Where your goals are ours

Coastline Credit Union Limited

ABN 88 087 649 910

Annual Report

FOR THE YEAR ENDED 30 JUNE 2020

Contents

CHAIR'S REPORT

The past 12 months have been challenging for Coastline and our members. The year was marked by the severe bushfires during the summer months and then the outbreak of COVID-19. The economic consequences of both the bushfires and pandemic have been far reaching for our members

To limit the financial impact of the pandemic the Reserve Bank of Australia and the government implemented supportive policy measures on a massive scale. The Reserve Bank slashed interest rates and the government has provided an unprecedented amount of financial support and stimulus to the economy.

CORE PURPOSE

Coastline's Core Purpose is to improve the financial well-being of our members. Our Core Purpose and Values came to the forefront during the advent of the COVID-19 pandemic. Our number one priority is the health, safety and wellbeing of our members, staff and the communities in which we operate in. As the pandemic broke, we implemented preventive measures such as staff travel restrictions and supplementary cleaning in our branches and offices to ensure we provide a safe environment for both staff and members. We have supported our members hit hardest by the COVID-19 pandemic through our loan hardship assistance package which gave members loan repayment relief. We contacted our most at-risk members to check on their well-being, with our calls and messages being well received.

Our staff responded magnificently during this difficult period. We were able to operate our branch network and introduce remote workforce capability for our back-office staff. This change highlighted opportunities for Coastline as we redesigned how we worked together, learned new skills and ways to connect and communicate throughout the organisation. With the introduction of new technology, we were able to keep in touch with our staff regularly on business performance and on the impact that COVID-19 is having on our business and the community.

BUSINESS HIGHLIGHTS

Coastline's customer centric banking strategy continues to deliver exceptional results. We achieved strong growth and record profitability over the past 5 years and this year was no exception.

500 by 2020 – In 2015 we set a corporate strategic objective of reaching $500 million in Loans by 2020. The $500 million milestone was achieved on 23 July 2020.

Membership - 1,732 new members joined Coastline during the last financial year which has seen our membership grow to 17,802 (Industry leader).

Operating Profit - Our profit before tax for the year was $4.345 million and our profit after tax was $3.121 million which represents a return on assets of 0.54%.

Lending - Our loan book achieved strong growth of $49.8million and increase of 11.2% to close at $495 million. During the year, a total of $ $171.7 million in loans were funded.

Deposits - Member deposits & savings increased by $66.2 million or 14.6% to $520 million.

Assets - Total assets under management grew by $85.9 million or 16.0% to close at $624 million.

Customer Satisfaction - Achieved a Net Promoter Score of 77 (Industry leader).

Mobile Payments – Successfully introduced Apple Pay and Google Pay.

New Accounts - Introduced Coastline Cubs and Kickstart accounts for younger members.

Payment Solutions - Introduced Square merchant payment solutions for businesses.

Introduce Work from Home (WFH) - Successfully transitioned 50% of our workforce to "WFH" capability whilst maintaining productivity.

Introduced Workplace Giving Program (WGP) - Offers employees the opportunity to donate to the Australian Cervical Cancer Foundation in memory of staff member Kylie Duncan.

Introduced Kylie Duncan Memorial Scholarship - An annual $5,000 educational scholarship for staff in honour of Kylie Duncan.

Coastline Community Hub - In December opened our new Smith Street branch in Kempsey "The Coastline Hub" which was built on the success of our branch concept designs in West Kempsey, South West Rocks, Port Macquarie and Taree. The Hub reflects Coastline's brand and builds on our community focus with the inclusion of purpose-built community spaces and cafe.

We anticipate business conditions will again be challenging over the next 12 months as we continue to navigate through COVID-19. Despite this we are confident our solid operating performance will continue in the year ahead. Our sound lending practices are holding Coastline in good stead in relation to COVID- 19 hardship loans having a level significantly lower than the industry average. Consolidation continues within the Mutual Banking Sector with the number of Mutuals now standing at 63. During the year two Credit Unions in the region merged, Bcu with P&N Bank and Holiday Coast with Regional Australia Bank. Of 63 Mutuals trading today half have transferred to bank status. Changing to a bank is an option Coastline can consider, however it is not on our agenda. We will continue to develop our business and invest in the things that make us different – our people, our place, our products and our technology – and we believe we can continue to grow above industry benchmarks.

In closing, I would like to congratulate all staff in achieving the $500m in loans milestone, this is a remarkable achievement. I would like to thank my fellow Board members for their co-operation, teamwork and support throughout the year. My thanks also go to our General Manager Peter Townsend, his leadership team and all staff for their efforts in achieving the trading performance and providing professional, friendly and efficient banking services to our members.

V. McNeilly

Vanessa McNeilly
Chair
24 September 2020

Overview

The Board is committed to sound and prudent standards of corporate governance for Coastline Credit Union and the Board maintains a statement of corporate governance principles which defines the framework under which Coastline operates. Board Committees are responsible for advising the Board and monitoring Coastline's compliance with these principles. The implementation of this disciplined governance structure ensures appropriate development, prioritisation and delivery of business strategies, as well as consistent and informed decision making for Coastline to conduct activities and achieve its objectives. In addition, the Board Committees continue to ensure compliance with APRA's Corporate Governance Prudential Standard.

The Board of Directors is accountable to the Credit Union to ensure the safety of members' funds and that the Credit Union operates in a sustainable and responsible way. The Board aims to achieve these objectives by:

- Improving the performance of Coastline through the formulation, adoption and monitoring of corporate strategies, budgets, plans, policies and performance;
- Setting strategic direction, targets and monitoring the performance of management and of itself;
- Monitoring the conduct of senior management;
- Ensuring the annual review of succession planning;
- Identifying and monitoring the management of the principal risks and the financial performance of the Credit Union; and
- Putting appropriate procedures in place to satisfy its corporate and legal responsibilities whilst conducting its business in compliance with all laws and in an honest, open and ethical manner.

Subject to certain conditions, the Board has delegated responsibility for the management of the day-to-day activities of Coastline to its General Manager.

Board meetings

The number of Board meetings and each Director's attendance at those meetings are set out in the Directors' Report. Directors are expected to prepare adequately for, attend and participate at Board meetings and meetings of committees. The Board meets principally at its Head Office in West Kempsey.

Introduction and continuing education

Management, working with the Board, provides an orientation program for new Directors. The program includes discussions with executives and management, and where requested, the external auditor, and reading material. These cover Coastline's strategic plans, its significant financial, accounting and risk management issues, compliance programs, management structure, internal and external audit programs, and Directors' rights, duties and responsibilities. Management periodically conducts additional information sessions for Directors about the Credit Union, and the factors impacting, or likely to impact, on its business. These assist Directors to gain a broader understanding of the Credit Union. Directors are also encouraged to keep up to date on topical issues.

Performance evaluation

The Board assesses its effectiveness each year through an evaluation process, which includes assessment of:

- The appropriateness and relevance of the meeting schedule and agenda;
- The appropriateness, relevance, content and standard of Board material;
- The identification and appropriate management of risks faced by the Credit Union;
- The range and standard of skills available at Board level;
- The collective and individual performance of Directors, and the scope of Directors' contributions; and
- The performance of its Chair.

In addition, the Board assesses annually the performance of the General Manager and Senior Management against agreed objectives.

Remuneration of Directors

Directors are remunerated by the Credit Union, with shareholders determining the maximum annual aggregate amount of remuneration that may be provided to them at the Annual General Meeting. From this amount individual Directors are remunerated based on a policy of compensation towards the middle quartile of the general market, which is appropriate to the size and complexity of the Credit Union. The Remuneration Committee receives advice from independent experts on appropriate levels of Director remuneration and guides the Board in this regard.

Performance and remuneration of senior management

The Credit Union's performance management framework covers all senior management and entails the setting of Key Performance Indicators (including both financial and non-financial measures). Performance discussions are conducted bi-annually between each senior manager and their manager, with a formal end of year review which includes comparing and calibrating each senior executive to the performance of peers. The Board, on advice from the Remuneration Committee, sets the remuneration and performance objectives for the General Manager and Senior Management. Remuneration is reviewed within a Board-established framework and the Remuneration Committee is assisted by independent experts providing advice and benchmarking data.

Access to management

Board members have complete and open access to management. The Company Secretary provides advice and support to the Board and is responsible for the day-to-day governance framework. Access to Independent Professional Advice guidelines entitles each Director to seek independent professional advice at the Credit Union's expense, with the prior approval of the Chair.

The Board can conduct or direct any investigation to fulfil its responsibilities and can retain, at its expense, any legal, accounting or other services, it considers necessary to perform its duties.

Board committees

To assist the Board in fulfilling its responsibilities, the Board has established a number of Committees. Each Committee has its own charter, which sets out its responsibilities. The Board had the following Committees during the financial year:

- Audit Committee;
- Risk Committee;
- Executive Committee;
- Remuneration Committee;
- Nominations Committee; and
- Coastline Community Foundation Committee.

Audit Committee

- Review the effectiveness of internal financial controls
- Oversee the financial management and statutory reporting
- Oversee the internal and external audit processes, including reports and management responses
- Review of risk management systems, including policies and procedures and business continuity plan
- Review external audit arrangements annually, including fulfilment of statutory and professional obligations

Risk Committee

- Review the effectiveness of the Credit Union's internal risk management systems
- Oversee and appraise the effectiveness of the internal risk management program
- Consider the adequacy of compliance with Prudential Standards
- Undertake any role assigned to the Committee in accordance with any Board policy

Executive Committee

- Monitor the functions of the Credit Union between Board meetings, take any immediate action it considers necessary and report to the Board
- Ensure that facilities are available for satisfactory training and education of Directors
- Advise the Board in relation to the Board's adopted statement of corporate governance principles
- Review the Board's committee structure and to establish principles under which they operate in accordance with the constitution and good corporate governance principles

Remuneration Committee

- Review the Remuneration Policy
- Review the effectiveness and compliance of the Remuneration Policy with Prudential Standards
- Make annual recommendations to the Board in respect of the remuneration of Directors, General Manager and Senior Management

Nominations Committee

- Developing and regularly reviewing the policy on Board structure and membership
- Ensuring there is an appropriate induction and orientation program in place
- Making recommendations to the Board for Committee membership
- Ensuring there is an appropriate Board succession plan in place
- Undertake fit and proper assessment in accordance with the Fit and Proper Policy

Coastline Community Foundation Committee

- Administer the operation of the Coastline Community Foundation
- Review the structure and guidelines of the Coastline Community Foundation
- Review and select Coastline Community Foundation grant recipients in line with the terms and conditions of the Foundation

Your Directors present their report on Coastline Credit Union Limited (the Credit Union) for the financial year ended 30 June 2020.

The Credit Union is a company registered under the *Corporations Act 2001.*

DIRECTORS

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

Vanessa McNeilly	Chair
Anthony Ferris	Deputy Chair
Matthew Ryan	
David Bevan	
Jennifer Pike	
Allan Hudson	[Resigned 20/11/2019]

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

PRINCIPAL ACTIVITIES

The principal activity of the Credit Union during the financial year was the provision of a complete range of financial products and services to members.

