2019
Unity Bank Annual Report

Reliance Bank and Bankstown City Unity Bank
are divisions of Unity Bank Limited.
ABN 11 087 650 315
AFSL/Australian Credit Licence 240399.

Unity Bank Reliance Bank Bankstown City Unity Bank

Our Vision

The lifelong financial prosperity, security and dignity of our Members.

Our Mission

Unity Bank is Member Owned. We are committed to our Members . . . workers, their families and the communities we serve. Our values are built on the principles of cooperation, mutuality and unity of purpose, carrying forward the vision of our Founders. We always stand by our Members.

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Chair's Report

I am pleased to report that your member owned Bank has continued to grow and provide services in a caring and responsible manner. The support we receive from our members is greatly appreciated and is something we certainly do not take for granted. The advantages and benefits of our member owned business model have been clearly demonstrated with the continuing fallout for the larger ASX listed banks from the Financial Services Royal Commission, highlighting the poor consumer outcomes when profits are placed before the interests of people.

The support we receive from our members is greatly appreciated and is something we certainly do not take for granted.

Your support has allowed us to record excellent results with market leading loans growth and a solid financial performance that enables us to retain our strong capital ratio, which underpins future growth.

During the year, we were delighted to welcome the members of Central Coast Credit Union (CCCU) to our mutual bank family. The merger with CCCU has allowed us to expand our presence on the Central Coast to three branches, with Wyong now joining Gosford and Budgewoi, to provide excellent coverage in one of the fastest growing regions in the country.

Proposed Merger with G&C Mutual Bank

As announced earlier this year, we have executed a Memorandum of Understanding with G&C Mutual Bank to assess the merits of our two organisations merging in the second half of 2020.

The non-negotiable principles that the Board set down which would form part of any merger are:

- Our values and principles around placing the best interests of members first would remain the centrepiece of our business model.
- All branches will be retained.
- All staff positions and conditions will be guaranteed with no forced redundancies.
- The name Unity Bank will be retained.

If the Board deems that the merger would be in the organisations best interests, it will be subject to member approval.

Innovation

Your Bank continues to ensure our members have access to the latest developments in digital technology that are designed to improve the banking experience and save time. Our offerings include the "Pays" (Apple, Samsung and Google Pay), access to the new Payments Platform (NPP), which allows money to be transferred between bank accounts within seven seconds, Chore Scout, a financial literacy App for children and parents and an excellent banking App that is adding new features on a regular basis. We also partnered with "Square" to provide a low priced and efficient merchant payment facility for small business and market stall owners.

Member Challenges

As a member owned bank, we are always monitoring the well-being of our members and during the year items such as record low deposit rates and an increase in on-line fraud have been having a negative impact on many. Our retirees have seen the income they earn from their term deposits reduce dramatically over the past two years and this obviously leads to a level of hardship which seems to be overlooked by many of the decision makers in the RBA. Our response has aimed to limit the impact as much as possible by balancing the needs of both our borrowers and depositors when adjusting interest rates following a reduction from the RBA.

Another worrying development over recent times has been the criminal element preying on the elderly, in particular, through on-line fraud. These criminals typically identify themselves as officers or representatives from well known brands and convince individuals to provide personal details that allow them to misappropriate member's funds. To assist our members from becoming a victim of this crime, we have continued to provide advice on how to protect yourselves. This advice includes reminding members not to divulge their passwords or SMS codes under any circumstances no matter how convincing the person may be, as no one should ever ask you for what is confidential information.

Bankstown City Unity Bank

Our commitment to serving the South Western Region of Sydney continues to grow with the opening of our new Service Centre at the Flinders Centre which forms part of the Bankstown Sports Club. The Service Centre has been developed based on our Gunthers Lane facility in Bathurst and includes the latest in digital technology, which has proven popular with the community. We have had visits from local schools, community organisations and the local TAFE who have taken the opportunity to use and play with items such as 3D printers, virtual reality and the latest tablets and mobile phones.

Member Challenges (cont.)

We have also been very active in support for our industrially based members who have experienced difficulties due to changing workplaces through developments such as automation. Our role is to provide advice and be there on the front line with our members to assist them deal with any financial related issues that they are confronted with.

Reliance Bank

Our members in the Central West have been living through one of the worst droughts on record and our thoughts and sympathies are with those who have been impacted. While we do not have a large banking presence in the farming sector, we do support several communities that service them and their families with branches in Bathurst, Mudgee, Oberon, Blayney and agencies at Gulargambone, Eugowra and Trundle. We ensure that we provide assistance where we can to support events and activities that are designed to alleviate the hardship communities are experiencing.

Our business in the Central West continues to go from strength to strength with strong loans, deposit and membership growth and I would like to thank our members for their on-going support.

Our Partners

As general business conditions become more difficult, the importance of our partnerships with trade unions, industry super funds, community organisations and local councils certainly take on an even greater significance. The collaboration that exists between our Bank and these organisations allows us to be where we need to be to provide support and advice that is timely and relevant. While the banking business we receive through our partnerships is greatly appreciated, the intimate knowledge of the industries and communities that we gain through the partnership model, allows us to demonstrate why a "member owned" bank is different.

Our partnerships allow us to provide support and advice that is timely and relevant.

Board of Directors

Your Board has continued to work in the best interests of members, and I am extremely proud to be the Chair of what is a committed and hard working group of professionals who genuinely care for our members and our Bank. We have seen a further reduction in the number of Directors which has been part of our governance plan following our merger with Bankstown City Credit Union.

During the year we said farewell to Sarah Hall, David Conroy and Matt Irvine. Sarah joined us through our merger with Power Credit Union in 2008 serving as our Vice Chair for most of this time and made a tremendous contribution. David chaired both the Audit and Risk Committees for several years and his expertise and leadership allowed us to meet and exceed our responsibilities in these key areas of the business. Matt Irvine came onto our Board in 2010 following our merger with Reliance Credit Union. As a Bathurst resident and community leader, he assisted us in settling in our merger with Reliance and played an important role as Chair of our Marketing Committee and a member of our Community Support Fund.

Gratitude

Our wonderful group of staff have continued to look after the best interest of our members and on behalf of our Board I would like to thank them for their dedication to the well-being of our members.

While any organisation can make statements around values and culture, at the end of the day what really matters is how members are serviced by the staff and I am very proud to be Chair of an organisation that has people who genuinely understand and demonstrate what "looking after members best interests" actually means.

Two of our long serving staff that demonstrated these characteristics over 3 decades recently announced their retirements. Denise McNicol has been servicing our Victorian members for over 30 years and has lived through the good and difficult times of the maritime industry. At all times Denise has treated our members with great dignity and care, something my family and I have personally experienced. Jenny Wiles, who joined us through the Reliance merger, has played an instrumental role in all of the mergers we have undertaken in her position as a Human Resources Manager. Any merger of two organisations does generate a level of anxiety and concern for staff and Jenny played an important role in making people feel welcome and helping them deal with the change. We wish both Denise and Jenny an enjoyable, rewarding and well-earned retirement.

Mick Doleman
Chair

Our Executive Management Team

Mark Genovese

Chief Executive Officer

Danny Pavisic

Deputy CEO,
General Manager,
Corporate Services

Adrian Finch

General Manager,
Treasury & Strategic
Projects

Joanne Charles

General Manager,
Member Experience &
Digital Transformation

David Gilbert

General Manager,
Sales & Service

Felicity King

Executive Manager,
Credit & Process
Improvement

Richard McMartin

Chief Risk
Officer

Kyri Karagiannis

Chief Financial
Officer

David Wilcox

Chief Information
Officer

Darren Hooper

General Manager,
Central Coast
Unity Bank

Steve Vassallo

General Manager,
Bankstown City
Unity Bank

Graham Burt

Executive Manager,
Operations

Keeping Members close to our hearts

For nearly 50 years, we have been putting our Members first. As we grow, we are continually evolving our product range and services to our Members by seeking out new or innovative ways for Members to interact and transact with us across our channels as we strive to keep pushing the boundaries and exceed our Member's expectations.

Member satisfaction

Maintaining Member satisfaction is of the highest priority. Every year, Unity Bank engages an independent customer research company to survey Members. Through the results, we understand what we do well and what we can improve on.

During the Member survey undertaken in February / March 2019, Unity Bank has achieved an almost perfect level of service satisfaction with a 96% net promoter score.

Member satisfaction is of the highest importance.

While there are a few opportunities of improvements that need to be resolved like app functionality, product packages and online banking to name a few; overall Unity Bank has secured a unique position with Members as a personal, ethical and caring institution.

As Unity Bank's membership ages, it is essential to attract younger Members to maintain long-term business sustainability and growth. While Unity Bank has a focus on keeping up with new technology, we acknowledge that adequately servicing and maintaining existing Members remains a high priority, as it is the existing Members who continue to contribute to the strength of the organisation.

Thank you to all Members for your participation in the Member survey as well as your loyalty and for being the best advocates of your bank.

We believe that we are well-positioned for prosperity in the years ahead and look forward to celebrating our 50th anniversary with you in 2020.

Long-term Members, Marjorie and Elizabeth

Our Staff

To our dedicated and caring staff - thank you for your energy and commitment to putting our Members first and making a difference to the communities we serve.

In the last 12 months, a number of our long serving, wonderful staff members have recently retired. On behalf of everyone associated with our Bank, we thank them for their devotion, loyalty and the genuine care they had for our members. We will miss them all and wish them a rewarding, enjoyable and healthy future.

MARGARETTE CASLEY

Margarette was part of Reliance Bank for 14 years. Margarette was a much loved member of the Kandos team whose commitment for assisting our Members was shown in everything she did. She knew all of the Kandos Members by their first names and had a passion for both the Reliance Brand and the Kandos community.

JENNY WILES

Jenny was part of Unity Bank for over 29 years. Jenny played a vital role in the management of all our staff professional development and performance programs and led these in a professional and caring way. Jenny also played a vital role in the transformation of the business, including eight mergers which all came with unique challenges.

DENISE McNICHOL

Denise was part of Unity Bank for 30 years. Denise was a vital member of the Melbourne team whose passion for assisting our Members was shown in everything she did. She assisted and guided thousands of wharfies, seafarers and their families with respect and compassion as if they were her own family.

Community spirit

Unity Bank takes great pride in being a part of local community events as sponsors as well as supporting not-for-profit organisation for a good cause.

From the smallest actions to major sponsorships our aim is to make a big difference; to give back and turn things into good deeds that can improve lives of those in our community. With the support of our Members and staff, we were able to achieve so much this year.

During 2018/2019 Unity Bank participated in several important causes and events in our community throughout Australia. We are always looking for ways we can help or give back to create a better community for everyone. Having a strong sense of social responsibility is central to our business philosophy. Here are just some of the community and union events we have participated in.

1. May Day around Australia. 2. Central Coast Regional Show in Gosford.
3. Bathurst Radiation Bus Service. 4. Royal Bathurst Show.
5. City2Surf fund raising for Youth Off The Streets.
6. Bankstown Hospital visit last Christmas.
7. Youth Off The Streets. 8. The Collie Show.
9. Farmers Drought Appeal.

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Key Highlights

In 2018, Unity Bank placed a significant focus on investing in innovation and seeking out collaborations and partnership opportunities. It allowed us to grow our business to attract new Members and to respond to the changing preferences and expectations of our Members in ways that are sustainable into the future.

1. **Launch of the technology hub + cashless branch in Flinders Centre, Bankstown**
2. **Central Coast Credit Union merger**
3. **Launch of partnership with Square in Bathurst**

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Snapshot

2018/2019 Financial Year

$961,107,467 in member loans

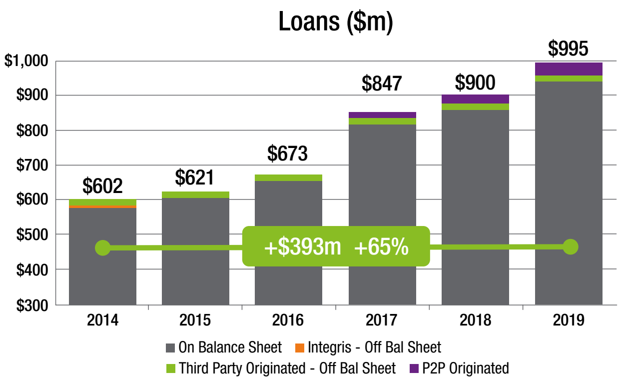
$342,265 sponsorship & donations

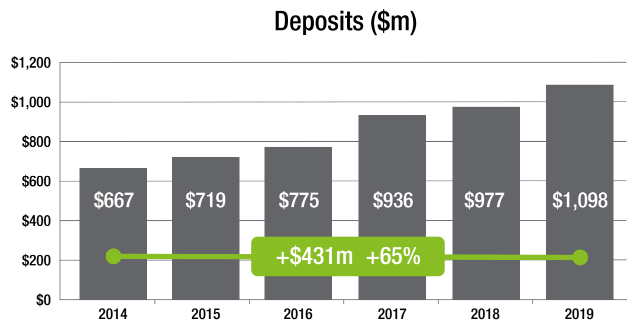
41,194 members

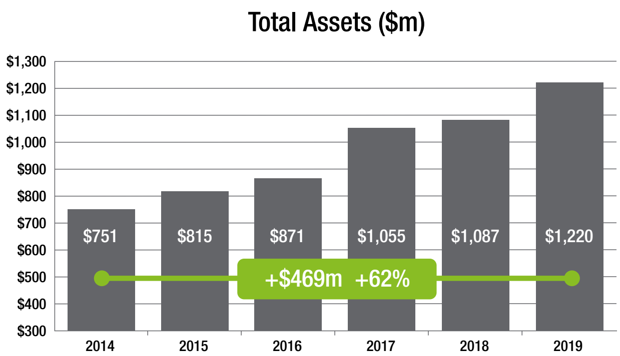
33,809 internet banking users

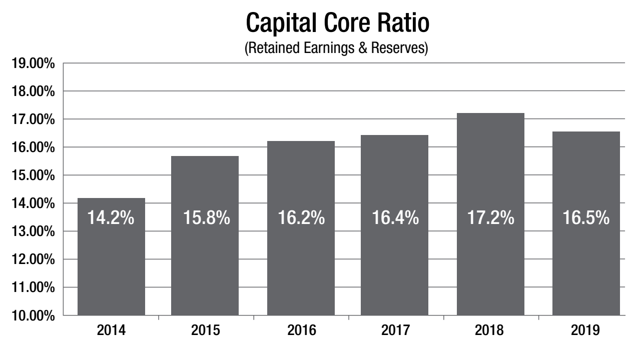
8,976 banking app users

16.50% capital adequacy









Directors' Report

Your Directors present their report on Unity Bank Limited (the Company) and its controlled entities (the Group), together with the Financial Statements for the financial year ended 30 June 2019. The Bank is a company registered under the ***Corporations Act 2001.***

Information on Directors

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

MICHAEL DOLEMAN
Chair

Experience:
Chair, Unity Bank since 2010
Director of Unity Bank since 1999
Former Director, Australian Diver Accreditation Scheme
Director, Maritime Super
SUA Official 1984 - 1993
Former Director, Seacare Authority
Former Director Transport & Logistics Industry Council
Former Deputy National Secretary of MUA
Chair, ITF Offshore Taskforce Group
Chair, Melbourne Seafarers Centre

Committees:
Member, Audit Committee
Member, Risk Committee
Chair, Remuneration Committee
Chair, Director Nominations Committee
Chair, Corporate Governance Committee

MARK WATSON
Director

Experience:
Director of Unity Bank since September 2012
Director of Auscoal Superannuation Pty Ltd, as trustee for Mine Super since July 2013
CFO, CFMEU Mining & Energy National Office since March 2005

Qualifications:
Bachelor of Commerce
Member, Institute of Chartered Accountants
Graduate, Australian Institute of Company Directors

Committees:
Chair, Audit Committee
Member, Risk Committee
Member, Remuneration Committee (Commenced Nov 2018)

DARREN GOSSLING
Director

Experience:	Director of Unity Bank since June 2017 Former Deputy Chair of Bankstown City Credit Union Ltd 2010 - 2017 Former Director of Bankstown City Credit Union Ltd 2001 - 2017 Former Chair, Risk Committee Bankstown City Credit Union Managing Partner and Director Rohling International Pty Ltd.
Qualifications:	MBA - Marketing & Global Strategy Bachelor of Engineering - Computer Systems and Telecommunications Graduate, Australia Institute of Company Directors
Committees:	Chair, Risk Committee Member, Remuneration Committee (Commenced Nov 2018)

MARC WORNER
Director

Experience:	Director of Unity Bank since July 2010 Former Director, Gosford City Credit Union 2009 - 2010 Former Chair, Gosford City Credit Union 2010 Former Director, Landscape Contractors Assoc NSW/ACT 2009 - 2010 Former National President Aust Institute of Horticulture 2006 - 2008 Former NSW State President Aust Institute of Horticulture 2005 - 2006 Former Member, Technical Comm., NSW Environmental Trust 2011 - 2018 Chair, Central Coast Community College 2016 - 2018 Small Business Owner since 1991 White Ribbon Ambassador since 2012
Qualifications:	Bachelor Economics Post Grad Cert Bank & Finance Diploma Horticulture (Lscape Design) Diploma Marketing
Committees:	Member, Corporate Governance Committee Member, Director Nominations Committee Member, Risk Committee

GARRY KEANE
Director

Experience:	Director of Unity Bank since July 2011 Former Rank & File Member of Waterside Workers Federation 1974 - 1993 Former Rank & File Member of Maritime Union of Australia 1993 - 2007 Former Honorary Deputy Branch Secretary NSW Branch MUA 1998 - 2007 Former Southern NSW MUA Branch Secretary (2007-2019) Former MUA Deputy National Presiding Officer (2015-2019)
Committees:	Member, Corporate Governance Committee Member, Director Nominations Committee Member, Marketing Committee

Directors' Report

MICH-ELLE MYERS
Director

Experience:	Director of Unity Bank since November 2013 Vice President, Australian Labor Party Elected member of MUA National Council 2015 Rank and File Member of the MUA since 1999 National Officer of the MUA since 2009
Committees:	Chair, Marketing Committee (Commenced Nov 2018) Member, Director Nominations Committee (Commenced Nov 2018) Member, Corprorate Governance Committee (Commenced Nov 2018)

