Annual Report 2018

G&C mutual bank®
BANKING ON YOUR COMMUNITY

Our Values

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

Member Service

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

Continuous Improvement

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

Teamwork

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

Performance

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

Integrity

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

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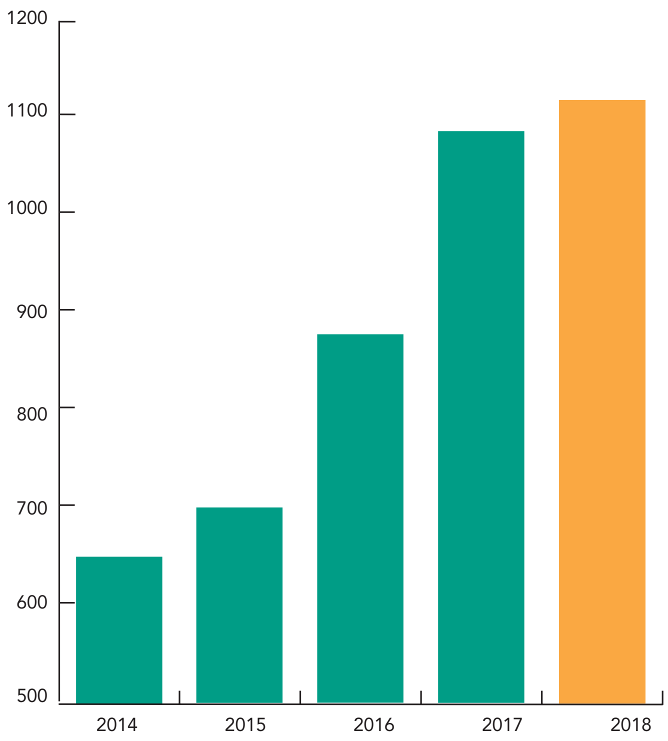
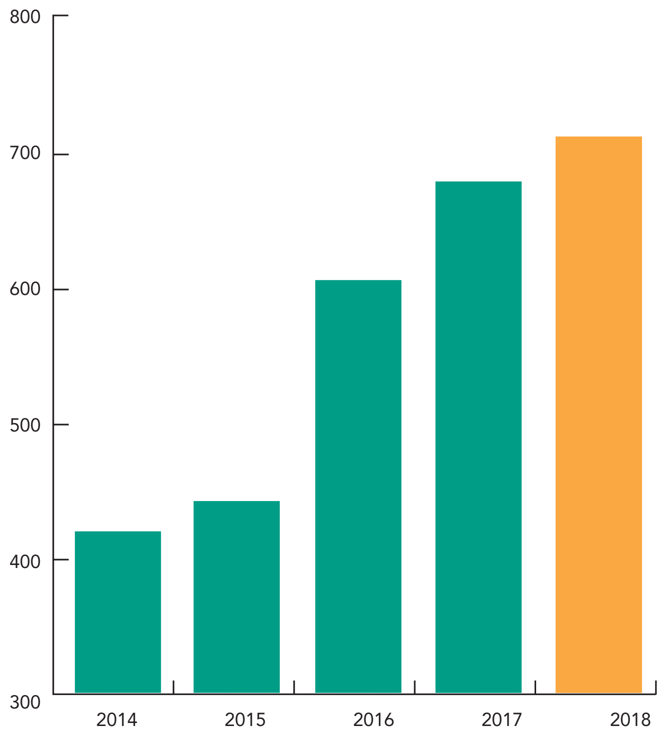
Key Statistics
30 June 2018

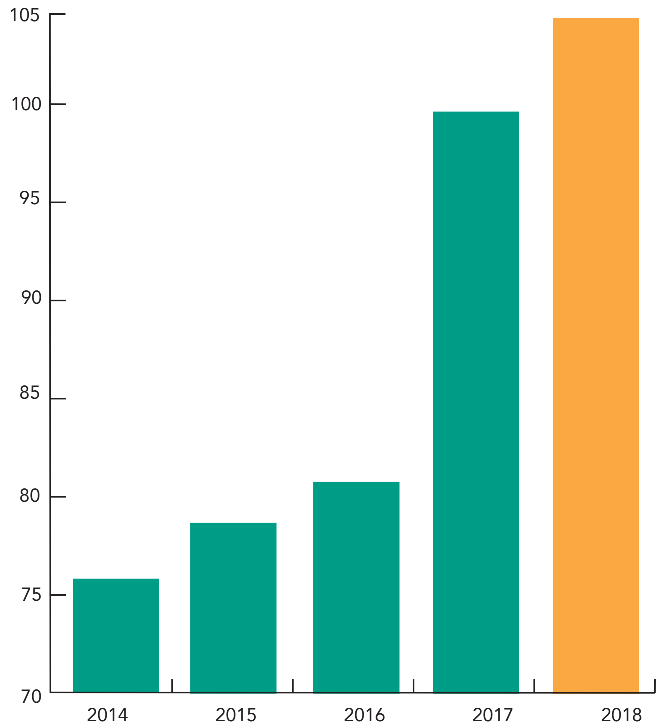
$1.121b
Total Assets



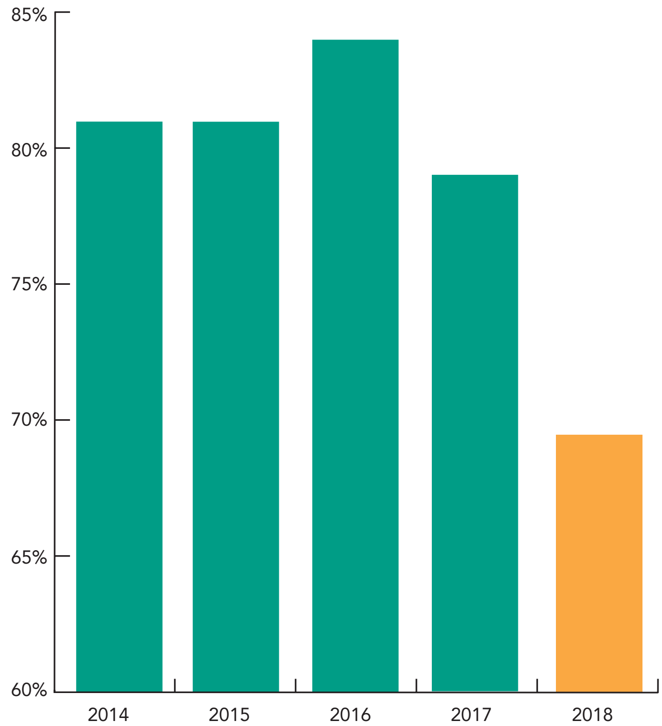
$709m
Total Loans



$105m
Member Equity



69.5%
Operating Efficiency (Cost/Income Ratio)



Chair & CEO Update
A Year of Innovation & Performance

Julian Kennelly
Chair

Dave Taylor
CEO

Following the completion and successful integration of the Quay Credit Union merger in the prior financial year, G&C Mutual Bank's priority throughout 2017/18 has been to enhance our products and services, especially by ensuring that G&C members would be among the first to benefit from the New Payments Platform (NPP). The past year also saw G&C build further on growth opportunities and efficiencies arising from the Quay merger and other aggregation initiatives which together helped deliver G&C's exceptional financial performance - with a 33% increase in pre-tax profit, total assets finishing the year at $1.121 billion, member equity reaching $104.80 million, and solid growth across all major business lines.

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

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

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

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

Solid Growth and Strong Credit Quality

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

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

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

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

Overview of Financial Performance

G&C Mutual Bank finished the 2017/18 financial year with Total Assets of $1,120.68 million, Member Equity of $104.76 million and a risk-weighted Capital Ratio of 18.2% - with the latter ratio remaining substantially higher than those of the 4 major banks.

