2019
Annual Report

SCU More Generous Banking

Chair and CEO's Report

We are proud to share with you our achievements from 2018 / 2019.

About SCU

SCU is community based banking organisation that provides retail, business and institutional banking. We join with trusted partners to provide excellence in banking. 45,000 members trust SCU with their banking.

Our Vision

SCU will change the way people think about banking.

Our Mission

We balance the efficiency of new technology with the personal touch from trained and motivated professional staff.

Our values

We are guided by our values in every interaction with our members, our people and the broader community.

- Co-operation;
- Moral Integrity;
- Trust;
- Culture:
- Our sense of family means we care and show we care
- Teamwork is a crucial element that should be present
- Strive to be professional
- Success, achievements and efforts to do things better
- Respectful of fellow staff members
- Make people feel empowered and enabled to do their job well
- An aspirational place to work
- Financial Prudence;
- Caring for Members; and
- Social Responsibility.

Our strategy

Member focus is the overarching priority to our Strategy. To support our members we invest in the following capabilities:

- Member Engagement / Experience
- Community
- System Reform
- Growing and Developing our People
- Financial Strength to create long-term member value
- Technology and Innovation
- Enhance member product and service options
- Enhance member pricing

Highlights in 2018 / 2019

There are many areas that stand out:

- the Board’s approval and our peoples delivery of SCU’s Strategy
- delivering upgraded web-based banking technology
- our financial performance

- implementation of a new loans origination system

SCU has again delivered strong financial performance, guided by our strategy to enhance the financial wellbeing of members, our people, and our communities.

I'm pleased to report that SCU continues to be in a strong position financially with assets of $934m, loans to members of $731m and deposits of $834m.

We hold over $87m in net assets and our capital adequacy ratio sits at 16.87%.

Throughout the year, we endeavoured to invest in technology to maintain SCU's relevance whilst ensuring we remain financially strong. To this extent we continued our focus on member experience and innovation whilst achieving a Net Profit after Tax (NPAT) of $1.477m.

What are the key actions for 2019 / 2020?

We believe SCU is rich in potential. We have strategy based on member engagement and experience. We are evolving our capabilities to meet member preferences, competition and the external environment. Coupled with these ambitions, we are creating new growth opportunities through partnerships, technology and innovation.

In broad terms, our focus is on delivering on our Strategy by continuing to grow, reforming our systems, developing our people, strengthening our engagement with our members and achieving our financial targets.

We are in a unique position of being member owned organisation, where the customer also owns the organisation. Our loyalties and decisions aren't compromised or conflicted, mutuality dictates our behaviour hence honesty and trust is non-negotiable.

Our 2019 / 2020 investment includes

- bedding in the merger between SCU and EMB and renaming SCU as Sydney Mutual Bank as part of that process.
- digital capabilities
- upgrading the retail banking system and member interfacing applications
- robotic process improvement
- staff cultural engagement
- branding and image
- member journey mapping
- segmentation strategies
- financial growth
- continuing to rollout the branch 2020 vision and integrating digital capabilities
- continuing to invest in Fintech strategies

We term automation as an evolution requiring considerable investment. Success creates a valuable platform to enable innovation and growth.

The merger between SCU and EMB became a reality as planned on the 1st October 2019. There was a lot of work involved in making this happen and full credit is due to all those who worked tirelessly on achieving this significant outcome for our members which now total approximately 75,000 with assets of nearly $1.6 billion.

The Royal Commission into banking misconduct

The banking and financial services Royal Commission into banking misconduct has been quite extraordinary.

In the executive summary of the report, Commissioner Kenneth Hayne noted that the commission had exposed conduct by financial services organisations that had attracted public outrage.

Commissioner Hayne said the key questions the commission had to answer were why such poor conduct had occurred and how to stop it happening again, with particular reference to banks, loan intermediaries

and financial advice. He added that, in many cases, the answer to the first question was obvious.

"Too often, the answer seems to be greed — the pursuit of short-term profit at the expense of basic standards of honesty," he wrote.

SCU is a member of the Mutual ADI sector and we have consistently shown superior performance in trust and customer satisfaction ratings.

The ownership structure places our members at the forefront of its processes and practices. It is rarely in conflict with its operating model. Our remuneration model does not encourage inappropriate behaviour as has been evidenced in the Commissions interim report.

The final report included 76 key recommendations handed down by Commissioner Kenneth Hayne QC earlier this year with a focus on 'restoring trust' in the financial system.

Our People

We thank all our people for their continued achievements, they undoubtedly are our most prized asset.

It is ultimately our people that create the difference in a competitive banking market. Whilst strategy and business plans are fundamentally important, it's the people and the empathy they provided to members that constitutes a banking relationship. SCU has fabulous people working to help SCU members.

Your Board is committed to evolving SCU to ensure it delivers value to members / owners, our people and the community. We thank them for their guidance and direction.

To our members, we thank you for your ongoing support.

Hans Kludass
Chair

Ashley Jennings
Chief Executive Officer

Directors' Report

Your Directors present their report together with the Consolidated Financial Statements of Sydney Credit Union Ltd (SCU) and its subsidiary (together: "The Group") for the financial year ended 30 June 2019. SCU is a company registered under the Corporations Act 2001.

INFORMATION ON DIRECTORS
The names of the Directors in office at any time during or since the end of the year are:-

Mr H R Kludass (Chair)
Mr M E Sawyer (Deputy Chair)
Mr R W Thorn
Mr G M Varcoe
Ms V M Bourke
Ms K Daynes
Mr J M Parsons
Mr A W Usher

Mr H R Kludass	-	Director
Qualifications	-	Bachelor of Commerce (Accounting) Associate Diploma in Business (Accounting) Member of Instil
Experience	-	Chair, Nov 2014 - Current Director, June 2009 - Current Remuneration Committee, 2010 - Current Executive Committee, 2010 - Current Corporate Governance Committee, 2010- Current Board Risk Committee, Aug 2016 - Nov 2017 Deputy Chair, 2010 - Nov 2014 Board Audit Committee, Nov 2009 - Nov 2014 Manager, Sutherland Shire Council Executive Officer, Sutherland Shire Council Employees Credit Union (SSCECU), 2000 - 2009 Chairman, SSCECU, 1999 - 2000 Director, SSCECU, 1997 - 2000 Business Consultant, 1997 - 2008
Interest in Shares	-	1 Member Share in SCU
Mr M E Sawyer	-	Director
Qualifications	-	Diploma of Financial Services Fellow of the Australasian Mutuals Institute Member of the Australian Institute of Management Member of Instil Supervision Certificate Train the Trainer Certificate Electrical Trades Certificate
Experience	-	Deputy Chair, Nov 2014 - Current Director, Oct 2005 - Current Chair, Corporate Governance Committee, Dec 2011 - Current Executive Committee, Dec 2011 - Current Remuneration Committee, Dec 2011 - Current Board Audit Committee, Dec 2005 - Nov 2008 Board Risk Committee, Nov 2008 - Nov 2011 & August 2016 Director of Karpaty Foundation Pty Limited, 2011 - Current Director, Pinnacle Credit Union, 2003 - 2005

		Director of Licensed / Registered Club, 1993 - 1994 Managing Director of a Travel Company, 2008 - Current Total Quality Management (Energy Australia 1992 - 1994)
Interest in Shares	-	1 Member Share in SCU
Ms. V M Bourke	**-**	Director
Qualifications	-	Master of Human Resource Management Bachelor of Business (HR) Graduate Certificate in Human Resource Management Graduate Certificate in Local Government Management Member of Instil
Experience	-	Director, Nov 2014 - Current Board Audit Committee, Nov 2014 - Current 19 years' experience in senior HR roles in Local Government
Interest in Shares	-	1 Member Share in SCU
Ms. K A Daynes	-	Director
Qualifications	-	Graduate Certificate of Business Graduate Certificate in Management Member of Instil
Experience	-	Director, Dec 2014 - Current Board Audit Committee, Nov 2017 - Current Board Risk Committee, Dec 2014 - Oct 2017 16 years' experience in senior roles at Department of Human Services Director AMCU, 2004 - Nov 2014 Vice Chairman AMCU, 2012 - Nov 2014 Interest Rate Committee AMCU, 2012 - Nov 2014
Interest in Shares	-	1 Member Share in SCU
Mr. J M Parsons	-	Director
Qualifications	-	Certificate in Accounting Member of Instil
Experience	-	Director, Dec 2014 - Current Chair, Board Risk Committee, July 2016 - Current Board Risk Committee, Dec 2014 - Current Executive Committee, July 2016 - Current Remuneration Committee, July 2016 - Current 37 years in senior roles at the Australian Tax Office Director AMCU, 1988 - Nov 2014 Chairman AMCU, 1994 - Nov 2014
Interest in Shares	-	1 Member Share in SCU
Mr R W Thorn	-	Director
Qualifications	-	Bachelor of Business Certificate in Electrical Engineering Member of Instil
Experience	-	Director, Dec 2005 – Current Executive Committee, 2008 – Current

		Remuneration Committee, 2010 - Current Corporate Governance Committee, 2010 - Current Chair, Board Audit Committee, Nov 2008 - Current Board Audit Committee, Dec 2005 - Current Director, Prospect Credit Union, 2001 - 2006
Interest in Shares	-	1 Member Share in SCU
Mr A Usher	-	Director
Qualifications	-	Bachelor of Laws (Hons 1) Bachelor of Arts (Economics) Company Directors' Course Graduate Diploma of Applied Corporate Governance Certificate, Human Resource Practice Solicitor, Member, Law Society of NSW Fellow, Governance Institute of Australia Member, Inst. of Chartered Secretaries & Administrators Associate Fellow, Risk Management Institution of Australasia Graduate of Australian Institute of Company Directors Member of Instil
Experience	-	Director, May 2017 - Current Board Risk Committee, May 2017 - Current Manager, Sutherland Shire Council
Interest in Shares	-	1 Member Share in SCU
Mr G M Varcoe	-	Director
Qualifications	-	Bachelor of Engineering (Civil) Master of Business Administration (Technology Management) Graduate Diploma of Management (Technology Management) Builders Licence Member of Instil
Experience	-	Director, Apr 2008 - Current Board Risk Committee, Dec 2015 - Current Board Audit Committee, May 2008 - Nov 2015 Director, Blue Mountains & Riverlands Community Credit Union (BM&RCCU), 1997 - Mar 2008 Chair, Corporate Governance Committee BM&RCCU, 2006 - Mar 2008 Licensed Builder and Consultant Engineer
Interest in Shares	-	3 Member Shares in SCU
Mr A J Jennings	**-**	Chief Executive Officer and Company Secretary
Qualifications	-	Advanced Diploma in Accounting Certificate III in Investment and Personal Financial Planning Diploma of Management Justice of the Peace
Experience	-	38 years in the Financial Services Industry Sydney Credit Union CEO & Company Secretary since 1998
Other Directorships	-	TransAction Solutions Pty Ltd Director of Karpaty Foundation Pty Limited Shared Services Partners Pty Limited
Interest	-	1 Member Share in SCU

Director	Board		Executive & Remuneration		Audit & Compliance		Risk Management		Corporate Governance		Period of Appointment
	H	A	H	A	H	A	H	A	H	A	
Hans Kludass	11	10	3	3					3	3	01/07/2018 to 30/06/2019
Mark Sawyer	11	10	3	3					3	3	01/07/2018 to 30/06/2019
Ray Thorn	11	10	3	3	4	4			3	3	01/07/2018 to 30/06/2019
Gary Varcoe	11	8					5	4			01/07/2018 to 30/06/2019
Vanessa Bourke	11	8			4	3					01/07/2018 to 30/06/2019
Kerrie Daynes	11	11			4	4					01/07/2018 to 30/06/2019
John Parsons	11	9	3	3			5	5	3	3	01/07/2018 to 30/06/2019
Anton Usher	11	8					5	4			01/07/2018 to 30/06/2019

H = Meetings Held
A = Meetings Attended

Directors' Benefits

No Director has received or become entitled to receive during, or since the financial year, a benefit because of a contract made by the Group, controlled entity, or a related body corporate with a Director, a firm of which a Director is a Member or an entity in which a Director has a substantial financial interest, other than that disclosed in Note 28 of the financial report.

Indemnifying Officer Or Auditor

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

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

Financial Performance Disclosures

Principal Activities

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

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

Operating Results

The net profit of the Group for the year after providing for income tax was $1,477,000 (2018 $3,876,217).

There were no significant events during the year that impacted upon the current year's result.

