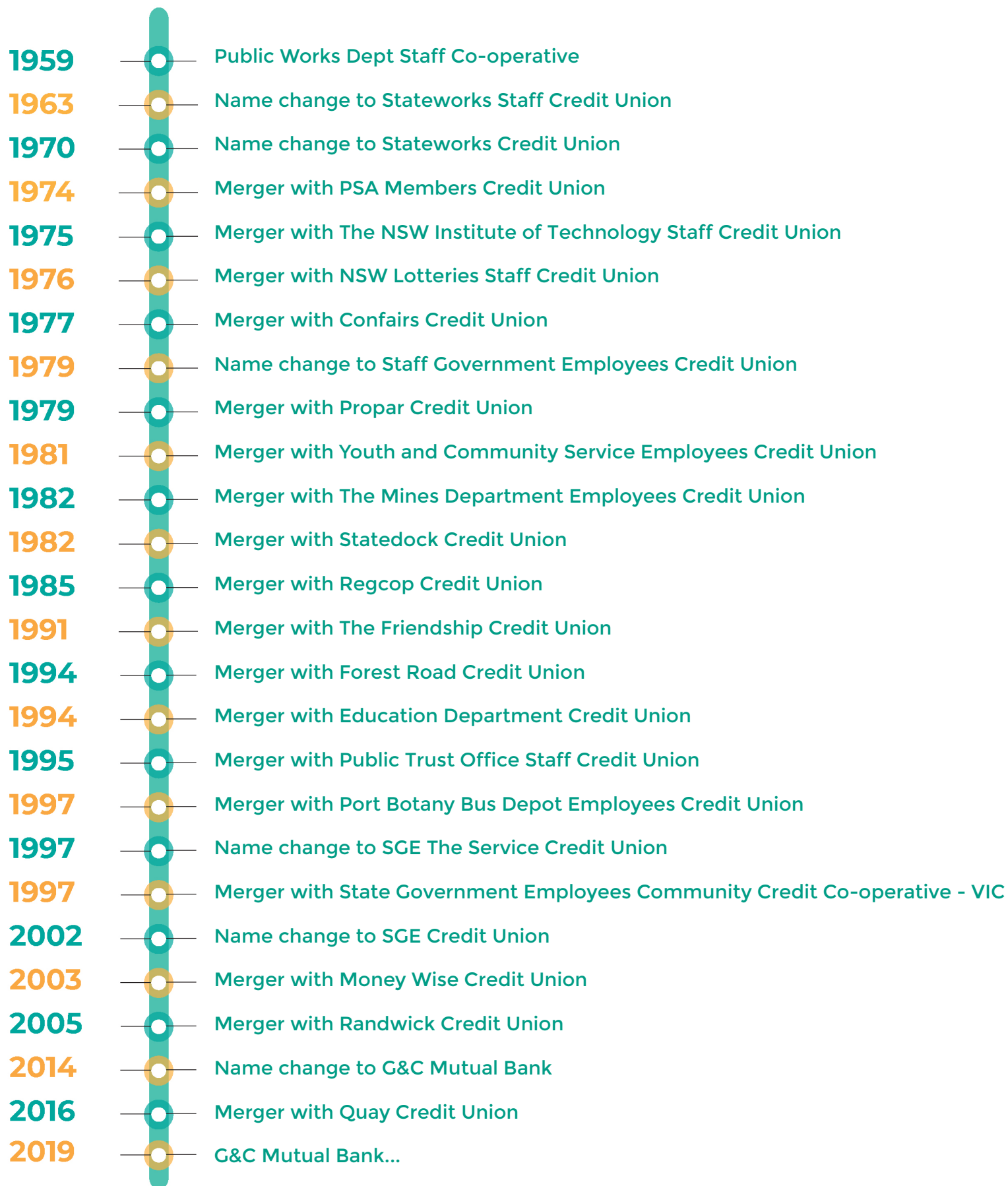


# CELEBRATING SIXTY YEARS



1959  
-  
2019



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## Our Values

At G&C Mutual Bank, our culture is underpinned by our values.  
We strive to live these values in all aspects of our work.

### Member Service



We will provide service excellence through every member contact, by truly understanding our members' needs. We put our members at the centre of everything we do.

### Continuous Improvement



We will continuously evaluate our actions in order to improve the quality of our member service.

### Teamwork



We will work collaboratively at all times, developing and maintaining productive working relationships based on mutual respect.

### Performance



We will ensure excellence in performance to realise our strategic objectives for the benefit of our members.

### Integrity



We will act with integrity, honesty and transparency in all things – with our members, our partners and each other.

# Chair & CEO Update

## A Year of Innovation & Performance



**Julian Kennelly**  
Chair

**Dave Taylor**  
CEO

Following the completion and successful integration of the Quay Credit Union merger in the prior financial year, G&C Mutual Bank's priority throughout 2017/18 has been to enhance our products and services, especially by ensuring that G&C members would be among the first to benefit from the New Payments Platform (NPP). The past year also saw G&C build further on growth opportunities and efficiencies arising from the Quay merger and other aggregation initiatives which together helped deliver G&C's exceptional financial performance - with a 33% increase in pre-tax profit, total assets finishing the year at \$1.121 billion, member equity reaching \$104.76 million, and solid growth across all major business lines.

*"The NPP is designed to revolutionise payment services in Australia by ultimately enabling all bill payments and payment transfers to occur in real time."*

The NPP is designed to revolutionise payment services in Australia by ultimately enabling **all** bill payments and payment transfers to occur in real time. After the completion of a complex 24 month development project, G&C Mutual Bank successfully delivered these new payment services by the industry-wide launch date in February 2018, with members able to register a "PayID" and make real time payment transfers known as "Osko" payments. The ability of G&C and other customer-owned banks to successfully launch this new payment technology by the start date was a major achievement, and once again demonstrated the benefits of the co-operative and customer-first ethos that drives the customer-owned banking sector. In stark contrast, and notwithstanding the substantial financial resources available to them, not one of the 4 major banks was able to fully deliver these new NPP services by the designated launch date.

In addition to our launch of the NPP services, the past financial year also saw G&C Mutual Bank continue its significant investment in digital access channels, with further improvements to our Mobile Banking App and online services (including more streamlined online loan applications), the introduction of enhanced fraud prevention tools to combat the world-wide escalation in card fraud, and the implementation of a new phone centre with extended operating hours. All of these initiatives are designed to enable G&C members to conduct their banking activities whenever and from wherever they choose, backed by reliable and secure technology, innovative products and personalised staff support. With less than 2% of G&C's members now visiting a branch to conduct their banking, and with that number set to decline further in coming years, we will continue to expand and enhance our digital banking services.

*"With less than 2% of G&C's members now visiting a branch to conduct their banking... we will continue to expand and enhance our digital banking services."*

### Solid Growth and Strong Credit Quality

Following very strong loan growth in recent years, G&C Mutual Bank experienced more modest growth in 2017/18 (consistent with the slowing growth across the overall financial system), with G&C's total loan balances increasing by 5.00% (or \$33 million) in the 2017/18 financial year. In the year ahead, it is anticipated that the softening housing market and the impact of regulatory restrictions on housing lending will see G&C's annual loan growth remain at around 5.00% - broadly in line with forecasts for the overall banking sector. With demand for housing loans now stabilising, and with increased regulatory scrutiny on the rising level of household debt, it is particularly pleasing that G&C's housing portfolio has continued to demonstrate the very highest levels of credit quality, with the 30 day plus arrears level on our housing portfolio finishing the year at only 0.45%, **well below** industry averages. We have also seen increased loan demand from small businesses (particularly in regional and rural areas) and are very pleased to report that none of G&C's commercial loan borrowers are in arrears on their loan repayments.

*"We have seen increased loan demand from small businesses, particularly in regional and rural areas, with none of G&C's commercial loan borrowers in arrears."*

G&C's commitment to maintaining conservative lending standards, our focus on customer segments that are well known and trusted, and our reliance on in-house origination channels rather than mortgage brokers, have together underpinned the Bank's very low level of loan arrears and continue to support our 59 year record of never foreclosing on a home loan borrower and never incurring a loss on a home loan. In a year in which the Banking Royal Commission has revealed systemic misconduct by the major banks (including in relation to their treatment of home loan and business loan borrowers), G&C is exceptionally proud of its record of no home loan foreclosures and will continue to do what it has always done - putting customers first and ensuring that we are always there to help our members in times of need or financial difficulty.

*"G&C's strong financial performance was aided by further efficiency improvements... as demonstrated by the year on year reduction in our Cost/Income ratio from 79.05% down to 69.50%."*

## Overview of Financial Performance

G&C Mutual Bank finished the 2017/18 financial year with Total Assets of \$1.121 billion, Member Equity of \$104.76 million and a risk-weighted Capital Ratio of 18.2% - with the latter ratio remaining substantially higher than those of the 4 major banks.

G&C's strong financial performance was aided by further efficiency improvements following the integration of the Quay merger, as demonstrated by the year on year reduction in our Cost/Income ratio from 79.05% down to 69.50%. G&C's 2017/18 results are summarised in the charts on page 3 and are set out in detail in the accompanying financial statements. In summary, the Bank finished the year with a 33% increase in pre-tax profit to \$6.80 million (2017: \$5.12 million), an increase in Member Equity of \$4.79 million to \$104.76 million (2017: \$100 million), and a Net Interest Margin (NIM), as at 30 June 2018, of 2.27% (down only slightly from 2.29% in June 2017).

## New Products & Awards

G&C Mutual Bank continued to review and enhance its product range over the past 12 months to ensure we are meeting member needs – with the introduction of a Basic Investor Home Loan designed for borrowers who are prepared to forfeit some of the "bells and whistles", and the implementation of new online applications for credit cards and our innovative "Fair Rate" personal loan product.

To ensure G&C's products remain market competitive, we routinely submit our full range of products for independent assessment and peer benchmarking. As part of those processes, the 2017/8 financial year once again saw G&C's products independently recognised for their great value, flexibility and innovative features. We were also granted the following product awards over the past year:

- 5 Star Canstar rating for Outstanding Value for our "Get Ahead Start" Loan;
- 5 Star Canstar rating for Outstanding Value for our Low Rate Credit Card;
- Mozo Experts Choice Award (2017) for best Low Rate Credit Card;
- Mozo Experts Choice Award (2017) for best Premium Rewards Credit Card;
- Mozo Experts Choice Award (2017) excellent credit Personal Loan; and
- Mozo Experts Choice Award (2017) for Car Loans;

*"2017/18 financial year once again saw G&C Mutual Bank's products independently recognised for their great value, flexibility and innovative features."*



## The Year Ahead

G&C Mutual Bank expects market conditions to remain challenging in the year ahead, with a further softening in the housing market and a gradual increase in market interest rates from their historically low levels. There is also the distinct prospect of new regulatory requirements flowing from the findings of the Banking Royal Commission, though we hope and expect that any such requirements will be squarely targeted at the misconduct of the major banks.

*"In a year in which the Banking Royal Commission has revealed systemic misconduct by the major banks, G&C will continue to do what it has always done - putting customers first and ensuring that we are always there to help in times of need or financial difficulty."*

G&C is committed to exploring further merger opportunities with like-minded customer-owned banks that will enable us to enhance our scale and efficiency in a lower-growth environment. G&C's business strategies (including our consideration of future merger partners) will continue to be framed around the two strengths that stand us apart as a member-owned financial institution – our preparedness to work together cooperatively with other customer-owned banks and our dedicated commitment to treating members ethically while also providing them with highly-valued products and services.

*"G&C is committed to exploring further merger opportunities with like-minded customer-owned banks that will enable us to enhance our scale and efficiency in a lower-growth environment."*

In closing and on behalf of the G&C Mutual Bank Board, we'd like to thank all our members and all G&C staff for their great efforts and loyalty in helping us deliver a record year of growth, performance and innovation.



**Julian Kennelly**  
Chair



**Dave Taylor**  
CEO

# It's **your** bank, because **you own it.**



**\$110m  
Member  
Equity**



**Celebrating  
60 years  
serving the  
community**



**Our  
products are  
award winning**



**\$1.194B  
Total  
Assets**



**Every one of  
our members  
is an owner  
with a **voice**  
and a say in our  
future**

# Board of Directors



Julian Kennelly

**Board Chair & Chair of Governance, Nominations & Remuneration Committees, Non-Executive 'Elected' Director**

**Period of Appointment: 4 years to 2021 AGM**

Julian was elected to the Board of G&C Mutual Bank in 2002 and has been Chair of the Board since July 2011. Julian has chaired the Board's former Information Technology Committee and is currently Chair of the Governance, Nominations and Remuneration Committees. Julian is also a member of the Australasian Mutuals Institute.

For the past 20 years Julian has been employed by the Community and Public Sector Union – SPSF Group in Victoria as the Manager of Media and Communication Services. Prior to 1994 Julian held several media strategy and communication roles, including with the CPSU SPSF Federal Office, the Australian Services Union and the Office of the Leader of the Parliamentary Labor Party in Victoria.



Alexander Hutchison

**Board Vice Chair and Chair of Board Audit Committee, Non-Executive 'Elected' Director**

**Period of Appointment: 4 years to 2018 AGM**

Alex has more than 20 years' experience in the financial services sector and held senior leadership roles in both ASX listed and not-for-profit organisations. Alex has consistently been active in contributing to a number of industry associations during his career including the FPA, AIST and ABACUS.

Alex's early career was in federal law enforcement with both the Australian Federal Police and the Australian Securities & Investments Commission.

Alex earned a law degree from the University of Technology (Sydney), has a graduate Diploma in Financial Services and attended the Stanford Graduate School of Business.



Karin Hawkins

**Chair of Board Risk Committee, Non-Executive 'Appointed' Director**

**Period of Appointment: 1 year to June 2019**

Karin has extensive experience in the financial services industry having successfully held executive roles in risk management, strategy and sales. Karin's past roles include Head of Prudential Supervision – FINCOM; Head of Risk Management – ANZ Wholesale Mortgages; and Executive Manager – Mortgages with ANZ. Karin has also held a number of senior public sector roles including as an adviser to the NSW Premier and Treasurer on financial services regulation.

Karin is also currently a Director of Uniting Financial Services; Managing Director of Allister Redlands Pty Ltd and Lead Consultant, APAC for the NeuroLeadership Institute. Karin holds a Bachelor of Business (UTS); a Master of Public Policy (Sydney); a Master of Arts (MGSM); and is a Graduate member of AICD.



Trevor Donegan

**Non-Executive 'Elected' Director**

**Period of Appointment: 4 years to 2019 AGM**

Trevor's professional memberships include: Fellow – Certified Practising Accountants; Fellow and Life Member – Australian Health Services Financial Management Association (AHSFMA); and Member – Australasian Mutuals Institute. Trevor was the President of AHSFMA from 2001–2003 and also held various Association Committee positions between 1994 and 2006.

Trevor is an experienced Chief Financial Officer and currently provides contract services to the following organisations: Mental Health Professionals Network Ltd; MAS Allstruct Pty Ltd and group of companies; Melbourne Dental Group and the Weenthunga Health Network Ltd. Trevor has previously held financial management and accounting roles with Make-a-Wish Foundation of Australia; the National Youth Mental Health Foundation (headspace); Northern Health (Victoria); the Kingston Centre; North Western HealthCare Network and Australia Zoo.

## Executive Management



Dave Taylor

Chief Executive Officer and Director



Rosanna Argall

Deputy CEO and Company Secretary



Gregory Hammond

**Non-Executive 'Appointed' Director**

**Period of Appointment:**  
1 year to December 2018

Greg has over 30 years' experience as a lawyer specialising in banking, capital markets and the governance, supervision and regulation of Australia's financial system. He advised mutual financial institutions on governance, treasury and capital issues for many years.

He was a partner of King & Wood Mallesons (and its predecessor firm, Mallesons Stephen Jaques) for over 27 years, and since retiring from the firm in 2014 has taken up a number of roles in academia, the banking and finance sector, charities and not-for-profit organisations.

He served on the governing board of Mallesons Stephen Jaques and the firm's audit committee, and has over 20 years' experience on the boards of not-for-profit organisations. His current roles include being an Adjunct Fellow with the Applied Finance Centre at Macquarie University, chair of Anglicare Sydney and the Australian College of Theology, a director of Opportunity International and a member of the Glebe Administration Board (the trustee of the Diocesan Endowment for the Anglican Diocese of Sydney).



Peter Clarke

**Elected Director**

**Period of Appointment:**  
3 years to 2019 AGM

Peter is a highly qualified and experienced finance professional and has held a number of senior executive roles at AMP. He was responsible for the development of AMP's funds management exposure to the Industry Super Funds, growing funds under management to over one billion dollars. He was the Managing Director of Cobalt Solutions, the AMP subsidiary responsible for the run-off of AMP's reinsurance subsidiary that it acquired as a result of the purchase of GIO. At the time this was one of the largest run-off portfolios in the world. Peter joined the Board of AMP Credit Union (Quay Credit Union) in early 2008 and was the Chair from December 2014 up until the merger with G&C Mutual Bank.

Peter holds a Bachelor of Economics, is a Certified Practising Accountant, a Fellow of the Finance Institute of Australia, a Senior Associate of the Australian and New Zealand Institute of Insurance and Finance, a Member of the Australian Institute of Company Directors and a Member of the Australian Mutuals Institute.



Steve Helmich

**Appointed Director**

**Period of Appointment:**  
1 year to 1 September 2019

Dip FP (Diploma Financial Planning), FANZII (Fellow ANZ Insurance Institute), SF Fin (Senior Fellow FINSIA), MAICD (Member Australian Institute of Company Directors) and a graduate of the Advanced Executive Program (Kellogg Institute – Northwestern University).

During his career at AMP, Steve successfully led the financial planning business through periods of reform and change. He was responsible for the strong growth in AMP Financial Planning and Hillross as well as the establishment of the Horizons Financial Planning Academy. He is a past Chairman of the Financial Planning Association of Australia (2002 – 2004), a past Trustee & the Chair of Future2 (the foundation of the Australian Financial Planning Association) and a past Director and Chair of the global Financial Planning Standards Board (FPSB).

Steve is currently Chair of the Affinia Licensee (TAL Group) and joined the G&C Board following the merger with Quay Credit Union in 2016.



Dave Taylor

**Chief Executive Officer and Director**

Dave Taylor has been the Chief Executive Officer of G&C Mutual Bank since April 2010. Dave has over 29 years of finance industry experience across a wide range of management, consulting and Board roles, including 11 years as a Senior Executive with Credit Union Services Corporation (CUSCAL) and 9 years as Managing Director of Finance Industry Consulting Services.

Previously the holder of University and Government advisory positions between 1984–1989. Dave has held numerous Directorships in the finance industry since 1995, including on the Boards of mutual financial institutions, industry superannuation funds and ASX-listed companies, and is currently a Director of Transaction Solutions Limited, CUFSS Limited, SocietyOne Holdings Pty Ltd and Shared Service Partners Pty Ltd. Dave was also previously a Director of the Australian Payments Clearing Association and a Government-appointed member of the Australian Payment Systems Council.