RAY SHINA
Director

Experience:	Director of Unity Bank since April 2016 Former Director, Shell Employees' Credit Union Ltd 1996 - 2016 Former Chair, Shell Employees' Credit Union Ltd 2008 - 2016 Former Director BOC Superannuation Pty Ltd 2010 - 2016
Qualifications:	Bachelor of Commerce - Accounting & Business Law Associate Diploma of Business, Accounting Diploma of Project Management, Member AICD, Member AMI
Committees:	Member, Risk Committee (Ended Nov 2018) Member, Audit Committee (Commenced Nov 2018)

RAAD RICHARDS
Director

Experience:	Director of Unity Bank since June 2017 Former Chair of Bankstown City Credit Union Ltd 2010 - 2017 Former Deputy Chair of Bankstown City Credit Union Ltd 2003 - 2010 Former Director of Bankstown City Credit Union Ltd 2000 - 2017 Chairman, Creating Links Community Services Ltd. Chairman, Leigh Place Aged Care Ltd. Board Member, Meaningful Ageing Australia
Qualifications:	Graduate Diploma HR and IR, Bachelor of Business MHP, AFCHSE, AAIM, MAICD Master of Health Planning (MHP)
Committees:	Member, Audit Committee Member, Remuneration Committee (Commenced Nov 2018)

GRAHAME KELLY
Director

Experience:
Director of Unity Bank since January 2018
General Secretary with the Construction Forestry Mining and Energy Union (CFMEU), Mining and Energy Division since 2017
Chair of Auscoal Superannuation Pty Ltd, as trustee for the Mine Super Fund since January 2015 and Director since 2006
Director of Mine Super Services Pty Ltd (formerly AUSCOAL Services Pty Ltd) since October 2006
Director of the Coal Long Service Leave Funding Corporation since 2018

Committees:
Member, Marketing Committee

Resigned November 2018

MATTHEW IRVINE
Director

Experience:
Former Director of Unity Bank (2010-2018)
Former Director of Reliance Credit Union since November 2009 and previously from 2004 - 2008
Two terms on Reliance Credit Union Board as Deputy Chair
Director and Principal Consultant, iDrive NSW Pty Ltd (T/A Calare Academy of Road Safety)
Chair - Western Region Academy of Sport 2013 - Current, Director since 2005
Chair, The Westhaven Association
Vice President and Honorary Treasurer - Bathurst AH&P Association & Royal Bathurst Show 2012 - Current
Board Member, Bathurst Community Transport Group Incorporated
Public Officer and Treasurer, Perthville Development Group Incorporated
White Ribbon Ambassador

Qualifications:
Graduate Certificate in Commerce
Bachelor of Business Studies
Member, Australian Institute of Company Directors, Western Region Committee
Fellow, AICD
Fellow, AMI

Committees:
Chair, Marketing Committee (Ended Nov 2018)
Chair, Reliance Community Support Fund (Ended Nov 2018)

Directors' Report

Term Ended November 2018

DAVID CONROY
Board Appointed Director

Experience:	Former Director of Unity Bank (2008-2018) Principal - Conroy Audit and Advisory Fellow of the Institute of Chartered Accountants in Australia Registered Company Auditor Registered Tax Agent Chair, Bowlers Club of New South Wales Limited
Committees:	Chair, Audit Committee (Ended Nov 2018) Chair, Risk Committee (Ended Nov 2018) Member, Remuneration Committee (Ended Nov 2018)

Term Ended November 2018

SARAH HALL
Deputy Chair

Experience:	Former Director of Unity Bank (2008-2018) Former Director, Power Credit Union 2001 - 2008 Former Chair, Hardies Employees Credit Union 18 months Former Director, Hardies Employees Credit Union 3 yrs
Qualifications:	Bachelor Commerce - Legal Studies Masters of Commerce - Marketing Graduate Certificate - Management MAMI
Committees:	Member, Corporate Governance Committee (Ended Nov 2018) Member, Director Nominations Committee (Ended Nov 2018) Member, Remuneration Committee (Ended Nov 2018)

Directors' Report

Company Secretary

The name of the Company Secretary in office at the end of the year is:

Name	Danny Pavisic , Deputy CEO
Qualifications	MBA-MGSM, DIP Business - Accounting
Experience	38 years management experience in the Financial Services Industry

Directors' Meeting Attendances

Director	Board		Audit		Risk		Corporate Governance	
	H	A	H	A	H	A	H	A
Michael Doleman	9	9	7	7	6	6	1	1
Mark Watson	9	8	7	6	6	5		
Darren Gossling	9	8			6	6		
Marc Worner	9	9			6	6	1	1
Garry Keane	9	7					1	1
Mich-Elle Myers	9	7						
Ray Shina	9	9	4	4	3	3		
Raad Richards	9	8	7	7				
Grahame Kelly	9	9						
Matthew Irvine[1]	4	4						
David Conroy[2]	4	3	3	2	3	2		
Sarah Hall[3]	4	4					1	1

H = Meeting held in the period of Appointment **A = Attended**

1 Mr Matthew Irvine resigned from the Board in November 2018.
2 Mr David Conroy's term ended in November 2018.
3 Mrs Sarah Hall's term ended in November 2018.

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 Bank, controlled Bank, or a related body corporate with a Director, a firm of which a Director is a member or a Bank in which a Director has a substantial financial interest, other than that disclosed in note 36 of the financial report.

Indemnifying Officer or Auditor

Insurance premiums have been paid to insure each of the Directors and officers of the Bank 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 Bank. 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 Unity Bank Limited.

Financial Performance Disclosures

Principal Activities

The principal activities of the Bank during the year were the provision of retail financial services to members 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 Unity Bank Limited for the year after providing for income tax was $4,250,473 [2018: $4,150,869].

Dividends

No dividends have been paid or declared on member shares since the end of the financial year and no dividends have been recommended or provided for by the Directors of the Bank.

Review of operations

The results of the Bank's operations from its activities of providing financial services to its members did not change significantly from those of the previous year.

Significant changes in state of affairs

The Bank successfully completed its merger with the Central Coast Credit Union Limited in December 2018.

On the 25th of June 2019 the Bank also announced its intention to merge with G&C Mutual Bank Limited.

There were no other significant changes in the state of the affairs of Unity Bank Limited during the year.

Events occuring after the end of the reporting date

There are no other matters or circumstances that have arisen since the end of the financial year which significantly affected or may significantly affect the operations, or state of affairs of Unity Bank Limited in subsequent financial years.

Financial Performance Disclosures

Likely developments and results

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

(i) The operations of Unity Bank Limited;

(ii) The results of those operations; or

(iii) The state of affairs of Unity Bank Limited

in the financial years subsequent to this financial year.

Environmental legislation

The Bank is not subject to any particular or significant environmental regulations under a law of the Commonwealth or of a State or Territory in Australia.

Auditors' Independence

The auditors have provided the declaration of independence to the Board as prescribed by the *Corporations Act 2001* as set out on page 21.

Rounding

The Bank is a type of Company referred to in ASIC Corporations (Rounding in Financial/Directors' reports) Instrument 2016/191 and therefore the amounts contained in this report and in the financial report have been rounded to the nearest $1,000, or in certain cases, to the nearest dollar.

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

Mr M Doleman
Chair

Mr M Watson
Chair, Audit Committee

Signed and dated this 28th day of August 2019.

Directors' Declaration

In the opinion of the Directors of Unity Bank Limited:

a. the financial statements and notes of Unity Bank Limited are in accordance with the *Corporations Act 2001*, including:

   i. Giving a true and fair view of its financial position as at 30 June 2019 and of its performance for the financial year ended on that date; and

   ii. Complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and

b. there are reasonable grounds to believe that Unity Bank Limited will be able to pay its debts as and when they become due and payable.

c. The consolidated financial statements comply with International Financial Reporting Standards as stated in Note 5.

Signed in accordance with a resolution of the Directors.

Director

Mr M Doleman
Chair

Dated this 28th day of August 2019.

Independent Auditor's Report

Grant Thornton

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Auditor's Independence Declaration

To the Directors of Unity Bank Limited

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

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

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

Grant Thornton

Grant Thornton Audit Pty Ltd
Chartered Accountants

Madeleine Mattera

Madeleine Mattera
Partner – Audit & Assurance

Sydney, 28 August 2019

Independent Auditor's Report

Grant Thornton

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Independent Auditor's Report

To the Members of Unity Bank Limited

Report on the audit of the financial report

Opinion

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

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

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

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

Basis for opinion

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

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

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

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

Independent Auditor's Report

Grant Thornton

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.pdfn. This description forms part of our auditor's report.

Grant Thornton

Grant Thornton Audit Pty Ltd
Chartered Accountants

Madeleine Mattera

Madeleine Mattera
Partner – Audit & Assurance

Sydney, 28 August2019

Corporate Governance Statement

The Board of Unity Bank is responsible for the corporate governance of the Bank. This statement generally describes the practices and processes adopted by the Board to ensure sound management of the Bank within the legal framework under which we operate.

Composition of the Board

To enable the Board to undertake all of its functions, it is necessary to have a well structured Board. Unity Bank's Constitution permits the Bank to determine the number of elected and appointed Directors. Unity Bank currently has six (6) elected Directors and three (3) appointed Directors.

Role of the Board

The Board's primary role is to enhance and protect long-term member value. To fulfill this role, the Board has extensive business acumen and a close association and deep understanding of the unique characteristics of the industries and communities in which it operates. This allows the Board to bring accountability and judgment to its deliberations thus ensuring optimal benefits are passed on to its members and employees. In particular the Board:

- Provides strategic direction
- Provides leadership in terms of corporate governance
- Reports to members and ensures all regulatory requirements are met
- Oversees the financial performance and monitors its business affairs on behalf of members
- Develops, reviews, monitors and ensures the effectiveness of the Risk Management Framework and Compliance systems in order to identify and manage significant business risk
- Appoints the Chief Executive Officer
- Monitors performance and approves the remuneration of the Chief Executive Officer
- Ensures that the Bank's business is conducted ethically and transparently.

Responsibility for the day to day activities of the Bank is delegated to the Chief Executive Officer.

Director Independence

As required by APRA's Governance Standard (CPS 510) and the Bank's own Governance Policy, the Board has conducted its annual review of the Board's composition and succession arrangements. As part of that review, the Board assessed each Director's independence by reference to the requirements and guidelines set out in CPS 510 and the 2014 Australian Stock Exchange (ASX) Corporate Governance Council's Corporate Governance Principles and Recommendations third edition.

Although the Board assessed Directors against each of the 7 ASX independence factors the Board paid particular regard to the threshold independence test set out in paragraph 23 in CPS 510. That is, the Board resolved that it would only determine Directors to be 'Independent' upon being absolutely satisfied that they were: **"… free from any business or other association…that could materially interfere with the exercise of their independent judgment".**

All the current Directors of the Bank have been assessed as independent Directors. In reaching that determination, the Board has taken into account (in addition to the matters set out below) the intent of each principle by reference to the broader context and arguments contained in the full ASX Council report.

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The Board took into account whether each Director:

- is or has been employed in an executive capacity by the entity or any of its child entities and there has not been a period of at least three years between ceasing such employment and serving on the board
- is, or has within the last three years been, a partner, director or senior employee of a provider of material professional services to the entity or any of its child entities
- is, or has within the last three years, been in a material business relationship (e.g. as a supplier or customer) with the entity or any of its child entities, or an officer of, or otherwise associated with, someone with such a relationship
- is a substantial security holder of the entity or an officer of, or otherwise associated with, a substantial security holder of the entity
- has a material contractual relationship with the entity or its child entities other than as a director
- has close family ties with any person who falls within any of the categories described above
- has been a director of the entity for such a period that his or her independence may have been compromised

The Bank does not consider that term of service on the Board is a factor affecting a Director's ability to act in the best interests of the Bank. Independence is judged against the ability, integrity and willingness of the Director to act.

A number of Directors are Officers or Directors of the superannuation funds Maritime Super Pty Limited or Mine Super Services Pty Ltd and unions (MUA and CFMMEU) which serve the maritime and mining industries. These associations are detailed under *Information on Directors*.

In assessing these relationships, the Board considered the nature of the customer relationships between the relevant organisations and the Bank, the 'materiality' of any relationship and the nature of each Director's personal role and position in those organisations, both generally and with specific regard to matters relating to the customer relationships between those organisations and the Bank.

By adopting this dual perspective, the Board's broad aim was to determine whether or not any current Directors have (or could reasonably be perceived to have) a conflict of interest due to their relationships with certain customers of the Bank. More specifically, the Board sought to determine whether the concurrent existence of the applicable 'customer' and personal relationships were of a kind that could materially interfere with the relevant Directors exercising their independent judgment when fulfilling their roles on the Board.

The Board determined that it does not consider it would be appropriate for it to conclude (as a necessary consequence of those customer relationships) that these Directors should be regarded as non-independent.

Corporate Governance Statement

Conflicts of Interest

In accordance with the *Corporations Act 2001* and the Board Charter, Directors must keep the Board informed of any interests which potentially conflict with the interests of the Bank. The Board has developed guidelines to assist Directors in disclosing potential conflicts of interest. Directors' disclosures are formally updated monthly. Transactions between Directors and the Bank are subject to the same terms and conditions that apply to members.

Board Performance Assessment

The Board is committed to continual improvement and has established an evaluation process for each individual Director and the Board as a whole. The Board has assessed the skills of individual Directors against those it considers the Board as a whole should possess. It has identified a number of required and desired skill sets which it is addressing through a measured approach to Director renewal and the addition of Board Appointed Directors.

Risk Management

The recognition and management of risk is a critical function within the Bank. During the course of the year, the Board has further developed and enhanced its comprehensive Risk Management Framework (RMF). The RMF consists of committee structures, policies, risk tolerances, processes, internal controls, external review and training to manage:

- Strategic Risk
- Market Risk
- Operational Risk
- Credit Risk
- Capital & Liquidity Risks
- Regulatory Risk
- Reputational Risk
- Emerging Risks

The RMF will be further enhanced and maintained on an ongoing basis.

Internal Audit

Internal audit services are provided by Unity Bank's Internal Audit department. Internal Audit provides independent and objective assurance to management and the Board to assist the Board in determining whether the Bank's network of risk management, control, and governance processes, as designed and represented by management, are adequate and functioning in a proper and effective manner.

Board Committees

To assist in the execution of its responsibilities, the Board has established a number of committees each with their own Terms of Reference which are reviewed annually. Details of the Committees in place are contained below.

Audit Committee

Key responsibilities include:

- Overseeing and examining the internal and external audit process and reports
- Approval and monitoring of the internal audit program
- Reviewing the draft annual financial report and audit and making recommendations to the Board for approval of the annual report
- Making recommendations on the appointment and monitoring the effectiveness and independence of the external auditor
- Oversight of APRA statutory reporting requirements.

Corporate Governance Statement

Risk Committee

Key responsibilities include:

- Approving principles, policies, strategies, processes and control frameworks for the management of risk including the risk management framework;
- Advising the Board on current and future risks;
- Setting and monitoring risk culture;
- Determining policies that ensure the strategy is adhered to; and
- Monitoring adherence to those policies.

Director Nominations Committee

The purpose of the Director Nominations Committee is to assess all Directors, including existing Directors, prior to their appointment or election. This is in accordance with the Board's Fit and Proper Policy and APRA's Fit and Proper Prudential Standard and APRA's Banking Executive Accountability Regime (BEAR).

The Committee also assesses all senior managers against the Fit and Proper Policy of the Bank except for the CEO who is assessed by the Board.

Remuneration Committee

The Remuneration Committee sets the parameters for the remuneration of directors and the Chief Executive Officer whilst recognising the Unity Bank Constitution and its Governance policy. It proposes to the Board remuneration for directors and the Chief Executive Officer in line with the Bank's strategic plan, budget and succession plans.

Marketing Committee

The Marketing Committee assists with developing strategies and plans to identify benefits and products that enhance the Bank and lead to overall growth in membership.

Corporate Governance Committee

The primary objective of the Corporate Governance Committee is to assist the Board in promoting and implementing improved governance practices.