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

New Products & Awards

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

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

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

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

The Year Ahead

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

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

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

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

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

Julian Kennelly
Chair

Dave Taylor
CEO

It's your bank because you own it

$105m Member Equity

Serving the **community for 59 years**

Our products are **award winning**

$1.121b Total Assets

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

Board of Directors

Julian Kennelly

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

Period of Appointment: 4 years to 2021 AGM

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

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

Alexander Hutchison

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

Period of Appointment: 4 years to 2018 AGM

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

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

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

Karin Hawkins

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

Period of Appointment: 1 year to June 2019

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

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

Trevor Donegan

Non-Executive 'Elected' Director

Period of Appointment: 4 years to 2019 AGM

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

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

Executive Management

Dave Taylor
Chief Executive Officer and Director

Rosanna Argall
Deputy CEO and Company Secretary

Gregory Hammond

Non-Executive 'Appointed' Director

Period of Appointment: 1 year to December 2018

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

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

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

Peter Clarke

Elected Director

Period of Appointment: 3 years to 2019 AGM

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

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

Steve Helmich

Appointed Director

Period of Appointment: 1 year to 1 September 2019

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

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

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

Dave Taylor

Chief Executive Officer and Director

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

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

Michael Coburn
Chief Sales Officer

Andrew Prichard
Chief Risk Officer

Anthony Sluiter
Chief Financial Officer

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

Your Directors present their report on G&C Mutual Bank and its controlled entity, together called the Group, for the financial year ended 30 June 2018.

Information on Directors

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

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

Information on Company Secretary

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

Information on Board Meetings

The number of meetings of the G&C Mutual Bank's Board of Directors and of each Board committee held during the year ended 30 June 2018, and the number of meetings attended by each Director as a member of the relevant committee were:

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

E = number of meetings Directors eligible to attend
A = number of meetings attended during the time the Director held office

Director Benefits

No Director has received or become entitled to receive, during or since the end of the financial year, a benefit because of a contract made by G&C Mutual Bank with a Director, a firm of which a Director is a member, or an entity in which a Director has a substantial financial interest, other than that disclosed in Note 37 of the financial report.

Indemnifying Directors, Officers or Auditors
Insurance premiums have been paid to insure each of the Directors and Officers of G&C Mutual Bank against any costs and expenses incurred by them in defending any legal proceeding arising out of their conduct while acting in their capacity as a Director or Officer of G&C Mutual Bank. In accordance with normal commercial practice, disclosure of the premium amount and the nature of the insured liabilities is prohibited by a confidentiality clause in the contract.

No additional cover has been provided for the benefit of the auditors of G&C Mutual Bank.

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

Operating Results for the Year
The net profit of G&C Mutual Bank for the year before income tax is $6,804,000 (2017: $5,117,000). The net profit after income tax for the year is $4,786,000 (2017: $3,600,000).

The results for the financial year were underpinned by:
- An increase in profit before tax of 33.0%
- An increase in loan balances of 5.0%
- A return on average assets after tax of 0.43%
- An increase in assets of 3.0%
- A decrease in the cost-to-income ratio to 69.5%

Dividend on Tier 1 Shares
The dividends paid during the year on permanent preference shares were $NIL per share (2017: $2.06 per share) amounting to a total dividend of $NIL (2017: $41,000).

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

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

Likely Developments and Expected Results
No other matter, circumstance or likely development in the operations, has arisen since the end of the financial year that has significantly affected or may significantly affect:
(i) the operations of G&C Mutual Bank;
(ii) the results of those operations; or
(iii) the state of affairs of G&C Mutual Bank.

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

Environmental Regulation

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

Non-Audit Services

Ernst & Young (2017: PricewaterhouseCoopers) received or is due to receive the following amounts for the provision of non-audit services:

	2018	2017
	$	$
Taxation services	30,500	47,629
Total	**30,500**	**47,629**

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

Auditor's Independence Declaration

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

ASIC Class Order Relief

G&C Mutual Bank has elected to apply Class Order 10/674 which allows companies, registered schemes and disclosing entities that present consolidated financial statements to also present parent entity financial statements for the year ended 30th June 2018.

Signed in accordance with a resolution of the Directors.

J F Kennelly
Chair

A P Hutchison
Vice Chair

25 September 2018

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

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

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

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

Minimum Competencies

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

Director Development

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

Independence

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

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

Performance

Established Board Policy requires an annual review of performance of the Board, its committees and individual Directors. The Board undertakes an annual assessment of its collective performance, the performance of the Chair and of its committees. Senior Management contribute to this appraisal process which is facilitated by an independent third party. The results are documented with any agreed action plans for the coming year. An assessment carried out in accordance with this process was undertaken during the period September – December 2017.

Structure of the Board

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

As at 30 June 2018, the Board comprised four Non-Executive (member-elected) Directors, three Non-Executive (appointed) Directors, and one Executive (appointed) Director. All Directors are members of G&C Mutual Bank. Board members are elected by the members or appointed in accordance with G&C Mutual Bank's Constitution. All elected Directors hold a four year term. The Chair of the Board is an elected Non-Executive Director.

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

Role of the Board

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

In particular, the Board:

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

Committees of the Board

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

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

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

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

Board Audit Committee (BAC)

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

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

Board Risk Committee (BRC)

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

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

Governance, Nominations & Remuneration Committee (GNRC)

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

Governance Standards

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

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

External Audit

The audit is performed by Ernst & Young (2017: PricewaterhouseCoopers).

Internal Audit

The internal audit function is undertaken by internal resources.

Building a better working world

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

As lead auditor for the audit of G&C Mutual Bank Limited for the financial year ended 30 June 2018, I declare to the best of my knowledge and belief, there have been:

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

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

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

Ernst & Young

Ernst & Young

Richard Balfour
Partner
25 September 2018

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

(a) The financial statements and notes to the accounts of G&C Mutual Bank and the consolidated entity (Group) are in accordance with the *Corporations Act 2001* , including:

  (i) giving a true and fair view of the financial position of G&C Mutual Bank and the Group as at 30 June 2018 and of their performance for the year ended on that date; and

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

(b) There are reasonable grounds to believe that G&C Mutual Bank will be able to pay its debts as and when they become due and payable.

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

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

J F Kennelly
Chair

A P Hutchison
Vice Chair

25 September 2018

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

Opinion

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

- the Group consolidated and Company statements of financial position as at 30 June 2018;
- the Group consolidated and Company statements of comprehensive income, statements of changes in equity and statements of cash flows for the year then ended ;
- notes to the financial statements, including a summary of significant accounting policies; and
- the directors' declaration.

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

a) giving a true and fair view of the Company's and the Group's financial position as at 30 June 2018 and of their financial performance for the year ended on that date; and

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

Basis for Opinion

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

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

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

The directors are responsible for the other information. The other information is the directors' report accompanying the financial report.

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

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.

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If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Financial Report

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

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

Auditor's Responsibilities for the Audit of the Financial Report

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

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

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

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

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

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

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

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

Ernst & Young

Ernst & Young

R. Balfour

Richard Balfour
Partner
Sydney
25 September 2018

STATEMENT OF COMPREHENSIVE INCOME
For the year ended 30 June 2018

	Note	Consolidated 2018 $'000	Parent 2018 $'000	Consolidated 2017 $'000	Parent 2017 $'000
Interest income	5	41,721	44,354	39,537	42,854
Interest expense	6	(17,009)	(21,344)	(17,271)	(22,832)
Net interest income		**24,712**	**23,010**	**22,266**	**20,022**
Non-interest income	7	4,203	5,892	4,287	6,512
Net operating income		**28,915**	**28,902**	**26,553**	**26,534**
Impairment expense	8	(2,035)	(2,035)	(445)	(445)
Employment expense	8	(9,694)	(9,694)	(9,911)	(9,911)
Office occupancy expense	8	(1,547)	(1,547)	(1,480)	(1,480)
Depreciation and amortisation expense	8	(875)	(875)	(879)	(879)
Information technology and communication expense	8	(2,525)	(2,525)	(2,689)	(2,689)
Other operating expenses	8	(5,435)	(5,422)	(6,032)	(6,013)
Total operating expenses		**(22,111)**	**(22,098)**	**(21,436)**	**(21,417)**
Profit before income tax		**6,804**	**6,804**	**5,117**	**5,117**
Income tax expense	9	(2,018)	(2,018)	(1,517)	(1,517)
Net profit after tax attributable to members		**4,786**	**4,786**	**3,600**	**3,600**
Other comprehensive income					
Items that may be reclassified subsequently to profit / (loss):					
Gain on financial assets - available for sale:					
Recognised in equity	28	-	-	-	-
Total comprehensive income for the year		**4,786**	**4,786**	**3,600**	**3,600**