Dividends

Since the end of the financial year, no dividends have been paid or declared by the Directors of the Group from the profits earned during the year ended 30 June 2019 or prior.

Review Of Operations

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

Significant Changes In State Of Affairs

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

Events Occurring After Balance Date

The Members of SCU and Endeavour Mutual Bank (EMB) have voted in favour of, and the Australian Prudential Regulation Authority has approved, EMB transferring its business to SCU effective 1 October 2019.

No other matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations, or state of affairs of the Group in subsequent financial years

Likely Developments And Results

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

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

in the financial years subsequent to this financial year.

Auditors' Independence

The auditors have provided the declaration of independence to the Board as prescribed by the Corporations Act 2001 as set on page 8 of this report**.**

Rounding

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

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

H Kludass **Chair**	**R Thorn** **Chair, Board Audit Committee**

Signed and dated this 27 September 2019

Independent Auditor's Report

To the members of Sydney Credit Union Ltd

Opinion

We have audited the ***Financial Report*** of Sydney Credit Union Ltd (the Credit Union) and the ***Financial Report*** of the Group.

In our opinion, the accompanying Financial Report of the Credit Union and the Group is in accordance with the *Corporations Act 2001*, including:

- giving a true and fair view of the ***Group***'s financial position as at 30 June 2019 and of its financial performance for the year ended on that date; and
- complying with *Australian Accounting Standards* and the *Corporations Regulations 2001*.

The ***Financial Report*** of the Credit Union and the Group comprises:

- Consolidated and Credit Union's Statement of financial position as at 30 June 2019;
- Consolidated and Credit Union's statement of profit or loss and other comprehensive income, Consolidated statement of changes in member equity, and Consolidated statement of cash flows for the year then ended;
- Notes including a summary of significant accounting policies; and
- Directors' Declaration.

The ***Group*** consists of the Credit Union and the entity it controlled at the year-end or from time to time during the financial year.

Basis for opinion

We conducted our audit in accordance with *Australian Auditing Standards*. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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 and the Credit Union in accordance with the *Corporations Act 2001* and the ethical requirements of the *Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the Financial Report in Australia. We have fulfilled our other ethical responsibilities in accordance with the Code.

Other Information

Other Information is financial and non-financial information in Sydney Credit Union Ltd's annual reporting which is provided in addition to the Financial Report and the Auditor's Report. The Directors are responsible for the Other Information.

The Other Information we obtained prior to the date of this Auditor's Report was the Directors' Report.

Our opinion on the Financial Report does not cover the Other Information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the Financial Report, our responsibility is to read the Other Information. In doing so, we 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.

We are required to report if we conclude that there is a material misstatement of this Other Information, and based on the work we have performed on the Other Information that we obtained prior to the date of this Auditor's Report we have nothing to report.

Responsibilities of the Directors for the Financial Report

The Directors are responsible for:

- preparing the Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001;*
- implementing necessary internal control to enable the preparation of a Financial Report that gives a true and fair view and is free from material misstatement, whether due to fraud or error; and
- assessing the Group's ability to continue as a going concern and whether the use of the going concern basis of accounting is appropriate. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the 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 objective is:

- 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 *Australian Auditing Standards* will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They 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 the Financial Report.

A further description of our responsibilities for the audit of the Financial Report is located at the *Auditing and Assurance Standards Board* website at: http://www.auasb.gov.au/auditors_responsibilities/ar3.pdf. This description forms part of our Auditor's Report.

KPMG

KPMG

Peter Zabaks
Partner
Sydney
27 September 2019

Directors' Declaration

1. In the opinion of the directors of Sydney Credit Union Limited:

   (a) the Consolidated Financial Statements and Notes that are set out on pages 12 to 63 are in accordance with the Corporations Act 2001, including;

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

      (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001.

   (b) there are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable.

2. The directors draw attention to Note 1 to the consolidated financial statements, which includes a statement of compliance with International Financial Reporting Standards.

Signed in accordance with a resolution of directors:

H Kludass
Chairman

Dated this 27 September 2019

Consolidated Statement Of Profit Or Loss And Other Comprehensive Income For The Year Ended 30 June 2019

	Note	2019 $'000	2018 $'000
Interest revenue	2.a	33,244	32,272
Less: Interest expense	2.c	11,170	10,675
Net Interest income		**22,074**	**21,597**
Add: Fees, Commission and Other Income	2.b	2,736	5,510
Sub Total		**24,810**	**27,107**
Less:			
Non-Interest Expenses			
Impairment Losses on loans receivable from members	2.d	704	401
Fee and Commission expenses		2,867	2,853
		3,571	3,254
General Administration			
- Employees compensation and benefits		11,590	11,451
- Depreciation and Amortisation	2.e	729	607
- Information technology		2,175	1,897
- Office occupancy		2,378	2,293
- Other administration		1,225	1,245
Total General Administration		18,097	17,494
Other Operating Expenses	2.f	950	974
Total Non-Interest Expenses		**22,618**	**21,722**
Profit before Income Tax		**2,192**	**5,385**
Income Tax Expense	3	715	1,509
Profit after Income Tax		**1,477**	**3,876**
Other Comprehensive Income, net of Income tax			
Items that will not be reclassified subsequently to profit or loss			
Movement in reserve for equity instruments at Fair Value through Other Comprehensive Income		276	-
Movement in reserve for land and buildings at fair value		4,521	
Total Comprehensive Income		**6,274**	**3,876**

The above Consolidated Statement of Profit or Loss and Other Comprehensive Income should be read in conjunction with the accompanying notes.

Consolidated Statement Of Changes In Member Equity For The Year Ended 30 June 2019

	Opening Balance 1/7/2018 $'000	Changes on initial adoption of AASB9 $'000	Profit for the Year $'000	Transfers to / (from) Reserves $'000	Changes to Other Comprehensive Income $'000	Closing Balance 30/6/2019 $'000
Preference Share Capital	-	-	-	-	-	-
Capital Reserve Account	727	-	-	8	-	735
Asset Revaluation Reserve	2,458	1,933	-	(1,212)	4,797	7,976
General Reserve	12,829	-	-	1,212	-	14,041
General Reserve for Credit Losses	2,300	(2,300)	-	-	-	-
Retained Earnings	62,345	803	1,477	(8)	-	64,617
TOTAL	80,659	436	1,477	-	4,797	87,369

Consolidated Statement Of Changes In Member Equity For The Year Ended 30 June 2018

	Opening Balance 1/7/2017 $'000	Profit for the Year $'000	Redemption of Share Capital $'000	Transfers to / (from) Reserves $'000	Dividends Paid $'000	Closing Balance 30/6/2018 $'000
Preference Share Capital						
Capital Reserve Account	719	-	-	8	-	727
Asset Revaluation Reserve	2,458	-	-	-	-	2,458
General Reserve	12,829	-	-	-	-	12,829
General Reserve for Credit Losses	2,300	-	-	-	-	2,300
Retained Earnings	58,477	3,876	-	(8)	-	62,345
TOTAL	76,783	3,876	-	-	-	80,659

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

Consolidated Statement Of Financial Position
As At 30 June 2019

	Note	2019 $'000	2018 $'000
ASSETS			
Cash and Cash Equivalents	4	13,030	9,219
Liquid Investments at Amortised Cost	5	27,230	48,981
Due from other financial institutions		10,903	5,240
Receivables	6	1,174	1,781
Prepayments		564	576
Loans to Members	7 & 8	731,267	674,605
Society One Loans	7 & 8	4,979	2,802
LeasePlus Leases	7 & 8	3,541	2,917
Investment and equity securities	9	126,653	111,447
Property, Plant and Equipment	10	13,307	7,016
Taxation Assets	11	732	2,527
Intangible Assets	12	605	418
TOTAL ASSETS		**933,985**	**867,529**
LIABILITIES			
Borrowings		-	4,000
Deposits from Members	13	833,583	771,619
Creditor Accruals and Settlement Accounts	14	8,418	6,347
Taxation Liabilities	15	398	822
Provisions	16	4,217	4,082
TOTAL LIABILITIES		**846,616**	**786,870**
NET ASSETS		**87,369**	**80,659**
MEMBERS EQUITY			
Capital Reserve Account	18	735	727
Asset Revaluation Reserve	19 (i)	7,976	2,458
General Reserves	19 (ii)	14,041	12,829
General Reserve for Credit Losses	20	-	2,300
Retained Earnings		64, 617	62,345
TOTAL MEMBERS EQUITY		**87,369**	**80,659**

The above Consolidated Statement of Financial Position should be read in conjunction with the accompanying notes.

Consolidated Statement Of Cash Flows
For The Year Ended 30 June 2019

	Note	2019 $'000	2018 $'000
REVENUE ACTIVITIES			
Revenue Inflows			
Interest received		33,818	31,767
Fees and commissions		2,369	2,600
Dividends		251	324
Other income		163	393
		36,601	**35,084**
Revenue Outflows			
Interest paid		(10,743)	(10,646)
Suppliers and employees		(21,030)	(20,602)
Income taxes paid		(1,598)	(1,118)
		(33,371)	(32,366)
Net Cash from Revenue Activities	**33(c)**	**3,230**	**2,718**
INFLOWS FROM OTHER OPERATING ACTIVITIES			
Decrease (increase) in Member loans (net)		(59,605)	(52,797)
Decrease (increase) in non-Member loans (net)		(2,704)	(4,133)
Increase in Member deposits and shares (net)		63,594	(5,819)
Decrease in receivables from other financial institutions (net)		15,587	52,238
Net Cash from Operating Activities		**16,872**	**(10,511)**
INVESTING ACTIVITIES			
Inflows			
Proceeds on sale of property, plant and equipment		23	2,962
Proceeds on sale of intangible assets		13	-
Less: Outflows			
Purchase of equity investments		(20)	-
Purchase of intangible assets		(348)	(297)
Purchase of property plant and equipment		(430)	(1,012)
Increase in Investment Securities		(11,529)	-
Net Cash from Investing Activities		**(12,291)**	**1,653**
FINANCING ACTIVITIES			
Inflows/(Outflows)			
Decrease in Borrowings		(4,000)	(2,000)
Increase in Borrowings		-	4,000
Net Cash from Financing Activities		**((4,000)**	**2,000**
Total Net Cash increase/(decrease)		3,811	(4,140)
Cash at Beginning of Year		9,219	13,359
Cash at End of Year	**33(a)**	**13,030**	**9,219**

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

1 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

This financial report is prepared for Sydney Credit Union Limited (the Group) as a consolidated entity, for the year ended the 30 June 2019. These consolidated financial statements as at and for the year ended 30 June 2019 comprises the Company and the SCU Trust No 1 (the Trust), a special purpose vehicle deemed under accounting standards to be controlled by SCU (together referred to as "the Group"). The report was authorised for issue on 27 September 2019 in accordance with a resolution of the Board of Directors. The consolidated financial report is presented in Australian dollars. SCU has elected to present one set of financial statements which represent both SCU as the parent entity of the Group and the consolidated financial statements of the Group on the basis that the impact of consolidation is not material to the financial statements of either the parent or the Group. On that basis these financial statements do not include a parent entity financial statements note.

The financial report is a general purpose financial report which has been prepared in accordance with the requirements of the Corporations Act 2001, Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board. Compliance with Australian Accounting Standards ensures compliance with the International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB). Sydney Credit Union Limited is a for-profit entity for the purpose of preparing the financial statements.

a. Basis of Measurement

The financial statements have been prepared on an accruals basis, and are based on historical costs, which do not take into account changing money values or current values of non-current assets, except land and buildings and investment property stated in Note 9, employee entitlements stated in Note 15 and equity investments in Note 18. The accounting policies are consistent with the prior with the below exceptions.

b. Change in accounting policies

The Group has consistently applied its accounting policies to all periods presented in these financial statements, with the following exceptions:

1. The implementation of AASB 15 *Revenue from Contracts with Customers* and AASB 9 *Financial Instruments*. These standards became effective on 1 July 2018. The accounting policies have been adjusted where applicable as described below; and
2. The change in accounting policy related to valuation of land and buildings within the property, plant and equipment caption, as described below.

c. Classification and subsequent measurement of financial assets and financial liabilities

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

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

(i) Classification and subsequent measurement of financial assets – policy from 1 July 2018

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

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

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

Classifications are determined by both:

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

Subsequent measurement of financial assets
Financial assets at amortised cost

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

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

After initial recognition, these are measured at amortised cost using the effective interest method. Discounting is omitted where the effect of discounting is immaterial. The Group's cash and cash equivalents and trade receivables fall into this category of financial instruments as well as bonds that were previously classified as held to maturity under AASB 139.