The Committee's key responsibilities are to:

- Monitor corporate governance developments and bring to the Board's attention matters of importance and recommendations for improvement;
- Review and recommend amendments to the guidelines for Directors and monitor compliance;
- Review and recommend to the Board this Corporate Governance Statement for inclusion in the Annual Report;
- Recommend policies and guidelines for matters of governance generally, including the process of disclosure of information from the Board to members;
- Review and recommend preferred attributes for the nomination of potential Board appointed directors; and
- Develop and oversee a director educational programme.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2019

	Note	2019 $'000	2018 $'000
Interest income	6(a)	49,629	46,303
Interest expense	6(c)	17,318	16,226
Net interest income		**32,311**	**30,077**
Fees and commissions	6(b)	4,907	5,029
Other Income	6(b)	785	581
Total income		**38,003**	**35,687**
Non-interest expenses			
Fee and commission expenses		1,415	1,598
Impairment (reversal)/losses on available for sale assets	6(d)	(50)	50
Impairment losses on loans receivable from members	6(d)	571	482
Impairment losses on loans to non members	6(d)	847	852
General administration			
- Employees compensation and benefits		16,027	15,362
- Depreciation and amortisation	6(e)	1,699	1,636
- Information technology		2,893	2,753
- Office occupancy		1,777	1,734
Other operating expenses		6,915	6,380
Total non interest expenses		**32,094**	**30,847**
Profit before income tax		**5,909**	**4,840**
Income tax expense	7	1,659	689
Profit after income tax		**4,250**	**4,151**
Other comprehensive income, net of income tax			
Items that will not be reclassified subsequently to profit and loss			
Movement in reserve for equity instruments at FVOCI			
Net change in fair value		1,811	-
Income tax relating to other comprehensive income		543	-
Total other comprehensive income, net of income tax		1,268	-
Total comprehensive income for the period		**5,518**	**4,151**

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
FOR THE YEAR ENDED 30 JUNE 2019

	Note	2019 $'000	2018 $'000
ASSETS			
Cash	8	20,231	15,287
Liquid investments	13	195,047	163,257
Receivables	10	1,212	1,204
Other Assets	9	1,050	1,121
Loans	11 & 12	984,044	891,594
Equity investments	13	6,475	4,449
Property, plant and equipment	14	11,948	11,223
Taxation assets	15	1,838	1,914
Intangible assets and capitalised costs	16	490	456
Total Assets		**1,222,335**	**1,090,505**
LIABILITIES			
Deposits from other financial institutions	17	25,000	-
Deposits from members	18	1,073,067	977,658
Creditor accruals and settlement accounts	19	9,412	8,656
Taxation liabilities	20	663	-
Provisions	21	3,781	3,433
Deferred tax liabilities	22	557	14
Long term borrowings	23	-	-
Total Liabilities		**1,112,480**	**989,761**
NET ASSETS		**109,855**	**100,744**
MEMBERS' EQUITY			
Capital reserve account	24	669	615
Asset revaluation reserve	25	4,053	4,053
General reserve for credit losses	26	2,779	2,663
FVOCI reserve	27	1,268	-
General reserve		2,779	2,779
Retained earnings		98,307	90,634
Total Members Equity		**109,855**	**100,744**

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

CONSOLIDATED STATEMENT OF CHANGES IN MEMBER EQUITY
FOR THE YEAR ENDED 30 JUNE 2019

	Capital Reserve	Asset Revaluation Reserve	Reserve for Credit Losses	General Reserve	Retained Earnings	FVOCI Reserve	Total Members' Equity
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Note	(24)	(25)	(26)			(27)	
Balance at 1 July 2017	**595**	**4,053**	**2,663**	**2,779**	**86,830**		**96,920**
Profit for the year	-	-	-	-	4,151		4,151
Dividends Paid and provided	-	-	-	-	-		-
Net Profit After Dividend	-	-	-	-	4,151		4,151
							-
Transfer to capital account on redemption of shares	20	-	-	-	(20)		-
Transfer of Business - Bankstown City CU					(327)		(327)
							-
Total at 30 June 2018	**615**	**4,053**	**2,663**	**2,779**	**90,634**	**-**	**100,744**
Balance as at 1 July 2018	615	4,053	2,663	2,779	90,634		100,744
Changes on initial adoption of AASB 9 (Note 4)					(232)	1,268	1,036
Adjusted balance as at 1 July 2018	615	4,053	2,663	2,779	90,402	1,268	101,780
Profit for the year	-	-	-	-	4,250		4,250
Dividends Paid and provided	-	-	-	-	-		-
Net Profit After Dividend	-	-	-	-	4,250		4,250
Transfer to capital account on redemption of shares	30	-	-	-	(30)		-
Transfer of Business - Central Coast CU	24	-	116	-	3,685		3,825
Total at 30 June 2019	**669**	**4,053**	**2,779**	**2,779**	**98,307**	**1,268**	**109,855**

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

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2019

	Note	2019	2018
OPERATING ACTIVITIES		**$'000**	**$'000**
Cash Inflows			
Interest received		49,691	46,302
Fees and commissions		4,925	5,146
Dividends		316	143
Other income		624	416
		-	-
Cash Outflows		-	-
Interest paid		(16,772)	(15,493)
Suppliers and employees		(28,820)	(30,893)
Income taxes paid		(277)	253
Net cash from revenue activities	40(b)	**9,687**	**5,874**
Inflows from other operating activities			
Increase in member loans (net movement)		(58,212)	(55,585)
Increase in member deposits and shares (net movement)		83,565	45,196
Receivables from other financial institutions (net movement)		(20,089)	14,844
Net cash from operating activities		**14,951**	**10,329**
INVESTING ACTIVITIES			
Inflows			
Proceeds on sale on investments in shares		-	-
Proceeds on sale of property, plant and equipment		229	139
Net Cash received on Transfer of Engagements		3,895	-
		-	-
Less: Outflows		-	-
Loan Funding to SocietyOne & RateSetter		(10,827)	(772)
Purchase on investments in shares		(668)	-
Purchase of property, plant and equipment		(2,300)	(573)
Purchase of Intangible Assets		(336)	(320)
Net cash from investing activities		**(10,007)**	**(1,527)**
FINANCING ACTIVITIES			
Inflows (Outflows)			
(Decrease)/Increase in deposits to other financial institutions (net)		-	-
Increase in borrowings (net movement)		-	(4,000)
Loan to capital investors		-	(10,000)
Repayment of Subordinated Debt		-	-
Dividends paid on preference shares		-	-
Net cash from financing activities		**-**	**(14,000)**
Total net cash (decrease)/increase		**4,944**	**(5,198)**
Cash at beginning of year		**15,287**	**20,485**
Cash at end of year	8 & 40(a)	**20,231**	**15,287**

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

NOTES TO THE FINANCIAL STATEMENTS

1. General information and statement of compliance

This financial report is prepared for Unity Bank Limited and controlled entities ('the Group'), for the year ended the 30th June 2019. The consolidated general purpose financial statements of the Group have been prepared in accordance with the requirements of the *Corporations Act 2001,* Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board (AASB). Compliance with Australian Accounting Standards ensures compliance with the *International Financial Reporting Standards* (IFRSs) as issued by the International Accounting Standards Board (IASB). Unity Bank Limited is a for-profit entity for the purpose of preparing the financial statements.

Unity Bank Limited is a Public Company incorporated and domiciled in Australia. The address of its registered office and its principal place of business is:

L7, 215 - 217 Clarence Street
Sydney NSW 2000

The financial report is presented in Australian dollars.

2. Basis of Measurement

The financial statements have been prepared on an accruals basis, and are based on historical costs, modified by the revaluation of selected of non-current assets and financial instruments for which the fair value basis of accounting has been applied. The accounting policies are consistent with the prior year unless otherwise stated.

3. REPO Securitisation Trust consolidation

The Bank has initiated the creation of a trust which holds rights to a portfolio of mortgage secured loans to enable the Bank to secure funds from the Reserve Bank of Australia if required to meet emergency liquidity requirements.

The Bank continues to manage these loans and receives all residual benefits from the trust and bears all the 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 Bank has not transferred all risks and rewards to the trust, the assigned loans are retained on the books of the Bank and are not de-recognised.

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

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

AASB 15 Revenue from contracts with customers

AASB 15 replaces AASB 118 Revenue, AASB 111 Construction Contracts and several revenue-related Interpretations. The new Standard has been applied as at 1 July 2018 using the modified retrospective approach. Under this method, the cumulative effect of initial application is recognised as an adjustment to the opening balance of retained earnings at 1 July 2018 and comparatives are not restated.

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

The adoption of AASB 15 did not impact the timing or amount of fee and commission income from contracts with customers and the related assets and liabilities of the Group.

AASB 9 Financial Instruments

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

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

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

The adoption of AASB 9 has impacted the following areas:

Classification and measurement of the Group's financial assets

AASB 9 allows for three classification categories for financial assets – amortised cost, FVOCI and FVPL. Classification is based on the business model in which a financial asset is managed and the related contractual cashflows. AASB 9 eliminates previous categories of held to maturity, loans and receivables and available for sale. Classification of financial liabilities is largely unchanged.

The table on the following page provides a reconciliation of the changes in classification and measurement of financial instruments on adoption of AASB 9.

Impairment of the Group’s financial assets

The Group’s financial assets carried at amortised cost and those carried at fair value through other comprehensive income (FVOCI) are subject to AASB 9’s new three-stage expected credit loss model. The Group measures loss allowances at an amount equal to lifetime expected credit losses (ECL), except for the following, for which they are measured as 12 months ECL.

- Debt investment securities that are determined to have a low credit risk at the reporting date; and
- Other financial instruments on which credit risk has not significantly increased since initial recognition.

An impairment allowance of $0.3m was included on 1 July 2018 in respect of loans and advances to members and non-members. No impairment allowance was recognised for other investments. Further detail of how the Group has applied the ECL policy is included in Note 12.

Hedge accounting

The Bank does not carry any assets or liabilities in this category.

Reconciliation of financial instruments on adoption of AASB 9

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

	Measurement Category		Carrying Amount		
	Original AASB 139 category	New AASB 9 category	Closing balance 30 Jun 2018 (AASB 139)	Adoption of AASB 9	Opening balance 1 Jul 2018 (AASB 9)
Assets					
Loans and advances to members	Loans and receivables	Amortised cost	877,394		877,394
Loans to non-members – SocietyOne, RateSetter	Loans and Receivables	Amortised Cost	14,089		14,089
Receivables	Receivables	Amortised cost	1,204		1,204
Investment securities– CUSCAL/TAS/ SocietyOne/SSP	AFS	FVOCI	4,449	1,780	6,229
Cash	Amortised cost	Amortised cost	15,287		15,287
Negotiable Certificates of Deposits (NCDs)	Held to maturity	Amortised cost	77,948		77,948
Floating Rate Notes / Term Deposits	Held to maturity	Amortised cost	85,309		85,309
Total financial assets			**1,076,680**		**1,078,460**
Liabilities					
Deposits from members and other financial institutions	Amortised cost	Amortised cost	977,658		977,658
Creditors	Amortised cost	Amortised cost	7,073		7,073
Total financial liabilities			**984,731**		**984,731**

5. Significant accounting policies

a. Financial Assets and Financial Liabilities

Financial assets and financial liabilities are recognised when the Bank becomes a party to the contractual provisions of the financial instrument and are measured initially at cost adjusted by transaction costs, except for those carried at fair value through profit or loss, which are measured initially at fair value. Subsequent measurement of financial assets and financial liabilities are described below.

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and all substantial risks and rewards are transferred. A financial liability is derecognised when it is extinguished, discharged, cancelled or expires.

Policy applicable from 1 July 2018

Classification of financial assets

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

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

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

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

Classifications are determined by both:
- the Bank's business model for managing the financial asset and
- the contractual cash flow characteristics of the financial assets.

Subsequent measurement of financial assets

Financial assets at amortised cost

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

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

After initial recognition, these are measured at amortised cost using the effective interest method.

Discounting is omitted where the effect of discounting is immaterial. The Group's cash and cash equivalents, trade receivables fall into this category of financial instruments as well as bonds that were previously classified as held to maturity under AASB 139.

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

Financial assets that are within a different business model other than 'hold to collect' or 'hold to collect and sell' are categorised as fair value through profit or loss. Further, irrespective of business model financial assets whose contractual cash flows are not solely payments of principal and interest are accounted for at FVPL. All derivative financial instruments fall into this category, except for those designated and effective as hedging instruments, for which the hedge accounting requirements apply.

Fair Value through Other Comprehensive Income (FVOCI)

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

Loans to Members

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

- loans and advances measured at amortised cost; which are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method;

When the Bank purchases a financial asset and simultaneously enters into an agreement to resell the asset (or a substantially similar asset) at a fixed price on a future date (reverse repo or stock borrowing), the arrangement is accounted for as a loan or advance, and the underlying asset is not recognized in the Bank's financial statements.

'Loans and advances' are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Bank does not intend to sell immediately or in the near term.

Loans and advances also include finance lease receivables in which the Bank is the lessor.

Interest earned

Term loans - interest is calculated on the basis of the daily balance outstanding and is charged in arrears to a members account on the last day of each month.

Overdraft – interest is calculated initially on the basis of the daily balance outstanding and is charged in arrears to a members account on the last of each month.

Credit cards – the interest is calculated initially on the basis of the daily balance outstanding and is charged in arrears to a members account on the 10th day of each month, on cash advances and purchases in excess of the payment due date. Purchases are granted up to 55 days interest free until the due date for payment.

Nonaccrual loan interest – while still legally recoverable, interest is not brought to account as income where the Bank is informed that the member has deceased, or a loan is impaired.

Loan origination fees and discounts

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

Transaction costs

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

Fees on loans

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

Net gains and losses

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

Reclassifications

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Bank changes its business model for managing financial assets. There were no changes to any of the Bank's business models during the current year (Prior year: Nil).

Policy applicable before 1 July 2018

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

- loans and receivables
- financial assets at fair value through profit or loss (FVTPL)
- held-to-maturity (HTM) investments
- available-for-sale (AFS) financial assets.

The category determines subsequent measurement and whether any resulting income and expense is recognised in profit or loss or in other comprehensive income.

All financial assets except for those at FVTPL were subject to review for impairment at least at each reporting date to identify whether there is any objective evidence that a financial asset or a group of financial assets is impaired. Different criteria to determine impairment was applied for each category of financial assets, which are described below.

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

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition, these were measured at amortised cost using the effective interest method, less provision for impairment. The Bank's cash and cash equivalents, trade and most other receivables fell into this category of financial instruments.

Individually significant receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default. Receivables that are not considered to be individually impaired are reviewed for impairment in Banks and Credit Unions, which are determined by reference to the industry and region of a counterparty and other shared credit risk characteristics. The impairment loss estimate is then based on recent historical counterparty default rates for each identified Bank/ Credit Union.

Financial assets at FVTPL

Financial assets at FVTPL include financial assets that were either classified as held for trading or that met certain conditions and were designated at FVTPL upon initial recognition. All derivative financial instruments fell into this category, except for those designated and effective as hedging instruments, for which the hedge accounting requirements applied (see below).

Assets in this category were measured at fair value with gains or losses recognised in profit or loss. The fair values of financial assets in this category were determined by reference to active market transactions or using a valuation technique where no active market exists.

HTM investments

HTM investments were non-derivative financial assets with fixed or determinable payments and fixed maturity other than loans and receivables. Investments were classified as HTM if the Bank had the intention and ability to hold them until maturity. The Bank held Term deposits, Negotiable Certificates of Deposit (NCD) and Floating Rate Notes/Bonds, and Bank accepted Bills of Exchange in this category. If more than an insignificant portion of these assets were sold or redeemed early, then the asset class would be reclassified as Available-For-Sale financial assets.

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

Available-For-Sale (AFS) financial assets

AFS financial assets were non-derivative financial assets that were either designated to this category or did not qualify for inclusion in any of the other categories of financial assets. The Bank's AFS financial assets previously include the equity investment in Cuscal Limited, TransAction Solutions Ltd, SocietyOne Holdings Ltd and Shared Service Partners Ltd.

The equity investments in Cuscal Limited, TransAction Solutions Ltd, SocietyOne Holdings Ltd and Shared Service Partners Ltd were measured at cost less any impairment charges, as its fair value cannot currently be estimated reliably. Impairment charges are recognised in profit or loss.

All other AFS financial assets were measured at fair value. Gains and losses on these assets were recognised in other comprehensive income and reported within the AFS reserve within equity, except for impairment losses, which were recognised in profit or loss. When the asset was disposed of or was determined to be impaired, the cumulative gain or loss recognised in other comprehensive income was reclassified from the equity reserve to profit or loss and presented as reclassification adjustments within other comprehensive income. Interest calculated using the effective interest method and dividends was recognised in profit or loss within 'finance income'.

Reversals of impairment losses were recognised in other comprehensive income, except for financial assets that were debt securities which were recognised in profit or loss only if the reversal could be objectively related to an event occurring after the impairment loss was recognised.

Loans to Members
Basis of recognition

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

Loans to members were reported at their recoverable amount representing the aggregate amount of principal and unpaid interest owing to the Bank at balance date, less any allowance or provision against impairment for debts considered doubtful. A loan was classified as impaired where recovery of the debt was considered unlikely as determined by the Board of Directors.

b. Loan Impairment

Policy applicable after 1 July 2018

AASB 9's impairment requirements uses more forward looking information to recognise expected credit losses - the 'expected credit loss model' (ECL). Instruments within the scope of the new requirements include loans and advances and other debt-type financial assets measured at amortised cost and FVOCI, trade receivables and loan commitments and some financial guarantee contracts (for the issuer) that are not measured at fair value through profit or loss.

The Bank considers a broad range of information when assessing credit risk and measuring expected credit losses, including past events, current conditions, reasonable and supportable forecasts that affect the expected collectability of the future cash flows of the instrument.

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

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

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

Loss allowances for lease receivables are always measured at an amount equal to lifetime ECL.

Measurement of ECL

'12-month expected credit losses' are recognised for the first category while 'lifetime expected credit losses' are recognised for the second 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 Bank in accordance with the contract and the cash flows that the Bank expects to receive);
- *financial assets that are credit-impaired at the reporting date:* as the difference between the gross carrying amount and the present value of estimated future cash flows;
- *undrawn loan commitments:* as the present value of the difference between the contractual cash flows that are due to the Bank if the commitment is drawn down and the cash flows that the Bank expects to receive; and
- *financial guarantee contracts:* the expected payments to reimburse the holder less any amounts that the Bank expects to recover.

The critical assumptions used in the calculation are as set out in Note 12. Note 28 details the credit risk management approach for loans.

Restructured financial assets

Financial assets which are renegotiated or modified, or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognized and ECL are measured as follows.

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

Credit-impaired financial assets

At each reporting date, the Bank assesses whether financial assets carried at amortised cost are credit impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

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

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

A loan that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment. In addition, a retail loan that is overdue for 90 days or more is considered impaired.

Presentation of allowance for ECL in the statement of financial position

Loss allowances for ECL are presented in the statement of financial position as follows:

- *financial assets measured at amortised cost:* as a deduction from the gross carrying amount of the assets;
- *loan commitments and financial guarantee contracts:* generally, as a provision; and
- *where a financial instrument includes both a drawn and an undrawn component, and the Bank cannot identify the ECL on the loan commitment component separately from those on the drawn component:*

The Bank presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision.

Write-off

Loans and debt securities are written off (either partially or in full) when there is no realistic prospect of recovery. This is generally the case when the Bank 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 Bank's procedures for recovery of amounts due.

Policy applicable before 1 July 2018

Specific and collective provision for impairment

A provision for losses on impaired loans was recognised when there was objective evidence that the impairment of a loan had occurred. Estimated impairment losses were calculated on either a portfolio basis for loans of similar characteristics, or on an individual basis. The amount provided was determined by management and the Board to recognise the probability of loan amounts not being collected in accordance with terms of the loan agreement.

The APRA Prudential Standards require a minimum provision to be maintained, based on specific percentages on the loan balance which are contingent upon the length of time the repayments are in arrears. This approach is used to assess the collective provisions for impairment.

An assessment is made at each statement of financial position date to determine whether there is objective evidence that a specific financial asset or a group of financial assets is impaired. Evidence of impairment may include indications that the borrower has defaulted, is experiencing significant financial difficulty, or where the debt has been restructured to reduce the burden to the borrower.

