# 2019 ANNUAL REPORT

people's choice
CREDIT UNION

Australian Central Credit Union Ltd
(trading as People's Choice Credit Union) and its
Controlled Entities Year Ended 30 June 2019.

# Contents

# Chair's and Managing Director's Report

## A strong position for continued growth

People's Choice performed well during 2018/19, increasing our membership, delivering above-market portfolio growth and achieving levels of member trust and advocacy that are among the leaders of the financial sector.

As a credit union, our collective focus on understanding and supporting our members is clearly resonating with Australians during a time of rapid change and in a very competitive market.

Our priority is to continue this momentum while investing to meet the future expectations of members, as we consolidate our position as one of Australia's largest customer-owned financial institutions.

People's Choice welcomed 20,495 new members during the financial year and increased net membership by 9,248 members. Our sustained record of steadily growing our membership each year reflects high levels of member satisfaction and trust which in turn drives the willingness of our members to recommend People's Choice.

The Roy Morgan Customer Satisfaction Awards 2018 named People's Choice as Australia's best credit union for the third year in a row.

Further, our measure of members' trust and loyalty, our net promoter score, was +43 over the course of the year, a full 41 points above the average for the financial institutions surveyed.

This score is calculated by DBM Consultants' ongoing survey of members to establish whether they are promoters (loyal, enthusiastic fans), detractors (unhappy) or passives (satisfied, for now). Our results are reassuring in an environment where public trust in financial institutions is being challenged.

We are also seeing that trust reflected in our portfolio growth.

Our retail deposit portfolio grew 7.63% to $6.221 billion over the past financial year, and total member loans and advances lifted 5.45% to $7.675 billion.

In a year of ever increasing competition and narrowing margins, People's Choice grew its residential lending portfolio by 6.15% to $7.137 billion, representing an annualised growth rate well above industry averages.

Importantly, our strength in supporting our members was recognised by being named the best customer-owned institution for first home buyers in South Australia, Victoria and the Northern Territory – our three key markets – for the third year running by comparison website Canstar.

People's Choice was also named *Money* magazine's Personal Lender of the Year for the second year in a row, reflecting our competitiveness in the market and our commitment to improving our products and the member experience with quicker lending processes and more options to suit members' circumstances.

Our investment in Victoria remains a positive strategy to grow and diversify our business. The fundamentals of the Melbourne property market underpin its recovery from recent price adjustments, underscoring its long-term growth prospects.

The opening of our two new home loan centres in Melbourne's western suburb of Caroline Springs and the outer northern suburb of Mernda reflects our confidence in the prospects for these areas, and we have recorded an 11% lift in Victorian home loan enquiries in the past year.


*Our new home loan centre at Caroline Springs in western Melbourne opened in February 2019.*

We believe there remain significant opportunities to build trust and relationships with first homebuyers. The People's Choice of Housing, launched for Adelaide this year, provides a valuable resource by offering insights into the city's most affordable and liveable suburbs. We plan to expand this report into other states to help our younger members take the first step towards home ownership.

People's Choice this year recorded a comparative profit before tax of $48.103 million, down 2.71% from the previous year's $49.445 million as a result of one-off items. Statutory net profit before tax fell to $33.126 million compared to $44.200 million last financial year.

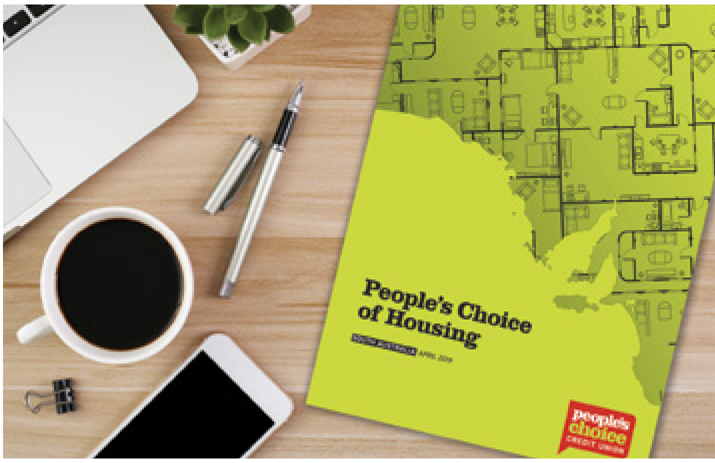
As a matter of prudence, People's Choice has written down goodwill relating to its financial planning business by $8.477 million. Changes stemming from the Future of Financial Advice reforms and the Financial Services Royal Commission have substantially changed the landscape for financial planning. Most large financial institutions are in the process of exiting the sector as they assess the cost of business. We believe that quality financial planning services have a role in helping our members achieve their financial goals.

We have also invested $6.500 million in costs to transform our technology and member experience – essential elements of our strategy of differentiating, enabling and growing as outlined in previous years. This is a valuable investment in further developing our capacity to provide members with seamless banking through our digital and physical channels.

People's Choice continues to maintain its position of strength in the financial services sector.

Strong residential lending contributed to the ongoing growth of our total assets to $8.810 billion, taking our total assets including funds under advice to $10.715 billion at 30 June 2019.

Our strong credit management was this year recognised by financial research agency RFi Group, which named People's Choice's as having Australia's best credit risk management at its Australian Lending Awards. This is a testament to our focus on treating risk as a matter of cultural importance throughout the business rather than as a matter of compliance. This approach will both protect and enable People's Choice as we grow into the future.




*The new People's Choice of Housing index lists Adelaide's most affordable and liveable suburbs.*

## Opportunities presented in our changing environment

Australia's financial services sector has come into sharp focus over the past financial year, with many significant changes already underway and more expected to stem from regulatory and legislative reforms.

People's Choice stands in a strong position in such an environment. Our size and maturity gives us the capacity to attract and keep the necessary talent to guide us through these changes, and our mutuality differentiates us from the shareholder-driven priority of major banks.

Our focus on long-term member needs also means we recognise the opportunities that these changes may offer for future growth. For these reasons, we will continue to adopt reforms where we believe they may offer future member benefits. This is appropriate for an organisation that remains committed to the model of mutual ownership.

Broader changes in the sector also provide People's Choice with opportunities to build its presence. Open Banking and Comprehensive Credit Reporting aim to empower customers with more accurate data reporting, and changes to laws regarding credit card management, responsible lending and product design are shaping how we respond to our regulatory and reporting environment.

# Chair's and Managing Director's Report (continued)


*Our Gungahlin branch in Canberra hosted Senator the Hon Zed Seselja as part of our regular engagement with governments to promote the mutual sector.*

We are proactively adapting to these changes and expect many more to flow from the recommendations of the Financial Services Royal Commission. While many of the issues revealed by the Commission have placed the banking industry at the forefront of public discussion, they have also reinforced the value of the mutual model: we exist to meet the needs of our members, and not shareholders.

There remains a concern that rapid changes may result in unintended consequences for the mutual sector. People's Choice remains an active supporter and contributor to key industry associations to help governments appreciate the role the sector plays and to ensure it is not unintentionally penalised by such consequences.

The Customer Owned Banking Association and the Business Council of Co-operatives and Mutuals have played strong roles in promoting the interests of the sector to all sides of politics, leading to positive outcomes that recognise the importance of supporting our ability to provide an alternative to the major banks.

## The strength of our Board and people

People's Choice continues to attract and retain talented and experienced individuals to guide the organisation. As one of the country's largest customer owned financial institutions, we have the resources and capacity to meet increasing regulatory demands, but we are also competing for outstanding individuals in a crowded market to sustain our strong growth.

The announcement of the retirement of our Chair, John Cossons, this year (see page 8) creates the opportunity to appoint a new Chair to oversee the next phase of growth for People's Choice. While our leading position in the market ensures a high profile, we must also ensure that we continue to attract the right individuals to protect member interests in our increasingly competitive and complex industry.

Our staff, all of whom are also members, continue to play a vital role in building a stronger credit union. Their enthusiasm, professionalism and dedication to our members sits at the heart of who we are and what we can achieve. We thank them, our Executive team and our Board for their hard work throughout the year as we embrace those opportunities ahead.

We remain committed to working with our members for a better future.

**John Cossons**
Chair

**Steve Laidlaw**
Chief Executive Officer and Managing Director

# Year in Review


*Sally Cocks, Head of Lending Delivery, accepting* Money *magazine's Personal Lender of the Year award.*

## A partnership between members and staff

The connection of our staff with members is one of the greatest strengths of People's Choice.

Our consistently high net promoter score tells us that we are delivering on our commitment to our members, while our annual Values and Engagement Survey returned staff engagement and strength of culture results of 88%, showing an extremely strong belief amongst staff that their work aligns closely with our Values. This is an outstanding result, placing People's Choice among the top employers, and one of which we are extremely proud.

People's Choice this year introduced a suite of programs to develop the leadership capability of existing and emerging leaders. More than 50 employees have so far completed programs designed to develop leadership fundamentals and the ability to manage risk and change within our industry.

As Australia's first financial institution to be accredited as a White Ribbon Workplace, People's Choice continued to provide training, policies and support to help break the cycle of violence against women.

We rely on our members to help us shape not only what we do, but how we do it. Participation in our online community, the Green Room, grew during the year and provided valuable insight, with nearly 3,000 interactions on issues as diverse as card designs, sources of financial advice and foreign currency practices.

Members also continue to directly influence our understanding of the future shape of our business and its ability to meet their needs, with more than 280 members interviewed as part of our successful focus on improving processes, products and services for our members.

We know we make a difference to our members' lives. People's Choice helped 7,663 members buy a home during 2018/19, while 11,234 members relied on People's Choice to buy a car, finance a renovation or escape on a holiday. Some 1,086 members ended the year closer to achieving their financial goals with support from our financial planning services.

## Our commitment to services

People's Choice is focused on providing the services needed to meet the long-term needs of our members.

This has led to some difficult decisions when balancing competing demands for limited funds. People's Choice closed four branches during the past financial year as members continued to turn to digital banking for their day-to-day banking. Full support was offered to assist members and staff during this transition. All affected staff were offered alternative roles within the organisation.

People's Choice continued its ongoing development of the digital access increasingly sought by members, such as through the development of new online calculators and enhancements to digital banking.

We successfully changed our provision of ATMs following recent changes in the market. People's Choice now maintains a smaller fleet of dedicated ATMs linked to our branches, while members have access to nearly three times as many fee-free options around the country as previously offered.

People's Choice last year launched full access to Fast Payments, occurring in near real-time through the New Payments Platform. We were among the first financial institutions to do so because we believed this functionality would be welcomed and quickly adopted by our members. The Reserve Bank has since expressed its frustration with the slow adoption of this same service by the Big Four banks – only two of which currently offer full access.

We will continue to improve our products, services and technology to help our members achieve their goals through an outstanding member experience.

# Year in Review (continued)

## Our communities

Our flagship community program, the People's Choice Community Lottery, continues to support important causes around the country in its 36th year. The 2018 Lottery raised $1.438 million for 1,022 community groups including $51,750 for children and families affected by congenital heart disease supported by our community partner HeartKids SA/NT. Our leaders' participation in Super Boss Day raised a further $11,000 for this worthy cause.

Our staff raised more than $28,000 for 25 charities through our Workplace Giving Program, Positive Impact Days and other fundraising, and our volunteering program allows our staff to contribute to causes in a very real and direct manner. These programs together show that one of our Values – supporting our communities – extends throughout the organisation.

People's Choice is amongst the country's leading community-oriented businesses with our contribution far exceeding national averages. We contributed 4.7% of pre-tax profit to corporate community investment in 2018/19 – six times the 0.72% average contribution made by major Australian and New Zealand companies (source: LBG Australia).

Including funds raised through the Community Lottery and other programs, People's Choice generated $2.9 million for the community during the year and made a difference to close to one million Australians.

*People's Choice's partnership with the Adelaide Strikers is growing awareness of our brand and connecting with the broader community.*

People's Choice's partnerships with the Adelaide Strikers Big Bash League cricket team, Western Bulldogs AFL team and BASSINTHEGRASS music festival have provided multiple opportunities to connect with South Australian, Victorian and Northern Territory communities, with more than 200 members and their families waving the banner for the Blue Crew at Strikers games.

These partnerships are also connecting us with Australia's fastest-growing demographic group, with millennials (those born from 1981 to 1996) now making up about one in three of every new member joining in the past financial year. We are proud of these partnerships and the benefits they are delivering for communities, our members and our staff.

## Retirement of John Cossons

Our Chair, John Cossons, announced he will retire at the end of the 2019 Annual General Meeting. John joined the Board of the Northern Territory Credit Union in 1981 and was elected Chairman of Australian Central Credit Union in 2001 after the two credit unions had previously merged. He was appointed Chair of People's Choice in 2014.

John has represented the sector at the highest levels. People's Choice has benefited from John's passion, commitment and wealth of knowledge to help create an organisation that is today one of Australia's largest credit unions.

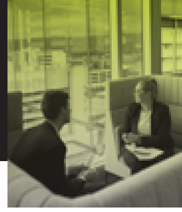
We thank John for his dedication and contribution over the past 38 years and wish him the very best for the future.

## Our first 70 years

The South Australian Public Service Savings and Loans Society was established in April 1949 to help members borrow money to buy modest items such as a washing machine. It provided its 131 members with the support they needed, relying on its £2,637 in assets as recorded in passbooks.


Today, People's Choice has more than 370,000 members and $10.7 billion in assets and funds under advice. We have moved from passbooks to passwords as we evolve as a trusted financial services provider for the 21st century. We started as an organisation dedicated to our members. That hasn't changed.

# Annual Financial Report



The Directors present their report together with the financial report of Australian Central Credit Union Ltd (trading as People's Choice Credit Union) (the "Credit Union"), and its controlled entities (together referred to as the "Group"), for the year ended 30 June 2019 and the Auditor's Report thereon.

**DIRECTORS**

The Directors of the Credit Union at any time during or since the end of the financial year were:

John Leonard Cossons
Non-Executive Chair
FAMI, MAICD

Steven Peter William Laidlaw
Managing Director
BEc, BCom, FCA, FAICD

Edward Terrence McGuirk
Non-Executive Director (Retired 15 November 2018)
BA (Hons), FAICD, FAMI

Kathryn Anne Skipper AM
Non-Executive Director
Dip. Nursing, FAICD

Virginia Sue Hickey
Non-Executive Director
BA, LLB, FAICD

John Patrick Patton
Non-Executive Director
FCA, MAICD

Amanda Elizabeth Heyworth
Non-Executive Director
BA Accounting, Dip. Finance and Investment, MBA, FAICD

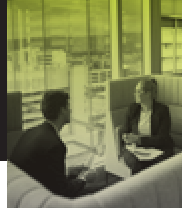
David John Cartwright
Non-Executive Director (Retired 11 December 2018)
MA, BA Natural Sciences, Distinguished Sloan Fellow London Business School, GAICD

Directors were in office from the beginning of the financial year until the date of this report, except where indicated otherwise.

Details of Directors, their experience and any special responsibilities, are set out in the Online Annual Report, which is available from our website at www.peopleschoicecu.com.au.

Certain Directors have associations with other organisations. Some of these organisations conduct business with the Credit Union. This business is conducted on standard terms and conditions.

The number of Directors' meetings (including meetings of committees of Directors) and number of meetings attended by each of the Directors during the financial year is shown in the Corporate Governance Statement commencing on page 14.



## COMPANY SECRETARY

Ms Taryn Shearn LLB (Hons), B.Com was appointed to the position of Company Secretary on 2 February 2017.

## PRINCIPAL ACTIVITIES

The principal activities of the Group during the year were the provision of loans to members and customers, savings and investment facilities, the sale of insurance policies, Mutual Aid and financial planning services. There was no significant change in the nature of these activities during the year.

## DIVIDENDS

The Credit Union's Constitution prohibits the payment of dividends on member shares.

## REVIEW OF OPERATIONS

The Group recorded a profit before tax for the year ended 30 June 2019 of $33.126 million (2018: $44.200 million). The result for the year was impacted by the impairment of Financial Planning goodwill of $8.477 million and operational expenditure relating to the Group's technology transformation initiatives.

The table below details the impact on profit before tax for the year ended 30 June 2019, resulting in a comparative profit before tax of $48.103 million, a decrease of 2.7% from 2018. This decrease in comparative profit is primarily attributable to a reduction in other income, with a slight improvement in both interest margin and operating costs.

| | 2019 | 2018 | Movement | |
|---|---|---|---|---|
| | $000 | $000 | $000 | % |
| **Statutory profit before tax** | **33,126** | **44,200** | **(11,074)** | **(25.1%)** |
| Write down of ATM assets and related costs | - | 5,245 | | |
| Impairment of goodwill | 8,477 | - | | |
| Technology transformation initiative | 6,500 | - | | |
| **Comparative profit before tax** | **48,103** | **49,445** | **(1,342)** | **(2.7%)** |

The total assets for the Group at 30 June 2019 were $8.810 billion (2018: $8.391 billion), representing an increase of $0.419 billion (5.0%) from 30 June 2018. Lending settlements for the twelve months ended 30 June 2019 were $1.452 billion (2018: $1.466 billion), and member retail deposits grew by $441 million (2018: $373 million) representing a portfolio increase of 7.6%. Total member loans and advances increased by 5.4% to $7.669 billion during the year. For further analysis of the financial year performance refer to the Chair's and Managing Director's report commencing on page 4.

## STATE OF AFFAIRS

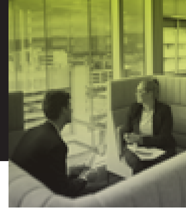
In the opinion of the Directors, there have been no significant changes in the state of affairs of the Group that occurred during the financial year under review not otherwise disclosed in this report or the financial statements.

## DIRECTORS' INTERESTS

None of the above Directors have declared any interest in existing or proposed contracts with the Credit Union during the financial year ended 30 June 2019 and to the date of this report.

## EVENTS SUBSEQUENT TO THE REPORTING DATE

There has not arisen in the interval between the end of the financial year and the date of this report, any item, transaction or event of a material and unusual nature likely, in the opinion of the Directors of the Credit Union, to affect significantly the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial years.



## LIKELY DEVELOPMENTS

Further information as to likely developments in the operations of the Group and the expected results of those operations in subsequent financial years has not been included in this report because disclosure of such information is likely to result in unreasonable prejudice to the Group.

## REGULATORY DISCLOSURES

Prudential Standard *APS 330 Public Disclosure* requires the Group to meet minimum requirements for the public disclosure of information on its risk profile, risk management, capital adequacy, capital instruments and remuneration practices to contribute to the transparency of the financial markets and to enhance market discipline. This information is published on the Credit Union's public website under Regulatory Disclosures.

## INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

During the financial year, the Credit Union paid a premium in relation to a Directors' and Officers' liability insurance policy indemnifying the Directors and its Executives against certain liabilities.

The insurance contract prohibits the disclosure of the nature of the liabilities insured against and the premium paid in respect of that insurance.

## LEAD AUDITOR'S INDEPENDENCE DECLARATION UNDER SECTION 307C OF THE CORPORATIONS ACT

The Lead Auditor's Independence Declaration is set out on page 13 and forms part of the Directors' Report for the year ended 30 June 2019.

## ROUNDING

The Company is of a kind referred to in the Australian Securities & Investment Commission ("ASIC") Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 dated 24 March 2016 and in accordance with that Rounding Instrument, amounts in the Financial Report and Directors' Report have been rounded to the nearest thousand dollars, unless otherwise stated.

**Signed in Adelaide this 4th day of September, 2019**
in accordance with a resolution of the Board of Directors of the Credit Union.

J. L. COSSONS
Chair

S. P. W. LAIDLAW
Managing Director

KPMG

# Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

## To the Directors of Australian Central Credit Union Ltd

I declare that, to the best of my knowledge and belief, in relation to the audit of Australian Central Credit Union Ltd for the financial year ended 30 June 2019 there have been:

i. no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and

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

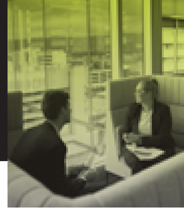
KPMG

KPMG

Paul Cenko
Partner

Adelaide

4 September 2019



## HOW WE DO BUSINESS

Australian Central Credit Union Ltd trades as People's Choice Credit Union ("People's Choice"). The Board and Management of People's Choice are committed to acting lawfully, responsibly, ethically and with the highest standards of integrity.

People's Choice has adopted a principles-based approach to achieve sound corporate governance and business practices by adopting policies at Board level and cascading them throughout the organisation. People's Choice is also committed to adhering to the regulatory "fit and proper" framework and the ASX Corporate Governance Council's "Corporate Governance Principles and Recommendations", to the extent that they are applicable to People's Choice as a mutual organisation.