**Dave Chapman**  
Chief Information Officer



**Akhilesh Mehta**  
Chief Risk Officer



**Andrew Prichard**  
Chief Financial Officer

G&C Mutual Bank Limited is a public company registered under the *Corporations Act 2001*.

Your Directors present their report on G&C Mutual Bank and its controlled entity, together called the Group, for the financial year ended 30 June 2019.

### Information on Directors

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

J F Kennelly - Chair  
 A P Hutchison - Vice Chair  
 T J Donegan - Director  
 K V Hawkins - Director  
 D A Taylor - Director  
 G N Hammond - Director  
 P W Clarke - Director  
 S J Helmich - Director

### Information on Company Secretary

The Company Secretary is Ms Rosanna Argall - MBA, FCIS. Ms Argall was appointed Company Secretary on 1 June 2005.

### Information on Board Meetings

The number of meetings of G&C Mutual Bank's Board of Directors and of each Board committee held during the year ended 30 June 2019, and the number of meetings attended by each Director as a member of the relevant committee were:

	Board		Board Audit Committee		Board Risk Committee		Governance, Nominations & Remuneration Committee	
	E	A	E	A	E	A	E	A
J F Kennelly	7	7	-	-	-	-	5	5
T J Donegan	7	7	-	-	-	-	5	5
G N Hammond	7	6	-	-	5	5	-	-
K V Hawkins	7	6	4	3	5	4	-	-
A P Hutchison	7	7	4	4	-	-	5	5
D A Taylor	7	7	-	-	-	-	5*	5*
P W Clarke	7	6	-	-	5	4	-	-
S J Helmich	7	6	4	3	-	-	-	-

E = number of meetings Directors eligible to attend

A = number of meetings attended during the time the Director held office

\* other than for the Remuneration Committee part of one meeting

### Director 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 G&C Mutual Bank with a Director, a firm of which a Director is a member, or an entity in which a Director has a substantial financial interest, other than that disclosed in Note 42 of the financial report.

**Indemnifying Directors, Officers or Auditors**

Insurance premiums have been paid to insure each of the Directors and Officers of G&C Mutual 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 a Director or Officer of G&C Mutual 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 additional cover has been provided for the benefit of the auditors of G&C Mutual Bank.

**Principal Activities**

The principal activities of G&C Mutual Bank during the year were the provision of retail financial services to members including lending, deposit taking and payment services as prescribed by the Constitution.

**Operating Results for the Year**

The net profit of G&C Mutual Bank for the year before income tax is \$9,316,000 (2018: \$6,804,000). The net profit after income tax for the year is \$6,536,000 (2018: \$4,786,000).

The results for the financial year were underpinned by:

- An increase in profit before tax of 36.9%
- An increase in loan balances of 3.3%
- A return on average assets after tax of 0.57%
- An increase in assets of 6.6%
- An increase in deposits of 6.8%
- A decrease in the cost-to-income ratio to 64.7% (prior year 69.5%)

**Significant Changes in State of Affairs**

On the 25th June 2019 the Bank announced that it was exploring the potential benefits of a merger with Unity Bank Limited.

There were no other significant changes in the state of affairs of the consolidated entity that occurred during the financial year not otherwise disclosed in the financial statements of the consolidated entity.

**Significant Events after the Balance Date**

There has been no significant event that has arisen after balance date which may affect G&C Mutual Bank's operations, the results of those operations or G&C Mutual Bank's state of affairs.

**Likely Developments and Expected 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 G&C Mutual Bank;
- (ii) the results of those operations; or
- (iii) the state of affairs of G&C Mutual Bank.

**Rounding**

The financial report is presented in Australian Dollars and all values are rounded to the nearest thousand dollars (\$'000) unless otherwise stated under the option available to G&C Mutual Bank under ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/91. G&C Mutual Bank is an entity to which this instrument applies.

**Environmental Regulation**

G&C Mutual Bank is not subject to any significant environmental regulation.

**Non-Audit Services**

Ernst & Young received or is due to receive the following amounts for the provision of non-audit services:

	2019	2018
	\$	\$
Taxation services	29,975	30,500
<b>Total</b>	<b>29,975</b>	<b>30,500</b>

The Directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The nature and scope of each type of non-audit service provided means that the auditor's independence was not compromised.

**Auditor's Independence Declaration**

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out following the Directors' Report.

**ASIC Class Order Relief**

G&C Mutual Bank has elected to apply Class Order 10/654 which allows companies, registered schemes and disclosing entities that present consolidated financial statements to also present parent entity financial statements for the year ended 30 June 2019.

Signed in accordance with a resolution of the Directors.



J F Kennelly  
Chair



A P Hutchison  
Vice Chair

**1 October 2019**

The Board and Management of G&C Mutual Bank are committed to acting responsibly, ethically and with the highest standards of integrity to ensure that the activities of G&C Mutual Bank are continually structured and delivered in a manner that allows us to meet the needs of our members.

To ensure these corporate governance commitments are maintained at all times, appropriate business practices and policies have been adopted by the Board and embedded throughout G&C Mutual Bank.

The Board is continually working to improve our governance policies and practices both at Board level and throughout the organisation. While our mutual values remain constant, we know we must adapt our business practices to ensure we meet our obligations as a responsible financial institution in a rapidly changing world.

The Board has carefully considered and implemented a 'fit and proper' framework in accordance with relevant legislation that endeavours to ensure the Directors and Senior Managers are appropriate persons to lead G&C Mutual Bank. The 'fit and proper' framework deals with matters such as minimum competencies, character, honesty, integrity, professional development, independence and performance.

### **Minimum Competencies**

Board Policy sets out the minimum competencies regarding the personal attributes, character, skills and knowledge that each responsible person must demonstrate at all times. The Board undertakes an annual strategic skills gap analysis to ensure the Board and Management have the right mix of skills.

### **Director Development**

Relevant Board Policies outline the knowledge requirements for Directors and provide guidelines for new Director induction as well as the standards for ongoing Director development. Each Director is expected to achieve a minimum number of hours of skills development per annum.

### **Independence**

Board Policy requires Directors to be independent in both judgement and action. Each Director is required to be independent in his/her thinking which must be maintained over time such that the Director makes his/her own judgement based on what is in the best interests of G&C Mutual Bank. It is each Director's responsibility to maintain and demonstrate his / her independence. The Board assesses each Director's independence by reference to the requirements contained within APRA Prudential Standard CPS 510 and the guidelines set out in the ASX Corporate Governance Committee's Principles of Good Corporate Governance. The Board has also adopted policies that address issues relating to conflicts of interest and the manner in which any such conflicts are required to be reported, managed and disclosed. Other than approved Director remuneration, the Directors do not offer, seek or accept benefits in the performance of their duties.

In the event that a potential conflict of interest arises, the Director in question must withdraw from all debate and decisions concerning the matter unless the Board resolves that the relevant interest or conflict should not disqualify the Director from being present and/or voting.

### **Performance**

Established Board Policy requires an annual review of performance of the Board, its committees and individual Directors. The Board undertakes an annual assessment of its collective performance, the performance of the Chair and of its committees. Senior Management contribute to this appraisal process which is facilitated by an independent third party. The results are documented with any agreed action plans for the coming year. An assessment carried out in accordance with this process was undertaken during the period September – December 2018.

### **Structure of the Board**

The size and composition of the Board is determined by the Board subject to the limits set out in G&C Mutual Bank's Constitution.

As at 30 June 2019, the Board comprised four Non-Executive (member-elected) Directors, three Non-Executive (appointed) Directors, and one Executive (appointed) Director. All Directors are members of G&C Mutual Bank. Board members are elected by the members or appointed in accordance with G&C Mutual Bank's Constitution. The Chair of the Board is an elected Non-Executive Director.

A majority of G&C Mutual Bank's Directors are required to be independent. Independent Directors must not have any interests including personal, business or contractual interests which would undermine their ability to constructively and critically contribute to the work of the Board. This means the Directors must be free from any relationship (for example, a business interest in a supplier or competitor of G&C Mutual Bank) which could materially interfere with the exercise of their independent judgement and their ability to act in the best interests of G&C Mutual Bank.

### **Role of the Board**

The Board comprises a majority of Non-Executive Directors who, together with the Chief Executive Officer, have extensive business acumen and bring accountability and judgement to the Board's deliberations to ensure optimum benefit to members, employees and the wider community.

In particular, the Board:

- provides strategic direction including contributing to the development of and approving the corporate strategy;
- monitoring the effectiveness of the corporate governance and risk management frameworks;
- appointing the Chief Executive Officer;
- monitoring the performance and approving the remuneration of the Chief Executive Officer;
- reporting to members and ensuring that all regulatory requirements are met;
- overseeing financial performance and monitoring business performance against the approved Strategic Plan;
- overseeing internal controls and processes for identifying areas of significant business risk;
- monitoring compliance with regulatory and statutory requirements and the implementation of related policies;
- making decisions in relation to major expenditures, acquisitions or merger opportunities; and
- ensuring G&C Mutual Bank's business is conducted ethically and transparently.

### **Committees of the Board**

The Board has established three standing committees as described below; the Governance, Nominations & Remuneration Committee (GNRC), the Board Audit Committee (BAC) and the Board Risk Committee (BRC). These committees consider various matters and make recommendations to the Board. Each committee's authority and responsibilities are set out in their individual committee charters, as approved by the Board. Other special purpose committees may be established from time to time to consider matters of particular importance. Committee members are chosen for the skills, experience and other pertinent qualities they bring to each particular committee role.

The Board Audit Committee, Board Risk Committee and the Governance, Nominations & Remuneration Committee meet at least quarterly, or more frequently as required, to consider and make recommendations or decisions on matters within their terms of reference.

Committee Chairs give verbal reports to the Board at the next Board meeting and the Board reviews minutes of all committee meetings. All information prepared for the consideration of committees is also available to the Board.

Standing committees in operation at any time during or since the end of the financial year were:

**Board Audit Committee (BAC)**

The Board Audit Committee is established to oversee the financial reporting and audit frameworks. Its role includes:

- monitoring the integrity of the financial reporting including reviewing draft financial statements;
- reviewing the assurance provided for a sound system of internal controls based on the identification, assessment and management of risks that are significant to the fulfilment of the business objectives;
- overseeing and recommending to the Board matters in relation to the external auditors, including reviewing their qualifications, remuneration, performance and independence;
- monitoring and reviewing the effectiveness of the internal audit function including the Internal Auditor's capabilities, qualifications, resources, planning, scope of work and findings of reviews undertaken;
- familiarity with changes to and introduction of new legislation, accounting standards and prudential standards, practice guides and consultation packages; and
- ensuring that G&C Mutual Bank maintains an internal control framework that is adequate and effective at meeting the applicable prudential requirements.

**Board Risk Committee (BRC)**

The Board Risk Committee is established to oversee the risk management framework. Its role includes:

- providing the Board with greater oversight of and advice on the risk management and compliance frameworks;
- strengthening the governance, effectiveness and resourcing of the risk management and compliance frameworks;
- advising the Board on the appropriateness of the risk management and compliance frameworks;
- providing the Board with non-executive oversight of the implementation of the risk management and compliance frameworks;
- ensuring that Senior Management are appropriately implementing the Board's strategy for managing risk;
- assisting the Board formulate its risk appetite;
- making recommendations to the Board concerning the risk appetite and particular risks or risk management practices; and
- promotion of awareness of a risk based culture and the achievement of a balance between risk and reward.

**Governance, Nominations & Remuneration Committee (GNRC)**

The Governance, Nominations & Remuneration Committee assists the Board in adopting and implementing good corporate governance in the areas of the Chief Executive Officer's appointment, Director and Executive remuneration, Director elections, Director and Executive performance reviews, oversight of the 'fit and proper' framework, monitoring the size and composition of the Board, and developing Executive succession plans.

**Governance Standards**

The Board acknowledges the need for, and continued maintenance of, the highest standards of corporate governance, and therefore adopts practices including:

- an annual review of Board performance;
- active participation by all Directors and open access to information;
- regular Executive Management presentations;
- the Chief Executive Officer and Chief Financial Officer provide assurance on the accuracy and completeness of financial information and the Chief Risk Officer on the adequacy of risk management processes;
- the Executive Managers provide assurance to the Board that the business of G&C Mutual Bank has been conducted ethically and that all dealings have been conducted transparently with the Board;
- the transparency of information to members through publication of regular notices on G&C Mutual Bank's website – [www.gcmutual.bank](http://www.gcmutual.bank); and
- the gearing of Board policies towards risk management to safeguard the assets and interests of G&C Mutual Bank and its members.

**External Audit**

The audit is performed by Ernst & Young.

**Internal Audit**

The internal audit function is undertaken by internal resources.



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## **Auditor's Independence Declaration to the Directors of G&C Mutual Bank Limited**

As lead auditor for the audit of G&C Mutual Bank Limited for the financial year ended 30 June 2019, I declare 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.

This declaration is in respect of G&C Mutual Bank Limited and the entities it controlled during the financial year.

A handwritten signature in black ink that reads 'Ernst &amp; Young'.

Ernst & Young

A handwritten signature in black ink that reads 'R. Balfour'.

Richard Balfour  
Partner  
1 October 2019

The Directors of G&C Mutual Bank Limited declare that in the opinion of the Directors:

- (a) The financial statements and notes to the accounts of G&C Mutual Bank and the consolidated entity (Group) are in accordance with the *Corporations Act 2001*, including:
  - (i) giving a true and fair view of the financial position of G&C Mutual Bank and the Group as at 30 June 2019 and of their performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.
- (b) There are reasonable grounds to believe that G&C Mutual Bank will be able to pay its debts as and when they become due and payable.

Note 2(b) confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

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



J F Kennelly  
Chair



A P Hutchison  
Vice Chair

1 October 2019



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## **Independent Auditor's Report to the Members of G&C Mutual Bank Limited**

### **Opinion**

We have audited the financial report of G&C Mutual Bank Limited (the Company) and its subsidiaries (collectively the Group), which comprises:

- the Group consolidated and Company statements of financial position as at 30 June 2019;
- the Group consolidated and Company statements of comprehensive income, statements of changes in equity and statements of cash flows for the year then ended ;
- notes to the financial statements, including a summary of significant accounting policies; and
- the directors' declaration.

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

- a) giving a true and fair view of the Company's and the Group's financial position as at 30 June 2019 and of their financial 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 Group in accordance with the auditor independence requirements of 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 is the directors' report accompanying the financial report.

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



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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* and for 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 and Group's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or Group 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.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's or the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.



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- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's or Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company or the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

A handwritten signature of the Ernst &amp; Young logo in a cursive, grey font.

Ernst & Young

A handwritten signature of Richard Balfour in a cursive, grey font.

Richard Balfour  
Partner  
Sydney  
1 October 2019

**STATEMENT OF COMPREHENSIVE INCOME**  
For the year ended 30 June 2019

	Note	Consolidated 2019 \$'000	Parent 2019 \$'000	Consolidated 2018 \$'000	Parent 2018 \$'000
Interest income	10	44,242	48,182	41,721	44,354
Interest expense	11	(18,240)	(23,331)	(17,009)	(21,344)
<b>Net interest income</b>		<b>26,002</b>	<b>24,851</b>	<b>24,712</b>	<b>23,010</b>
Non-interest income	12	4,363	5,478	4,203	5,892
<b>Net operating income</b>		<b>30,365</b>	<b>30,329</b>	<b>28,915</b>	<b>28,902</b>
Impairment expense	13	(1,408)	(1,408)	(2,035)	(2,035)
Employment expense	13	(10,154)	(10,154)	(9,694)	(9,694)
Office occupancy expense	13	(1,499)	(1,499)	(1,547)	(1,547)
Depreciation and amortisation expense	13	(851)	(851)	(875)	(875)
Information technology and communication expense	13	(2,516)	(2,516)	(2,525)	(2,525)
Other operating expenses	13	(4,621)	(4,585)	(5,435)	(5,422)
<b>Total operating expenses</b>		<b>(21,049)</b>	<b>(21,013)</b>	<b>(22,111)</b>	<b>(22,098)</b>
<b>Profit before income tax</b>		<b>9,316</b>	<b>9,316</b>	<b>6,804</b>	<b>6,804</b>
Income tax expense	14	(2,780)	(2,780)	(2,018)	(2,018)
<b>Net profit after tax attributable to members</b>		<b>6,536</b>	<b>6,536</b>	<b>4,786</b>	<b>4,786</b>
<b>Other comprehensive income for the year, net of tax</b>		-	-	-	-
<b>Total comprehensive income for the year</b>		<b>6,536</b>	<b>6,536</b>	<b>4,786</b>	<b>4,786</b>

The accompanying notes should be read in conjunction with these financial statements

	Note	Consolidated 2019 \$'000	Parent 2019 \$'000	Consolidated 2018 \$'000	Parent 2018 \$'000
<b>ASSETS</b>					
Cash and cash equivalents	16	8,293	8,293	26,609	26,594
Due from other financial institutions	17	161,407	150,897	371,593	366,137
Debt instruments at amortised cost	18	275,439	275,439	-	-
Derivative assets	23a	-	-	36	36
Other assets	19	8,312	20,168	6,264	11,887
Loans and advances	20,21	732,611	856,891	708,572	778,405
Financial assets at fair value through profit or loss	22	4,416	4,416	-	-
Financial assets - available-for-sale	22	-	-	3,768	3,768
Property, plant and equipment	24	1,081	1,081	1,354	1,354
Intangible assets	25	803	803	998	998
Deferred tax assets	26	1,637	1,637	1,486	1,486
<b>Total Assets</b>		<b>1,193,999</b>	<b>1,319,625</b>	<b>1,120,680</b>	<b>1,190,665</b>
<b>LIABILITIES</b>					
Deposits	27	1,022,537	1,022,537	957,737	957,737
Derivative liabilities	23b	893	893	-	-
Other liabilities	28	16,932	16,932	14,754	15,034
Current tax liabilities		376	376	578	578
Other financial liabilities	29	39,991	165,617	39,992	109,697
Provisions	30	2,790	2,790	2,859	2,859
<b>Total Liabilities</b>		<b>1,083,519</b>	<b>1,209,145</b>	<b>1,015,920</b>	<b>1,085,905</b>
<b>Net Assets</b>		<b>110,480</b>	<b>110,480</b>	<b>104,760</b>	<b>104,760</b>
<b>EQUITY</b>					
Redeemable share reserve	31	2,262	2,262	2,262	2,262
Asset revaluation reserve	32	-	-	158	158
Retained earnings	33	90,856	90,856	84,978	84,978
Contributed equity	34	17,362	17,362	17,362	17,362
<b>Total Equity</b>		<b>110,480</b>	<b>110,480</b>	<b>104,760</b>	<b>104,760</b>

The accompanying notes should be read in conjunction with these financial statements