There has been no significant change in the nature of this principal activity during the financial year.

OPERATING AND FINANCIAL REVIEW

Financial Performance

The profit of the Credit Union after providing for income tax amounted to $3.231 million for the financial year ended 30 June 2020 (2019: $3.300 million).

Interest revenue decreased by $1.790 million to $21.073 million. Interest expense decreased by $2.344 million to $7.452 million. Net interest income increased by $0.554 million to $13.621 million.

Non-interest expenses increased by $1.217 million to $12.025 million of which $0.482 million can be attributed to an increase in employee benefits expense and an increase of $0.735 million in other expenses.

Financial Position

Total assets increased by 15.97% to $623.884 million with loans and advances increasing by 11.16% to $494.150 million. The growth in loans and advances was primarily funded by member deposits which increased by 14.58% to $520.403 million. Net assets increased by 7.65% to $44.206 million.

DIVIDENDS

No Dividends have been paid or declared since the end of the financial year and no dividends have been recommended or provided for by the Directors of the Credit Union.

SIGNIFICANT CHANGES IN STATE AFFAIRS

There were no significant changes in the state of affairs of the Credit Union during the financial year.

EVENTS OCCURING AFTER BALANCE DATE

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

FUTURE DEVELOPMENTS

The Directors are not aware of any matter or circumstance not otherwise dealt with in the report that will materially affect the operations of the Credit Union, the results of those operations or the state of affairs of the Credit Union in financial years subsequent to this financial year.

ENVIRONMENTAL REGULATION

The Credit Union's operations are not subject to any significant environmental regulation under a law of the Commonwealth or of a state or territory.

AUDITOR'S INDEPENDENCE DECLARATION

A copy of the auditor's independence declaration as required under Section 307C of the *Corporations Act 2001* has been received and is included in these financial statements.

DIRECTORS' BENEFITS

No Director has received or become entitled to receive, during or since the financial year, a benefit because of a contract made by the Credit Union, a subsidiary, or a related body corporate, with a Director, a firm of which a Director is a member or an entity in which a Director has a substantial financial interest, other than that disclosed in Note 24 of the financial report.

INDEMNIFYING OFFICERS OR AUDITORS

During the financial year, a premium was paid in respect of a contract insuring Directors and Officers of the Credit Union against liability. The officers of the Credit Union covered by the insurance contract include the Directors, executive officers, secretary and employees.

In accordance with normal commercial practice, disclosure of the total amount of premium payable under, and the nature of liabilities covered by, the insurance contract is prohibited by a confidentiality clause in the contract.

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

INFORMATION RELATING TO DIRECTORS AND COMPANY SECRETARY

Vanessa McNeilly

Role	Chair (Non-Executive)
Experience	Appointed as Director on 9/11/2011
Committees	Audit, Executive and Nominations
Qualifications	Diploma in Law, Sydney University. Member of Australasian Mutuals Institute.
Occupation	Solicitor
Shares	1 Ordinary Share in the Credit Union

Anthony Ferris

Role	Deputy Chair (Non-Executive)
Experience	Appointed as Director on 24/10/2012
Committees	Chair of Risk, Member of Remuneration, Nominations
Qualifications	Bachelor of Business (HR) Southern Cross University, Master of Business Administration, Southern Cross University. Member of Australasian Mutuals Institute. Fellow Finsia.
Occupation	Retired
Shares	1 Ordinary Share in the Credit Union

Matthew Ryan

Role	Director (Non-Executive)
Experience	Appointed as Director on 20/09/2009. Previously Chair from 2017 to 2019
Committees	Risk, Executive and Remuneration
Qualifications	Bachelor of Arts (Politics) University of New South Wales, Bachelor of Primary Education Charles Sturt University. Member of Australasian Mutuals Institute.
Occupation	Management Consultant
Shares	1 Ordinary Share in the Credit Union

David Bevan

Role	Director (Non-Executive)
Experience	Appointed as Director on 27/10/2010
Committees	Audit, Risk
Qualifications	Dip Business Administration (Accounting). Member of Australasian Mutuals Institute.
Occupation	Investor
Shares	1 Ordinary Share in the Credit Union

Jennifer Pike

Role	Director (Non-Executive)
Experience	Appointed as Director on 1/2/2013
Committees	Chair of Audit
Qualifications	Bachelor of Economics, Macquarie University. Member of Australasian Mutuals Institute. CPA.
Occupation	College Accountant, St Columba Anglican School
Shares	1 Ordinary Share in the Credit Union

Peter Townsend

Role	Company Secretary
Experience	Appointed as Company Secretary on 14/10/1996
Committees	Audit, Risk, Executive, Remuneration and Coastline Community Foundation
Qualifications	MBA, FAMI, MAICD, JP, Director of Indue Limited since 2001, Director of NCUA 2002 to 2010, General Manager and Company Secretary of Central West Credit Union 1988 to 1996
Occupation	General Manager, Coastline Credit Union Limited
Shares	1 Ordinary Share in the Credit Union

MEETINGS OF DIRECTORS

The following table sets out the number of meetings of the Credit Union's Directors (including meetings of committees of Directors) held during the year ended 30 June 2020 and the number of meetings attended by each Director.

	Directors' Meetings		Committee Meetings	
	Number eligible to attend	Number attended	Number eligible to attend	Number attended
Vanessa McNeilly	16	16	8	8
Anthony Ferris	16	16	11	11
Matthew Ryan	16	15	6	6
David Bevan	16	16	9	9
Jennifer Pike	16	15	5	5
Allan Hudson	4	3	1	1

PROCEEDINGS ON BEHALF OF CREDIT UNION

No person has applied for leave of court to bring proceedings on behalf of the Credit Union or intervene in any proceedings to which the Credit Union is a party for the purpose of taking responsibility on behalf of the Credit Union for all or any part of those proceedings.

The Credit Union was not a party to any such proceedings during the year.

ACKNOWLEDGEMENTS

The Board expresses its appreciation to management and staff for the significant progress and achievements made during the 2020 financial year and to the members who continue to show support and confidence in their Credit Union.

The Directors' Report is signed in accordance with a resolution of the Board of Directors.

Dated at West Kempsey this 24 September 2020

Vanessa McNeilly
Director - Chair

Anthony Ferris
Director - Deputy Chair

NorthCorp
accountants + financial services

PARTNERS
Robert Magnussen B Bus FCA
Paul Fahey B Bus CA
Rodney Smith B Fin Admin FCA
Bart Lawler B Com CA
Patrick Brennan B Com CA
Alison McKinnon B Bus CA

AUDITOR'S INDEPENDENCE DECLARATION

UNDER SECTION 307C OF THE *CORPORATIONS ACT 2001* TO THE DIRECTORS OF COASTLINE CREDIT UNION LIMITED

In accordance with section 307C of the *Corporations Act 2001*, I am pleased to provide the following declaration of independence to the Directors of Coastline Credit Union Limited. As the lead auditor for the audit of the financial report of Coastline Credit Union Limited for the year ended 30 June 2020, I declare that, to the best of my knowledge and belief, there have been no contraventions of:

(i) the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

(ii) any applicable code of professional conduct in relation to the audit.

NorthCorp Accountants

J Thomas

Jodie Thomas
Lead Auditor

10-12 Short Street
Port Macquarie NSW 2444

Dated: 24 September 2020

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2020

	Note	2020 $'000	2019 $'000
Interest revenue	2	**21,073**	22,863
Interest expense	2	**(7,452)**	(9,796)
Net interest income		**13,621**	13,067
Other revenue and income	3	**2,749**	2,246
Net operating income		**16,370**	15,313
Non-interest expenses			
Impairment on loans and advances	9	**(311)**	(40)
Depreciation and amortisation	3	**(860)**	(445)
Employee benefits	3	**(5,281)**	(4,799)
Other operating expenses	3	**(5,573)**	(5,524)
Total non-interest expenses		**(12,025)**	(10,808)
Profit before income tax		**4,345**	4,505
Income tax expense	4	**(1,224)**	(1,205)
Net profit for the year		**3,121**	3,300
Other Comprehensive Income			
Revaluation gain on land and buildings, net of tax		**110**	-
Total other comprehensive income for the year		**110**	-
Total comprehensive income for the year		**3,231**	3,300
Profit attributable to members of the Credit Union		**3,121**	3,300
Total comprehensive income attributable to members of the Credit Union		**3,231**	3,300

BALANCE SHEET
AS AT 30 JUNE 2020

	Note	2020 $'000	2019 $'000
Assets			
Cash and cash equivalents	5	**21,581**	24,050
Receivables due from other financial institutions	6	**94,989**	59,528
Other assets	7	**1,623**	1,780
Loans and advances	8	**494,150**	444,529
Other financial assets	10	**2,796**	2,796
Property, plant and equipment	11	**6,611**	4,481
Investment property	12	**750**	-
Intangible assets	13	**192**	110
Deferred tax assets	4	**1,192**	688
Total Assets		**623,884**	537,962
Liabilities			
Deposits from other financial institutions	14	**48,000**	36,500
Deposits from members	15	**520,403**	454,169
Payables and other liabilities	16	**8,792**	4,564
Taxation liabilities	4	**1,121**	364
Provisions	17	**1,362**	1,302
Total Liabilities		**579,678**	496,899
Net Assets		**44,206**	41,063
Equity			
Reserves	18	**4,152**	4,040
Retained earnings		**40,054**	37,023
Total Equity		**44,206**	41,063

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2020

	Reserves $'000	Retained earnings $'000	Total $'000
Balance at 1 July 2018	3,953	34,112	38,065
Adjustment on initial application of AASB 9	-	(302)	(302)
Restated balance at 1 July 2018	3,953	33,810	37,763
Profit for the year	-	3,300	3,300
Other comprehensive income	-	-	-
Total comprehensive income for the year	-	3,300	3,300
Movements in reserves			
General reserve for credit losses	176	(176)	-
Redeemed share capital reserve	1	(1)	-
Other reserve for credit losses	(90)	90	-
Balance at 30 June 2019	4,040	37,023	41,063
Balance at 30 June 2019	**4,040**	**37,023**	**41,063**
Adjustment on initial application of AASB 16	**-**	**(88)**	**(88)**
Restated balance at 1 July 2019	**4,040**	**36,935**	**40,975**
Profit for the year	**-**	**3,121**	**3,121**
Other comprehensive income	**110**	**-**	**110**
Total comprehensive income for the year	**110**	**3,121**	**3,231**
Movements in reserves			
General reserve for credit losses	**-**	**-**	**-**
Redeemed share capital reserve	**2**	**(2)**	**-**
Other reserve for credit losses	**-**	**-**	**-**
Balance at 30 June 2020	**4,152**	**40,054**	**44,206**

CASH FLOW STATEMENT
FOR THE YEAR ENDED 30 JUNE 2020

	Note	**2020** **$'000**	2019 $'000
Cash flows from operating activities			
Interest received		**21,170**	22,931
Dividends received		**166**	166
Other income		**3,081**	1,415
Payments to suppliers and employees		**(8,645)**	(11,471)
Interest paid		**(8,004)**	(9,129)
Income tax paid		**(1,005)**	(1,307)
Movement in operating assets and liabilities			
Net (increase) / decrease in:			
Receivables due from other financial institutions		**(35,461)**	746
Loans and advances		**(49,809)**	(27,363)
Net increase / (decrease) in:			
Deposits from members		**66,234**	38,652
Deposits from other financial institutions		**11,500**	(6,500)
Net cash (used in) / provided by operating activities	19	**(773)**	8,140
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		**-**	43
Acquisition of property, plant and equipment		**(1,266)**	(492)
Acquisition of intangible assets		**(153)**	(95)
Net cash used in investing activities		**(1,419)**	(544)
Cash flows from financing activities			
Repayment of lease liabilities		**(277)**	-
Net cash used in financing activities		**(277)**	-
Net increase / (decrease) in cash and cash equivalents		**(2,469)**	7,596
Cash and cash equivalents at the beginning of the year		**24,050**	16,454
Cash and cash equivalents at the end of the year	5	**21,581**	24,050

NOTE 1 - BASIS OF PREPARATION

This financial report covers Coastline Credit Union Limited as an individual entity. Coastline Credit Union Limited is a company limited by shares, incorporated and domiciled in Australia.