## ROLE OF THE BOARD

The Board comprises Non-Executive Directors and a Managing Director, each of whom has extensive experience and brings accountability and judgement to the Board's deliberations with a view to benefitting members, employees and the wider community.

The role and responsibilities of the Board are set out in the Board Charter, and include responsibilities such as: overseeing the operations of People's Choice as a whole; providing strategic direction; appointing and reviewing the performance of the Managing Director, reviewing and approving risk management and internal compliance and controls, monitoring the performance of executive management, approving and monitoring capital expenditure and capital management, assessing the organisation's financial position and performance, approving and monitoring financial and other reporting, ensuring continuous improvement in the organisation's performance, ensuring the structure of remuneration for People's Choice is linked to the achievement of People's Choice's objectives, deciding the nature of delegations to management, and approving any significant changes in the legal structure of the People's Choice group.

Importantly, the Board is also responsible for assessing People's Choice's compliance with its regulatory requirements, as well as with operating policies and practices, to ensure People's Choice meets its statutory, regulatory and fiduciary obligations.

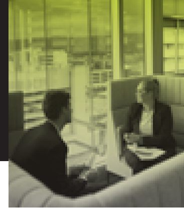
## STRUCTURE OF THE BOARD

The size and composition of the Board is regularly assessed and determined by the Board within the parameters set out in People's Choice's Constitution ("Constitution"), which requires a minimum of four member-elected Non-Executive Directors and provides for the appointment of Board and merger- Non-Executive Directors and a Managing Director.  The Constitution requires that member-elected Directors must constitute a majority of Directors at all times.

All Directors are appointed in accordance with the Constitution and supporting policies, which are structured so as to facilitate the appointment of Directors who are of appropriate fitness and propriety for the purposes of applicable legislation and policies and who have the appropriate skills, knowledge and experience to be a Director.

Directors who held office during or since the end of the financial year and the year in which each was appointed to the Board (including the Board of the pre-merged entities) are set out below:

| Directors – Non-Executive | Year First Elected/Appointed |
|---|---|
| D.J. Cartwright*# | 2017 |
| J.L. Cossons (Chair) | 1981 |
| A.E Heyworth | 2017 |
| V.S. Hickey | 2014 |
| E.T. McGuirk^ | 1996 |
| J.P. Patton* | 2016 |
| K.A. Skipper | 2002 |



| Directors – Executive | Year First Appointed |
| --- | --- |
| S.P.W. Laidlaw (Managing Director) | 2017 |

* Board-appointed Director
^ Director McGuirk retired as a Director at the AGM held on 15 November 2018
# Director Cartwright's term as a Board appointed Director concluded on 11 December 2018

Further information on the Directors can be found on page 10 of the Annual Report and on our website.

## COMMITTEES OF THE BOARD

The Board has established standing Audit, Corporate Governance and Risk Committees. Each of these committees has been delegated particular functions and responsibilities and each committee's authority and responsibilities are set out in their individual terms of reference, as approved by the Board.

These committees generally meet at least three times a year to consider and make recommendations or decisions on matters within their terms of reference. Committee Chairs give verbal reports to the Board at Board meetings and the minutes of all committee meetings are reviewed by the Board. The Board also has access to all information prepared for the consideration of committees.

In addition to these committees, the Constitution provides for the establishment of a Nominations Committee in connection with Director elections.

Set out below is a summary of each committee and its functions.

**Audit Committee** – the Audit Committee assists the Board in fulfilling its responsibilities by providing an objective review of the effectiveness of People's Choice's financial reporting and risk management framework. Activities undertaken by the Committee include overseeing People's Choice's internal and external audit functions and processes, reviewing financial information presented by management and reviewing the appropriateness of and compliance with policies and procedures to ensure compliance with People's Choice's regulatory requirements.

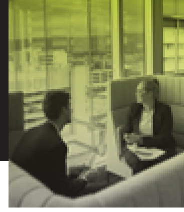
**Corporate Governance Committee** – the Corporate Governance Committee is responsible for overseeing and making recommendations to the Board on governance related matters, including in relation to the appointment and performance monitoring of the Managing Director or Chief Executive Officer, the appointment and election of Non-Executive Directors, Board remuneration, Board performance reviews, the "fit and proper" framework, the size and composition of the Board and Executive, Director succession plans, the conduct of the Director elections and the conduct of the Annual General Meeting.

**Risk Committee** – the Risk Committee is responsible for providing objective oversight of the implementation and operation of the People's Choice risk management framework including overseeing the formulation and implementation of an appropriate organisational wide risk management strategy, ensuring that appropriate systems are in place to monitor emerging risks, ensuring that a sound risk management culture is maintained, making recommendations to the Board on the setting of People's Choice's risk appetite, and ensuring that appropriate systems and resources are in place to identify and manage material risks and to monitor and review the performance of all aspects of capital management.

**Nominations Committee** – a Nominations Committee is established in association with Director elections and assists the Board to manage the process for nomination of Directors, including conducting interviews with nominees and preparing statements to assist Members to make an informed voting decision. The Nominations Committee comprises the Chair of the Board (except when standing for re-election) and two external members with suitable skills and knowledge who are not Directors, staff or members of People's Choice, or who meet other criteria determined by the Board. The committee operates under the guidance of the Corporate Governance Committee.

## REMUNERATION REPORT

In accordance with APRA standard *APS 330 Public Disclosure*, the People's Choice remuneration report can be found under About Us in the Regulatory Disclosures section of our website.



## DIVERSITY

The Board is committed to diversity and the promotion of an environment conducive to the appointment of well-qualified employees, Executive Management and Directors. A diversity policy is in place to assist People's Choice to maintain a workplace which values and respects each individual. This policy has been developed in a way that recognises the diversity of People's Choice's workforce and sets measurable targets that support the achievement of diversity in the workplace. People's Choice's performance against these targets is reported to, and monitored by, the Board on an annual basis. In addition, a Workplace Gender Equality Report is prepared annually which is available on People's Choice's website.

## REMUNERATION

The Corporate Governance Committee reviews and recommends the level of the Managing Director's and Executives' remuneration for approval by the Board. The Board, with the assistance of the Corporate Governance Committee, determines the aggregate level of remuneration of Non-Executive Directors to be recommended for approval by members at the Annual General Meeting following benchmarking and/or receipt of independent advice.

## BOARD POLICIES

People's Choice maintains policies relating to its operational, compliance, legal and regulatory reporting requirements which are reviewed on a regular basis. These policies are supported by procedures to ensure compliance and effective monitoring of People's Choice's business. Further details of these policies and procedures are set out in the Board Charter, which can be found on the Corporate Governance Section of our website.

## MEETINGS OF THE BOARD AND BOARD COMMITTEES

The membership and details of attendances at meetings of the People's Choice Board and Committees are outlined below:

| Director | Director Type | Board | | Audit | | Corporate Governance | | Risk | |
|---|---|---|---|---|---|---|---|---|---|
| | | A[1] | B | A | B | A | B | A | B |
| J.L. Cossons (Chair) | M | 15 | 15 | | | 6 | 6 | | |
| S.P.W. Laidlaw (Managing Director) | E | 15 | 15 | | | | | | |
| D.J. Cartwright[4] | D | 5 | 5 | | | | | 1 | 1 |
| A.E. Heyworth | M | 15 | 15 | 4 | 4 | | | 2 | 2 |
| V.S. Hickey | M | 15 | 15 | | | 6 | 6 | 4 | 4 |
| E.T. McGuirk[3] | M | 5 | 4 | 1 | 1 | | | | |
| J.P. Patton | D | 15 | 15 | 4 | 4 | | | 4 | 4 |
| K.A. Skipper | M | 15 | 15 | 2 | 1[2] | 6 | 6 | | |

(1) *Eight scheduled Board meetings and seven ad hoc meetings were held during the year.*
(2) *Meeting not attended during pre-approved leave of absence.*
(3) *Director McGuirk retired as a Director at the AGM held on 15 November 2018.*
(4) *Director Cartwright's term as a Board appointed Director concluded on 11 December 2018.*

A The number of meetings held during the period the Director was a member of the Board or Board Committee
B The number of meetings attended by the Director.
M Member-elected Directors
D Board-appointed Directors
E Executive Director

KPMG

# Independent Auditor's Report

## To the members of Australian Central Credit Union Ltd

### Opinion

We have audited the consolidated Financial Report of Australian Central Credit Union Ltd (the Group Financial Report). We have also audited the Financial Report of Australian Central Credit Union Ltd (the Company Financial Report).

In our opinion, each of the accompanying Group Financial Report and Company Financial Report of Australian Central Credit Union Ltd are in accordance with the *Corporations Act 2001*, including:

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

The respective ***Financial Reports*** of the Group and the Company comprise:

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

The ***Group*** consists of Australian Central Credit Union Ltd (the Company) and the entities it controlled at the year end or from time to time during the financial year.

### Basis for opinion

We conducted our audits 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 opinions.

Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audits of the Financial Reports* section of our report.

We are independent of the Group and Company in accordance with *the Corporations Act 2001* and the ethical requirements of the *Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants* (the Code) that are relevant to our audits of the Financial Reports 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 Australian Central Credit Union Ltd's annual reporting which is provided in addition to the Financial Reports and the Auditor's Report. The Directors are responsible for the Other Information.

Our opinions on the Financial Reports do 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 audits of the Financial Reports, our responsibility is to read the Other Information. In doing so, we consider whether the Other Information is materially inconsistent with the Financial Reports or our knowledge obtained in the audits, 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.

KPMG

## Responsibilities of the Directors for the Financial Report

The Directors are responsible for:

- preparing Financial Reports that give 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 Financial Reports that give a true and fair view and are free from material misstatement, whether due to fraud or error; and
- assessing the Group and Company'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 and Company or to cease operations, or have no realistic alternative but to do so.

## Auditor's responsibilities for the audit of the Financial Report

Our objective is:

- to obtain reasonable assurance about whether each of the Financial Reports as a whole are free from material misstatement, whether due to fraud or error; and
- to issue an Auditor's Report that includes our opinions.

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 audits of the Financial Reports 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

Paul Cenko
Partner

Adelaide

4 September 2019

# Directors' Declaration

In the opinion of the Directors of the Credit Union:

a) the financial statements and notes of the Credit Union and of the Group, set out on pages 20 to 75 are in accordance with the *Corporations Act 2001*, including:

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

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

b) the financial statements also comply with the International Financial Reporting Standards as disclosed in Note 2;

c) there are reasonable grounds to believe that the Credit Union will be able to pay its debts as and when they become due and payable.

**Signed in Adelaide this 4th day of September, 2019**
in accordance with a resolution of the Board of Directors of the Credit Union.

**J. L. COSSONS**
**Chair**

**S. P. W. LAIDLAW**
**Managing Director**

# Statements of Profit or Loss and Other Comprehensive Income



FOR THE YEAR ENDED 30 JUNE 2019

| | Note | Consolidated | | Credit Union | |
|---|---|---|---|---|---|
| | | **2019 $'000** | 2018 $'000 | **2019 $'000** | 2018 $'000 |
| Interest income | 4 | **345,672** | 336,582 | **378,462** | 368,701 |
| Interest expense | 4 | **(167,406)** | (161,954) | **(207,942)** | (201,400) |
| **Net interest income** | | **178,266** | 174,628 | **170,520** | 167,301 |
| Share in net profit of equity accounted investees | 13 | **453** | 1,641 | **-** | - |
| Other income | 4 | **59,505** | 67,386 | **63,944** | 72,151 |
| **Non-interest income** | | **59,958** | 69,027 | **63,944** | 72,151 |
| Impairment losses on loans and advances | 9 | **(1,763)** | (2,791) | **(1,756)** | (2,791) |
| Other expenses | 5 | **(203,335)** | (196,664) | **(192,053)** | (194,210) |
| **Profit before tax** | | **33,126** | 44,200 | **40,655** | 42,451 |
| Income tax expense | 6 | **(12,042)** | (12,039) | **(11,800)** | (11,514) |
| **Profit after tax for the year** | | **21,084** | 32,161 | **28,855** | 30,937 |
| **Profit attributable to:** | | | | | |
| Members of the parent | | **21,084** | 32,161 | **28,855** | 30,937 |
| **Other comprehensive income (reclassifies to profit or loss)** | | | | | |
| Cash flow hedges: | | | | | |
| Net change in fair value of cash flow hedges transferred to profit or loss | | **(60)** | 863 | **(60)** | 863 |
| Effective portion of changes in fair value of cash flow hedges | | **(4,993)** | (61) | **(4,993)** | (61) |
| Changes in fair value of financial assets held at FVOCI (2018: Available for sale financial assets) | | **907** | (620) | **907** | (620) |
| Income tax on items of other comprehensive income | | **1,244** | (55) | **1,244** | (55) |
| **Other comprehensive income for the year, net of income tax** | | **(2,902)** | 127 | **(2,902)** | 127 |
| **Total comprehensive income for the year** | | **18,182** | 32,288 | **25,953** | 31,064 |

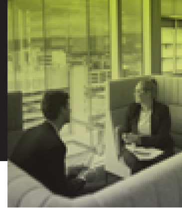
The Statements of Profit or Loss and Other Comprehensive Income are to be read in conjunction with the accompanying notes to the financial statements.

# Statements of Financial Position

AS AT 30 JUNE 2019

| | Note | Consolidated | | Credit Union | |
|---|---|---|---|---|---|
| | | **2019 $'000** | 2018 $'000 | **2019 $'000** | 2018 $'000 |
| **Assets** | | | | | |
| Cash and cash equivalents | 7 | **135,312** | 201,273 | **92,784** | 86,236 |
| Loans and advances | 8 | **7,669,235** | 7,275,310 | **7,669,235** | 7,275,310 |
| Investment securities | 10 | **906,269** | 809,036 | **905,369** | 807,201 |
| Other investments | 10 | **17,106** | 15,011 | **876,232** | 778,381 |
| Property, plant and equipment | 11 | **28,910** | 27,171 | **28,910** | 27,171 |
| Intangible assets | 12 | **5,018** | 14,533 | **5,018** | 6,198 |
| Interest in equity accounted investees | 13 | **9,942** | 9,489 | **4,240** | 4,240 |
| Current tax receivable | 6 | **5** | 169 | **5** | 169 |
| Deferred tax assets | 6 | **16,025** | 12,999 | **15,979** | 13,469 |
| Derivative assets | 29 g | **3,747** | 848 | **5,863** | 516 |
| Other assets | 14 | **18,619** | 24,734 | **25,164** | 30,790 |
| **Total Assets** | | **8,810,188** | 8,390,573 | **9,628,799** | 9,029,681 |
| **Liabilities** | | | | | |
| Deposits | 15 | **6,421,521** | 6,113,791 | **6,421,664** | 6,113,954 |
| Derivative liabilities | 29 g | **9,393** | 1,397 | **5,303** | 2,344 |
| Other payables | 16 | **87,136** | 76,241 | **101,082** | 81,505 |
| Borrowings | 17 | **1,647,628** | 1,572,767 | **2,463,436** | 2,219,820 |
| Deferred tax liabilities | 6 | **7,157** | 5,141 | **5,446** | 4,084 |
| Provisions | 18 | **18,524** | 18,194 | **18,374** | 18,038 |
| **Total Liabilities** | | **8,191,359** | 7,787,531 | **9,015,305** | 8,439,745 |
| **Net Assets** | | **618,829** | 603,042 | **613,494** | 589,936 |
| **Equity** | | | | | |
| Reserves | 19 | **185,999** | 192,703 | **185,993** | 192,697 |
| Retained earnings | | **432,830** | 410,339 | **427,501** | 397,239 |
| **Total Equity** | | **618,829** | 603,042 | **613,494** | 589,936 |

The Statements of Financial Position are to be read in conjunction with the accompanying notes to the financial statements.



FOR THE YEAR ENDED 30 JUNE 2019

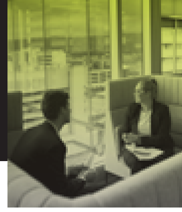
| Consolidated Entity | Note | Reserves | Retained Earnings | Total |
|---|---|---|---|---|
| | | $'000 | $'000 | $'000 |
| **Opening balance at 1 July 2018** | | **192,703** | **410,339** | **603,042** |
| Profit for the year after tax | | **-** | **21,084** | **21,084** |
| **Other comprehensive income, net of income tax** | | | | |
| Cash flow hedges: | | | | |
| Effective portion of changes | 19 | **(3,495)** | **-** | **(3,495)** |
| Taken to profit or loss | 19 | **(42)** | **-** | **(42)** |
| Change in fair value of financial assets held at FVOCI | 19 | **635** | **-** | **635** |
| **Total comprehensive income for the period** | | **(2,902)** | **-** | **(2,902)** |
| **Transactions recorded directly in equity** | | | | |
| Opening adjustment on initial application of AASB 9 | 2.1e,19 | **(3,897)** | **1,502** | **(2,395)** |
| Redeemed member shares | 19 | **25** | **(25)** | **-** |
| General reserve for credit losses | 19 | **70** | **(70)** | **-** |
| **Total recorded directly in equity** | | **(3,802)** | **1,407** | **(2,395)** |
| **Closing balance at 30 June 2019** | | **185,999** | **432,830** | **618,829** |
| | | | | |
| Opening balance at 1 July 2017 | | 192,368 | 378,386 | 570,754 |
| Profit for the year after tax | | - | 32,161 | 32,161 |
| Other comprehensive income, net of income tax | | | | |
| Cash flow hedges: | | | | |
| Effective portion of changes | 19 | (43) | - | (43) |
| Taken to profit or loss | 19 | 604 | - | 604 |
| Change in fair value of available for sale financial assets | 19 | (434) | - | (434) |
| Total comprehensive income for the period | | 127 | - | 127 |
| Transactions recorded directly in equity | | | | |
| Redeemed member shares | 19 | 24 | (24) | - |
| General reserve for credit losses | 19 | 184 | (184) | - |
| Total transfer to reserves | | 208 | (208) | - |
| Closing balance at 30 June 2018 | | 192,703 | 410,339 | 603,042 |

The Statements of Changes in Equity are to be read in conjunction with the accompanying notes to the financial statements.

FOR THE YEAR ENDED 30 JUNE 2019

| Credit Union | Note | Reserves $'000 | Retained Earnings $'000 | Total $'000 |
|---|---|---|---|---|
| **Opening balance at 1 July 2018** | | **192,697** | **397,239** | **589,936** |
| Profit for the year after tax | | **-** | **28,855** | **28,855** |
| **Other comprehensive income, net of income tax** | | | | |
| Cash flow hedges: | | | | |
| Effective portion of changes | 19 | **(3,495)** | **-** | **(3,495)** |
| Taken to profit or loss | 19 | **(42)** | **-** | **(42)** |
| Change in fair value of financial assets held at FVOCI | 19 | **635** | **-** | **635** |
| **Total comprehensive income for the period** | | **(2,902)** | **-** | **(2,902)** |
| **Transactions recorded directly in equity** | | | | |
| Opening adjustment on initial application of AASB 9 | 2.1e,19 | **(3,897)** | **1,502** | **(2,395)** |
| Redeemed member shares | 19 | **25** | **(25)** | **-** |
| General reserve for credit losses | 19 | **70** | **(70)** | **-** |
| **Total recorded directly in equity** | | **(3,802)** | **1,407** | **(2,395)** |
| **Closing balance at 30 June 2019** | | **185,993** | **427,501** | **613,494** |
| | | | | |
| Opening balance at 1 July 2017 | | 192,362 | 366,510 | 558,872 |
| Profit for the year after tax | | - | 30,937 | 30,937 |
| Other comprehensive income, net of income tax | | | | |
| Cash flow hedges: | | | | |
| Effective portion of changes | 19 | (43) | - | (43) |
| Taken to profit or loss | 19 | 604 | - | 604 |
| Change in fair value of available for sale financial assets | 19 | (434) | - | (434) |
| Total comprehensive income for the period | | 127 | - | 127 |
| Transactions recorded directly in equity | | | | |
| Redeemed member shares | 19 | 24 | (24) | - |
| General reserve for credit losses | 19 | 184 | (184) | - |
| Total transfer to reserves | | 208 | (208) | - |
| Closing balance at 30 June 2018 | | 192,697 | 397,239 | 589,936 |

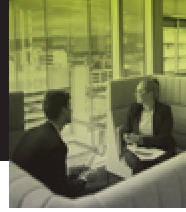
The Statements of Changes in Equity are to be read in conjunction with the accompanying notes to the financial statements.