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

	Note	Consolidated 2018 $'000	Parent 2018 $'000	Consolidated 2017 $'000	Parent 2017 $'000
ASSETS					
Cash and deposits at call	11	26,609	26,594	27,279	27,264
Due from other financial institutions	12	371,593	366,137	374,027	368,631
Other assets	13	6,264	11,887	3,634	10,513
Current tax assets		-	-	671	671
Loans and advances	14,15	708,572	778,405	675,595	786,741
Financial assets - available-for-sale	16	3,768	3,768	3,018	3,018
Derivative assets	17	36	36	-	-
Property, plant and equipment	18	1,354	1,354	1,582	1,582
Intangible assets	19	998	998	1,154	1,154
Deferred tax assets	20	1,486	1,486	1,154	1,154
Total Assets		**1,120,680**	**1,190,665**	**1,088,114**	**1,200,728**
LIABILITIES					
Deposits	21	957,737	957,737	959,864	959,864
Other liabilities	22	14,754	15,034	13,328	14,131
Current tax liabilities		578	578	-	-
Derivative liabilities	24	-	-	97	97
Subordinated debt	23	-	-	999	999
Other financial liabilities	25	39,992	109,697	11,407	123,218
Provisions	26	2,859	2,859	2,445	2,445
Total Liabilities		**1,015,920**	**1,085,905**	**988,140**	**1,100,754**
Net Assets		**104,760**	**104,760**	**99,974**	**99,974**
EQUITY					
Redeemable share reserve	27	2,262	2,262	2,262	2,262
Asset revaluation reserve	28	158	158	158	158
Retained earnings	29	84,978	84,978	80,192	80,192
Contributed equity	30	17,362	17,362	17,362	17,362
Total Equity		**104,760**	**104,760**	**99,974**	**99,974**

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

STATEMENT OF CHANGES IN EQUITY
For the year ended 30 June 2018

Consolidated and Parent	Contributed Equity	Preference Shares	Redeemable Share Reserve	Asset Revaluation Reserve	Retained Earnings	Total
Note	30		27	28	29	
	$'000	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Balance at 1 July 2016	**-**	**2,000**	**124**	**158**	**78,633**	**80,915**
Net profit after tax	-	-	-	-	3,600	**3,600**
Other comprehensive income	-	-	-	-	-	**-**
Total comprehensive income for the year	**-**	**-**	**-**	**-**	**3,600**	**3,600**
Amortisation of preference share discount	-	-	-	-	-	**-**
Transfer to capital account on redemption of shares	-	-	2,000	-	(2,000)	**-**
Transactions with preference shareholders	-	(2,000)	-	-	(41)	**(2,041)**
Transfer of business	17,362	-	138	-	-	**17,500**
Balance at 30 June 2017	**17,362**	**-**	**2,262**	**158**	**80,192**	**99,974**
Net profit after tax	-	-	-	-	4,786	**4,786**
Other comprehensive income	-	-	-	-	-	**-**
Total comprehensive income for the year	**-**	**-**	**-**	**-**	**4,786**	**4,786**
Amortisation of preference share discount	-	-	-	-	-	**-**
Transfer to capital account on redemption of shares	-	-	-	-	-	**-**
Transactions with preference shareholders	-	-	-	-	-	**-**
Balance at 30 June 2018	**17,362**	**-**	**2,262**	**158**	**84,978**	**104,760**

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

	Note	Consolidated 2018 $'000	Parent 2018 $'000	Consolidated 2017 $'000	Parent 2017 $'000
CASH FLOW FROM OPERATING ACTIVITIES					
Interest received		42,112	44,745	40,504	43,818
Dividends received		68	68	93	93
Other non-interest income received		4,471	6,160	4,250	6,475
Interest paid		(17,507)	(22,368)	(17,792)	(22,621)
Payments to suppliers and employees		(20,382)	(19,110)	(18,593)	(23,970)
Payments to suppliers on transfer of business		-	-	(178)	(178)
Income taxes paid		(1,101)	(1,101)	(1,460)	(1,460)
Net change in due to/from other financial institutions		31,234	31,294	27,649	31,448
Net change in loans and advances		(35,192)	(35,192)	(42,492)	(42,492)
Net change in deposits		(2,115)	(2,115)	(3,369)	(3,369)
Net cash inflow/(outflow) from operating activities	32 (c)	**1,588**	**2,381**	**(11,388)**	**(12,256)**
CASH FLOW FROM INVESTING ACTIVITIES					
Net cash acquired in transfer of business		-	-	16,747	16,747
Proceeds from sale of property, plant and equipment		-	-	36	36
Payments for property, plant and equipment		(140)	(140)	(209)	(209)
Purchase of intangible assets		(373)	(373)	(772)	(772)
Payments for equity investments		(750)	(750)	(750)	(750)
Net cash inflow/(outflow) from investing activities		**(1,263)**	**(1,263)**	**15,052**	**15,052**
CASH FLOW FROM FINANCING ACTIVITIES					
Purchase from assignment of loans to intercompany securitisation trust		-	(42,106)	-	94,418
Proceeds from repayment of loss reserve loan		-	-	196	196
Payments for redemption of preference shares		-	-	(2,000)	(2,000)
Payments for redemption of subordinated debt		(995)	(995)	-	-
Proceeds from securities from intercompany securitisation trust		-	41,313	-	(93,518)
Dividends paid	10	-	-	(41)	(41)
Net cash (outflow)/inflow from financing activities		**(995)**	**(1,788)**	**(1,845)**	**(945)**
Net increase/(decrease) in cash held		(670)	(670)	1,819	1,851
Cash and cash equivalents at the beginning of year		27,279	27,264	25,460	25,413
Cash and cash equivalents at the end of year	11	**26,609**	**26,594**	**27,279**	**27,264**

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

NOTE 1: CORPORATE INFORMATION

G&C Mutual Bank Limited, trading as G&C Mutual Bank and Quay Mutual Bank (together referred to hereafter as G&C Mutual Bank), is a public company incorporated and domiciled in Australia. The financial report of G&C Mutual Bank and its controlled entity, together the Group (the Consolidated Entity), for the year ended 30 June 2018 was authorised for issuance in accordance with a resolution of the Directors' on 25 September 2018. The Directors' have the power to amend and reissue the financial report. The members are the owners of G&C Mutual Bank.

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

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

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Preparation

The financial report of G&C Mutual Bank is a general purpose financial report which has been prepared in accordance with the requirements of the *Corporations Act 2001,* Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board. The financial report has been prepared on a historical cost basis, except for financial assets-available-for-sale and derivatives which have been measured at fair value. G&C Mutual Bank is a for-profit entity for the purpose of preparing the financial statements.

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

G&C Mutual Bank has elected to apply Class Order 10/674 which allows companies, registered schemes and disclosing entities that present consolidated financial statements to also present parent entity financial statements for the year ended 30th June 2018.

The financial report includes separate financial statements where affected for G&C Mutual Bank as an Individual Entity (the Parent) and the Consolidated Entity consisting of G&C Mutual Bank and its subsidiary for the financial year ended 30 June 2018.

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

(b) Statement of Compliance with IFRS

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

(c) Basis of Consolidation

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

(d) Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to G&C Mutual Bank and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Revenue recognition (continued)

(i) Interest and similar income

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

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

(ii) Fee and commission income

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

(iii) Dividend income

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

(iv) Other income

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

(e) Income Tax

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

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

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

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

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

(f) Leases

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

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Leases (continued)

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

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

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

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

(g) Impairment of assets

(i) Loans and advances

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

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

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

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

(ii) Property, plant and equipment and intangible assets

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

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Impairment of assets (continued)

(ii) Property, plant and equipment and intangible assets (continued)

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

(iii) Due from other financial institutions

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

(h) Cash and deposits at call

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

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

For the purpose of the Statement of Cash Flows, cash and cash equivalents consist of cash and deposits at call net of outstanding bank overdrafts and receivables due from other financial institutions with a contractual maturity within 3 months.

(i) Due from other financial institutions

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

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

(j) Other assets

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

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

(k) Loans and advances

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

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(l) Investments and other financial assets

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

(i) Available-for-sale investments

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

(ii) Recognition and derecognition

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

A financial asset is derecognised where:

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

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

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

(iii) Repurchase Agreements

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

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

(m) Interest rate swaps

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

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

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(n) Property, plant and equipment

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

(i) Plant and Equipment

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

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

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

(ii) Disposal

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

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

(iii) Depreciation

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

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

(o) Intangible assets

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

(i) IT development and software

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

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

(ii) Bank Status

Costs incurred in obtaining approval to use the word "bank" (and referenced to as "bank status") will contribute to future period financial benefits through revenue generation and/or cost reduction and were capitalised to bank status costs. Costs capitalised included external direct costs of materials and services and direct payroll and payroll related costs of employees' time spent on the project.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(o) Intangible assets (continued)

(ii) Bank Status (continued)

Bank status costs include only those costs directly attributable to the development phase. Costs associated with rebranding to G&C Mutual Bank and associated trademarks were expensed as incurred through other operating expenses.