The financial report was authorised for issue on 24 September 2020 by the Directors of the Credit Union.

These general purpose financial statements have been prepared in accordance with the *Corporations Act 2001*, Australian Accounting Standards and Interpretations of the Australian Accounting Standards Board and in compliance with International Financial Reporting Standards as issued by the International Accounting Standards Board. The Credit Union is a for-profit entity for financial reporting purposes under Australian Accounting Standards.

Except for cash flow information, the financial statements have been prepared on an accruals basis and are based on historical costs, modified, where applicable, by the measurement at fair value of selected non-current assets, financial assets and financial liabilities. The balance sheet has been prepared in order of liquidity.

When required by Accounting Standards, comparative figures have been adjusted to conform with changes in presentation for the current financial year.

Rounding of accounts

The Credit Union has applied the relief available to it under *ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191*. Accordingly, amounts in the financial statements have been rounded to the nearest $1,000.

Critical accounting estimates and judgements

The Directors evaluate estimates and judgements incorporated into the financial statements based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the Credit Union.

Key estimates - impairment of tangible and intangible assets

The Credit Union assesses impairment at the end of each reporting period by evaluating conditions specific to the Credit Union that may be indicative of impairment triggers. Recoverable amounts of relevant assets are reassessed using value-in-use calculations which incorporate various key assumptions.

NOTE 2 - INTEREST INCOME AND EXPENSE

	2020	2019
Interest revenue	**$'000**	$'000
Financial assets at amortised cost		
Cash and cash equivalents	**138**	151
Receivables due from other financial institutions	**1,060**	1,831
Loans and advances	**19,875**	20,881
Total interest revenue	**21,073**	22,863
Interest expense		
Financial liabilities at amortised cost		
Deposits from other financial institutions and members	**7,430**	9,781
Borrowings	**22**	15
Total interest expense	**7,452**	9,796

NOTE 3 - NON-INTEREST INCOME AND EXPENSES

Other revenue and income

Dividends received	**-**	166
Fees and commissions	**2,025**	2,054
Bad debts recovered	**10**	14
Profit on sale of property, plant and equipment	**-**	9
Net gain on revaluation of investment property	**24**	-
Rent received	**38**	3
Other income	**652**	-
	2,749	2,246

	2020 $'000	2019 $'000
Depreciation and amortisation		
Depreciation - Buildings	**341**	50
Depreciation - Freehold and leasehold improvements	**260**	192
Depreciation - Plant and equipment	**188**	152
Amortisation - Intangible assets	**71**	51
	860	445
Employee benefits		
Salaries and wages	**3,462**	3,149
Provision for employee benefits	**381**	371
Superannuation	**651**	580
Other	**787**	699
	5,281	4,799
Other expenses		
Marketing and promotion	**492**	519
Member protection	**516**	521
General administration	**564**	617
Member service costs	**1,159**	1,074
Communications	**1,135**	1,110
Operating lease payments	**58**	238
Other occupancy costs	**199**	187
Loan administration fees	**633**	514
Sundry expenses	**817**	744
	5,573	5,524

ACCOUNTING POLICY

Fees and commissions

Control of a right to be compensated for services is attained and usually evidenced by approval of a contract by the member. Fee and commission income is recognised as revenue on an accrual basis.

Interest

Control of a right to receive consideration for the provision of, or investment in, assets has been attained, and usually evidenced by approval of a contract by the member. Interest income is taken into account on an accrual basis. Interest on members' loans and overdrafts is calculated on the daily outstanding balance and is charged in arrears to the members' loan accounts on the last day of each month.

Loan origination fees

Loan origination fees are initially deferred as part of the loan balance, and are brought to account as income over the expected life of the loan. The amounts brought to account are included as part of interest revenue. Loan origination expenses that relate to, and are direct and incremental to the establishment of the loan, including brokerage costs, are deferred and brought to account as a reduction to income over the expected life of the loan. The expected lives of mortgage, personal and commercial loans are reviewed annually and adjusted to reflect changes in trends in the actual life of loans per category. These adjustments may accelerate or decelerate the amortisation rate of the deferred origination fee revenue.

Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Taxation Office (ATO). Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the ATO is included with other receivables or payables in the statement of financial position.

NOTE 4 - INCOME TAX

Income tax expense	2020 $'000	2019 $'000
Profit before income tax	**4,345**	4,505
Prima facie income tax expense at 27.50%	**1,195**	1,239
Add / (less) tax effect of:		
▪ Other income not included in assessable income	**(14)**	-
▪ Other non-allowable items	**5**	12
▪ Rebateable fully franked dividends	**-**	(46)
▪ Change in deferred tax resulting from change in tax rate	**38**	-
Income tax expense	**1,224**	1,205
Current tax	**1,294**	1,219
Deferred tax	**(70)**	(14)
Total income tax expense	**1,224**	1,205

Deferred tax assets

	2020 $'000	2019 $'000
Property, plant and equipment	**6**	28
Lease liabilities - right-of-use assets	**499**	-
Employee benefits	**313**	358
Impairment of loans	**208**	167
Accrued expenses	**36**	40
Deferred loan origination fees	**50**	55
Other provisions	**41**	-
Capital losses	**39**	40
Total deferred tax assets	**1,192**	688

Taxation liabilities

	2020 $'000	2019 $'000
Income tax payable	**604**	315
Deferred tax liabilities	**517**	49
	1,121	364

Deferred tax liabilities

	2020 $'000	2019 $'000
Right-of-use assets	**511**	-
Prepayments	**4**	1
Accrued Income	**2**	48
Total deferred tax liabilities	**517**	49

ACCOUNTING POLICY

The income tax expense for the year comprises current income tax expense and deferred tax expense / (income).

Current income tax expense charged to profit or loss is the tax payable on taxable income for the current period. Current tax liabilities / (assets) are measured at the amounts expected to be paid to / (recovered from) the relevant taxation authority using tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred income tax expense reflects movements in deferred tax asset and deferred tax liability balances during the year as well as unused tax losses.

Current and deferred income tax expense / (income) is charged or credited outside profit or loss when the tax relates to items that are recognised outside profit or loss.

Deferred tax assets and liabilities are ascertained based on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax assets also result where amounts have been fully expensed but future tax deductions are available. No deferred income tax is recognised from the initial recognition of an asset or liability where there is no effect on accounting or taxable profit or loss.

Deferred tax assets and liabilities are calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled and their measurement also reflects the manner in which management expects to recover or settle the carrying amount of the related asset or liability.

Deferred tax assets relating to temporary differences and unused tax losses are recognised only to the extent that it is probable that future taxable profit will be available against which the benefits of the deferred tax asset can be utilised.

NOTE 5 - CASH AND CASH EQUIVALENTS

	2020	2019
	$'000	$'000
Cash on hand	**774**	667
Deposits at call	**20,807**	23,383
	21,581	24,050

Reconciliation of cash

Cash at the end of the financial year as shown in the cash flow statement is reconciled to items in the balance sheet as follows:

Cash and cash equivalents	**21,581**	24,050

ACCOUNTING POLICY

Cash and cash equivalents include cash on hand, deposits available on demand with banks and other financial institutions, and bank overdrafts. Cash and cash equivalents are carried at amortised cost in the statement of financial position. Bank overdrafts are reported within borrowings on the balance sheet and are carried at the principal amount.

For the purposes of the cash flow statement, cash includes cash on hand, deposits at call with banks and other financial institutions, net of outstanding bank overdrafts.

NOTE 6 - RECEIVABLES DUE FROM OTHER FINANCIAL INSTITUTIONS

Interest earning deposits	**39,913**	17,368
Floating rate notes	**55,076**	42,160
	94,989	59,528

ACCOUNTING POLICY

Receivables due from other financial institutions are primarily interest bearing deposits due from banks and other financial institutions with a carrying amount equal to their principal amount. Interest is brought to account in the statement of profit or loss when earned. The accrual for interest receivable is calculated on a proportional basis on the expired period of the term of the deposit. The amount of accrued interest receivable is reported within other receivables in the balance sheet.

NOTE 7 - OTHER ASSETS

Interest receivable	**58**	155
Other accrued income	**8**	176
Prepayments	**290**	182
Sundry debtors	**1,267**	1,267
	1,623	1,780

NOTE 8 - LOANS AND ADVANCES

Overdrafts and revolving credit facilities	**7,553**	8,015
Term loans	**487,589**	437,318
Gross loans and advances	**495,142**	445,333
Less: Unamortised loan origination fees	**(194)**	(200)
Gross loans and advances net of unamortised loan origination fees	**494,948**	445,133
Less: Provision for credit impairment	**(798)**	(604)
Net loans and advances	**494,150**	444,529

NOTE 9 - PROVISION FOR CREDIT IMPAIRMENT ON LOANS AT AMORTISED COST

Provision for credit impairment	**798**	604
Opening balance under AASB 139	**604**	307
Adjustment to opening balance for AASB 9	**-**	416
Transfer from / (to) profit or loss	**194**	(119)
Bad debts written off against provision	**-**	-
Provision balance at end of year	**798**	604

	$'000 Stage 1	$'000 Stage 2	$'000 Stage 3	$'000 Total
Balance at 1 July 2019	**263**	**151**	**190**	**604**
Transferred to Stage 1	**166**	**(89)**	**(77)**	**-**
Transferred to Stage 2	**(1)**	**37**	**(36)**	**-**
Transferred to Stage 3	**(2)**	**(12)**	**14**	**-**
New and increased provisions	**351**	**7**	**165**	**523**
Write-backs of provisions	**(238)**	**(72)**	**(19)**	**(329)**
Provision balance at end of year	**539**	**22**	**237**	**798**

Impact of movements in gross carrying amount on provision for expected credit losses (ECL)

- Stage 1 ECL increased $276,000 as a result of $156.527 million of loans and advances that were newly originated or migrated into Stage 1 from Stage 2 or Stage 3 due to credit quality improvement offset by $109.114 million of loans and advances that were repaid, experienced movement in underlying account balances during the period or migrated from Stage 1 to Stage 2 or Stage 3 due to deterioration in credit quality
- Stage 2 ECL decreased $129,000 as a result of $4.012 million of loans and advances that were newly originated or migrated into Stage 2 from Stage 3 due to credit quality improvement offset by $3.639 million of loans and advances that were repaid, experienced movement in underlying account balances during the period or migrated from Stage 2 to Stage 3 due to deterioration in credit quality
- Stage 3 ECL increased $47,000 as a result of $5.527 million of loans and advances that were newly originated or migrated into Stage 3 from Stage 1 or Stage 2 due to deterioration in credit quality offset by $1.971 million of loans and advances that were repaid, experienced movement in underlying account balances during the period or migrated from Stage 3 to Stage 1 or Stage 2 due to credit quality improvement

Credit impairment charge	**2020 $'000**	2019 $'000
Bad debts written off	**117**	159
Credit impairment expense - loans and advances	**194**	(119)
Total charge to the income statement	**311**	40

Summary of impaired loans and advances

	2020	2019
Gross impaired loans and advances	**6,171**	2,616
Provision for credit impairment (Stage 3)	**(237)**	(190)
Net impaired loans and advances	**5,934**	2,426

ACCOUNTING POLICY

The Credit Union applies a three-stage approach to measuring expected credit losses (ECL). At each reporting date, the Credit Union assesses the credit risk of exposures in comparison to the risk at initial recognition, to determine the stage that applies to the ECL measurement.