FOR THE YEAR ENDED 30 JUNE 2019

| | Note | Consolidated | | Credit Union | |
|---|---|---|---|---|---|
| | | 2019 $'000 | 2018 $'000 | 2019 $'000 | 2018 $'000 |
| **Cash from operating activities** | | | | | |
| Interest received | | 345,798 | 336,364 | 378,587 | 368,483 |
| Interest paid | | (166,335) | (164,498) | (213,171) | (199,605) |
| Fees and commission received | | 44,753 | 53,391 | 42,353 | 44,993 |
| Other income received | | 10,546 | 17,458 | 16,878 | 23,514 |
| Increase in loans and advances | | (399,110) | (416,646) | (399,103) | (416,646) |
| Net increase in deposits and withdrawable share capital | | 307,731 | 311,777 | 307,711 | 311,719 |
| Payments to employees and suppliers | | (165,171) | (171,666) | (154,599) | (165,028) |
| Income taxes paid | | (10,618) | (14,264) | (10,618) | (14,264) |
| **Net cash from operating activities** | 20 | (32,406) | (48,084) | (31,962) | (46,834) |
| **Cash from investing activities** | | | | | |
| Net decrease/(increase) in investment securities held at FVOCI (2018: available for sale investment securities) | | (96,599) | (55,868) | (97,535) | (56,133) |
| Acquisition/disposal of non-tradeable investments | | (2,095) | 857 | (97,850) | 11,875 |
| Acquisition of property plant and equipment | | (10,369) | (6,644) | (10,369) | (6,644) |
| Proceeds from sale of property, plant and equipment | | 25 | 106 | 25 | 106 |
| Dividends and distributions received | | 622 | 2,263 | 622 | 2,263 |
| **Net cash from investing activities** | | (108,416) | (59,286) | (205,107) | (48,532) |
| **Cash from financing activities** | | | | | |
| Proceeds from borrowings | | - | - | 245,091 | 66,524 |
| Proceeds from residential backed securities issue | | 433,213 | 729,773 | - | - |
| Repayment of borrowings | | (1,474) | (2,757) | (1,474) | (2,757) |
| Payments to Noteholders | | (356,878) | (585,697) | - | - |
| **Net cash from financing activities** | | 74,861 | 141,319 | 243,617 | 63,767 |
| **Net increase/(decrease) in cash and cash equivalents** | | (65,961) | 33,949 | 6,548 | (31,599) |
| **Cash and cash equivalents at 1 July** | | 201,273 | 167,324 | 86,236 | 117,836 |
| **Cash and cash equivalents at 30 June** | 7 | 135,312 | 201,273 | 92,784 | 86,236 |

The Statements of Cash Flows are to be read in conjunction with the accompanying notes to the financial statements.



## 1. CORPORATE INFORMATION

The financial report of Australian Central Credit Union Ltd (trading as People's Choice Credit Union) (the “Credit Union”), and its controlled entities (together referred to as the “Group”) for the year ended 30 June 2019 was authorised for issue in accordance with a resolution by the Directors on 4 September 2019.

The Credit Union is a for-profit entity domiciled in Australia.

The Group is primarily involved in the provision of loans to members and customers, savings and investment facilities, the sale of insurance policies, Mutual Aid and financial planning services. There was no significant change in the nature of these activities during the year.

The controlling entity of the Group is Australian Central Credit Union Ltd. The registered office and principal place of business is 50 Flinders St, Adelaide, SA, Australia 5000.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### 2.1 Basis of preparation

#### a) Statement of compliance

The financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards (“AASBs”) adopted by the Australian Accounting Standards Board ("AASB") and the *Corporations Act 2001*. The financial reports of the Group and of the Credit Union comply with International Financial Reporting Standards ("IFRSs") and interpretations adopted by the International Accounting Standards Board ("IASB").

In accordance with ASIC Class Order 10/654 dated 20 December 2016 the Group presents parent entity financial statements together with consolidated financial statements.

#### b) Basis of measurement

The financial report has been prepared in accordance with the historical cost convention, except for derivative financial assets and liabilities and investment securities which are measured at their fair value. Loans and advances and financial liabilities are carried at amortised cost.

The financial report has been prepared on a going concern basis.

#### c) Functional and presentation currency

The financial report is presented in Australian dollars and all values have been rounded to the nearest thousand dollars ($’000) unless otherwise stated under the option available to the Group under ASIC Corporations (Rounding in Financial/Directors’ Reports) Instrument 2016/191.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.1 Basis of preparation (continued)

### d) Use of judgements and estimates

The preparation of a financial report in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable when making the judgement about the carrying values of assets and liabilities that are not readily apparent from other sources.

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are described in the following notes:

- Note 2.3 b) and 9 Impairment of loans and advances
- Note 12 Measurement of the recoverable amounts of cash generating units containing goodwill
- Note 30 Fair value of financial instruments

Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

### e) Changes in accounting policies

**AASB 15 Revenue from Contracts with Customers**
AASB 15 sets out a new framework for revenue recognition, replacing the principles under the former standards AASB 118 *Revenue* and AASB 111 *Construction Contracts*. It requires identification of performance obligations within a contract and an associated transaction price that is allocated to these performance obligations. Revenue is recognised upon satisfaction of these performance obligations, which occurs when a customer obtains control of the goods or services. The control may be transferred at a point in time or over a period of time.

The Group adopted AASB 15 with a transition date of 1 July 2018. As permitted by AASB 15, the Group has not restated its comparative financial statements. On transition, no material adjustment to opening retained earnings was recognised as the amendments to accounting policies did not result in significant changes to the timing or amount of revenue recognised. The Group has utilised the practical expedient of applying the requirements of AASB 15 to portfolios of individual contracts with similar characteristics.

The Group's revenue from contracts with customers primarily consists of other income presented on the Statements of Profit or Loss and Other Comprehensive Income and in Note 4. The impact of the adoption of AASB 15 on this income is outlined below.

*Loan, access and other fee income*
For the fees to which AASB 15 applies, the Group has assessed that the performance obligations are satisfied either over time or at a point in time. This income will continue to be recognised either at the point it is received or over the periods in which the services are provided.

*Financial planning fees and commissions*
The Group has assessed that the performance obligations are satisfied either over time or at a point in time. The method previously used to recognise upfront fee income under AASB 118 will continue to be appropriate under AASB 15. Variable commission income will be recognised only at the point that the income is highly probable and not expected to be reversed in future periods. Judgement will be required in calculating the probability-weighted expected revenue.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.1 Basis of preparation (continued)

### e) Changes in accounting policies (continued)

*Insurance fees and commissions*
The Group has assessed that the performance obligations are satisfied over time and the income will be recognised over the life of the contract, consistent with the method previously used to recognise this income under AASB 118.

*Mutual Aid income*
The Group has assessed that the performance obligations are satisfied over time and the income will be recognised over the average life of the related loans, consistent with the method previously used to recognise this income under AASB 118.

**AASB 9 Financial Instruments**
AASB 9 replaces AASB 139 *Financial Instruments: Recognition and Measurement*. It addresses the classification, measurement and derecognition of financial assets and liabilities, and introduces new rules for hedge accounting and loan provisioning.

The Group adopted AASB 9 with a date of transition of 1 July 2018. On transition, an adjustment has been recognised in retained earnings in relation to the provision for loan impairment. As permitted by AASB 9, the Group has not restated its comparative financial statements.

The Group has also elected to continue to apply the hedge accounting requirements under AASB 139.

<u>Classification and measurement of financial instruments</u>
AASB 9 prescribes three categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). AASB 9 replaces the categories of available for sale, held to maturity, and loans and receivables under the previous accounting standard AASB 139.

The measurement category and the carrying amount of financial assets in accordance with AASB 139 and AASB 9 and at 1 July 2018 are presented below.

**CONSOLIDATED**

| | AASB 139 | | AASB 9 | |
|---|---|---|---|---|
| **Financial assets** | **Measurement category** | **Carrying amount ($000)** | **Measurement category** | **Carrying amount ($000)** |
| Cash and cash equivalents | Loans and receivables measured at amortised cost | 201,273 | Amortised cost | 201,273 |
| Loans and advances | Loans and receivables measured at amortised cost | 7,275,310 | Amortised cost | 7,271,888 |
| Investment securities | Fair value through other comprehensive income (available for sale) | 809,036 | Fair value through other comprehensive income | 809,036 |
| Other investments | Fair value through other comprehensive income (available for sale) | 15,011 | Fair value through other comprehensive income | 15,011 |
| Derivative assets | Fair value through profit or loss<br>Derivatives held as cash flow hedges [a] | 522<br>326 | Fair value through profit or loss<br>Derivatives held as cash flow hedges [a] | 522<br>326 |
| Other assets | Loans and receivables measured at amortised cost | 24,734 | Amortised cost | 24,734 |

[a] The portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised through the cash flow hedge reserve through other comprehensive income. The ineffective portion is recognised in profit or loss.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.1 Basis of preparation (continued)

### e) Changes in accounting policies (continued)

**CREDIT UNION**

| | AASB 139 | | AASB 9 | |
|---|---|---|---|---|
| **Financial assets** | **Measurement category** | **Carrying amount ($000)** | **Measurement category** | **Carrying amount ($000)** |
| Cash and cash equivalents | Loans and receivables measured at amortised cost | 86,236 | Amortised cost | 86,236 |
| Loans and advances | Loans and receivables measured at amortised cost | 7,275,310 | Amortised cost | 7,271,888 |
| Investment securities | Fair value through other comprehensive income (available for sale) | 807,201 | Fair value through other comprehensive income | 807,201 |
| Other investments | Fair value through other comprehensive income (available for sale) | 778,381 | Fair value through other comprehensive income | 778,381 |
| Derivative assets | Fair value through profit or loss | 190 | Fair value through profit or loss | 190 |
| | Derivatives held as cash flow hedges [a] | 326 | Derivatives held as cash flow hedges [a] | 326 |
| Other assets | Loans and receivables measured at amortised cost | 30,790 | Amortised cost | 30,790 |

[a] The portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised through the cash flow hedge reserve through other comprehensive income. The ineffective portion is recognised in profit or loss.

Financial assets previously classified as available for sale under AASB 139 were reclassified to measured at FVOCI, with no changes to their measurement basis.

The adoption of AASB 9 does not significantly change the classification and measurement of financial liabilities, other than financial liabilities designated at fair value through profit or loss, where gains and losses related to changes in credit risk are presented in other comprehensive income with any other changes then recognised in profit or loss.

<u>Reconciliation of statement of financial position balances from AASB 139 to AASB 9</u>
The Group performed a detailed analysis of its business model for managing financial assets and the cash flow characteristics thereof. The following table reconciles the carrying amounts of financial assets, from their previous measurement category in accordance with AASB 139 to their new categories upon transition to AASB 9 on 1 July 2018:

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (continued)

e) Changes in accounting policies (continued)

CONSOLIDATED

| | AASB 139 Carrying Amount at 30 June 2018 ($000) | Reclassifications ($000) | Remeasurements ($000) | AASB 9 Carrying Amount at 1 July 2018 ($000) |
|---|---|---|---|---|
| ***Amortised Cost*** | | | | |
| Cash and cash equivalents | 201,273 | - | - | 201,273 |
| Loans and advances | 7,275,310 | - | (3,422) | 7,271,888 |
| Other assets | 24,734 | - | - | 24,734 |
| **TOTAL** | **7,501,317** | **-** | **(3,422)** | **7,497,895** |
| | | | | |
| ***Available for sale*** | | | | |
| Investment securities | 809,036 | (809,036) | - | - |
| Other investments | 15,011 | (15,011) | - | - |
| **TOTAL** | **824,047** | **(824,047)** | **-** | **-** |
| | | | | |
| ***Fair value through OCI*** | | | | |
| Investment securities: FVOCI debt instruments | - | 777,119 | - | 777,119 |
| Investment securities: FVOCI equity instruments | - | 31,917 | - | 31,917 |
| Other investments | - | 15,011 | - | 15,011 |
| Derivative assets – Cash flow hedges | 326 | - | - | 326 |
| **TOTAL** | **326** | **824,047** | **-** | **824,373** |
| | | | | |
| ***Fair value through profit or loss*** | | | | |
| Derivate assets – FVTPL | 522 | - | - | 522 |
| **TOTAL** | **522** | **-** | **-** | **522** |
| **TOTAL FINANCIAL ASSETS** | **8,326,212** | **-** | **(3,422)** | **8,322,790** |
| **Tax impact** | | | 1,027 | |
| **TOTAL ADJUSTMENT TO RETAINED EARNINGS NET OF TAX** | | | **(2,395)** | |

CREDIT UNION

| | AASB 139 Carrying Amount at 30 June 2018 ($000) | Reclassifications ($000) | Remeasurements ($000) | AASB 9 Carrying Amount at 1 July 2018 ($000) |
|---|---|---|---|---|
| ***Amortised Cost*** | | | | |
| Cash and cash equivalents | 86,236 | - | - | 86,236 |
| Loans and advances | 7,275,310 | - | (3,422) | 7,271,888 |
| Other assets | 30,790 | - | - | 30,790 |
| **TOTAL** | **7,392,336** | **-** | **(3,422)** | **7,388,914** |
| | | | | |
| ***Available for sale*** | | | | |
| Investment securities | 807,201 | (807,201) | - | - |
| Other investments | 778,381 | (778,381) | - | - |
| **TOTAL** | **1,585,582** | **(1,585,582)** | **-** | **-** |
| | | | | |
| ***Fair value through OCI*** | | | | |
| Investment securities: FVOCI debt instruments | - | 775,284 | - | 775,284 |
| Investment securities: FVOCI equity instruments | - | 31,917 | - | 31,917 |
| Other investments | - | 778,381 | - | 778,381 |
| Derivative assets – Cash flow hedges | 326 | - | - | 326 |
| **TOTAL** | **326** | **1,585,582** | **-** | **1,585,908** |
| | | | | |
| ***Fair value through profit or loss*** | | | | |
| Derivate assets – FVTPL | 190 | - | - | 190 |
| **TOTAL** | **190** | **-** | **-** | **190** |
| **TOTAL FINANCIAL ASSETS** | **8,978,434** | **-** | **(3,422)** | **8,975,012** |
| **Tax impact** | | | 1,027 | |
| **TOTAL ADJUSTMENT TO RETAINED EARNINGS NET OF TAX** | | | **(2,395)** | |

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.1 Basis of preparation (continued)

### e) Changes in accounting policies (continued)

The remeasurement of loans and advances occurred as a result of the change in accounting policy for the impairment of financial assets. AASB 9 replaces the 'incurred loss' model required under AASB 139 with an 'expected credit loss' model. The expected credit loss model is a forward-looking probability-weighted model that requires considerable judgement in evaluating the forecast direction of the economic cycle and the economic factors that would affect expected credit losses. AASB 9 requires a provision for impairment to be recognised at an amount equal to either the expected amount arising from the possible default of a financial instrument to be incurred within the next 12 month period after the recording date or the amount from all possible default events over the expected life of a financial instrument. The remeasurement of $2.395m has been recognised as an adjustment to opening retained earnings on transition. The General Reserve for Credit Losses has also been remeasured down by $3.897m and this has been recognised in equity as a transfer from the General Reserve for Credit Losses to retained earnings.

<u>Reconciliation of provision for impairment from AASB 139 to AASB 9</u>
The following table reconciles the prior period's closing provision for impairment measured in accordance with the AASB 139 incurred loss model to the new provision for impairment in accordance with the AASB 9 expected credit loss model at 1 July 2018.

**CONSOLIDATED**

| Financial Asset | Provision for impairment under AASB 139 ($000) | Reclassification ($000) | Remeasurement ($000) | Provision for impairment under AASB 9 ($000) |
|---|---|---|---|---|
| Loans and advances | 5,110 | - | 3,422 | 8,532 |
| **TOTAL** | **5,110** | **-** | **3,422** | **8,532** |

**CREDIT UNION**

| Financial Asset | Provision for impairment under AASB 139 ($000) | Reclassification ($000) | Remeasurement ($000) | Provision for impairment under AASB 9 ($000) |
|---|---|---|---|---|
| Loans and advances | 5,110 | - | 3,422 | 8,532 |
| **TOTAL** | **5,110** | **-** | **3,422** | **8,532** |

### 2.2 Basis of consolidation

**Controlled entities**

The Credit Union controls an entity if it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the controlled entity. The financial statements of controlled entities are included in the consolidated financial statements from the date on which control commences until the date when control ceases.

In the financial report, investments in controlled entities are carried at cost. Intragroup balances and transactions, and any unrealised income and expenses arising from intragroup transactions are eliminated in preparing the consolidated financial report. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

**Special purpose entities**

The Group has established a number of special purpose entities ("SPEs") for the purpose of issuing Residential Mortgage Backed Securities ("RMBS"). The SPE's are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of SPEs are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.2 Basis of consolidation (continued)

**Interests in equity accounted investees**

The Group's interests in equity accounted investees comprise interests in an associate and a joint venture. Associates are those entities in which the Group has significant influence, but not control or joint control, over the financial and operating policies. A joint venture is an arrangement in which the Group has joint control, whereby the Group has rights to the net assets of the arrangement, rather than rights to its assets and obligations for its liabilities.

Interests in associates and joint ventures are accounted for using the equity method. They are recognised initially at cost, which includes transaction costs. Subsequent to initial recognition, the consolidated financial statements include the Group's share of the Profit or Loss and Other Comprehensive Income of equity accounted investees, until the date on which significant influence or joint control ceases.

**Business Combinations**

Business combinations are accounted for using the acquisition method as at the acquisition date on which control is transferred to the Group. The identifiable assets and liabilities of the acquiree are recognised at their fair value at acquisition date.

Goodwill is recognised if, and to the extent that, the consideration transferred exceeds the fair value of the acquiree's identifiable assets acquired and liabilities assumed. Any goodwill that arises is tested for impairment on an annual basis.

Transaction costs that the Group incurs in connection with a business combination are expensed as incurred.

### 2.3 Financial assets and liabilities

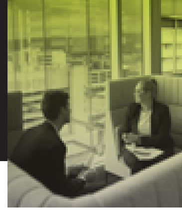
The accounting policies listed below are effective for the current and previous financial years unless otherwise stated. Where there has been a change in an accounting policy between the current financial year and the previous financial year, details of the previous policy will be disclosed.

**a) Cash and cash equivalents**

Cash and cash equivalents comprise notes and coins on hand and deposits at call with Authorised Deposit-Taking Institutions ("ADIs") and are stated at the gross value of the outstanding balance. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the Statements of Cash Flows.

**b) Loans and advances**

Loans and advances comprise term and revolving credit facilities provided to members and members' overdrawn savings accounts. Loans and advances are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at amortised cost using the effective interest rate method, less impairment losses. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the loan or advance to the carrying amount of the loan or advance. When estimating the future cash flows, the Group considers all contractual terms of the loan or advance excluding any expected credit losses (ECLs). Included in this calculation are all fees paid or received that are integral to the contract. The ECL on loans and advances is calculated in accordance with Note 2.4. The provision for impairment of loans and advances is categorised as follows:



2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**2.3 Financial assets and liabilities (continued)**

**b) Loans and advances (continued)**

**(i) Specific Provision**

Loans and advances that meet significant delinquency and loan size criteria are individually assessed for impairment to estimate the expected credit loss on the loan.

**(ii) Collective Provision**

Loans and advances that do not meet significant delinquency criteria are not individually assessed but are placed into portfolios of assets with similar risk profiles and a collective assessment of impairment is performed based on objective evidence from historical experience.

The evaluation process is subject to a series of estimates and judgements. In the risk rated exposure, the risk rating system, including the frequency of default and loss given default rates, loss history, and the size, structure and diversity of individual borrowers are considered. Current developments in portfolios (industry, geographic and term) are reviewed.

In the statistically managed retail exposures, the history of defaults and losses, and the size, structure and diversity of portfolios are considered.

In addition, management considers overall indicators of portfolio performance, quality and economic conditions. Changes in these estimates could have a direct impact on the level of provision determined.

**(iii) General Reserve for Credit Losses**

The difference between the impairment provisions calculated under IFRS and those required by APRA is represented by a General Reserve for Credit Losses within equity. Transfers to and from the General Reserve for Credit Losses are made as an appropriation of retained earnings.

Loans and advances are written off and derecognised when the asset is impaired and there is no reasonable expectation that the outstanding principal and interest will be recovered.

**c) Financial instruments - non-derivative financial instruments**

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

**(i) Investment securities**

Non-derivative investment securities held by the Group are initially recognised at fair value through other comprehensive income. Any resultant gain or loss on debt securities is recognised in other comprehensive income and presented within equity in the fair value reserve, except for impairment losses. Where the financial instruments are derecognised, the cumulative gain or loss previously recognised in other comprehensive income, and presented in the fair value reserve in equity, is transferred to profit or loss. Where these investments are interest-bearing, interest calculated using the effective interest rate method is recognised in profit or loss.