Reserve for credit losses

In addition to the above specific provision, the Board has recognised the need to make an allocation from retained earnings to ensure there is adequate protection for members against the prospect that some members will experience loan repayment difficulties in the future. The reserve was based on estimation of potential risk in the loan portfolio based upon:

- the level of security taken as collateral;
- the historical performance on bad and doubtful debts provisioning;
- the concentration of loans taken by employment type;
- the concentration of loans taken by geographical concentration; and
- the estimated movement in the GDP.

Renegotiated loans

Loans which were subject to renegotiated terms which would have otherwise been impaired do not have the repayment arrears diminished and interest continues to accrue to income. Each renegotiated loan is retained at the full arrears position until the normal repayments are reinstated and brought up to date and maintained for a period of 6 months.

c. Property, plant and equipment

Land and buildings are initially measured at cost less accumulated depreciation. Any revaluation increments are credited to the asset revaluation reserve, unless it reverses a previous decrease in value in the same asset previously debited to the income statement. Revaluation decreases are debited to the income statement unless it directly offsets a previous revaluation increase in the same asset in the asset revaluation reserve.

Property, plant and equipment, with the exception of freehold land, are depreciated on a straight-line basis so as to write off the net cost of each asset over its expected useful life to the Bank. The useful lives are adjusted if appropriate at each reporting date. Estimated useful lives as at the balance date are as follows:

- Buildings - 40 years.
- Leasehold improvements - 5 to10 years.
- Plant and equipment - 3 to 7 years.
- Assets less than $1,000 are not capitalised.

d. Provision for employee benefits

Provision is made for the Bank’s liability for employee benefits arising from services rendered by employees to balance date.

Short-term employee benefits are current liabilities included in employee benefits, measured at the undiscounted amount that the Group expects to pay as a result of the unused entitlement. Annual Leave is included in ‘other long-term benefit’ and discounted when calculating the leave liability as the Group does not expect all annual leave for all employees to be used wholly within 12 months of the end of the reporting period. Employee benefits expected to be settled within one year, have been measured at their nominal amount.

Annual leave liability is still presented as a current liability for presentation purposes under AASB 101 Presentation of Financial Statements.

Other employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those benefits discounted using national government bond rates.

Provision for long service leave is on a pro-rata basis from commencement of employment with the Bank based on the present value of its estimated future cash flows.

Annual leave is accrued in respect of all employees on pro-rata entitlement for part years of service and leave entitlement due but not taken at balance date. Annual leave is reflected as part of the sundry creditors and accruals.

Contributions are made by the Bank to an employee's superannuation fund and are charged to profit or loss as incurred.

e. Leasehold on premises

Leases where the lessor retains substantially all the risks and rewards of ownership of the net asset are classified as operating leases. Payments made under operating leases (net of incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

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 using national government bond rates.

Increases in the provision in future years due to the unwinding of the interest charge, is recognised as part of the interest expense.

f. Income tax

The income tax expense shown in profit or loss is based on the profit before income tax adjusted for any non-tax deductible, or non-assessable items between accounting profit and taxable income. Deferred tax assets and liabilities are recognised using the statement of financial position liability method in respect of temporary differences arising between the tax bases of assets or liabilities and their carrying amounts in the financial statements. Current and deferred tax balances relating to amounts recognised directly in equity are also recognised directly in equity.

Deferred tax assets and liabilities are recognised for all temporary differences between carrying amounts of assets and liabilities for financial reporting purposes and their respective tax bases at the rate of income tax applicable to the period in which the benefit will be received or the liability will become payable. These differences are presently assessed at 30%.

Deferred tax assets are only brought to account if it is probable that future taxable amounts will be available to utilise those temporary differences. The recognition of these benefits is based on the assumption that no adverse change will occur in income tax legislation; and the anticipation that the Bank will derive sufficient future assessable income and comply with the conditions of deductibility imposed by the law to permit an income tax benefit to be obtained.

g. Intangible assets

Brand names and customer list

Brand names and customer lists acquired in a business combination that qualify for separate recognition are recognised as intangible assets at their fair values.

Internally developed software

Expenditure on the research phase of projects to develop new customised software for IT and telecommunication systems is recognised as an expense as incurred.

Costs that are directly attributable to a project's development phase are recognised as intangible assets, provided they meet the following recognition requirements:
- the development costs can be measured reliably
- the project is technically and commercially feasible
- the Group intends to and has sufficient resources to complete the project
- the Group has the ability to use or sell the software; and
- the software will generate probable future economic benefits

Development costs not meeting these criteria for capitalisation are expensed as incurred.

Employee (excluding Director) directly attributable costs include software incurred costs for development along with an appropriate portion of relevant overheads and borrowing costs.

Subsequent measurement

All intangible assets, including internally developed software, are accounted for using the cost model whereby capitalised costs are amortised on a straight-line basis over their estimated useful lives, as these assets are considered finite. Residual values and useful lives are reviewed at each reporting date. In addition, they are subject to impairment testing as described in Note 5 (h). The following useful lives are applied:

- software: 3-5 years
- customer lists: 4-6 years

Any capitalised internally developed software that is not yet complete is not amortised but is subject to impairment testing as described in Note 5 (h).

Amortisation has been included within depreciation, amortisation and impairment of non-financial assets. Subsequent expenditures on the maintenance of computer software and brand names are expensed as incurred. When an intangible asset is disposed of, the gain or loss on disposal is determined as the difference between the proceeds and the carrying amount of the asset and is recognised in profit or loss within other income or other expenses.

h. Impairment of assets

At each reporting date the Bank assesses whether there is any indication that individual assets are impaired. Where impairment indicators exist, recoverable amount is determined, and impairment losses are recognised in profit or loss where the asset's carrying value exceeds its recoverable amount. Recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purpose of assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where it is not possible to estimate recoverable amount for an individual asset, recoverable amount is determined for the cash-generating unit to which the asset belongs.

i. Goods and services tax

As a financial institution the Bank is input taxed on all income except for income from commissions and some fees. An input taxed supply is not subject to GST collection, and similarly the GST paid on related or apportioned 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 (RITC), of which 75% of the GST paid is recoverable.

Revenue, expenses and assets are recognised net of the amount of goods and services tax (GST). To the extent that the full amount of the GST incurred is not recoverable from the Australian Tax Office (ATO), 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. The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or current liability in the statement of financial position. Cash flows are included in the cash flow statement on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the Australian Taxation Office are classified as operating cash flows.

j. Cash and cash equivalents

Cash comprises cash on hand and demand deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

k. Business combinations

The Group applies the acquisition method in accounting for business combinations. Under the Financial Sector (Transfers of Business) Act 1999 all the assets and liabilities of the transferring body, wherever those assets and liabilities are located, become (respectively) assets and liabilities of the receiving body without any transfer, conveyance or assignment.

The Bank recognises identifiable assets acquired and liabilities assumed in a business combination regardless of whether they have been previously recognised in the acquiree's financial statements prior to the acquisition. Assets acquired and liabilities assumed are generally measured at their acquisition-date fair values.

Goodwill (if applicable) is stated after separate recognition of any identifiable intangible assets. It is calculated as the excess of the sum of (a) fair value of consideration transferred, (b) the recognised amount of any non-controlling interest in the acquiree and (c) acquisition-date fair value of any existing equity interest in the acquiree, over the acquisition-date fair values of identifiable net assets.

Where the fair values of identifiable net assets exceed the sum calculated above, the excess amount is recognised directly in equity for a mutual organisation [as prescribed by AASB3 Guidance B47].

Acquisition costs are expensed as incurred.

l. Accounting estimates and judgements

Management have made judgements when applying the Bank's accounting policies with respect to:

i. De-Recognition of loans assigned to a special purpose vehicle used for securitisation purposes – refer Note 11d and 38.

Management have made critical accounting estimates when applying the Bank's accounting policies with respect to the measurement of expected credit loss (ECL) allowance – refer Note 12. In the current year, the approach to estimation of impairment losses has been revised following adoption of AASB 9 effective 1 July 2018. Key areas of judgement to be considered under the new standard include:

- Recognition of credit losses based on "Stage 1" 12 month expected losses and "Stage 2" and "Stage 3" lifetime expected credit losses.

- Determining criteria for significant increase in credit risk: An asset moves to stage 2 when its credit risk has increased significantly since initial recognition. In assessing whether the credit risk of an asset has significantly increased the Group takes into account qualitative and quantitative reasonable and supportable forward looking information.

- Choosing appropriate models and assumptions tor the measurement of ECL;

- Establishing groups of similar financial assets for the purposes of measuring ECL: When ECLs are measured on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics.

New or emerging standards not yet mandatory

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2019 reporting period. The Bank's assessment of the impact of these new standards and interpretations is set out below. Changes that are not likely to impact the financial report of the Bank have not been reported.

AASB reference	Nature of Change	Application date	Impact on Initial Application
AASB 16 Leases Replaces AASB 117	AASB 16: replaces AASB 117 *Leases* and some lease-related Interpretations. The standard requires all leases to be accounted for 'on-balance sheet' by lessees, other than short-term and low value asset leases; provides new guidance on the application of the definition of lease and on sale and lease back accounting; and requires new and different disclosures about leases.	Periods beginning on or after 1 January 2019	Based on the entity's assessment, it is expected that the first-time adoption of AASB 16 for the year ending 30 June 2020 will have a material impact on the transactions and balances recognised in the financial statements, in particular: – lease assets and financial liabilities on the balance sheet will increase by approximately $2.4m respectively (based on the facts at the date of the assessment) – there will be a reduction in the reported equity as the carrying amount of lease assets will reduce more quickly than the carrying amount of lease liabilities – EBIT in the statement of profit or loss and other comprehensive income will be higher as the implicit interest in lease payments for former off-balance sheet leases will be presented as part of finance costs rather than being included in operating expenses. Operating cash outflows will be lower and financing cash flows will be higher in the statement of cash flows as principal repayments on all lease liabilities will now be included in financing activities rather than operating activities. Interest can also be included within financing activities.

6. STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

(a) Analysis of interest revenue

Interest revenue on assets carried at amortised cost

	Note	2019 $'000	2018 $'000
Cash - deposits at call		**226**	**179**
Receivables from financial institutions		4,575	4,756
Loans to members		42,881	40,025
Loans to non-members via SocietyOne		1,752	1,343
Loans to non-members via RateSetter		195	-
Total income from receivables		**49,403**	**46,124**
Total interest income		**49,629**	**46,303**

(b) Fee, commission and other income

	2019	2018
Fee and commission revenue		
Fee income on loans - other than loan origination fees	1,524	1,642
Fee income from member deposits	1,092	1,255
Other fee income	1,159	1,018
Insurance commissions	549	541
Other commissions	583	573
Total Fee and Commission Revenue	**4,907**	**5,029**
Other income		
Dividend received on available for sale assets	316	143
Bad debts recovered	195	184
Income from property (rental income)	153	205
Gain on disposal of assets		
- Property, plant and equipment	40	22
Miscellaneous revenue	81	27
Total Fee Commission and Other Income	**5,692**	**5,610**

(c) Interest expense

	Note	2019 $'000	2018 $'000
Interest expense on liabilities carried at amortised cost			
Deposits from financial institutions		9	6
Deposits from members		17,342	15,839
Other		(33)	381
Total Interest Expense		**17,318**	**16,226**

(d) Impairment losses

	Note	2019 $'000	2018 $'000
Financial Assets at FVOCI			
Increase/(decrease) in provision (SSP impairment)	13(f)	(50)	50
Loss on disposal of assets - Property, plant, equipment		-	-
Total Impairment Losses		**(50)**	**50**
Loans at amortised cost			
Increase/(decrease) in provision for impairment		(47)	(268)
Bad debts written off directly against profit		618	750
Total Impairment Losses		**571**	**482**
Increase/(Decrease) in impairment on loans at amortised cost brought forward on prior year acquisition		-	25
Loans to non-members via SocietyOne & RateSetter			
Increase/(decrease) in provision for impairment		156	114
Bad debts written off directly against profit		691	738
Total Impairment Losses		**847**	**852**

(e) Other prescribed disclosures

	2019 $'000	2018 $'000
General administration - employees costs include:		
- net movement in provisions for employee annual leave	102	53
- net movement in provisions for employee long service leave	271	51
- net movement in provisions for employee sick leave	(3)	(8)
	370	**96**
General administration - depreciation expense include:		
- buildings	283	255
- plant and equipment	349	354
- leasehold improvements	570	554
- computer hardware	195	176
- amortisation of software	302	297
	1,699	**1,636**

	Note	2019 $'000	2018 $'000
General administration - office occupancy costs include:			
property operating lease payments			
- minimum lease payments		1,024	981
- contingent rents, and		-	-
- sublease agreements		-	-
Lease make good expenses - interest on liability		-	-
		1,024	**981**
Other operating expenses include:			
Auditors remuneration (excluding GST)			
- Audit fees		132	127
- Other services - taxation		22	15
- Other services - compliance		14	13
- Other services - other		37	8
		205	**163**
Defined contribution superannuation expenses		**1,561**	**1,495**

7. INCOME TAX EXPENSE

		2019 $'000	2018 $'000
(a) The income tax expense comprises amounts set aside as:			
Current Income Tax Payable		2,192	541
Add / (less) current year movement in deferred tax asset		(533)	801
Current tax expense - current year profits	(7b)	1,659	1,342
Under provision from prior years		-	-
Shell Employees tax payment		-	-
Over provision from prior years		-	(6)
Adjustment to deferred tax asset - prior year		-	(647)
Adjustment to deferred tax liability - prior year		-	-
Total current income tax expense (3b)		1,659	689
(b) The prima facie tax payable on profit is reconciled to the income tax expense in the accounts as follows			
Profit		5,909	4,840
Prima facie tax payable on profit before income tax at 30%		1,773	1,452
Add tax effect on expenses not deductible		30	38
Less tax effect of additional deductions allowed not in accounting expenses		(62)	(87)
Less			
- Franking rebate		(82)	(61)
Income tax expense attributable to current year profit		**1,659**	**1,342**

8. CASH

	Note	2019 $'000	2018 $'000
Cash on Hand		1,452	1,228
Deposits at Call		18,779	14,059
		20,231	**15,287**

9. OTHER ASSETS

Prepayments		1,050	1,121
		1,050	**1,121**

10. RECEIVABLES

Interest receivable on deposits with other financial institutions		685	791
Sundry debtors and settlement accounts		527	413
		1,212	**1,204**

11. LOANS

	Note	2019 $'000	2018 $'000
(a) (i) Loans to Members			
Amount due comprises:			
Overdrafts and revolving credit		25,531	25,803
Term loans		935,576	852,591
Subtotal		**961,107**	**878,394**
Less:			
Unamortised loan origination fees		-	-
Subtotal		**-**	**-**
Less:			
Provision for impaired loans	12	(657)	(704)
		960,450	**877,690**
(a) (ii) Loans to Non-Members			
Amount due comprises:			
Personal Loans unsecured		18,226	14,089
Personal Loans secured		6,000	-
Subtotal		**24,226**	**14,089**
Less:			
Provision for impaired loans	12	(632)	(185)
		23,594	**13,904**
Total Loans		**984,044**	**891,594**

Loans to Non-Members

The Bank has entered into agreements to commit funds supporting the online marketplace lending platforms of SocietyOne Australia Pty Ltd and RateSetter Australia Pty Ltd. Loans are made via SocietyOne and RateSetter to non-members.

The Bank has applied the same ECL methodology used for Loans to Members for both SocietyOne and RateSetter loans.

(b) Credit quality – Security held against loans:

	2019 $'000	2018 $'000
Secured by mortgage over business assets	1,676	2,152
Secured by mortgage over real estate	889,862	811,873
Partly secured by goods mortgage	18,726	9,899
Wholly unsecured	75,069	68,559
	985,333	**892,483**

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

Security held as mortgage against real estate is on the basis of:

- loan to valuation ratio of less than 80%	755,006	684,151
- loan to valuation ratio of more than 80% but mortgage insured	78,506	70,866
- loan to valuation ratio of more than 80% and no mortgage insurance	56,350	56,856
Total	**889,862**	**811,873**

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

The Board decided not to require disclosure of the fair value of collateral held, but to require disclosure of only a description of collateral held as security and other credit enhancements. The Board noted that such disclosure does not require an entity to establish fair value for all its collateral (in particular when the entity has determined that the fair value of some collateral exceeds the carrying amount of the loan) and, thus would be less onerous for entities to provide than fair values.

(c) Concentration of Loans

The values discussed below include on statement of financial position values and off balance sheet undrawn facilities as described in Note 33.

(i) Loans to individual or related groups of members which exceed 10% of reserves in aggregate	-	-
	-	-
(ii) Loans to members are concentrated to indivduals employed in the following industries		
- Maritime industry	255,346	250,630
- Mining and energy industry	136,650	132,344
- Other	593,337	509,509
	985,333	**892,483**

(iii) Geographical Concentrations

2019	Housing	Personal	Business	Total
NSW	593,450	38,094	37,189	668,733
Victoria	91,208	9,271	762	101,241
Queensland	90,983	11,992	5	102,980
South Australia	10,553	2,200		12,753
Western Australia	69,634	6,796	1,116	77,546
Tasmania	7,768	888		8,656
Northern Territory	4,199	316	-	4,515
ACT	1,510	550	-	2,060
Other	5,575	244	1,030	6,849
Total per statement of financial position	**874,880**	**70,351**	**40,102**	**985,333**

2018	Housing	Personal	Business	Total
NSW	534,474	31,732	30,804	597,010
Victoria	79,853	7,208	1,193	88,254
Queensland	86,140	9,213		95,353
South Australia	10,047	1,805		11,852
Western Australia	69,617	5,837	783	76,237
Tasmania	9,555	925		10,480
Northern Territory	4,409	272		4,681
ACT	1,362	402	-	1,764
Other	5,350	364	1,138	6,852
Total per statement of financial position	**800,807**	**57,758**	**33,918**	**892,483**

(iv) Concentration by Purpose

	2019	2018
Loans to natural persons		
Residential loans and facilities	882,348	797,306
Personal loans and facilities	41,369	39,558
Business loans and facilities	19,304	19,220
	943,021	**856,084**
Loans to Corporations	**18,086**	**22,310**
Loans to Non-Members	**24,226**	**14,089**
Total	**985,333**	**892,483**

(d) Securitised loans

The Bank has assigned the rights and benefits of a parcel of mortgage secured loans to a securitisation entity. No loans were transferred during the financial year. Previous transfers satisfy the de-recognition criteria prescribed in AASB 139, and the value has been removed from the carrying loan value in the statement of financial position. The purpose of the transfer was to secure additional liquid funds to meet further loan demands from members.