Consolidated and Parent	Contributed Equity	Redeemable Share Reserve	Asset Revaluation Reserve	Retained Earnings	Total
Note	34 \$'000	31 \$'000	32 \$'000	33 \$'000	\$'000
<b>Balance at 1 July 2017</b>	<b>17,362</b>	<b>2,262</b>	<b>158</b>	<b>80,192</b>	<b>99,974</b>
<b>Net profit after tax</b>	-	-	-	4,786	<b>4,786</b>
Other comprehensive income	-	-	-	-	-
<b>Total comprehensive income for the year</b>	-	-	-	<b>4,786</b>	<b>4,786</b>
<b>Balance at 30 June 2018</b>	<b>17,362</b>	<b>2,262</b>	<b>158</b>	<b>84,978</b>	<b>104,760</b>
Increase in loan loss impairment allowance on adoption of AASB 9 recognised directly in retained earnings as of 1 July 2018	-	-	-	<b>(816)</b>	<b>(816)</b>
<b>Balance as at 1 July 2018</b>	<b>17,362</b>	<b>2,262</b>	<b>158</b>	<b>84,162</b>	<b>103,944</b>
<b>Net profit after tax</b>	-	-	-	6,536	<b>6,536</b>
Transfer from asset revaluation reserve to retained earnings	-	-	(158)	158	-
<b>Total comprehensive income for the year</b>	-	-	<b>(158)</b>	<b>6,694</b>	<b>6,536</b>
<b>Balance at 30 June 2019</b>	<b>17,362</b>	<b>2,262</b>	-	<b>90,856</b>	<b>110,480</b>

The accompanying notes should be read in conjunction with these financial statements

	Consolidated	Parent	Consolidated	Parent
Note	2019	2019	2018	2018
	\$'000	\$'000	\$'000	\$'000
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>				
Interest received	43,942	47,885	42,112	44,745
Dividends received	53	53	68	68
Other non-interest income received	4,078	5,193	4,471	6,160
Interest paid	(17,162)	(22,533)	(17,507)	(22,368)
Payments to suppliers and employees	(19,704)	(25,906)	(20,382)	(19,110)
Income taxes paid	(2,784)	(2,783)	(1,101)	(1,101)
Net change in loans and advances	(26,033)	(26,033)	(35,192)	(35,192)
Net change in deposits	64,832	64,832	(2,115)	(2,115)
<b>Net cash inflow/(outflow) from operating activities</b>	<b>47,222</b>	<b>40,708</b>	<b>(29,646)</b>	<b>(28,913)</b>
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>				
Proceeds from sale of property, plant and equipment	11	13	-	-
Payments for property, plant and equipment	(53)	(53)	(140)	(140)
Purchase of intangible assets	(323)	(323)	(373)	(373)
Net change in due to/from other financial institutions	(65,099)	(60,045)	31,234	31,294
Payments for Financial Assets at FVTPL	(75)	(75)	(750)	(750)
<b>Net cash inflow/(outflow) from investing activities</b>	<b>(65,538)</b>	<b>(60,482)</b>	<b>29,971</b>	<b>30,031</b>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>				
Purchase from assignment of loans to intercompany securitisation trust	-	55,921	-	(42,106)
Payments for redemption of subordinated debt	-	-	(995)	(995)
Proceeds from securities from intercompany securitisation trust	-	(54,447)	-	41,313
Dividends paid	-	-	-	-
<b>Net cash (outflow)/inflow from financing activities</b>	<b>-</b>	<b>1,474</b>	<b>(995)</b>	<b>(1,788)</b>
Net increase/(decrease) in cash held	(18,316)	(18,301)	(670)	(670)
Cash and cash equivalents at the beginning of year	26,609	26,594	27,279	27,264
<b>Cash and cash equivalents at the end of year</b>	<b>8,293</b>	<b>8,293</b>	<b>26,609</b>	<b>26,594</b>

The accompanying notes should be read in conjunction with these financial statements

**NOTE 1: CORPORATE INFORMATION**

G&C Mutual Bank Limited, trading as G&C Mutual Bank and Quay Mutual Bank (together referred to hereafter as G&C Mutual Bank), is a public company incorporated and domiciled in Australia. The financial report of G&C Mutual Bank and its controlled entity, together the Group (the Consolidated Entity), for the year ended 30 June 2019 was authorised for issuance in accordance with a resolution of the Directors on 1 October 2019. The Directors have the power to amend and reissue the financial report. The members are the owners of G&C Mutual Bank.

The registered office is at Level 25, 201 Elizabeth Street, Sydney NSW 2000.

The nature of the operations and principal activities of G&C Mutual Bank are described in the Directors' Report.

**NOTE 2: BASIS OF PREPARATION OF THE FINANCIAL REPORT**

The financial report of G&C Mutual Bank is a general purpose financial report which has been prepared in accordance with the requirements of the *Corporations Act 2001*, Australian Accounting Standards including other authoritative pronouncements of the Australian Accounting Standards Board (AASB), and International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

The financial report has been prepared as a going concern basis generally using historical cost treatment, except for the derivative financial instruments, other financial assets and liabilities held for trading and financial assets and liabilities designated at Fair Value Through Profit or Loss (FVTPL) and debt and equity instruments at Fair Value through Other Comprehensive Income (FVOCI). G&C Mutual Bank is a for-profit entity for the purpose of preparing the financial statements.

The functional and reporting currency is Australian Dollars. G&C Mutual Bank is a company referred to in the Australian Securities and Investments Commission (ASIC) issued instrument, *ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191*, relating to the 'rounding off' of amounts in the financial statements. Amounts in the financial statements have been rounded off in accordance with that instrument to the nearest thousand dollars, or in certain cases, to the nearest dollar.

G&C Mutual Bank has elected to apply Class Order 10/654 which allows companies, registered schemes and disclosing entities that present consolidated financial statements to also present parent entity financial statements for the year ended 30 June 2019.

The financial report includes separate financial statements where affected for G&C Mutual Bank as an Individual Entity (the Parent) and the Consolidated Entity consisting of G&C Mutual Bank and its subsidiary for the financial year ended 30 June 2019.

Where necessary, comparative information has been restated to conform to changes to presentation in the current year.

**NOTE 3: STATEMENT OF COMPLIANCE WITH IFRS**

The financial report complies with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

**NOTE 4: CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES**

**New and amended accounting standards and interpretations**

In these financial statements, the Bank has applied, for the first time, AASB 15 Revenue from Contracts with Customers, AASB 9 Financial Instruments and the consequential amendments to AASB 7 Financial Instruments: Disclosures, effective for annual reporting periods beginning or after 1 July 2018. The nature and effect of the changes as a result of the adoption of these new accounting standards are described below.

Several other amendments and interpretations apply for the first time in the year ended 30 June 2019, but do not have an impact on the Bank's consolidated financial statements. The Bank has not adopted any other early standard, interpretations or amendments that has been issued but is not yet effective.

**(a) AASB 9 Financial Instruments**

AASB 9 Financial Instruments replaces AASB 139 Financial Instruments: Recognition and Measurement for annual reporting periods on or after 1 July 2018. The Bank elected, as a policy choice permitted under AASB 9, to continue to apply hedge accounting in accordance with AASB 139.

The Bank has not restated comparative information for 2018 for financial instruments in the scope of AASB 9. Therefore, the comparative information for 2018 is reported under AASB 139 and is not comparable with the information presented for 2019. Differences arising from the adoption of AASB 9 have been recognised directly in retained earnings as of 1 July 2018.

***(i) Changes to classification and measurement***

To determine their classification and measurement category, AASB 9 requires all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the Bank's business model for managing the assets and the instruments' contractual cash flow characteristics.

The AASB 139 measurement categories of financial asset (Fair Value Through Profit or Loss (FVTPL), Available-For-Sale (AFS), Held-To-Maturity (HTM) and amortised cost) have been replaced by:

- Debt instruments at amortised cost
- Debt instruments at Fair Value through Other Comprehensive Income (FVOCI), with gains or losses recycled to profit or loss on derecognition
- Equity instruments at FVOCI, with no recycling of gains or losses in profit or loss on derecognition
- Financial assets at FVTPL

The accounting for financial liabilities remains largely the same as it was under AASB 139, except for the treatment of gains or losses arising from the Bank's own credit risk relating to liabilities designated at FVTPL. Such movements are presented in Other Comprehensive Income (OCI) with no subsequent reclassification to the income statement.

The Bank's classification of its financial assets and liabilities is explained in Note 4(b). The quantitative impact of applying AASB 9 as at 1 July 2018 is also disclosed in Note 4(b).

***(ii) Changes to the impairment calculation***

The adoption of AASB 9 has fundamentally changed the Bank's accounting for loan loss impairment by replacing AASB 139's incurred loss approach with a forward-looking Expected Credit Loss (ECL) approach. AASB 9 requires the Bank to record an allowance for ECLs for all loans and other debt financial assets not held at FVTPL, together with loan commitments. The allowance is based on the ECLs associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination, in which case life time ECL is recognised.

Details of the Bank's impairment method are disclosed in Note 6(c). The quantitative impact of applying AASB 9 as at 1 July 2018 was an increase in the loan loss impairment provision of \$816,000 which was recognised directly in retained earnings as of 1 July 2018.

**NOTE 4: CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)****(b) AASB 7 Financial Instruments: Disclosures**

To reflect the differences between AASB 9 and AASB 139, AASB 7 Financial Instruments: Disclosures was updated and the Bank has adopted it, together with AASB 9, for the year beginning 1 July 2018. Changes include:

- Transition disclosures, as shown below.
- Detailed qualitative and quantitative information about the ECL calculations, such as the assumptions and inputs used are set out in Note 6(c) and Note 21(a).

The Bank concluded on the following assessments based on the facts and circumstances that existed at the date of initial application as at 1 July 2018:

- The business models under which the Bank held and managed its financial assets
- Whether to elect to classify certain equity instruments not held for trading as FVOCI

**Transition disclosure**

The following table sets out the impact of adopting AASB 9 on the Statement of Financial Position as at 1 July 2018 including the effect of replacing AASB 139's incurred loss calculations with AASB's expected credit loss calculations.

	AASB 139 measurement	Amount	Re-classification	Re-measurement ECL (net of Tax)	AASB 9 measurement	
	Category				Amount	Category
<b>Assets</b>		(\$'000)			(\$'000)	
Cash and cash equivalents	Amortised cost	26,609	-	-	26,609	Amortised cost
Due from other financial institutions	HTM	371,593	(324,537)	-	47,056	Amortised cost
Loans and advances	Loans and receivables	708,572	-	(816)	707,756	Amortised cost
Financial assets	AFS	3,768	-	-	3,768	FVTPL
Debt instruments	HTM	-	324,537	-	324,537	Amortised cost
Derivative assets	FVTPL	36	-	-	36	FVTPL
<b>Total Financial Assets</b>		<b>1,110,578</b>	-	<b>(816)</b>	<b>1,109,762</b>	
<b>Liabilities</b>						
Deposits	Amortised cost	957,737	-	-	957,737	Amortised cost
Other financial liabilities - repurchase borrowings	Amortised cost	39,992	-	-	39,992	Amortised cost
<b>Total Financial Liabilities</b>		<b>997,729</b>	-	-	<b>997,729</b>	

The impact of adopting AASB 9 on the loan loss impairment allowance was an increase of \$816,000 which was recognised directly in retained earnings as at 1 July 2018.

As at 1 July 2018, the Bank classified a portion of its previous 'Due from other financial institutions' as 'Debt instruments at amortised cost'. These instruments meet the Solely Payments of Principal and Interest (SPPI) criterion, were not actively traded, and were held with the intention to collect cash flows and without the intention to sell.

As at 1 July 2018, the Bank classified its previous 'Financial assets - available-for-sale' as 'Financial assets - fair value through profit or loss' as the payments did not meet the SPPI recognition criterion.

**NOTE 4: CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)**

**(c) *AASB 15 Revenue from Contracts with Customers***

AASB 15 Revenue from Contracts with Customers replaces AASB 118 Revenue and all existing revenue requirements and related interpretations and is effective for annual periods beginning on 1 July 2018.

AASB 15 redefined the principles for recognising revenue and is applicable to all contracts with customers other than contracts in the scope of other Standards (e.g. interest and fee income integral to financial instruments which would be in the scope of AASB 9 and lease income).

AASB 15 establishes a five-step model to account for revenue arising from contracts with customers and requires that revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled to in exchange for transferring goods or services to that customer.

The standard requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with customers. The Standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. In addition, the Standard requires extensive disclosure.

The majority of the Bank's revenue streams (e.g. interest income, gains and losses on financial instruments) are outside the scope of AASB 15 and, therefore, accounting for those streams did not change as a result of its adoption. The Bank's revenue streams that are within the scope of the Standard relate to fee and commission income disclosed in Note 12. 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.

**NOTE 5: BASIS OF CONSOLIDATION**

The consolidated financial statements include those of G&C Mutual Bank and a Special Purpose Vehicle (SGE Funding Trust No. 1, "the securitisation trust" or subsidiary) relating to the issuance of residential mortgage-backed securities (RMBS) that are issued by the securitisation trust and held by G&C Mutual Bank for entering into a repurchase agreement with the Reserve Bank of Australia for short term funding requirements. Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases. The securitisation trust's underlying assets, liabilities, revenues, expenses and cash flows are reported in the Group's Statement of Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity and Statement of Cash Flows. All inter-company transactions and balances have been eliminated on consolidation including any unrealised profit.

**NOTE 6: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES****(a) Financial Instruments (Policy applies from 1 July 2018)***(i) Financial instruments – initial recognition****Date of recognition***

Financial assets and liabilities, with the exception of loans and advances to members and balances due to members, are initially recognised on the trade date, i.e., the date on which the Bank becomes a party to the contractual provisions of the instrument. This includes regular way trades, i.e., purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place. Loans and advances to members are recognised when funds are transferred to the members' accounts. The Bank recognises balances due to members when funds are transferred to the Bank.

***Initial measurement of financial instruments***

The classification of financial instruments at initial recognition depends on their contractual terms and the business model for managing the instruments, as described in Note 6b(i) to 6b(iii). Financial instruments are initially measured at their fair value (as defined in Note 6(b)), except in the case of financial assets and financial liabilities recorded at FVTPL, transaction costs are added to, or subtracted from, this amount. Trade receivables are measured at amortised cost. When the fair value of financial instruments at initial recognition differs from the transaction price, the Bank accounts for the Day 1 profit or loss in accordance with the policy below.

***Day 1 profit or loss***

When a transaction price of the instrument differs from the fair value at origination and the fair value is based on a valuation technique using only inputs observable in market transactions, the Bank recognises the difference between the transaction price and the fair value in net trading income. In those cases where fair value is based on models for which some of the inputs are not observable, the difference between the transaction price and the fair value is deferred and is recognised in profit and loss when the inputs become observable, or when the instrument is derecognised. The amount deferred can be recognised on a straight line basis over time.

*(ii) Measurement categories of financial assets and liabilities*

From 1 July 2018, the Bank classifies all of its financial assets based on the business model for managing the assets and the asset's contractual terms, measured at either:

- Amortised cost, as explained in Note 6(b)(i)
- Fair Value through Other Comprehensive Income – (FVOCI), as explained in Note 6(b)(iii)
- Fair Value through Profit and Loss (FVTPL), as set out Note 6(b)(v)

The Bank classifies and measures its derivative portfolio at FVTPL, as explained in note 6(b)(ii). The Bank may designate financial instruments at FVTPL, if doing so eliminates or significantly reduces measurement or recognition inconsistencies, as explained in Note 6(b)(v).

Before 1 July 2018, the Bank classified its financial assets as loans and receivables (amortised cost), FVTPL, available-for-sale or held-to-maturity (amortised cost), as explained in Note 4(b).

Financial liabilities, other than loan commitments and financial guarantees, are measured at amortised cost or at FVTPL when they are held for trading and derivative instruments or the fair value designation is applied, as explained in Note 6b(v).

*(iii) Determination of fair value*

In order to show how fair values have been derived, financial instruments are classified based on a hierarchy of valuation techniques, as summarised below:

- **Level 1 financial instruments** – Those where the inputs used in the valuation are unadjusted quoted prices from active markets for identical assets or liabilities that the Bank has access to at the measurement date. The Bank considers markets as active only if there are sufficient trading activities with regards to the volume and liquidity of the identical assets or liabilities and when there are binding and exercisable price quotes available on the balance sheet date.
- **Level 2 financial instruments** – Those where the inputs that are used for valuation and are significant, are derived from directly or indirectly observable market data available over the entire period of the instrument's life. Such inputs include quoted prices for similar assets or liabilities in active markets, quoted prices for identical instruments in inactive markets and observable inputs other than quoted prices such as interest rates and yield curves, implied volatilities, and credit spreads. In addition, adjustments may be required for the condition or location of the asset or the extent to which it relates to items that are comparable to the valued instrument. However, if such adjustments are based on unobservable inputs which are significant to the entire measurement, the Bank will classify the instruments as Level 3.
- **Level 3 financial instruments** – Those that include one or more unobservable input that is significant to the measurement as a whole.

The Bank periodically reviews its valuation techniques including the adopted methodologies and model calibrations.

**NOTE 6: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**(b) Financial assets and liabilities**

***(i) Due from Banks, Loans and Advances, Debt Instruments***

Before 1 July 2018, 'Due from financial institutions' and 'Loans and advances', included non-derivative financial assets with fixed or determinable payments that were not quoted in an active market, other than those:

- That the Bank intended to sell immediately or in the near term
- That the Bank, upon initial recognition, designated as at FVTPL or as available for sale
- For which the Bank may not recover substantially all of its initial investment, other than because of credit deterioration, which were designated as available-for-sale.

From 1 July 2018, the Bank only measures 'Due from financial institutions', 'Loans and advances' and other financial investments at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are Solely Payments of Principal and Interest (SPPI) on the principal amount outstanding. The details of these conditions are outlined below.

***Business model assessment***

The Bank determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective:

- The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed
- How managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected).

The expected frequency, value and timing of sales are also important aspects of the Bank's assessment. The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realised in a way that is different from the Bank's original expectations, the Bank does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

***The Solely Payments of Principal and Interest (SPPI) test***

As a second step of its classification process, the Bank assesses the contractual terms of the financial asset to identify whether they meet the SPPI test.

'Principal' for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortisation of the premium/discount).

The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk. To make the SPPI assessment, the Bank applies judgement and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the interest rate is set.

In contrast, contractual terms that introduce a more than *de minimis* exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are SPPI on the amount outstanding. In such cases, the financial asset is required to be measured at FVTPL.

***(ii) Derivatives recorded at fair value through profit or loss***

A derivative is a financial instrument or other contract with all three of the following characteristics:

- Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided that, in the case of a non-financial variable, it is not specific to a party to the contract (i.e., the 'underlying').
- It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts expected to have a similar response to changes in market factors.
- It is settled at a future date.

**NOTE 6: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

The Bank enters into derivative transactions with various counterparties. Derivatives are recorded at fair value and carried as assets when their fair value is positive and as liabilities when their fair value is negative. Changes in the fair value of derivatives are included in net interest income.