The fair value of financial instruments classified as fair value through other comprehensive income is estimated using discounted cash flow analysis, based on current market rates for similar arrangements. Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are carried at cost. If the relevant market is not considered active (or the securities are unlisted), the Group establishes fair value by using recent arm's length transactions.

Non-derivative investment securities are recognised/derecognised by the Group on the date it commits to purchase/sell the investments.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.3 Financial assets and liabilities (continued)

#### (ii) Liabilities

The Group initially recognises debt securities issued and subordinated liabilities on the date they are originated. All other financial liabilities are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument. The Group derecognises a financial liability when its contractual obligations are discharged, cancelled or expire.

Non-derivative financial liabilities are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortised cost using the effective interest rate method.

#### (iii) Other

Other non-derivative financial instruments are measured at amortised cost using the effective interest rate method, less any impairment losses.

Investments in controlled entities are carried at cost.

### d) Interest-bearing borrowings

Interest-bearing borrowings (inclusive of member deposits) are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in profit or loss over the period of the borrowings using an effective interest rate method.

### e) Financial instruments - derivative financial instruments

The Group uses interest rate swaps to hedge its exposure to interest rate risks arising from operational and financing activities. In accordance with Group Risk Appetite and Board policy, the Group does not hold or issue derivative financial instruments for trading purposes. Derivatives that do not qualify for hedge accounting are accounted for at fair value through profit or loss.

Derivative financial instruments are recognised initially at cost. Subsequent to initial recognition, derivative financial instruments are stated at fair value. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss. However, where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the item being hedged (refer Note 2.3 e) (ii)).

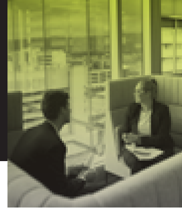
The fair value of interest rate swaps is the present value of the future cash flows that the Group would receive or pay to terminate the swap at the balance date, taking into account current interest rates and the current creditworthiness of the swap counterparties.

Where a financial asset does not qualify for derecognition the associated basis swaps are recognised on an accrual basis in accordance with AASB 9.

Further details of derivative financial instruments are disclosed in Note 29.

**Sale of a security with a total return swap**

The Group sells debt securities that are subject to a concurrent total return swap. In all cases, the Group retains substantially all of the risks and rewards of ownership resulting in the Group continuing to recognise the transferred securities in its Statements of Financial Position. The cash received is recognised as a financial asset and a corresponding liability is recognised.



## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.3 Financial assets and liabilities (continued)

#### e) Financial instruments - derivative financial instruments (continued)

The Group does not separately recognise the total return swap that prevents derecognition of the security as a derivative because doing so would result in recognising the same rights and obligations twice. As the Group sells the contractual rights to the cash flows of the securities, it does not have the ability to use the transferred assets during the term of the arrangement.

**(i) Hedging**

On entering into a hedging relationship, the Group formally designates and documents the hedge relationship and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of risk being hedged and how the Group will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting period as designated.

**(ii) Cash flow hedges**

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability, or a highly probable forecast transaction, the effective part of any gain or loss on the derivative financial instrument is recognised directly in other comprehensive income. When the forecast transaction subsequently results in the recognition of a non-financial asset or liability, the associated cumulative gain or loss is removed from other comprehensive income and included in the initial cost or other carrying amount of the non-financial asset or liability. If a hedge of a forecast transaction subsequently results in the recognition of a financial asset or liability, then the associated gains or losses that were recognised directly in other comprehensive income are reclassified into profit or loss in the same period or periods during which the asset acquired or liability assumed affects the Statements of Profit or Loss and Other Comprehensive Income (i.e. when the interest income is recognised).

Effectiveness tests are performed on derivative financial instruments to determine if they are still providing the protection originally intended when entered into by the Group. Where a derivative financial instrument that was previously considered to be effective no longer satisfies the effectiveness test criteria, any gain or loss on the instrument previously recognised in other comprehensive income is reversed through profit or loss with all subsequent gains or losses recognised through profit or loss.

When a derivative financial instrument is not designated in a qualifying hedge relationship, all changes to its fair value are recognised directly in profit or loss.

#### f) Other receivables

Other assets include non-interest bearing receivables that are stated at cost less any impairment losses (see Note 2.5).

#### g) Other payables

Other payables are non-interest bearing payables, which are normally settled on thirty day terms and are stated at amortised cost.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.4 Impairment of financial assets

#### a) Policy applicable from 1 July 2018

Financial assets, including loans and advances, migrate through the following three stages based on the change in credit risk since initial recognition:

*Stage 1: 12 month ECL*

The Group collectively assesses ECLs on exposures that have not significantly increased in credit risk since initial recognition and that were not credit impaired upon origination. For these exposures, the Group recognises a collective provision equal to the portion of the lifetime ECL associated with the probability of default events occurring within the next 12 months.

*Stage 2: Lifetime ECL – asset is not impaired*

The Group collectively assesses ECLs on exposures that have significantly increased in credit risk since initial recognition but are not credit impaired. Credit risk is considered to have significantly increased when the exposure is equal to or greater than 30 days past due or when other quantitative criteria are met. For these exposures, the Group recognises a collective provision equal to the lifetime ECL.

*Stage 3: Lifetime ECL – asset is impaired*

The Group assesses ECLs both collectively and individually on those exposures that are assessed as credit impaired. Exposures are credit impaired when they are equal to or greater than 90 days past due or where one or more events that have a detrimental impact on the estimated future cash flows of that asset have occurred, including loan modifications. For exposures that have become credit impaired, a lifetime ECL is recognised as a collective or specific provision.

The amount required to bring the specific and collective provision to the level assessed is recognised in the Statements of Profit or Loss and Other Comprehensive Income as set out in Note 9.

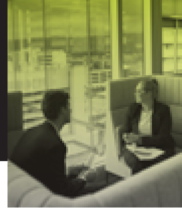
The measurement of the ECLs reflects:

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- The time value of money; and
- Other supporting information available to the Group at the reporting date, such as past events, current conditions and forecasts of future economic conditions.

#### b) Policy applicable prior to 1 July 2018

The accounting policy for impairment of financial assets for the 2018 comparatives figures differs in that, in accordance with AASB 139 *Financial Instruments: Recognition and Measurement*, the model for determining the provision for impairment of financial assets was based on historical incurred losses rather than forward-looking expected credit losses.

At each reporting date, the Group assessed whether there was objective evidence that financial assets not carried at fair value through profit or loss were impaired. A financial asset or a group of financial assets was impaired when objective evidence demonstrated that a loss event has occurred after the initial recognition of the asset(s) and that the loss event had an impact on the future cash flows of the asset(s) that could be estimated reliably.



## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.4 Impairment of financial assets (continued)

Objective evidence that financial assets were impaired included:

- Significant financial difficulty of the borrower or issuer;
- Default or delinquency by a borrower;
- The restructuring of a loan or advance by the Group on terms that the Group would not consider otherwise;
- Indications that a borrower or issuer will enter bankruptcy;
- The disappearance of an active market for a security; and
- Observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with details in the group.

For an investment in an equity security, a significant or prolonged decline in its fair value below its cost was objective evidence of impairment. Impairment of an investment in an equity instrument was recognised in profit or loss unless at initial recognition the Group made an irrevocable election to present subsequent changes in the fair value of the investment in that equity instrument in other comprehensive income. Equity instruments designated as fair value through other comprehensive income were not subject to impairment assessments. Furthermore, where the Group made the election to recognise subsequent changes in the fair value of investments in equity instruments through other comprehensive income, any cumulative losses as a result of impairment were not recycled through profit or loss.

Except for investments in equity instruments measured at fair value through other comprehensive income, where there was impairment of financial assets classified at fair value through other comprehensive income, any cumulative loss that had been recognised in other comprehensive income was transferred through to profit or loss, even though the financial asset had not been derecognised. The amount of the cumulative loss that was removed from other comprehensive income and recognised in profit or loss was the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss.

An impairment loss in respect of a receivable carried at amortised cost was reversed if a subsequent increase in the recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

An impairment loss in respect of an investment in an equity instrument designated as fair value through other comprehensive income was not reversed through profit or loss. If the fair value of a debt instrument classified as fair value through other comprehensive income increased and the increase could be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss was reversed, with the reversal recognised in profit or loss.

Impairment losses, other than in respect of goodwill, were reversed when there was an indication that the impairment loss no longer existed, and there was a change in the estimate used to determine the recoverable amount.

An impairment loss was reversed only to the extent that the asset's carrying amount did not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.5 Non-financial assets and liabilities

The accounting policies listed below are effective for the current and previous financial years unless otherwise stated. Where there has been a change in an accounting policy between the current financial year and the previous financial year, details of the previous policy will be disclosed.

**a) Acquisition of assets**

All assets acquired, including property, plant and equipment and intangibles (other than goodwill), are initially recorded at cost at the date of acquisition, being the fair value of the consideration provided plus incidental costs directly attributable to the acquisition.

Where settlement of any part of cash consideration is deferred, the amounts payable are recorded at their present value, discounted at the rate applicable to the Group if a similar borrowing were obtained from an independent financier under comparable terms and conditions. The unwinding of the discount is treated as interest expense.

The costs of assets constructed or internally generated by the Group (other than goodwill), include the cost of materials and direct labour. Directly attributable overheads and other incidental costs are also capitalised to the asset.

Expenditure, including that on internally generated assets (other than research costs), is only recognised as an asset when the entity controls future economic benefits as a result of the costs incurred that are probable and can be measured reliably. Costs attributable to feasibility and alternative approach assessments are expensed as incurred.

***Owned assets***

**Property, plant and equipment**

Property, plant and equipment are measured at cost, less any accumulated depreciation and impairment losses. Any gain or loss on disposal of an item of property, plant and equipment is recognised within profit or loss.

**Depreciation**

Depreciation is calculated on a straight line basis over the estimated useful life of the assets as follows:

| | |
|---|---|
| Leasehold improvements | 5 – 10 years |
| Furniture, equipment and technology | 2 – 12 years |

The expected useful life of an asset and the depreciation method applied is reassessed at least annually.

***Leased assets***

Leases of plant and equipment in relation to which the Group assumes substantially all the risks and benefits of ownership are classified as finance leases. Other leases are classified as operating leases and not recognised in the Group's Statements of Financial Position. The Group does not currently hold any finance leases.

Payments made under operating leases are expensed over the term of the lease.

**b) Intangible assets**

**(i) Goodwill**

Goodwill is stated at cost less any accumulated amortisation and accumulated impairment losses. Goodwill is allocated to cash generating units and is tested annually for impairment (refer Note 12).

Negative goodwill arising on acquisition is recognised directly in profit or loss.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.5 Non-financial assets and liabilities (continued)

### b) Intangible assets (continued)

#### (ii) Acquired Contractual Rights

The amount relating to acquired contractual rights to future cash flows is measured at cost less accumulated amortisation and accumulated impairment losses. Acquired contractual rights are amortised to profit or loss over the expected useful life of the asset.

The amount relating to acquired contractual rights to future cash flows is measured at cost less accumulated amortisation and accumulated impairment losses. Acquired contractual rights are amortised to profit or loss over the expected useful life of the asset.

#### (iii) Software

Software assets are measured at cost less accumulated amortisation and accumulated impairment losses. Software assets that are not integral to the operation of hardware are recognised as intangible assets with a finite life. Where the expenditure is of a significant amount and there are related benefits which are expected to be realised over the medium to long term, it is deferred and amortised on a straight line basis over the period in which the benefits are expected to be realised.

#### (iv) Amortisation

Intangible assets, other than goodwill, are amortised over their expected useful lives. The amortisation rates used for each class of intangible asset in the current and comparative periods are as follows:

| | |
|---|---|
| Acquired contractual rights | 5 years |
| Software | 2 – 7 years |

Amortisation methods, useful lives and residual values are reviewed at least annually and adjusted where appropriate.

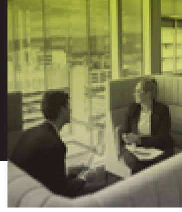
#### (v) Impairment

For goodwill and other intangible assets that have an indefinite life, the recoverable amount is estimated annually.

An impairment loss is recognised whenever the carrying amount of an asset (either in its own right or as part of a cash generating unit) exceeds its recoverable amount. Impairment losses are recognised in profit or loss unless the asset has previously been revalued, in which case the impairment loss is recognised as a reversal to the extent of that previous revaluation with any excess recognised in profit or loss.

Impairment losses recognised in respect of cash generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (group of units) and then, to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed.



## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.6 Derecognition of financial assets and liabilities

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

a) the right to receive cash flows from the asset has expired;
b) the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them without material delay to a third party; or
c) the Group has transferred its rights to receive cash flows from the asset and either:
   (i) has transferred substantially all the risks and rewards of the asset; or
   (ii) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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

### 2.7 Revenue recognition

**Interest revenue**

Interest income from loans and advances is recognised as it accrues using the effective interest rate method. The effective interest rate (EIR) is the rate that exactly discounts estimated future cash receipts through the expected life of the loan or advance or, when appropriate, a shorter period, to the gross carrying amount of the loan or advance.

For loans and advances with fixed interest rates, where cash flows are revised for reasons other than credit risk, changes to the future contractual cash flows are discounted at the original EIR with a consequential adjustment to the carrying amount. The difference from the previous carrying amount is recorded as positive or negative adjustment to the carrying amount of the loan or advance on the Statements of Financial Position with a corresponding increase or decrease in the interest revenue calculated using the effective interest method. Included in this calculation are all fees paid or received that are integral to the contract.

For loans and advances with floating rates, periodic re-estimation of cash flows reflect the movements in the market rates of interest which alters the EIR. However, as the loans and advances with floating rates are initially recognised at an amount equal to the principal, re-estimating the future interest payments does not significantly affect the carrying amount of the loan or advance. Fees paid or received that are integral to the contract are included in the re-estimation of the cash flows.

**Loan, access and other fee income**

Loan fee income is an integral part of the EIR of the loan and as such is recognised over the expected life of the loan.

Performance obligations related to access fee income are completed at a point in time when a transaction takes place. Access fee income is recognised when the performance obligation has been completed.

Performance obligations related to other fee income, predominately service related, are completed over time. Other fee income is recognised over the period that the service is provided.

The accounting policy for revenue recognition of access fee income and other fee income for the 2018 comparatives figures differs in that, in accordance with AASB 118 *Revenue*, this income was recognised in proportion to the stage of completion of the transaction at the reporting date.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.7 Revenue recognition (continued)

**Insurance fees and commissions**

Insurance fees and commissions are earned by the Group for acting in the capacity as an agent and referring insurance policies on to the relevant providers. The Group's contracted performance obligations include initial referrals, policy renewals and ongoing processing and promotion obligations.

The total consideration to be received under the contract is calculated and allocated to separate performance obligations. Revenue is recognised over time as each performance obligation is completed.

Variable commissions are recognised only at the point that the income is highly probable and not expected to be reversed in future periods. Underlying judgements, estimates and assumptions required in calculated variable commission are reviewed on an ongoing basis. For variable consideration received in advance of the performance obligations being completed or highly probable criterion being met, a contract liability is recognised.

The accounting policy for revenue recognition of insurance fees and commissions for the 2018 comparatives figures differs in that, in accordance with AASB 118 *Revenue*, this income was recognised in proportion to the stage of completion of the transaction at the reporting date. No revenue was recognised if there were significant uncertainties regarding recovery of the consideration or consideration could not be measured reliably.

**Financial planning fees and commissions**

Financial planning fees and commission are earned for providing advice to members and arranging financial products on behalf of members. Performance obligations related to fees and commissions are satisfied at a point in time or over time and revenue is recognised accordingly.

Variable commissions are recognised only at the point that the income is highly probable and not expected to be reversed in future periods. Underlying judgements, estimates and assumptions required in calculated variable commission are reviewed on an ongoing basis. For variable consideration received in advance of the performance obligations being completed or highly probable criterion being met, a contract liability is recognised.

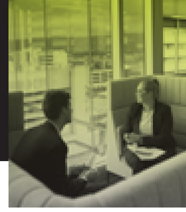
The accounting policy for revenue recognition of financial planning fees and commissions for the 2018 comparatives figures differs in that, in accordance with AASB 118 *Revenue*, this income was recognised either at the time the service was provided or in proportion to the stage of completion of the transaction at the reporting date. No revenue was recognised if there were significant uncertainties regarding recovery of the consideration or if the consideration could not be measured reliably.

**Mutual Aid income**

Mutual Aid is an optional financial risk product offered in connection with personal loans where People's Choice may grant relief of repayments on personal loans in accordance with the terms and conditions of the product. Mutual Aid income is received in full at the commencement of the loan.

The expected value of Mutual Aid revenue, taking into account the probability of refunds, is recognised over the average life of the associated loans. A contract liability is recognised to the extent that Group has not completed their performance obligations.

The accounting policy for revenue recognition of Mutual Aid income for the 2018 comparatives figures differs in that, in accordance with AASB 118 *Revenue*, this income was recognised in proportion to the stage of completion of the transaction at the reporting date. No revenue was recognised if there were significant uncertainties regarding recovery of the consideration or consideration could not be measured reliably.



## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.7 Revenue recognition (continued)

**Dividends**

Dividends from other investments are recognised when the right to receive the dividend has been established.

### 2.8 Income tax

Income tax expense comprises current and deferred tax. Current and deferred taxes are recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the reporting date.

Deferred tax assets and liabilities are offset only if they are expected to be settled or realised at the same time.

**Tax consolidation**

The Credit Union and its Australian wholly-owned controlled entities formed a tax-consolidated group with effect from 1 July 2003 and are therefore taxed as a single entity from that date. The head entity within the consolidated group is Australian Central Credit Union Ltd, trading as People's Choice Credit Union.

Current tax expense/income, deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax-consolidated group are recognised in the separate financial statements of the members of the tax-consolidated group. This is applied using the separate taxpayer within group approach by reference to the carrying amounts in the separate financial statements of each entity and the tax values applying under tax consolidation.

**Franking account**

The Group has generated franking credits through paying income tax, including credits which will arise from the payment of income tax provided for in the financial statements.

The ability to use these franking credits is restricted by the Constitution of the Credit Union which does not currently permit dividend payments.

### 2.9 Goods and services tax (GST)

Revenues, expenses and assets are recognised net of the amount of goods and services tax ("GST"), except where the amount of GST incurred is not recoverable from the Australian Taxation Office ("ATO"). In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to the ATO, is included as an asset or liability in the Statements of Financial Position.

The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to the ATO, are classified as operating cash flows.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.10 Deferred borrowing costs

Deferred borrowing costs include costs associated with the establishment of a number of separate securitisation facilities. These costs are amortised over the expected life of the facilities.

### 2.11 Securitisation

The Credit Union through its loan securitisation program securitises mortgage loans to special purpose entities ("SPEs"), which in turn issue securities to investors. Fees are received for various services provided to the SPEs on an arms-length basis, including servicing fees and management fees and are reported in profit or loss. The Credit Union also provides arms-length interest rate swaps and loan facilities to the SPEs.

Costs incurred in the establishment of a securitisation issue are amortised over the expected life of the issue.

Details of the transfer of financial assets to third parties and/or SPEs during the year are disclosed in Note 23.