In addition, the Bank acts as the agent for the securitisation entity to arrange and fund loans made directly by the securitisation entity. These loans do not qualify for recognition in the books of the Bank and are not recognised in the books of the Bank at any time.

The value of the securitised loans under management comprising both those assigned and those funded as agents is set out in Note 39.

12. PROVISION ON IMPAIRED LOANS

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

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

	2019 $'000			2018 $'000		
	Gross Carrying Value	ECL Allowance	Carrying Value	Gross Carrying Value	Provision for Impairment	Carrying Value
Loans to Members						
Mortgages	882,348	155	882,193	797,306	-	797,306
Personal	48,436	444	47,992	46,367	207	46,160
Credit Cards	6,977	57	6,920	7,102	58	7,044
Overdrafts	5,260	1	5,259	5,309	35	5,274
Total to natural persons	**943,021**	**657**	**942,364**	**856,084**	**300**	**855,784**
Corporate Borrowers	18,086	-	18,086	22,310	-	22,310
Provision for Loans Not in Arrears	-	-	-	-	404	(404)
Sub Total	**961,107**	**657**	**960,450**	**878,394**	**704**	**877,690**
Loans to Non-Members						
Personal	24,226	632	23,594	14,089	185	13,904
Sub Total	**24,226**	**632**	**23,594**	**14,089**	**185**	**13,904**
Total	**985,333**	**1,289**	**984,044**	**892,483**	**889**	**891,594**

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

	2019 $'000				2018 $'000
	Stage 1 12 month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total	Total
Loans to Members					
Mortgages	145	5	5	155	-
Personal	440	2	2	444	207
Credit Cards	56	-	1	57	58
Overdrafts	-	-	1	1	35
Total to natural persons	**641**	**7**	**9**	**657**	**300**
Corporate Borrowers	-	-	-	-	-
Loss allowance	-	-	-	-	404
Sub Total	**641**	**7**	**9**	**657**	**704**
Loans to Non-Members					
Personal	618	2	12	632	185
Sub Total	**618**	**2**	**12**	**632**	**185**
Total Carrying amount	**1,259**	**9**	**21**	**1,289**	**889**

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.

	2019				2018
	$'000				$'000
	Stage 1 12 month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total	Total
Loans to Members & Non-Members					
Balance as at 1 July per AASB139	889	-	-	889	946
Adjustment on initial application of AASB9	261	9	21	291	-
Balance as at 1 July per AASB9	**1,150**	**9**	**21**	**1,180**	**946**
Changes in the loss allowance					
- Transfer to Stage 1	-	-	-	-	-
- Transfer to Stage 2	-	-	-	-	-
- Transfer to Stage 3	-	-	-	-	-
- Net movement due to change in credit risk	109			109	(57)
Balance as at 30 June	**1,259**	**9**	**21**	**1,289**	**889**

Key assumptions in determining the ECL (Expected Credit Loss)

Measurement of ECL

The key inputs into the measurement of the Bank's ECL include the following variables:

- probability of default (PD);
- loss given default (LGD);
- exposure at default (EAD); and
- discounting.

These parameters are generally derived from internal analysis, management judgements and other historical data. They are adjusted to reflect forward-looking information as described below.

PD estimates are calculated based on arrears over 90 days and other loans and facilities where the likelihood of future payments is low**.** The definition of default is consistent with the definition of default used for internal credit risk management and regulatory reporting purposes. Instruments which are 90 days past due are generally considered to be in default.

For portfolios in respect of which the Bank has limited historical data, external benchmark information is used to supplement the internally available data. The portfolios for which external benchmark information represents a significant input into measurement of ECL are as follows:

- Mortgages by LMI and LVR – APRA scale of residential property in Australia used as a guide for LGD and PD rates

LGD is the magnitude of the likely loss if there is a default. The Bank estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD percentage applied considers the structure of the loan, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset. For loans secured by retail property, Loan to Value Ratios (LVR) are a key parameter in determining LGD. LGD estimates are recalibrated for different economic scenarios and, for real estate lending, to reflect possible changes in property prices.

EAD represents the expected exposure in the event of a default. The Bank derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract including amortization. The EAD of a financial asset is its gross carrying amount. For lending commitments and financial guarantees, the EAD includes the amount drawn, as well as potential future amounts that may be drawn under the contract, which are estimated based on historical observations and future expectations.

Where appropriate, in calculating the ECL, future cash flows are discounted at the original effective interest rate of the exposure.

Grouping of similar assets

Since the loans are homogenous in terms of borrower type and contractual repayment terms, the portfolio is currently managed through the dissection of the portfolio arrears reports. The Bank has grouped exposures by type on the basis of shared risk characteristics that include:

- instrument type;
- collateral type;
- LVR ratio for retail mortgages;
- date of initial recognition (vintage);
- remaining term to maturity;
- industry; and
- geographic location of the borrower.

The Bank has elected to use the following segments when assessing credit risk under the impairment model:

Residential mortgages
Commercial loans
Personal loans
Other – representing credit cards, overdrafts

The groupings are subject to regular review to ensure that exposures within a particular group remain appropriately homogeneous.

Significant increase in credit risk
The Group 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 Group's current model;

- Loans more than 30 days past due
- Loans with approved hardship or modified terms

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Bank 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 Bank's historical experience and expert judgement, relevant external factors and including forward-looking information.

The Group presumes that the credit risk on a financial asset has increased significantly since initial recognition when the exposure is more than 30 days past due unless the Group has reasonable and supportable information that demonstrates otherwise.

The approach to determining the ECL includes forward-looking information. The Group has performed historical analysis and identified the key economic variables impacting credit risk and expected credit losses for each portfolio segment. Given the lack of loss experience by the Group and across the wider industry, more emphasis has been applied to the historical data available as opposed to forward looking information.

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 Group has considered other forward-looking considerations such as the impact of future unemployment rates, property prices, regulatory change and external market risk factors, which are not deemed to have a material impact and therefore no adjustment has been made to the ECL for such factors.

This is reviewed and monitored for appropriateness on a quarterly basis. The Group considers the ECL to represent its best estimate of the possible outcomes and is aligned with information used by the Group for other purposes such as strategic planning and budgeting. Periodically the Group carries out stress testing of more extreme shocks to calibrate its determination of other potential scenarios.

(b) Impaired Financial Assets – Comparative information under AASB139

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

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

	2018		
	$'000		
	Carrying Value	Value of impaired loans	Provision for impairment
Loans to Members			
Mortgages	797,306	3,426	-
Personal	46,367	614	207
Credit Cards	7,102	68	58
Overdrafts	5,309	46	35
Total to natural persons	**856,084**	**4,154**	**300**
Corporate Borrowers	22,310	-	-
Loss allowance	-	-	404
Sub Total	**878,394**	**4,154**	**704**
Loans to Non-Members			
Personal	14,089	336	185
Sub Total	**14,089**	**336**	**185**
Total Carrying amount	**892,483**	**4,490**	**889**

(c) Loans with repayments past due but not regarded as impaired

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

There are loans with a value of $6.04m past due which are not considered to be impaired as the value of related security over residential property is in excess of the loan due. It is not practicable to determine the fair value of all collateral as at the reporting date due to the variety of assets and condition.

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

2018	1 - 3 Mths	3 - 6 Mths	6 -12 Mths	> 1 Year	Total
Loans to Members					
Mortgage secured loans	5,073	82	314	105	5,574
Personal loans	463	-	-	-	463
Credit cards	-	-	-	-	-
Overdrafts	-	-	-	-	-
Total	**5,536**	**82**	**314**	**105**	**6,037**

(d) Key assumptions in determining the provision for impairment

In the course of the preparation of the annual report the Bank has determined the likely impairment loss on loans which have not maintained the loan repayments in accordance with the loan contract, or where there is other evidence of potential impairment such as industrial restructuring, job losses or economic circumstances. In identifying the impairment likely from these events, the Bank is required to estimate the potential impairment using the length of time the loan is in arrears and the historical losses arising in past years. Given the relatively small number of impaired loans, the circumstances may vary for each loan over time resulting in higher or lower impairment losses. An estimate is based on the period of impairment.

Period of impairment	**%**
Up to 90 days	0
90 days to 181 days	40
181 days to 270 days	60
270 days to 365 days	80
Over 365 days	100

13. LIQUID AND EQUITY INVESTMENTS

Liquid Investments – Loans at Amortised Cost

	2019	2018
(a) Breakdown of receivables	**$'000**	**$'000**
Amortised cost		
Negotiable certificates of deposit	39,634	-
Receivables	71,618	-
Term deposits	83,795	-
	195,047	**-**
Held to Maturity		
Negotiable certificates of deposit	-	16,795
Receivables	-	82,309
Term deposits	-	64,153
	-	**163,257**
(b) Dissection of receivables		
Deposits with industry bodies	19,690	18,500
Deposits with other societies	4,000	4,980
Deposits with banks	171,357	139,777
	195,047	**163,257**

Amounts expected to be repaid within 12 months are described in Note 30.

Equity Investments

	Note	2019 $'000	2018 $'000
Shares in unlisted companies - at FVOCI			
- CUSCAL	14(c)	3,364	-
- Transaction Solutions Pty Ltd	14(d)	808	-
- SocietyOne Holdings Pty Ltd	14(e)	2,250	-
- Shared Service Partners Pty Ltd	14(f)	53	-
Total value of share investments		**6,475**	**-**
Shares in unlisted companies - at cost			
- CUSCAL	14(c)	-	2,025
- Transaction Solutions Pty Ltd	14(d)	-	174
- SocietyOne Holdings Pty Ltd	14(e)	-	2,250
- Shared Service Partners Pty Ltd	14(f)	-	-
Total value of share investments		**-**	**4,449**

Disclosures on Shares held at FVOCI valued with unobservable inputs

(c) CUSCAL Limited (CUSCAL)

This company supplies services to the member organisations which are all Credit Unions, Mutual Banks and Banks. At 1 July 2018, the Bank designated its investment in CUSCAL equity securities as at FVOCI. In FY 2018, these investments were classified as available-for-sale and measured at cost.

The Bank holds shares in Cuscal to enable the Bank to receive essential banking services – refer to Notes 34 and 37. The shares are able to be traded but within a market limited to other mutual ADI's.

The volume of shares traded is low with few transactions in the past 3 years.

Management have used the unobservable inputs to assess the fair value of the shares. The financial reports of CUSCAL record net tangible asset backing of these shares exceeding their cost value. Based on the net assets of Cuscal, any fair value determination on these shares is likely to be greater than their cost value, but due to the absence of a ready market, a market value is not able to be determined readily.

Management has determined that the net tangible asset value of $0.60 per share is a reasonable approximation of fair value based on the likely value available on a sale.

The Bank is not intending to dispose of these shares.

(d) Transaction Solutions Pty Ltd (TAS)

TAS provide a data processing support service to the Bank and manages the Bank's core banking system and network operations on its system – refer to Notes 13 and 37.

The shares are able to be traded but within a market limited to other mutual ADI's. The volume of shares traded is low.

Management have used the unobservable inputs to assess the fair value of the shares. The financial reports of TAS record net tangible asset backing of these shares exceeding their cost value.

Based on the net assets of TAS, any fair value determination on these shares is likely to be greater than their cost value, but due to the absence of a ready market, a market value is not able to be determined readily.

Management has determined that an average of cost, last priced sale and net tangible asset value of $5.19 per share is a reasonable approximation of fair value based on the likely value available on a sale.

The Bank is not intending to dispose of these shares.

(e) SocietyOne Holdings Pty Ltd

SocietyOne is an online marketplace lender specialising in online personal loans.

The shares are able to be traded but within a market limited to investors and other mutual ADI's.

Management have used the unobservable inputs to assess the fair value of the shares as a ready market is not available and a market value is not able to be determined readily.

Management has determined that a historical cost of $3.30 per share is a reasonable approximation of fair value based on the likely value available from a sale or other exit.

(f) Shared Service Partners Pty Ltd

Shared Service Partners is an aggregator of services to the mutual sector. The shares are able to be traded but within a market limited to other mutual ADI's.

Management have used the unobservable inputs to assess the fair value of the shares as a ready market is not available and a market value is not able to be determined readily.

Management has determined that an average of cost, last priced sale and net tangible asset value of $0.07 per share is a reasonable approximation of fair value based on the likely value available from a sale or other exit.

14. PROPERTY, PLANT AND EQUIPMENT

(a) Fixed Assets

	2019 $'000	2018 $'000
Land (Deemed cost)	539	425
Buildings (Deemed cost)	9,760	9,368
Less: accumulated depreciation	1,324	1,041
	8,436	8,327
Total Land and Buildings	**8,975**	**8,752**
Plant and Equipment - at cost	5,049	4,462
Less: accumulated depreciation	3,672	3,322
	1,377	**1,140**
Capitalised leasehold improvements - at cost	5,075	4,240
Less: accumulated depreciation	3,479	2,909
	1,596	**1,331**
Total Property, Plant and Equipment	**11,948**	**11,223**

(b) Movements in the asset balances during the year were:

2019

	Property $'000	Plant & Equipment $'000	Leasehold Improvements $'000	Total $'000
Opening Balance	8,752	1,140	1,331	11,223
Purchases	505	835	835	2,175
Acquired under merger	-	14	-	14
Less:				
Assets Disposed	-	68	-	68
Depreciation charges	282	544	570	1,396
Impairment loss	-	-	-	-
Balance at the end of year	**8,975**	**1,377**	**1,596**	**11,948**

2018

	Property $'000	Plant & Equipment $'000	Leasehold Improvements $'000	Total $'000
Opening Balance	8,958	1,420	1,729	12,107
Purchases	49	368	156	573
Acquired under merger	-	-	-	-
Less:				
Assets Disposed	-	118	-	118
Depreciation charges	255	530	554	1,339
Impairment loss	-	-	-	-
Balance at the end of year	**8,752**	**1,140**	**1,331**	**11,223**

15. TAXATION ASSETS

	Note	2019 $'000	2018 $'000
Opening balance		1,205	2,006
Add movements in the current year		-	(801)
Adjustment for changes in opening balances		593	-
Additional Deferred Tax Assets from merger entities		40	-
Deferred Tax Assets		**1,838**	**1,205**
Tax Instalments recoverable	22	-	709
		1,838	**1,914**
Deferred Tax Assets Comprise:			
Accrued Expenses not deductible until incurred		348	37
Provisions for impairment on loans		387	267
Provisions for employee benefits		1,475	1,261
Deferred income		9	-
Depreciation on fixed assets		(536)	(612)
Prepayments		-	-
Deferred expenses for tax purposes		155	224
Member Incentive		-	28
		1,838	**1,205**

16. INTANGIBLE ASSETS

Computer software	3,411	3,112
less accumulated amortisation	2,921	2,656
	490	**456**
Movements in the asset balances during the year were:		
Opening balance	456	432
Purchases	336	321
Acquired under merger	1	-
Less:		
Assets disposed	-	-
Amortisation charge	303	297
Impairment loss	-	-
Balance at the end of year	**490**	**456**

17. DEPOSITS FROM OTHER FINANCIAL INSTITUTIONS

	2019 $'000	2018 $'000
Term Deposits	25,000	-
	25,000	**-**

18. DEPOSITS FROM MEMBERS

	2019 $'000	2018 $'000
Member Deposits		
- At Call	501,673	471,787
- Term	570,983	505,473
Member withdrawable shares	411	398
	1,073,067	**977,658**

There were no defaults on interest and capital payments on these liabilities in the current or prior year.

Concentration of member deposits

	2019 $'000	2018 $'000
(i) Significant individual member deposits which in aggregate represent more than 10% of the total liabilities:	**131,027**	**127,485**

(ii) Member deposits at balance date were received from individuals employed principally in the Maritime, Mining and Energy industries.

(iii) Geographic concentrations

	2019 $'000	2018 $'000
NSW	859,049	774,615
Victoria	68,016	61,939
Queensland	47,603	47,166
South Australia	9,572	10,232
Western Australia	58,867	53,964
Tasmania	5,641	4,860
Northern Territory	2,419	2,229
ACT	870	606
Other	20,619	21,649
Total per balance sheet	**1,072,656**	**977,260**

Amounts expected to be repaid within 12 months are as described in Note 30.

19. CREDITORS ACCRUALS AND SETTLEMENT ACCOUNTS

	Note	2019 $'000	2018 $'000
Annual Leave		1,571	1,444
Creditors and accruals		1,859	1,510
Settlement accounts		457	746
Interest payable on deposits		5,334	4,787
Accrual for GST payable		28	29
Accrual for other tax liabilities		163	140
		9,412	**8,656**

20. TAXATION LIABILITIES

	Note	2019 $'000	2018 $'000
Current income tax liability		663	-
Current income tax liability comprises:			
Balance - previous year		-	-
Instalments recoverable from prior year		709	851
Less paid		-	-
Over/under statement in prior year		(14)	6
Liability for income tax in current year		2,192	541
Tax Losses arising from Mergers		-	-
Less instalments paid in current year		1,737	1,306
Less Tax refunds		(903)	(912)
Tax Instalments recoverable in current year	15	-	709
Balance - current year		663	-

21. PROVISIONS

	Note	2019 $'000	2018 $'000
Long Service Leave		3,147	2,749
Lease make good of premises		149	149
Provisions other		485	535
		3,781	**3,433**

Provision movements comprises:

	2019 $'000	2018 $'000
Lease make good		
Balance - previous year	149	149
Less paid	-	-
Liability increase in current year	-	-
Balance - current year	**149**	**149**

The Bank has entered into an agreement to lease premises at 215-217 Clarence Street, which contains a lease make good provision.

22. DEFERRED TAX LIABILITIES

	2019 $'000	2018 $'000
Deferred tax liabilities	**557**	**14**

Deferred income tax liability relates to the sale of the shares in Combined Financial Processing to Transaction Solutions shares in 2010 script-for-script swap which created a deferred capital gain on the value of the Transaction solutions shares received.

The account also includes the estimated tax liability due to any gains recorded against the FVOCI reserve.