(iii) Amortisation with Finite Useful Life

Intangible assets are amortised from the point at which the assets are ready for use on a straight line basis over their estimated useful lives as follows:

- IT development and software — 3 to 5 years
- Bank status — 10 years

(p) Deposits

All deposits are initially recognised at the fair value of the amount received. After initial recognition, deposits are subsequently measured at amortised cost using the effective interest method subject to floor of no less than amount repayable on demand.

Interest is calculated on the daily balance and posted to the accounts periodically, or on maturity.

(q) Other liabilities

Other liabilities are carried at amortised cost and represent accrued interest on deposits, liabilities for unpaid goods and services provided to G&C Mutual Bank prior to the end of financial year and clearing account balances as at balance date. The amounts are unsecured and are usually paid within 30 days of recognition.

(r) Subordinated debt

Subordinated debt is initially recognised at fair value, net of transaction costs incurred. Subordinated debt is subsequently measured at amortised cost. Any difference between the proceeds net of transaction costs and the redemption amount is recognised in profit and loss over the period of the borrowings using the effective interest method.

(s) Provisions

Provisions are recognised when G&C Mutual Bank:

- has a legal or constructive obligation to make a future sacrifice of economic benefits to other entities as a result of past events;
- it is probable that a future sacrifice of economic benefits will be required to settle the obligation; and
- a reliable estimate can be made of the amount of the obligation.

(i) Employee benefits

Short-term obligations

Liabilities for salary, wages and employee benefits that are expected to be settled wholly within 12 months after the end of the period in which the employees render the related service are recognised in respect of employees' service up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. All short-term employee benefit obligations are recognised in accrued expenses and disclosed in Note 22.

Contributions are made by G&C Mutual Bank to an employee's superannuation fund and are charged to the Statement of Comprehensive Income as incurred and are disclosed in employment expenses.

Long-term employee benefit obligations

The liabilities for long service leave and annual leave are not expected to be settled wholly within 12 months after the end of the period in which the employees render the related service. They are therefore recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to expected future wage and salary levels and periods of service. Expected future payments are discounted using corporate bond market yields at the end of the reporting period with terms and currencies that match, as closely as possible, the estimated future cash outflows.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(s) Provisions (continued)

(i) Employee benefits

Long-term employee benefit obligations (continued)

Provisions for unpaid employee benefits are derecognised when the benefit is settled, or is transferred to another entity and G&C Mutual Bank is legally released from the obligation and does retain a constructive obligation.

(ii) Post employment benefits

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

(iii) Make good

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

(t) Goods and services tax (GST)

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

Revenue, expenses and assets are recognised net of the amount of GST, unless the GST incurred is not recoverable from the taxation authority.

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

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

(u) Business combinations

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

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

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(u) Business combinations (continued)

As per accounting standard AASB 3 *Business Combinations* , the receiving body in a combination of mutual entities shall recognise the transferring body's net asset as a direct addition to equity in its statement of financial position. Such additions are made to the Contributed Equity account (refer Note 30). The Contributed Equity account is distributable.

Acquisition costs are expensed as incurred.

(v) New and amended accounting standards adopted by the group

There were no new or revised accounting standards applicable for financial years commencing from 1 July 2017 that had any significant impact on the financial statements of G&C Mutual Bank and were adopted.

(w) New accounting standards issued not yet applicable

The following amendments to existing standards have been published that are not mandatory for 30 June 2018 reporting period. The assessment of the impact of these new standards and interpretations is set out below. Changes that are not likely to impact the financial report have not been reported.

AASB 9 Financial Instruments

AASB 9 will replace AASB 139 Financial Instruments: Recognition and Measurement. It will lead to changes in the accounting for financial instruments, primarily relating to:

Financial assets: A financial asset is measured at amortised cost only if it is held within a business model whose objective is to collect contractual cash flows and the asset gives rise to cash flows on specified dates that are payments solely of principal and interest (on the principal amount outstanding). All other financial assets are measured at fair value.

Changes in the fair value of debt instruments that:
(i) have cash flows solely of principal and interest, and
(ii) are held in a business model managed both to collect cash flows and for sale, are recognised in other comprehensive income until sold, when they are recycled to the income statement.

Interest and impairment are recognised directly in profit or loss. Changes in the fair value of equity investments that are not part of a trading activity may be reported directly in other comprehensive income, but upon realisation, those accumulated changes are not recycled to the income statement. Dividends on such investments are recognised in profit or loss, unless they clearly represent a recovery of the cost of the investment. Changes in the fair value of all other financial assets carried at fair value are reported in the income statement. The combined effect of the application of the business model and the contractual cash flow characteristics tests may result in some differences in the assets measured at amortised cost versus fair value compared with AASB 139.

Financial liabilities: The component of change in fair value of financial liabilities designated at fair value through profit or loss due to an entity’s own credit risk are presented in other comprehensive income, unless this creates an accounting mismatch. If a mismatch is created or enlarged, all changes in fair value (including the effects of credit risk) are presented in profit or loss.

Impairment: The impairment requirements apply to financial assets measured at amortised cost and fair value through other comprehensive income, lease receivables and certain loan commitments and financial guarantee contracts. At initial recognition, an allowance is recognised for expected credit losses (ECL), resulting from possible defaults within the next 12 months. Subsequently, when there is a significant increase in credit risk, an allowance is required for ECL resulting from possible defaults over the expected life of the financial instrument. The assessment of credit risk, and the estimation of ECL, are to be unbiased and probability-weighted, and incorporates all available information relevant to the assessment, including information about past events, current conditions and reasonable and supportable information about future events and economic conditions at the reporting date. As a result, the impairment allowance is intended to be more forward-looking. An assessment has been performed and there will be no material impact to capital.

Hedge accounting: Hedge accounting is more closely aligned with financial risk management. As a general rule it will be easier to apply hedge accounting going forward.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(w) New accounting standards issued not yet applicable (continued)

The hedge component of AASB 9 is effective for annual reporting periods beginning on or after 1 January 2018. The standard is effective for the bank starting 1st July 2018.

G&C Mutual Bank has carried out an assessment of the impact of the new standard and there will be no impact on capital. The requirements for general hedge accounting have been simplified for hedge effectiveness testing and are not expected to impact materially G&C Mutual Bank based on its existing interest rate swap contracts. The new expected loss impairment model will require more timely recognition of expected credit losses. The impact is attributable to increases in the allowance for credit losses under the new impairment requirements.

AASB 15 Revenue from Contracts with Customers

AASB 15 specifies the principle that revenue is recognised when control of a good or service transfers to a customer – so the notion of control replaces the existing notion of risks and rewards. AASB 15 will replace AASB 118 Revenue, which covers contracts for goods and services, and AASB 111 Construction Contracts, which covers construction.

AASB 15 is effective for annual reporting periods beginning on or after 1 January 2018. The standard is effective for the bank starting 1st July 2018.

Based upon G&C Mutual Bank's assessment, the Standard is not expected to have a material impact upon the transactions and balances recognised when it is first adopted, as most of the G&C Mutual Bank’s revenue arises from the provision of financial services which are accounted for in accordance with AASB 9 Financial Instruments.

AASB 16 Leases

AASB 16 will primarily affect the accounting by lessees and will result in the recognition of current operating leases for commercial property and equipment (refer Note 34 (b)) to be 'on-balance sheet'. The standard removes the current distinction between operating and financing leases and requires recognition of an asset (the right to use the leased item) and a financial liability to pay rentals for almost all lease contracts.

AASB 16 is effective for annual reporting periods beginning on or after 1 January 2019.

G&C Mutual Bank is currently assessing the impact of the new requirements on the consolidated financial statements and the materiality of this change. Based on the preliminary assessment, the likely impact on the first time adoption of the Standard include:

(i) an increase in lease assets and financial liabilities recognised on the Statement of Financial Position; and

(ii) operating cash flows will be lower and financing cash flows will be higher in the Statement of Cash Flows as principal repayments on all lease liabilities will now be included in financing activities rather than operating activities.