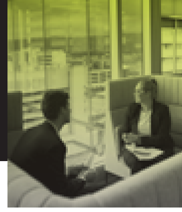
## 3. COMPLIANCE WITH IFRS

### a) Recently issued or amended standards not yet effective

The following standards, amendments to standards and interpretations have been identified as those which may impact the Group in the period of initial application. They are available for early adoption at 30 June 2019, but have not been applied in preparing this financial report:

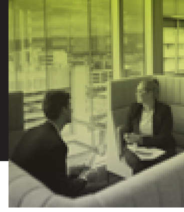
| **Standard Title** | **AASB 16 *Leases*** |
|---|---|
| **Nature of change** | AASB 16 *Leases* (AASB 16) introduces a single lessee accounting model that requires a lessee to recognise assets (right to use underlying asset) and liabilities (obligation to make lease payments). There are exemptions for short term leases and low-value items. |
| **Date of application and adoption** | AASB 16 is mandatory for annual periods beginning on or after 1 January 2019 but is available for early adoption. The Group has not early adopted AASB 16. |
| **Impact** | The impact of AASB 16 is under assessment, however the Group's initial analysis indicates the most predominant impact will be the new assets and liabilities the Group will recognise in relation to its operating leases for branches and other leased assets. Furthermore, the nature of the expenses relating to those leases will now change as AASB 16 replaces the straight-line operating lease expense with a depreciation charge for the right of use assets and interest expense on lease liabilities.<br><br>The Group’s non-cancellable operating lease commitments are disclosed in Note 21. The actual impact as at the date of transition will be affected by the transition method, exemptions chosen and the operating leases held as at the date of transition.<br><br>The Group expects that adoption of AASB 16 will not impact its ability to comply with its Liquidity and Capital Adequacy requirements imposed by APRA. Refer to Note 29 b) and d) respectively. |

A number of other AASB standards are also available for early adoption, but have not been applied by the Group in these financial statements. These relate to standards that have limited/no application to the Group.



| | Consolidated | | Credit Union | |
|---|---|---|---|---|
| | 2019 $'000 | 2018 $'000 | 2019 $'000 | 2018 $'000 |
| **4. REVENUE** | | | | |
| **Interest income** | | | | |
| Cash and cash equivalents | 2,064 | 2,573 | 753 | 1,104 |
| Loans and advances | 324,178 | 316,784 | 324,178 | 316,784 |
| Investment securities | 19,430 | 17,207 | 19,411 | 17,176 |
| Interest rate derivatives | - | - | 7,072 | 9,472 |
| Other investments | - | 18 | 27,048 | 24,165 |
| **Total interest income** | 345,672 | 336,582 | 378,462 | 368,701 |
| **Interest expense** | | | | |
| Deposits | 114,955 | 114,513 | 114,955 | 114,513 |
| Borrowings | 51,932 | 45,711 | 92,987 | 86,887 |
| Interest rate derivatives | 519 | 1,730 | - | - |
| **Total interest expense** | 167,406 | 161,954 | 207,942 | 201,400 |
| **Net interest income** | 178,266 | 174,628 | 170,520 | 167,301 |
| **Other income** | | | | |
| Loan, access and other fee income | 25,301 | 26,857 | 31,632 | 32,914 |
| Insurance fees and commissions | 16,096 | 17,451 | 16,096 | 17,451 |
| Financial planning fees and commissions | 12,021 | 13,209 | 10,129 | 10,955 |
| Dividends received | 622 | 1,301 | 622 | 2,263 |
| Mutual Aid income | 5,325 | 8,493 | 5,325 | 8,493 |
| Net gain on sale of property, plant and equipment | 25 | 6 | 25 | 6 |
| Other income | 115 | 69 | 115 | 69 |
| **Total other income** | 59,505 | 67,386 | 63,944 | 72,151 |
| **5. EXPENSES** | | | | |
| Salary and wages | 86,398 | 85,796 | 85,714 | 85,011 |
| Superannuation | 7,416 | 7,470 | 7,351 | 7,400 |
| Administrative expenses | 25,860 | 21,109 | 23,719 | 19,546 |
| Depreciation and impairment of property, plant and equipment | 6,808 | 12,342 | 6,808 | 12,342 |
| Amortisation on intangible computer software | 2,844 | 1,672 | 2,844 | 1,672 |
| Marketing costs | 7,684 | 7,997 | 7,763 | 8,105 |
| Rental operating leases | 12,660 | 15,174 | 12,587 | 15,098 |
| Other occupancy expenses | 4,501 | 5,349 | 4,439 | 5,291 |
| Distribution channel costs | 23,192 | 22,948 | 23,192 | 22,948 |
| Information technology costs | 17,495 | 16,807 | 17,494 | 16,797 |
| Impairment of goodwill | 8,477 | - | 142 | - |
| **Total other expenses** | 203,335 | 196,664 | 192,053 | 194,210 |

| | Consolidated | | Credit Union | |
|---|---|---|---|---|
| | **2019** | 2018 | **2019** | 2018 |
| | **$'000** | $'000 | **$'000** | $'000 |
| **6. INCOME TAX** | | | | |
| Profit before tax | **33,126** | 44,200 | **40,655** | 42,451 |
| Tax at the tax rate of 30% (2018: 30%) | **9,938** | 13,260 | **12,196** | 12,735 |
| Adjust for tax effect of: | | | | |
| Fully franked dividends received | **(186)** | (390) | **(186)** | (679) |
| Deferred tax on equity accounted associate | **-** | (289) | **-** | - |
| Non deductible impairment expense | **2,543** | - | **43** | - |
| Sundry items | **(34)** | (47) | **(34)** | (47) |
| Research and development tax incentive | **(219)** | (559) | **(219)** | (559) |
| (Over)/under provision in prior years | **-** | 64 | **-** | 64 |
| **Income tax expense** | **12,042** | 12,039 | **11,800** | 11,514 |
| **The components of tax expense comprise:** | | | | |
| Current tax | **10,782** | 10,994 | **10,678** | 10,673 |
| Deferred tax | **1,260** | 1,045 | **1,122** | 841 |
| | **12,042** | 12,039 | **11,800** | 11,514 |
| **Income tax recognised in other comprehensive income** | | | | |
| Net gain/(loss) on cash flow hedges | **(1,516)** | 241 | **(1,516)** | 241 |
| Net gain/(loss) on investment securities held at FVOCI | **272** | (186) | **272** | (186) |
| | **(1,244)** | 55 | **(1,244)** | 55 |
| **Current tax receivable/(payable)** | **5** | 169 | **5** | 169 |
| **Deferred tax assets comprise:** | | | | |
| *Amounts recognised in profit or loss* | | | | |
| Loans and advances impairment | **1,510** | 1,533 | **1,510** | 1,533 |
| Accrued superannuation | **229** | 226 | **227** | 224 |
| Unearned fee income | **2,266** | 3,563 | **2,266** | 3,563 |
| Depreciation | **1,550** | 1,534 | **1,550** | 1,534 |
| Provisions | **5,823** | 5,672 | **5,779** | 5,625 |
| Derivative liabilities at fair value through profit or loss | **1,759** | 12 | **1,759** | 530 |
| Intangible assets | **271** | 252 | **271** | 252 |
| Other items | **-** | 34 | **-** | 34 |
| | **13,408** | 12,826 | **13,362** | 13,296 |
| *Amounts recognised directly in Equity* | | | | |
| Cash flow hedges | **1,590** | 173 | **1,590** | 173 |
| Opening balance adjustment on adoption of AASB 9 | **1,027** | - | **1,027** | - |
| **Total deferred tax assets** | **16,025** | 12,999 | **15,979** | 13,469 |
| **Deferred tax liabilities comprise:** | | | | |
| *Amounts recognised in profit or loss* | | | | |
| Intangibles | **17** | 58 | **17** | 58 |
| Equity accounted associates | **1,711** | 1,575 | **-** | - |
| Derivative assets at fair value through profit or loss | **1,759** | 12 | **1,759** | 530 |
| | **3,487** | 1,645 | **1,776** | 588 |
| *Amounts recognised directly in Equity* | | | | |
| Cash flow hedges | **-** | 98 | **-** | 98 |
| Fair value reserve - investment securities held at FVOCI | **3,670** | - | **3,670** | - |
| Fair value reserve - available for sale investment securities | **-** | 3,398 | **-** | 3,398 |
| **Total deferred tax liabilities** | **7,157** | 5,141 | **5,446** | 4,084 |
| **Franking Account balance (tax provision basis)** | **174,802** | 163,545 | | |



| | Consolidated | | Credit Union | |
|---|---|---|---|---|
| | **2019** | 2018 | **2019** | 2018 |
| | **$'000** | $'000 | **$'000** | $'000 |

## 7. CASH AND CASH EQUIVALENTS

| | Consolidated 2019 $'000 | Consolidated 2018 $'000 | Credit Union 2019 $'000 | Credit Union 2018 $'000 |
|---|---|---|---|---|
| Cash on hand and at bank | **11,145** | 11,195 | **11,145** | 11,195 |
| Deposits at call | **124,167** | 190,078 | **81,639** | 75,041 |
| | **135,312** | 201,273 | **92,784** | 86,236 |

## 8. LOANS AND ADVANCES

| | Consolidated 2019 $'000 | Consolidated 2018 $'000 | Credit Union 2019 $'000 | Credit Union 2018 $'000 |
|---|---|---|---|---|
| Revolving credit facilities | **255,977** | 292,618 | **255,977** | 292,618 |
| Term loans | **7,419,481** | 6,986,177 | **7,419,481** | 6,986,177 |
| **Gross loans and advances** | **7,675,458** | 7,278,795 | **7,675,458** | 7,278,795 |
| | | | | |
| Provision for impairment (Note 9) | **(8,456)** | (5,110) | **(8,456)** | (5,110) |
| Loan origination and processing costs | **4,972** | 4,733 | **4,972** | 4,733 |
| Unearned income | **(2,739)** | (3,109) | **(2,739)** | (3,109) |
| **Net loans and advances** | **7,669,235** | 7,275,310 | **7,669,235** | 7,275,310 |

The loan portfolio of the Group does not include any loans or groups of related loans which represent 10% or more of capital (2018: $Nil).

## 9. IMPAIRMENT OF LOANS AND ADVANCES

| | Consolidated 2019 $'000 | Consolidated 2018 $'000 | Credit Union 2019 $'000 | Credit Union 2018 $'000 |
|---|---|---|---|---|
| **Specific provision:** | | | | |
| Balance at beginning of year | **1,987** | 1,304 | **1,987** | 1,304 |
| Opening adjustment on initial application of AASB 9 | **(709)** | - | **(709)** | - |
| Increase/(decrease) in provision | **(78)** | 683 | **(78)** | 683 |
| **Balance at end of year** | **1,200** | 1,987 | **1,200** | 1,987 |
| | | | | |
| **Collective provision:** | | | | |
| Balance at beginning of year | **3,123** | 3,195 | **3,123** | 3,195 |
| Opening adjustment on initial application of AASB 9 | **4,131** | - | **4,131** | - |
| Increase/(decrease) in provision | **2** | (72) | **2** | (72) |
| **Balance at end of year** | **7,256** | 3,123 | **7,256** | 3,123 |
| | | | | |
| Total provision for impairment | **8,456** | 5,110 | **8,456** | 5,110 |
| | | | | |
| **Charge to profit or loss comprises:** | | | | |
| Provision for loan impairment | **(76)** | 611 | **(76)** | 611 |
| Loans written off during the year as uncollectible | **3,361** | 3,777 | **3,354** | 3,777 |
| Bad debts recovered | **(1,522)** | (1,597) | **(1,522)** | (1,597) |
| **Total charge to profit or loss** | **1,763** | 2,791 | **1,756** | 2,791 |
| | | | | |
| **Impaired Loans** | | | | |
| Gross impaired loans | **10,214** | 7,927 | **10,214** | 7,927 |
| Specific provision for impairment | **(1,200)** | (1,987) | **(1,200)** | (1,987) |
| **Total impaired loans net of specific provisions** | **9,014** | 5,940 | **9,014** | 5,940 |
| | | | | |
| **Restructured loans** | **4,098** | 9,811 | **4,098** | 9,811 |
| | | | | |
| **Assets acquired through the enforcement of security** | **3,475** | 2,019 | **3,475** | 2,019 |

| | Consolidated | | Credit Union | |
|---|---|---|---|---|
| | **2019** | 2018 | **2019** | 2018 |
| | **$'000** | $'000 | **$'000** | $'000 |
| **10. INVESTMENTS** | | | | |
| **a) Investment securities** | | | | |
| Interest-bearing deposits | **60,216** | 61,170 | **59,316** | 59,335 |
| Negotiable certificates of deposit | **459,114** | 419,202 | **459,114** | 419,202 |
| Floating rate notes | **355,022** | 296,747 | **355,022** | 296,747 |
| Shares in unlisted entities | **31,917** | 31,917 | **31,917** | 31,917 |
| **Total investment securities** | **906,269** | 809,036 | **905,369** | 807,201 |
| **b) Other investments** | | | | |
| Capital notes | **-** | - | **870,495** | 772,644 |
| Other investments | **17,106** | 15,011 | **749** | 749 |
| Shares in controlled entities | **-** | - | **4,988** | 4,988 |
| **Total other investments** | **17,106** | 15,011 | **876,232** | 778,381 |
| **Total Investments** | **923,375** | 824,047 | **1,781,601** | 1,585,582 |

| **c) Shares in controlled entities** | | | % held by Holding Entity | |
|---|---|---|---|---|
| | **2019** | 2018 | **2019** | 2018 |
| | **$** | $ | **%** | % |
| **Australian Central Credit Union Ltd (trading as People's Choice Credit Union)** | | | | |
| **Controlled entities** | | | | |
| Australian Central Services Pty Ltd | **-** | - | **100** | 100 |
| Financial Solutions Australasia Pty Ltd | **4,987,973** | 4,987,973 | **100** | 100 |
| People's Choice Community Foundation Limited | **-** | - | **100** | 100 |
| | **4,987,973** | 4,987,973 | | |

**Special purpose entities**

Light Trust No. 2[1]
Light Trust No. 3
Light Trust No. 4
Light Trust No. 5R
Light Trust No. 6
Light Trust Warehouse No. 1
Light Trust 2017-2
Light Trust 2016-2
Light Trust 2017-1
Light Trust 2018-1

The special purpose entities are wholly owned by Australian Central Credit Union Ltd.

[1] Deregistered on 22 January 2019

**11. PROPERTY, PLANT AND EQUIPMENT**

| Consolidated | Furniture and Equipment $'000 | Leasehold Improvements $'000 | Technology $'000 | Capital Works in Progress (WIP) $'000 | Total $'000 |
|---|---|---|---|---|---|
| At 1 July 2018, net of accumulated depreciation | **2,981** | **19,359** | **3,919** | **912** | **27,171** |
| Additions | **418** | **1,870** | **611** | **-** | **2,899** |
| Disposals | **-** | **-** | **(15)** | **-** | **(15)** |
| Net movement in WIP | **-** | **-** | **-** | **5,663** | **5,663** |
| Depreciation expense | **(936)** | **(3,581)** | **(2,291)** | **-** | **(6,808)** |
| **Balance at 30 June 2019** | **2,463** | **17,648** | **2,224** | **6,575** | **28,910** |
| At 30 June 2019 | | | | | |
| Cost | **8,872** | **38,693** | **28,081** | **6,575** | **82,221** |
| Accumulated depreciation and impairment | **(6,409)** | **(21,045)** | **(25,857)** | **-** | **(53,311)** |
| **Net carrying amount** | **2,463** | **17,648** | **2,224** | **6,575** | **28,910** |
| At 1 July 2017, net of accumulated depreciation | 3,139 | 20,289 | 10,415 | 4,337 | 38,180 |
| Additions | 854 | 3,141 | 762 | - | 4,757 |
| Disposals | - | - | - | - | - |
| Net movement in WIP | - | - | - | (3,425) | (3,425) |
| Impairment of ATM assets | - | - | (3,465) | - | (3,465) |
| Depreciation expense | (1,012) | (4,071) | (3,793) | - | (8,876) |
| Balance at 30 June 2018 | 2,981 | 19,359 | 3,919 | 912 | 27,171 |
| At 30 June 2018 | | | | | |
| Cost | 8,538 | 38,342 | 28,301 | 912 | 76,093 |
| Accumulated depreciation and impairment | (5,557) | (18,983) | (24,382) | - | (48,922) |
| Net carrying amount | 2,981 | 19,359 | 3,919 | 912 | 27,171 |

**Credit Union**

| Credit Union | Furniture and Equipment $'000 | Leasehold Improvements $'000 | Technology $'000 | Capital Works in Progress (WIP) $'000 | Total $'000 |
|---|---|---|---|---|---|
| At 1 July 2018, net of accumulated depreciation | **2,981** | **19,359** | **3,919** | **912** | **27,171** |
| Additions | **418** | **1,870** | **611** | **-** | **2,899** |
| Disposals | **-** | **-** | **(15)** | **-** | **(15)** |
| Net movement in WIP | **-** | **-** | **-** | **5,663** | **5,663** |
| Depreciation expense | **(936)** | **(3,581)** | **(2,291)** | **-** | **(6,808)** |
| **Balance at 30 June 2019** | **2,463** | **17,648** | **2,224** | **6,575** | **28,910** |
| At 30 June 2019 | | | | | |
| Cost | **8,198** | **38,693** | **28,081** | **6,575** | **81,547** |
| Accumulated depreciation and impairment | **(5,735)** | **(21,045)** | **(25,857)** | **-** | **(52,637)** |
| **Net carrying amount** | **2,463** | **17,648** | **2,224** | **6,575** | **28,910** |
| At 1 July 2017, net of accumulated depreciation | 3,139 | 20,289 | 10,415 | 4,337 | 38,180 |
| Additions | 854 | 3,141 | 762 | - | 4,757 |
| Disposals | - | - | - | - | - |
| Net movement in WIP | - | - | - | (3,425) | (3,425) |
| Impairment of ATM assets | - | - | (3,465) | - | (3,465) |
| Depreciation expense | (1,012) | (4,071) | (3,793) | - | (8,876) |
| Balance at 30 June 2018 | 2,981 | 19,359 | 3,919 | 912 | 27,171 |
| At 30 June 2018 | | | | | |
| Cost | 7,866 | 38,342 | 28,301 | 912 | 75,420 |
| Accumulated depreciation and impairment | (4,885) | (18,983) | (24,382) | - | (48,250) |
| Net carrying amount | 2,981 | 19,359 | 3,919 | 912 | 27,171 |

## 12. INTANGIBLE ASSETS

| Consolidated | Goodwill $'000 | Computer Software $'000 | Total $'000 |
|---|---|---|---|
| At 1 July 2018, net of accumulated amortisation | **8,477** | **6,056** | **14,533** |
| Additions | **-** | **1,806** | **1,806** |
| Amortisation | **-** | **(2,844)** | **(2,844)** |
| Impairment | **(8,477)** | **-** | **(8,477)** |
| **Balance at 30 June 2019** | **-** | **5,018** | **5,018** |
| At 30 June 2019 | | | |
| Cost | **9,174** | **24,122** | **33,296** |
| Accumulated amortisation | **(697)** | **(19,104)** | **(19,801)** |
| Impairment | **(8,477)** | **-** | **(8,477)** |
| **Net carrying amount** | **-** | **5,018** | **5,018** |
| At 1 July 2017, net of accumulated amortisation | 8,477 | 2,416 | 10,893 |
| Additions | - | 5,312 | 5,312 |
| Amortisation | - | (1,672) | (1,672) |
| Balance at 30 June 2018 | 8,477 | 6,056 | 14,533 |
| At 30 June 2018 | | | |
| Cost | 9,174 | 22,321 | 31,495 |
| Accumulated amortisation | (697) | (16,265) | (16,962) |
| Net carrying amount | 8,477 | 6,056 | 14,533 |

| Credit Union | Goodwill $'000 | Computer $'000 | Total $'000 |
|---|---|---|---|
| At 1 July 2018, net of accumulated amortisation | **142** | **6,056** | **6,198** |
| Additions | **-** | **1,806** | **1,806** |
| Amortisation | **-** | **(2,844)** | **(2,844)** |
| Impairment | **(142)** | **-** | **(142)** |
| **Balance at 30 June 2019** | **-** | **5,018** | **5,018** |
| At 30 June 2019 | | | |
| Cost | **202** | **24,122** | **24,324** |
| Accumulated amortisation | **(60)** | **(19,104)** | **(19,164)** |
| Impairment | **(142)** | **-** | **(142)** |
| **Net carrying amount** | **-** | **5,018** | **5,018** |
| At 1 July 2017, net of accumulated amortisation | 142 | 2,416 | 2,558 |
| Additions | - | 5,312 | 5,312 |
| Amortisation | - | (1,672) | (1,672) |
| Balance at 30 June 2018 | 142 | 6,056 | 6,198 |
| At 30 June 2018 | | | |
| Cost | 202 | 22,321 | 22,523 |
| Accumulated amortisation | (60) | (16,265) | (16,325) |
| Net carrying amount | 142 | 6,056 | 6,198 |

## 12. INTANGIBLE ASSETS (Continued)

### Measurement of the recoverable amounts of cash generating units

Goodwill is allocated to the Group's Cash Generating Units ("CGUs").

A segment level summary of the goodwill allocation is:

| | Consolidated | |
|---|---|---|
| | **2019** | 2018 |
| | **$'000** | $'000 |
| Financial planning | **8,477** | 8,477 |
| Impairment of goodwill | **(8,477)** | - |
| Total | **-** | 8,477 |

The recoverable amount has been calculated in accordance with Note 2.5, which has identified a goodwill impairment loss of $8.477 million during the year ended 30 June 2019. All other assets within the CGU are held at their recoverable amount and no further impairment of the CGU is required.