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

Financial assets that are within a different business model other than 'hold to collect' or 'hold to collect and sell' are categorised as fair value through profit or loss. Further, irrespective of business model financial assets whose contractual cash flows are not solely payments of principal and interest are accounted for at FVPL.

Fair Value through Other Comprehensive Income (FVOCI)

Investments in equity instruments that are not held for trading are eligible for an irrevocable election at inception to be measured at FVOCI. Subsequent movements in fair value are recognised in other comprehensive income and are never reclassified to profit or loss. Dividends from these investments continue to be recorded as other income within the profit or loss unless the dividend clearly represents return of capital. This category includes unlisted equity securities held in Cuscal Ltd and TransAction Solutions Ltd that were previously classified as "available for sale" under AASB 139. Following the introduction of AASB 9 the revaluation of the shares as at 1 July 2018 is through the opening balance of reserves and any subsequent change throughout the year as a regular change though other comprehensive income.

(ii) Impairment

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

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

(iii) Classification and subsequent measurement of financial liabilities – policy from 1 July 2018

The Group's financial liabilities include borrowings and trade and other payables.

Financial liabilities are measured subsequently at amortised cost using the effective interest method.

d. **Loans to Members**

(i) Basis of recognition

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

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

(ii) Interest earned

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

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

Credit cards – the interest is calculated initially on the basis of the daily balance outstanding and is charged in arrears to a Members account on the 28th day of each month, on cash advances and purchases in excess of the payment due date. Purchases are granted up to 55 days interest free until the due date for payment.

Non-accrual loan interest – while still legally recoverable, interest is not brought to account as income where the Group is informed that the Member has deceased, or, where a loan is impaired.

(iii) Loan origination fees and discounts

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

(iv) Transaction costs

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

(v) Fees on loans

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

e. **Loan Impairment**

Policy applicable after 1 July 2018

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

The Group considers a broader range of information when assessing credit risk and measuring expected credit losses, including past events, current conditions, reasonable and supportable forecasts that affect the expected collectability of the future cash flows of the instrument.
In applying this forward-looking approach, a distinction is made between:

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

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

(i) Measurement of ECL

'12-month expected credit losses' are recognised for the Stage 1 category while 'lifetime expected credit losses' are recognised for the Stage 2 category. Measurement of the expected credit losses is determined by a probability weighted estimate of credit losses over the expected life of the financial instrument. They are measured as follows:

- financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls;
- financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows; and
  undrawn loan commitments: as the present value of the difference between the contractual cash flows that are due to The Group if the commitment is drawn down and the cash flows that The Group expects to receive.

(ii) Restructured financial assets

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognized and ECLs are measured as follows:

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

(iii) Credit impaired financial assets

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

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

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

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

(iv) Presentation of allowance for ECL in the statement of financial position

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

- financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;
- loan commitments and financial guarantee contracts: generally, as a provision; and
- where a financial instrument includes both a drawn and an undrawn component, and The Group cannot identify the ECL on the loan commitment component separately from those on the drawn component: The Group presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision.

f. **Bad debts written off (direct reduction in loan balance)**

Bad debts are written off from time to time as determined by management and the Board of Directors when it is reasonable to expect that the recovery of the debt is unlikely. Bad debts are written off against the provisions for impairment, if a provision for impairment had previously been recognised. If no provision had been recognised, the write offs are recognised as expenses in the income statement

g. **Property, Plant and Equipment**

(i) The accounting policies for land and buildings have changed from measurement at cost less accumulated depreciation to fair value less accumulated depreciation. A full revaluation is performed every 3 years. Revaluation increments are credited to the asset revaluation reserve, unless it reverses a previous decrease in value in the same asset previously debited to the Statement of Comprehensive Income. A deferred tax liability is provided when a revaluation occurs. Revaluation decreases are debited to the Statement of Comprehensive Income unless it directly offsets a previous revaluation increase in the same asset in the asset revaluation reserve.

(ii) All other classes of property, plant and equipment are recognised at cost, less accumulated depreciation.

(iii) Property, plant and equipment, with the exception of freehold land, are depreciated on a straight line basis so as to write off the net cost of each asset over its expected useful life to the Group. The useful life is adjusted as appropriate at each reporting date. The estimated useful life of the assets at balance date are as follows:

- Buildings - 40 years.
- Leasehold Improvements – lesser of the lease term or 10 years.
- Plant and Equipment - 3 to 7 years.
- Assets less than $300 are not capitalised.

(iv) Investment Property

Investment properties are measured at fair value less accumulated depreciation.

Any gain or loss on disposal of investment property (calculated as the difference between the net proceeds from disposal) and the carrying amount of the item) is recognised in profit or loss. When investment property that was previously classified as property, plant and equipment is sold, any related amount in the revaluation reserve is transferred to retained earnings.

(v) Sale and leaseback transactions

For a sale and leaseback transaction that results in a finance lease, any excess of proceeds over the carrying amount is deferred and amortised over the lease term.

For a transaction that results in an operating lease, if the transaction is carried out at fair value the profit and loss is recognised immediately.

h. **Receivables from Other Financial Institutions**

Term deposits, Bonds and Negotiable Certificates of Deposit with other financial institutions are unsecured and have a carrying amount equal to their principal amount. Interest is paid on the daily balance at maturity. All deposits are in Australian currency.

The accrual for interest receivable is calculated on a proportional basis of the expired period of the term of the investment. Interest receivable is included in the amount of receivables in the statement of financial position.

i. **Member Deposits**

(i) **Basis for Measurement**

Member savings and term investments are quoted at the aggregate amount of money owing to depositors.

(ii) **Interest Payable**

Interest on savings is calculated on the daily balance and posted to the accounts periodically, or on maturity of the term deposit. Interest on savings is brought to account on amount of money owing to depositors on an accrual basis in accordance with the interest rate terms and conditions of each savings and term deposit account as varied from time to time. The amount of the accrual is shown as part of amounts payable.

j. **Borrowings**

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

k. **Provision for Employee Benefits**

Provision is made for the Group's liability for employee benefits, including annual leave and personal leave arising from services rendered by employees to balance date. Employee benefits expected to be settled within one year, have been measured at their nominal amount.

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

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

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

Contributions are made by the Group to an employee's superannuation fund and are charged to the income statement as incurred.

l. **Leasehold on premises**

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

A provision is recognised for the estimated make good costs on the operating leases, based on the Net Present Value of the future expenditure at the conclusion of the lease term discounted at 5%.

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

m. **Income Tax**

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

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

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

n. **Cash and Cash Equivalents**

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

o. **Intangible Assets**

Items of computer software which are not integral to the computer hardware owned by the Group are classified as intangible assets.

Computer software held as intangible assets is amortised over the expected useful life of the software. These lives range from 2 to 5 years.

p. **Goods and Services Tax (GST)**

As a financial institution the Group is input taxed on all income except other income from commissions and some fees. An input taxed supply is not subject to GST collection, and similarly the GST paid on related or apportioned purchases cannot be recovered. As some income is charged GST, the GST on purchases are generally recovered on a proportionate basis. In addition certain prescribed purchases are subject to reduced input tax credits (RITC), of which 75% of the GST paid is recoverable.

Revenue, expenses and assets are recognised net of the amount of goods and services tax (GST). To the extent that the full amount of GST incurred is not recoverable from the Australian Tax Office (ATO), the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense.

Receivables and payables are stated with the amount of GST included where applicable GST is collected. The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or current liability in the statement of financial position. Cash flows are included in the cash flow statement on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the Australian Taxation Office are classified as operating cash flows.

q. **Consolidation**

(i) **Business combinations**

The Group applies the acquisition method in accounting for business combinations.

Under Financial Sector (Transfers of Business) Act 1999 all the assets and liabilities of the transferring body, wherever those assets and liabilities are located, become (respectively) assets and liabilities of the receiving body without any transfer, conveyance or assignment.

The consideration transferred by the Group to obtain control of the net assets is calculated as the sum of the acquisition-date fair values of assets transferred, liabilities incurred and the equity interests issued by the Group, which includes the fair value of any asset or liability arising from a contingent consideration arrangement. Acquisition costs are expensed as incurred.

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

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

Where the fair values of identifiable net assets exceed the sum calculated above, the excess amount is recognised directly in equity for a mutual organisation as prescribed by AASB 3 Guidance B47. Acquisition costs are expensed as incurred.

(ii) **Variable interest entities**

The consolidated statements include those of SCU and SCU Trust No.1, which was created on 4 August 2017. The Trust holds rights to a portfolio of mortgage secured loans to enable SCU to secure funds from the Reserve Bank of Australia, if required to meet emergency liquidity requirements.

The trust is consolidated as SCU has the power to govern the financial and operating policies so as to gain benefits from its activities. Since SCU has not transferred all the risks and rewards to the Trust, the assigned loans are retained in the books of SCU and are not de-recognised. The Trust's underlying assets, liabilities, revenues, expenses and cash flows are reported in the Consolidated Statement of Profit or loss and Other 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 unrealized profit.

The Group has elected to present one set of financial statements to represent both SCU and the Trust as a consolidated entity on the basis the impact of consolidation is not material to the entity. This applies to all other information unless otherwise stated.

r. **Impairment of Assets**

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

s. **Accounting Estimates and Judgments**

Management have made judgements when applying the Group's accounting policies with respect to
i. De-Recognition of loans assigned to a special purpose vehicle used for securitisation purposes – refer Note 32

Management have made critical accounting estimates when applying the Group's accounting policies with respect to the measurement of expected credit loss (ECL) allowance (refer Note 8). In the current year, the approach to estimation of impairment losses has been revised following adoption of AASB 9 effective 1 July 2018. Key areas of judgement to be considered under the new standard include:

- Recognition of credit losses based on Stage 1 12 month expected losses and Stage 2 and Stage 3 lifetime expected credit losses;
- Determining criteria for significant increases in credit risk. An asset moves to Stage 2 when its credit risk has increased significantly since initial recognition. In assessing whether the credit risk of an asset has significantly increased The Group takes into account qualitative and quantitative reasonable and supportable forward looking information;
- Choosing appropriate models and assumptions for the measurement of ECL; and
- Establishing groups of similar financial assets for the purposes of measuring ECL. When ECLs are measured on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics.

Management has made judgements when applying the Group's accounting policies for the equity instruments. Accounting Standard AASB139 Financial Instruments: Recognition and Measurement paragraph 46, investments in equity instruments that do not have a quoted price in an active market and whose fair value cannot be reliably measured are to be measured at cost in the financial statements. AASB9 has no provision for such measurement and investments in equity instruments are to be measured at fair value in accordance with AASB13 Fair Value Measurement. In determining the fair value of the equity investments, management have reviewed recent financial statements, recent share sales, trends of share sales, business models, strategic direction (if any changes) and economic conditions. The shares held in both Cuscal and TAS are to be measured at fair value through other comprehensive income (FVTOCI).

t. **Rounding**

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

u. **Prior Period Adjustments**

Certain comparative figures have been reclassified to conform to the financial statements presentation adopted for the current period.

v. **New or Emerging Standards Not Yet Mandatory**

A number of new standards are effective for annual reporting periods beginning after 1 January 2019 and earlier application is permitted; however, the Group has not early adopted the new or amended standards in preparing these consolidated financial statements. The Group's assessment of the impact of these new standards and interpretations is set out below.