If the modification does not result in cash flows that are substantially different, as set out below, the modification does not result in derecognition. Based on the change in cash flows discounted at the original EIR, the Bank records a modification gain or loss, to the extent that an impairment loss has not already been recorded. For financial liabilities, the Bank considers a modification substantial based on qualitative factors and if it results in a difference between the adjusted discounted present value and the original carrying amount of the financial liability of, or greater than, ten percent. For financial assets, this assessment is based on qualitative factors.

***(iii) Debt instruments at FVOCI***

The Bank applies the new category under AASB 9 of debt instruments measured at FVOCI when both of the following conditions are met:

- The instrument is held within a business model, the objective of which is achieved by both collecting contractual cash flows and selling financial assets; and
- The contractual terms of the financial asset meet the SPPI test

As at 30 June 2019 the Bank had no debt instruments at FVOCI.

***(iv) Debt issued and other borrowed funds***

After initial measurement, debt issued and other borrowed funds are subsequently measured at amortised cost. Amortised cost is calculated by taking into account any discount or premium on issued funds, and costs that are an integral part of the Effective Interest Rate (EIR).

***(v) Financial assets and liabilities at fair value through profit or loss***

Financial assets and financial liabilities in this category are those that are not held for trading and have been either designated by management upon initial recognition or are mandatorily required to be measured at fair value under AASB 9. Management only designates an instrument at FVTPL upon initial recognition when one of the following criteria are met. Such designation is determined on an instrument-by-instrument basis:

- The designation eliminates, or significantly reduces, the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognising gains or losses on them on a different basis; or
- The liabilities (and assets until 1 July 2018 under AASB 139) are part of a group of financial liabilities (or financial assets, or both under AASB 139), which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or
- The liabilities (and assets until 1 July 2018 under AASB 139) contain one or more embedded derivatives, unless they do not significantly modify the cash flows that would otherwise be required by the contract, or it is clear with little or no analysis when a similar instrument is first considered that separation of the embedded derivative(s) is prohibited.

Financial assets and financial liabilities at FVTPL are recorded in the Statement of Financial Position at fair value. Changes in fair value are recorded in profit and loss with the exception of movements in fair value of liabilities designated at FVTPL due to changes in the Bank's own credit risk. Such changes in fair value are recorded through OCI and do not get recycled to the profit or loss. Interest earned or incurred on instruments designated at FVTPL is accrued in interest income or interest expense, respectively, using the EIR, taking into account any discount/premium and qualifying transaction costs being an integral part of the instrument. Interest earned on assets mandatorily required to be measured at FVTPL is recorded using the contractual interest rate. Dividend income from equity instruments measured at FVTPL is recorded in profit or loss as 'Non-interest income' when the right to the payment has been established.

***(vi) Derecognition of financial assets and liabilities***

A financial asset is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the Bank has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party unless under a 'pass-through' arrangement; or
- either (a) the Bank has transferred substantially all the risks and rewards of the asset, or (b) the Bank has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the carrying value of the original financial liability and the consideration paid is recognised in profit or loss.

If the modification does not result in cash flows that are substantially different, as set out below, the modification does not result in derecognition. Based on the change in cash flows discounted at the original EIR, the Bank records a modification gain or loss, to the extent that an impairment loss has not already been recorded. For financial liabilities, the Bank considers a modification substantial based on qualitative factors and if it results in a difference between the adjusted discounted present value and the original carrying amount of the financial liability of, or greater than, ten percent. For financial assets, this assessment is based on qualitative factors.

**NOTE 6: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**(c) Impairment of financial assets (Policy applicable from 1 July 2018)**

*(i) Overview of the Expected Credit Loss principles*

The adoption of AASB 9 has fundamentally changed the Bank's loan loss impairment method by replacing AASB 139's incurred loss approach with a forward-looking Expected Credit Loss (ECL) approach. From 1 July 2018, the Bank has been recording the allowance for ECLs for all loans and other debt financial assets not held at FVTPL, together with loan commitments and financial guarantee contracts, in this section all referred to as 'financial instruments'. Equity instruments are not subject to impairment under AASB 9.

The ECL allowance is based on the credit losses expected to arise over the life of the asset (the Lifetime Expected Credit Loss or LTECL), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months expected credit loss (12mECL).

The 12 months ECL is the portion of LTECLs that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

Both LTECLs and 12mECLs are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial instruments.

The Bank has established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument.

Based on the above process, the Bank groups its loans into Stage 1, Stage 2, Stage 3 and POCI, as described below:

- Stage 1: When loans are first recognised, the Bank recognises an allowance based on 12m ECLs. Stage 1 loans also include facilities where the credit risk has improved and the loan has been reclassified from Stage 2.
- Stage 2: When a loan has shown a significant increase in credit risk since origination, the Bank records an allowance for the LTECLs. Stage 2 loans also include facilities, where the credit risk has improved and the loan has been reclassified from Stage 3.
- Stage 3: Loans considered credit-impaired. The Bank records an allowance for the LTECLs.
- POCI: Purchased or originated credit impaired (POCI) assets are financial assets that are credit impaired on initial recognition. POCI assets are recorded at fair value at original recognition and interest income is subsequently recognised based on a credit-adjusted EIR. ECLs are only recognised or released to the extent that there is a subsequent change in the expected credit losses.

For financial assets for which the Bank has no reasonable expectations of recovering either the entire outstanding amount, or a proportion thereof, the gross carrying amount of the financial asset is reduced. This is considered a derecognition of the financial asset.

**NOTE 6: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)****(c) Impairment of financial assets (Policy applicable from 1 July 2018) (continued)***(ii) The calculation of ECLs*

The Bank calculates ECLs based on three probability-weighted scenarios to measure the expected cash shortfalls, discounted at an approximation to the EIR. A cash shortfall is the difference between the cash flows that are due to an entity in accordance with the contract and the cash flows that the entity expects to receive.

The mechanics of the ECL calculations are outlined below and the key elements are, as follows:

- PD:** The Probability of Default is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognised and is still in the portfolio.
- EAD:** The Exposure at Default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments.
- LGD:** The Loss Given Default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realisation of any collateral or credit enhancements that are integral to the loan. It is usually expressed as a percentage of the EAD.

When estimating the ECLs, the Bank considers three scenarios (a base case, an upside, and a downside). Each of these is associated with different PDs and LGDs. When relevant, the assessment of multiple scenarios also incorporates how defaulted loans are expected to be recovered, including the probability that the loans will cure and the value of collateral or the amount that might be received for selling the asset.

The mechanics of the ECL method are summarised below:

- Stage 1:** The 12m ECL is calculated as the portion of LTECLs that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date. The Bank calculates the 12m ECL allowance based on the expectation of a default occurring in the 12 months following the reporting date. These expected 12-month default probabilities are applied to EAD and multiplied by the expected LGD and discounted by an approximation to the original EIR. This calculation is made for each of the three scenarios, as explained above.
- Stage 2:** When a loan has shown a significant increase in credit risk since origination, the Bank records an allowance for the LTECLs. The mechanics are similar to those explained above, including the use of multiple scenarios, but PDs and LGDs are estimated over the lifetime of the instrument. The expected cash shortfalls are discounted by an approximation to the original EIR.
- Stage 3:** For loans considered credit-impaired, the Bank recognises the LTECLs for these loans. The method is similar to that for Stage 2 assets, with the PD set at 100%.
- POCI** POCI assets are financial assets that are credit impaired on initial recognition. The Bank only recognises the cumulative changes in LTECLs since initial recognition, based on a probability-weighting of the four scenarios, discounted by the credit adjusted EIR.

In its ECL model, the Bank considers a broad range of information when assessing credit risk and measuring expected credit losses, including past experience, current economic conditions and forward looking information such as GDP growth, unemployment rates and house price indices.

The inputs and models used for calculating ECLs may not always capture all characteristics of the market at the date of the financial statements. To reflect this, qualitative adjustments or overlays are occasionally made as temporary adjustments when such differences are significantly material.

**NOTE 6: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**(c) Impairment of financial assets (Policy applicable from 1 July 2018) (continued)**

***(iii) Bad Debts***

Bad debts are written off when identified. Identification may include; bankruptcy, clear out or unlikelihood of recovery. If a provision for impairment has been recognised in relation to a loan, write-offs for bad debts are made against the provision. If no provision for impairment has previously been recognised, write-offs for bad debts are recognised as expenses in the Statement of Comprehensive Income. If a write-off is later recovered, the recovery is credited to bad debts recovered within impairment expense.

**(d) Impairment of financial assets (Policy applicable up to 30 June 2018)**

***(i) Loans and advances***

G&C Mutual Bank assesses at each balance date whether there is objective evidence that a loan and advance to a member, or a group of loans and advances, is impaired. A loan and advance, or a group of loans and advances, are impaired and impairment losses are incurred as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the loan and advance or group of loans and advances that can be reliably estimated. Objective evidence of impairment may include indications that the borrower, or a group of borrowers, is experiencing financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or financial restructure and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For loans and advances, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the loan or advance's original effective interest rate. The carrying amount of the loan and advance is reduced and the amount of the loss is expensed in the Statement of Comprehensive Income. If the loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or decreased by adjusting the provision for impairment.

Bad debts are written off when identified. Identification may include; bankruptcy, clear out or unlikelihood of recovery. If a provision for impairment has been recognised in relation to a loan, write offs for bad debts are made against the provision. If no provision for impairment has previously been recognised, write offs for bad debts are recognised as expenses in the Statement of Comprehensive Income. If a write-off is later recovered, the recovery is credited to bad debts recovered.

***(ii) Due from other financial institutions***

G&C Mutual Bank assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or group of financial assets is impaired and impairment losses are incurred, only if there is objective evidence of impairment as a result of one or more events that occurred after initial recognition of the asset and that loss event has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

**NOTE 6: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)****(e) Revenue recognition*****(i) Interest and similar income***

Interest income is recognised as interest accrues using the Effective Interest Rate (EIR) method. This is a method of calculating the amortised cost of a financial instrument over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts including any fees or costs through the expected life of the financial instrument to the net carrying amount of the financial asset.

Loan interest is calculated on the daily balance outstanding and is charged in arrears to a member's account on the last day of each month.

***(ii) Fee and commission income***

G&C Mutual Bank earns fee and commission income from a diverse range of services it provides to its members. Income is brought to account on an accrual basis once a right to receive consideration has been established.

The performance obligations, as well as the timing of their satisfaction, are identified, and determined, at the inception of the contract. The Bank's revenue contracts do not typically include multiple performance obligations.

When the Bank provides a service to its members, consideration is generally due immediately upon satisfaction of a service provided at a point in time or at the end of the contract period for a service provided over time.

The Bank has generally concluded that it is the principal in its revenue arrangements because it typically controls the services before transferring them to the member.

***(iii) Dividend income***

Dividend income is recorded in 'Non-interest income' when G&C Mutual Bank's right to receive the payment is established.

***(iv) Other income***

Other income is recorded in 'Non-interest income' on an accrual basis once a right to receive consideration has been established.

**(f) Income Tax**

The income tax expense for the period is the tax payable on the current period's taxable income based on the applicable income tax rate adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses (if applicable).

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period.

Deferred income tax is provided in full, based on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Current and deferred tax is recognised in the Statement of Comprehensive Income, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

**NOTE 6: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**(g) Leases**

When G&C Mutual Bank is a lessor, leases are classified as either finance leases or operating leases. Under a finance lease, substantially all the risks and rewards incidental to legal ownership are transferred to the lessee. An operating lease exists where the substantial risks and rewards of the leased assets remain with G&C Mutual Bank.

In its capacity as a lessor, G&C Mutual Bank recognises the assets held under finance leases in the Statement of Financial Position, as loans at an amount equal to the net investment of the lease.

The recognition of finance income is based on a pattern reflecting a constant periodic return on G&C Mutual Bank's net investment in the finance leases. Finance lease income is included within interest income.

Operating lease revenue is recognised on a straight line basis over the lease term. Operating lease revenue is included within 'Non-interest income'.

When G&C Mutual Bank is a lessee, it engages in operating leases in which a significant portion of the risks and rewards of ownership are not transferred to the Group. Payments made under operating leases (net of any incentives received from the lessor) are charged to operating expenses on a straight-line basis over the period of the lease.

**(h) Cash and deposits at call**

Cash and deposits at call in the Statement of Financial Position comprise cash on hand and deposits at call that are readily convertible to known amounts of cash.

Cash and deposits at call are measured at face value. Interest is recognised in the Statement of Comprehensive Income using the EIR method.

For the purpose of the Statement of Cash Flows, cash and cash equivalents consist of cash and deposits at call net of outstanding bank overdrafts.

**(i) Due from other financial institutions (Policy applicable up to 30 June 2018)**

Receivables due from other financial institutions include deposits and floating rate debt securities with other Authorised Deposit-taking Institutions ("ADIs") and exclude deposits at call with other ADIs. Interest is recognised in the Statement of Comprehensive Income as interest income is accrued. Included within this amount are balances with other financial institutions relating to SGE Funding Trust No. 1. The restricted amount varies depending on the level of assets held in the securitisation trust. These balances are restricted and not readily available to the securitisation trust or the Bank.

Deposits and floating rate debt instruments are initially recognised at fair value and are then measured at amortised cost. All other debt securities are measured at amortised cost. This cost is calculated as the amount initially recognised minus principal repayments, plus or minus the cumulative amortisation using the EIR method of the difference between the initially recognised amount and the maturity amount.

**(j) Other assets**

Other assets include amounts owed to the Bank for services provided, deposits not yet banked on the bank account, reimbursements of expenses incurred on behalf of a third party and interest accrued on deposits due from other financial institutions which is received on maturity. Amounts due for services provided are normally settled within 30 days.

Other assets are initially recorded at cost including transaction costs. At reporting date, other assets are measured at amortised cost, less any allowance for impairment.

**(k) Loans and advances (Policy applicable up to 30 June 2018)**

Loans and advances, including loans to key management personnel, are assets with fixed or determinable payments and fixed maturities that are not quoted in an active market. Such assets are measured at amortised cost using the EIR method, less allowance for impairment.

**NOTE 6: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)****(l) Investments and other financial assets (Policy applicable up to 30 June 2018)**

Investments and other financial assets are categorised as either financial assets at fair value or available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Designation is re-evaluated each financial year end.

***(i) Available-for-sale-investments***

Available-for-sale (AFS) investments are non-derivative financial assets, comprising solely of equity securities that are designated as AFS. After initial recognition, AFS securities are measured at fair value with gains or losses being recognised within other comprehensive income until the investment is derecognised or the investment is deemed to be impaired, at which time the cumulative gain or loss previously reported in other comprehensive income is recognised in the net profit before tax.

***(ii) Recognition and derecognition***

All regular way purchases and sales of financial assets are recognised on the trade date, which is the date that the Bank commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets under contracts that require delivery of the assets within the period established generally by regulation or convention in the market place.

A financial asset is derecognised where:

- the rights to receive cash flows from the asset have expired;
- G&C Mutual Bank has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party unless under a 'pass-through' arrangement; or
- either (a) G&C Mutual Bank has transferred substantially all the risks and rewards of the asset, or (b) G&C Mutual Bank has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently measured at their fair value at the end of each reporting period. The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

The Bank documents, at the inception of the hedging transaction, the relationship between the hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. G&C Mutual Bank also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions have been and will continue to be effective in offsetting changes in fair values of hedged items.

***(ii) Repurchase Agreements***

Securities sold under repurchase agreements are retained in the financial statements where substantially all the risks and rewards of ownership remain with G&C Mutual Bank.

A counterparty liability is recognised within other Financial Liabilities. The difference between the sale price and the repurchase price is accrued over the life of the repurchase agreement and charged to interest expense in the income statement using the EIR method.

**(m) Interest rate swaps**

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the Statement of Comprehensive Income, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The gain or loss relating to the effective portion of interest rate swaps hedging fixed rate borrowings is recognised in the Statement of Comprehensive Income within interest expense, together with changes in the fair value of the hedged fixed rate borrowings or deposits attributable to interest rate risk. The gain or loss relating to the ineffective portion is recognised in the Statement of Comprehensive Income within 'Non-interest income' or 'Other operating expenses'.

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the EIR methodology is used, is amortised to profit or loss over the period to maturity using a recalculated effective interest rate.

**NOTE 6: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**(n) Property, plant and equipment**

Each category of property, plant and equipment is stated at cost less accumulated depreciation and any accumulated impairment losses. Changes in the expected useful life are accounted for by changing the depreciation period or method, as appropriate, and are treated as changes in accounting estimates.

***(i) Plant and Equipment***

Plant and equipment are measured on the historical cost basis less accumulated depreciation and accumulated impairment losses. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to G&C Mutual Bank and the cost of the item can be measured reliably. All repairs and maintenance are charged to the Statement of Comprehensive Income during the financial period in which they occurred.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Any decrease in the carrying amount is recognised as an impairment expense in the Statement of Comprehensive Income in the reporting period in which the impairment loss occurs. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

***(ii) Disposal***

An item of property, plant and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal.

Any gain or loss arising on derecognition of the asset, calculated as the difference between the net disposal proceeds and the carrying amount of the asset, is included in the Statement of Comprehensive Income in the year the asset is derecognised.

***(iii) Depreciation***

Depreciation is calculated using the straight-line method to write down the cost of property, plant and equipment over their estimated useful lives. The estimated useful lives are as follows:

- Leasehold improvements 5 to 15 years (or the period of the remaining lease term)
- Plant and equipment 3 to 10 years

***(iv) Property, plant and equipment and intangible assets***

G&C Mutual Bank assesses assets for impairment at each reporting date or more frequently if events or changes in circumstances indicate that the carrying value of an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, G&C Mutual Bank makes an estimate of the asset's recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount and the difference is recognised as an impairment loss.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment was recognised. The carrying amount of the asset is increased to its recoverable amount.

**(o) Intangible assets**

Intangible assets are identifiable non-monetary assets without physical substance. They are recognised only if it is probable that the assets will generate future benefit to G&C Mutual Bank and are measured at cost.

***(i) IT development and software***

Costs incurred in developing products or systems and costs incurred in acquiring software and licenses that will contribute to future period financial benefits through revenue generation and/or cost reduction are capitalised to IT development and software. Costs capitalised include external direct costs of materials and service and direct payroll and payroll related costs of employees' time spent on developing such products or systems.

IT development and software costs include only those costs directly attributable to the development phase and are only recognised following completion of technical feasibility and where G&C Mutual Bank has an intention and ability to use the asset. Costs incurred on software maintenance are expensed as incurred.



**NOTE 6: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**(r) Provisions (continued)**

*(i) Employee benefits*

*Long-term employee benefit obligations (continued)*

Provisions for unpaid employee benefits are derecognised when the benefit is settled, or is transferred to another entity and G&C Mutual Bank is legally released from the obligation and does not retain a constructive obligation.

*(ii) Post employment benefits*

Post employment benefits may be payable to G&C Mutual Bank's Directors in circumstances where those Directors, under the terms of a Deed, serve as a Director for a continuous period of at least ten years (or seven years where the Director is older than 65 years of age as at the retirement date). The maximum amount of the retirement benefit that can be paid will not be greater than the sum of the last three years of remuneration. The provision is measured as the present value of expected future payments to be made in respect of services provided by Directors up to the reporting date.

