,217

Note 32: Credit union details

The registered office of the credit union and the principal place of business is:

Summerland Financial Services Limited
101 Molesworth Street Lismore NSW 2480

Declaration by Directors

The Directors of Summerland Financial Services Limited declare that:

In the opinion of the Directors:

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

    i) giving a true and fair view of the financial position of the credit union as at 30 June 2023 and of its performance for the year ended on that date, and

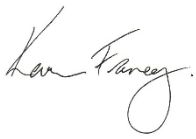
    ii) complying with Accounting Standards and the Corporations Regulations 2001;

    (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.

Colin Sales
Chair



Kevin Franey
Chair Audit Committee

Signed and dated on 27 September 2023

Grant Thornton Audit Pty Ltd
Level 17
383 Kent Street
Sydney NSW 2000
Locked Bag Q800
Queen Victoria Building NSW 1230

T +61 2 8297 2400

Independent Auditor’s Report

To the Members of Summerland Financial Services Limited

Report on the audit of the financial report

Opinion

We have audited the financial report of Summerland Financial Services Limited (the Company), which comprises the statement of financial position as at 30 June 2023, the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the Directors’ declaration.

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

a giving a true and fair view of the Company’s financial position as at 30 June 2023 and of its performance for the year ended on that date; and

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

Basis for opinion

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

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

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

The Directors are responsible for the other information. The other information comprises the information included in the Company's annual report for the year ended 30 June 2023, but does not include the financial report and our auditor's report thereon.

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

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

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

Responsibilities of the Directors for the financial report

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

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

Auditor's responsibilities for the audit of the financial report

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

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

Grant Thornton Audit Pty Ltd
Chartered Accountants

Liam Te-Wierik
Partner – Audit & Assurance

Sydney, 27 September 2023

SUMMERLAND
CREDIT UNION

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