### Key assumptions used in Value in Use

The recoverable amount of a CGU is determined based on a "value in use" methodology. The Net Present Value ("NPV") of the relevant CGU's anticipated cash flows is used as a basis for determining whether any impairment exists.

- Projected cash flows for the Financial Planning CGU have been based on the Board approved revenue decline budgeted for the next financial year and Long Term Financial Model for the subsequent two financial years. No growth assumptions have been applied to the terminal value.

- A pre-tax discount rate of 12.469% (2018:13.257%) was applied in determining the recoverable amounts for the CGUs. The discount rate was estimated based on the weighted average cost of debt and capital allocated by the Group to this CGU, reflecting the market assessment of any risks specific to a financial planning business.

- Management has undertaken sensitivity analysis and believes that no reasonably possible change in any of the above key assumptions would cause a significant change in the value of impairment loss recognised.

The key assumptions are reviewed annually and changes are made in line with changing economic and market conditions.

The impairment loss recognised is primarily due a decline in revenue due to the run off of Corporate Solutions revenue and regulatory changes to financial planning trail commissions.

## 13. EQUITY ACCOUNTED INVESTEES

| | Consolidated | | Credit Union | |
|---|---|---|---|---|
| | **2019** | 2018 | **2019** | 2018 |
| | **$'000** | $'000 | **$'000** | $'000 |
| **Interest in joint venture** | **1,827** | 1,573 | **1,500** | 1,500 |
| **Interest in associate** | **8,115** | 7,915 | **2,740** | 2,740 |
| | **9,942** | 9,489 | **4,240** | 4,240 |

| | Consolidated | |
|---|---|---|
| | **2019** | 2018 |
| | **$'000** | $'000 |
| **Share of profit in joint venture** | **253** | 240 |
| **Share of profit in associate** | **200** | 1,401 |
| | **453** | 1,641 |

**a) Interest in Joint Venture**

Mutual Marketplace Pty Ltd ("Mutual Marketplace") is a joint venture jointly controlled by People's Choice Credit Union and Credit Union Australia Ltd with both parties having a 50% ownership interest. The company commenced operations in April 2017 and provides professional procure-to-pay services to the mutual sector with its principal places of business in both Adelaide and Brisbane. The Group has a residual interest in the net assets of Mutual Marketplace and accordingly, the investment is classified as a joint venture and accounted for under the equity method.

The following table summarises the financial information of Mutual Marketplace and reconciles the financial information to the carrying amount of the Group's interest in the joint venture.

| | Consolidated | | Credit Union | |
|---|---|---|---|---|
| | **2019** | 2018 | **2019** | 2018 |
| | **$'000** | $'000 | **$'000** | $'000 |
| Carrying amount of investment in joint venture | **1,827** | 1,573 | **1,500** | 1,500 |
| **Share of joint venture's equity** | | | | |
| Paid up share capital | **1,500** | 1,500 | | |
| Retained earnings | **327** | 73 | | |
| | **1,827** | 1,573 | | |
| **Share of joint venture's balance sheet** | | | | |
| Cash | **1,796** | 1,532 | | |
| Other current assets | **2,423** | 2,389 | | |
| Non-current assets | **450** | 587 | | |
| Current liabilities | **2,626** | 2,805 | | |
| Non-current liabilities | **216** | 130 | | |
| **Share of net assets** | **1,827** | 1,573 | | |
| **Share of joint venture's profit or loss** | | | | |
| Revenue | **67,805** | 61,260 | | |
| Interest income | **32** | 20 | | |
| Depreciation and amortisation | **(187)** | (77) | | |
| Other expenses | **(67,281)** | (60,841) | | |
| Profit/(loss) before income tax | **369** | 362 | | |
| Income tax (expense)/benefit | **(116)** | (122) | | |
| **Profit/(loss) after income tax** | **253** | 240 | | |

As at 30 June 2019, Mutual Marketplace has non-cancellable commitments of $1.585 million (2018: $0.764 million) to be settled over the next five years.

## 13. EQUITY ACCOUNTED INVESTEES (Continued)

### b) Interest in Associate

The Group has an interest in Data Action Pty Ltd ("Data Action") and owns 27.5% (2018: 27.5%) of the equity interests and holds 27.5% (2018: 27.5%) of the voting rights. The Group has determined that it exercises significant influence over Data Action and accordingly, the investment is classified as an associate and accounted for under the equity method.

The following table summarises the financial information of Data Action and reconciles the financial information to the carrying amount of the Group's interest in the associate.

| | Consolidated | | Credit Union | |
|---|---|---|---|---|
| | **2019 $'000** | 2018 $'000 | **2019 $'000** | 2018 $'000 |
| Carrying amount of investment in associates | **8,115** | 7,915 | **2,740** | 2,740 |
| **Share of associate's equity** | | | | |
| Paid up share capital | **3,809** | 3,809 | | |
| Retained earnings | **4,306** | 4,106 | | |
| | **8,115** | 7,915 | | |
| **Share of associate's balance sheet** | | | | |
| Current assets | **4,537** | 4,382 | | |
| Non-current assets | **4,224** | 4,209 | | |
| Current liabilities | **1,564** | 1,880 | | |
| Non-current liabilities | **775** | 514 | | |
| **Share of net assets** | **6,422** | 6,196 | | |
| **Share of associate's profit or loss** | | | | |
| Revenue | **10,203** | 9,975 | | |
| Expenses | **(9,866)** | (7,916) | | |
| Profit/(loss) before income tax | **337** | 2,058 | | |
| Income tax expense | **(137)** | (657) | | |
| **Profit/(loss) after income tax** | **200** | 1,401 | | |
| **Dividend received** | **-** | 963 | | |

| | Consolidated | | Credit Union | |
|---|---|---|---|---|
| | **2019** | 2018 | **2019** | 2018 |
| | **$'000** | $'000 | **$'000** | $'000 |
| **14. OTHER ASSETS** | | | | |
| Accrued interest receivable | **1,673** | 1,799 | **1,673** | 1,798 |
| Deferred borrowing costs | **3,271** | 4,745 | **3,272** | 4,746 |
| Prepayments | **8,367** | 3,182 | **8,366** | 3,182 |
| Other receivables | **5,308** | 15,008 | **11,853** | 21,064 |
| | **18,619** | 24,734 | **25,164** | 30,790 |
| **15. DEPOSITS** | | | | |
| Retail deposits | **6,221,412** | 5,780,459 | **6,221,555** | 5,780,622 |
| Non-retail deposits | **199,375** | 332,618 | **199,375** | 332,618 |
| Withdrawable shares (issued and paid up at $2.00 per share) | **734** | 714 | **734** | 714 |
| | **6,421,521** | 6,113,791 | **6,421,664** | 6,113,954 |

The deposit portfolio of the Group does not include any deposits or groups of related deposits which represent 10% or more of liabilities (2018: $Nil).

| | Consolidated | | Credit Union | |
|---|---|---|---|---|
| | **2019** | 2018 | **2019** | 2018 |
| | **$'000** | $'000 | **$'000** | $'000 |
| **16. OTHER PAYABLES** | | | | |
| Accounts payable and other payables | **67,458** | 56,160 | **76,006** | 57,167 |
| Accrued interest payable | **19,678** | 20,081 | **25,076** | 24,338 |
| | **87,136** | 76,241 | **101,082** | 81,505 |
| **17. BORROWINGS** | | | | |
| Wholesale funding facilities | **6,750** | 8,224 | **6,750** | 8,224 |
| Loans payable to securitisation trusts | **-** | - | **2,456,686** | 2,211,595 |
| Notes payable | **1,640,878** | 1,564,543 | **-** | - |
| | **1,647,628** | 1,572,767 | **2,463,436** | 2,219,820 |
| **Wholesale funding facility utilisation** | | | | |
| Wholesale funding facilities - utilised | **6,750** | 8,224 | **6,750** | 8,224 |
| Wholesale funding facilities - unutilised | **-** | - | **-** | - |
| **Wholesale funding approved limits** | **6,750** | 8,224 | **6,750** | 8,224 |
| **Securitisation warehouse funding facility utilisation** | | | | |
| Securitisation warehouse funding facilities - utilised | **659,076** | 324,640 | **659,076** | 324,640 |
| Securitisation warehouse funding facilities - unutilised | **130,924** | 275,360 | **130,924** | 275,360 |
| **Securitisation warehouse funding approved limits** | **790,000** | 600,000 | **790,000** | 600,000 |
| **18. PROVISIONS** | | | | |
| Provision for make good | **17** | 160 | **17** | 160 |
| Provision for annual leave | **5,910** | 5,716 | **5,858** | 5,654 |
| Provision for long service leave | **12,474** | 12,111 | **12,376** | 12,017 |
| Provision for rostered days off | **106** | 142 | **106** | 142 |
| Provision for onerous contracts | **17** | 65 | **17** | 65 |
| | **18,524** | 18,194 | **18,374** | 18,038 |

The non-current component of the Group's provisions at 30 June 2019 is $1,196,110 (2018: $1,373,546).

| | Consolidated | | Credit Union | |
|---|---|---|---|---|
| | **2019** | 2018 | **2019** | 2018 |
| | **$'000** | $'000 | **$'000** | $'000 |
| **19. RESERVES** | | | | |
| Redeemed member shares | **787** | 762 | **787** | 762 |
| Fair value reserve - financial assets held at FVOCI | **8,563** | 7,928 | **8,563** | 7,928 |
| General reserve for credit losses | **8,610** | 12,437 | **8,610** | 12,437 |
| Hedging reserve - cash flow hedges | **(3,712)** | (175) | **(3,712)** | (175) |
| Asset revaluation reserve | **6** | 6 | **-** | - |
| Other equity reserves | **171,745** | 171,745 | **171,745** | 171,745 |
| | **185,999** | 192,703 | **185,993** | 192,697 |

**Redeemed member shares**

Nature and purpose:

Under the Corporations Act 2001 (s254K), redeemable preference shares (Members $2 Shares) may only be redeemed out of the Credit Union's profit or through a new issue of shares for the purpose of the redemption. The Credit Union therefore has transferred the value of member shares redeemed since 1 July 1999 (the date that the Corporations Act 2001 applied to the Credit Union), from retained earnings to the redeemed preference share capital account. The value of members' shares for existing members is disclosed in Note 15.

| | Consolidated 2019 | Consolidated 2018 | Credit Union 2019 | Credit Union 2018 |
|---|---|---|---|---|
| Opening balance 1 July | **762** | 738 | **762** | 738 |
| Transfers from retained earnings | **25** | 24 | **25** | 24 |
| **Balance** | **787** | 762 | **787** | 762 |

**Fair value reserve - financial assets held at FVOCI (2018: available for sale financial assets)**

Nature and purpose:

The fair value reserve is the difference in the carrying amount and the financial assets held at FVOCI (2018: available for sale financial assets).

| | Consolidated 2019 | Consolidated 2018 | Credit Union 2019 | Credit Union 2018 |
|---|---|---|---|---|
| Opening balance 1 July | **7,928** | 8,362 | **7,928** | 8,362 |
| Net unrealised gains/(losses) | **635** | (434) | **635** | (434) |
| **Balance** | **8,563** | 7,928 | **8,563** | 7,928 |

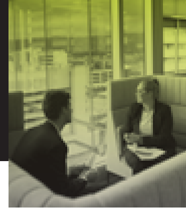
**General reserve for credit losses**

Nature and purpose:

APRA requires ADIs to maintain a prescribed level of provision for regulatory purposes. The difference between the impairment provisions calculated under IFRS and those required by APRA is represented by the general reserve for credit losses. The reserve has been appropriated from retained earnings.

| | Consolidated 2019 | Consolidated 2018 | Credit Union 2019 | Credit Union 2018 |
|---|---|---|---|---|
| Opening balance 1 July | **12,437** | 12,253 | **12,437** | 12,253 |
| Opening adjustment on initial application of AASB 9 | **(3,897)** | - | **(3,897)** | - |
| Increase/(decrease) in general reserve for credit losses | **70** | 184 | **70** | - |
| **Balance** | **8,610** | 12,437 | **8,610** | 12,437 |

| | Consolidated | | Credit Union | |
|---|---|---|---|---|
| | **2019** | 2018 | **2019** | 2018 |
| | **$'000** | $'000 | **$'000** | $'000 |
| **19. RESERVES (Continued)** | | | | |
| **Hedging reserve - cash flow hedges** | | | | |
| Nature and purpose:<br>The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedge transactions that have not yet occurred. | | | | |
| Opening balance 1 July | **(175)** | (736) | **(175)** | (736) |
| Effective portion of changes in fair values | **(3,495)** | (43) | **(3,495)** | (43) |
| Net change in fair value taken to profit or loss | **(42)** | 604 | **(42)** | 604 |
| **Balance** | **(3,712)** | (175) | **(3,712)** | (175) |
| **Asset revaluation reserve** | | | | |
| Nature and purpose:<br>The asset revaluation reserve relates to assets measured at fair value in accordance with applicable AASB's. | | | | |
| **Balance** | **6** | 6 | **-** | - |
| **Other equity reserves** | | | | |
| Nature and purpose:<br>The other equity reserves represents the retained earnings of Savings & Loans Credit Union (S.A.) Limited recognised upon the merger with the Credit Union. | | | | |
| **Balance** | **171,745** | 171,745 | **171,745** | 171,745 |

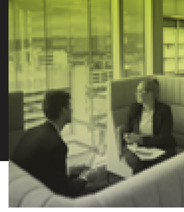


| | Consolidated | | Credit Union | |
|---|---|---|---|---|
| | **2019 $'000** | 2018 $'000 | **2019 $'000** | 2018 $'000 |
| **20. NOTES TO THE STATEMENTS OF CASH FLOW** | | | | |
| **Reconciliation of profit after income tax to net cash from operating activities** | | | | |
| Profit for the period | **21,084** | 32,161 | **28,855** | 30,937 |
| ***Adjustments for:*** | | | | |
| Depreciation and amortisation | **9,652** | 14,015 | **9,652** | 14,015 |
| (Decrease)/Increase in provision for impairment | **(76)** | 611 | **(76)** | 611 |
| Bad debts written off | **1,840** | 2,180 | **1,832** | 2,180 |
| Dividend income classified as investing cash flow | **(622)** | (1,301) | **(622)** | (2,263) |
| Net (profit)/loss on sale of property, plant & equipment | **(25)** | (6) | **(25)** | (6) |
| Share of profit of equity accounted investees | **(453)** | (1,641) | **-** | - |
| Impairment of goodwill | **8,477** | - | **142** | - |
| ***Change in assets and liabilities:*** | | | | |
| Increase/(decrease) in provisions | **331** | 125 | **336** | 119 |
| (Decrease)/increase in provision for income tax | **164** | (3,524) | **164** | (3,524) |
| Increase/(decrease) in deferred tax assets and liabilities | **17** | 1,099 | **(121)** | 895 |
| Increase/(decrease) in interest payable | **(402)** | (1,658) | **739** | (757) |
| Increase/(decrease) in other payables | **11,312** | 15,987 | **18,854** | 13,258 |
| (Increase) in loans and advances | **(399,110)** | (416,646) | **(399,103)** | (416,646) |
| Increase in deposits and withdrawable share capital | **307,731** | 311,777 | **307,710** | 311,720 |
| (Increase)/decrease in interest receivable | **125** | (219) | **125** | (218) |
| Increase/(decrease) in derivative assets/liabilities | **1,560** | (250) | **(5,925)** | 3,198 |
| (Increase)/decrease in other assets | **5,989** | (794) | **5,501** | (353) |
| **Net cash from operating activities** | **(32,406)** | (48,084) | **(31,962)** | (46,834) |

**Reconciliation of liabilities arising from financing activities to financing cash flows**

| | Consolidated | | |
|---|---|---|---|
| | **Wholesale Funding Facilities $'000** | **Notes payable $'000** | **Total $'000** |
| **Balance at 1 July 2018** | 8,224 | 1,564,543 | 1,572,767 |
| Financing cash flows | (1,474) | 76,335 | 74,861 |
| **Balance at 30 June 2019** | **6,750** | **1,640,878** | **1,647,628** |

| | Credit Union | | |
|---|---|---|---|
| | **Wholesale Funding Facilities $'000** | **Loans payable $'000** | **Total $'000** |
| **Balance at 1 July 2018** | 8,224 | 2,211,595 | 2,219,820 |
| Financing cash flows | (1,474) | 245,091 | 243,617 |
| **Balance at 30 June 2019** | **6,750** | **2,456,686** | **2,463,436** |



## 21. COMMITMENTS

| Lease expenditure commitments | Consolidated 2019 $'000 | 2018 $'000 |
|---|---|---|
| Non-cancellable operating leases: | | |
| Not later than 1 year | **13,583** | 15,619 |
| Later than 1 and not later than 2 years | **13,136** | 14,136 |
| Later than 2 and not later than 5 years | **31,557** | 36,534 |
| Later than 5 years | **24,977** | 41,186 |
| **Aggregate lease expenditure contracted for at 30 June** | **83,253** | 107,475 |

The Group leases motor vehicles, office and branch premises under non-cancellable operating leases expiring within one to 8 years. The leases have varying terms, escalation clauses and renewal rights. On renewal the terms of the leases are renegotiated.

**Digital transformation initiative commitments**

During the current financial year, the Group entered into contracts related to digital transformation initiatives which has resulted in capital and expense commitments of $63.3 million to be settled within the next 6 years.

**Credit commitments**

The Group has the following credit commitments:

| | Consolidated 2019 $'000 | 2018 $'000 |
|---|---|---|
| Loans approved not settled | **72,868** | 80,790 |
| Members unconditionally cancellable unused credit facilities | **428,070** | 445,042 |
| Member funds available for redraw | **492,438** | 475,512 |
| | **993,376** | 1,001,344 |

## 22. CONTINGENT ASSETS AND LIABILITIES

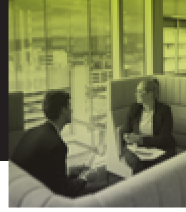
| Guarantees | Consolidated 2019 $'000 | 2018 $'000 |
|---|---|---|
| The Group has issued guarantees as follows: | | |
| Guarantees issued for members | **1,848** | 1,713 |

As the probability and value of guarantees being called upon is unpredictable, it is not practical to state the timing of any payment.

**CUFSS Limited**

With effect from 1 July 1999, the Credit Union is a party to an Industry Support Contract (“ISC”) administered by CUFSS Limited (“CUFSS”). The ISC is certified by APRA under Section 11CB of the Banking Act 1959 (Cth) and is a voluntary financial support scheme whose members are Credit Unions, Mutual Banks and Cuscal Limited. CUFSS is a company limited by guarantee, each member’s guarantee being $100. As a member of CUFSS, the Credit Union:

- May be required to advance funds (excluding permanent loans) of up to 3% of total assets, capped at $100m, to another CUFSS member requiring financial support;
- Agrees, in conjunction with other members, to fund the operating costs of CUFSS.



## 23. SECURITISATION

In the ordinary course of business, the Group enters into transactions that result in the transfer of financial assets to third parties or special purpose entities (SPE's) on an arm's length basis.

The Credit Union transferred loans totalling $742 million (2018: $839 million) during the financial year as part of its ongoing securitisation program. The loan transfers made to SPE's comprise of warehouse funding facilities $467 million (2018: $247 million), nil term securitisation issues (2018: $500 million) and the internal securitisation issue $275 million (2018: $92 million). The total value of transferred loans as at 30 June 2019 was $2,457 million (2018: $2,212 million). The Group has not transferred substantially all of the risks and rewards associated with these loans and accordingly these loans are carried on the Group's balance sheet.

No new SPE's were established during the year and no borrowing costs were capitalised (2018: $2 million).

Refer to Note 28. Related Parties for more information on loan balances and net distributions to unitholders.

## 24. STANDBY BORROWING FACILITIES

| The Credit Union has the following borrowing facilities: | **Credit Union** | |
|---|---|---|
| | **2019** | 2018 |
| **Overdraft facility** | **$'000** | $'000 |
| Gross facility amount | **5,000** | 5,000 |
| Less: current borrowing | **-** | - |
| **Net available** | **5,000** | 5,000 |

## 25. SIGNIFICANT ALLIANCES

The Credit Union has a significant alliance with the following suppliers of services:

**Cuscal Limited**

This company provides the Credit Union with the rights to, and the production of member's cheques, ATM management services, card services, provides finance facilities, settlement with bankers, electronic funds deposit and central banking. In addition, this company operates the switching system that links the ATM network, other approved EFT suppliers, Visa acquirers and merchants to the Credit Union's computer systems.

**Fiserv (aspac) Pte. Ltd**

This company is a member of an international group which owns the core banking system software which the Credit Union operates.