AASB reference	Nature of Change	Application Date	Impact on initial application
AASB 16 *Leases Replaces AASB 117*	AASB 16 replaces AASB 117 *Leases* and some lease-related Interpretations; requires all leases to be accounted for 'on-balance sheet' by lessees, other than short-term and low value asset leases; provides new guidance on the application of the definition of lease and on sale and lease back accounting; and ; requires new and different disclosures about leases.	Periods beginning on or after 1 January 2019.	Based on the entity's assessment, it is expected that the first-time adoption of AASB 16 for the year ending 30 June 2020 will have the following impact: - lease assets and financial liabilities on the balance sheet will increase by $3,906,587 and $3,906,587 respectively (based on the facts at the date of the assessment) - Earnings before income taxes (EBIT) in the statement of profit or loss and other comprehensive income will be higher as the implicit interest in lease payments for former off-balance sheet leases will be presented as part of finance costs rather than being included in operating expenses - operating cash outflows will be lower and financing cash flows will be higher in the statement of cash flows as principal repayments on all lease liabilities will now be included in financing activities rather than operating activities. Interest can also be included within financing activities

2 STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

a. Analysis of interest revenue

	2019 $'000	2018 $'000
Interest revenue on assets carried at amortised cost		
Cash – deposits at call	121	107
Receivables from financial institutions	4,590	4,900
Loans to Members	28,499	27,265
Loans to Capital Investors	34	-
TOTAL INTEREST REVENUE	33,244	**32,272**

b. Fee, commission and other income

	2019 $'000	2018 $'000
Fee and commission revenue		
Fee income on loans – other than loan origination fees	154	339
Fee Income from member deposits	574	756
Other fee income	283	281
Insurance commissions	489	512
Other commissions	812	870
TOTAL FEE AND COMMISSION REVENUE	2,312	**2,758**
Other Income		
Dividends received on Equity Investments	251	324
Bad debts recovered	61	85
Income from property (rental income)	94	95
Gain on disposal of assets		
- Property, plant and equipment	18	2,248
TOTAL FEE COMMISSION AND OTHER INCOME	**2,736**	**5,510**

c. Interest expenses

	2019 $'000	2018 $'000
Interest expense on liabilities carried at amortised cost		
Deposits from Members	11,046	10,548
Deposits from ADI's	78	-
Overdraft	16	16
Borrowings	30	32
Interest – Subordinated Debt	-	79
TOTAL INTEREST EXPENSE	**11,170**	**10,675**

d. Impairment losses

	2019 $'000	2018 $'000
Loans and Advances		
Increase in provision for impairment	704	401
TOTAL IMPAIRMENT LOSSES	**704**	**401**

	2019 $'000	2018 $'000
e. Other prescribed disclosures		
General administration - employees costs include:		
- net movement in provisions for employee annual leave	(30)	30
- net movement in provisions for employee long service leave	140	194
General Administration - Depreciation & Amortisation expense comprises		
Buildings	204	206
Plant and equipment	272	177
Leasehold improvements (includes lease make- good prov.)	120	125
Intangibles	133	99
	729	607
General Administration – Office Occupancy costs include -		
Property operating lease payments		
- minimum lease payments	1,790	1,653

f. Other Operating expenses include

Audit and review of financial statements (GST Exclusive)	**$'000**	**$'000**
- Audit fees - 2019: KPMG	125	158
Other Services (GST Exclusive)		
- Taxation Services – 2019: KPMG	9	8
- Compliance Services – 2019: KPMG	-	2
	134	**168**
		$,000
Defined benefit superannuation expenses	19	15
Loss on disposal of assets		
- Property, plant and equipment	2	2

		2019 $'000	2018 $'000
3	**INCOME TAX EXPENSE**		
a.	The income tax expense comprises amounts set aside as:		
	Current tax expense		1,807
	Adjustments for previous years		(1)
	Deferred Tax Expense		(297)
	Total current income tax expense		**1,509**
b.	The prima facie tax payable on profit is reconciled to the income tax expense in the accounts as follows:		
	Profit before tax	**2,192**	**5,385**
	Prima facie tax payable on profit before income tax at 30%	658	1,615
	Add tax effect of expenses not deductible		
	- Other non-deductible expenses		5
	- Dividend Imputation adjustment		42
	Subtotal	581	1,662
	Less		
	- Deductions Allowed not in Accounting Expenses	(22)	(12)
	- Franking rebate	-	(139)
	- Deferred tax asset not previously brought to account	-	-
	- Adjustments for previous years	-	(2)
	Income tax expense attributable to current year profit	**715**	**1,509**
c.	Franking credits		
	Franking credits held by the Group after adjusting for franking credits that will arise from the payment of income tax payable as at the end of the financial year is:	**16,707**	**16,646**
4	**CASH AND CASH EQUIVALENTS**		
	Cash on hand	5,030	909
	Deposits at call	8,000	8,310
		13,030	**9,219**
5	**LIQUID INVESTMENTS AT AMORTISED COST**		
	Term Deposits	27,230	48,981
		27,230	**48,981**
6	**RECEIVABLES**		
	Interest receivable on deposits with other financial institutions	979	1,560
	Sundry debtors and settlement accounts	195	221
		1,174	**1,781**

		2019 $'000	2018 $'000
7	**LOANS TO MEMBERS**		
a.	**Amount due comprises:**		
	Overdrafts and revolving credit	17,062	16,812
	Term Loans	717,501	658,463
	Society One Loans	5,045	2,877
	LeasePlus Leases	3,543	3,007
	Subtotal	**743,151**	**681,159**
	Less:		
	Unamortised loan origination fees	(69)	(11)
	Unearned Income	(128)	(135)
	Subtotal	**742,954**	**681,013**
	Less:		
	Provision for impaired loans (Note 8)	(3,167)	(689)
		739,787	**680,324**
b.	**Credit Quality – Type of Security held**		
	Secured by mortgage over business assets	4,492	4,594
	Secured by mortgage over real estate	690,381	636,062
	Partly secured by goods mortgage	12,914	9,286
	Wholly unsecured	35,364	31,217
	TOTAL	**743,151**	**681,159**

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

	2019 $'000	2018 $'000
Security held as mortgage against real estate is on the basis of		
- loan to valuation ratio of less than 80%	612,887	569,890
- loan to valuation ratio of more than 80% but mortgage insured	70,390	50,612
- loan to valuation ratio of more than 80% and not mortgage insured	7,104	15,560
Total	**690,381**	**636,062**

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

		2019 $'000	2018 $'000
c.	**Concentration of Loans**		
	The values discussed below include on statement of financial position values		
(i)	Loans to individual or related groups of Members which exceed 10% of Member's equity in aggregate	-	-
(ii)	There are no loans to Members concentrated to individuals employed in any individual industry		
(iii)	Loans to Members are concentrated in the following Geographical locations:		
	New South Wales	670,046	634,890
	ACT	9,953	8,002
	Victoria	18,028	10,173
	Queensland	32,931	21,393
	South Australia	4,076	1,287
	Western Australia	4,571	3,514
	Northern Territory	1,068	1,051
	Tasmania	2,478	849
	TOTAL	**743,151**	**681,159**
(iv)	Loans by Customer type were		
	Loans to Natural persons		
	Residential loans and facilities	685,992	629,914
	Personal loans and facilities	36,717	35,170
	Society One loans	5,045	2,877
	Lease Plus Leases	3,543	3,007
	Business loans and facilities	11,854	10,191
		743,151	**681,159**
	Loans to corporations	-	-
	TOTAL	**743,151**	**681,159**

8 PROVISION ON IMPAIRED LOANS

a. The loss allowance as of the year end by class of loan is summarised in the table below. Comparative amounts for 2018 represent the provision for credit losses under measurement basis of AASB 139. The provision for impaired loans includes the provision for impaired loans for Society One and LeasePlus.

	2019 Gross Carrying Value $'000	**2019 ECL Allowance $'000**	**2019 Carrying Value $'000**	**2018 Carrying Value $'000**	**2018 For Impairment $'000**	**2018 Value $'000**
Loans to members						
Mortgages				629,914	-	629,914
Personal and Commercial				34,433	421	34,408
Credit cards and Overdraft				16,812	103	16,709
Total to natural persons	**743,151**	**3,167**	**739,984**			

In addition to the provision for impairment in 2018 the Group had a reserve for credit losses of $2.30 million. This GRCL has been reclassified to retained earnings upon the adoption of AASB 9.

Impaired financial assets – Comparative information under AASB 139

- Carrying value is the amount on the Statement of Financial Position.
- Impaired loans value is the loan balances which are past due more than 90 days or an over limit facility past due more than 14 days. Also included are loan balances on which a provision has been taken up due to the account being considered doubtful.
- Provision for impairment is the amount of the impairment provision allocated to the impaired loans

	2018 Carrying value $'000	2018 Impaired Loans $'000	2018 Provision $'000
Mortgages	629,914	2,058	-
Personal and Commercial	34,433	779	421
Credit cards and overdraft	16,812	145	103
Total to natural persons	681,159	2,982	524

An analysis of the Group's credit risk exposure by class of loan and stage is:

	2019 Stage 1 12 month ECL $'000	2019 Stage 2 Lifetime ECL $'000	2019 Stage 3 Lifetime ECL $'000	2019 Total $'000	2018 Total $'000
Loss Allowance					
Mortgages	971	21	-	992	-
Personal and Commercial	667	102	410	1,179	421
Credit cards and overdraft	763	80	153	996	103
Loss allowance	**2,401**	**203**	**563**	**3,167**	**524**

The reconciliation from the opening to the closing balance is in the table on the next page.

	2019 Stage 1 12 month ECL $'000	2019 Stage 2 Lifetime ECL $'000	2019 Stage 3 Lifetime ECL $'000	2019 Total $'000	2018 Total $'000
Balance 30 June 2018 AASB 139	-	-	-	524	524
Adjustment on initial application of AASB 9	-	-	-	2,303	-
v. Balance 1 July AASB 9	**2,180**	**149**	**498**	**2,827**	**524**
vi. Changes in the provision:					
vii. Transfer to Stage 1	-	-	-	-	-
viii. Transfer to Stage 2	-	-	-	-	-
ix. Transfer to Stage 3	-	-	-	-	-
x. Net movement due to change in credit risk	221	54	65	340	-
xi. Write offs	-	-	-	-	-
xii. Recoveries	-	-	-	-	-
xiii. Changes in model parameters	-	-	-	-	-
xiv. Other Movements	-	-	-	-	-
xv. Balance 30 June	**2,401**	**203**	**563**	**3,167**	**524**

b. **Key assumptions in determining the ECL**

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

- Probability of default (PD);
- Loss given default (LGD);
- Exposure at default (EAD); and
- Discounting.

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

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

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

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

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

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

- mortgages;
- personal loans; and
- revolving credit.

At each reporting date, The Group assesses whether financial assets are credit impaired (referred to as Stage 3). A financial asset is credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Evidence that a financial asset is credit impaired includes the following observable data:

- a breach of contract such as a default or past due event.

For portfolios in respect of which The Group has limited historical data, external benchmark information is used to supplement the internally available data.

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

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

The approach to determining the ECL includes forward-looking information. The Group has performed historical analysis and identified the key economic variables impacting credit risk and expected credit losses for each portfolio segment. Given the lack of loss experience by the Group and across the wider industry, more emphasis has been applied to the historical data available as opposed to forward looking information. Consideration has also been given to the level of undue cost and effort involved in utilising complex statistical models, which is not considered appropriate for the size and complexity of the portfolio.

The Group has considered other forward-looking considerations such as the impact of future unemployment rates, property prices, regulatory change and external market risk factors, which are not deemed to have a material impact. A probability weighted economic buffer and model risk buffer are applied to the ECL for such factors. This is reviewed and monitored for appropriateness on a regular basis. The Group considers the ECL to represent its best estimate of the possible outcomes and is aligned with information used by The Group for other purposes such as strategic planning and budgeting. Periodically The Group carries out stress testing of more extreme shocks to calibrate its determination of other potential scenarios.

The Group incorporates forward-looking information into its ECL methodology. Based on advice from the Group's Asset and Liability Committee and consideration of a variety of external actual and forecast information, the Group Union formulates a 'base case' view of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios. The external information used includes economic data and forecasts published by the Reserve Bank of Australia.

	Note	2019 $'000	2018 $'000
c. **Impaired loans written off**			
Amounts written off against the provision for impaired loans		317	314
Total bad debts		**317**	**314**
Bad debts recovered in the period		61	85
		61	**85**

	2019 $'000	2018 $'000
9 INVESTMENT AND EQUITY SECURITIES		
Investment securities measured at amortised cost		
− Negotiable certificates of deposit	69,822	-
− Floating rate notes	51,756	-
Equity investment securities designated as at FVOCI		
− Cuscal Limited	3,093	-
− TransAction Solutions Limited	1,942	-
− Shared Services Partners Pty Limited	40	-
Assets held to maturity		
− Negotiable certificates of deposit	-	68,276
− Floating rate notes	-	41,272
Equity investment securities		
− Cuscal Limited	-	1,875
− TransAction Solutions Limited	-	4
− Shared Service Partners Pty Limited	-	20
Total value of investments and equity securities	**126,653**	**111,447**

Disclosures on Shares held at cost

a. **Cuscal Limited**

The shareholding in Cuscal is measured at fair value with the adoption of AASB9. These shares are held to enable the Group to receive essential banking services – refer to Note 29. The shares are able to be traded.

The Group is not intending to dispose of these shares.

b. **TransAction Solutions Pty Limited (TAS)**

The shareholding in TAS is measured at fair value with the adoption of AASB9.

These shares are held to enable the Group to receive essential computer support staff and services to meet the day to day needs of the Group, and compliance with the relevant Prudential Standards. The shares are not able to be traded and are not redeemable.