23. LONG TERM BORROWINGS

Subordinated Debt		
Balance at the beginning of the year	-	10,000
Repaid debt	-	(10,000)
Increase due to debt issued	-	-
Increase due to acquisition from merger	-	-
Amortisation of capitalised debt raising costs	-	-
Balance at the end of the year	**-**	**-**

On the 16th of November 2012, the Bank entered into an agreement to issue $10m in Subordinated Debt. The instrument was repaid on the 28th of December 2017.

24. CAPITAL RESERVE ACCOUNT

Balance at the beginning of the year	615	595
Transfer from retained earnings on share redemptions	30	20
Increase due to shares issued to members of:		
Central Coast Credit Union Ltd	24	-
Balance at the end of the year	**669**	**615**

Share Redemption

The accounts represent the amount of redeemable preference shares redeemed by the Bank since 1 July 1999. The law requires that the redemption of the shares be made out of profits. Since the value of the shares has been paid to members in accordance with the terms and conditions of the share issue, the account represents the amount of profit appropriated to the account.

25. ASSET REVALUATION RESERVE

	2019 $'000	2018 $'000
Asset revaluation reserve - Land and Buildings	**4,053**	**4,053**

Movements in Reserves - Land and Buildings
The asset revaluation reserve accounts for the unrealised gains on assets due to revaluation to fair value

	2019 $'000	2018 $'000
Balance at beginning of the year	4,053	4,053
Add: Increase on revaluation	-	-
Less: Deferred tax liability	-	-
Balance at the end of year	**4,053**	**4,053**

26. GENERAL RESERVE FOR CREDIT LOSSES

	2019 $'000	2018 $'000
General Reserve for Credit Losses	**2,779**	**2,663**

General Reserve for Credit Losses
This reserve records amount previously set aside as a General Provision and is maintained to comply with the Prudential Standards set down by APRA

	2019 $'000	2018 $'000
Balance at beginning of the year	2,663	2,663
Add: increase transferred from Central Coast Credit Union merger	116	-
Add: increase transferred from retained earnings	-	-
Balance at the end of year	**2,779**	**2,663**

27. FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (FVOCI) RESERVE

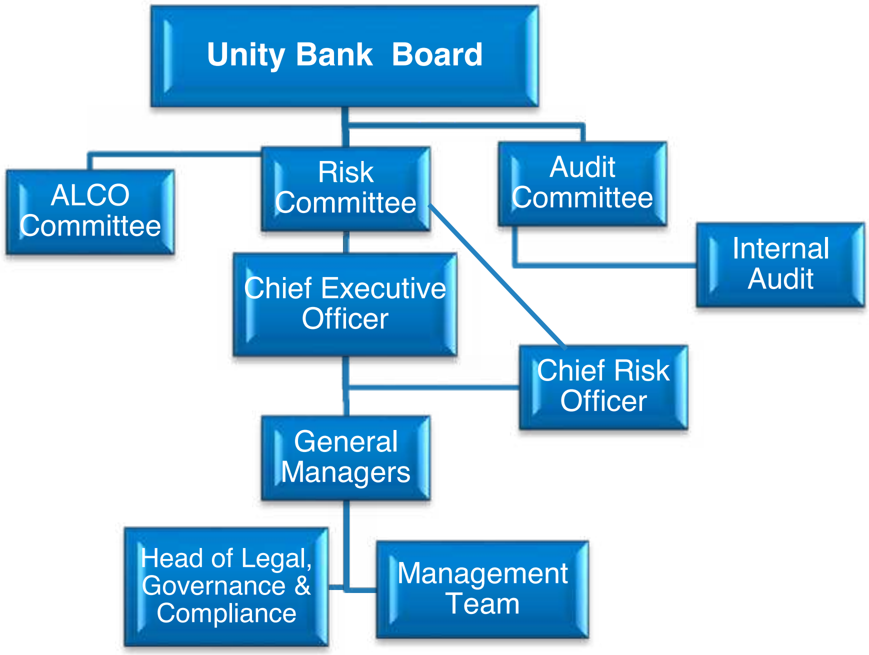
	2019 $'000	2018 $'000
Balance at beginning of the year	1,246	-
Adjustment on adoption of AASB9	22	-
Balance at the end of the year	**1,268**	**-**

28. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Introduction

The Board has endorsed a policy of compliance and risk management to suit the risk profile of the Bank.

The Bank's risk management focuses on the major areas of market risk, credit risk and operational risk. Authority flows from the Board of Directors to the Audit and Risk committees which are integral to the management of risk. The following diagram gives an overview of the structure.



The main elements of risk governance are as follows:

Board: This is the primary governing body. It approves the level of risk which the Bank is exposed to and the framework for reporting and mitigating those risks.

Risk Committee: This is a key body in the control of risk. It has representatives from the Board as well as the Chief Risk Officer and the Head of Legal, Governance and Compliance. The Risk Committee does not form a view on the acceptability of risks but instead reviews risks and controls that are used to mitigate those risks. This includes the identification, assessment and reporting of risks.

The Risk Committee also forms a view of the risk culture within the Bank, and the extent to which that culture supports the ability of the Bank to operate consistently within its risk appetite, identify any desirable changes to the risk culture and ensures the institution takes steps to address those changes.

Regular monitoring is carried out by the Risk Committee through review of operational reports and control assignments to confirm whether risks are within the parameters outlined by the Board.

The Risk Committee carries out a regular review of all operational areas to ensure that operational risks are being properly controlled and reported. It also ensures that contingency plans are in place to achieve business continuity in the event of serious disruptions to business operations.

The Risk Committee monitors compliance with the framework laid out in the policy and reports in turn to the Board, where actual exposures to risks are measured against prescribed limits.

Audit Committee: Its key role in risk management is the assessment of controls that are in place to mitigate risks. The Audit Committee considers and confirms that the significant risks and controls are to be assessed within the internal audit plan. The Audit Committee receives the internal audit reports on assessment and compliance with the controls and provides feedback to the Risk Committee for their consideration.

Asset & Liability Committee (ALCO): This committee meets monthly and has responsibility for managing interest rate risk exposures and ensuring that the treasury and finance functions adhere to exposure limits as outlined in the policies for interest rate GAP.

Chief Risk Officer: This person has responsibility for both liaising with the operational function to ensure timely production of information for the Risk committee and ensuring that instructions passed down from the Board via the Risk Committee are implemented.

Internal Audit: Internal audit has responsibility for implementing the controls testing and assessment as required by the Audit Committee.

Key risk management policies encompassed in the overall risk management framework include:

- Interest rate risk
- Liquidity management
- Credit risk management
- Operations risk management including data risk management.

The Bank has undertaken the following strategies to minimise the risks arising from financial instruments.

A. MARKET RISK AND HEDGING POLICY

The objective of the Bank's market risk management is to manage and control market risk exposures in order to optimise risk and return.

Market risk is the risk that changes in interest rates, foreign exchange rates or other prices and volatilities will have an adverse effect on the Bank's financial condition or results. The Bank is not exposed to currency risk, and other significant price risk. The Bank does not trade in the financial instruments it holds on its books. The Bank is exposed only to interest rate risk arising from changes in market interest rates.

The management of market risk is the responsibility of the ALCO Committee, which reports directly to the Risk Committee.

(i) INTEREST RATE RISK

Interest rate risk is the risk of variability of the fair value or future cash flows arising from financial instruments due to the changes in interest rates.

Most banks are exposed to interest rate risk within their Treasury operations. This Bank does not trade in financial instruments.

Interest rate risk in the banking book

The Bank is exposed to interest rate risk in its banking book due to mismatches between the repricing dates of assets and liabilities. The interest rate risk on the banking book is measured monthly.

In the banking book the most common risk the Bank faces arises from fixed rate assets and liabilities. This exposes the Bank to the risk of sensitivity should interest rates change.

The level of mismatch on the banking book is set out in Note 31 below. The table set out at Note 31 displays the period that each asset and liability will reprice as at the balance date. This risk is not considered significant to warrant the use of derivatives to mitigate this risk.

Method of managing risk

The Bank manages its interest rate risk by the use of interest rate sensitivity analysis. The detail and assumptions used are set out below.

Interest Rate Sensitivity

The Bank's exposure to market risk is measured and monitored using interest rate sensitivity models.

The policy of the Bank to manage the risk is to maintain a balanced 'on book' strategy by ensuring the net interest rate gaps between assets and liabilities are not excessive. The Gap is measured monthly to identify large exposures to interest rate movements and to rectify the excess through targeted fixed rate interest products available through investment assets, and term deposits liabilities to rectify the imbalance to within acceptable levels. The policy of the Bank is not to undertake derivatives to match the interest rate risks. The Bank's exposure to interest rate risk is set out in Note 31which details the contractual interest change profile.

Based on the calculations as at 30 June 2019 the net profit impact for a 1% movement in interest rates would be $3,509,735 [2018: $3,484,730].

The Bank performs a sensitivity analysis to measure market risk exposures.

The method used in determining the sensitivity was to evaluate the profit based on the timing of the interest repricing on the banking book of the Bank for the next 12 months. In doing the calculation the assumptions applied were that:

- the interest rate change would be applied equally over the loan products and term deposits;
- the rate change would be as at the beginning of the 12-month period and no other rate changes would be effective during the period;
- the term deposits would all reprice to the new interest rate at the term maturity, or be replaced by deposit with similar terms and rates applicable;
- savings deposits would not reprice in the event of a rate change;
- fixed rate loans would all reprice to the new interest rate at the contracted date;
- mortgage loans would all reprice to the new interest rate after a 1-month delay;
- personal loans would reprice after a 1-month delay;
- all loans would be repaid in accordance with the current average repayment rate (or contractual repayment terms);
- the value and mix of call savings to term deposits will be unchanged; and
- the value and mix of personal loans to mortgage loans will be unchanged.

There has been no change to the Bank's exposure to market risk or the way the Bank manages and measures market risk in the reporting period.

B. LIQUIDITY RISK

Liquidity risk is the risk that the Bank may encounter difficulties raising funds to meet commitments associated with financial instruments, e.g. borrowing repayments or member withdrawal demands. It is the policy of the Board of Directors that the Bank maintain adequate cash reserves and committed credit facilities so as to meet the member withdrawal demands when requested.

The Bank manages liquidity risk by:

- Continuously monitoring actual daily cash flows and longer term forecasted cash flows;
- Monitoring the maturity profiles of financial assets and liabilities;
- Maintaining adequate reserves, liquidity support facilities and reserve borrowing facilities; and
- Monitoring the prudential liquidity ratio daily.

The Bank has a longstanding arrangement with the industry liquidity support credit union, Credit Union Financial Support Services (CUFSS) which can access industry funds to provide support to the Bank should it be necessary at short notice.

The Bank is required to maintain at least 9% of total adjusted liabilities as liquid assets capable of being converted to cash within 24 hours under the APRA Prudential standards. The Bank policy is to apply 11.0% of funds as liquid assets to maintain adequate funds for meeting member withdrawal requests. The ratio is checked daily. Should the liquidity ratio fall below this level the management and Board are to address the matter and ensure that the liquid funds are obtained from new deposits or borrowing facilities available. Note 34 describes the borrowing facilities as at the balance date. These facilities are in addition to the support from CUFSS.

The maturity profile of the financial assets and financial liabilities based on the contractual repayment terms are set out in the specific Note 30. The ratio of liquid funds over the past year is set out below:

	30-Jun-19	30-Jun-18
	$'000	$'000
Liquid Funds	148,173	131,897
Total Adjusted Liabilities	1,173,502	1,054,406
	%	%
Liquid Ratio (%)	12.63%	12.51%
Prescribed Liquidity % (per policy)	9.00%	9.00%
Average for the year	11.90%	13.50%
Minimum during the year	**11.07%**	**11.83%**

C. CREDIT RISK

Credit risk is the risk that members, financial institutions and other counterparties will be unable to meet their obligations to the Bank which may result in financial losses. Credit risk arises principally from the Bank’s loan book, investment assets and derivative contracts (where applicable).

(i) CREDIT RISK – LOANS

The analysis of the Bank's loans by class, is as follows:

	2019			2018		
	$'000			$'000		
	Carrying Value	Off Balance Sheet	Max Exposure	Carrying Value	Off Balance Sheet	Max Exposure
Loans to Members						
Mortgage	882,348	56,044	938,392	797,306	59,101	856,407
Personal	48,436	85	48,521	46,367	1,698	48,065
Credit Cards	6,977	7,519	14,496	7,102	7,366	14,468
Overdrafts	5,260	27,101	32,361	5,309	25,585	30,894
Total to Natural Persons	**943,021**	**90,749**	**1,033,770**	**856,084**	**93,750**	**949,834**
Corporate Borrowers	18,086	4,936	23,022	22,310	4,547	26,857
Loans to Non-Members	24,226	-	24,226	14,089	-	14,089
Total	**985,333**	**95,685**	**1,081,018**	**892,483**	**98,297**	**990,780**

Carrying value is the value on the statement of financial position. Maximum exposure is the value on the statement of financial position plus the undrawn facilities (loans approved not advanced, redraw facilities, line of credit facilities, overdraft facilities, credit cards limits). The details are shown in Note 35 and a summary is in Note 11.

All loans and facilities are within Australia. The geographic distribution is not analysed into significant areas within Australia as the exposure classes are not considered material. Concentrations are described in Note11.

The method of managing credit risk is by way of strict adherence to the credit assessment policies before the loan is approved, and by close monitoring of defaults in the repayment of loans thereafter on a daily basis. The credit policy has been endorsed by the Board to ensure that loans are only made to members or non-members that are creditworthy (capable of meeting loan repayments).

The Bank has established policies over the:

- Credit assessment and approval of loans and facilities covering acceptable risk assessment and security requirements;
- Limits of acceptable exposure over the value to individual borrowers, non mortgage secured loans, commercial lending and concentrations to geographic and industry groups considered at high risk of default;
- Reassessing and review of the credit exposures on loans and facilities;
- Establishing appropriate provisions to recognise the impairment of loans and facilities;
- Debt recovery procedures; and
- Review of compliance with the above policies.

A regular review of compliance is conducted as part of the internal audit scope.

Past due and impaired

A financial asset is past due when the counterparty has failed to make a payment when contractually due. As an example, a member enters into a lending agreement with the Bank that requires interest and a portion of the principal to be paid every month. On the first day of the next month, if the agreed repayment amount has not been paid, the loan is past due. Past due does not mean that the counterparty will never pay, but it can trigger various actions such as renegotiation, enforcement of covenants, or legal proceedings. Once the past due exceeds 90 days the loans are regarded as impaired, unless other factors indicate the impairment should be recognised sooner.

Daily reports monitor the loan repayments to detect delays in repayments and recovery action is undertaken after 7 days. For loans where repayments are doubtful, external consultants are engaged to conduct recovery action once the loans are over 90 days in arrears. The exposures to losses arise predominantly in the personal loans and facilities not secured by registered mortgages over real estate.

If such evidence exists, the estimated recoverable amount of that asset is determined and any impairment loss, based on the net present value of future anticipated cash flows, is recognised in the income statement. In estimating these cash flows, management makes judgements about the counterparty's financial situation and the net realisable value of any underlying collateral.

In addition to specific provisions against individually significant financial assets, the Bank makes collective assessments for each financial asset portfolio segmented by similar risk characteristics.

Statement of financial position provisions are maintained at a level that management deems sufficient to absorb probable incurred losses in the Bank's loan portfolio from homogenous portfolios of assets and individually identified loans.

A provision for incurred losses is established on all past due loans after a specified period of repayment default where it is probable that some of the capital will not be repaid or recovered. Specific loans and portfolios of assets are provided against depending on a number of factors including deterioration in country risk, changes in a counterparty's industry, and technological developments, as well as identified structural weaknesses or deterioration in cash flows.

The provisions for impaired and past due exposures relate to the loans to members. Past due value is the 'on statement of financial position' loan balances which are past due by 90 days or more.

Details are as set out in Note 12.

Bad debts

Amounts are written off when collection of the loan or advance is considered to be remote. All write offs are on a case by case basis, taking account of the exposure at the date of the write off.

On secured loans, the write off takes place on ultimate realisation of collateral value, or from claims on any lenders mortgage insurance.

A reconciliation in the movement of both past due and impaired exposure provisions is provided in Note 12.

Collateral securing loans

A sizeable portfolio of the loan book is secured on residential property in Australia. Therefore, the Bank is exposed to risks in the reduction of the Loan to Value Ratio (LVR) cover should the property market be subject to a decline.

The risk of losses from the loans undertaken is primarily reduced by the nature and quality of the security taken. Note 11(b) describes the nature and extent of the security held against the loans held as at the balance date.

Concentration risk – individuals

Concentration risk is a measurement of the Bank's exposure to an individual counterparty (or group of related parties). If prudential limits are exceeded as a proportion of the Bank's regulatory capital (10 per cent) a large exposure is considered to exist. No capital is required to be held against these, but the APRA must be informed. APRA may impose additional capital requirements if it considers the aggregate exposure to all loans over the 10% capital benchmark, to be higher than acceptable.

The aggregate value of large exposure loans is set out in Note 11. The Bank holds no significant concentrations of exposures to members. Concentration exposures to counterparties are closely monitored with annual reviews being prepared for all exposures over 5 per cent of the capital base.

The Bank's policy on exposures of this size is to insist on an initial Loan to Valuation ratio (LVR) below 80 per cent and bi-annual reviews of compliance with this policy are conducted.

Concentration risk – industry

The Bank has a concentration in the retail lending for members who comprise employees and family in the maritime, mining and power industries. This concentration is considered acceptable on the basis that the Bank was formed to service these members, and the employment concentration is not exclusive. Should members leave the industry the loans continue, and other employment opportunities are available to the members to facilitate the repayment of the loans. The details of the geographical and industry concentrations are set out in Note 7.

(ii) CREDIT RISK – LIQUID INVESTMENTS

Credit risk is the risk that the other party to a financial instrument will fail to discharge their obligation resulting in the Bank incurring a financial loss. This usually occurs when debtors fail to settle their obligations owing to the Bank.

There is a concentration of credit risk with respect to investment receivables with the placement of investments in CUSCAL and other financial institutions. The credit policy is that investments are only made to institutions that are credit worthy. Directors have established policies that a maximum of 25% of Tier 1 Capital can be invested with any one financial institution at a time.