NOTE 3: FINANCIAL RISK MANAGEMENT

Overview of Risk Governance

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

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

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

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

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

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

	Consolidated 2018 $'000	Parent 2018 $'000	Consolidated 2017 $'000	Parent 2017 $'000
Financial Assets				
Cash and cash equivalents	26,609	26,594	27,279	27,264
Due from other financial institutions	371,593	366,137	374,027	368,631
Other assets	6,264	11,887	3,634	10,513
Loans and advances	708,572	778,405	675,595	786,741
Financial assets - available-for-sale	3,768	3,768	3,018	3,018
Derivative assets	36	36	-	-
	1,116,842	**1,186,827**	**1,083,553**	**1,196,167**
Financial Liabilities				
Deposits	957,737	957,737	959,864	959,864
Other liabilities	14,754	15,034	13,328	14,131
Subordinated debt	0	0	999	999
Other financial liabilities	39,992	109,697	11,407	123,218
Derivative liabilities	-	-	97	97
	1,012,483	**1,082,468**	**985,695**	**1,098,309**

(a) Interest Rate Risk

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

NOTE 3: FINANCIAL RISK MANAGEMENT (Continued)

(a) Interest Rate Risk (continued)

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

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

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

	Consolidated 2018 $'000	Parent 2018 $'000	Consolidated 2017 $'000	Parent 2017 $'000
Hedging Instrument	145	145	321	321
Hedged Item attributable to the hedged risk	(134)	(134)	(320)	(320)

(i) Value at Risk (VaR)

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

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

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

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

	Consolidated 2018 $'000	Parent 2018 $'000	Consolidated 2017 $'000	Parent 2017 $'000
20 day 99% confidence				
VaR exposure at 30 June	334	334	143	143
Average monthly VaR exposure	203	203	320	320
Maximum monthly VaR exposure	334	334	568	568
Minimum monthly VaR exposure	89	89	128	128

NOTE 3: FINANCIAL RISK MANAGEMENT (Continued)

(a) Interest Rate Risk (continued)

(ii) Prepayment Risk

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

(b) Credit Risk

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

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

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

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

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

The nature and extent of G&C Mutual Bank's exposure in these entities is summarised below.

	2018 $'000	2017 $'000
Personal Loans		
SocietyOne P2P Lending Trust	20,236	22,981
RateSetter Wholesale Lending Platform	1,802	-
Commercial Loans		
Lannock Capital No.5 Trust	10,976	6,436
Medpro Finance No.4 Unit Trust	12,568	-
Total	**45,582**	**29,417**

(i) Concentration of loans

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

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

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

NOTE 3: FINANCIAL RISK MANAGEMENT (Continued)

(b) Credit Risk (continued)

(ii) Maximum exposure to credit risk

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

	Consolidated 2018 $'000	Parent 2018 $'000	Consolidated 2017 $'000	Parent 2017 $'000
Credit risk exposures relating to on balance sheet assets:				
Cash and cash equivalents	26,609	26,594	27,279	27,264
Due from other financial institutions	371,593	366,137	374,027	368,631
Other assets	6,264	11,887	3,634	10,513
Loans and advances	709,793	779,626	676,073	787,219
Derivative assets	36	36	-	-
Total on balance sheet	**1,114,295**	**1,184,280**	**1,081,013**	**1,193,627**
Credit risk exposures relating to off balance sheet assets:				
Undrawn loan commitments	88,736	88,736	90,004	90,004
Total on and off balance sheet assets	**1,203,031**	**1,273,016**	**1,171,017**	**1,283,631**

(iii) Collateral

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

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

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

During the financial period, G&C Mutual Bank has acquired $Nil (2017: $Nil) of real estate and other assets through the enforcement of security. As at period-end, there are no such assets owned by G&C Mutual Bank. G&C Mutual Bank does not take physical possession of properties or other assets held as collateral and uses external agents to realise the value as soon as practicable, generally at auction, to settle indebtedness. Any surplus funds are returned to the borrower or are otherwise dealt with in accordance with appropriate insolvency regulations.

(iv) Impairment assessment

The main considerations for loan impairment assessment are as follows:

- whether any payments of principal or interest are overdue;
- whether there are any known difficulties in the cash flows of counterparties; or
- whether there have been any infringements of the original terms of the contract.

G&C Mutual Bank addresses impairment assessment in two areas: individually assessed provisions and collectively assessed provisions.

NOTE 3: FINANCIAL RISK MANAGEMENT (Continued)

(b) Credit Risk (continued)

(v) Individually assessed provisions

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

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

(vi) Collectively assessed provisions

Collective provisions are based on average loss experience where individual estimations of the potential loss have not been made. These include both objective evidence provisions where there is evidence of impairment and provisions for incurred but not reported losses due to reporting delays. Collective provisions are generally determined on portfolios of loans with similar risk characteristics.

G&C Mutual Bank adopts a probability of default / loss given default model to assess the adequacy of the collective provision for the home loan portfolio given the absence of write-offs over the past 10 years.

G&C Mutual Bank adopts a loss rate model to assess the adequacy of the collective provision for all other credit facilities given the relative size of those portfolios and the simplicity of the model.

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

Parent and Consolidated

30 June 2018	**1 to 30 days $'000**	**31 to 60 days $'000**	**61 to 90 days $'000**	**More than 91 days $'000**	**TOTAL 2018 $'000**
Loans and advances					
Personal Loans	1,112	396	279	757	2,544
Mortgage Loans	7,545	1,045	639	1,145	10,374
Commercial Loans	-	-	-	-	-
Revolving Credit	64	105	4	59	232
Total	**8,721**	**1,546**	**922**	**1,961**	**13,150**

Parent and Consolidated

30 June 2017	**1 to 30 days $'000**	**31 to 60 days $'000**	**61 to 90 days $'000**	**More than 91 days $'000**	**TOTAL 2017 $'000**
Loans and advances					
Personal Loans	632	325	157	506	1,620
Mortgage Loans	3,857	1,755	530	1,027	7,169
Commercial Loans	-	-	-	-	-
Revolving Credit	68	13	15	77	173
Total	**4,557**	**2,093**	**702**	**1,610**	**8,962**

NOTE 3: FINANCIAL RISK MANAGEMENT (Continued)

(b) Credit Risk (continued)

(viii) Analysis of financial assets individually determined to be impaired

Parent and Consolidated

	Gross Impaired Assets	Individually Assessed Provisions	Net Impaired Assets	Gross Impaired Assets	Individually Assessed Provisions	Net Impaired Assets
	2018	2018	2018	2017	2017	2017
	$'000	$'000	$'000	$'000	$'000	$'000
Loans and advances	234	56	178	198	78	120
Financial assets individually assessed as impaired	**234**	**56**	**178**	**198**	**78**	**120**

(ix) Credit quality of financial assets

The credit quality of financial assets with or issued by other authorised ADI's that are neither past due nor impaired can be assessed, with reference to external long term credit ratings (if available):

	Consolidated	Parent	Consolidated	Parent
	2018	2018	2017	2017
	$'000	$'000	$'000	$'000
AAA	25,807	25,807	-	-
AA	44,851	39,380	46,459	41,048
A	112,981	112,981	176,717	176,717
BBB	162,601	162,601	113,289	113,289
Unrated	51,245	51,245	63,694	63,694
Total	**397,485**	**392,014**	**400,159**	**394,748**

(c) Liquidity Risk

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

The Bank manages liquidity risk by:
(a) Continuously monitoring daily cash flows and longer term forecasted cash flows;
(b) Monitoring the maturity profiles of financial assets and liabilities;
(c) Maintaining adequate reserves, liquidity support facilities and reserve borrowing facilities; and
(d) Monitoring the prudential liquidity ratio daily.

The Bank has a longstanding arrangement with the industry liquidity support Mutual Bank Financial Support Scheme (CUFSS) which can access industry funds to provide support at short notice. The Bank also has an internal securitisation facility to manage liquidity risk.

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

NOTE 3: FINANCIAL RISK MANAGEMENT (Continued)

(c) Liquidity Risk (continued)

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

The MLH ratio at 30 June 2018 was 21.66% (2017: 20.72%). The average MLH ratio during the period was 20.50% (2017: 20.27%), with the highest end of month MLH ratio during the year being 21.78% (2017: 22.50%) and the lowest end of month MLH ratio during the year being 18.32% (2017: 18.38%).