The Group is not intending to dispose of these shares.

10 PROPERTY, PLANT AND EQUIPMENT

a. Fixed Assets

	2019 $'000	2018 $'000
Other Non-Current Asset Held		
Land and Buildings at fair value	9,636	6,841
Less: Provision for depreciation	(52)	(2,250)
Total Land & Buildings	**9,584**	**4,591**
Plant and equipment - at cost	2,022	1,937
Less: Provision for depreciation	(1,422)	(1,480)
Total Plant & Equipment	**600**	**457**
Capitalised Leasehold Improvements at cost	2,471	2,480
Less: Provision for amortisation	(2,055)	(1,944)
	416	**536**
Lease Make-good Asset	425	425
Less: Provision for amortisation	(278)	(293)
	147	**132**
Total Leasehold Improvements and Make-good	**563**	**668**
TOTAL PROPERTY, PLANT AND EQUIPMENT	**10,747**	**5,716**

With the change in our accounting policy, land and buildings are now recognised in the accounts at the fair value less accumulated depreciation.

b. Investment Properties

	2019 $'000	2018 $'000
Investment Properties		
Buildings – at Fair Value	2,560	1,427
Less: Provision for depreciation	-	(127)
Total Investment Properties	**2,560**	**1,300**
TOTAL PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTY	**13,307**	**7,016**

Investment Properties contain a number of commercial properties that are either leased, or available to be leased, to third parties. Each of the leases have an initial fixed term and derive annual rents indexed to the consumer price index. At the completion of the initial term, the lease will either have an option to re-lease or a new term will be negotiated. With the change in our accounting policy, investment properties are now recognised in the accounts at the fair value.

LOCATION	DATE	VALUE AMT	VALUER
Building Unit 602, 155 Castlereagh Street, SYDNEYNSW	30/06/18	$1,080,000	Alexandra McCann AAPI / Certified Practising Valuer API No. 83237
Buildings Lot 53/5 Aird Street, Parramatta NSW	30/06/18	$730,000	Haden Nolan AAPI / Certified Practising Valuer AAPI No. 69851
Buildings Lot 54/5 Aird Street, Parramatta NSW	30/06/18	$750,000	Haden Nolan AAPI / Certified Practising Valuer AAPI No. 69851
TOTALS		**$2,560,000**	

Movement in carrying value of property plant and equipment and investment property:

	2019					2018				
	Property	**Plant & Equip**	**Lease hold**	**Available for Sale**	**Total**	**Property**	**Plant & Equip**	**Leasehold**	**Available for sale**	**Total**
	$'000	$'000	$'000	$,000	$,000	$'000	$'000	$'000	$,000	$,000
Opening balance	5,891	457	668	-	7,016	6,093	256	67	880	880
Revaluation Adjustment	6,457	-	-		6,457	-	-	-	-	-
Purchases in the year	-	429	15	-	444	4	429	579	-	1,012
Transfer	-	-	-	-	-			132	-	132
	12,348	886	683	-	13,917	6,097	685	778	880	8,440
Less										
Assets Disposed	-	(14)	-	-	(14)	-	(51)	(10)	(880)	(880)
Depreciation charge	(204)	(272)	(120)	-	(596)	(206)	(177)	(100)	-	-
Balance at the end of the year	**12,144**	**600**	**563**	**-**	**13,307**	**5,891**	**457**	**668**	**-**	**7,016**

11 TAXATION ASSETS

	Note	2019 $'000	2018 $'000
Deferred Tax Asset (net)	15	-	2,355
Income Tax Refundable		572	-
GST Recoverable		160	172
		732	**2,527**
Deferred tax (liability)/asset comprise:			
Deferred tax asset			
Accrued expenses not deductible until incurred		370	367
Provisions for impairment on loans		949	207
Provisions for employee benefits		1,435	1,404
Depreciation on fixed assets		-	377
Total		**2,754**	**2,355**
Deferred tax liability			
Revaluation of assets at fair value through OCI		(3,152)	-
Total		**(3,152)**	**-**
Net tax (liability) / asset*	15	**(398)**	**2,355**

*- Refer note 15 for deferred tax liability

12 INTANGIBLE ASSETS

	2019 $'000	2018 $'000
Computer software	1,573	1,239
Less provision for amortisation	(968)	(821)
	605	**418**

Movement in the carrying amount of intangible assets during the year were:

	2019 $'000	2018 $'000
Opening balance	418	220
Purchases	334	297
Less		
Amortisation charge	(134)	(99)
Assets Disposed	(13)	-
Balance at the end of the year	**605**	**418**

13 DEPOSITS FROM MEMBERS

	2019 $'000	2018 $'000
Member Deposits		
- at call	490,047	456,149
- term	335,299	315,224
- ADI's	8,000	-
Member Withdrawable Shares	237	246
TOTAL DEPOSITS & SHARES	**833,583**	**771,619**

	Note	2019 $'000	2018 $'000

Concentration of Member Deposits

There were no significant individual Member deposits which in aggregate represent more than 10% of the total liabilities:

(i) Geographical concentrations

	2019 $'000	2018 $'000
New South Wales	800,793	744,690
ACT	4,521	4,224
Victoria	6,255	4,337
Queensland	15,147	13,117
South Australia	1,043	536
Western Australia	2,706	2,070
Northern Territory	327	369
Tasmania	2,791	2,276
Total per Balance Sheet	**833,583**	**771,619**

14 CREDITOR ACCRUALS AND SETTLEMENT ACCOUNTS

	Note	2019 $'000	2018 $'000
Annual Leave		1,168	1,198
Creditors and accruals		3,629	2,026
Interest payable on deposits		2,389	1,963
Accrual for GST payable		78	45
Sundry creditors		1,154	1,115
TOTAL AMOUNTS PAYABLE		**8,418**	**6,347**

15 TAXATION LIABILITIES

	Note	2019 $'000	2018 $'000
Current income tax liability		-	822
Deferred Tax Liability (net)	11	398	-
TOTAL TAXATION LIABILITIES		**398**	**822**

Current income tax liability comprises:

	Note	2019 $'000	2018 $'000
Balance – previous year		822	134
Less: Payments in current year		(542)	(133)
Over / under statement in prior year		**280**	**1**
Liability for income tax in current year		590	1,807
Less: Instalments paid in current year		(1,162)	(985)
Balance/(refund due) – current year*	**11**	**(572)**	**822**

*- current year tax refund has been classified as a tax asset, refer note 11

16 PROVISIONS

	Note	2019 $'000	2018 $'000
Long service leave		2,893	2,753
Lease make good of premises		425	425
Provisions - other		899	904
TOTAL PROVISIONS		**4,217**	**4,082**

	Note	2019 $'000	2018 $'000

17 LONG TERM BORROWINGS - SUBORDINATED DEBT

SUBORDINATED DEBT ACCOUNT		
Balance at the beginning of the year	-	1,997
Less: Debt Raising Discount	-	3
Add: Debt repaid	-	(2,000)
Balance at the end of year	**-**	**-**

18 CAPITAL RESERVE ACCOUNT

Balance at the beginning of the year	727	719
Transfer from retained earnings on share redemptions	8	8
Balance at the end of year	735	727

a. **Share Redemption**

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

19 OTHER RESERVES	2014 $	2013 $
Asset revaluation reserve – land & buildings	7,976	2,458
General Reserve	14,041	12,829
TOTAL OTHER RESERVES	**21,739**	**15,287**

Movements in Reserves

i. Asset Revaluation Reserve – Land & Buildings
The asset revaluation reserve accounts for the unrealised gains on assets due to revaluation to fair value

Balance at the beginning of the year	2,458	2,458
Increase in building valuation and equity investments	6,730	-
Less: Asset Revaluations Realised	1,212	-
Balance at the end of year	**7,976**	**2,458**

The Asset Revaluation Reserve as at 30 June 2019 consists of $2,209 related to revaluations of equity investments and $5,767 related to building revaluations.

ii. General Reserve

Balance at the beginning of the year	12,829	12,829
Transfer to/from retained earnings	1,212	-
Balance at the end of year	**14,041**	**12,829**

20 GENERAL RESERVE FOR CREDIT LOSSES

General reserve for credit losses	2,300	2,300
Transfer from Retained Earnings	(2,300)	-
TOTAL CREDIT LOSS GENERAL RESERVES	**-**	**2,300**

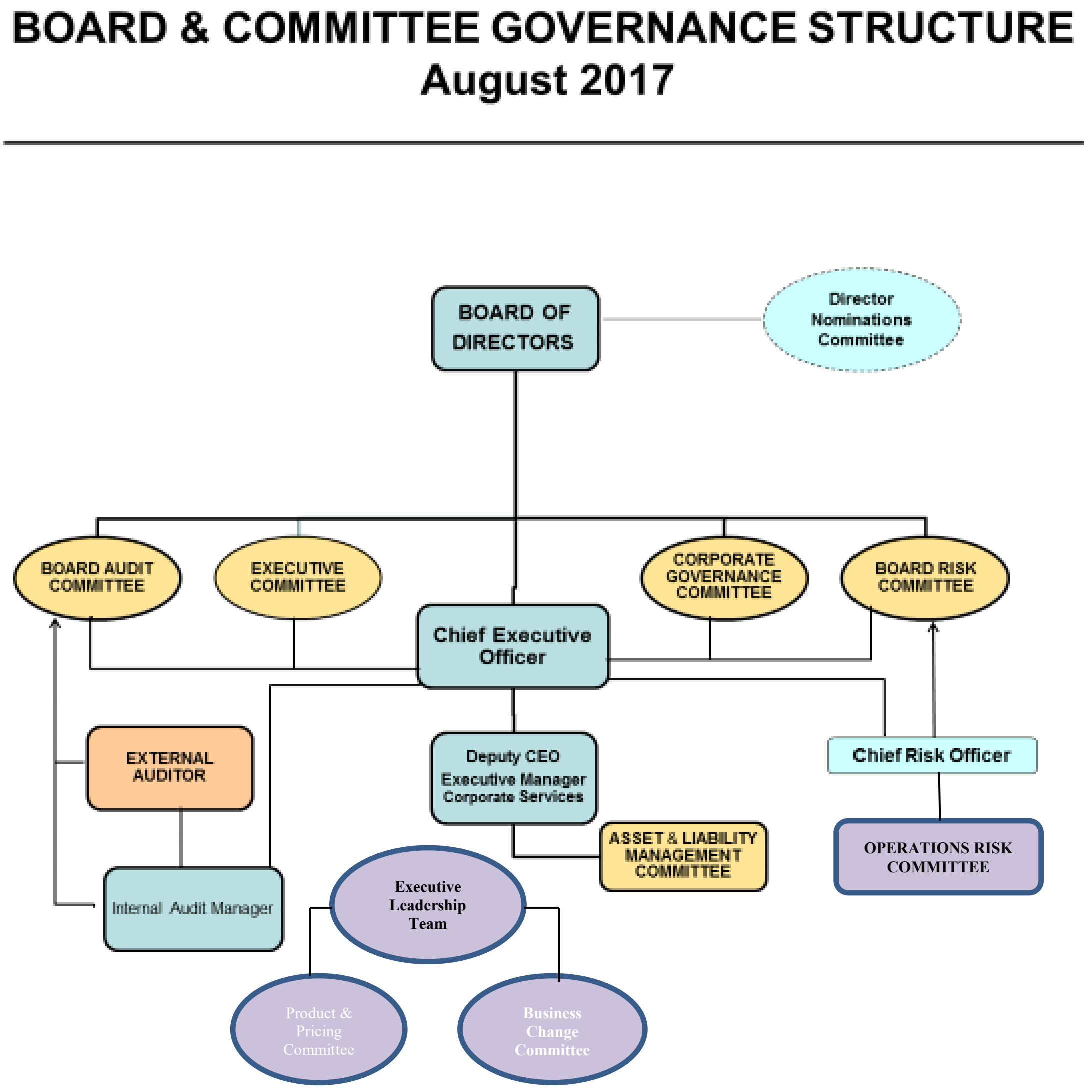
The General Reserve for Credit Losses was reduced to zero due to the adoption of AASB9.

21 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Introduction

The Board of Directors has endorsed a policy of Compliance and Risk Management to suit the risk profile of the Group.

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



The diagram shows the Risk Management structure. The main elements of risk governance are as follows:

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

The Board has established a Governance Committee, Board Risk Committee, Board Audit Committee and other Committees as appropriate, to oversee critical functions; the Board retains responsibility for decision making at all times and for ensuring the performance of the duties delegated to the Committees, including Audit & Compliance and Risk Management.