*(iii) Make Good*

A provision has been made for the present value of anticipated future costs of restoration of leased premises. The provision includes future cost estimates associated with dismantling furniture and fittings. An asset is created as a result of this provision which is included in leasehold improvements. This asset is amortised over the effective remaining life of each lease. The calculation of this provision requires assumptions which may result in future actual expenditure differing from the amounts currently provided. The provision recognised for each service centre is periodically reviewed and updated based on the facts and circumstances available at the time. Changes to the estimated future costs for service centres are recognised in the Statement of Financial Position by adjusting both the expense or asset (if applicable) and provision.

**(s) Goods and services tax (GST)**

G&C Mutual Bank is input taxed on all income except for income from commissions and taxable fees. An input taxed supply is not subject to GST collection and 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 GST, unless the GST incurred is not recoverable from the taxation authority.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the Statement of Financial Position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the taxation authority, are presented as operating cash flows.

**(t) Business combinations**

G&C Mutual Bank 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.

G&C Mutual 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.

**NOTE 6: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)****(t) Business combinations (continued)**

As per accounting standard AASB 3 *Business Combinations*, the receiving body in a combination of mutual entities shall recognise the transferring body's net asset as a direct addition to equity in its Statement of Financial Position. Such additions are made to the Contributed Equity account (refer Note 34). The Contributed Equity account is distributable.

Acquisition costs are expensed as incurred.

**NOTE 7: STANDARDS ISSUED BUT NOT YET EFFECTIVE*****AASB 16 Leases (Effective from 1 July 2019)***

AASB 16 Leases was issued in January 2016 and replaces AASB 117 Leases. AASB 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under AASB 117.

At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset).

Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset, which will lead to a higher charge being recorded in the income statement compared to AASB 117. Lessees will also be required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

The Bank performed a detailed impact assessment of AASB 16 and will apply the modified retrospective approach as permitted by the standard. The Group will recognise a right-of-use asset at the date of initial application for leases previously classified as an operating lease applying AASB 17. As permitted by the standard, this amount will be equal to the lease liability, adjusted for any prepayments or accrued lease payments relating to that lease. The lease liability will be measured at an amount equal to the outstanding lease payments at the date of initial application, considering extension and termination options, discounted at the Bank's incremental borrowing rate of 3% in the economic environment of the lease. The capitalised right-of-use asset will mainly consist of office property and service centres.

The adoption of AASB 16 will result in the recognition of a right-of-use asset of \$3.0 million and a lease liability of \$3.3 million and will result in a reduction to retained earnings of \$0.3 million as at 1 July 2019 to reflect the accumulated depreciation expense of the right-of-use asset and the accumulated interest expense arising from the lease liability as at that date.

**NOTE 8: FINANCIAL RISK MANAGEMENT**

**Overview of Risk Governance**

The risk governance structure is the ultimate responsibility of the Board and its sub-committees including the Board Risk Committee, the Board Audit Committee and the Board Governance, Nominations & Remuneration Committee.

The Board delegates responsibilities to the Chief Executive Officer, Executive Management and Management, whilst acknowledging that it retains overall responsibility for risk governance.

The Board plays a critical role in the identification and ongoing management of material risks faced by G&C Mutual Bank and defines and sets risk appetite in respect of these risks.

The Board approves and regularly reviews a suite of policies that include reporting mechanisms and specific limits and targets which management adhere to in exercising their delegated authority. These policies are designed to ensure effective risk management and compliance with applicable regulation.

G&C Mutual Bank's 'Three Lines of Defence' risk governance model sets out the responsibilities of each of Management, Group Risk and Internal Audit. G&C Mutual Bank has established Management Committees which are responsible for managing risk and for ensuring that Board and Management Policies are adhered to. These Committees meet on a monthly basis and include the Asset and Liability Committee, the Operational Risk Management Committee and the Credit Risk Management Committee.

G&C Mutual Bank holds the following financial instruments by category:

	<b>Consolidated</b>	<b>Parent</b>	<b>Consolidated</b>	<b>Parent</b>
	<b>2019</b>	<b>2019</b>	<b>2018</b>	<b>2018</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
<b>Financial Assets</b>				
Cash and cash equivalents	8,293	8,293	26,609	26,594
Due from other financial institutions	161,407	150,897	371,593	366,137
Other assets	8,312	20,168	6,264	11,887
Loans and advances	732,611	856,891	708,572	778,405
Debt instruments at amortised cost	275,439	275,439		
Financial assets at fair value through profit or loss	4,416	4,416	-	-
Financial assets - available-for-sale	-	-	3,768	3,768
Derivative assets	-	-	36	36
	<b>1,190,478</b>	<b>1,316,104</b>	<b>1,116,842</b>	<b>1,186,827</b>
<b>Financial Liabilities</b>				
Deposits	1,022,537	1,022,537	957,737	957,737
Other liabilities	16,932	16,932	14,754	15,034
Other financial liabilities	39,991	165,617	39,992	109,697
Derivative liabilities	893	893	-	-
	<b>1,080,353</b>	<b>1,205,979</b>	<b>1,012,483</b>	<b>1,082,468</b>

**(a) Interest Rate Risk**

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows. The Board has established limits on Value at Risk (VaR) and sensitivity for stipulated periods. Assets and liabilities are placed into the maturity bucket where the contract or agreement is due to be repaid or when the interest rate may be refixed or renegotiated. Positions are monitored and hedging strategies are considered on a daily basis to ensure positions are maintained within the established limits.

**NOTE 8: FINANCIAL RISK MANAGEMENT (Continued)****(a) Interest Rate Risk (continued)**

Existing interest rate swaps are designated as hedging instruments in a portfolio hedge accounting relationship against the fair value interest rate risk of the underlying portfolio of fixed rate loans. G&C Mutual Bank makes use of monthly repricing buckets out to 1 year and then six-monthly repricing buckets from 1 year to 5 years. The hedged items are designated into the repricing buckets based on the expected repricing date. These dates are estimated through changes in interest rate and prepayment behaviour.

Interest rate swaps are also designated as hedging instruments in a portfolio hedge accounting relationship against the fair value interest rate risk of fixed term deposits. G&C Mutual Bank accepts fixed term deposits that typically pay interest either on maturity if the deposit is for a period of less than one year or annually and then on maturity if the deposit is for greater than one year to maturity. G&C Mutual Bank makes use of monthly repricing buckets out to 1 year and then six-monthly repricing buckets from 1 year to 5 years. The hedged items are designated into the bucket in which the interest is payable.

The gain (or loss) on the interest rate swap portfolio is as follows:

	Consolidated 2019 \$'000	Parent 2019 \$'000	Consolidated 2018 \$'000	Parent 2018 \$'000
Hedging Instrument - Interest Rate Swaps	(951)	(951)	145	145
Hedged Item attributable to the hedged risk	930	930	(134)	(134)
	<hr/>			
Hedge ineffectiveness	<b>(21)</b>	<b>(21)</b>	<b>11</b>	<b>11</b>

**(i) Value at Risk (VaR)**

VaR is a statistical measure of the potential loss expected due to a change in market conditions arising from currently held positions, given a certain confidence level and holding period. VaR is presented as a dollar amount and is based on historically observed volatility. The holding period represents the implied liquidation period of the portfolio. It is the number of days required to either liquidate the portfolio or hedge the risk within the portfolio. The observation period is the number of days over which the previous market data (interest rates) is observed to predict the future. The 99% confidence level is the degree of confidence with which the VaR number will not be exceeded. A 99% confidence level implies that for 99 out of 100 observations, the market value based loss will not be greater than the VaR number.

As a normal distribution is used, the standard deviation of the portfolio is multiplied by 2.33 to achieve a 99% confidence level. A proxy set of interest rates must be used to estimate the changes in the yield curve. The proxy curve used by G&C Mutual Bank is the interbank yield curve constructed from the official cash rate, BBSW and swap rates.

Since VaR is an integral part of G&C Mutual Bank's interest rate risk management, VaR limits have been established for all non-trading operations and exposures are reviewed monthly against the limits.

A 20 day 99% VaR measure has been used to capture the interest rate risk exposures.

	Consolidated 2019 \$'000	Parent 2019 \$'000	Consolidated 2018 \$'000	Parent 2018 \$'000
<b>20 day 99% confidence</b>				
VaR exposure at 30 June	796	796	334	334

**NOTE 8: FINANCIAL RISK MANAGEMENT (Continued)**

**(a) Interest Rate Risk (continued)**

*(ii) Prepayment Risk*

Prepayment risk is the risk that G&C Mutual Bank will incur a financial loss because its members and counterparties repay or request repayment earlier. G&C Mutual Bank is not exposed to abnormal prepayment risk.

**(b) Credit Risk**

Credit risk is the risk that G&C Mutual Bank will incur a loss when its members, clients or counterparties fail to discharge their contractual obligations. G&C Mutual Bank manages and controls credit risk by setting limits for individual counterparties and industry concentrations and monitoring these exposures.

G&C Mutual Bank has established a collections review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. The collections review process allows G&C Mutual Bank to assess the potential loss as a result of the risks to which it is exposed and take corrective action.

Where appropriate, G&C Mutual Bank seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, the loan is no longer considered past due. Management continuously review renegotiated loans to ensure that all criteria are met and that future payments are likely to occur.

Included within 'Loans and advances' in the Statement of Financial Position are funds committed by the Bank via unconsolidated structured entities in accordance with the Bank's risk appetite.

G&C Mutual Bank has exposure to unconsolidated structured entities in the form of commitments made to these vehicles. These commitments are transferred to these vehicles to fund loans and pay a return based on the returns of, and exposure to, those loans. The nature and extent of G&C Mutual Bank's exposure in these entities is summarised below.

	<b>2019</b>	<b>2018</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>Personal Loans</b>		
Society One P2P Lending Trust	24,856	20,236
Rate Setter Wholesale Lending Platform	9,930	1,802
<b>Commercial Loans</b>		
Lannock Capital No.5 Trust	22,153	10,976
Medpro Finance No.4 Unit Trust	23,168	12,568
<b>Total</b>	<b>80,107</b>	<b>45,582</b>

*(i) Concentration of loans*

Credit risk is concentrated when a number of counterparties are engaged in similar activities, have similar economic characteristics and thus may be similarly affected by changes in economic or other conditions. G&C Mutual Bank monitors its credit portfolio to manage risk concentrations and rebalance the portfolio.

G&C Mutual Bank has exposure limits governing the size of credit exposures to individuals and portfolios.

There are no loans to individuals or related groups of individuals which exceed 10% of loans and advances in aggregate.

**NOTE 8: FINANCIAL RISK MANAGEMENT (Continued)****(b) Credit Risk (continued)***(ii) Maximum exposure to credit risk*

Maximum exposure to credit risk before collateral held or other credit enhancements:

	Consolidated 2019 \$'000	Parent 2019 \$'000	Consolidated 2018 \$'000	Parent 2018 \$'000
<b>Credit risk exposures relating to on balance sheet assets:</b>				
Cash and cash equivalents	8,293	8,293	26,609	26,594
Due from other financial institutions	161,407	150,897	371,593	366,137
Debt instruments at amortised cost	275,439	275,439	-	-
Other assets	8,312	20,168	6,264	11,887
Loans and advances	734,186	858,466	709,793	779,626
Derivative assets	-	-	36	36
<b>Total on balance sheet</b>	<b>1,187,637</b>	<b>1,313,263</b>	<b>1,114,295</b>	<b>1,184,280</b>
<b>Credit risk exposures relating to off balance sheet assets:</b>				
Undrawn loan commitments	60,082	60,082	88,736	88,736
<b>Total on and off balance sheet assets</b>	<b>1,247,719</b>	<b>1,373,345</b>	<b>1,203,031</b>	<b>1,273,016</b>

*(iii) Collateral*

The amount and type of collateral required depends on an assessment of the credit risk of the member. Policies are in place with regards to the acceptability of types of collateral and valuation parameters.

The main type of collateral obtained is mortgages over residential properties. Management monitors the market value of residential properties by using the information and analytics services of an independent external data provider.

It is the Bank's policy to dispose of repossessed collateral in an orderly fashion. The proceeds are used to reduce or repay the outstanding claim.

During the financial period, the Bank has acquired \$Nil (2018: \$Nil) of real estate and other assets through the enforcement of security. As at period-end, there are no such assets owned by the Bank. The Bank does not take physical possession of properties or other assets held as collateral and uses external agents to realise the value as soon as practicable, generally at auction, to settle indebtedness. Any surplus funds are returned to the borrower or are otherwise dealt with in accordance with appropriate insolvency regulations.

*(iv) Impairment assessment*

The Bank considers a financial instrument defaulted and therefore Stage 3 (credit-impaired) for ECL calculations in all cases when the borrower becomes 90 days past due on its contractual payments.

As a part of a qualitative assessment of whether a customer is in default, the Bank also considers a variety of instances that may indicate unlikelihood to pay. When such events occur, the Bank carefully considers whether the event should result in treating the customer as defaulted and therefore assessed as Stage 3 for ECL calculations or whether Stage 2 is appropriate. Such events include:

- Internal rating of the borrower indicating default or near-default
- The borrower requesting emergency funding from the Bank
- The borrower having past due liabilities to public creditors or employees
- The borrower is deceased
- A material decrease in the underlying collateral value where the recovery of the loan is expected from the sale of the collateral
- A material decrease in the borrower's turnover or the loss of a major customer
- A covenant breach not waived by the Bank
- The debtor (or any legal entity within the debtor's group) filing for bankruptcy application/protection
- Debtor's listed debt or equity suspended at the primary exchange because of rumours or facts about financial difficulties

**NOTE 8: FINANCIAL RISK MANAGEMENT (Continued)**

**(b) Credit Risk (continued)**

It is the Bank's policy to consider a financial instrument as 'cured' and therefore re-classified out of Stage 3 when none of the default criteria have been present for at least six consecutive months. The decision whether to classify an asset as Stage 2 or Stage 1 once cured depends on the updated credit grade, at the time of the cure, and whether this indicates there has been a significant increase in credit risk compared to initial recognition. The Bank's criterion for 'cure' for ECL purposes is less stringent than the 24 months requirement for forbearance which is explained in Note 4.

***(v) Individually assessed provisions***

Individually assessed provisions are determined for loans identified as being impaired, in that they are unlikely to be repaid in full and the value of the collateral, where applicable, is not expected to be enough to cover the outstanding amount.

Credit facilities are monitored and assessed on a regular basis to identify non-performing credit facilities which exhibit key stress factors that act as triggers for facilities to be included on a Credit Risk Management Report. The Bank uses sound credit judgement to recognise, measure and provide for each credit facility deemed a Credit Risk Management account.

***(vi) Collectively assessed provisions***

Collective provisions are based the forward-looking expected loss (ECL) approach that is required under AASB 9 Financial Instruments.

The ECL allowance is based on the credit losses expected to arise over the life of the asset, unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months' expected credit loss.

***(vii) Analysis of age of financial assets that are past due but not impaired***

***Prior Year disclosures***

**Parent and Consolidated  
30 June 2018**

	1 to 30 days	31 to 60 days	61 to 90 days	More than 90 days	Total 2018
	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Loans and advances</b>					
Personal Loans	1,112	396	279	757	2,544
Mortgage Loans	7,545	1,045	639	1,145	10,374
Commercial Loans	-	-	-	-	-
Revolving Credit	64	105	4	59	232
<b>Total</b>	<b>8,721</b>	<b>1,546</b>	<b>922</b>	<b>1,961</b>	<b>13,150</b>

**NOTE 8: FINANCIAL RISK MANAGEMENT (Continued)*****(viii) Credit quality of financial assets***

The credit quality of financial assets with or issued by other ADIs (Note 17 & Note 18) that are neither past due nor impaired can be assessed, with reference to external long term credit ratings (if available):

	Consolidated	Parent	Consolidated	Parent
	2019	2019	2018	2018
	\$'000	\$'000	\$'000	\$'000
AAA	32,598	22,088	25,807	25,807
AA	52,431	52,431	44,851	39,380
A	64,818	64,818	112,981	112,981
BBB	162,540	162,540	162,601	162,601
Unrated	132,456	132,456	51,245	51,245
<b>Total</b>	<b>444,843</b>	<b>434,333</b>	<b>397,485</b>	<b>392,014</b>

**(c) Liquidity Risk**

Liquidity risk is the risk that G&C Mutual Bank will be unable to meet its payment obligations when they fall due under normal and stressed circumstances. It is the policy of the Board of Directors that G&C Mutual Bank maintains adequate cash reserves and committed credit facilities so as to meet the member withdrawal demands when requested.

The Bank manages liquidity risk by:

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

The Bank has a longstanding arrangement with the industry liquidity support scheme, Credit Union Financial Support Scheme (CUFSS), which can access industry funds to provide liquidity support at short notice. CUFSS is the Australian Mutual banking industry self-funded and operated "emergency" liquidity support scheme. The Bank also has an internal securitisation facility to manage liquidity risk.

G&C Mutual Bank is required to maintain at least 9% of its liabilities in a portfolio of liquid assets known as Minimum Liquidity Holdings (MLH) that can be easily liquidated in the event of an unforeseen interruption to cash flow. The liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general and specifically to G&C Mutual Bank. The most important of these is to maintain minimum regulatory limits on the ratio of MLH to total liabilities, set to reflect market conditions.

**NOTE 8: FINANCIAL RISK MANAGEMENT (Continued)**

**(c) Liquidity Risk (continued)**

The Board has determined a target MLH liquidity ratio of 12%. In the event that G&C Mutual Bank's MLH liquidity ratio falls below 12% specific remedial measures are required to be taken by the Board and management.

The MLH ratio at 30 June 2019 was 20.00% (2018: 21.66%). The average MLH ratio during the period was 21.45% (2018: 20.50%), with the highest end of month MLH ratio during the year being 25.37% (2018: 21.78%) and the lowest end of month MLH ratio during the year being 17.78% (2018: 18.32%).

*Maturities of financial liabilities*

The table below analyses G&C Mutual Bank's financial liabilities into relevant maturity groupings based on their contractual maturities.