Maturities of financial liabilities

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

Consolidated

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

Financial Liabilities	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	No Maturity	Total
As at 30 June 2017	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Deposits	418,612	306,175	213,173	39,855	-	-	**977,815**
Other liabilities	410	8,917	2,028	1,237	736	-	**13,328**
Subordinated debt	-	(1)	1,000	-	-	-	**999**
Derivative liabilities	-	8	53	36	-	-	**97**
Other financial liabilities	-	11,469	-	-	-	-	**11,469**
Total financial liabilities	**419,022**	**326,568**	**216,254**	**41,128**	**736**	**-**	**1,003,708**
Commitments	-	7,204	-	-	-	82,800	**90,004**
Total commitments	**-**	**7,204**	**-**	**-**	**-**	**82,800**	**90,004**

NOTE 3: FINANCIAL RISK MANAGEMENT (Continued)

(c) Liquidity Risk (continued)

Parent

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

Financial Liabilities As at 30 June 2017	On demand $'000	Less than 3 months $'000	3 to 12 months $'000	1 to 5 years $'000	Over 5 years $'000	No maturity $'000	Total $'000
Deposits	418,612	306,175	213,173	39,855	-	-	**977,815**
Other liabilities	-	8,917	2,028	1,237	736	-	**12,918**
Subordinated debt	-	(1)	1,000	-	-	-	**999**
Derivative liabilities	-	8	53	36	-	-	**97**
Other financial liabilities	-	11,469	-	-	111,811	-	**123,280**
Total financial liabilities	**418,612**	**326,568**	**216,254**	**41,128**	**112,547**	**-**	**1,115,109**
Commitments	-	7,204	-	-	-	82,800	**90,004**
Total commitments	**-**	**7,204**	**-**	**-**	**-**	**82,800**	**90,004**

NOTE 3: FINANCIAL RISK MANAGEMENT (Continued)

(d) Operational Risk

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

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

(e) Capital Management

G&C Mutual Bank maintains an actively managed capital base to cover risks inherent in its business. The adequacy of G&C Mutual Bank's capital is monitored using, among other measures, the rules and ratios established by the Australian Prudential Regulation Authority (APRA).

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

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

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

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

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

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

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

NOTE 4: CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Accounting estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on G&C Mutual Bank and that are believed to be reasonable under the circumstances.

In the process of applying G&C Mutual Bank's accounting policies, management has used its judgements and made estimates in determining the amounts recognised in the financial statements. The most significant use of judgements and estimates are as follows:

(i) Impairment of loans and advances and amounts due from other financial institutions

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

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

(ii) Post employment benefits

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

(iii) Fair value of investments in financial assets and financial liabilities

The bank measures investments in some financial assets at fair value through other comprehensive income. Where available, quoted market prices for the same or similar instruments are used to determine fair value. Where there is no market price available for an instrument, a valuation technique is used. Management applies judgement in selecting valuation techniques and setting valuation assumptions. Further detail on the determination of fair values of financial instruments is set out in Note 16.

	Consolidated 2018 $'000	Parent 2018 $'000	Consolidated 2017 $'000	Parent 2017 $'000
NOTE 5: INTEREST INCOME				
Cash and cash equivalents	512	419	500	415
Due from other financial institutions	9,325	9,325	10,333	10,333
Loans and advances	31,544	31,544	28,704	28,704
Interest income on notes receivable from securitisation trust	-	2,726	-	3,402
Other interest income	340	340	-	-
Total interest income	**41,721**	**44,354**	**39,537**	**42,854**
NOTE 6: INTEREST EXPENSE				
Deposits	16,332	16,332	16,874	16,874
Other financial liabilities	421	421	301	301
Loans assigned to securitisation trust	-	4,335	-	5,561
Subordinated debt	39	39	82	82
Other interest expense	217	217	14	14
Total interest expense	**17,009**	**21,344**	**17,271**	**22,832**
NOTE 7: NON-INTEREST INCOME				
Loan fees	700	700	914	914
Transaction fees	2,867	2,867	2,557	2,557
Insurance and other commissions	255	255	267	267
Gain on sale of property, plant & equipment	-	-	15	15
Rental income	9	9	8	8
Dividend income	68	68	93	93
ATM income	253	253	419	419
Other non-interest income	51	1,740	14	2,239
Total non-interest income	**4,203**	**5,892**	**4,287**	**6,512**

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

NOTE 8: OPERATING EXPENSES

	Consolidated 2018 $'000	Parent 2018 $'000	Consolidated 2017 $'000	Parent 2017 $'000
Impairment expense				
Change in provision for impairment of loans & advances	585	585	109	109
Bad debts written off	1,786	1,786	407	407
Bad debts recovered	(336)	(336)	(71)	(71)
	2,035	**2,035**	**445**	**445**
Employment expense				
Salaries and wages	7,265	7,265	7,922	7,922
Superannuation expense	642	642	609	609
Other employee benefits expense	1,787	1,787	1,380	1,380
	9,694	**9,694**	**9,911**	**9,911**
Office occupancy expense				
Rental expense on operating leases	900	900	894	894
Other office occupancy costs	647	647	586	586
	1,547	**1,547**	**1,480**	**1,480**
Depreciation and amortisation expense				
Depreciation of property, plant & equipment	340	340	320	320
Amortisation of intangible assets	535	535	559	559
	875	**875**	**879**	**879**
Information technology and communications expense				
Hardware and software maintenance	1,593	1,593	1,855	1,855
Communications expense	305	305	358	358
Other information technology expense	627	627	476	476
	2,525	**2,525**	**2,689**	**2,689**
Other expenses				
Marketing and development	187	187	315	315
Loss on disposal of assets	31	31	16	16
Board and committee expenses	538	538	528	528
Membership protection and benefits	1,031	1,031	1,036	1,036
General administration expenses	970	955	927	908
Loan administration costs	440	440	583	583
Member transaction costs	1,762	1,762	2,152	2,152
Other operating expenses	476	478	475	475
	5,435	**5,422**	**6,032**	**6,013**
Total operating expenses	**22,111**	**22,098**	**21,436**	**21,417**

	Consolidated 2018 $'000	Parent 2018 $'000	Consolidated 2017 $'000	Parent 2017 $'000

NOTE 9: INCOME TAX

(a) Income tax expense

	Consolidated 2018 $'000	Parent 2018 $'000	Consolidated 2017 $'000	Parent 2017 $'000
Current tax	2,344	2,344	1,674	1,674
Deferred tax	(332)	(332)	(157)	(157)
Adjustment for current tax of prior years	6	6	-	-
Total	**2,018**	**2,018**	**1,517**	**1,517**
Deferred income tax (revenue) / expense included in income tax expense comprises:				
Decrease / (increase) in deferred tax assets	(274)	(274)	(156)	(156)
(Decrease) / increase in deferred tax liabilities	(58)	(58)	(1)	(1)
Total	**(332)**	**(332)**	**(157)**	**(157)**

(b) Numerical reconciliation of income tax expense to prima facie tax payable:

	Consolidated 2018 $'000	Parent 2018 $'000	Consolidated 2017 $'000	Parent 2017 $'000
Net profit before tax	6,804	6,804	5,117	5,117
Tax at the Australian tax rate of 30% (2017:30%)	2,041	2,041	1,535	1,535
Add tax effect of:				
Fully franked dividends received	(29)	(29)	(40)	(40)
Non deductible entertainment expenditure	8	8	8	8
(Over)/Under-provision for income tax in prior year	6	6	-	-
Other	(8)	(8)	14	14
Total income tax expense	**2,018**	**2,018**	**1,517**	**1,517**

NOTE 10: DIVIDENDS PAID

(a) Recognised amounts

Dividends on preference shares are payable in arrears on 30 September, 31 December, 31 March and 30 June in each year that the permanent preference shares are on issue. Total dividends paid for the year ending 30 June 2018 were $NIL (2017: $41,000).

The payment of dividends on permanent preference shares is at the discretion of the Directors and, if paid, is on a quarterly basis at a floating rate equal to three month Australian Financial Markets Association (AFMA) BBSW reference rate plus a margin of 2.99% per annum multiplied by (1-T) where T is the prevailing Australian corporate tax rate at the time of payment of the dividend.