- **Stage 1** - facilities where the credit risk has not changed since initial recognition. 12-month ECL recognised;
- **Stage 2** - facilities where the credit risk has changed since initial recognition. Lifetime ECL recognised; and
- **Stage 3** - impaired facilities. Lifetime ECL recognised.

If no significant increase in credit risk has been observed, the facility will remain in Stage 1. If the credit risk of an exposure has increased significantly since initial recognition, the asset will migrate to Stage 2. Should a facility become impaired it will be transferred to Stage 3. The Credit Union considers reasonable and supportable information that is relevant and available without undue cost or effort, for this purpose. This includes quantitative and qualitative information and also forward looking analysis. The Credit Union considers that a significant increase in credit risk occurs when a facility is more than 30 days past due.

In assessing the impairment of facilities under the ECL model, the Credit Union defines default in accordance with its policies and procedures. Default occurs when a facility is 90 days or more past due, or when it is considered unlikely that the Credit Union will be paid in full without recourse to actions, such as the realisation of security.

Judgement is required by management in the estimation of the amount and timing of future cash flows when determining an impairment loss. In estimating these cash flows, the Credit Union will make a judgement about a borrower's financial situation and the net realisable value of collateral.

The ECL is derived from unbiased and probability-weighted estimates of expected loss. The three key inputs into the calculation of ECL are the following:

- **Probability of default (PoD)** - the expected point-in-time probability of a default;
- **Loss given default (LGD)** - the magnitude of the likely loss if there is a default; and
- **Exposure at default (EAD)** - the expected exposure in the event of default. EAD includes balances outstanding at the end of the year together with any expected drawdown of a facility.

NOTE 10 - OTHER FINANCIAL ASSETS

Investments in equity instruments designated as at fair value	**2020 $'000**	2019 $'000
Unlisted investments		
Indue Limited	**2,796**	2,796

The shareholding in Indue Limited is measured at cost as its fair value cannot be measured reliably. This company was created to supply services to member credit unions and these shares are held to enable the Credit Union to receive essential banking services. The shares are not able to be publicly traded and are not redeemable.

NOTE 11 - PROPERTY, PLANT AND EQUIPMENT

	2020	2019
Freehold land		
At fair value	**750**	1,100
Subsequent additions at cost	**-**	-
Total freehold land	**750**	1,100
Buildings		
At fair value	**1,600**	2,000
Subsequent additions at cost	**2,682**	-
Accumulated depreciation	**(720)**	(100)
Total buildings	**3,562**	1,900
Total land and buildings	**4,312**	3,000
Freehold and leasehold improvements		
At cost	**2,756**	1,830
Accumulated depreciation	**(1,004)**	(744)
Total freehold and leasehold improvements	**1,752**	1,086
Plant and equipment		
At cost	**1,135**	846
Accumulated depreciation	**(588)**	(451)
Total plant and equipment	**547**	395
Total property, plant and equipment	**6,611**	4,481

Asset revaluations

An independent valuation of freehold land and buildings was carried out by James Flanagan (Registered Valuer 3992). The revaluation of freehold land and buildings was based on an assessment of the current market values as at 30 June 2020.

Movements in carrying amounts	Land $'000	Buildings $'000	Freehold and leasehold improvements $'000	Plant and equipment $'000	Total $'000
Balance at 1 July 2018	1,100	1,950	922	445	4,417
Additions	-	-	356	136	492
Disposals	-	-	-	(34)	(34)
Depreciation expense	-	(50)	(192)	(152)	(394)
Balance at 30 June 2019	1,100	1,900	1,086	395	4,481
Initial adoption of AASB 16	**-**	**2,259**	**-**	**-**	**2,259**
Additions	**-**	**-**	**926**	**340**	**1,266**
Disposals	**-**	**-**	**-**	**-**	**-**
Transfer to investment property	**(350)**	**(376)**	**-**	**-**	**(726)**
Revaluation increments/(decrements)	**-**	**120**	**-**	**-**	**120**
Depreciation expense	**-**	**(341)**	**(260)**	**(188)**	**(789)**
Balance at 30 June 2020	**750**	**3,562**	**1,752**	**547**	**6,611**

Historical Cost of Land and Buildings	2020 $'000	2019 $'000
If land and buildings were stated at historical cost, carrying amounts would be as follows:		
Land - at cost	**509**	509
Buildings - at cost	**1,417**	1,417
Provision for depreciation on buildings	**(785)**	(750)
Total land and buildings at written down value	**1,141**	1,176

ACCOUNTING POLICY

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

Property

Freehold land and buildings are shown at their fair value (being the amount for which an asset could be exchanged between knowledgeable willing parties in an arm's length transaction), based on periodic, but at least triennial, valuations by external independent valuers, less accumulated impairment losses and accumulated depreciation for buildings.

Increases in the carrying amount arising on revaluation of land and buildings are recognised in other comprehensive income and accumulated in the asset revaluation reserve in equity. However, increases are recognised in profit or loss to the extent that they reverse a revaluation decrease of the same asset previously recognised in profit or loss. Revaluation decreases that offset previous increases of the same asset are charged against the asset revaluation reserve directly in equity. All other decreases are charged in profit or loss.

Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset.

Plant and equipment

Plant and equipment are measured on the cost basis less, where applicable, accumulated depreciation and impairment losses.

In the event that the carrying amount of plant and equipment is greater than the estimated recoverable amount, the carrying amount is written down immediately to the estimated recoverable amount and impairment losses are recognised in profit or loss. An assessment of recoverable amount is made when impairment indicators are present.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Credit Union and the cost of the item can be measured reliably. All other repairs and maintenance are recognised as expenses in profit or loss during the financial period in which they are incurred.

Depreciation

The depreciable amount of all fixed assets, including buildings and capitalised leased assets, but excluding freehold land, is depreciated on a straight line basis over the asset's useful life to the Credit Union commencing from the time the asset is held ready for use. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

The depreciation rates used for each class of depreciable assets are:

Class of fixed asset	Depreciation rate
Buildings (including right-of-use assets)	2.50% - 10.00%
Building improvements	2.50%
Leasehold improvements	12.50%
Plant and equipment	7.00% - 33.33%

The assets' residual values and useful lives of assets are reviewed, and adjusted if appropriate, at the end of each reporting period. An asset's carrying amount is written-down immediately to its recoverable amount if the carrying amount is greater than its estimated recoverable amount.

Disposals

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are recognised in profit or loss in the period which they arise. When revalued assets are sold, amounts included in the revaluation reserve relating to that asset are transferred to retained earnings.

Impairment of assets

At the end of each reporting period, the Credit Union reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, an impairment test is carried out on the asset by comparing the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, to the asset's carrying amount. Any excess of the asset's carrying amount over its recoverable amount is recognised immediately in profit or loss.

Where it is not possible to estimate the recoverable amount of an individual asset, the Credit Union estimates the recoverable amount of the cash-generating unit to which the asset belongs.

NOTE 12 - INVESTMENT PROPERTY

	2020	2019
	$'000	$'000
Investment property at fair value	**750**	-
Movement in carrying value		
Balance at beginning of year	**-**	-
Transfer from property, plant and equipment	**726**	-
Fair value adjustment recognised in profit or loss	**24**	-
Balance at end of year	**750**	-

ACCOUNTING POLICY

Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the reporting date. Gains or losses arising from changes in fair values of investment properties are included in profit or loss in the period in which they arise, including the corresponding tax effect.

NOTE 13 - INTANGIBLE ASSETS

Software - at cost	**357**	204
Accumulated amortisation	**(165)**	(94)
Carrying value	**192**	110
Movement in carrying value		
Balance at beginning of year	**110**	66
Additions	**153**	95
Disposals	**-**	-
Amortisation expense	**(71)**	(51)
Balance at end of year	**192**	110

ACCOUNTING POLICY

Items of computer software which are not integral to the computer hardware owned by the Credit Union are classified as intangible assets. Computer software held as an intangible asset is amortised over the expected useful life of the software which is generally determined to be 3 years.

NOTE 14 - DEPOSITS FROM OTHER FINANCIAL INSTITUTIONS

	2020	2019
	$'000	$'000
Term deposits	48,000	36,500

NOTE 15 - DEPOSITS FROM MEMBERS

	2020	2019
Member deposits at call (including withdrawable shares)	343,742	280,590
Member term deposits	176,661	173,579
	520,403	454,169

The deposit portfolio of the Credit Union does not include any deposit which represents 10% or more of total liabilities.

Concentration of deposits

	2020	2019
New South Wales	493,434	434,280
Other States	26,969	19,889
	520,403	454,169

ACCOUNTING POLICY

Members' deposits are initially measured at fair value plus transaction costs and are subsequently measured at their amortised cost using the effective interest method. Interest on deposits is brought to account on an accruals basis. Interest accrued at balance date is reported within payables and other liabilities in the balance sheet.

NOTE 16 - PAYABLES AND OTHER LIABILITIES

	2020	2019
Accrued interest payable	1,057	1,632
Trade payables and accrued expenses	5,816	2,932
Lease liabilities - right-of-use assets	1,919	-
	8,792	4,564

ACCOUNTING POLICY

Liabilities for trade creditors and other payables are carried at cost which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the Credit Union.

NOTE 17 - PROVISIONS

	2020	2019
Employee benefits	1,106	947
Directors' retirement benefits	99	123
Other provisions	157	232
	1,362	1,302

Movements in Carrying Amounts	Employee Benefits $'000	Directors' Retirement Benefits $'000	Other Provisions $'000	Total $'000
Balance at 1 July 2019	947	123	232	1,302
Additional provision	497	7	270	774
Amounts paid during the year	(338)	(31)	(345)	(714)
Balance at 30 June 2020	1,106	99	157	1,362

ACCOUNTING POLICY

Employment benefits

Provision is made for the Credit Union's obligation for short-term employee benefits. Short-term employee benefits (other than termination benefits) are expected to be settled wholly before 12 months after the end of the annual reporting period in which the employees render the related service, including wages, salaries and annual leave. Short-term employee benefits are measured at the (undiscounted) amounts expected to be paid when the obligation is settled.