The Board should ensure that its decisions and actions do not pose an unacceptable prudential risk to the institution by way of monitoring the compliance with prudential and statutory requirements to which the Group is obliged to comply.

Board Risk Committee (BRC): This is a key body in the control of risk. It comprises a minimum of 3 Directors. Senior Management and the Risk Manager attend by invitation.

The BRC's purpose shall be to assist the Board by providing objective non-executive oversight of the implementation and operation of the Group's risk management framework and that it remains appropriate given the Group's size, business mix and complexity. The Committee will use prevailing best practice and adopt the methodologies of Australian Standards in relation to risk management e.g. AS/NZS ISO 31000:2009.

The Board Risk Committee carries out a regular review of all operational areas to ensure that operational risks are being properly controlled and reported. It also ensures that contingency plans are in place to achieve business continuity in the event of serious disruptions to business operations. Regular monitoring is carried out by the Risk Committee of operational reports and control assignments are reviewed by the Risk Committee to confirm whether risks are within the parameters outlined by the Board.

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

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

Asset & Liability Committee (ALCO): This committee of senior management meets monthly and has responsibility for managing and reporting risk exposure in the areas of:

- Credit Risk,
- Liquidity Risk,
- Capital Risk,
- Market Risk (including Interest Rate Risk), and
- Financial and Accounting Risk.

It scrutinises operational reports and monitors exposures against limits determined by the Board. The ALCO Committee has responsibility for implementing policies to ensure that all risk exposures are properly measured and controlled.

This committee also has responsibility for managing interest rate risk exposures, and ensuring that the treasury and finance functions adhere to exposure limits as outlined in the policies for interest rate GAP.

Executive Leadership Team: This Committee meets twice monthly, is chaired by the Chief Executive Officer, and reports to the Board of Directors. It is responsible for implementing the Board's strategic plan, operational planning and financial performance. The ELT is responsible for oversight of the Group's risks in the following areas;

- Strategic Risks
- Governance Risks, and.
- Financial Risks

The Committee has established a Business Change Committee to assist the Executive Leadership Team in overseeing all key strategic and operational projects. The Committee aims to ensure that;

- The Group's annual business change program aligns to its strategic and business plans;
- required project resources are available and appropriately prioritised;
- project sponsors articulate and deliver project benefits,
- project managers define and mitigate execution risks; and
- any resultant business change is coordinated to maximise benefits and minimise business disruption.

In addition the Committee has established the Product & Pricing Committee to assist the Executive Leadership Team (ELT) in overseeing retail product performance including margins, new business volumes and retentions. PPC aims to support achievement of the Board's asset growth target and forecast net interest margin whilst operating within ALCO mandated balance sheet structure and financial risk limits.

Operations Risk Committee: This committee of senior management meets quarterly, is chaired by the Chief Risk Officer and reports to the Board Risk Committee. It has responsibility for oversight of all Operational Risk matters, including in the areas of:

- Fraud Risks
- Regulatory Risks
- Business Disruption Risks
- Business Process Risks

Its responsibilities include ensuring that the Group operates within its Board mandated risk appetite and that operational risks are managed in accordance with its approved risk management strategy and supporting policies.

It reviews all proposed operational risk policy amendments prior to consideration by the Board Risk Committee. It also maintains oversight of all mediation plans associated with operational risks to ensure risks are maintained with Board approved limits.

Chief Risk Officer: The Chief Risk Officer provides advice to the Directors on risk management matters. The Chief Risk Officer is accountable through the Board Risk Committee for the implementation of Risk Management strategies, plans, policies, operating controls and processes to facilitate the identification, analysis and understanding of key material risks affecting the Group. The Chief Risk Officer also establishes an integrated risk management framework to manage those risks.

Internal Audit: Internal Audit has responsibility for implementing the controls testing and assessment as required by the Audit Committee. The Internal Audit Manager is responsible for compliance and internal audit functions to ensure that systems and set procedures meet prudential standards and consumer legislation and to test the operation of such systems for improvement in codes, policies and rules as required.

Key risk management policies encompassed in the overall risk management framework include:-
- Market Risk (primarily Interest Rate Risk)
- Liquidity Management
- Capital Management
- Credit Risk Management
- Operations Risk Management including data and fraud risk management.

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

A. MARKET RISK AND HEDGING POLICY

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

Market risk is the risk that changes in interest rates and volatilities will have an adverse effect on the Group's financial condition or results. The Group is not exposed to currency risk, and other significant price risk. The Group does not trade in financial instruments and has not undertaken any hedging at this time. The Group is exposed only to interest rate risk arising from changes in market interest rates.

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

(i) Interest Rate Risk

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

Treasury operations. The Group does not have a treasury operation and does not trade in financial instruments.

Interest rate risk in the banking book

The Group is exposed to interest rate risk in its banking book due to mismatches between the repricing dates of assets and liabilities. The interest rate risk on the banking book is measured and reported to the ALCO, the Risk Committee and the Board, on a monthly basis. In the banking book the most common risk The Group faces arises from fixed rate assets and liabilities. This exposes the Group to the risk of sensitivity should interest rates change.

The level of mismatch on the banking book is set out in Note 22 below. The table set out at Note 23 displays the period that each asset and liability will reprice as at the balance date**.** This risk is not considered significant to warrant the use of derivatives to mitigate this risk.

Method of Managing Risk

The policy of the Group to manage the risk is to maintain a balanced 'on book' strategy by ensuring the net interest rate gaps between assets and liabilities are not excessive.

The Group's exposure to market risk is measured and monitored using the Value-at-Risk (VaR) methodology of estimating potential losses. VaR is a technique which estimates the potential change in the value of the financial assets and liabilities that could occur on risk positions taken due to movements in market rates and prices over a specified time period to a given level of confidence. VaR, as set out in the table below, has been calculated using historical simulations, using movements in market rates and prices, a 99.5 per cent confidence level and taking into account historical correlations between different markets and rates.

Any potential exposures in excess of the exposure limits stated above are rectified through targeted fixed rate interest products available through investment assets, and term deposits liabilities to rectify the imbalance to within acceptable levels. The policy of the Group permits the undertaking of derivatives to reduce interest rate risks, but no such derivatives have been undertaken to date. The Group's exposure to interest rate risk is set out in Note 23 which details the contractual interest change profile.

Based on the calculations as at 30 June, the impact on the net economic value as a percentage of the Capital Base, for a 2% movement in interest rates would be as follows:

	2019	2018
Value-at-Risk Methodology	0.13%	0.32%

The Group is therefore confident within a 99.5 per cent confidence level that, given the risks as at 30 June 2019, it will not incur a one day loss on its non-trading book of more than the amount calculated above, based on the VaR model used.

Although the use of VaR models calculates the interest rate sensitivity on the banking book, this is not reflected in the Pillar 1 capital requirement.

The Credit Union's exposure to banking book interest rate risk is not expected to change materially in the next year so existing capital requirements are considered to be an accurate measurement of capital needed to mitigate interest rate risk.

B. LIQUIDITY RISK

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

The Group manages liquidity risk by:

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

The Group has a longstanding arrangement with the industry liquidity support organisation, Credit Union Financial Support Services (CUFSS), which can access industry funds to provide support to the Group should it be necessary at short notice. The Group has not had any need to access funds from this source.

Under the APRA Prudential Standards, the Group is required to maintain a minimum of 9% of total adjusted liabilities as liquid assets capable of being converted to cash within 24 hours (Minimum Liquidity Holding Ratio –MLH). The Group policy is to maintain 15% of funds as liquid assets, to ensure that the Group maintains at all times adequate funds for meeting Member withdrawal requests. The ratio is checked daily. Should the liquidity ratio fall below this level the Management and Board are to address the matter and ensure that the liquid funds are obtained from new deposits, borrowing facilities or other liquidity support facilities available. Note 26 details the borrowing facilities as at balance date. These facilities are in addition to the support from CUFSS.

The maturity profile of the financial assets and financial liabilities, based on the contractual repayment terms are set out in Note 22. The ratio of liquid funds over the past year is set out below:

	2019 **$**	**2018** **$**
Minimum Liquidity Holdings	**$146,714,207**	**131,551,662**
As at 30 June	16.16%	15.58%
Average for the year	15.65%	16.02%
Minimum during the year	14.57%	14.15%
Maximum during the year	17.27%	20.65%
Total Liquid Investments	**$162,816,390**	**169,307,309**
As at 30 June	17.94%	20.05%
Average for the year	19.79%	23.69%
Minimum during the year	17.00%	19.38%
Maximum during the year	21.79%	27.69%

C. CREDIT RISK

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

(i) CREDIT RISK – LOANS

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

Loans to	2019 Carrying value $'000	2019 Commitments $'000	2019 Max exposure $'000	2018 Carrying value $'000	2018 Commitments $'000	2018 Max exposure $'000
Mortgage	685,992	59,389	745,381	629,914	55,218	685,132
Personal	29,445	1,273	30,718	25,189	1,295	26,484
Revolving Credit	15,860	29,944	45,804	15,865	30,715	46,580
Commercial	-	-	-	-	-	-
Total to natural persons	731,297	90,606	821,903	670,968	87,228	758,196
Corporate borrowers	11,854	-	11,854	10,191	1,105	11,296
Total	**743,151**	**90,606**	**833,757**	**681,159**	**88,333**	**769,492**

Carrying value is the value on the Statement of Financial Position**.** Maximum exposure is the value on the Statement of Financial Position plus the undrawn facilities (loans approved not advanced, available redraw facilities, and undrawn approved revolving credit line facilities). The details are shown in Note 25.

All loans and facilities are within Australia. The geographic distribution is not analysed into significant areas within Australia as the exposure classes are not considered material. Concentrations are described in Note 7(c).

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

The Group has established policies over the:

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

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

Past due and impaired

A financial asset is past due when the counterparty has failed to make a payment when contractually due. Past due does not mean that a counterparty will never pay, but it can trigger various actions such as renegotiation, enforcement of covenants, or legal proceedings. Once the past due is sufficient to warrant a provision for potential loss to be raised, the loan is regarded as impaired, unless other factors indicate the impairment should be recognised sooner.

Loan repayments are monitored daily to detect delays in repayments, and recovery action is undertaken. For loans where repayments are doubtful, external consultants are engaged to conduct recovery action. The exposures to losses arise predominantly in the personal loans and revolving credit facilities not secured by registered mortgages over real estate.

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

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

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

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

The provisions for impaired and past due exposures relate to the loans to Members. Past due value is the 'on balance sheet' loan balances which are past due by 90 days or more. Details are as set out in Note 8.

Bad debts

Amounts are written off when collection of the loan or advance is considered to be remote. All write offs are on a case by case basis, taking account of the exposure at the date of the write off. On secured loans, the write off takes place on ultimate realisation of collateral value, or from claims on any lenders mortgage insurance.

Collateral securing loans

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

The risk of losses from the loans undertaken is primarily reduced by the nature and quality of the security taken.

The Board policy is to maintain at least 50% of the loans in well secured residential mortgages which carry an 80% loan to valuation ratio or less. Note 7(b) describes the nature and extent of the security held against the loans held as at the balance date.

Concentration risk – Industry

There is no concentration of credit risk with respect to loans and receivables as the Group has a large number of customers dispersed in areas of employment.

(ii) CREDIT RISK – LIQUID INVESTMENTS

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

There is a concentration of credit risk with respect to investment receivables with the placement of investments in Cuscal. The credit policy is that investments are only made to institutions that are credit worthy. Directors have established policies that a maximum of 50% of the Group's capital base can be invested with any one financial institution at a time. With respect to Cuscal, this limit is increased to 150%.

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

Under the Group Industry's liquidity support scheme, at least 3.2% of the total assets must be invested in Cuscal, to allow the scheme to have adequate resources to meet its obligations if needed. The board policy is to maintain a significant proportion of the investments in Cuscal Limited, a company set up to support its Member Credit Unions. Cuscal has a long-term credit rating of A+, and a short-term credit rating of A-1.

The Board has approved that the majority of its investments will generally be with financial institutions with a rating not lower than BBB-. The Board permits investments with counterparties with ratings below this rating, or otherwise unrated to a limit of 10% of the Group's capital base for any single counterparty, or 30% of the capital base in total for all such counterparty investments.

External Credit Assessment for Institution Investments

Where available, the Group uses the long-term ratings of Standard & Poors ratings agency to assess the credit quality of investment exposures, where applicable, using the credit quality assessment scale in APRA prudential guidance AGN 112. The credit quality assessment scale within this standard has been complied with.