On 29 December 2016 the permanent preference shares were redeemed in accordance with the terms of the issue agreement.

(b) Tax rate used

The tax rate at which paid dividends have been franked is 30% (2017: 30%).

	Consolidated 2018 $'000	Parent 2018 $'000	Consolidated 2017 $'000	Parent 2017 $'000
NOTE 10: DIVIDENDS PAID (Continued)				
(c) Balance of franking account at year-end adjusted				
The amount of franking credits available for the subsequent financial year are:				
Franking account balance as at the beginning of the financial year at 30% (2017:30%)	28,462	28,462	20,574	20,574
Franking credits transferred on transfer of business	-	-	5,405	5,405
Franking credits that will arise from payment of income tax payable as at the end of the financial year	1,128	1,128	2,461	2,461
Franking debits that will arise from payment of dividends as at the end of the financial year	-	-	(18)	(18)
Franking credits that will arise from receipt of dividends recognised as receivables as at the end of the financial year	29	29	40	40
Franking account balance for future reporting periods	**29,619**	**29,619**	**28,462**	**28,462**

NOTE 11: CASH AND DEPOSITS AT CALL

	Consolidated 2018 $'000	Parent 2018 $'000	Consolidated 2017 $'000	Parent 2017 $'000
Cash on hand	717	717	1,147	1,147
Deposits at call	25,892	25,877	26,132	26,117
Total cash and deposits at call	**26,609**	**26,594**	**27,279**	**27,264**

NOTE 12: DUE FROM OTHER FINANCIAL INSTITUTIONS

	Consolidated 2018 $'000	Parent 2018 $'000	Consolidated 2017 $'000	Parent 2017 $'000
Deposits with authorised deposit-taking institutions	47,056	41,600	106,546	101,150
Debt securities issued by authorised deposit -taking institutions	324,537	324,537	267,481	267,481
Total due from other financial institutions	**371,593**	**366,137**	**374,027**	**368,631**
Maturity analysis				
Not longer than 12 months	171,595	171,595	196,876	191,480
Longer than 12 months *	199,998	194,542	177,151	177,151
Total due from other financial institutions	**371,593**	**366,137**	**374,027**	**368,631**

Included within this amount is $5,470,970 (2017: $5,410,868) which is restricted and not readily available to the securitisation trust or the bank (refer to Note 2(i) for further information).

NOTE 13: OTHER ASSETS

	Consolidated 2018 $'000	Parent 2018 $'000	Consolidated 2017 $'000	Parent 2017 $'000
Interest receivable on deposits due from other financial institutions	1,197	1,189	1,588	1,580
Interest receivable on loans and advances	-	-	-	-
Intercompany receivable from the securitisation trust	-	5,348	-	6,446
Sundry debtors	189	474	147	591
Clearing accounts	4,413	4,411	1,599	1,596
Prepayments	465	465	300	300
Total other assets	**6,264**	**11,887**	**3,634**	**10,513**

With the exception of the intercompany receivable from the securitisation trust the majority of the above amounts are expected to be recovered within 12 months of the balance sheet date.

	Consolidated 2018 $'000	Parent 2018 $'000	Consolidated 2017 $'000	Parent 2017 $'000
NOTE 14: LOANS AND ADVANCES				
Loans and advances				
Personal Loans	42,005	42,005	45,147	45,147
Mortgage Loans	624,553	624,553	605,135	605,135
Commercial Loans	32,851	32,851	14,908	14,908
Revolving Credit	10,384	10,384	10,883	10,883
Total loans and advances	**709,793**	**709,793**	**676,073**	**676,073**
Notes receivable from the securitisation trust	-	69,833	-	111,146
Fair value of loans in hedging relationship	(26)	(26)	131	131
Less total provision for impairment	**(1,195)**	**(1,195)**	**(609)**	**(609)**
Net loans and advances	**708,572**	**778,405**	**675,595**	**786,741**
(a) **Maturity Analysis**				
Not longer than 3 months	19,813	19,813	19,446	19,446
Longer than 3 months and not longer than 12 months	2,148	2,148	1,238	1,238
Longer than 12 months and not longer than 5 years	59,889	59,889	55,621	55,621
Longer than 5 years	627,943	627,943	599,768	599,768
Total loans and advances	**709,793**	**709,793**	**676,073**	**676,073**
(b) **Security dissection**				
Secured by mortgage over real estate	632,296	632,296	613,661	613,661
Partly secured by goods mortgage	23,784	23,784	9,357	9,357
Wholly unsecured	53,713	53,713	53,055	53,055
Total loans and advances	**709,793**	**709,793**	**676,073**	**676,073**

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

	Consolidated	Parent	Consolidated	Parent
	2018	2018	2017	2017
	$'000	$'000	$'000	$'000

NOTE 15: IMPAIRMENT OF LOANS AND ADVANCES

(a) Impairment allowance for loans and advances

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

NOTE 15: IMPAIRMENT OF LOANS AND ADVANCES (Continued)

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

	Parent and Consolidated					
	Personal Loans	Mortgage Loans	Commercial Loans	Finance Leases	Revolving Credit	TOTAL
	2017	2017	2017	2017	2017	2017
	$'000	$'000	$'000	$'000	$'000	$'000
At 1 July 2016	253	122	11	4	41	**431**
Charge for the year	158	(49)	18	(4)	(14)	**109**
Interest accrued on impaired loans	-	-	-	-	-	**-**
Transfer of business	22	36	1	-	10	**69**
At 30 June 2017	**433**	**109**	**30**	**-**	**37**	**609**
Individual impairment	103	-	-	-	-	**103**
Collective impairment	330	109	30	-	37	**506**
	433	**109**	**30**	**-**	**37**	**609**
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	148	-	-	-	-	**148**

	Consolidated	Parent	Consolidated	Parent
	2018	2018	2017	2017
	$'000	$'000	$'000	$'000
(b) Impairment expense				
Movement in provisions for impairment	585	585	109	109
Bad debts written off directly:				
Personal Loans	1,710	1,710	347	347
Mortgage Loans	-	-	-	-
Commercial Loans	-	-	-	-
Finance Leases	-	-	-	-
Revolving Credit	76	76	60	60
Bad debts recovered	(336)	(336)	(71)	(71)
Total impairment expense	**2,035**	**2,035**	**445**	**445**

The total of restructured loan balances for the year ending 30 June 2018 is $495,696 (2017: $33,683).

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

	Consolidated 2018 $'000	Parent 2018 $'000	Consolidated 2017 $'000	Parent 2017 $'000

NOTE 16: FINANCIAL ASSETS - AVAILABLE-FOR-SALE

	Consolidated 2018 $'000	Parent 2018 $'000	Consolidated 2017 $'000	Parent 2017 $'000
TransAction Solutions Limited (TAS)	338	338	338	338
SocietyOne Holdings Pty Ltd	3,000	3,000	2,250	2,250
Shared Service Partners Pty Ltd	50	50	50	50
Cuscal Limited	380	380	380	380
Total available-for-sale	**3,768**	**3,768**	**3,018**	**3,018**

The shareholding in TransAction Solutions Limited (TAS) is measured at fair value based on the last applicable market transaction of these shares. The shareholdings in SocietyOne Holdings Pty Ltd and Cuscal Limited are measured at cost as the fair value could not be measured reliably.