**Consolidated**

<b>Financial Liabilities</b>	<b>On demand</b>	<b>Less than 3 months</b>	<b>3 to 12 months</b>	<b>1 to 5 years</b>	<b>Over 5 years</b>	<b>No Maturity</b>	<b>Total</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
<b>As at 30 June 2019</b>							
Deposits	410,803	322,666	205,729	99,055	-	-	1,038,253
Other liabilities	146	13,389	2,001	2,275	2,500	-	20,311
Derivative liabilities	-	14	138	741	-	-	893
Other financial liabilities	-	20,056	20,179	-	-	-	40,235
<b>Total financial liabilities</b>	<b>410,949</b>	<b>356,125</b>	<b>228,047</b>	<b>102,071</b>	<b>2,500</b>	<b>-</b>	<b>1,099,692</b>
Commitments	-	9,253	-	-	-	50,829	60,082
<b>Total commitments</b>	<b>-</b>	<b>9,253</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>50,829</b>	<b>60,082</b>

<b>Financial Liabilities</b>	<b>On demand</b>	<b>Less than 3 months</b>	<b>3 to 12 months</b>	<b>1 to 5 years</b>	<b>Over 5 years</b>	<b>No Maturity</b>	<b>Total</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
<b>As at 30 June 2018</b>							
Deposits	430,122	319,524	186,977	33,165	-	-	969,788
Other liabilities	553	9,577	2,515	1,771	338	-	14,754
Derivative liabilities	-	-	-	-	-	-	-
Other financial liabilities	-	40,099	-	-	-	-	40,099
<b>Total financial liabilities</b>	<b>430,675</b>	<b>369,200</b>	<b>189,492</b>	<b>34,936</b>	<b>338</b>	<b>-</b>	<b>1,024,641</b>
Commitments	-	10,779	-	-	-	77,957	88,736
<b>Total commitments</b>	<b>-</b>	<b>10,779</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>77,957</b>	<b>88,736</b>

## NOTE 8: FINANCIAL RISK MANAGEMENT (Continued)

## (c) Liquidity Risk (continued)

## Parent

Financial Liabilities	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	No maturity	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>As at 30 June 2019</b>							
Deposits	410,803	322,665	205,729	99,055	-	-	1,038,252
Other liabilities	146	13,389	2,001	2,275	2,500	-	20,311
Derivative liabilities	-	893	-	-	-	-	893
Other financial liabilities	-	20,056	20,179	-	125,626	-	165,861
<b>Total financial liabilities</b>	<b>410,949</b>	<b>357,003</b>	<b>227,909</b>	<b>101,330</b>	<b>128,126</b>	<b>-</b>	<b>1,225,317</b>
Commitments	-	9,253	-	-	-	50,829	60,082
<b>Total commitments</b>	<b>-</b>	<b>9,253</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>50,829</b>	<b>60,082</b>

Financial Liabilities	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	No maturity	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>As at 30 June 2018</b>							
Deposits	430,122	319,524	186,977	33,165	-	-	969,788
Other liabilities	553	9,857	2,515	1,771	338	-	15,034
Derivative liabilities	-	-	-	-	-	-	-
Other financial liabilities	-	40,099	-	-	69,705	-	109,804
<b>Total financial liabilities</b>	<b>430,675</b>	<b>369,480</b>	<b>189,492</b>	<b>34,936</b>	<b>70,043</b>	<b>-</b>	<b>1,094,626</b>
Commitments	-	10,779	-	-	-	77,957	88,736
<b>Total commitments</b>	<b>-</b>	<b>10,779</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>77,957</b>	<b>88,736</b>

**NOTE 8: FINANCIAL RISK MANAGEMENT (Continued)**

**(d) Operational Risk**

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. G&C Mutual Bank cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, G&C Mutual Bank is able to manage these risks. Controls include effective segregation of duties, access to systems, authorisation and reconciliation procedures, staff training and assessment processes including the use of internal audit.

G&C Mutual Bank manages these risks on a daily basis through the operational responsibilities of Executive and Senior Management and the functioning of the Operational Risk Management Committee under policies approved by the Board after recommendation from the Board Risk Committee covering specific areas, such as outsourcing risk, fraud risk and business continuity risk.

**(e) Capital Management**

G&C Mutual Bank maintains an actively managed capital base to cover risks inherent in its business, and adequately meeting the Capital adequacy requirements stipulated by the Australian Prudential Regulation Authority (APRA).

The primary objectives of G&C Mutual Bank's capital management policy are to ensure that G&C Mutual Bank complies with externally imposed capital requirements and that G&C Mutual Bank maintains healthy capital ratios in order to support its activities.

G&C Mutual Bank does not calculate and determine its minimum capital needs by allocating a specific value or 'capital charge' to each type of risk. Rather, the Board has resolved that G&C Mutual Bank will maintain, based on the outcomes of its annual capital planning processes, a specified 'internal minimum' capital ratio.

Under Basel III rules, APRA require authorised deposit-taking institutions to have a minimum ratio of capital to risk weighted assets of 8%, with at least 6% of this capital in the form of Tier 1 capital and at least 4.5% of this capital in the form of Common Equity Tier 1 capital. In addition, APRA imposes ADI-specific minimum capital ratios which may be higher than these levels.

The Prudential Standard sets out the essential characteristics that an instrument must have to qualify as Tier 1 or Tier 2 capital for inclusion in the capital base for assessing Level 1 and Level 2 capital adequacy.

Tier 1 capital comprises the highest quality capital components. Tier 2 capital includes other components that, to varying degrees, fall short of the quality of Tier 1 capital but nonetheless contribute to the overall strength of an institution as a going concern.

For capital adequacy purposes, the capital base is defined as the sum of Tier 1 and Tier 2 capital after all specified deductions and adjustments, subject to the various limits that apply.

During the past year G&C Mutual Bank has complied in full with all its externally imposed capital requirements.

**NOTE 9: CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS**

The preparation of the Bank's consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amount of revenues, expenses, assets and liabilities, and the accompanying disclosures, as well as the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods. In the process of applying the Bank's accounting policies, management has made the following judgements and assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Existing circumstances and assumptions about future developments may change due to circumstances beyond the Bank's control and are reflected in the assumptions if and when they occur. Items with the most significant effect on the amounts recognised in the consolidated financial statements with substantial management judgement and/or estimates are collated below with respect to the judgements/estimates involved.

***(i) Impairment losses on financial assets (Policy applicable from 1 July 2018)***

The measurement of impairment losses both under AASB 9 and AASB 139 across all financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

The Bank's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL model that are considered accounting judgements and estimates include:

- The Banks criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a LTECL basis and the qualitative assessment
- Development of ECL models, including various formulas and choice of inputs
- The segmentation of financial assets for the purposes of assessing and measuring ECL
- Determination of associations between macroeconomic scenarios and, economic inputs, such as unemployment levels and collateral values, and the effect on PDs, EADs and LGDs
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL model.

It is the Bank's policy to regularly review its model in the context of actual loss experience and adjust where necessary.

***(ii) Impairment losses on financial assets (Policy applicable up to 30 June 2018)***

G&C Mutual Bank reviews its loan portfolio and amounts due from other financial institutions at each reporting date to assess whether an allowance for impairment should be recorded in the Statement of Comprehensive Income. In particular, judgement by management is required in the estimation of the amount and timing of future cash flows when determining the level of allowance required. Furthermore management assesses the recoverability of the asset based on such factors as the value of the security held.

In addition to specific allowances against individually significant loans and advances, G&C Mutual Bank also makes a collective impairment allowance against exposures which, although not specifically identified as requiring a specific allowance, have a greater risk of default than when originally granted. This takes into consideration factors such as deterioration in industry, as well as identified structural weaknesses or deterioration in cash flows.

***(iii) Post employment benefits***

The Bank estimates the provision for post employment benefits using the present value of expected future payments to be made in respect of services provided by employees and Directors up to the reporting date.

***(iv) Fair value of financial instruments***

The fair value of financial instruments is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (i.e., an exit price) regardless of whether that price is directly observable or estimated using another valuation technique. When the fair values of financial assets and financial liabilities recorded in the Statement of Financial Position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of valuation models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, estimation is required in establishing fair values. Judgements and estimates include considerations of liquidity and model inputs related to items such as credit risk (both own and counterparty), funding value adjustments, correlation and volatility.

**NOTE 10: INTEREST INCOME**

	Consolidated 2019 \$'000	Parent 2019 \$'000	Consolidated 2018 \$'000	Parent 2018 \$'000
Cash and cash equivalents	448	303	512	419
Due from other financial institutions - calculated using EIR	9,613	9,613	-	-
Due from other financial institutions - other	-	-	9,325	9,325
Loans and advances - calculated using EIR	33,511	33,511	31,544	31,544
Interest income on notes receivable from securitisation trust	-	4,085	-	2,726
Other interest income	670	670	340	340
<b>Total interest income</b>	<b>44,242</b>	<b>48,182</b>	<b>41,721</b>	<b>44,354</b>

**NOTE 11: INTEREST EXPENSE**

Deposits calculated using EIR	14,432	14,432	16,332	16,332
Other financial liabilities - calculated using EIR	3,793	3,793	421	421
Loans assigned to securitisation trust	-	5,091	-	4,335
Subordinated debt	-	-	39	39
Other interest expense	15	15	217	217
<b>Total interest expense</b>	<b>18,240</b>	<b>23,331</b>	<b>17,009</b>	<b>21,344</b>

**NOTE 12: NON-INTEREST INCOME**

Loan fees	669	669	700	700
Transaction fees	2,602	2,602	2,867	2,867
Insurance and other commissions	257	257	255	255
Gain on sale of property, plant & equipment	11	11	-	-
Fair value gain on financial assets	573	573	-	-
Rental income	5	5	9	9
Dividend income	53	53	68	68
ATM income	45	45	253	253
Other non-interest income	148	1,263	51	1,740
<b>Total non-interest income</b>	<b>4,363</b>	<b>5,478</b>	<b>4,203</b>	<b>5,892</b>

Other non-interest income earned by the Parent includes surplus income distributions from the controlled entity.

**NOTE 13: OPERATING EXPENSES**

	Consolidated	Parent	Consolidated	Parent
	2019	2019	2018	2018
	\$'000	\$'000	\$'000	\$'000
<i>Impairment expense</i>				
Change in provision for impairment of loans & advances	150	150	585	585
Bad debts written off	1,610	1,610	1,786	1,786
Bad debts recovered	(352)	(352)	(336)	(336)
	<b>1,408</b>	<b>1,408</b>	<b>2,035</b>	<b>2,035</b>
<i>Employment expense</i>				
Salaries and wages	7,452	7,452	7,265	7,265
Superannuation expense	568	568	642	642
Other employee benefits expense	2,134	2,134	1,787	1,787
	<b>10,154</b>	<b>10,154</b>	<b>9,694</b>	<b>9,694</b>
<i>Office occupancy expense</i>				
Rental expense on operating leases	903	903	900	900
Other office occupancy costs	596	596	647	647
	<b>1,499</b>	<b>1,499</b>	<b>1,547</b>	<b>1,547</b>
<i>Depreciation and amortisation expense</i>				
Depreciation of property, plant & equipment	330	330	340	340
Amortisation of intangible assets	521	521	535	535
	<b>851</b>	<b>851</b>	<b>875</b>	<b>875</b>
<i>Information technology and communication expense</i>				
Hardware and software maintenance	1,883	1,883	1,593	1,593
Communications expense	136	136	305	305
Other information technology expense	497	497	627	627
	<b>2,516</b>	<b>2,516</b>	<b>2,525</b>	<b>2,525</b>
<i>Other expenses</i>				
Marketing and development	144	144	187	187
Loss on disposal of assets	2	2	31	31
Board and committee expenses	500	500	538	538
Membership protection and benefits	941	941	1,031	1,031
General administration expenses	937	900	970	955
Loan administration costs	407	407	440	440
Member transaction costs	1,210	1,211	1,762	1,762
Other operating expenses	480	480	476	478
	<b>4,621</b>	<b>4,585</b>	<b>5,435</b>	<b>5,422</b>
<b>Total operating expenses</b>	<b>21,049</b>	<b>21,013</b>	<b>22,111</b>	<b>22,098</b>

NOTE 14: INCOME TAX	Consolidated 2019 \$'000	Parent 2019 \$'000	Consolidated 2018 \$'000	Parent 2018 \$'000
<b>(a) Income tax expense</b>				
Current tax	2,581	2,581	2,344	2,344
Deferred tax	(151)	(151)	(332)	(332)
Deferred tax against opening Retained Earnings	350	350		
Adjustment for current tax of prior years	-	-	6	6
<b>Total</b>	<b>2,780</b>	<b>2,780</b>	<b>2,018</b>	<b>2,018</b>
<b>Deferred income tax (revenue) / expense included in income tax expense comprises:</b>				
Decrease / (increase) in deferred tax assets	(225)	(225)	(274)	(274)
(Decrease) / increase in deferred tax liabilities	424	424	(58)	(58)
<b>Total</b>	<b>199</b>	<b>199</b>	<b>(332)</b>	<b>(332)</b>
<b>(b) Analysis of income tax expense to prima facie tax payable:</b>				
Net profit before tax	9,316	9,316	6,804	6,804
Tax at the Australian tax rate of 30% (2018:30%)	2,795	2,795	2,041	2,041
<i>Add tax effect of:</i>				
Fully franked dividends received	(23)	(23)	(29)	(29)
Non deductible entertainment expenditure	7	7	8	8
(Over)/Under-provision for income tax in prior year	-	-	6	6
Other	2	2	(8)	(8)
<b>Total income tax expense</b>	<b>2,780</b>	<b>2,780</b>	<b>2,018</b>	<b>2,018</b>
<b>NOTE 15: FRANKING ACCOUNT</b>	<b>Consolidated 2019 \$'000</b>	<b>Parent 2019 \$'000</b>	<b>Consolidated 2018 \$'000</b>	<b>Parent 2018 \$'000</b>
<b>Balance of franking account at year-end adjusted</b>				
<i>The amount of franking credits available for the subsequent financial year are:</i>				
Franking account balance as at the beginning of the financial year at 30% (2018: 30%)	29,619	29,619	28,462	28,462
Franking credits transferred on transfer of business	-	-	-	-
Franking credits that will arise from payment of income tax payable as at the end of the financial year	2,783	2,783	1,128	1,128
Franking debits that will arise from payment of dividends as at the end of the financial year	-	-	-	-
Franking credits that will arise from receipt of dividends recognised as receivables as at the end of the financial year	23	23	29	29
<b>Franking account balance for future reporting periods</b>	<b>32,425</b>	<b>32,425</b>	<b>29,619</b>	<b>29,619</b>

**NOTE 16: CASH AND CASH EQUIVALENTS**

Cash on hand	296	296	717	717
Deposits at call	7,997	7,997	25,892	25,877
<b>Total cash and cash equivalents</b>	<b>8,293</b>	<b>8,293</b>	<b>26,609</b>	<b>26,594</b>

**NOTE 17: DUE FROM OTHER FINANCIAL INSTITUTIONS**

Deposits with authorised deposit-taking institutions	161,407	150,897	47,056	41,600
Debt securities issued by authorised deposit-taking institutions	-	-	324,537	324,537

<b>Total due from other financial institutions</b>	<b>161,407</b>	<b>150,897</b>	<b>371,593</b>	<b>366,137</b>
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*Maturity analysis*

Not longer than 12 months *	161,407	150,897	171,595	171,595
Longer than 12 months	-	-	199,998	194,542

<b>Total due from other financial institutions</b>	<b>161,407</b>	<b>150,897</b>	<b>371,593</b>	<b>366,137</b>
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\* Included within this amount is \$10,509,935 (2018: \$5,470,970) which is restricted and not readily available to the securitisation trust or the Bank (refer to Note 6(l)(i) for further information).

**NOTE 18: DEBT INSTRUMENTS AT AMORTISED COST**

Debt securities issued by authorised deposit-taking institutions	275,439	275,439	-	-
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<b>Total debt instruments at amortised cost</b>	<b>275,439</b>	<b>275,439</b>	<b>-</b>	<b>-</b>
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*Maturity analysis*

Not longer than 12 months	135,077	135,077	-	-
Longer than 12 months	140,362	140,362	-	-

<b>Total debt instruments at amortised cost</b>	<b>275,439</b>	<b>275,439</b>	<b>-</b>	<b>-</b>
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**NOTE 19: OTHER ASSETS**

Interest receivable on deposits due from other financial institutions	1,497	1,486	1,197	1,189
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Intercompany receivable from the securitisation trust	-	11,611	-	5,348
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Sundry debtors	23	289	189	474
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Clearing accounts	6,219	6,209	4,413	4,411
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Prepayments	573	573	465	465
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<b>Total other assets</b>	<b>8,312</b>	<b>20,168</b>	<b>6,264</b>	<b>11,887</b>
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With the exception of the intercompany receivable from the securitisation trust the majority of the above amounts are expected to be recovered within 12 months of the balance sheet date.

**NOTE 20: LOANS AND ADVANCES**

	Consolidated 2019 \$'000	Parent 2019 \$'000	Consolidated 2018 \$'000	Parent 2018 \$'000
<b>Loans and advances</b>				
Personal Loans	53,568	53,568	42,005	42,005
Mortgage Loans	611,552	611,552	624,553	624,553
Commercial Loans	59,606	59,606	32,851	32,851
Revolving Credit	9,460	9,460	10,384	10,384
<b>Total loans and advances</b>	<b>734,186</b>	<b>734,186</b>	<b>709,793</b>	<b>709,793</b>
Notes receivable from the securitisation trust	-	124,280	-	69,833
Fair value of loans in hedging relationship	937	937	(26)	(26)
<b>Less total provision for impairment</b>	<b>(2,512)</b>	<b>(2,512)</b>	<b>(1,195)</b>	<b>(1,195)</b>
<b>Net loans and advances</b>	<b>732,611</b>	<b>856,891</b>	<b>708,572</b>	<b>778,405</b>
<b>(a) Maturity Analysis</b>				
Not longer than 3 months	14,288	14,288	19,813	19,813
Longer than 3 months and not longer than 12 months	2,936	2,936	2,148	2,148
Longer than 12 months and not longer than 5 years	76,937	76,937	59,889	59,889
Longer than 5 years	640,025	640,025	627,943	627,943
<b>Total loans and advances</b>	<b>734,186</b>	<b>734,186</b>	<b>709,793</b>	<b>709,793</b>
<b>(b) Security dissection</b>				
Secured by mortgage over real estate	624,487	624,487	632,296	632,296
Partly secured by goods mortgage	41,996	41,996	23,784	23,784
Wholly unsecured	67,703	67,703	53,713	53,713
<b>Total loans and advances</b>	<b>734,186</b>	<b>734,186</b>	<b>709,793</b>	<b>709,793</b>

G&C Mutual Bank accepts a number of methods for valuing the fair value of collateral supporting loans. Real estate is valued by assessing the current market value using information provided by suitably qualified, independent accredited valuers. Motor vehicles are valued by reference to an independent valuation guide.