**Data Action Pty Ltd**

This company operates a computer bureau which provides the Credit Union with a range of computing services (refer to Note 13).

**Mutual Marketplace Pty Ltd**

This company is a joint venture between People's Choice Credit Union and Credit Union Australia Ltd and provides professional procure-to-pay services to the mutual sector (refer to Note 13).

**Datacom Systems (AU) Pty Ltd**

Datacom provides the Group with information technology services and products, including consulting.

## 26. AUDITOR'S REMUNERATION

| | Consolidated | | Credit Union | |
|---|---|---|---|---|
| | **2019** | 2018 | **2019** | 2018 |
| | **$** | $ | **$** | $ |
| **Amounts paid or payable to the external auditors - KPMG** | | | | |
| Auditing the financial report | **304,262** | 306,224 | **253,190** | 251,052 |
| Other regulatory activities and assurance services | **123,312** | 158,332 | **123,312** | 158,332 |
| Taxation services | **81,334** | 109,993 | **52,890** | 77,193 |
| Other services | **142,959** | - | **142,959** | - |
| | **651,867** | 574,549 | **572,351** | 486,577 |

## 27. KEY MANAGEMENT PERSONNEL

### a) Directors

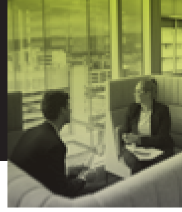
The following were Directors of the Group from the beginning of the financial year to the date of this report.

J. L. Cossons (Chair)
S. P. W. Laidlaw (Managing Director)
E. T. McGuirk (Retired 15 November 2018)
K. A. Skipper AM
V. S. Hickey
J. P. Patton
A. E. Heyworth
D. J. Cartwright (Retired 11 December 2018)

### b) Other key management personnel

The following persons, employed by the Credit Union, also had authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, during the financial year:

| | |
|---|---|
| D. Lewis | Chief Sales Officer |
| V. Pace | Chief Financial Officer |
| D. Mattiske-Wood | Deputy CEO, Chief Strategy, Marketing & People Officer |
| P. Corolis | Chief Risk Officer |
| G. Wenborn | Chief Digital & Technology Officer |



## 27. KEY MANAGEMENT PERSONNEL (Continued)

### c) Key management personnel compensation

Directors and other key management personnel compensation for the Group comprised:

| | Short-term Employee Benefits $'000 | Post-employment Benefits - Superannuation $'000 | Long Term-Other Benefits $'000 | Termination Benefits $'000 | Total $'000 |
|---|---|---|---|---|---|
| **2019** | **4,750** | **240** | **85** | **-** | **5,075** |
| 2018 | 4,570 | 287 | 69 | - | 4,926 |

### d) Loans

Loans to Directors and other key management personnel are either unsecured or secured by registered mortgage over eligible security in accordance with standard lending policies.

| | **2019 $'000** | 2018 $'000 |
|---|---|---|
| Total aggregate loans as at the reporting date (30 June) | **1,382** | 1,487 |
| Total aggregate interest charged during the reporting period | **65** | 103 |

All loans to Directors and other key management personnel are made on normal staff terms and conditions that are applicable to normal staff benefit packages.

The Directors and key management personnel who held loan accounts with the Credit Union during the year were J.L. Cossons, K.A. Skipper AM, V.S. Hickey, G. Wenborn and D. Lewis.

### Other transactions with key management personnel

Other transactions with key management personnel generally relate to deposits and financial planning advice. Financial transactions (including loans disclosed within this report) with Directors occur in the ordinary course of business on an arms length basis. For other key management personnel, financial transactions are made on normal staff terms and conditions that are applicable to normal staff benefit packages. Disclosure of financial transactions regularly made as part of normal banking operations is limited to disclosure of such transactions with key management personnel and entities controlled or significantly influenced by them. All such financial transactions that have occurred between entities within the Group and their key management personnel were in the nature of normal personal banking.

As they are required to be a member of the Credit Union, each Director and all key management personnel hold one $2 share.

## 28. RELATED PARTIES

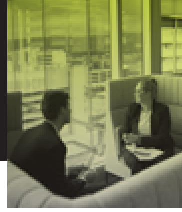
**Controlled entities**

The Credit Union entered into transactions with its Controlled Entities. These transactions were all carried out under normal commercial terms and are eliminated on consolidation in the financial reports. The following table provides the total amount of transactions that were entered into with related parties for the relevant financial year.

| | Aggregate amounts included in the accounts of the Credit Union Income/(expense) | | Amounts included in the accounts of the Credit Union Payable/(receivable) | | Deposits with the Credit Union | |
|---|---|---|---|---|---|---|
| | **2019 $'000** | 2018 $'000 | **2019 $'000** | 2018 $'000 | **2019 $'000** | 2018 $'000 |
| Financial Solutions Australasia Pty Ltd | **246** | 275 | **6,782** | 6,029 | **-** | - |
| Australian Central Services Pty Ltd | **348** | 29 | **484** | 392 | **-** | - |
| People's Choice Community Foundation Limited | **(338)** | (410) | **34** | 23 | **143** | 163 |

| | Residual Unitholder Net Distribution/ (Contribution) | | Net Interest Rate Swap Expense/ (Income) | |
|---|---|---|---|---|
| | **2019 $'000** | 2018 $'000 | **2019 $'000** | 2018 $'000 |
| Light Trust No. 2 [1] | **-** | 2 | **-** | 73 |
| Light Trust No. 3 | **133** | 313 | **638** | 908 |
| Light Trust No. 4 | **160** | 444 | **318** | 535 |
| Light Trust No. 5R | **(546)** | 3,295 | **4,014** | 4,836 |
| Light Trust No. 6 | **1,326** | 2,542 | **892** | 1,615 |
| Light Trust Warehouse No. 1 | **114** | 638 | **338** | 652 |
| Light Trust 2017-2 | **(387)** | 1,096 | **914** | 1,169 |
| Light Trust 2016-2 | **604** | 84 | **(199)** | (81) |
| Light Trust 2017-1 | **1,827** | 3,787 | **444** | 1,547 |
| Light Trust 2018-1 | **1,689** | 1,184 | **232** | (53) |

[1] Deregistered on 22 January 2019



## 28. RELATED PARTIES (Continued)

### Controlled entities

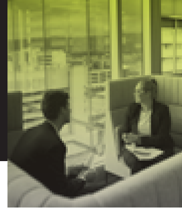
| | Capital Notes held by the Credit Union | | Outstanding balance of Loans sold to Trust | |
|---|---|---|---|---|
| | **2019 $'000** | 2018 $'000 | **2019 $'000** | 2018 $'000 |
| Light Trust No. 2 [1] | **-** | - | **-** | - |
| Light Trust No. 3 | **2,827** | 3,386 | **63,386** | 75,432 |
| Light Trust No. 4 | **4,670** | 5,832 | **72,171** | 89,509 |
| Light Trust No. 5R | **806,636** | 735,475 | **781,365** | 650,530 |
| Light Trust No. 6 | **-** | - | **196,229** | 243,458 |
| Light Trust Warehouse No. 1 | **15,025** | 7,449 | **196,304** | 95,544 |
| Light Trust 2017-2 | **19,886** | 8,350 | **246,548** | 101,902 |
| Light Trust 2016-2 | **21,449** | 12,152 | **260,778** | 147,635 |
| Light Trust 2017-1 | **-** | - | **279,944** | 353,793 |
| Light Trust 2018-1 | **-** | - | **359,960** | 453,791 |

[1] Deregistered on 22 January 2019

### Equity accounted investees

Note 13 provides information regarding the nature of the Group's relationship with its equity accounted investees. Some of the services provided may be discounted for shareholder customers. The following tables provide the total amount of transactions that were entered into during the relevant financial year.

| | Purchases from related parties | | Amounts owed to related parties | |
|---|---|---|---|---|
| | **2019 $'000** | 2018 $'000 | **2019 $'000** | 2018 $'000 |
| Joint venture: Mutual Marketplace Pty Ltd | **58,614** | 48,493 | **1,053** | 3,614 |
| Associate: Data Action Pty Ltd | **10,073** | 10,266 | **714** | 842 |
| | **68,687** | 58,759 | **1,767** | 4,456 |



## 29. RISK MANAGEMENT

### a) Financial risk management objectives

The Group is exposed to a range of risks as part of its daily operations. These risks are managed using an enterprise wide approach in line with sound business practice, Australian risk management standards, prudential requirements and the Board's approved risk appetite, providing the Board with a comprehensive view of its risk profile.

As part of the risk management framework, a risk management strategy is maintained which includes policies and plans which detail the Group's approach to the management of risk exposures. The risk management strategy includes systems for the identification, analysis, evaluation, treatment, monitoring and reporting of risk, is subject to regular review and is responsive to the changing regulatory and operating environments.

The Board ensures a sound risk management culture is maintained and embedded in the Group's values and behaviours and the conduct of business. The material financial risks faced by the Group include liquidity risk, credit risk and market risk (incorporating interest rate risk).

### b) Liquidity risk management

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity risk is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to its reputation.

The Group has in place information systems and a structured process to monitor and manage liquidity risk. The management process incorporates specific liquidity management strategies and liquidity contingency plans that manage liquidity on a daily basis under normal situations and assumed adverse scenarios. The liquidity strategy requires the holding of surplus funds in liquid assets which meet APRA's criteria for classification as eligible Minimum Liquidity Holdings ("MLH"), the availability of appropriate standby lines of funding, maintenance of reliable sources of funding (retail and wholesale) and daily liquidity projections.

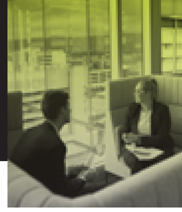
APRA Prudential Standards place specific management and reporting requirements on ADIs in relation to liquidity risk. The Prudential Standards provide that liquidity strategies and liquidity holdings can be based on either a scenario analysis or on an MLH basis. APRA has approved the Credit Union to adopt an MLH approach, whereby the Credit Union is required to maintain a minimum holding in specified eligible assets at all times.

The Credit Union's liquidity ratio as at the reporting date (30 June) is provided below:

| | **Credit Union** | |
|---|---|---|
| | **2019** | 2018 |
| | **%** | % |
| Liquidity ratio | **12.31** | 12.48 |

### Contractual undiscounted cash flows

The following tables summarise the maturity profile of the Group's and the Credit Union's financial liabilities as at 30 June 2019 based on contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as if notice is given immediately. However, the Group and the Credit Union expect that many members will not request repayment on the earliest date the Group or the Credit Union could be required to pay and the tables do not reflect the cash flows indicated by the Group's or the Credit Union's deposit retention history. Derivatives designated are based on their contractual maturity. The amounts represent principal and interest cash flows and may differ when compared to the carrying amounts reported on the Statements of Financial Position.



### 29. RISK MANAGEMENT (Continued)

#### b) Liquidity risk management (continued)

| Consolidated Entity | Contractual cash flows | | | | | | |
|---|---|---|---|---|---|---|---|
| | At call | 3 Months or less | 3 to 12 months | 1 to 5 years | Greater than 5 years | Total | Carrying amount |
| | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| **2019** | | | | | | | |
| **Financial Liabilities** | | | | | | | |
| Deposits | **3,904,419** | **753,587** | **1,596,562** | **204,109** | **-** | **6,458,677** | **6,421,521** |
| Other payables | **-** | **87,136** | **-** | **-** | **-** | **87,136** | **87,136** |
| Borrowings | **-** | **28,410** | **85,219** | **451,609** | **1,991,326** | **2,556,564** | **1,647,628** |
| **Derivative Financial Instruments** | | | | | | | |
| Interest rate swaps (assets)/liabilities | **-** | **1,285** | **2,909** | **1,617** | **-** | **5,811** | **5,646** |
| **Total cash flows** | **3,904,419** | **870,418** | **1,684,690** | **657,335** | **1,991,326** | **9,108,188** | **8,161,931** |
| **2018** | | | | | | | |
| **Financial Liabilities** | | | | | | | |
| Deposits | 3,586,506 | 1,004,224 | 1,386,790 | 171,237 | - | 6,148,757 | 6,113,791 |
| Other payables | - | 76,241 | - | - | - | 76,241 | 76,241 |
| Borrowings | - | 27,868 | 82,956 | 437,445 | 1,966,052 | 2,514,322 | 1,572,767 |
| **Derivative Financial Instruments** | | | | | | | |
| Interest rate swaps (assets)/liabilities | - | 30 | 474 | 35 | - | 539 | 549 |
| **Total cash flows** | 3,586,506 | 1,108,363 | 1,470,220 | 608,717 | 1,966,052 | 8,739,858 | 7,763,348 |
| **Credit Union** | | | | | | | |
| **2019** | | | | | | | |
| **Financial Liabilities** | | | | | | | |
| Deposits | **3,904,582** | **753,587** | **1,596,562** | **204,109** | **-** | **6,458,840** | **6,421,664** |
| Other payables | **-** | **101,082** | **-** | **-** | **-** | **101,082** | **101,082** |
| Borrowings | **-** | **42,013** | **126,031** | **667,174** | **2,985,989** | **3,821,207** | **2,463,436** |
| **Derivative Financial Instruments** | | | | | | | |
| Interest rate swaps (assets)/liabilities | **-** | **73** | **(781)** | **(1,273)** | **-** | **(1,981)** | **(560)** |
| **Total cash flows** | **3,904,582** | **896,755** | **1,721,812** | **870,010** | **2,985,989** | **10,379,148** | **8,985,622** |
| **2018** | | | | | | | |
| **Financial Liabilities** | | | | | | | |
| Deposits | 3,586,669 | 1,004,224 | 1,386,790 | 171,237 | - | 6,148,920 | 6,113,954 |
| Other payables | - | 81,505 | - | - | - | 81,505 | 81,505 |
| Borrowings | - | 38,866 | 115,949 | 612,636 | 2,793,063 | 3,560,515 | 2,219,820 |
| **Derivative Financial Instruments** | | | | | | | |
| Interest rate swaps (assets)/liabilities | - | (50) | 234 | 525 | - | 709 | 1,828 |
| **Total cash flows** | 3,586,669 | 1,124,545 | 1,502,973 | 784,399 | 2,793,063 | 9,791,648 | 8,417,107 |

**29. RISK MANAGEMENT (Continued)**

**c) Credit risk management**

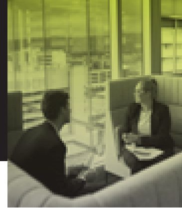
Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted a policy of only dealing with credit worthy counterparties and obtaining sufficient collateral or other security where appropriate, as a means of mitigating the risk of financial loss from defaults.

The Group's maximum exposure to credit risk at balance date in relation to each class of recognised financial assets is the carrying amount of those assets as indicated in the Statements of Financial Position. The maximum credit exposure does not take into account the value of any collateral or other security held in the event other entities/parties fail to perform their obligations under the financial instruments in question. The value of collateral held against individual exposures is generally only assessed at the time of borrowing or when a specific review of that exposure is undertaken in accordance with policy.

The Group holds collateral against loans and advances to members in the form of mortgage interests over real property. Estimates of fair value are based on the value of collateral assessed at the time of borrowing and generally are not updated except when a loan is individually assessed as impaired.

The maximum exposure to credit risk at the reporting date (30 June) was:

| | Consolidated | | Credit Union | |
|---|---|---|---|---|
| | **2019** | 2018 | **2019** | 2018 |
| | **$'000** | $'000 | **$'000** | $'000 |
| Deposits at call | **124,167** | 190,078 | **81,639** | 75,041 |
| Other assets | **18,619** | 24,734 | **25,164** | 30,790 |
| Investment securities | **874,352** | 777,119 | **873,452** | 775,284 |
| Derivative assets | **3,747** | 848 | **5,863** | 516 |
| **Financial assets other than loans and advances** | **1,020,885** | 992,779 | **986,118** | 881,631 |
| Loans and advances | **7,675,458** | 7,278,795 | **7,675,458** | 7,278,795 |
| **Total financial assets** | **8,696,343** | 8,271,574 | **8,661,576** | 8,160,426 |
| Credit commitments | **993,376** | 1,001,344 | **993,376** | 1,001,344 |
| **Total potential exposure to credit risk** | **9,689,719** | 9,272,918 | **9,654,952** | 9,161,770 |
| **Distribution of financial assets** | | | | |
| **Neither past due nor impaired** | | | | |
| Financial assets other than loans and advances | **1,020,885** | 992,779 | **986,118** | 881,631 |
| Loans and advances | **7,430,503** | 7,079,015 | **7,430,503** | 7,079,015 |
| **Past due but not impaired** | | | | |
| Loans and advances | **234,741** | 191,853 | **234,741** | 191,853 |
| **Impaired** | | | | |
| Loans and advances | **10,214** | 7,927 | **10,214** | 7,927 |
| | **8,696,343** | 8,271,574 | **8,661,576** | 8,160,426 |
| **Gross loans and advances which are past due but not impaired** | | | | |
| 1 - 30 days | **172,460** | 138,851 | **172,460** | 138,851 |
| 31 - 60 days | **19,523** | 21,074 | **19,523** | 21,074 |
| 61 - 90 days | **16,819** | 10,861 | **16,819** | 10,861 |
| > 90 days | **25,939** | 21,067 | **25,939** | 21,067 |
| **Total** | **234,741** | 191,853 | **234,741** | 191,853 |



## 29. RISK MANAGEMENT (Continued)

### c) Credit risk management (continued)

| | Consolidated | | Credit Union | |
|---|---|---|---|---|
| | **2019** | 2018 | **2019** | 2018 |
| | **$'000** | $'000 | **$'000** | $'000 |
| **Geographic concentration of credit risk for gross loans and advances** | | | | |
| South Australia | **4,738,998** | 4,536,199 | **4,738,998** | 4,536,199 |
| Northern Territory | **1,605,817** | 1,542,686 | **1,605,817** | 1,542,686 |
| Victoria | **871,148** | 766,987 | **871,148** | 766,987 |
| New South Wales | **154,856** | 152,280 | **154,856** | 152,280 |
| Western Australia | **79,203** | 81,469 | **79,203** | 81,469 |
| Queensland | **139,972** | 128,463 | **139,972** | 128,463 |
| Australian Capital Territory | **71,460** | 58,720 | **71,460** | 58,720 |
| Tasmania | **14,004** | 11,991 | **14,004** | 11,991 |
| | **7,675,458** | 7,278,795 | **7,675,458** | 7,278,795 |

### d) Capital adequacy

The management of the capital of a financial institution is a fundamental part of its risk management process as an essential element of capital is its availability to absorb future, unexpected and unidentified losses.

APRA Prudential Standards require ADIs to maintain at all times a minimum ratio of capital to risk weighted assets. As part of its risk management process, the Credit Union has developed a methodology with financial modelling to assist in determining the optimum level of capital that is consistent with assessed risk exposure and business activity. The optimum capital is managed within a range well above the minimum required by APRA and incorporates an assessment of the combined risk exposure for operations, market, credit and strategic risk.

The Credit Union's capital management plan ensures capital holdings are maintained in proportion to its risk exposure from its activities. The Credit Union and the Group have complied with all the APRA capital adequacy requirements throughout the year.

The Group's capital adequacy ratio as at the end of the reporting date (30 June) and the comparative are as follows:

| | Consolidated | |
|---|---|---|
| | **2019** | 2018 |
| | **$'000** | $'000 |
| **Capital Adequacy Ratio** | **15.07%** | 15.34% |
| Qualifying capital | | |
| Tier 1 | **549,685** | 518,370 |
| Tier 2 | **8,610** | 12,437 |
| **Total qualifying capital** | **558,295** | 530,807 |
| **Risk Weighted Assets** | **3,703,585** | 3,461,276 |

For further detail on the Group's capital adequacy please refer to our public disclosures under *APS 330 Public Disclosure*, which is located on the Credit Union's website under Regulatory Disclosures.

## 29. RISK MANAGEMENT (Continued)

### e) Market risk management

Market risk is the risk of exposure to changes to financial prices affecting the value of positions held by the Group as part of its normal trading activities. As the Group does not deal in foreign exchange contracts or commodities, market risk for the Group consists solely of interest rate risk.

### f) Interest rate risk

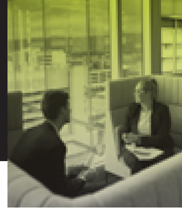
Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The Board has established limits on the interest rate risk volatility of net interest income and market value of equity exposures. Positions are monitored regularly and approved hedging strategies are executed to ensure sensitivities and exposures are maintained within the established limits.