The risk of losses from the liquid investments undertaken is reduced by the nature and quality of the independent rating of the investment body and the limits to concentration on one Bank. Also, the relative size of the Bank as compared to the industry is relatively low such that the risk of loss is reduced.

Under the liquidity support scheme at least 3.0% of the total assets must be invested in an approved CUFSS Financial Institution, to allow the scheme to have adequate resources to meet its obligations if needed.

The Bank will only invest in Australian Incorporated ADI’s that have been approved by the APRA.

External Credit Assessment for Institution Investments

The Bank uses the ratings of reputable ratings agencies to assess the credit quality of all investment exposure, where applicable, using the credit quality assessment scale in APRA prudential guidance AGN 112. The credit quality assessment scale within this standard has been complied with.

The exposure values associated with each credit quality step are as follows:

	2019			2018		
	$'000			$'000		
Investments With	**Carrying Value**	**Past Due Value**	**Provision**	**Carrying Value**	**Past Due Value**	**Provision**
CUSCAL - Rated A	28,505	-	-	30,980	-	-
Banks - Rated AA and Above	-	-	-	-	-	-
Banks - Rated below AA	181,321	-	-	141,357	-	-
Credit Unions - Rated below AA	-			4,979		
Unrated Institutions - Credit Unions	4,000	-	-	-	-	-
	213,826	**-**	**-**	**177,316**	**-**	**-**

D. OPERATIONAL RISK

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

The Bank’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 polices and systems to monitor the likelihood of the events and minimize the impact. Systems of internal control are enhanced through:

- the segregation of duties between employee duties and functions, including approval and processing duties;
- documentation of the policies and procedures, employee job descriptions and responsibilities, to reduce the incidence of errors and inappropriate behavior;
- implementation of the whistle blowing policies to promote a compliant culture and awareness of the duty to report exceptions by staff;
- education of members to review their account statements and report exceptions to the Bank promptly;
- effective dispute resolution procedures to respond to member complaints;
- effective insurance arrangements to reduce the impact of losses; and
- contingency plans for dealing with the loss of functionality of systems or premises or staff.

Fraud

Fraud can arise from member card pins, and internet passwords being compromised where not protected adequately by the member. It can also arise from other systems failures. The Bank has systems in place which are considered to be robust enough to prevent any material fraud. However, in common with all retail banks, fraud is potentially a real cost to the Bank. Fraud losses have arisen from card skimming, internet password theft and false loan applications.

IT systems

The worst-case scenario would be the failure of the Bank’s core banking and IT network suppliers, to meet customer obligations and service requirements. The Bank has outsourced the IT systems management to an Independent Data Processing Centre (IDPC) which is owned by a collection of Banks and Credit Unions. This organisation has the experience in-house to manage any short-term problems and has a contingency plan to manage any related power or systems failures. Other network suppliers are engaged on behalf of the Bank by the industry body CUSCAL to service the settlements with other financial institutions for direct entry, ATM & Visa cards, and Bpay etc.

A full disaster recovery plan is in place to cover medium to long-term problems which is considered to mitigate the risk to an extent such that there is no need for any further capital to be allocated.

E. CAPITAL MANAGEMENT

The capital levels are prescribed by the Australian Prudential Regulation Authority (APRA). Under the APRA prudential standards capital is determined in three components:

- Credit risk
- Market risk (trading book)
- Operations risk.

The market risk component is not required as the Bank is not engaged in a trading book for financial instruments.

Capital resources

Tier 1 Capital

The vast majority of Tier 1 capital comprises:

- Retained profits
- Realised reserves
- Asset Revaluation Reserves on Property.

Additional Tier 1 Capital

This classification of Capital includes

- Preference share capital approved by the APRA that qualifies as Tier 1 capital.

Tier 2 Capital

Tier 2 capital consists of capital instruments that combine the features of debt and equity in that they are structured as debt instruments, but exhibit some of the loss absorption and funding flexibility features of equity. There are a number of criteria that capital instruments must meet for inclusion in Tier 2 capital resources as set down by the APRA.

Tier 2 capital generally comprises:

- General reserve for Credit Losses
- Tier 2 capital instruments – subordinated loan

Capital in the Bank is made up as follows:

	2019 $'000	2018 $'000
Tier 1 Common Equity		
Asset revaluation reserves on property	4,053	4,053
FVOCI Reserve	1,268	-
Capital Reserve	669	615
General Reserve	2,981	2,981
Retained Earnings	98,307	90,634
	107,278	**98,283**
Less Prescribed Deductions	(8,246)	(6,096)
Net Tier 1 Common Equity	**99,032**	**92,187**
Tier 1 Additional Equity		
Additional Tier 1 Capital instruments	-	-
	-	**-**
Less Prescribed Deductions / adjustments	(202)	(202)
Net Tier 1 Additional Equity	**(202)**	**(202)**
Total Tier 1 Capital	**98,830**	**91,985**
Tier 2 Capital		
Subordinated Debt	-	-
Reserve for Credit Losses	2,779	2,663
	2,779	2,663
Less Prescribed Deductions	-	-
Net Tier 2 Capital	**2,779**	**2,663**
Total Capital	**101,609**	**94,648**

The Bank's policy is to maintain a capital level of 14.5% as compared to the risk weighted assets at any given time.

The risk weights attached to each asset are based on the weights prescribed by the APRA in its Guidance AGN 112-1. The general rules apply the risk weights according to the level of underlying security.

The capital ratio as at the end of the financial year over the past 5 years is as follows:

2019	2018	2017	2016	2015
Basel III	**Basel III**	**Basel III**	**Basel III**	**Basel III**
16.50%	**17.11%**	**17.52%**	**17.37%**	**18.72%**

The level of capital ratio can be affected by growth in assets relative to growth in reserves and by changes in the mix of assets.

To manage the Bank's capital the Bank reviews the ratio monthly and monitors major movements in the asset levels. Policies have been implemented to require reporting to the Board and the regulator if the capital ratio falls below 12.5%. Further, a 5-year capital budget projection of the capital levels is maintained annually to address how strategic decisions or trends may impact on the capital level.

Pillar 2 Capital on Operational Risk

This capital component was introduced as from the 1st of January 2012 and coincided with changes in the asset risk weightings for specified loans and liquid investments. Previously no operational charge was prescribed.

The Bank uses the Standardised approach which is considered to be most suitable for its business given the small number of distinct transaction streams. The Operational Risk Capital requirement is calculated by mapping the Bank's three-year average net interest income and net non-interest income to the Bank's various business lines.

Based on this approach, the Bank's operational risk requirement is as follows:

- Operational risk capital $5,284,547 [2018 - $4,995,093]

It is considered that the Standardised approach accurately reflects the Bank's operational risk other than for the specific items set out below.

Internal Capital Adequacy Management

The Bank manages its internal capital levels for both current and future activities through a combination of the various committees. The outputs of the individual committees are reviewed by the Board in its capacity as the primary governing body. The capital required for any change in the Bank's forecasts for asset growth, or unforeseen circumstances, are assessed by the Board. The finance department then update the forecast capital resources models produced and the impact upon the overall capital position of the Bank is reassessed.

In relation to the operational risks, the major measurement for additional capital are recognised by the monitoring and stress testing for:

1. Asset impairment – the impact of economic and employment factors on the loan losses, and/or recovery of investments.
2. Property Value Decline – the impact on property values declining and the related exposure to higher capital required to recognise potential losses or risk weight on assets.
3. Interest rate risk – measures the impact on capital from changes in interest rates impacting the net interest margin and net surplus.
4. Events impacting on additional costs of retention of liquid funds and exercising available liquidity drawdown facilities.

29. CATEGORIES OF FINANCIAL INSTRUMENTS

The following information classifies the financial instruments into measurement classes.

	Note	2019 $'000	2018 $'000
Financial Assets			
Cash	8	20,231	15,287
Liquid investments	14	195,047	163,257
Receivables	10	1,212	1,204
Loans to members	11 & 12	961,107	878,394
Other loans	13	24,226	14,089
Total carried at amortised cost		**1,201,823**	**1,072,231**
AFS Equity investments - carried at cost	14	-	4,449
Total carried at Cost		**-**	**4,449**
Equity investments - carried at FVOCI	14	6,475	-
Total carried at FVOCI		**6,475**	**-**
TOTAL FINANCIAL ASSETS		**1,208,298**	**1,076,680**
Financial Liabilities			
Creditors		7,677	7,073
Deposits from other institutions	18	25,000	-
Deposits from members	19	1,073,067	977,658
Total carried at amortised cost		**1,105,744**	**984,731**
Fair value through profit and loss			
Derivatives		-	-
TOTAL FINANCIAL LIABILITIES		**1,105,744**	**984,731**

30. MATURITY PROFILE OF FINANCIAL ASSETS AND LIABILITIES

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 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 and is subject to change in the event that current repayment conditions are varied. Financial assets and liabilities are at the undiscounted values (including future interest expected to be earned or paid). Accordingly, these values will not agree to the statement of financial position.

2019	Balance Sheet	Up to 3 Months	3 - 12 Months	1 - 5 Years	After 5 Years	No Maturity	Total Cash Flows
ASSETS	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Cash	20,231	20,245	-	-	-	-	20,245
Receivables	1,212	1,212	-	-	-	-	1,212
Liquid investments	195,047	55,550	100,069	42,687	-	-	198,306
Loans to members	961,107	20,256	57,844	277,061	1,060,901	-	1,416,062
Loans to non-members	24,226	233	332	32,321	2,336	-	35,221
Equity investments - FVOCI	6,475	-	-	-	-	6,475	6,475
On Balance Sheet	**1,208,298**	**97,496**	**158,245**	**352,069**	**1,063,237**	**6,475**	**1,677,521**
Total Financial Assets	**1,208,298**	**97,496**	**158,245**	**352,069**	**1,063,237**	**6,475**	**1,677,521**
LIABILITIES							
Creditors	7,677	7,677	-	-	-	-	7,677
Deposits from financial institutions	25,000	15,049	10,075	-	-	-	25,124
Member withdrawable shares	411	-	-	-	-	411	411
Deposits from members - at call	501,673	501,673	-	-	-	-	501,673
Deposits from members - term	570,983	221,138	341,967	14,234	-	-	577,339
Long term borrowings	-	-	-	-		-	-
On Balance Sheet	**1,105,744**	**745,537**	**352,042**	**14,234**	**-**	**411**	**1,112,224**
Undrawn loan commitments	-	95,685	-	-	-	-	95,685
Total Financial Liabilities	**1,105,744**	**841,222**	**352,042**	**14,234**	**-**	**411**	**1,207,909**

2018	Balance Sheet	Up to 3 Months	3 - 12 Months	1 - 5 Years	After 5 Years	No Maturity	Total Cash Flows
ASSETS	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Cash	15,287	15,297	-	-	-	-	15,297
Receivables	1,204	1,204	-	-	-	-	1,204
Liquid investments	163,257	37,122	58,723	73,248	-	-	169,093
Loans to members	878,394	18,713	53,465	254,549	979,640	-	1,306,367
Loans to non-members	14,089	625	357	19,852	307	-	21,141
AFS Equity investments	4,449	-	-	-	-	4,449	4,449
On Balance Sheet	**1,076,680**	**72,961**	**112,545**	**347,649**	**979,947**	**4,449**	**1,517,551**
Total Financial Assets	**1,076,680**	**72,961**	**112,545**	**347,649**	**979,947**	**4,449**	**1,517,551**
LIABILITIES							
Creditors	7,073	7,073	-	-	-	-	7,073
Deposits from financial institutions	-	-	-	-	-	-	-
Member withdrawable shares	398	-	-	-	-	398	398
Deposits from members - at call	471,787	471,787	-	-	-	-	471,787
Deposits from members - term	505,473	231,418	287,776	8,170	-	-	527,364
On Balance Sheet	**984,731**	**710,278**	**287,776**	**8,170**	**-**	**398**	**1,006,622**
Undrawn loan commitments	-	98,297	-	-	-	-	98,297
Total Financial Liabilities	**984,731**	**808,575**	**287,776**	**8,170**	**-**	**398**	**1,104,919**

The table below represents the above maturity profile summarised at discounted values. The contractual arrangements best represents the estimated minimum amount of repayment on the loans, liquid investments and on the member deposits within 12 months. While the liquid investments and member deposits are presented in the table below on a contractual basis, as part of our normal banking operations we would expect a large proportion of these balances to roll over. Loan repayments are generally accelerated by members choosing to repay loans earlier. These advance repayments are at the discretion of the members and are not able to be reliably estimated.

The table below represents the assets and liabilities due to be received and paid within 12 months based on the contractual repayment terms on each instrument. These amounts are excluding of the future interest receivable and payable as it represented in the previous table.

	2019			2018		
	Within 12 months $'000	**After 12 months $'000**	**Total**	**Within 12 months $'000**	**After 12 months $'000**	**Total**
ASSETS						
Cash	20,231	-	20,231	15,287	-	15,287
Receivables	1,212	-	1,212	1,204	-	1,204
Liquid investments	154,429	40,618	195,047	95,072	68,185	163,257
Loans to members	79,349	881,758	961,107	43,944	834,450	878,394
Loans to non-members	444	23,782	24,226	909	13,180	14,089
AFS Equity Investments	-	-	-	-	4,449	4,449
Equity investments - FVOCI	-	6,475	6,475	-	-	-
On Balance Sheet	**255,665**	**952,633**	**1,208,298**	**156,416**	**920,264**	**1,076,680**
Total Financial Assets	**255,665**	**952,633**	**1,208,298**	**156,416**	**920,264**	**1,076,680**
LIABILITIES						
Creditors	7,677	-	7,677	7,073	-	7,073
Deposits from financial institutions	25,000	-	25,000	-	-	-
Member withdrawable shares	-	411	411	-	398	398
Deposits from members - at call	501,673	-	501,673	471,787	-	471,787
Deposits from members - term	530,457	40,526	570,983	497,911	7,562	505,473
Total Financial Liabilities	**1,064,807**	**40,937**	**1,105,744**	**976,771**	**7,960**	**984,731**

31. INTEREST RATE CHANGE PROFILE OF FINANCIAL ASSETS AND LIABILITIES

Financial assets and liabilities have conditions which allow interest rates to be amended either on maturity (term deposits and term investments) or after adequate notice is given (loans and savings). The table below shows the respective value of funds where interest rates are capable of being altered within the prescribed time bands, being the earlier of the contractual repricing date, or maturity date.

2019	0 - 3 Months	3 - 12 Months	1 - 5 Years	After 5 Years	Non Interest Bearing	Total
ASSETS	$'000	$'000	$'000	$'000	$'000	$'000
Cash	18,780	-	-	-	1,451	20,231
Receivables	-	-	-	-	1,212	1,212
Liquid investments	139,739	55,308	-	-	-	195,047
Loans to members	789,765	31,842	136,923	2,577	-	961,107
Loans to non-members	24,226	-	-	-	-	24,226
Equity Investments - FVOCI	-	-	-	-	6,475	6,475
On Balance Sheet	**972,510**	**87,150**	**136,923**	**2,577**	**9,138**	**1,208,298**
Total Financial Assets	**972,510**	**87,150**	**136,923**	**2,577**	**9,138**	**1,208,298**
LIABILITIES						
Creditors	-	-	-	-	7,677	7,677
Deposits from financial institutions	15,000	10,000	-	-	-	25,000
Deposits from members	560,114	385,016	127,525	-	412	1,073,067
On Balance Sheet	**575,114**	**395,016**	**127,525**	**-**	**8,089**	**1,105,744**
Undrawn loan commitments	95,685	-	-	-	-	95,685
Total Financial Liabilities	**670,799**	**395,016**	**127,525**	**-**	**8,089**	**1,201,429**

2018	0 - 3 Months	3 - 12 Months	1 - 5 Years	After 5 Years	Non Interest Bearing	Total
ASSETS	$'000	$'000	$'000	$'000	$'000	$'000
Cash	14,059	-	-	-	1,228	15,287
Receivables	-	-	-	-	1,204	1,204
Liquid investments	140,846	22,411	-	-	-	163,257
Loans to members	713,787	39,119	125,488		-	878,394
Loans to non-members	14,089	-	-	-	-	14,089
AFS Equity investments	-	-	-	-	4,449	4,449
On Balance Sheet	**882,781**	**61,530**	**125,488**		**6,881**	**1,076,680**
Total Financial Assets	**882,781**	**61,530**	**125,488**		**6,881**	**1,076,680**
LIABILITIES						
Creditors	-	-	-	-	7,073	7,073
Deposits from financial institutions	-	-	-	-	-	-
Deposits from members	535,290	321,808	120,162	-	398	977,658
On Balance Sheet	**535,290**	**321,808**	**120,162**	**-**	**7,471**	**984,731**
Undrawn loan commitments	98,297	-	-	-	-	98,297
Total Financial Liabilities	**633,587**	**321,808**	**120,162**	**-**	**7,471**	**1,083,028**

32. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

Fair value has been determined on the basis of the present value of **expected future cash flows** under the terms and conditions of each financial asset and financial liability. Significant assumptions used in determining the cash flows are that the cash flows will be consistent with the contracted cash flows under the respective contracts. The calculation reflects the interest rate applicable for the remaining term to maturity not the rate applicable to original term.

The information is only relevant to circumstances at balance date and will vary depending on the contractual rates applied to each asset and liability, relative to market rates and conditions at the time. No assets are held, that are regularly traded by the Bank, and there is no active market to assess the value of the financial assets and liabilities. The values reported have not been adjusted for any changes in the credit ratings of these assets.

	2019			2018		
	Fair Value $'000	Carrying Value $'000	Variance $'000	Fair Value $'000	Carrying Value $'000	Variance $'000
FINANCIAL ASSETS						
Cash	20,231	20,231	-	15,287	15,287	-
Receivables	1,212	1,212	-	1,204	1,204	-
Liquid investments	195,303	195,047	256	164,074	163,257	817
Loans to members	960,842	961,107	(265)	878,610	878,394	216
Loans to non-members	24,226	24,226	-	14,089	14,089	-
AFS Equity Investments	-	-	-	4,449	4,449	-
Equity investments - FVOCI	6,475	6,475	-	-	-	-
Total Financial Assets	**1,208,289**	**1,208,298**	**(9)**	**1,077,713**	**1,076,680**	**1,033**
FINANCIAL LIABILITIES						
Creditors	7,677	7,677	-	7,073	7,073	-
Deposits from financial institutions	25,005	25,000	5	-	-	-
Member withdrawable shares	411	411	-	398	398	-
Deposits from members - at call	501,673	501,673	-	471,787	471,787	-
Deposits from members - term	571,457	570,983	474	505,302	505,473	(171)
Total Financial Liabilities	**1,106,223**	**1,105,744**	**479**	**984,560**	**984,731**	**(171)**

Assets where the fair value is lower than the book value have not been written down in the accounts of the Bank on the basis that they are to be held to maturity, or in the case of loans, all amounts due are expected to be recovered in full.