**NOTE 21: IMPAIRMENT OF LOANS AND ADVANCES**

**(a) Impairment allowance for loans and advances**

	Parent and Consolidated					Total
	Personal Loans	Mortgage Loans	Commercial Loans	Finance Leases	Revolving Credit	
	2019 \$'000	2019 \$'000	2019 \$'000	2019 \$'000	2019 \$'000	
<b>At 1 July 2018</b>	964	112	66	-	53	<b>1,195</b>
AASB 9 impact	967	199	-	-	-	<b>1,166</b>
Revised 1 July 2018						<b>2,361</b>
Charge for the year	2	115	34	-	-	<b>151</b>
<b>At 30 June 2019</b>	<b>1,933</b>	<b>426</b>	<b>100</b>	<b>-</b>	<b>53</b>	<b>2,512</b>
Individual impairment	159	-	-	-	-	<b>159</b>
Collective impairment	1,833	367	100	-	53	<b>2,353</b>
	<b>1,992</b>	<b>367</b>	<b>100</b>	<b>-</b>	<b>53</b>	<b>2,512</b>
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	-	-	-	-	-	-

## NOTE 21: IMPAIRMENT OF LOANS AND ADVANCES (Continued)

## (a) (i) Impairment allowance for loans and advances (continued)

	Parent and Consolidated					Total
	Personal Loans	Mortgage Loans	Commercial Loans	Finance Leases	Revolving Credit	
	2018 \$'000	2018 \$'000	2018 \$'000	2018 \$'000	2018 \$'000	
<b>At 1 July 2017</b>	433	109	30	-	37	<b>609</b>
Charge for the year	531	3	36	-	16	<b>586</b>
<b>At 30 June 2018</b>	<b>964</b>	<b>112</b>	<b>66</b>	<b>-</b>	<b>53</b>	<b>1,195</b>
Individual impairment	56	-	-	-	-	<b>56</b>
Collective impairment	908	112	66	-	53	<b>1,139</b>
	<b>964</b>	<b>112</b>	<b>66</b>	<b>-</b>	<b>53</b>	<b>1,195</b>
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	234	-	-	-	-	<b>234</b>

## (ii) Analysis of the Loans and Advances

Total loans and advances	Stage 1 (12 month ECL) \$m	Stage 2 (Lifetime ECL) \$m	Stage 3 (Lifetime ECL) \$m	Total
<b>Total loans and advances</b>				
<b>Balance at 1 July 2018</b>	<b>705,329</b>	<b>2,362</b>	<b>2,102</b>	<b>709,793</b>
New loans originated	185,160	-	-	185,160
Transferred to Stage 1	2,875	(1,760)	(1,115)	-
Transferred to Stage 2	(1,206)	1,486	(281)	-
Transferred to Stage 3	(1,133)	(609)	1,742	-
Loans repaid	(159,165)	(66)	(63)	(159,293)
Write-offs	(16)	-	(1,457)	(1,473)
<b>Balance as at 30 June 2019</b>	<b>731,844</b>	<b>1,413</b>	<b>929</b>	<b>734,186</b>

## (iii) Changes to Expected Credit Losses (ECL) provision during the year

	Stage 1 (12 month ECL) \$m	Stage 2 (Lifetime ECL) \$m	Stage 3 (Lifetime ECL) \$m	Total
<b>Provision at 1 July 2018</b>	1,793	350	218	2,361
New loans originated	479	-	-	479
Transferred to Stage 1	7	(193)	(72)	(258)
Transferred to Stage 2	(3)	283	(18)	262
Transferred to Stage 3	(3)	(108)	268	157
Loans repaid	(372)	(12)	(11)	(395)
Loans written off during the year	-	-	(94)	(94)
<b>As at 30 June 2019 per AASB 9</b>	<b>1,901</b>	<b>320</b>	<b>291</b>	<b>2,512</b>

NOTE 21: IMPAIRMENT OF LOANS AND ADVANCES (Continued)

	Consolidated	Parent	Consolidated	Parent
	2019	2019	2018	2018
	\$'000	\$'000	\$'000	\$'000
<b>(b) Impairment expense</b>				
Movement in provisions for impairment charged to profit & loss	149	149	585	585
Bad debts written off directly:				
Personal Loans	1,504	1,504	1,710	1,710
Revolving Credit	107	107	76	76
Bad debts recovered	(352)	(352)	(336)	(336)
<b>Total impairment expense</b>	<b>1,408</b>	<b>1,408</b>	<b>2,035</b>	<b>2,035</b>

The total of restructured loan balances for the year ending 30 June 2019 is \$53,469(2018: \$495,696).

A restructured loan is a loan facility where the original contractual terms have been modified on non-commercial terms to provide concessional changes for reasons relating to financial difficulties of the borrower. Where the loan after restructuring remains doubtful and it is not well secured the loan shall be subject to impairment. Loans will only be recognised as restructured once the customer has formally agreed to the new terms.

NOTE 22: FINANCIAL ASSETS - FVTPL

	Consolidated	Parent	Consolidated	Parent
	2019	2019	2018	2018
	\$'000	\$'000	\$'000	\$'000
TransAction Solutions Limited (TAS)	371	371	-	-
SocietyOne Holdings Pty Ltd	3,102	3,102	-	-
Shared Service Partners Pty Ltd	82	82	-	-
Cuscal Limited	861	861	-	-
<b>Total financial assets FVTPL</b>	<b>4,416</b>	<b>4,416</b>	<b>-</b>	<b>-</b>

	Consolidated	Parent	Consolidated	Parent
	2019	2019	2018	2018
	\$'000	\$'000	\$'000	\$'000
<b>FINANCIAL ASSETS - AVAILABLE FOR SALE (prior year)</b>				
TransAction Solutions Limited (TAS)	-	-	338	338
SocietyOne Holdings Pty Ltd	-	-	3,000	3,000
Shared Service Partners Pty Ltd	-	-	50	50
Cuscal Limited	-	-	380	380
<b>Total financial assets - available-for-sale</b>	<b>-</b>	<b>-</b>	<b>3,768</b>	<b>3,768</b>

The following table presents the estimated fair values of the shareholdings held in unlisted companies. The fair value of financial instruments is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (i.e., an exit price) regardless of whether that price is directly observable or estimated using another valuation technique. When the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques. The inputs to these valuations are taken from observable markets where possible, but where this is not feasible, estimation is required in establishing fair values.

Entity	Number of Shares	Price	Fair Value
			\$'000
Cuscal	632,779	1	861
Transaction Solutions	55,892	7	371
Shared Services	820,000	0	82
SocietyOne	899,209	3	3,102
			<b>4,416</b>

**Cuscal Limited (CUSCAL)**

Cuscal is an unlisted company that supplies services to member organisations which are all Credit Unions, Mutual Banks and Banks.

**Transaction Solutions Pty Ltd (TAS)**

TAS manages the Bank's network operations, the core banking system and provide outsourced data services.

**SocietyOne Holdings Pty Ltd**

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

**Shared Services Partners Pty Ltd**

Shared Services Partners is an aggregator of services to the mutual sector.

NOTE 23: DERIVATIVE ASSETS/LIABILITIES	Consolidated	Parent	Consolidated	Parent
	2019	2019	2018	2018
	\$'000	\$'000	\$'000	\$'000
<b>(a) DERIVATIVE ASSETS</b>				
Interest rate swaps at fair value	-	-	36	36
<b>Notional</b>	-	-	105,300	105,300
<b>Maturity Analysis</b>				
Not longer than 12 months	-	-	70	70
Longer than 12 months	-	-	(34)	(34)
	-	-	36	36
<b>(b) DERIVATIVE LIABILITIES</b>				
Interest rate swaps at fair value	893	893	-	-
<b>Notional</b>	103,350	103,350		
<b>Maturity Analysis</b>				
Not longer than 12 months	739	739	-	-
Longer than 12 months	154	154	-	-
	893	893		
<b>NOTE 24: PROPERTY, PLANT AND EQUIPMENT</b>				
<b>(a) Fixed assets</b>				
<b>Leasehold improvements</b>				
At cost	2,340	2,340	2,483	2,483
Less accumulated depreciation	(1,490)	(1,490)	(1,420)	(1,420)
	850	850	1,063	1,063
<b>Plant and equipment</b>				
At cost	948	948	972	972
Less accumulated depreciation	(717)	(717)	(681)	(681)
	231	231	291	291
<b>Net Fixed Assets</b>	1,081	1,081	1,354	1,354

**(b) Movements in carrying amounts**

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

	Parent and Consolidated		
	Leasehold Improvements	Plant and Equipment	Total
	2019	2019	2019
	\$'000	\$'000	\$'000
Balance at the beginning of the year	1,063	291	1,354
Additions	-	59	59
Disposals	-	(1)	(1)
Depreciation expense	(213)	(118)	(331)
<b>Carrying amount</b>	<b>850</b>	<b>231</b>	<b>1,081</b>

	Parent and Consolidated		
	Leasehold Improvements	Plant and Equipment	Total
	2018	2018	2018
	\$'000	\$'000	\$'000
Balance at the beginning of the year	1,190	392	1,582
Additions	109	32	141
Disposals	(15)	(14)	(29)
Depreciation expense	(221)	(119)	(340)
<b>Carrying amount</b>	<b>1,063</b>	<b>291</b>	<b>1,354</b>

NOTE 25: INTANGIBLE ASSETS

	Consolidated 2019 \$'000	Parent 2019 \$'000	Consolidated 2018 \$'000	Parent 2018 \$'000
<b>(a) Intangible assets</b>				
At cost	4,908	4,908	4,589	4,589
Less accumulated amortisation	(4,105)	(4,105)	(3,591)	(3,591)
<b>Net Intangible Assets</b>	<b>803</b>	<b>803</b>	<b>998</b>	<b>998</b>

**(b) Movements in carrying amounts**

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

	Parent and Consolidated	
	IT Develop- ment and software	Total
	2019 \$'000	2019 \$'000
Written down value balance at the beginning of the year	998	998
Additions		
Internally generated	17	17
Separately acquired	350	350
Disposals	(41)	(41)
Amortisation expense	(521)	(521)
<b>Carrying amount</b>	<b>803</b>	<b>803</b>

	Parent and Consolidated		
	IT Develop- ment and software	Bank Status	Total
	2018 \$'000	2018 \$'000	2018 \$'000
Written down value balance at the beginning of the year	1,019	135	1,154
Additions			
Internally generated	60	-	60
Separately acquired	319	-	319
Acquired under transfer of business	-	-	-
Disposals	-	-	-
Amortisation expense	(517)	(18)	(535)
<b>Carrying amount</b>	<b>881</b>	<b>117</b>	<b>998</b>

**NOTE 26: DEFERRED TAX ASSETS**

	Consolidated 2019 \$'000	Parent 2019 \$'000	Consolidated 2018 \$'000	Parent 2018 \$'000
The balance comprises temporary difference attributable to:				
<i>Amounts recognised in profit or loss</i>				
Plant, property and equipment	(33)	(33)	(84)	(84)
Doubtful debts	754	754	358	358
Employee leave benefits	750	750	712	712
Accrued expenses	112	112	203	203
Lease incentive	262	262	322	322
Fair value adjustment of investment	(257)	(257)	-	-
Provision for make good and other	49	49	(25)	(25)
<b>Net deferred tax assets</b>	<b>1,637</b>	<b>1,637</b>	<b>1,486</b>	<b>1,486</b>
Movements:				
Opening balance at 1 July	1,486	1,486	1,154	1,154
Credited / (charged) to equity after AASB 9 Provision adjustment	350	350	-	-
Credited / (charged) to the statement of comprehensive income	(199)	(199)	332	332
<b>Closing balance at 30 June</b>	<b>1,637</b>	<b>1,637</b>	<b>1,486</b>	<b>1,486</b>
Net deferred tax assets to be recovered after more than 12 months	855	855	511	511
Net deferred tax assets to be recovered within 12 months	782	782	975	975
<b>Total deferred tax assets</b>	<b>1,637</b>	<b>1,637</b>	<b>1,486</b>	<b>1,486</b>
<b>Unrecognised deferred tax assets</b>				
Deferred tax assets have not been recognised in respect of the following items:				
<b>Total losses on capital account</b>	<b>797</b>	<b>797</b>	<b>797</b>	<b>797</b>

The deferred tax asset related to capital losses will only be obtained if:

- (i) G&C Mutual Bank derives future assessable income of a nature or amount sufficient to enable the benefits from the deductions for the capital losses to be utilised
- (ii) G&C Mutual Bank continues to comply with the conditions of deductibility imposed by tax legislation
- (iii) No changes in tax legislation adversely affect G&C Mutual Bank in realising the benefits from the deductions for the losses.

The deductible temporary differences and tax losses do not expire under current tax legislation. Deferred tax assets have not been recognised in respect of these items because it is not considered probable that future taxable capital gains will be available against which they can be realised.

**NOTE 27: DEPOSITS**

	Consolidated 2019 \$'000	Parent 2019 \$'000	Consolidated 2018 \$'000	Parent 2018 \$'000
Member shares	35	35	45	45
Call deposits	410,766	410,766	430,077	430,077
Term deposits	481,713	481,713	383,013	383,013
Certificates of deposit	129,991	129,991	144,581	144,581
Fair value of deposits in hedging relationship	32	32	21	21
<b>Total deposits</b>	<b>1,022,537</b>	<b>1,022,537</b>	<b>957,737</b>	<b>957,737</b>
<b>(a) Maturity Analysis</b>				
Not longer than 12 months	929,717	929,717	927,730	927,730
Longer than 12 months	92,820	92,820	30,007	30,007
<b>Total deposits</b>	<b>1,022,537</b>	<b>1,022,537</b>	<b>957,737</b>	<b>957,737</b>

**NOTE 28: OTHER LIABILITIES**

Accrued interest payable	5,033	5,033	3,955	3,955
Payable to securitisation trust	-	-	-	279
Sundry creditors and accrued expenses	998	997	1,255	1,253
Lease incentive liability	1,702	1,702	1,973	1,973
Clearing accounts	9,199	9,200	7,571	7,574
<b>Total other liabilities</b>	<b>16,932</b>	<b>16,932</b>	<b>14,754</b>	<b>15,034</b>
<b>(a) Maturity Analysis</b>				
Not longer than 12 months	14,725	14,725	12,645	12,925
Longer than 12 months	2,207	2,207	2,109	2,109
<b>Total other liabilities</b>	<b>16,932</b>	<b>16,932</b>	<b>14,754</b>	<b>15,034</b>

## NOTE 29: OTHER FINANCIAL LIABILITIES

	Consolidated 2019 \$'000	Parent 2019 \$'000	Consolidated 2018 \$'000	Parent 2018 \$'000
Repurchase borrowings	39,991	39,991	39,992	39,992
Loans assigned to securitisation trust	-	125,626	-	69,705
<b>Total other financial liabilities</b>	<b>39,991</b>	<b>165,617</b>	<b>39,992</b>	<b>109,697</b>
<b>(a) Maturity Analysis</b>				
Not longer than 12 months	39,991	39,991	39,992	39,992
Longer than 12 months	-	125,626	-	69,705
	<b>39,991</b>	<b>165,617</b>	<b>39,992</b>	<b>109,697</b>

## NOTE 30: PROVISIONS

<b>Current</b>				
Annual leave	516	516	531	531
Long service leave	414	414	536	536
Post-employment benefits	1,402	1,402	1,175	1,175
Make good	23	23	18	18
Other provisions	223	223	421	421
<b>Non-current</b>				
Long service leave	167	167	132	132
Make good	45	45	46	46
<b>Total provisions</b>	<b>2,790</b>	<b>2,790</b>	<b>2,859</b>	<b>2,859</b>

**Movements in provisions**

Movements in each class of provision during the financial year are set out below:

	Parent and Consolidated				
	Annual leave	Long service leave	Make good provision	Post-employment benefits	Other provisions
	\$'000	\$'000	\$'000	\$'000	\$'000
<b>At 1 July 2018</b>	531	668	64	1,175	421
Arising during the year	559	39	4	227	165
Utilised	(574)	(126)	-	-	(363)
Reversed during the year	-	-	-	-	-
<b>At 30 June 2019</b>	<b>516</b>	<b>581</b>	<b>68</b>	<b>1,402</b>	<b>223</b>

NOTE 31: REDEEMABLE SHARE RESERVE	Consolidated	Parent	Consolidated	Parent
	2019	2019	2018	2018
	\$'000	\$'000	\$'000	\$'000
Opening balance	2,262	2,262	2,262	2,262
Transfer to/(from) retained earnings	-	-	-	-
<b>Total redeemable share reserve</b>	<b>2,262</b>	<b>2,262</b>	<b>2,262</b>	<b>2,262</b>

**Share redemption**

Under the *Corporations Act 2001* member shares are classified as redeemable preference shares. The redemption of these shares is required under the Act to be made from profits. The value of the shares that have been paid to members is in accordance with the terms and conditions of the share issue and the redemption account represents the amount of profits appropriated.

NOTE 32: ASSET REVALUATION RESERVE	Consolidated	Parent	Consolidated	Parent
	2019	2019	2018	2018
	\$'000	\$'000	\$'000	\$'000
Opening balance	158	158	158	158
Transfer to retained earnings on 1st July 2018 as a result of Tax on revaluation of available-for-sale financial assets	(158)	(158)	-	-
<b>Total asset revaluation reserve</b>	<b>-</b>	<b>-</b>	<b>158</b>	<b>158</b>

The asset revaluation reserve is used to record the unrealised increments and decrements on the revaluation of available-for-sale financial assets as described in Note 6(l)(i).

**NOTE 33: RETAINED EARNINGS**

Opening balance	84,978	84,978	80,192	80,192
Net Profit after Tax	6,536	6,536	4,786	4,786
Impact of adopting AASB 9 - increase in impairment allowance recognised directly in retained earnings as of 1 July 2018	(816)	(816)	-	-
Transfer from asset revaluation reserve	158	158	-	-
Dividends paid	-	-	-	-
<b>Total retained earnings</b>	<b>90,856</b>	<b>90,856</b>	<b>84,978</b>	<b>84,978</b>

**NOTE 34: CONTRIBUTED EQUITY**

Contributed Equity	17,362	17,362	17,362	17,362
<b>Total contributed equity</b>	<b>17,362</b>	<b>17,362</b>	<b>17,362</b>	<b>17,362</b>

Quay Credit Union Limited transferred all of its business to G&C Mutual Bank on 1 September 2016. The contributed equity on transfer was \$17,362,000.

**NOTE 35: REMUNERATION OF AUDITORS**

Remuneration of the auditor for:				
Statutory audit and other assurance engagements	254,490	246,990	180,000	172,500
Taxation services	29,975	25,465	33,550	33,550
Other non-audit services	-	-	2,750	2,750
<b>Total remuneration of auditors</b>	<b>284,465</b>	<b>272,455</b>	<b>216,300</b>	<b>208,800</b>

**NOTE 36: STATEMENT OF CASH FLOWS****(a) Reconciliations of cash and cash equivalents**

Cash and cash equivalents at the end of the financial year as shown in the statements of cash flows are reconciled to related items in the statement of financial position as follows:

	Consolidated 2019 \$'000	Parent 2019 \$'000	Consolidated 2018 \$'000	Parent 2018 \$'000
Cash and deposits at call	8,293	8,293	26,609	26,594
<b>Total cash and cash equivalents</b>	<b>8,293</b>	<b>8,293</b>	<b>26,609</b>	<b>26,594</b>

**(b) Cash flows presented on a net basis**

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

- member deposits in and withdrawals from savings and other deposit accounts;
- sales and purchases of maturing certificates of deposit;
- provision of member loans and the repayment of such loans.