Provision is made for employees' long service leave and annual leave entitlements not expected to be settled wholly within 12 months after the end of the annual reporting period in which the employees render the related service. Other long-term employee benefits are measured at the present value of the expected future payments to be made to employees. Upon the remeasurement of obligations for other long-term employee benefits, the net change in the obligation is recognised in profit or loss as part of employee benefits expense.

Superannuation contributions

Contributions are made by the Credit Union to employees' superannuation funds and are recognised as expenses when incurred. Refer to Note 22 for details of the Credit Union's obligations in relation to a defined benefit plan.

Provision for directors' retirement benefits

The provision for Directors' Retirement Benefits is in accordance with the Credit Union's Directors' Retirement Benefits Policy. This policy has been established as a framework within which Coastline Directors may become eligible to receive financial benefits upon their retirement or death as a Director. Eligibility for the receipt of any benefits is strictly subject to the limitations, qualification criteria and approval procedures set out in the Directors' Retirement Benefits Policy.

Other Provisions

Provisions are recognised when the Credit Union has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured. Provisions are measured using the best estimate of the amounts required to settle the obligation at the end of the reporting period.

NOTE 18 - RESERVES

	2020 $'000	2019 $'000
General reserve for credit losses	**2,160**	2,160
Redeemed share capital reserve	**51**	49
Asset revaluation reserve	**1,941**	1,831
	4,152	4,040

General reserve for credit losses

This reserve records an amount previously set aside as a general provision for impairment on loans and is maintained to comply with the Credit Union's policies.

Redeemed share capital account

The redeemed share capital account records the transfer of profits appropriated for the redeemable preference shares that have been redeemed.

Asset revaluation reserve

The asset revaluation reserve records revaluations of land and buildings.

NOTE 19 - CASH FLOW INFORMATION

Reconciliation of cash flows from operations with profit after income tax

	2020	2019
Profit for the year	**3,121**	3,300
Non-cash flows in profit:		
Impairment of loans and advances	**194**	(119)
Movement in unamortised loan origination fees	**(6)**	10
Depreciation and amortisation	**860**	445
Net (gain) / loss on sale of property, plant and equipment	**-**	(9)
Fair value (gain) / loss on investment property	**(24)**	-
(Increase) / decrease in:		
Receivables due from other financial institutions	**(35,461)**	746
Other assets	**157**	(787)
Loans and advances to members	**(49,809)**	(27,363)
Deferred tax assets	**(504)**	(16)
Increase / (decrease) in:		
Deposits from members	**66,234**	38,652
Deposits from other financial institutions	**11,500**	(6,500)
Payables and other liabilities	**2,332**	(376)
Tax liabilities	**723**	28
Provisions	**(90)**	129
Net cash (used in) / provided by operating activities	**(773)**	8,140

Cash flows presented on a net basis

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

- Customer deposits to and withdrawals from deposit accounts;
- Borrowings and repayments on loans and advances;
- Sales and purchases of maturing certificates of deposit; and
- Sales and purchases of other investments.

ACCOUNTING POLICY

Cash flows are presented in the cash flow statement on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

NOTE 20 - CAPITAL COMMITMENTS

Capital expenditure commitments

	2020 $'000	2019 $'000
Estimated capital expenditure contracted for at balance date payable:		
Not later than 12 months	-	-
Between 12 months and 5 years	-	-
Later than 5 years	-	-
	-	-

NOTE 21 - LEASES

Credit Union as a lessee

Right-of-use assets

Right-of-use assets relate to the rental of the Credit Union's premises. The leases are non-cancellable with original terms ranging from 7 - 10 years. Rent is payable monthly in advance. Contingent rental provisions within the lease agreements require the minimum lease payment to be increased by either the CPI or 5% per annum whichever is the greater. An option exists to renew the leases at the end of the lease terms for additional terms of 5 - 10 years.

Set out below are the carrying amounts of right-of-use assets recognised and the movements during the period:

	Buildings $'000	Total $'000
As at 1 July 2018	-	-
Additions	-	-
Depreciation expense	-	-
As at 30 June 2019	-	-
Initial adoption of AASB 16	2,259	2,259
Additions	-	-
Depreciation expense	(297)	(297)
	1,962	1,962

	2020 $'000	2019 $'000
Set out below are the carrying amounts of lease liabilities and the movements during the period:		
As at 1 July	-	-
Initial adoption of AASB 16	2,173	-
Accretion of interest	23	-
Lease payments	(277)	-
	1,919	-

Short-term leases and leases of low-value assets

The Credit Union has leases for office equipment and ATMs with lease terms of no more than 5 years. The Credit Union has applied the lease of low-value assets' recognition exemptions for these leases.

	2020	2019
Future minimum rentals payable under non-cancellable operating leases as at 30 June are as follows:		
Not later than 12 months	318	518
Between 12 months and 5 years	1,161	980
Later than 5 years	-	491
	1,479	1,989

ACCOUNTING POLICY

Right-of-use assets

The Credit Union recognises right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-to-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are included within the category in which the underlying assets being leased would be presented if they were owned by the Credit Union. Right-of-use assets are depreciated on a straight-line basis over the term of the lease.

Lease liabilities

At the commencement date of the lease, the Credit Union recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments may include fixed or variable payments depending on the lease agreement terms and conditions. In calculating the present value of lease payments, the Credit Union uses its incremental borrowing rate as the interest rate implicit in the lease is not readily determinable. The carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments or change in the assessment of an option to purchase the underlying asset.

Short-term leases and leases of low-value assets

The Credit Union applies the short-term lease recognition exemption to its short-term leases of office equipment (i.e. those leases that have a lease term of 12 months or less and do not contain a purchase option). The Credit Union also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered to be low value. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

NOTE 22 - DEFINED BENEFIT SUPERANNUATION PLAN

The Credit Union contributes to the Cuesuper Superannuation Defined Benefits Plan (the Plan), a sub-fund of NGS Super, for an employee of the Credit Union. Schedule One Part B is a sub-group (the sub-group) of the plan with 3 employers supporting 3 employees. The sub-group has been determined to be a defined benefit multi-employer plan (a defined benefit plan).

The financing objective of the sub-group is to target defined benefit assets at least equal to 100% of the Discounted Accrued Retirement Benefits. The sub-group is in an unsatisfactory financial position (as defined under *SIS Regulations 1994* to mean that the assets are not sufficient to meet the vested benefits) at 30 June 2020 and has not met its financing objective. The trustee has decided to bring forward the next regular actuarial investigation to 30 June 2020 and a restoration plan may be required address the Cue (schedule 1B) sub-group's unsatisfactory financial position.

Each employer is obliged to contribute for its employee members as determined by the trustee in accordance with the provisions and benefits to be provided for the relevant membership class for the employee members involved. The ongoing contributions are the same for each employer. However, when a sponsoring employer grants salary increases in excess of an agreed rate then actuarial advice is sought on additional funding to ensure equity between sponsoring employers. By implication, this limits any amount an employer is required to contribute in respect of the funding of benefits for employee members of any other participating employer in the plan.

Each employer has the unilateral right (i.e. a discretionary power exercisable without requiring consent of the trustee) at any time to terminate or reduce their contributions or terminate participation in the plan. If this occurs, the trustee must ascertain interests and adjust benefits on appropriate advice. If the plan terminates employers are liable for any arrears of their [own] contributions only (such contributions being as determined by the trustee as advised and recommended by the actuary from time to time) and the termination provisions do not require any additional contribution to make up any shortfall in assets that may otherwise exist due to the obligations of other employers not having been met or otherwise. In these circumstances, members' benefits would be adjusted.

A restoration plan may be put in place to address the Cue (Schedule 1B) sub-hroup's unsatisfactory financial position following the completion of the actuarial investigation as at 30 June 2020.

The plan is indeed a defined benefit plan. The assets of the sub-group are attributable only for the sub-group as a whole. The sub-group does not separately identify the assets or cash flows per member or employer. Therefore, there is insufficient information to enable the entity to account for the plan as a defined benefit plan.

For the year to 30 June 2020, the contribution rates in respect of the defined benefit element of the members' benefits have been the same for all sponsoring employers, other than for expenses which are allocated to employers on a per member basis.

NOTE 23 - CONTINGENT LIABILITIES AND CREDIT COMMITMENTS

	2020	2019
	$'000	$'000
Contingent liabilities		
Guarantees and security deposits	**216**	246

The Credit Union holds security deposits of some members as a guarantee for third parties. These deposits are not released to the member without written authority from the third party.

Credit union liquidity support system

The Credit Union is a member of the Credit Union Financial Support System Limited (CUFSS), a company established to provide financial support to credit unions in the event of a liquidity or capital problem arising. The Credit Union's commitment to the system is through an Industry Support Contract (ISC), which sets out its obligations, rights and responsibilities being:

- Provision of financial and other information to CUFSS;
- Funding annual CUFSS operating costs by subscriptions based on member assets; and
- Pledge a contingency commitment of a percentage of assets (currently 3.00%) for emergency liquidity support should it be required.

Credit related commitments

Binding commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements.

Approved but undrawn loans and credit limits	**43,673**	36,211
Loans approved but not advanced	**7,415**	7,025
	51,088	43,236

NOTE 24 - DISCLOSURES ON KEY MANAGEMENT PERSONNEL

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

KMP comprise Directors and the executive management team of the Credit Union.

KMP Compensation

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

	2020	2019
	$	$
Short-term benefits	**1,066,636**	956,299
Post-employment benefits	**105,532**	85,871
Other long-term benefits	**22,812**	47,025
Termination benefits	**36,216**	38,514
	1,231,196	1,127,709

Remuneration shown as short-term employee benefits means (where applicable) wages, salaries, Directors' fees, paid annual leave and paid sick leave, bonuses and the value of fringe benefits received, but excludes out-of-pocket expense reimbursements. Other long-term benefits includes long service leave accrued during the year. Post-employment benefits relates to superannuation paid to employees in accordance with the Superannuation Guarantee Legislation.

The movement in provision for Directors' retirement benefits, calculated in accordance with the Credit Union's Directors' Retirement Benefits Policy, is included under termination benefits.

All remuneration of Directors, with the exception of the provision for Directors' retirement benefits, was approved by the members at the previous Annual General Meeting of the Credit Union.