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

			30 June 2019		
Investments on ADI's and Overseas Banks with -	**a term up to 3 months**	**a term over 3 months**	**Total carrying value**	**Past due value**	**Provision**
	$,000	$,000	$'000	$'000	$'000
Grade 1 – rated AA- and above	12,034	29,244	41,278	-	-
Grade 2 – rated below AA- to A-	-	68,784	68,784	-	-
Grade 3 – rated below A- to BBB-	-	47,059	47,059	-	-
Grade 4 – rated below BBB- to BB-	-	-	-	-	-
Grade 5 – rated below BB- to B-	-	-	-	-	-
Grade 6 – rated below B- to D	-	-	-	-	-
Unrated Approved Deposit-taking institutions	7,514	8,071	15,585	-	-
Total	**19,548**	**153,158**	**172,706**	**-**	**-**

Investments on ADI's and Overseas Banks with -	a term up to 3 months	a term over 3 months	30 June 2018 Total carrying value	Past due value	Provision
			$'000	$'000	$'000
Grade 1 – rated AA- and above	3,220	20,330	23,550	-	-
Grade 2 – rated below AA- to A-	5,109	61,740	66,849	-	-
Grade 3 – rated below A- to BBB-	-	62,048	62,048	-	-
Grade 4 – rated below BBB- to BB-	-	-	-	-	-
Grade 5 – rated below BB- to B-	-	-	-	-	-
Grade 6 – rated below B- to D	-	-	-	-	-
Unrated Approved Deposit-taking institutions	2,510	18,659	21,169	-	-
Total	**10,839**	**162,777**	**173,616**	**-**	**-**

(iii) CREDIT RISK – GUARANTEES

The Group provides financial guarantees on behalf of Members. All guarantees provided are fully secured against either an existing registered mortgage facility already held by the Group, or by funds lodged as a term deposit with the Group. The total value of guarantees issued at 30 June 2019 amounted to $1,031,470 (30 June 2018 $1,105,152).

(D) OPERATIONAL RISK

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

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

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

(i) Fraud

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

(ii) IT systems

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

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

E. CAPITAL MANAGEMENT

The minimum capital levels required to be maintained by all Financial Institutions are prescribed by the Australian Prudential Regulation Authority (APRA). Under the APRA prudential standards capital is determined in three components

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

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

Capital resources

Tier 1 Capital

The vast majority of Tier 1 Capital comprises

- Retained profits
- Realised reserves
- Asset Revaluation Reserve on Properties.

Additional Tier 1 capital

This is a new classification of capital and includes Preference share capital approved by APRA and qualifies as Tier 1 capital.

Tier 2 Capital

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

Tier 2 Capital generally comprises:

- Tier 2 capital instruments - subordinated loan.
- General Reserve for Credit Losses.

Capital in the Group is made up as follows:

	2019 $'000	2018 $'000
Tier 1 Common Equity		
Capital reserve account	735	727
Asset revaluation reserves on property	7,976	2,458
General reserves	14,041	12,829
Retained earnings	63,890	62,345
	86,642	78,359
Less prescribed deductions	(5,828)	(4,487)
Net Tier 1 Common Equity	**80,814**	**73,872**
Tier 2		
Reserve for credit losses	2,401	2,300
	2,401	2,300
Less prescribed deductions	-	-
NET TIER 2 CAPITAL	**2,401**	**2,300**
TOTAL CAPITAL	**83,215**	**76,172**

The Group is required to maintain a minimum capital level as compared to the risk weighted assets at any given time. The above capital is in excess of the minimum required.

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

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

2019	2018	2017	2016	2015
17.36%	16.90%	17.14%	17.47%	17.56%

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

To manage the Group's capital the Group reviews the ratio monthly and monitors major movements in the asset levels. Policies have been implemented to require reporting to the Board and the regulator if the capital ratio falls below 15%. Further a 3 year capital budget projection of the capital levels is maintained annually to address how strategic decisions or trends may impact on the capital level.

22 MATURITY PROFILE OF FINANCIAL LIABILITIES

Monetary liabilities have differing maturity profiles depending on the contractual term and in the case of loans the repayment amount and frequency. The table below shows the period in which different monetary liabilities held will mature and be eligible for renegotiation or withdrawal. Financial liabilities are at the undiscounted values (including future interest expected to be earned or paid). Accordingly these values will not agree to the statement of financial position.

2019	Book Value $'000	Within 1 month $'000	1-3 months $'000	3-12 months $'000	1-5 years $'000	After 5 years $'000	No Maturity $'000	Total $'000
LIABILITIES								
Borrowings								
Creditors	7,250	7,250	-	-	-	-	-	7,250
Deposits from ADI's	8,000	3,001	5,015	-	-	-		8,016
Deposits from Members – at call	490,272	490,035	-	-	-	-	237	490,272
Deposits from Members – term	335,311	55,303	99,062	178,813	4,761	-	-	337,939
Subordinated debt								
On statement of financial position	**840,833**	**555,589**	**104,077**	**178,813**	**4,761**		**237**	**843,477**
Undrawn commitments	-	-	-	-	-	-	91,637	91,637
Total financial liabilities	**840,833**	**555,589**	**104,077**	**178,813**	**4,761**		**91,874**	**935,114**

2018	Book Value $'000	Within 1 month $'000	1-3 months $'000	3-12 months $'000	1-5 years $'000	After 5 years $'000	No Maturity $'000	Total $'000
LIABILITIES								
Borrowings	4,000	1,002	3,009	-	-	-	-	4,011
Creditors	5,149	5,149	-	-	-	-	-	5,149
Deposits from other financial institutions								
Deposits from Members – at call	456,395	456,149	-	-	-	-	246	456,395
Deposits from Members – term	315,224	53,539	79,830	177,902	6,689	-	-	317,960
Subordinated debt	-	-	-	-	-	-	-	-
On statement of financial position	**780,768**	**515,839**	**82,839**	**177,902**	**6,689**	**-**	**246**	**783,515**
Undrawn commitments	-	-	-	-	-	-	87,228	87,228
Total financial liabilities	**780,768**	**515,839**	**82,839**	**177,902**	**6,689**	**-**	**87,474**	**870,743**

23 INTEREST RATE CHANGE PROFILE OF FINANCIAL ASSETS AND LIABILITIES

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

2019	**Within 1 month**	**1-3 months**	**3-12 months**	**1-5 years**	**Non-interest bearing**	**Total**
	$'000	$'000	$'000	$'000	$'000	$'000
ASSETS						
Cash and cash Equivalents	8,000	-	-	-	5,030	13,030
Liquid Investments at Amortised Cost	13,029	33,968	50,630	51,181	-	148,808
Receivables						
Loans to Members – mortgage*	466,252	7,442	73,748	138,560	-	686,002
Loans to Members – personal*						5,045
Society one Loans	5,045	-	-	-	-	3,543
LeasePlus Leases*	3,543	-	-	-	-	
Loans to Members – other*	10,317	-	1,004	534	-	11,855
Equity Securities at FVOCI	-	-	-	-	5,073	5,073
Total financial assets	506,186	41,410	125,382	190,275	10,103	873,356

* These balances do not include the impact of provisions for credit losses

2019	**Within 1 month**	**1-3 months**	**3-12 months**	**1-5 years**	**Non-interest bearing**	**Total**
	$,000	**$,000**	**$,000**	**$,000**	**$,000**	**$,000**
LIABILITIES						
Deposits from Members	550,296	93,659	176,817	4,574	237	825,583
Deposits from other financial institutions	3,000	5,000	-	-	-	8,000
Borrowings	-	-	-	-	-	-
Creditors	-	-	-	-	7,250	7,250
On statement of financial position	**553,296**	**98,659**	**176,817**	**4,574**	**7,487**	**840,833**
Undrawn loan commitments Note 28	-	-	-	-	91,637	**91,637**
Total liabilities	**553,296**	**98,659**	**176,817**	**4,574**	**99,124**	932,470

2018	Within 1 month	1-3 months	3-12 months	1-5 years	Non-interest bearing	Total
	$'000	$'000	$'000	$'000	$'000	$'000
ASSETS						
Cash and cash Equivalents	8,310	-	-	-	909	9,219
Liquid Investments at Amortised Cost	18,466	47,824	47,769	44,470	-	158,529
Receivables						
Loans to Members – mortgage	393,536	4,846	46,242	185,290	-	629,914
Loans to Members - personal	31,777	-	102	3,291	-	35,170
Society One Loans	2,877	-	-	-	-	2,877
Leaseplus Leases	-	-	-	3,007	-	3,007
Loans to Members – other	8,293	-	251	1,647	-	10,191
Available for Sale Equity Investments	-	-	-	-	1,899	1,899
Total financial assets	**463,259**	**52,670**	**94,364**	**237,705**	**2,808**	**850,806**

2018	Within 1 month	1-3 months	3-12 months	1-5 years	Non-interest bearing	Total
	$'000	$'000	$'000	$'000	$'000	$'000
LIABILITIES						
Deposits from Members	509,647	79,515	175,799	6,412	246	771,619
Deposits from other financial institutions	-	-	-	-	-	-
Borrowings	1,000	3,000	-	-	-	4,000
Creditors	-	-	-	-	5,149	5,149
On statement of financial position	**510,647**	**82,515**	**175,799**	**6,412**	**5,395**	**780,768**
Undrawn loan commitments Note 28	-	-	-	-	87,228	**87,228**
Total liabilities	**510,647**	**82,515**	**175,799**	**6,412**	**92,623**	867,996

24 NET FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

Net fair value has been determined on the basis of the present value of expected future cash flows under the terms and conditions of each financial asset and financial liability.
Significant assumptions used in the determining the cash flows are that the cash flows will be consistent with the contracted cash flows under the respective contracts.
The information is only relevant to circumstances at balance date and will vary depending on the contractual rates applied to each asset and liability, relative to market rates and conditions at the time. No assets are held regularly traded by the Group, and there is no active market to assess the value of the financial assets and liabilities. The values reported have not been adjusted for the changes in credit ratings of the assets. The calculation reflects the interest rate applicable for the remaining term to maturity not the rate applicable to the original term.

		2019			2018	
	Fair Value	**Book Value**	**Variance**	**Fair Value**	**Book Value**	**Variance**
FINANCIAL ASSETS	$'000	$'000	$'000	$'000	$'000	$'000
Cash and cash Equivalents	13,030	13,030	-	9,219	9,219	-
Liquid Investments	147,133	148,808	(1,675)	159,127	158,529	598
Receivables (1)	1,174	1,174	-	1,781	1,781	-
Loans to Members – mortgage	686,349	685,992	357	630,351	629,914	437
Loans to Members - personal	36,049	36,146	(97)	34,527	34,500	27
Society One Loans	4,900	4,900	-	2,802	2,802	-
LeasePlus Leases	3,437	3,437	-	2,915	2,917	(2)
Loans to Members - other	11,850	11,853	(3)	10,143	10,191	(48)
Equity Investments	5,073	5,073	-	1,899	1,899	-
Total financial assets	**908,995**	**910,413**	**(1,418)**	**852,764**	**851,752**	**1,012**

		2019			2018	
	Fair Value	**Book Value**	**Variance**	**Fair Value**	**Book Value**	**Variance**
FINANCIAL LIABILITIES	$'000	$'000	$'000	$'000	$'000	$'000
Borrowings	-	-	-	4,000	4,000	-
Deposits from Members - call	490,035	490,272	(237)	456,149	456,395	(246)
Deposits from Members - term	345,931	343,311	2,620	317,934	315,224	2,710
Deposits from other institutions	8,016	8,000	16	-	-	-
Creditors (1)	7,250	7,250	-	5,149	5,149	-
Subordinated debt				-	-	-
Total financial liabilities	**851,232**	**848,833**	**2,399**	**783,232**	**780,768**	**2,464**

(1) For these assets and liabilities the carrying value approximates fair value.

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

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

(i) Liquid Assets and Receivables from other Financial Institutions

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

(ii) Loans and Advances

The carrying value of loans and advances is net of unearned income and ECL Provisioning for Stage 1,2 and 3 loss provisioning.

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

The fair value of impaired loans was calculated by discounting expected cash flows using a rate which includes a premium for the uncertainty of the flows.

(iii) Deposits From Members

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

(iv) Short Term Borrowings

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

(v) Fair Value Hierarchy

AASB 13 requires for assets and liabilities measured at fair value in the balance sheet to disclose the fair value hierarchy. Where the following levels can be differentiated:

- Level 1: inputs are quoted prices in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs other than quoted market prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and
- Level 3: inputs are unobservable inputs for the asset or liability.