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

Profit after income tax	6,536	6,536	4,786	4,786
<b>Non-cash flows in profit after income tax:</b>				
Net gain/(loss) on sale of property, plant and equipment	2	2	31	31
Net gain/(loss) on fair value of Financial Assets at FVTPL	(573)	(573)	-	-
Amortisation of intangibles	519	519	529	528
Depreciation	332	332	346	346
Provision for loan impairment movement	1,760	1,760	2,371	2,371
<b>Change in operating assets and liabilities:</b>				
Decrease/(Increase) in due from other financial institutions			2,649	2,709
(Increase) in loans and advances	(26,033)	(26,033)	(35,192)	(35,192)
Increase in provisions	(73)	(73)	407	407
Decrease/(Increase) in other assets	(2,048)	(8,281)	(2,630)	(1,374)
(Decrease)/Increase in deposits	64,832	64,832	(2,115)	(2,115)
(Decrease)/Increase in repurchase borrowings	(1)	(1)	28,585	28,585
Decrease/(Increase) in current tax asset	-	-	671	671
(Increase) in deferred tax asset	198	-	(332)	(332)
Increase/(Decrease) in other liabilities	1,772	1,688	1,482	960
<b>Net cash outflow from operating activities</b>	<b>47,222</b>	<b>40,707</b>	<b>1,588</b>	<b>2,381</b>
<b>(d) Changes in Liabilities arising from Financing Activities</b>				
(Increase)/Decrease in Loans and Advances	-	(54,447)	-	41,313
Redemption of subordinated debt				(995)
Increase/(Decrease) in Other Financial Liabilities	-	55,921	-	(42,106)
<b>Net cash outflow from Financing activities</b>	<b>-</b>	<b>1,474</b>	<b>-</b>	<b>(1,788)</b>

**NOTE 37: FAIR VALUE DISCLOSURE**

**(a) Valuation**

In order to show how fair values have been derived, financial instruments are classified based on a hierarchy of valuation techniques, as summarised below:

- **Level 1 financial instruments** – Those where the inputs used in the valuation are unadjusted quoted prices from active markets for identical assets or liabilities that the Bank has access to at the measurement date. The Bank considers markets as active only if there are sufficient trading activities with regards to the volume and liquidity of the identical assets or liabilities and when there are binding and exercisable price quotes available on the balance sheet date.

- **Level 2 financial instruments** – Those where the inputs that are used for valuation and are significant, are derived from directly or indirectly observable market data available over the entire period of the instrument's life. Such inputs include quoted prices for similar assets or liabilities in active markets, quoted prices for identical instruments in inactive markets and observable inputs other than quoted prices such as interest rates and yield curves, implied volatilities, and credit spreads. In addition, adjustments may be required for the condition or location of the asset or the extent to which it relates to items that are comparable to the valued instrument. However, if such adjustments are based on unobservable inputs which are significant to the entire measurement, the Bank will classify the instruments as Level 3.

- **Level 3 financial instruments** – Those that include one or more unobservable input that is significant to the measurement as whole.

The Bank periodically reviews its valuation techniques including the adopted methodologies and model calibrations.

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

***(i) Cash and cash equivalents and receivables from other financial institutions***

The carrying values of cash and cash equivalents approximate their net fair value as they are short term in nature or are receivable on demand. The fair value of receivables due from other financial institutions that are not traded in an active market is determined using discount cash flow analysis with terms to maturity that match, as closely as possible, to the estimated future cash flows.

***(ii) Loans and advances***

The carrying value of member loans is net of unearned income and both general and specific provisions for doubtful debts. For variable loans (excluding impaired loans), the amount shown in the Statement of Financial Position is considered to be a reasonable estimate of net fair value. The net 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 maturity of the loans. The discount rates applied were based on the current applicable rate offered for the average remaining term of the portfolio.

***(iii) Equity Investments***

The equity investments include in shareholdings in Society One Holdings Pty Limited, Shared Services Partners Pty Limited, Cuscal Limited and TransAction Solutions Limited (TAS). These equity investments do not have a quoted market price as at 30 June 2019 and are not actively traded. The Bank has estimated the fair value of the equity investments based on a combination of the most recent market transactions and the net asset value per share of the respective entity.

***(iv) Deposits***

The carrying amount approximates fair value for call account balances as they are at call. The fair value of term deposits are estimated using discounted cash flow analysis based on current market rates for equivalent term deposits.

## NOTE 37: FAIR VALUE DISCLOSURE (Continued)

## (b) Fair value hierarchy for financial assets and liabilities measured at fair value

## Consolidated and Parent

	Carrying value	Fair value as at 30 June 2019			Total
	2019 \$'000	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	
<b>Financial Assets</b>					
Financial Assets - FVTPL	4,416	-	-	4,416	4,416
Derivative assets	-	-	-	-	-
<b>Total Financial Assets</b>	<b>4,416</b>	<b>-</b>	<b>-</b>	<b>4,416</b>	<b>4,416</b>
Derivative Liabilities	893	893			893

## Consolidated and Parent

	Carrying value	Fair value as at 30 June 2018			Total
	2018 \$'000	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	
<b>Financial Assets</b>					
Financial Assets - available-for-sale	3,768	-	338	3,430	3,768
Derivative assets	36	-	36	-	36
<b>Total Financial Assets</b>	<b>3,804</b>	<b>-</b>	<b>374</b>	<b>3,430</b>	<b>3,804</b>

## (c) Analysis of movements between fair value hierarchy levels

The table below summarise movements in Level 3 balance during the year.

## Consolidated and Parent

	Financial Assets at FVTPL	Total
	\$'000	\$'000
<b>As at 1 July 2017</b>	<b>2,680</b>	<b>2,680</b>
Purchases	750	750
Sales/Settlements	-	-
Gains/(losses) in the period:		
Recognised in the Statement of Comprehensive Income	-	-
Transfers in/(out)	-	-
<b>As at 30 June 2018</b>	<b>3,430</b>	<b>3,430</b>
<b>As at 1 July 2018</b>	<b>3,430</b>	<b>3,430</b>
Purchases	413	413
Gains/(losses) in the period:		
Recognised in the Statement of Comprehensive Income	573	573
Transfers in/(out)	-	-
<b>As at 30 June 2019</b>	<b>4,416</b>	<b>4,416</b>

NOTE 37: FAIR VALUE DISCLOSURE (Continued)

(d) Fair value hierarchy for financial assets and liabilities not measured at fair value

Consolidated

	Carrying value	Fair value as at 30 June 2019			Total
	2019	Level 1	Level 2	Level 3	
	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Financial Assets</b>					
Due from other financial institutions	161,407	-	161,510	-	161,510
Debt Instruments at amortised cost	275,439	-	275,369	-	275,369
Other assets	8,312	-	3,936	-	3,936
Loans and advances	732,611	-	937	731,258	732,195
<b>Total Financial Assets</b>	<b>1,177,769</b>	<b>-</b>	<b>441,751</b>	<b>731,258</b>	<b>1,173,009</b>
<b>Financial Liabilities</b>					
Deposits	1,022,537	-	1,025,171	-	1,025,171
Other liabilities	16,932	-	16,930	-	16,930
Other financial liabilities	39,991	-	39,991	-	39,991
<b>Total Financial Liabilities</b>	<b>1,079,460</b>	<b>-</b>	<b>1,082,092</b>	<b>-</b>	<b>1,082,092</b>

Consolidated

	Carrying value	Fair value as at 30 June 2018			Total
	2018	Level 1	Level 2	Level 3	
	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Financial Assets</b>					
Due from other financial institutions	371,593	-	371,561	-	371,561
Other assets	6,264	-	-	6,264	6,264
Loans and advances	708,572	-	(26)	702,267	702,241
<b>Total Financial Assets</b>	<b>1,086,429</b>	<b>-</b>	<b>371,535</b>	<b>708,531</b>	<b>1,080,066</b>
<b>Financial Liabilities</b>					
Deposits	957,737	-	958,592	-	958,592
Other liabilities	14,754	-	14,754	-	14,754
Other financial liabilities	39,992	-	39,992	-	39,992
<b>Total Financial Liabilities</b>	<b>1,012,483</b>	<b>-</b>	<b>1,013,338</b>	<b>-</b>	<b>1,013,338</b>

## NOTE 37: FAIR VALUE DISCLOSURE (Continued)

## (d) Fair value hierarchy for financial assets and liabilities not measured at fair value (continued)

## Parent

	Carrying value	Fair value as at 30 June 2019			Total
	2019 \$'000	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	
<b>Financial Assets</b>					
Due from other financial institutions	150,897	-	155,376	-	<b>155,376</b>
Debt instruments at amortised cost	275,439	-	275,369	-	<b>275,369</b>
Other assets	20,168	-	20,169	-	<b>20,169</b>
Loans and advances	856,891	-	937	855,538	<b>856,475</b>
<b>Total Financial Assets</b>	<b>1,303,395</b>	-	<b>451,851</b>	<b>855,538</b>	<b>1,307,389</b>
<b>Financial Liabilities</b>					
Deposits	1,022,537	-	1,025,171	-	<b>1,025,171</b>
Other liabilities	16,932	-	16,930	-	<b>16,930</b>
Other financial liabilities	165,617	-	165,617	-	<b>165,617</b>
<b>Total Financial Liabilities</b>	<b>1,205,086</b>	-	<b>1,207,718</b>	-	<b>1,207,718</b>

## Parent

	Carrying value	Fair value as at 30 June 2018			Total
	2018 \$'000	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	
<b>Financial Assets</b>					
Due from other financial institutions	366,137	-	366,105	-	<b>366,105</b>
Other assets	11,887	-	-	16,609	<b>16,609</b>
Loans and advances	778,405	-	(26)	767,819	<b>767,793</b>
<b>Total Financial Assets</b>	<b>1,156,429</b>	-	<b>366,079</b>	<b>784,428</b>	<b>1,150,507</b>
<b>Financial Liabilities</b>					
Deposits	957,737	-	958,592	-	<b>958,592</b>
Other liabilities	15,034	-	15,031	-	<b>15,031</b>
Other financial liabilities	109,697	-	109,473	-	<b>109,473</b>
<b>Total Financial Liabilities</b>	<b>1,082,468</b>	-	<b>1,083,096</b>	-	<b>1,083,096</b>

**NOTE 38 COMMITMENTS**

To meet the financial needs of members, G&C Mutual Bank enters into various commitments. Even though these obligations may not be recognised on the Statement of Financial Position, they do contain credit risk and are therefore part of the overall risk of G&C Mutual Bank.

**(a) Future capital commitments**

G&C Mutual Bank has not entered into contracts for the purchase of property, plant and equipment which have not been recognised as a liability.

**(b) Operating Lease Commitments**

G&C Mutual Bank has entered into commercial property leases and equipment leases. The commercial property leases are on properties from which G&C Mutual Bank service centres operate, including the lease on the head office site entered into in May 2014 on which an incentive was received providing a rent free period. These operating leases have a remaining term of between one and ten years with a renewal option included at the end of the term of the lease in some of the agreements. There are no restrictions placed upon G&C Mutual Bank by entering into these leases.

Future minimum rentals payable under non-cancellable operating leases are as follows:

	Consolidated 2019 \$'000	Parent 2019 \$'000	Consolidated 2018 \$'000	Parent 2018 \$'000
Not longer than 1 year	1,419	1,419	1,679	1,679
Longer than 1 and not longer than 5 years	4,201	4,201	5,540	5,540
Longer than 5 years	56	56	1,156	1,156
<b>Total operating lease commitments</b>	<b>5,676</b>	<b>5,676</b>	<b>8,375</b>	<b>8,375</b>
<b>(c) Undrawn Loan Commitments</b>				
Loans approved but not funded	9,253	9,253	10,779	10,779
Undrawn lines of commitment	25,137	25,137	23,981	23,981
Loan redraw facilities	25,692	25,692	53,976	53,976
<b>Undrawn Loan Commitments</b>	<b>60,082</b>	<b>60,082</b>	<b>88,736</b>	<b>88,736</b>

Commitments to extend credit represent contractual commitments to make loans and provide revolving credit facilities. Commitments generally have fixed expiry dates, or other termination clauses. Since commitments may expire without being drawn upon, the total contract amounts do not necessarily represent future cash requirements.

However, the potential credit loss is less than the total unused commitment since most commitments to extend credit are contingent upon members maintaining specific standards. G&C Mutual Bank monitors the term to maturity of credit commitments because longer term commitments generally have a greater degree of credit risk than shorter term commitments.

**NOTE 39: CONTINGENT LIABILITIES**

**(a) Liquidity Support Scheme**

G&C Mutual Bank is a member of Credit Union Financial Support Scheme Limited (CUFSS) a company established to provide financial support to member Mutual Banks in the event of a liquidity problem.

G&C Mutual Bank's minimum obligation requirement, in times of need, is 3.0% (2018: 3.0%) of the total on balance sheet assets as set out in the most recent quarterly report provided to APRA. If called, the minimum deposit must be held in a form acceptable to CUFSS and be free of any encumbrances. No claims have been made during the financial year.

**NOTE 39: CONTINGENT LIABILITIES (Continued)****(b) Guarantees**

The Mutual Bank has issued guarantees on behalf of members and suppliers for the purpose of lease and trade credit facilities. The amounts of the guarantees are in total \$919,643 (2018: \$919,643). The guarantee is payable only on the member or supplier defaulting on the contractual repayments to the lessor / supplier.

**NOTE 40: INVESTMENTS IN SUBSIDIARIES AND OTHER ENTITIES****(a) Subsidiaries**

<b>Name of Entity</b>	<b>Place of Incorporation</b>	<b>Ownership interest</b>	<b>Principal activities</b>
SGE Funding Trust No. 1 Repo Series No. 1	Australia	100%	Securitisation

G&C Mutual Bank holds all the participation units issued by the trust.

There were no restrictions on the ability to transfer cash or other assets, pay dividends or other capital distributions, provide or repay loans and advances between the entities within the Group.

**(b) Structured entities**

A structured entity is an entity in which voting or similar rights are not the dominant factor in deciding control. Structured entities are generally created to achieve a narrow and well defined objective with restrictions around their ongoing activities. Depending on G&C Mutual Bank's power over the activities of the entity and its exposure to and ability to influence its own returns, it may consolidate the entity. In other cases it may have exposure to such an entity but not consolidate it.

**Consolidated structured entities**

G&C Mutual Bank has the following contractual arrangements which require it to provide financial support to its structured entities.

***(i) Securitisation structured entities***

G&C Mutual Bank provides liquidity facilities to SGE Funding Trust No. 1 Repo Series No. 1. These facilities can only be drawn to cover cash flow shortages relating to mismatches in timing of cash inflows due from securitised asset pools and cash outflows due to note holders.

**NOTE 41: RELATED PARTIES DISCLOSURES**

**(a) Directors**

The names of the Directors of G&C Mutual Bank who have held office during the financial year are:

J F Kennelly - Chair  
A P Hutchison - Vice Chair  
T J Donegan - Director  
K V Hawkins - Director  
D A Taylor - Director  
G N Hammond - Director  
P W Clarke - Director  
S J Helmich - Director

**(b) Remuneration of Key Management Personnel (KMP)**

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of G&C Mutual Bank, directly or indirectly, including any Director of G&C Mutual Bank. Key management personnel has been taken to comprise the Directors and members of Executive Management who were responsible during the financial year for the day to day financial management and operational management of G&C Mutual Bank.

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

	2019	2018
	\$	\$
• Short-term employee benefits	3,030,750	2,614,964
• Termination benefits	401,115	-
• Post-	335,015	271,956
• Other long-term benefits	51,240	57,900
<b>Total remuneration of key management personnel</b>	<b>3,818,120</b>	<b>2,944,820</b>

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

**(c) Loans to Key Management Personnel**

All loans disbursed to Directors and close family members of key management personnel (as defined by AASB124 *Related Party Disclosures*) were approved on the same terms and conditions, that are applicable to members for each class of loan. There are no loans that are impaired in relation to the loan balances with key management personnel or close family members.

Key management personnel who are not Directors may be entitled to receive a concessional rate of interest on a portion of their loans and facilities. The concessional rate for these loans is 2.5% below the standard variable rate and they are secured by first mortgages over the individuals' residences. These benefits, where subject to fringe benefits tax, are included in the remuneration in (b) above.

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

**NOTE 41: RELATED PARTIES DISCLOSURES (Continued)****(c) Loans to Key Management Personnel (continued)**

	2019	2018
	\$	\$
(i) The aggregate value of loans to key management personnel and close family members as at balance date amounted to	<u>10,080,478</u>	<u>9,023,015</u>
(ii) The total value of revolving credit facilities to key management personnel and close family members as at balance date amounted to	333,500	310,000
(iii) Less amounts drawn down and included in total loans above	<u>(79,330)</u>	<u>(82,184)</u>
<b>Net balance available</b>	<u><b>254,170</b></u>	<u><b>227,816</b></u>
Interest and other revenue earned on loans and revolving credit facilities to key management personnel and close family members	<u>247,172</u>	<u>291,325</u>

**(d) Deposits from Key Management Personnel**

Total value of term and savings deposits from key management personnel and close family members at balance date	<u>3,135,665</u>	<u>1,578,865</u>
Total interest paid on deposits to key management personnel and close family members	<u>10,405</u>	<u>32,403</u>

Key management personnel and close family members have received interest on deposits with G&C Mutual Bank during the financial year. Interest has been paid on terms and conditions no more favourable than those available on similar transactions to members of G&C Mutual Bank.

**NOTE 42: EVENTS AFTER BALANCE SHEET DATE**

There has been no other matter or significant event that has arisen after balance date which may affect G&C Mutual Bank's operations, the results of those operations or G&C Mutual Bank's state of affairs.



# CELEBRATING SIXTY YEARS

## Corporate Directory

### Auditors

Ernst & Young  
200 George Street  
Sydney NSW 2000

### Solicitors

King & Wood Mallesons  
Level 61, Governor Phillip Tower  
1 Farrer Place  
Sydney NSW 2000

### Executive Management

#### Dave Taylor

Chief Executive Officer and Director

#### Rosanna Argall

Deputy CEO and Company Secretary

#### Andrew Prichard

Chief Financial Officer

#### Akhilesh Mehta

Chief Risk Officer

#### Dave Chapman

Chief Information Officer

### Registered Office

Level 25, 201 Elizabeth Street  
Sydney NSW 2000  
Phone: 1300 364 400  
Email: [info@gcmutual.bank](mailto:info@gcmutual.bank)  
Web: [www.gcmutual.bank](http://www.gcmutual.bank)

### Service Centres

#### Sydney

Level 25, 201 Elizabeth Street, Sydney

#### Bathurst

203-209 Russell St, Bathurst NSW (via Reliance Bank)

#### Lismore

60 Molesworth Street, Lismore

#### Malabar

Detention Centre Anzac Parade, Malabar

#### Melbourne

Level 1, 128 Exhibition Street, Melbourne

#### Newcastle

328 King Street, Newcastle

#### Parramatta

Level 8, 20 Smith Street, Parramatta

#### Wagga Wagga

125 Baylis Street, Wagga Wagga

### G&C Mutual Bank Limited

Incorporated in New South Wales  
ABN 72 087 650 637  
AFSL/ACL 238311

**We're ready to help you**

1300 364 400 | [www.gcmutual.bank](http://www.gcmutual.bank)

**It's **your** bank,  
because **you own it.****