Loans to KMP

	Balance at beginning of year	**Interest charged**	**Balance at end of year**	**Impaired amount**
2020	**$**	**$**	**$**	**$**
Term loans	**1,264,731**	**30,568**	**872,576**	**-**
Revolving credit loans	**9,708**	**1,103**	**8,353**	**-**
Total Loans	**1,274,439**	**31,671**	**880,929**	**-**
2019				
Term loans	1,017,636	41,319	1,264,731	-
Revolving credit loans	4,623	243	9,708	-
Total Loans	1,022,259	41,562	1,274,439	-

	2020	2019
	$	$
Aggregate value of revolving credit facilities available to KMP as at balance date	55,000	56,000
Less: amounts drawn-down	(8,353)	(9,708)
Net balance available	46,647	46,292

The Credit Union's policy for lending to KMP is that all loans are approved and deposits accepted on the same terms and conditions which applied to members for each class of loan or deposit. KMP who are not Directors receive a concessional rate of interest on their loans and facilities. These benefits, where subject to fringe benefits tax, are included in the KMP remuneration. There are no benefits or concessional terms and conditions applicable to the close family members of KMP.

Other transactions with related parties

The Credit Union has received deposits from KMP and their related entities. These amounts were received on the same terms and conditions as are applicable to members generally and are trivial or domestic in nature.

KMP have received interest on these deposits with the Credit Union during the financial year. Interest has been paid on terms and conditions no more favourable than those available on similar transactions to members of the Credit Union.

During the 2019 financial year one motor vehicle was sold to KMP or their related parties for an amount of $14,500. The sale price was determined by fair market value and the transaction was conducted on an arm's length basis.

There were no other transactions with KMP or their related parties during the the financial year.

NOTE 25 - AUDITOR'S REMUNERATION

	2020	2019
Audit Services	$	$
Audit of the financial statements	49,900	48,900
Other regulatory audit services	13,600	13,300
Other Services		
Internal audit services	76,500	75,140
Taxation services	6,520	5,000
Other assurance services	4,700	24,350
	151,220	166,690

NOTE 26 - FINANCIAL INSTRUMENTS

Classes of financial assets and financial liabilities

Financial assets	$'000	$'000
Financial assets at amortised cost		
Cash and cash equivalents	21,581	24,050
Receivables due from other financial institutions	94,989	59,528
Other assets	1,623	1,780
Loans and advances	495,142	445,333
Fair value through other comprehensive income		
Other financial assets	2,796	2,796
Total financial assets	616,131	533,487

	2020	2019
Financial liabilities	$'000	$'000
Financial liabilities at amortised cost		
Deposits from other financial institutions	48,000	36,500
Deposits from members	520,403	454,169
Payables and other liabilities	8,792	4,564
Total financial liabilities	577,195	495,233

The Credit Union has exposure to the following risks from its use of financial instruments:

- Credit Risk;
- Liquidity Risk;
- Market Risk;
- Capital Risk; and
- Operational Risk.

ACCOUNTING POLICY

Overview

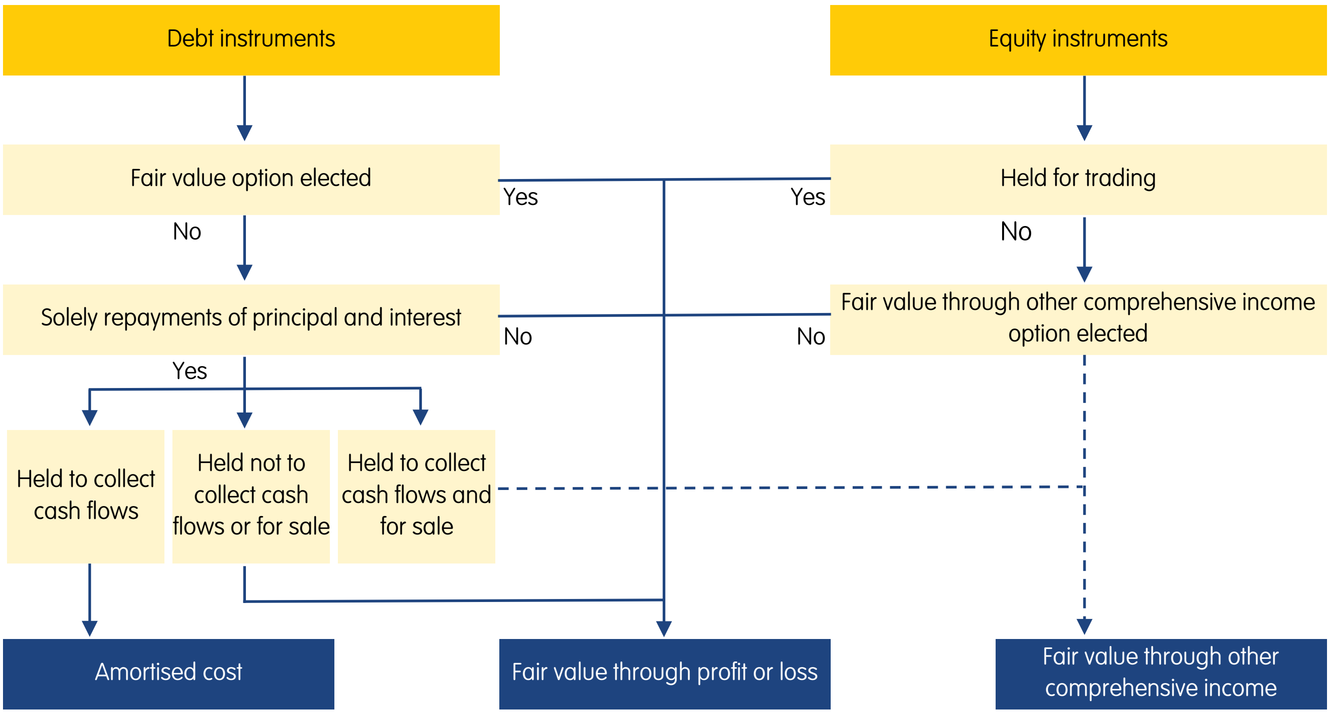
Financial instruments represent the majority of the Credit Union's balance sheet, including loans and advances and deposits with other financial institutions. The carrying amount presented on the balance sheet reflects the Credit Union's business model for managing the asset. Where the model is to collect contractual cash flows (such as loans and advances), the financial instrument is measured at amortised cost. Conversely, where the financial instrument is managed on a fair value basis, that instrument will be measured as such.

Initial recognition of financial instruments

Accounting for a financial instrument begins at initial recognition. A financial asset or liability is recognised in the balance sheet when the Credit Union becomes a party to the contractual provisions of the instrument, which is generally on trade date. Loans and advances are recognised when cash is advanced (or settled) to borrowers. Financial instruments managed on a fair value basis are recognised initially at fair value, with transaction costs recognised in profit or loss as incurred. All other financial instruments are recognised initially at fair value plus / (less) directly attributable transaction costs.

Classification

Following initial recognition, *AASB 9 Financial Instruments* requires the Credit Union to classify financial assets as follows.



Financial liabilities follow a much simpler classification process and are measured at amortised cost.

Measurement

Financial assets measured at amortised cost

Amortised cost is the amount at which a financial asset or financial liability is measured at initial recognition less principal repayments plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any loss allowance.

Financial assets measured at fair value through profit or loss

Where a financial asset is measured at fair value, a credit valuation adjustment is included to reflect the credit worthiness of the counterparty, representing the movement in fair value attributable to changes in credit risk.

Financial assets measured at fair value through other comprehensive income

Gains or losses arising from changes in the fair value of financial instruments are recognised in a separate component of equity. Upon disposal, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to the income statement.

Investments in equity instruments that are neither held for trading nor contingent consideration recognised by the Credit Union in a business combination to which *AASB 3 Business Combinations* applies, are measured at fair value through other comprehensive income, where an irrevocable election has been made by management. Amounts presented in other comprehensive income are not subsequently transferred to profit or loss. Dividends on such investments are recognised in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment.

Derecognition of financial instruments

The Credit Union derecognises a financial asset when the contractual cash flows from the asset expire or it transfers its rights to receive contractual cash flows from the financial asset in a transaction in which substantially all the risks and rewards of ownership are transferred. Any interest in transferred financial assets that is created or retained by the Credit Union is recognised as a separate asset or liability. The Credit Union removes a financial liability from the balance sheet when the obligation specified in the contract is discharged, cancelled or expired.

NOTE 27 - RISK MANAGEMENT

Risk management framework

The Board of Directors has the overall responsibility for the establishment and oversight of the Credit Union's risk management framework, of which includes risk management policies. The Board approves the level of risk which the Credit Union is exposed to and the framework for reporting and mitigating those risks. All risk management policies are reviewed on an annual basis.

The Board of Directors has established the Risk Committee which is responsible for developing and monitoring the Credit Union's risk management policies and reporting to the Board of Directors on its activities. The Chief Risk Officer (CRO) has the responsibility of monitoring risk management activities and practices throughout the Credit Union and reporting results and other pertinent information to the Risk Committee. The CRO is also responsible for implementing changes to the risk management framework and related practices as recommended by the Board via the Risk Committee.

The Credit Union's risk management policies are established to identify and analyse the risks faced by the Credit Union, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed on at least an annual basis.

The Audit Committee is responsible for monitoring compliance with the Credit Union's risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Credit Union. The Audit Committee is assisted in these functions by the General Manager.

The General Manager has responsibility for the oversight of the Credit Union's risk management framework and policies, including the identification, analysis, evaluation, treatment and monitoring of risk at all levels of the Credit Union.

The Board of Directors have also appointed an Internal Auditor to assess whether the controls implemented for risk management are operating effectively. The Internal Auditor provides reports on risk management compliance to the Board of Directors and Audit Committee on a regular basis.

Credit Risk

Credit risk is the risk of financial loss to the Credit Union should a member or counterparty to the financial instrument fail to meet their contractual obligations. Credit risk arises principally from the Credit Union's loans and advances to members, deposits with other authorised deposit-taking institutions and investments in other financial assets.

Loans and advances

The credit risk associated with loans and advances to members has been minimised through the implementation of credit assessment policies and procedures before these loans and advances are approved. The Credit Union's Board of Directors has delegated responsibility for the management of credit risk to the Risk Committee. The Board has developed policies and procedures designed to ensure strong lending practices which comply with credit legislation. Policies and procedures reduce the risk of credit loss by providing clarity and guidance relating to:

- Credit assessment and approval of loans and facilities;
- Compliance with regulatory and statutory requirements;
- Security requirements in respect to the acceptable types of security and maximum loan to security value ratios;
- Limiting concentrations of exposures to individual borrowers, industry groups and geographic locations;
- Establishing and maintaining lending approval delegations for new and renewing credit facilities;
- Reassessment of and review of credit exposures and facilities;
- Establishment of appropriate provisions to recognise the impairment of loans and advances; and
- Debt recovery procedures.

	2020	2019
Analysis of loans and advances by type (gross carrying value)	**$'000**	$'000
Housing - owner occupied	**333,745**	294,522
Housing - investment	**87,592**	80,305
Personal	**20,871**	21,537
Revolving credit	**5,517**	5,678
Commercial	**47,417**	43,291
	495,142	445,333

Collateral securing loans

The Credit Union holds collateral against loans and advances to members in the form of mortgage interests over property, other registered securities over assets and guarantees. Mortgage insurance contracts are entered into in order to manage the credit risk around the residential loan mortgage portfolio. 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.