The fair value estimates were determined by the following methodologies and assumptions.

Liquid assets and receivables from other financial institutions

The carrying values of cash and liquid assets and receivables due from other financial institutions redeemable within 12 months approximate their fair value as they are short term in nature or are receivable on demand.

Loans and advances

The carrying value of loans and advances is net of unearned income and both general and specific provisions for doubtful debts.

For variable rate loans, (excluding impaired loans) the amount shown in the statement of financial position is considered to be a reasonable estimate of fair value. The fair value for fixed rate loans is calculated by utilising discounted cash flow models (i.e. the net present value of the portfolio future principal and interest cash flows), based on the period to maturity of the loans. The discount rates applied were based on the current applicable rate offered for the average remaining term of the portfolio.

The rates applied to give effect to the discount of the cash flows were between 3.89% and 4.29% (2018–3.99% to 4.53%).The fair value of impaired loans was calculated by discounting expected cash flows using a rate which includes a premium for the uncertainty of the flows.

Deposits from members

The fair value of call and variable rate deposits, and fixed rate deposits repricing within 12 months, is the amount shown in the statement of financial position. Discounted cash flows were used to calculate the fair value of other term deposits, based upon the deposit type and the rate applicable to its related period maturity.

The rate applied to give effect to the discount of the cash flows was 2.35% [2018–2.70%].

Short term borrowings

The carrying value of payables due to other financial institutions approximate their fair value as they are short term in nature and reprice frequently.

33. FINANCIAL COMMITMENTS

	2019 $'000	2018 $'000
(a) Outstanding loan commitments		
The loans approved but not funded	21,454	27,109
(b) Loan Redraw Facilities		
The loan redraw facilities available	39,568	38,244
(c) Undrawn Loan Facilities		
Loan facilities available to members for overdrafts are as follows:		
Total value of facilities approved	58,967	59,409
Less: Amount advanced	(24,304)	(26,465)
Net Undrawn Value	**34,663**	**32,944**
These commitments are contingent on members maintaining credit standards and ongoing repayment terms on amounts drawn		
Total Financial Commitment	**95,685**	**98,297**

	2019 $000's	2018 $000's
(d) Computer capital commitments		
The costs committed under contract with Ultradata are as follows:		
Not later than one year	1,504	1,414
Later than 1 year but not 2 years	1,504	1,414
Later than 2 years but not 5 years	329	2,026
Later than 5 years	-	233
	3,337	**5,087**
(e) Lease expense commitments for operating leases on property occupied by the Bank		
Not later than one year	855	860
Later than 1 year but not 5 years	1,744	2,430
Later than 5 years	69	67
	2,668	**3,357**

The operating leases are in respect of property used for providing administration accommodation and branch services to members. There are no contingent rentals applicable to leases taken out. The terms of the leases are for between 2 to 10 years and options for renewal are usually obtained for further periods. There are no restrictions imposed on the Bank so as to limit the ability to undertake further leases, borrow funds or issue dividends.

	2019 $000's	2018 $000's
(f) Other expense commitments		
Not later than one year	679	706
Later than 1 year but not 2 years	510	701
Later than 2 years but not 5 years	-	526
Later than 5 years	-	-
	1,189	**1,933**
(g) Future capital commitments		
The Bank has entered into contracts for the purchase of assets for which the amounts are to be paid over the following periods:		
Not later than one year	215	97
Later than 1 year but not 2 years	-	-
Later than 2 years but not 5 years	-	-
Later than 5 years	-	-
	215	**97**

34. STANDBY BORROWING FACILITIES

The Bank has a borrowing facility with Credit Union Services Corporation (Australia) Limited (CUSCAL) of:

2019	Gross	Current Borrowing	Net Available
	$'000	$'000	$'000
Loan Facility	-	-	-
Overdraft Facility	10,000	-	10,000
Total Standby Borrowing Facilities	**10,000**	**-**	**10,000**

2018	Gross	Current Borrowing	Net Available
	$'000	$'000	$'000
Loan Facility	-	-	-
Overdraft Facility	10,000	-	10,000
Total Standby Borrowing Facilities	**10,000**	**-**	**10,000**

Withdrawal of the loan facility is subject to the availability of funds at CUSCAL.

35. CONTINGENT LIABILITIES

Liquidity support scheme

The Bank is a member of the Credit Union Financial Support Scheme Limited (CUFSS) a Company limited by guarantee, established to provide financial support to member Banks in the event of a liquidity or capital problem. As a member, the Bank is committed to maintaining 3.0% of the total assets as deposits with an approved CUFSS financial institution.

Under the terms of the Industry Support Contract (ISC), the maximum call for each participating Bank would be 3.0% of the Bank's total assets. This amount represents the participating Bank's irrevocable commitment under the ISC. At the balance date there were no loans issued under this arrangement.

Reserve Bank Repurchase Obligations (REPO) Trust

To support the liquidity management the Bank has entered into an agreement to maintain a portion of the mortgage backed loans as security against any future borrowings from the Reserve Bank as a part of the Bank’s liquidity support arrangements.

36. DISCLOSURES ON DIRECTORS AND OTHER KEY MANAGEMENT PERSONNEL

(a) Remuneration of key management persons [KMP]

Key management persons are those persons having authority and responsibility for planning, directing and controlling the activities of the Bank, directly or indirectly, including any Director (whether executive or otherwise) of that Bank. *Control* is the power to govern the financial and operating policies of a Bank so as to obtain benefits from its activities.

Key management persons (KMP) have been taken to comprise the Directors and the 5 [2018: 5]members of the executive management responsible for the day to day financial and operational management of the Bank.

The aggregate Compensation of **key management persons** during the year comprising amounts paid or payable or provided for was as follows:

(a) Remuneration of Key Management Personnel

	2019 $'000	2018 $'000
(i) Short term employee benefits	1,948	1,900
(ii) post-employment benefits - super contributions	170	163
(iii) other long term benefits - net increase in LSL provision	40	53
(iv) termination benefits	-	-
(v) shared-based payments	-	-
Total	**2,158**	**2,116**

In the above table, remuneration shown as short-term benefits means (where applicable) wages, salaries and social security contributions, paid annual leave and paid sick leave, profit-sharing and bonuses, value of fringe benefits received, but excludes out of pocket expense reimbursements.

All remuneration to Directors was approved by the members at a previous Annual General Meeting of the Bank.

(b) Loans to Directors and other Key Management Persons

	2019 $'000			2018 $'000		
	Mortgage Secured	Other term loans	Credit cards	Mortgage Secured	Other term loans	Credit cards
(i) Funds available to be drawn	4	193	199	34	10	190
(ii) Balance	3,584	10	528	5,141	60	567
(iii) Value of Loans Disbursed During the Year	670	-	-	2,421	15	-
(iv) Value of Revolving Credit Facilities Granted	-	-	-	-	-	-
(v) Interest & Other Revenue earned on Loans & Revolving Credit	107	49	23	177	18	21

(c) Total Value of Term and Savings Deposits from KMP

	2019 $'000	2018 $'000
Total value term and savings deposits from KMP	742	694
Total interest paid on deposits to KMP	7	6

The Bank’s policy for lending to Directors and management is that all loans are approved and deposits accepted on the same terms and conditions which applied to members for each class of loan or deposit.

There are no loans which are impaired in relation to the loan balances with Directors or other KMP’s.

There are no benefits or concessional terms and conditions applicable to the close family of members of the key management persons (KMP). There are no loans which are impaired in relation to the loan of close family members of Directors and other KMP’s.

(d) Transactions with Other Related Parties

Other transactions between related parties include deposits from Director related entities or close family members of Directors and other KMP.

The Bank’s policy for receiving deposits from related parties is that all transactions are approved, and deposits accepted on the same terms and conditions which applied to members for each type of deposit.

There are no benefits paid or payable to the close family members of the key management persons. There are no service contracts to which key management persons or their close family members are an interested party.

37. OUTSOURCING ARRANGEMENTS

The Bank has arrangements with other organisations to facilitate the supply of services to members.

(a) CUSCAL Limited

CUSCAL is an Approved Deposit Taking Institution registered under the Corporations Act 2001 and the Banking Act. The Bank has equity in the company. This organisation:

(i) provides the license rights to Visa Card in Australia and settlement other institutions for ATM, Visa card and cheque transactions, direct entry transactions, as well as the production of Visa and Redicards for use by members;

(ii) operates the computer network used to link Redicards and Visa cards operated through Reditellers and other approved ATM providers to Bank's EDP Systems.

(iii) provides treasury and money market facilities to the Bank. The Bank invests a significant part of its liquid assets with the CUSCAL to maximise return on funds, and to comply with the Liquidity Support Scheme requirements.

The valuation of the Cuscal shares is based on the net assets backing as at the most recent financial report to recognise the company is not readily marketable, except within the current ADI membership of Cuscal. Refer Note 14 for details on the fair value assessment.

(b) Ultradata Australia Pty Limited

Provides and maintains the application software utilised by the Bank.

(c) Transaction Solutions Pty Limited

This organisation operates the computer facility on behalf of the Bank in conjunction with other Banks and Credit Unions. The Bank has a management contract with the company to supply computer support staff and services to meet the day to day needs of the Bank and compliance with the relevant Prudential Standards.

38. SUPERANNUATION LIABILITIES

The Bank contributes to various superannuation providers for the purpose of superannuation guarantee payments and payment of other superannuation benefits on behalf of employees. The providers are administered by independent corporate trustees.

The Bank has no interest in any of the superannuation providers (other than as a contributor) and is not liable for the performance of the plan, or the obligations of the plan.

39. TRANSFER OF FINANCIAL ASSETS

The Bank has established arrangements for the transfer of loan contractual benefits of interest and repayments to support ongoing liquidity facilities. These arrangements include

i. The Waterside Trust No.1 - Repurchase obligation (REPO) trust for securing the ability to obtain liquid funds from the Reserve Bank – these loans are not de-recognised as the Bank retains the benefits of the trust until such time as a drawing is required.
ii. The Integris securitisation trust where the Bank acts as agent for the trust in arranging loans on behalf of Integris, and/or can transfer the contractual rights to the trust of pre-existing loans at market value.

Only residential mortgage-backed securities (RMBS) that meet specified criteria, are eligible to be transferred in each of the above situations.

(a) Securitised loans retained on the balance sheet

The values of securitised loans which are not qualifying for de-recognition as the conditions do not meet the criteria in the accounting standards are set out below. In each case the loans are variable interest rate loans, hence the book value of the loans transferred equates to the fair value of those loans. The associated liabilities are equivalent to the book value of the loans reported.

Waterside Trust No.1 - Repurchase Obligations REPO Trust

The Waterside Trust No.1 is a trust established by the Bank to facilitate the liquidity requirements under the prudential standards. The trust has an independent trustee. In the case of the REPO Trust the Bank receives a Note certificate to sell to the Reserve Bank should the liquidity needs not be satisfied by normal operational liquidity. The Note is secured over residential mortgage-backed securities (RMBS).

The Bank has financed the loans and received the net gains or losses from the trust after trustee expenses. The Bank 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 Bank retains the credit risk of losses arising from loan default or security decline, and the interest rate risk from movements in market interest rates.

(a) Securitised Loans on the Balance Sheet	**2019 $'000**	**2018 $'000**
Balance sheet values - Loans and receivables		
Waterside Trust No.1	130,941	173,052
Carrying amount of loans at time of transfer		
Waterside Trust No.1	97,158	97,158

(b) Securitised loans not on the balance sheet - Derecognised in their entirety

A number of Securitised loans qualify for de-recognition as they do not meet the criteria in the accounting standards. In each case the loans are variable interest rate loans, hence the book value of the loans transferred equates to the fair value of those loans. The associated liabilities are equivalent to the book value of the loans reported.

The values of above securitised loans qualify for de-recognition as they meet the criteria in accounting standard AASB 139, where the Bank assumes the contractual obligation to pay all cash flows it received on the loans to the trust, but receives no benefit from the net gains or losses in the trust.

Integris Securitisation Services Pty Limited

The Integris securitisation trust is an independent securitisation vehicle established by Cuscal.

The Bank has an arrangement with Integris Securitisation Services Pty Limited to manage the loans portfolio on behalf of the trust. The Bank bears no risk exposure in respect of these loans. The Bank receives a management fee to recover the costs of on-going administration of the processing of the loan repayments and the issue of statements to the members.

In addition, the Bank was able to assign mortgage secured loans to Integris at the book value of the loans, subject to acceptable documentation criteria. During the year the Bank did not assign any loans to Integris. All loans qualify for de-recognition on the basis that the assignment transfers all the risks and rewards to Integris and there are no residual benefits to the Bank.

The Bank receives a management fee to recover the costs of on-going administration of the processing of the loan repayments and the issue of statements to the members.

(b) Securitised Loans not on the Balance Sheet	**2019 $'000**	**2018 $'000**
Balance sheet values - Loans and receivables		
Integris Securitisation Trust	-	99
Net Income received from continuing involvement		
Integris Securitisation Trust	1	2

40. NOTES TO CASH FLOW STATEMENT

(a) Reconciliation of cash

Cash includes cash on hand, and deposits at call with other financial institutions and comprises:

	2019 $'000	2018 $'000
Cash on Hand	1,452	1,228
Deposits at call	18,779	14,059
Bank Overdraft	-	-
	20,231	**15,287**

(b) Reconciliation of cash from operations to accounting profit

The net cash increase/(decrease) from operating activities is reconciled to the profit after tax.

	2019 $'000	2018 $'000
Profit after income tax	4,250	4,151
Add (Deduct):		
Bad debts written off and provided for	1,418	1,488
Depreciation expense	1,699	1,636
Amortisation of borrowing costs	-	-
Increase in provision for staff leave	209	40
Increase/(Decrease) in provision for income tax	838	142
Increase/(Decrease) in other provisions	133	(2,903)
Increase in accrued expenses	(301)	(254)
(Decrease)/Increase in interest payable	546	733
Gain on sale of assets	(40)	(21)
(Increase)/Decrease in prepayments	72	(20)
(Increase)/Decrease in deferred tax assets	543	801
Gain on disposal of investments	-	-
Decreases (increases) in interest receivable	106	(1)
Decreases (increases) in other receivables	213	82
Net cash from operating activities	**9,687**	**5,874**

41. TRANSFER OF BUSINESS

The Bank accepted a transfer of business from Central Coast Credit Union Limited effective on the 1st of December 2018.

The shares in the above Credit Union were redeemed and replaced with Unity Bank shares.

The primary reason for the transfer was detailed in the information pack issued to members, which was to consolidate the mutual interests of the entities into an organisation better capable of withstanding the economic pressures and regulatory requirements.

There was no goodwill which arises in the transfer as Central Coast Credit Union Limited had surplus net assets in excess of the value of the shares issued by Unity Bank Limited.

The cost to Unity Bank Limited was represented by the issue of the following number of shares to the members of the transferring Credit Union:

Central Coast Credit Union Limited 2,385 shares

While the fair value of the shares on a winding up may exceed the withdrawable value, the members of the transferring institution are only entitled to the withdrawable value of the shares. The value of the shares issued was increased from $2.00 to $10.00 per share in line with Unity Bank shares and are therefore at a new withdrawable value of $23,850 in aggregate.

Other prescribed disclosures are as follows:

(a) There are no contingent considerations or indemnification assets.

(b) The amounts recognised as of the acquisition dates for each major class of assets acquired and liabilities assumed, are as follows:

	Central Coast Credit Union Ltd			
	Gross Contractual Amounts Receivable	**Fair Value Adjustment**	**Provision for Impairment**	**Net Amounts Received**
	$'000			
ASSETS				
Cash	3,895	-	-	3,895
Receivables from ADI's	11,701	-	-	11,701
Loans to members	25,213	16	-	25,228
Other receivables	173	-	-	173
Fixed assets	11	-	-	11
Equity investments	90	-	-	90
Intangible assets	-	-	-	-
Deferred tax assets	40	-	-	40
Total Assets	**41,123**	**16**	**-**	**41,139**
LIABILITIES				
Member deposits	36,351	-	-	36,351
Staff leave provisions	316	-	-	316
Creditors and accruals	510	134	-	644
Other provisions	-	-	-	-
Taxation liabilities	-	3	-	3
Total Liabilities	**37,177**	**137**	**-**	**37,314**
Net Assets	**3,946**	**(121)**	**-**	**3,825**

(c) Contingent liabilities – there are no contingent liabilities.

(d) The following key transactions are recognised separately from the acquisitions of assets and liabilities and assumption of liabilities in the business combination.

(e) Cost of the acquisitions expensed as per AASB3 comprised

Description	**Central Coast Credit Union Ltd $'000**
Professional due diligence and legal costs	7
Acquisition related costs	134
Total Direct Costs	**141**

These costs were incurred in the 2018/2019 financial year and form part of the 'Other Operating Costs' of the Bank.

(f) There are no costs of the acquisitions incurred but not expensed.

(g) Post-Acquisition Performance

Since the transfers the revenue and expenses have been absorbed into the revenue and expenses of the Bank as a whole and are not separated as a separate business unit. That was done to allow the economies of scale to maximise the benefits to members and to recognise that the assets and liabilities acquired are not separable from the combined Bank.

Accordingly, the amounts of revenue and profit and loss of the acquiree since the acquisition date included in the consolidated statement of comprehensive income for the reporting period are not available.

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42. CORPORATE INFORMATION

The Bank is a company limited by shares and is registered under the Corporations Act 2001.

The address of the registered office is:	Level 7, 215-217 Clarence Street, Sydney NSW 2000
The address for the principal place of business is:	Level 7, 215-217 Clarence Street, Sydney NSW 2000

The natures of the operations and its principal activities are the provision of deposit taking facilities and loan facilities to the members of the Bank.

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your bank at work

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