The sensitivity in the Statements of Profit or Loss and Other Comprehensive Income is the effect of assumed changes in interest rates on the net interest for one year, based on the floating rate financial assets and financial liabilities held at 30 June 2019, including the effect of hedging instruments. The sensitivity of equity is calculated by revaluing the fixed rate of loans and advances, financial assets held at FVOCI (including the effect of any associated hedges), and interest rate swaps designated as cash flow hedges, at 30 June 2019 for the effects of the assumed changes in interest rates. The sensitivity of equity is analysed by maturity of the asset or interest rate swap, with sensitivity based on the assumption that there are parallel shifts in the yield curve.

Monitoring of adherence to policies, limits and procedures is controlled through the Management Asset and Liability Committee ("MALCO") and the Board Risk Committee.

The following table demonstrates the sensitivity to reasonably possible changes in interest rates, on the Group's income statement and in equity with all other variables held constant.

| | **Equity Sensitivity** | | **Net Revenue Sensitivity** | |
|---|---|---|---|---|
| | **2019** | 2018 | **2019** | 2018 |
| **Consolidated** | **%** | % | **$'000** | $'000 |
| **25 bp rise** | **(0.54)** | (0.50) | **638** | 687 |
| **25 bp fall** | **0.54** | 0.50 | **(741)** | (791) |
| **50 bp rise** | **(1.07)** | (1.01) | **1,259** | 1,369 |
| **50 bp fall** | **1.08** | 1.01 | **(1,941)** | (1,603) |

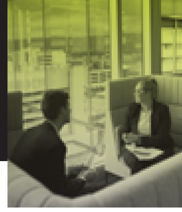


**29. RISK MANAGEMENT (Continued)**

**f) Interest rate risk (continued)**

The Group's exposure to interest rate risk at balance date is shown in the following table and does not differ materially from that of the Credit Union.

| Consolidated | | Fixed interest rate maturing: | | | | |
|---|---|---|---|---|---|---|
| | Floating interest rate | <1 yrs | 1-5 yrs | > 5 yrs | Non-interest bearing | Total |
| **2019** | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| **Financial Assets** | | | | | | |
| Cash and cash equivalents | 124,167 | - | - | - | 11,145 | 135,312 |
| Loans and advances | 4,686,965 | 1,369,694 | 1,611,777 | 799 | - | 7,669,235 |
| Investment securities | - | 874,352 | - | - | 31,917 | 906,269 |
| Other investments | 17,106 | - | - | - | - | 17,106 |
| | 4,828,238 | 2,244,046 | 1,611,777 | 799 | 43,062 | 8,727,922 |
| **Financial Liabilities** | | | | | | |
| Deposits | 3,905,295 | 2,319,505 | 196,721 | - | - | 6,421,521 |
| Borrowings | - | 1,647,628 | - | - | - | 1,647,628 |
| | 3,905,295 | 3,967,133 | 196,721 | - | - | 8,069,149 |
| **Interest rate swaps - assets/(liabilities)** | 600,000 | (350,000) | (250,000) | - | - | - |
| **2018** | | | | | | |
| **Financial Assets** | | | | | | |
| Cash and cash equivalents | 190,078 | - | - | - | 11,195 | 201,273 |
| Loans and advances | 4,416,060 | 1,087,352 | 1,771,458 | 440 | - | 7,275,310 |
| Investment securities | - | 777,119 | - | - | 31,917 | 809,036 |
| Other investments | 15,011 | - | - | - | - | 15,011 |
| | 4,621,150 | 1,864,471 | 1,771,458 | 440 | 43,112 | 8,300,630 |
| **Financial Liabilities** | | | | | | |
| Deposits | 3,587,408 | 2,360,811 | 165,572 | - | - | 6,113,791 |
| Borrowings | - | 1,572,767 | - | - | - | 1,572,767 |
| | 3,587,408 | 3,933,578 | 165,572 | - | - | 7,686,558 |
| **Interest rate swaps - assets/(liabilities)** | 790,000 | (285,000) | (505,000) | - | - | - |



**29. RISK MANAGEMENT (Continued)**

**g) Interest rate swap contracts**

The Group uses interest rate swap contracts in managing interest rate exposure. For interest rate swap contracts, the Group agrees to exchange the difference between fixed and floating rate interest amounts calculated on agreed notional principal amounts. Such contracts enable the Group to mitigate the risk of changing interest rates. The Group enters into interest rate swap contracts for the sole purpose of managing interest rate exposures in the Statements of Financial Position and not for speculative purposes.

| | **2019** | | | 2018 | | |
|---|---|---|---|---|---|---|
| | | **Fair Value** | | | Fair Value | |
| | **Notional Amount** | **Asset** | **Liability** | Notional Amount | Asset | Liability |
| | **$'000** | **$'000** | **$'000** | $'000 | $'000 | $'000 |
| **Consolidated** | | | | | | |
| **Derivatives at fair value through profit or loss** | | | | | | |
| Interest rate swaps | **734,698** | **3,747** | **(4,090)** | 593,575 | 522 | (821) |
| **Derivatives held as cash flow hedges** | | | | | | |
| Interest rate swaps | **600,000** | **-** | **(5,303)** | 790,000 | 326 | (576) |
| | **1,334,698** | **3,747** | **(9,393)** | 1,383,575 | 848 | (1,397) |
| **Credit Union** | | | | | | |
| **Derivatives at fair value through profit or loss** | | | | | | |
| Interest rate swaps | **708,255** | **5,863** | **-** | 676,604 | 190 | (1,768) |
| **Derivatives held as cash flow hedges** | | | | | | |
| Interest rate swaps | **600,000** | **-** | **(5,303)** | 790,000 | 326 | (576) |
| | **1,308,255** | **5,863** | **(5,303)** | 1,466,604 | 516 | (2,344) |

## 29. RISK MANAGEMENT (Continued)

### g) Interest rate swap contracts (continued)

The following table details the Group's net fair values and notional principal amounts at the remaining terms of interest rate swap contracts outstanding as at the reporting date:

| | Net Fair Value | | Notional Principal Amount | |
|---|---|---|---|---|
| | **2019** | 2018 | **2019** | 2018 |
| | **$'000** | $'000 | **$'000** | $'000 |
| Less than 1 year | **(4,006)** | (507) | **662,121** | 495,334 |
| 1 to 2 years | **(1,468)** | (54) | **523,561** | 605,690 |
| 2 to 5 years | **(172)** | 12 | **149,016** | 282,551 |
| > 5 years | **-** | - | **-** | - |
| | **(5,646)** | (549) | **1,334,698** | 1,383,575 |

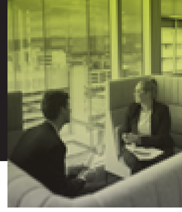
### Offsetting financial assets and financial liabilities

Financial assets and financial liabilities are offset and the net amount reported in the Statements of Financial Position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The Group does not have a legally enforceable right to set-off any interest rate swap agreements.

### Master netting arrangement – not currently enforceable

Agreements with derivative counterparties are based on the International Swaps and Derivatives Association ("ISDA") Master Agreement. Under the terms of these arrangements, only where certain credit events occur (such as default), the net position owing/receivable to a single counterparty in the same currency will be taken as owing and all the relevant arrangements terminated. As neither the Group nor the Credit Union presently have a legally enforceable right of set-off, these amounts have not been offset in the Statements of Financial Position and accordingly derivative assets and derivative liabilities are shown on a gross basis in the Statements of Financial Position.

If under the ISDA Master Agreement there was a legally enforceable right of set-off, there would be a reduction in both the derivative asset and derivative liability of the Credit Union and the Group of $3.747million as at 30 June 2019 ($0.848 million at 30 June 2018).



## 30. FAIR VALUE OF FINANCIAL INSTRUMENTS

### a) Fair value methodologies

Disclosed below is the estimated fair value of the Group's financial instruments presented in accordance with the requirements of Accounting Standard AASB 7 *Financial Instruments: Disclosures.*

A financial instrument is defined by AASB 132 *Financial Instruments: Presentation* as any contract that gives rise to both a financial asset of one entity and a financial liability or equity instrument of another entity. A financial liability is a contractual obligation either to deliver cash or another financial asset to another entity, or, to exchange financial instruments with another entity under conditions that are potentially unfavourable.

The methodologies and assumptions used in measuring fair value depend on the terms and risk characteristics of the various instruments and include the following:

**Cash and cash equivalents**

Being cash on hand and at call deposits, the carrying amount is the fair value.

**Loans and advances**

The fair value of loans has been estimated using discounted cash flow analysis, based on current rates offered by the Group for loans with similar terms. The fair value of impaired loans has been estimated as their carrying amount net of the aggregate provision for impairment.

**Investment securities**

The fair value of investment securities is estimated using discounted cash flow analysis, based on current market rates for similar arrangements, with the exception of shares held in other unlisted entities. Shares held in other unlisted entities are measured at fair value on initial recognition and subsequently measured when they can be reliably estimated. Where fair value cannot be measured reliably, the assets are measured at the carrying amount determined at the last date on which the fair value could be determined reliably, subject to impaired testing.

Shares held in other unlisted entities have been classified as Level 3 in the fair value hierarchy in the 2019 financial year due to the limited availability of relevant observable market transactions.

**Other investments**

Other investments represent both capital notes and shares in controlled entities. The fair value of capital notes is estimated using discounted cash flow analysis, based on current market rates for similar arrangements.

**Derivative financial instruments**

Estimated using discounted cash flow analysis, based on current market rates for similar arrangements.

**Other assets**

This includes items such as sundry debtors, which are short-term by nature and the carrying amount is therefore a reasonable estimate of the fair value.

**Deposits**

The net fair value of deposits has been estimated using discounted cash flow analysis, based on current rates offered by the Group for deposits with similar terms.

## 30. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

### a) Fair value methodologies (continued)

**Other payables**

The carrying amount approximates net fair value because of the short term of the settlement of the amounts due.

**Borrowings**

Estimated using discounted cash flow analysis, based on current market rates for similar arrangements.

The following table provides comparison of carrying amounts and net fair values for financial instruments:

| | Carrying value | | Fair value | |
|---|---|---|---|---|
| | **2019 $'000** | 2018 $'000 | **2019 $'000** | 2018 $'000 |
| **Consolidated** | | | | |
| **Financial Assets** | | | | |
| Cash and cash equivalents | **135,312** | 201,273 | **135,312** | 201,273 |
| Loans and advances | **7,669,235** | 7,275,310 | **7,703,193** | 7,286,967 |
| Investment securities | **906,269** | 809,036 | **906,269** | 809,036 |
| Other investments | **17,106** | 15,011 | **17,106** | 15,011 |
| Derivative assets | **3,747** | 848 | **3,747** | 848 |
| Other assets | **18,619** | 24,734 | **18,619** | 24,734 |
| | **8,750,288** | 8,326,212 | **8,784,246** | 8,337,869 |
| **Financial Liabilities** | | | | |
| Deposits | **6,421,521** | 6,113,791 | **6,425,434** | 6,107,356 |
| Other payables | **87,136** | 76,241 | **87,136** | 76,241 |
| Borrowings | **1,647,628** | 1,572,767 | **1,649,445** | 1,574,943 |
| Derivative liabilities | **9,393** | 1,397 | **9,393** | 1,397 |
| | **8,165,678** | 7,764,196 | **8,171,408** | 7,759,937 |
| **Credit Union** | | | | |
| **Financial Assets** | | | | |
| Cash and cash equivalents | **92,784** | 86,236 | **92,784** | 86,236 |
| Loans and advances | **7,669,235** | 7,275,310 | **7,703,193** | 7,286,967 |
| Investment securities | **905,369** | 807,201 | **905,369** | 807,201 |
| Other investments | **876,232** | 778,381 | **876,232** | 778,381 |
| Derivative assets | **5,863** | 516 | **5,863** | 516 |
| Other assets | **25,164** | 30,790 | **25,164** | 30,790 |
| | **9,574,647** | 8,978,434 | **9,608,605** | 8,990,091 |
| **Financial Liabilities** | | | | |
| Deposits | **6,421,664** | 6,113,954 | **6,425,577** | 6,107,519 |
| Other payables | **101,082** | 81,505 | **101,082** | 81,505 |
| Borrowings | **2,463,436** | 2,219,820 | **2,466,016** | 2,222,929 |
| Derivative liabilities | **5,303** | 2,344 | **5,303** | 2,344 |
| | **8,991,485** | 8,417,623 | **8,997,978** | 8,414,297 |

## 30. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

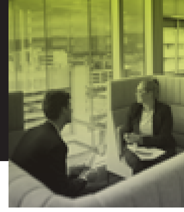
### b) Fair value hierarchy - financial instruments measured at fair value

The following table sets out the fair value of financial instruments that are measured at fair value and analyses them by the level in the fair value hierarchy into which the fair value measurement is categorised:

- **Level 1:** Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- **Level 2:** Inputs other than quoted prices included within Level 1 that are observable for the assets or liabilities, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- **Level 3:** Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

| | Level 1 $'000 | Level 2 $'000 | Level 3 $'000 | Total $'000 |
|---|---|---|---|---|
| **Consolidated Entity** | | | | |
| **2019** | | | | |
| **Financial Assets** | | | | |
| Financial assets measured at FVOCI | **-** | **874,352** | **31,917** | **906,269** |
| Derivative assets | **-** | **3,747** | **-** | **3,747** |
| | **-** | **878,099** | **31,917** | **910,016** |
| **Financial Liabilities** | | | | |
| Derivative financial liabilities | **-** | **9,393** | **-** | **9,393** |
| | **-** | **9,393** | **-** | **9,393** |
| **2018** | | | | |
| **Financial Assets** | | | | |
| Financial assets available for sale | - | 809,036 | - | 809,036 |
| Derivative assets | - | 848 | - | 848 |
| | - | 809,884 | - | 809,884 |
| **Financial Liabilities** | | | | |
| Derivative financial liabilities | - | 1,397 | - | 1,397 |
| | - | 1,397 | - | 1,397 |
| **Credit Union** | | | | |
| **2019** | | | | |
| **Financial Assets** | | | | |
| Financial assets measured at FVOCI | **-** | **873,452** | **31,917** | **905,369** |
| Derivative assets | **-** | **5,863** | **-** | **5,863** |
| | **-** | **879,315** | **31,917** | **911,232** |
| **Financial Liabilities** | | | | |
| Derivative financial liabilities | **-** | **5,303** | **-** | **5,303** |
| | **-** | **5,303** | **-** | **5,303** |
| **2018** | | | | |
| **Financial Assets** | | | | |
| Financial assets available for sale | - | 807,201 | - | 807,201 |
| Derivative assets | - | 516 | - | 516 |
| | - | 807,717 | - | 807,717 |
| **Financial Liabilities** | | | | |
| Derivative financial liabilities | - | 2,344 | - | 2,344 |
| | - | 2,344 | - | 2,344 |

| **Transfers between Level 2 and Level 3** | Level 3 $'000 |
|---|---|
| **Balance at 1 July 2018** | - |
| Transfers from Level 2 | 31,917 |
| **Balance at 30 June 2019** | **31,917** |



**30. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)**

**c) Fair value hierarchy - financial instruments not measured at fair value**

The following table sets out the fair value of financial instruments that are not measured at fair value and analyses them by the level in the fair value hierarchy into which each fair value measurement is categorised:

| | Level 1 $'000 | Level 2 $'000 | Level 3 $'000 | Total Fair Values $'000 | Carrying Amount $'000 |
|---|---|---|---|---|---|
| **Consolidated Entity** | | | | | |
| **2019** | | | | | |
| **Financial Assets** | | | | | |
| Cash and cash equivalents | **135,312** | **-** | **-** | **135,312** | **135,312** |
| Loans and advances | **-** | **-** | **7,703,193** | **7,703,193** | **7,669,235** |
| Other investments | **-** | **17,106** | **-** | **17,106** | **17,106** |
| Other assets | **18,619** | **-** | **-** | **18,619** | **18,619** |
| | **153,931** | **17,106** | **7,703,193** | **7,874,230** | **7,840,272** |
| **Financial Liabilities** | | | | | |
| Deposits | **-** | **-** | **6,425,434** | **6,425,434** | **6,421,521** |
| Borrowings | **-** | **-** | **1,649,445** | **1,649,445** | **1,647,628** |
| Other payables | **87,136** | **-** | **-** | **87,136** | **87,136** |
| | **87,136** | **-** | **8,074,879** | **8,162,015** | **8,156,285** |
| **2018** | | | | | |
| **Financial Assets** | | | | | |
| Cash and cash equivalents | 201,273 | - | - | 201,273 | 201,273 |
| Loans and advances | - | - | 7,286,967 | 7,286,967 | 7,275,310 |
| Other investments | - | 15,011 | - | 15,011 | 15,011 |
| Other assets | 24,734 | - | - | 24,734 | 24,734 |
| | 226,007 | 15,011 | 7,286,967 | 7,527,985 | 7,516,328 |
| **Financial Liabilities** | | | | | |
| Deposits | - | - | 6,107,356 | 6,107,356 | 6,113,791 |
| Borrowings | - | - | 1,574,943 | 1,574,943 | 1,572,767 |
| Other payables | 76,241 | - | - | 76,241 | 76,241 |
| | 76,241 | - | 7,682,299 | 7,758,540 | 7,762,799 |

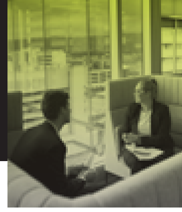
Fair value hierarchy levels have not been disclosed for some financial instruments such as short-term trade receivables and payables, because their carrying amounts are a reasonable approximation of fair values.

### 30. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

#### c) Fair value hierarchy - financial instruments not measured at fair value (continued)

| | Level 1 | Level 2 | Level 3 | Total Fair Values | Carrying Amount |
|---|---|---|---|---|---|
| | $'000 | $'000 | $'000 | $'000 | $'000 |
| **Credit Union** | | | | | |
| **2019** | | | | | |
| **Financial Assets** | | | | | |
| Cash and cash equivalents | 92,784 | - | - | 92,784 | 92,784 |
| Loans and advances | - | - | 7,703,193 | 7,703,193 | 7,669,235 |
| Other investments | - | 876,232 | - | 876,232 | 876,232 |
| Other assets | 25,164 | - | - | 25,164 | 25,164 |
| | 117,948 | 876,232 | 7,703,193 | 8,697,373 | 8,663,415 |
| **Financial Liabilities** | | | | | |
| Deposits | - | - | 6,425,577 | 6,425,577 | 6,421,664 |
| Borrowings | - | - | 2,466,016 | 2,466,016 | 2,463,436 |
| Other payables | 101,082 | - | - | 101,082 | 101,082 |
| | 101,082 | - | 8,891,593 | 8,992,675 | 8,986,182 |
| **2018** | | | | | |
| **Financial Assets** | | | | | |
| Cash and cash equivalents | 86,236 | - | - | 86,236 | 86,236 |
| Loans and advances | - | - | 7,286,967 | 7,286,967 | 7,275,310 |
| Other investments | - | 778,381 | - | 778,381 | 778,381 |
| Other assets | 30,790 | - | - | 30,790 | 30,790 |
| | 117,026 | 778,381 | 7,286,967 | 8,182,374 | 8,170,717 |
| **Financial Liabilities** | | | | | |
| Deposits | - | - | 6,107,519 | 6,107,519 | 6,113,954 |
| Borrowings | - | - | 2,222,929 | 2,222,929 | 2,219,820 |
| Other payables | 81,505 | - | - | 81,505 | 81,505 |
| | 81,505 | - | 8,330,448 | 8,411,953 | 8,415,279 |

Fair value hierarchy levels have not been disclosed for some financial instruments such as short-term trade receivables and payables, because their carrying amounts are a reasonable approximation of fair values.



## 31. SUPERANNUATION COMMITMENTS

The Group has established a superannuation fund for employees of the Group, which existed for the full financial year. The benefit is the provision of retirement lump sums via accumulation type funds. The basis of contributions to the fund is by way of employer and employee contributions. The obligation to contribute to the fund is to ensure compliance with the superannuation guarantee charge.

## 32. EVENTS SUBSEQUENT TO REPORTING DATE

There has not arisen in the interval between the end of the financial year and the date of this report, any item, transaction or event of a material and unusual nature likely, in the opinion of the Directors of the Credit Union, to affect significantly the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial years.

**Registered Office**

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ABN 11 087 651 125

Australian Financial Services Licence 244310
and Australian Credit Licence 244310

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Adelaide SA 5000

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**Website**

peopleschoicecu.com.au

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general@peopleschoicecu.com.au

**Annual General Meeting**

11.00am
Thursday 14 November 2019
Pullman Adelaide
16 Hindmarsh Square
Adelaide

**Bankers**

Cuscal Ltd
National Australia Bank Limited
Westpac Banking Corporation
Australia and New Zealand Banking Group Limited

**Auditors**

KPMG

**Tax Agent**

KPMG