	2020 $'000	2019 $'000
Secured by mortgage over business assets	**11,349**	9,126
Secured by mortgage over real estate	**458,628**	410,906
Partly secured by goods mortgage	**13,536**	12,768
Wholly unsecured	**10,637**	11,729
	494,150	444,529

It is not practicable to value all collateral as at the end of the reporting period due to the variety of assets and conditions present.

Geographic concentration of credit risk

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

	Loans and advances to members		**Receivables due from other financial institutions**	
	2020 $'000	2019 $'000	**2020 $'000**	2019 $'000
New South Wales	**449,454**	406,157	**71,557**	39,582
Other States and Territories	**44,696**	38,372	**44,074**	19,946
	494,150	444,529	**115,631**	59,528

Concentration by location for loans and advances to members is measured based on the location of the borrower. Concentration by location for receivables due from other financial institutions is measured based on the location of the counterparty.

The Credit Union had one exposure totalling $4.439m as at 30 June 2020 (2019: nil) to individual members (including associated members) where the balance was greater than 10% of capital at balance date.

Liquid investments and receivables due from other financial institutions

The risk of losses from liquid investments and receivables from other financial institutions is reduced by the nature and quality of the independent rating of the counterparty, and the limits of concentration of investments to any one counterparty. Credit risk related to liquid investments with other financial institutions has been minimised through the implementation of investment policies, which include the types of acceptable investments and limitations on concentrations of deposits. The Credit Union's Finance Department is responsible for managing and monitoring compliance with these policies and limits.

Credit risk exposure by risk grade

Deposits at call and receivables due from other financial institutions by external credit rating based on the following risk grades:

- **Credit rating grade 1:** Standards & Poor's ratings (or equivalent) of AAA to AA-
- **Credit rating grade 2:** Standards & Poor's ratings (or equivalent) of A+ to A-
- **Credit rating grade 3:** Standards & Poor's ratings (or equivalent) of BBB+ to BBB-

	2020 $'000	2019 $'000
Credit rating grade 1	**57,557**	30,139
Credit rating grade 2	**15,000**	31,193
Credit rating grade 3	**23,500**	8,481
Unrated	**19,574**	13,098
Total	**115,631**	82,911

Maximum exposure to credit risk

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

Liquidity Risk

Liquidity risk is the risk that the Credit Union will encounter difficulty in meeting obligations arising from its financial liabilities.

Management of liquidity risk

The Credit Union's approach to managing liquidity 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 the Credit Union's reputation.

The Credit Union's policies and procedures for managing liquidity include:

- Daily monitoring of liquidity position with regards to internal and regulatory limits;
- Monitoring the maturity profiles of financial assets and financial liabilities; and
- Maintaining adequate reserves and liquidity support facilities.

Exposure to liquidity risk

The key measure used by the Credit Union for managing liquidity risk is the ratio of liquid assets to total adjusted liabilities. The Credit Union's regulator, APRA, has set a minimum ratio of at least 9% of liquid assets to total liabilities. The Credit Union's minimum internal liquidity ratio is 12% (2019: 12%).

	2020	2019
Liquidity ratios	**%**	%
As at 30 June	**17.74**	15.44
Average liquidity for the period	**16.25**	15.84
Minimum liquidity for the period	**13.82**	13.91
Maximum liquidity for the period	**20.02**	16.96

Financial instrument maturity analysis

The following table details the Credit Union's expected and remaining contractual maturities for its financial assets and financial liabilities. The balance for financial assets is based on the undiscounted maturities including interest that will be earned on those assets except where the Credit Union anticipates that the cash flow will occur in a different period. The balance of financial liabilities is based on the undiscounted cash flows at the earliest date on which the Credit Union can be required to pay.

2020	**Within 1 Year**	**1 to 5 Years**	**Over 5 Years**	**No Maturity**	**Total**
Financial assets - cash flows realisable	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Cash and cash equivalents	**20,807**	**-**	**-**	**774**	**21,581**
Receivables due from other financial institutions	**48,089**	**46,900**	**-**	**-**	**94,989**
Other assets	**1,623**	**-**	**-**	**-**	**1,623**
Loans and advances	**33,032**	**118,785**	**334,769**	**7,564**	**494,150**
Other financial assets	**-**	**-**	**-**	**2,796**	**2,796**
Total anticipated inflows	**103,551**	**165,685**	**334,769**	**11,134**	**615,139**
Financial liabilities due for payment					
Deposits from other financial institutions	**48,000**	**-**	**-**	**-**	**48,000**
Deposits from members	**516,780**	**3,596**	**-**	**27**	**520,403**
Other liabilities	**8,792**	**-**	**-**	**-**	**8,792**
Total anticipated outflows	**573,572**	**3,596**	**-**	**27**	**577,195**
Net inflow / (outflow) on financial instruments	**(470,021)**	**162,089**	**334,769**	**11,107**	**37,944**

2019	Within 1 Year	1 to 5 Years	Over 5 Years	No Maturity	Total
Financial assets - cash flows realisable	$'000	$'000	$'000	$'000	$'000
Cash and cash equivalents	23,383	-	-	667	24,050
Receivables due from other financial institutions	22,373	37,155	-	-	59,528
Other assets	1,780	-	-	-	1,780
Loans and advances	32,565	106,876	297,059	8,029	444,529
Other financial assets	-	-	-	2,796	2,796
Total anticipated inflows	80,101	144,031	297,059	11,492	532,683
Financial liabilities due for payment					
Deposits from other financial institutions	36,500	-	-	-	36,500
Deposits from members	448,539	5,601	-	29	454,169
Other liabilities	4,564	-	-	-	4,564
Total anticipated outflows	489,603	5,601	-	29	495,233
Net inflow / (outflow) on financial instruments	(409,502)	138,430	297,059	11,463	37,450

Market Risk

Market risk is the risk that changes in market prices, such as interest rates, foreign exchange rates or other prices, will affect the Credit Union's income or the value of its financial assets and financial liabilities. The objective of market risk management is to manage and control market risk exposures within acceptable limits.

The Credit Union does not trade in financial instruments, and is not exposed to currency or other significant price risks. As a result, the Credit Union is only exposed to interest rate risk arising from changes in market interest rates.

Interest rate risk (IRR)

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

Management of IRR

The Credit Union has exposure to non-traded interest rate risk generated by banking products such as loans and deposits. The Credit Union does not operate a trading book.

Overall authority for market risk is vested with the Board of Directors, who are responsible for the development of detailed risk management policies.

Exposure to IRR

The sensitivity analysis below has been determined based on the exposure to interest rates for non-derivative instruments at the reporting date and the stipulated change taking place at the beginning of the financial year and held constant throughout the reporting period.

The Credit Union monitors its exposure to IRR using gap analysis. The gap analysis report provides a maturity profile of the Credit Union's financial assets and financial liabilities to enable management to identify any significant mismatching of assets and liabilities and hence the potential IRR.

Based on interest rate sensitivity calculations the theoretical pre-tax impact on the current year's profit of a 1% increase / (decrease), assuming all other things remain equal, would be:

	Interest Rate Sensitivity	
	+ 1%	**- 1%**
Impact on pre-tax profit	**$1,970,945**	**($1,519,552)**

Capital Management

The Credit Union’s regulator (APRA) sets and monitors capital requirements for the Credit Union. The Credit Union reports to APRA on a regular basis and has adopted the standardised approach for credit risk and operational risk. The Credit Union's regulatory capital is compromised of two tiers.

Tier 1 capital which comprises the highest quality of capital and satisfies all of the following characteristics:

- Provides a permanent and unrestricted commitment of funds;
- Freely available to absorb losses;
- Does not impose any unavoidable servicing charge against earnings; and
- Ranks behind the claims of depositors and other creditors in the event of a winding-up of the issuer.

Tier 2 capital which includes other components of capital that, to varying degrees, fall short of the quality of Tier 1 capital but nonetheless contribute to the overall strength of the Credit Union and its capacity to absorb losses.

Risk weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and off balance sheet exposures. The Credit Union’s policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Credit Union has complied with all externally imposed capital requirements throughout the period.

There have been no material changes in the Credit Union’s management of capital during the period.

	2020	2019
The Credit Union's regulatory capital position at balance date was as follows:	**$'000**	$'000
Tier 1 capital	**38,179**	35,260
Tier 2 capital	**2,699**	2,423
Total regulatory capital	**40,878**	37,683
Total risk weighted assets	**290,363**	267,210

Capital expressed as a percentage (%) of total risk-weighted assets	**%**	**%**
Tier 1 capital	**13.15**	13.20
Total regulatory capital	**14.08**	14.10

Capital disclosures

APS 330 disclosures for capital adequacy are available in the "About Us / Publications" section of Coastline's website.

Operational Risk

Operational risk is the risk of the direct or indirect loss arising from a wide variety of causes associated with the Credit Union's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks. Operational risks in the Credit Union relate mainly to those risks arising from a number of sources including legal compliance; business continuity; data infrastructure; outsourced services failures; fraud; and employee errors. The Credit Union's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Credit Union's reputation with overall cost effectiveness.

Operational risks are managed through the implementation of policies and systems to monitor the likelihood of the events and minimise the impact. The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management as the 1st Line of Defence. This responsibility is supported by the development of overall Credit Union standards for the management of operational risk in the following areas:

- Requirements for appropriate segregation of duties, including independent authorisation of transactions;
- Requirements for the reconciliation and monitoring of transactions;
- Compliance with regulatory and other legal requirements;
- Documentation of controls and procedures;
- Periodic assessment of operational risks faced and the adequacy of controls to mitigate those risks;
- Requirements for the reporting of operational losses and proposed remedial action;
- Development of contingency plans;
- Training and professional development;
- Ethical and business standards; and
- Risk mitigation, including insurance where this is effective.

There is an independent oversight of operational risk including effective challenge to activities and decisions which are material in relation to the Credit Union's risk profile, and reporting lines to appropriately escalate issues. This is the 2nd Line of Defence and is assigned to the Risk Management Committee and CRO.

Compliance with Credit Union standards is supported by a program of periodic reviews undertaken by Internal Audit. The results of these reviews are discussed with the management of the business unit to which they relate, with summaries submitted to the Audit Committee and the Board of Directors of the Credit Union. This is the 3rd Line of Defence and also ensures the 1st and 2nd Lines of Defence operate effectively.

Fraud risk

Fraud risk includes, and can arise from, cyber and data security attacks; PINs, cards and passwords being compromised through inadequate protection by the member; identity information being used to obtain financial services; and internal system failures. The Credit Union has implemented the following to monitor, detect, prevent, manage material fraud from occurring: industry standard security systems; internal controls; incident reporting procedures; escalation procedures; and risk tolerances. Systems and internal controls are tested and reviewed on an ongoing basis. Insurance coverage is in place to reduce the impact of fraud risk if it occurs.

IT systems

The worst case scenario would be the failure of the Credit Union's core banking and IT network suppliers, to meet customer obligations and service requirements. The Credit Union has outsourced the IT systems management to an Independent Data Processing Centre (IDPC) which is owned by a collection of credit unions. This organisation has the experience in-house to manage any short-term problems and has a contingency plan to manage any related power or systems failures. Other network suppliers are engaged on behalf of the Credit Union to service the settlements with other financial institutions for direct entry, ATM and Visa cards, and Bpay. A full disaster recovery plan is in place to cover medium to long-term problems which is considered to mitigate the risk to an extent such that there is no need for any further capital to be allocated.