The Group measures its Equity Investments and certain properties held within Property, Plant and Equipment and Investment Property at fair value. Equity Investments are valued based on the net tangible asset value per share and properties' fair value is based on the specific characteristics of the property combined with market information based on external valuations. Consequently both assets are considered level 3 in terms of fair value hierarchy.

25 FINANCIAL COMMITMENTS

		2019 $'000	2018 $'000
a.	**Outstanding Loan commitments**		
	The loans approved but not funded	**16,112**	**14,261**
b.	**Loan Redraw facilities**		
	The loan redraw facilities available	**45,581**	**43,357**
c.	**Undrawn Loan Facilities**		
	Loan facilities available to Members for overdrafts and line of credit loans are as follows:		
	Total value of facilities approved	47,006	47,527
	Less: Amount advanced	(17,062)	(16,812)
	Net undrawn value	**29,944**	**30,715**
	Total financial commitments	**91,637**	**88,333**

These commitments are contingent on Members maintaining credit standards and ongoing repayment terms on amounts drawn.

		2019 $'000	2018 $'000
d.	**Lease expense commitments for operating leases on property occupied by the Group**		
	Not later than one year	1,726	1,804
	Later than one year but not later than five years	4,463	3,949
	Over five years	528	303
		6,717	**6,056**

The operating leases are in respect of property used for providing branch services to Members. There are no contingent rentals applicable to leases taken out. The terms of the leases are for between 1 to 5 years and options for renewal are usually obtained for a further period up to 5 years.

There are no restrictions imposed on the Group so as to limit the ability to undertake further leases, borrow funds or issue dividends

e. **Computer Bureau Expense Commitments**

As referred to in Note 29, the Group has a management contract with TransAction Solutions Pty Limited (TAS) to supply computer support staff and services to meet the day to day needs of the Group and compliance with the relevant Prudential Standards.

	2019	2018
The costs committed under contracts with TAS are as follows:		
Not later than one year	570	551
Later than 1 year but not 2 years	333	551
Later than 2 years but not 5 years	-	322
Later than 5 years	-	-
	903	**1,424**

f. **Other expense commitments**

Not later than one year	684	645
Later than 1 year but not 2 years	684	645
Later than 2 years but not 5 years	456	1,075
Later than 5 years	-	-
	1,824	**2,365**

26 STANDBY BORROWING FACILITIES

The Group has a borrowing facility with Cuscal of:

2019	**Gross** **$'000**	**Current Borrowing** **$'000**	**Net Available** **$'000**
Overdraft Facility	2,000	-	2,000
TOTAL STANDBY BORROWING FACILITIES	**2,000**	**-**	**2,000**

2018	**Gross** **$'000**	**Current Borrowing** **$'000**	**Net Available** **$'000**
Overdraft Facility	2,000	-	2,000
TOTAL STANDBY BORROWING FACILITIES	**2,000**	**-**	**2,000**

Withdrawal of the loan facility is subject to the availability of funds at Cuscal. Cuscal holds an equitable mortgage charge over all of the assets of the Group as security against loan and overdraft amounts drawn under the facility arrangement.

27 CONTINGENT LIABILITIES

Liquidity Support Scheme
The Group is a Member of CU Financial Support Scheme Limited (CUFSS) a Company limited by guarantee, established to provide financial support to Member Credit Unions in the event of a liquidity or capital problem. As a Member, the Group is committed to maintaining 3.2%of the total assets as deposits with Cuscal Limited.

Under the terms of the Industry Support Contract (ISC), the maximum call for each participating CU would be 3.2% of the Group's Total Assets (3% under loans and facilities and 0.2% under the cap on contributions to permanent loans). This amount represents the participating credit union's irrevocable commitment under the ISC. At the balance date there were no loans issued under this arrangement.

Reserve Bank Repurchase Obligations (REPO) Trust

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

Guarantees
The Group has issued guarantees on behalf of Members for the purpose of lease and trade credit facilities. The amounts of the guarantees are in total $1,031,470 (30 June 2018: $1,105,152). The guarantee is payable only on the Member defaulting on the contractual repayments to the Lessor / supplier. The guarantees are generally fully secured against registered first mortgages or Term Deposit funds lodged.

28 DISCLOSURES ON DIRECTORS and other KEY MANAGEMENT PERSONNEL

a. Remuneration of Key Management Personnel (KMP)

Key Management Persons (KMP) has been taken to comprise the Directors and the Members of the executive management responsible for the day to day financial and operational management of the Group.

The aggregate Compensation of **Key Management Persons** during the year comprising amounts paid or payable or provided for was as follows:

		2019 Directors & Other KMP $	2018 Directors & Other KMP $
(a)	short-term employee benefits;	1,244,082	712,375
(b)	post-employment benefits - Superannuation contributions	196,637	135,203
(c)	other long-term benefits – net increases in Long Service leave and Personal leave provision	58,739	54,870
(d)	termination benefits;	-	
(e)	share-based payment.	-	-
	Total	**1,499,458**	-**902,448**

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

All remuneration to Directors was approved by the Members at the previous Annual General Meeting of the Group.

		2019 $'000	2018 $'000
b.	**Loans to Directors and other Key Management Persons**		
(i)	The aggregate value of loans to Directors and other Key Management Personnel as at Balance date amounted to	1,346	867
(ii)	The total value of revolving credit facilities approved to Directors and other Key Management Personnel, as at Balance date amounted to	66	64
	Less amounts drawn down and included in (i)	(11)	(10)
	Net balance available	**55**	**54**
(iii)	During the year the aggregate value of loans disbursed to Directors and other Key Management Personnel amounted to:		
	Revolving credit facilities	66	139
	Term Loans	1,347	977
		1,413	**1,116**
(iv)	During the year the aggregate value of Revolving Credit Facility limits granted or increased to Directors and other Key Management Personnel amounted to:	-	-
(v)	Interest and other revenue earned on Loans and revolving credit facilities to KMP	45	34

The Group's policy for lending to Directors and Management is that all loans are approved and deposits accepted on the same terms and conditions which applied to Members for each class of loan or deposit with the exception of loans to KMP who are not Directors. There are no loans which are impaired in relation to the loan balances with Director's or other KMP's.

KMP who are not Directors receive a concessional rate of interest on their loans and facilities. These benefits, where subject to Fringe Benefits tax, are included in the remuneration in Note 29(a) above.

There are no benefits or concessional terms and conditions applicable to the close family Members of the Key Management Persons. There are no loans which are impaired in relation to the loan balances with close family relatives of Directors and KMP.

c. **Transactions with Other Related Parties**

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

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

There are no benefits paid or payable to the close family Members of the key management persons.

There are no service contracts to which key management persons, or their close family Members, are an interested party.

	2019 $'000	2018 $'000
Total value Term and Savings Deposits from KMP	1,009	1,244
Total Interest paid on deposits to KMP	15	13

"Note that for financial year 2019, the key management personnel note also includes individuals who had a BEARS accountability statement lodge with APRA. The comparative figures of financial year 2018 have not been adjusted."

29 ECONOMIC DEPENDENCY

The Group has an economic dependency on the following suppliers of services.

a. **Cuscal**

Cuscal is an Approved Deposit Taking Institution registered under the Corporations Act 2001 and the Banking Act. This entity:

(i) Provides the license rights to Visa Card in Australia and settlement with Bankers for ATM, Visa card and cheque transactions, direct entry transactions, as well as the production of Visa and Redicards for use by Members.

(ii) Provides treasury and money market facilities to the Group. The Group has invested the majority of its liquid assets with the entity to maximise return on funds, and to comply with the Liquidity Support Scheme requirements.

(iii) Operates the computer network used to link Redicards and Visa cards operated through Reditellers and other approved ATM suppliers to the Group's EDP Systems.

b. **Ultradata Australia Pty Limited**

Provides and maintains the core banking system application software utilised by the Group.

c. **TransAction Solutions Pty Limited**

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

30 SUPERANNUATION LIABILITIES

The Group contributes to the CUE Super Plan for the purpose of superannuation guarantee payments and payment of other superannuation benefits on behalf of employees. The Plan is administered by an independent corporate trustee.

The Group has no interest in the Superannuation Plan (other than as a contributor) and is not liable for the performance of the Plan, or the obligations of the Plan.

The Group contributes to the State Authorities Superannuation Scheme (SASS) and to the State Authorities Non-Contributory Superannuation Scheme (SANCS) for the purpose of defined benefits superannuation schemes for 2 employees and no new employees are eligible to join these schemes. The Plan is administered by an independent corporate trustee.

The Group has no interest in the Superannuation Plan (other than as a contributor) and is liable for any shortfall in reserves to meet the employees' entitlements. Currently the Plan is in surplus and it is anticipated the Group is unlikely to be required to have any further liability to these funds.

31 SECURITISATION

The Group had an arrangement with Integris Securitisation Services Pty Limited whereby it acted as an agent to promote and complete loans on their behalf, for on sale to an investment trust. While this arrangement has terminated, the Group continues to manage the loans portfolio previously securitised on behalf of the trust. The Group bears no risk exposure in respect of these loans. The Group receives a management fee to recover the costs of on-going administration of the processing of loan repayments and the issuing of statements to Members.

The amount of securitised loans under management as at 30 June 2019 $3,604,086 (30 June 2018 $4,455,552).

32 TRANSFERS OF FINANCIAL ASSETS

The Group has established arrangements for the transfer of loan contractual benefits of interest and repayments to support ongoing liquidity facilities. These arrangements are with the SCU Trust No. 1 (the Trust), a trust established in August 2017 for securing the ability to obtain liquid funds from the Reserve Bank should a need arise. The Trust is consolidated, however the loans are not de-recognised as the Group retains the benefits of the trust until such time as a drawdown is required. The consolidation of the Trust is therefore not material to the Group financial statements.

Only residential mortgage-backed securities (RMBS) that meet specified criteria, are eligible to be transferred.

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

The associated liabilities are equivalent to the book value of the loans reported.

	2019 $,000	2018 $,000
Balance Sheet values - Loans and receivables		
SCU Trust No. 1 - Series 1	162,577	92,577

33 NOTES TO STATEMENT OF CASH FLOWS

a. Reconciliation of Cash

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

	2019	2018
Cash on hand	1,013	909
Deposits at call	12,017	8,310
Bank overdraft	-	-
Total Cash	**13,030**	**9,219**

b. Cash unavailable for use

	2019	2018
Cash which is excluded from the above amount of cash since it is not readily available for use by reason of it securing overnight settlement obligations.	-	-

c. Reconciliation of Cash from Operations to Accounting Profit

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

	2019	2018
Profit after income tax	1,477	3,876
Add (Deduct) :		
Increase in Provision for Impairment	657	401
Increase in Unearned Income	(7)	(505)
Increase in Unamortised Fees	57	(4)
Depreciation expense	597	483
Amortisation of Intangible Assets	147	97
Amortisation of Lease Make-good	(15)	-
Amortisation of Debt Raising Costs	-	3
Profit on sale of assets	(11)	(2,035)
Loss on sale of assets	2	13
Increase in provisions for staff leave	106	256
Increase in tax liabilities	(1,739)	688
Increase in other provisions	-	(37)
Increase in accrued expenses	71	401
Increase in interest payable	427	26
Increases in Other Liabilities	-	(14)
Decreases in prepayments& sundry receivables	24	(198)
Decrease in Receivables	581	(139)
Decrease in Taxation Assets	280	(297)
Bad Debts Written-off	-	(297)
Increase in Valuation of Assets Held for Sale	(424)	
Net Cash From Operating Activities	**3,230**	**2,718**

34 CORPORATE INFORMATION

The Group is a company limited by shares registered under the Corporations Act 2001

- The address of the registered office is: 19 Second Avenue, Blacktown NSW 2148
- The address of the principal place of business : 19 Second Avenue, Blacktown NSW 2148

The nature of the operations and its principal activities are the provision of deposit taking facilities and loan facilities to the Members of the Group.

35 SUBSEQUENT EVENTS

The Members of SCU and Endeavour Mutual Bank (EMB) have voted in favour of, and the Australian Prudential Regulation Authority has approved, EMB transferring its business to SCU effective 1 October 2019. It is estimated that the effect of this transfer on the Balance Sheet of SCU will be the addition of:

- Total Assets of $630 million
- Including Net Loans of $469 million
- Member Deposits of $550 million
- Member Equity of $ 83 million

NOTES

SCU More Generous Banking

For any enquiries please contact us on 13 61 91.
Sydney Credit Union Ltd ABN 93 087 650 726 Australian credit licence 236476 AFSL 236476