NOTE 28 - FAIR VALUE

Fair value estimates methodology and assumptions

The net fair value estimates of the Credit Union's assets and liabilities were determined by the following methodologies and assumptions:

Liquid assets and receivables due from other financial institutions - the carrying values of cash, liquid assets and receivables due from other financial institutions redeemable within 3 months approximate their net fair value as they are short term in nature or are receivable on demand.

Investment securities and other financial assets - for financial instruments traded in organised financial markets, fair value is the quoted market value for the asset. For investments where there is no quoted market value, a reasonable estimate of the fair value is determined by reference to the current market value of another instrument which is substantially the same.

Loans and advances - the fair value of loans, advances and other receivables is based on their carrying amount net of the provision for credit impairment.

Land and buildings - the fair value of land and buildings was determined by independent valuation in accordance with the requirements of *AASB 116 Property, Plant and Equipment*.

Deposits from other financial institutions and members - the fair value of deposits is based on their carrying amount.

Payables and other liabilities - this includes interest payable and unrealised expenses payable for which the carrying amount is considered to be a reasonable estimate of net fair value.

Fair value estimate for financial assets and financial liabilities

	2020		2019	
	Carrying amount	**Net Fair value**	Carrying amount	Net Fair value
Financial assets	**$'000**	**$'000**	$'000	$'000
Cash and cash equivalents	**21,581**	**21,581**	24,050	24,050
Receivables due from other financial institutions	**94,989**	**94,989**	59,528	59,528
Other assets	**1,623**	**1,623**	1,780	1,780
Loans and advances (gross)	**495,142**	**495,142**	445,333	445,333
Other financial assets	**2,796**	**2,796**	2,796	2,796
Total financial assets	**616,131**	**616,131**	533,487	533,487
Financial liabilities				
Deposits from other financial institutions	**48,000**	**48,000**	36,500	36,500
Deposits from members	**520,403**	**520,403**	454,169	454,169
Payables and other liabilities	**8,792**	**8,792**	4,564	4,564
Total financial liabilities	**577,195**	**577,195**	495,233	495,233

The Credit Union measures and recognises the following assets and liabilities at fair value on a recurring basis:

- Land and buildings.

Fair value hierarchy

The Credit Union measures fair values of assets and liabilities carried at fair value in the financial report using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

Level 1: Quoted market price (unadjusted) in an active market for an identical asset or liability.

Level 2: Valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes assets or liabilities valued using:

- quoted market prices in active markets for similar assets or liabilities;
- quoted prices for identical or similar assets or liabilities in markets that are considered less than active; or
- other valuation techniques where all significant inputs are directly or indirectly observable from market data.

Level 3: Valuation techniques using significant unobservable inputs. This category includes all assets and liabilities where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the asset's or liability's valuation. This category includes assets and liabilities that are valued based on quoted prices for similar assets or liabilities where significant unobservable adjustments or assumptions are required to reflect differences between them.

Fair values for financial instruments or non-financial assets or liabilities traded in active markets are based on quoted market prices at reporting date. The quoted market price for financial assets is the current bid price. The fair values of financial instruments that are not traded in an active market are determined using valuation techniques. To the extent possible assumptions used are based on observable market prices and rates at the end of the reporting date.

The table below categorises assets and liabilities measured and recognised at fair value at the reporting date by the level of the fair value hierarchy into which the fair value measurement is categorised.

		Level 1	**Level 2**	**Level 3**	**Total**
Recurring fair value measurements		**$'000**	**$'000**	**$'000**	**$'000**
2020	Land and Buildings	**-**	**2,350**	**-**	**2,350**
	Investment Property	**-**	**750**	**-**	**750**
		-	**3,100**	**-**	**3,100**
2019	Land and Buildings	-	3,000	-	3,000
	Investment Property	-	-	-	-
		-	3,000	-	3,000

Valuation techniques used to derive level 2 fair values recognised in the financial statements

Land and buildings are valued independently every three years. At the end of each reporting period the Credit Union reassesses whether there has been any material movement to the fair value of land and buildings to determine whether the carrying amount in the financial statements requires adjustment. The Credit Union determines each property's value within a range of reasonable fair value estimates.

The best evidence of fair value in current prices is an active market for similar properties. Where such information is not available the Credit Union considers information from a variety of sources, including:

- current prices in an active market for properties of different nature or recent prices of similar properties in less active markets, adjusted to reflect those differences; and
- discounted cash flow projections.

ACCOUNTING POLICY

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

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

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

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

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

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

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

NOTE 29 - ECONOMIC DEPENDENCY

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

Indue Limited is a Special Service Provider (SSP) to the Credit Union. The SSP provides the Credit Union with financial services such as banking, member chequing, direct entry transactions, Cuecards and Visa cards.

Fiserv provides the switch used to link Cuecards and Visa cards through ATM and EFTPOS networks to the Credit Union's EDP system.

Data Action provides and maintains the central banking and internet banking systems for the Credit Union. Data Action also provides electronic data processing services for the Credit Union.

NOTE 30 - 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 Credit Union, the results of those operations, or the state of affairs of the Credit Union, in future financial years.

NOTE 31 - NEW AND AMENDED ACCOUNTING POLICIES ADOPTED BY THE CREDIT UNION

Initial application of AASB 16

The Credit Union has adopted *AASB 16 Leases* retrospectively with the cumulative effect of initially applying AASB 16 recognised at 1 July 2019. In accordance with AASB 16, the comparatives for the 2019 reporting period have not been restated.

The Credit Union has recognised a lease liability and right-of -use asset for all leases (with the exception for short-term and low-value leases) recognised as operating leases under *AASB 117* Leases where the Credit Union is the lessee.

There has been no significant change from prior year treatment for leases where the Credit Union is a lessor.
The lease liabilities are measured at the present value of the remaining lease payments. The Credit Union's incremental borrowing rate as at 1 July 2019 was used to discount the lease payments. The right-of-use assets were measured at their carrying amount as if AASB 16 had been applied since the lease commencement date, but discounted using the Credit Union's weighted average incremental borrowing rate on 1 July 2019.

The following practical expedients have been used by the Credit Union in applying AASB 16 for the first time:

- for a portfolio of leases that have reasonably similar characteristics, a single discount rate has been applied;
- leases that have remaining lease term of less than 12 months as at 1 July 2019 have been accounted for in the same way as short-term leases;
- the use of hindsight to determine lease terms on contracts that have options to extend or terminate;
- applying AASB 16 to leases previously identified as leases under *AASB 117 Leases* and *Interpretation 4: Determining whether an arrangement contains a lease* without reassessing whether they are, or contain, a lease at the date of initial application; and
- not applying AASB 16 to leases previously not identified as containing a lease under AASB 117 and Interepetation 4.

The difference of $184,000 between the lease liability of $2,173,000 as at 1 July 2019 and the operating lease commitments of $1,989,000 as at 30 June 2019 relates to discounting of the operating lease commitments at the Company's incremental borrowing rate minus short term and low value leases which are both expensed on a straight line basis.
The Company's weighted average incremental borrowing rate on 1 July 2019 applied to the lease liabilities was 1.12%.

Comparative figures

When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year. When the Credit Union retrospectively applies an accounting policy, makes a retrospective restatement or reclassifies items in its financial statements, an additional (third) balance sheet as at the beginning of the preceding period in addition to the minimum comparative financial statements is presented.

Impact on retained earnings

The impact on retained earnings as at 1 July 2019 due to initial application of new and adopted accounting standards by the Credit Union is as follows:

	$'000
Closing retained earnings 30 June 2019	37,023
Changes under AASB 16	(88)
Opening retained earnings 1 July 2019	**36,935**

NOTE 32 - COMPANY DETAILS

The registered office of the Credit Union is:

Coastline Credit Union Limited

64 Elbow Street
West Kempsey NSW 2440

In accordance with a resolution of the Directors of Coastline Credit Union Limited, the Directors of the Credit Union declare that:

1. The financial statements, comprising the Statement of Comprehensive Income, Balance Sheet, Statement of Changes in Equity, Cash Flow Statement and notes to and forming part of the financial statements, are in accordance with the *Corporations Act 2001* and:

    a) comply with Australian Accounting Standards applicable to the Credit Union, which, as stated in Note 1 to the financial statements, constitutes compliance with International Financial Reporting Standards; and

    b) give a true and fair view of the financial position as at 30 June 2020 and of the performance for the year ended on that date of the Credit Union;

2. In the Directors' opinion 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.

Dated at West Kempsey this 24 September 2020

For and behalf of the Board

Vanessa McNeilly
Director - Chair

Anthony Ferris
Director - Deputy Chair

NorthCorp
accountants + financial services

PARTNERS
Robert Magnussen B Bus FCA
Paul Fahey B Bus CA
Rodney Smith B Fin Admin FCA
Bart Lawler B Com CA
Patrick Brennan B Com CA
Alison McKinnon B Bus CA

Independent Auditor's Report

to the Members of Coastline Credit Union Limited

Opinion

We have audited the financial report of Coastline Credit Union Limited, which comprises the Balance Sheet as at 30 June 2020, the Statement of Comprehensive Income, Statement of Changes in Equity and Cash Flow Statement for the year then ended, notes to the financial statements, including a summary of significant accounting policies and the Directors' Declaration.

In our opinion the accompanying financial report of Coastline Credit Union Limited is in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the Company's financial position as at 30 June 2020 and of its performance for the year ended on that date; and

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

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Company in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110: *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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

Information Other than the Financial Report and Auditor's Report Thereon

The Directors are responsible for the other information. The other information comprises the information included in the Compay's annual report for the year ended 30 June 2020, but does not include the financial report and our auditor's report thereon. Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon. In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

T 02 6588 4444 | F 02 6583 4527 | E northcorp@northcorp.com.au | www.northcorp.com.au
Suites 1-3 Bourne House, 10-12 Short Street, Port Macquarie NSW 2444
3/80 High Street, Wauchope NSW 2446 | PO Box 166, Port Macquarie NSW 2444

NorthCorp
accountants + financial services

PARTNERS
Robert Magnussen B Bus FCA
Paul Fahey B Bus CA
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Independent Auditor's Report

to the Members of Coastline Credit Union Limited

Responsibilities of Directors for the Financial Report

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

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

Auditor's Responsibilities for the Audit of the Financial Report

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

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

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.

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Independent Auditor's Report

to the Members of Coastline Credit Union Limited

Auditor's Responsibilities for the Audit of the Financial Report (Continued)

- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

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

NorthCorp Accountants

J Thomas

Jodie Thomas
Lead Auditor

10 – 12 Short Street
Port Macquarie NSW 2444

24 September 2020

CHARTERED ACCOUNTANTS
AUSTRALIA + NEW ZEALAND

T 02 6588 4444 | F 02 6583 4527 | E northcorp@northcorp.com.au | www.northcorp.com.au
Suites 1-3 Bourne House, 10-12 Short Street, Port Macquarie NSW 2444
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