NOTE 17: DERIVATIVE ASSETS

	Consolidated 2018 $'000	Parent 2018 $'000	Consolidated 2017 $'000	Parent 2017 $'000
Interest rate swaps at fair value	36	36	-	-
(a) Maturity Analysis				
Not longer than 12 months	70	70	-	-
Longer than 12 months	(34)	(34)	-	-
	36	**36**	**-**	**-**

NOTE 18: PROPERTY, PLANT AND EQUIPMENT

(a) Fixed assets

	Consolidated 2018 $'000	Parent 2018 $'000	Consolidated 2017 $'000	Parent 2017 $'000
Leasehold improvements				
At cost	2,483	2,483	2,546	2,546
Less accumulated depreciation	(1,420)	(1,420)	(1,356)	(1,356)
	1,063	**1,063**	**1,190**	**1,190**
Plant and equipment				
At cost	972	972	1,127	1,127
Less accumulated depreciation	(681)	(681)	(735)	(735)
	291	**291**	**392**	**392**
Net Fixed Assets	**1,354**	**1,354**	**1,582**	**1,582**

(b) Movements in carrying amounts

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

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

	Parent and Consolidated		
	Leasehold Improvements 2017 $'000	Plant and Equipment 2017 $'000	Total 2017 $'000
Balance at the beginning of the year	1,389	337	**1,726**
Additions	21	183	**204**
Disposals	-	(28)	**(28)**
Depreciation expense	(220)	(100)	**(320)**
Carrying amount	**1,190**	**392**	**1,582**

NOTE 19: INTANGIBLE ASSETS

(a) Intangible assets

	Consolidated 2018 $'000	Parent 2018 $'000	Consolidated 2017 $'000	Parent 2017 $'000
At cost	4,589	4,589	4,407	4,407
Less accumulated amortisation	(3,591)	(3,591)	(3,253)	(3,253)
Net Intangible Assets	**998**	**998**	**1,154**	**1,154**

(b) Movements in carrying amounts

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

	Parent and Consolidated		
	IT Development and software 2018 $'000	Bank Status 2018 $'000	TOTAL 2018 $'000
Written down value balance at the beginning of the year	1,019	135	**1,154**
Additions			
Internally generated	60	-	**60**
Separately acquired	319	-	**319**
Disposals	-	-	**0**
Amortisation expense	(517)	(18)	**(535)**
Carrying amount	**881**	**117**	**998**

	Parent and Consolidated		
	IT Development and software 2017 $'000	Bank Status 2017 $'000	TOTAL 2017 $'000
Written down value balance at the beginning of the year	1,282	153	**1,435**
Additions			
Internally generated	189	-	**189**
Separately acquired	86	-	**86**
Acquired under transfer of business	19	-	**19**
Disposals	(16)	-	**(16)**
Amortisation expense	(541)	(18)	**(559)**
Carrying amount	**1,019**	**135**	**1,154**

NOTE 20: DEFERRED TAX ASSETS

	Consolidated 2018 $'000	Parent 2018 $'000	Consolidated 2017 $'000	Parent 2017 $'000
The balance comprises temporary difference attributable to:				
Amounts recognised in profit or loss				
Plant, property and equipment	(84)	(84)	(142)	(142)
Doubtful debts	358	358	183	183
Employee leave benefits	712	712	622	622
Accrued expenses	203	203	172	172
Lease incentive	322	322	334	334
Provision for make good and other	(25)	(25)	(15)	(15)
Net deferred tax assets	**1,486**	**1,486**	**1,154**	**1,154**
Movements:				
Opening balance at 1 July	1,154	1,154	865	865
Increase due to transfer of business	-	-	132	132
Credited / (charged) to equity	-	-	-	-
Credited / (charged) to the statement of comprehensive income	332	332	157	157
Prior year adjustment	-	-	-	-
Closing balance at 30 June	**1,486**	**1,486**	**1,154**	**1,154**
Net deferred tax assets to be recovered after more than 12 months	511	511	279	279
Net deferred tax assets to be recovered within 12 months	975	975	875	875
Total deferred tax assets	**1,486**	**1,486**	**1,154**	**1,154**
Unrecognised deferred tax assets				
Deferred tax assets have not been recognised in respect of the following items:				
Total losses on capital account	**797**	**797**	**797**	**797**

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

(i) G&C Mutual Bank derives future assessable income of a nature or amount sufficient to enable the benefits from the deductions for the capital losses to be utilised

(ii) G&C Mutual Bank continues to comply with the conditions of deductibility imposed by tax legislation

(iii) No changes in tax legislation adversely affect G&C Mutual Bank in realising the benefits from the deductions for the losses.

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

	Consolidated 2018 $'000	Parent 2018 $'000	Consolidated 2017 $'000	Parent 2017 $'000

NOTE 21: DEPOSITS

	Consolidated 2018 $'000	Parent 2018 $'000	Consolidated 2017 $'000	Parent 2017 $'000
Member shares	45	45	56	56
Call deposits	430,077	430,077	418,522	418,522
Term deposits	383,013	383,013	395,970	395,970
Certificates of deposit	144,581	144,581	145,283	145,283
Fair value of deposits in hedging relationship	21	21	33	33
Total deposits	**957,737**	**957,737**	**959,864**	**959,864**
(a) Maturity Analysis				
Not longer than 12 months	927,730	927,730	924,486	924,486
Longer than 12 months	30,007	30,007	35,378	35,378
Total deposits	**957,737**	**957,737**	**959,864**	**959,864**

NOTE 22: OTHER LIABILITIES

	Consolidated 2018 $'000	Parent 2018 $'000	Consolidated 2017 $'000	Parent 2017 $'000
Accrued interest payable	3,955	3,955	4,453	4,453
Payable to securitisation trust	-	279	-	805
Sundry creditors and accrued expenses	1,255	1,253	1,046	1,044
Lease incentive liability	1,973	1,973	2,215	2,215
Clearing accounts	7,571	7,574	5,614	5,614
Total other liabilities	**14,754**	**15,034**	**13,328**	**14,131**
(a) Maturity Analysis				
Not longer than 12 months	12,645	12,925	11,355	12,158
Longer than 12 months	2,109	2,109	1,973	1,973
Total other liabilities	**14,754**	**15,034**	**13,328**	**14,131**

NOTE 23: SUBORDINATED DEBT

	Consolidated 2018 $'000	Parent 2018 $'000	Consolidated 2017 $'000	Parent 2017 $'000
Balance at end of year	-	-	999	999

In November 2012, G&C Mutual Bank issued subordinated debt instruments to Australian Mutual Investment Trust (AMIT) with an aggregate issuance price of $1 million and for net proceeds (after transaction costs) of $979,231.

The subordinated debt instruments were issued as limited recourse secured floating rate notes at 90 day BBSW + 593 basis points. Interest was payable quarterly in arrears commencing 31 December 2012 up to, and including 30 June 2022. The subordinated debt notes were redeemed by G&C Mutual Bank in December 2016.

	Consolidated 2018 $'000	Parent 2018 $'000	Consolidated 2017 $'000	Parent 2017 $'000
NOTE 24: DERIVATIVE LIABILITIES				
Interest rate swaps at fair value	-	-	97	97
(a) Maturity Analysis				
Not longer than 12 months	-	-	61	61
Longer than 12 months	-	-	36	36
	-	-	97	97
NOTE 25: OTHER FINANCIAL LIABILITIES				
Repurchase borrowings	39,992	39,992	11,407	11,407
Loans assigned to securitisation trust	-	69,705	-	111,811
Total other financial liabilities	39,992	109,697	11,407	123,218
(a) Maturity Analysis				
Not longer than 12 months	39,992	39,992	11,407	11,407
Longer than 12 months	-	69,705	-	111,811
	39,992	109,697	11,407	123,218
NOTE 26: PROVISIONS				
Current				
Annual leave	531	531	567	567
Long service leave	536	536	484	484
Post-employment benefits	1,175	1,175	903	903
Make good	18	18	20	20
Other provisions	421	421	317	317
Non-current				
Long service leave	132	132	117	117
Make good	46	46	37	37
Total provisions	**2,859**	**2,859**	**2,445**	**2,445**

Movements in provisions

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

Parent and Consolidated

	Annual leave $'000	Long service leave $'000	Make good provision $'000	Post-employment benefits $'000	Other provisions $'000
At 1 July 2017	567	601	57	903	317
Arising during the year	514	136	7	272	467
Utilised	(550)	(69)	-	-	(363)
Reversed during the year	-	-	-	-	-
At 30 June 2018	**531**	**668**	**64**	**1,175**	**421**

NOTE 27: REDEEMABLE SHARE RESERVE

	Consolidated 2018 $'000	Parent 2018 $'000	Consolidated 2017 $'000	Parent 2017 $'000
Opening balance	2,262	2,262	124	124
Increase due to transfer of business	-	-	138	138
Transfer from retained earnings	-	-	2,000	2,000
Closing balance	**2,262**	**2,262**	**2,262**	**2,262**

Share redemption

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

On 29 December 2016, the 20,000 preference shares issued to Australian Mutual T1 Capital Funding Trust No 1 were redeemed in accordance with the terms of the issue agreement. The redemption was redeemed out of profits in accordance with the Corporations Act requirements for redeemable preference shares.

	Consolidated 2018 $'000	Parent 2018 $'000	Consolidated 2017 $'000	Parent 2017 $'000

NOTE 28: ASSET REVALUATION RESERVE

	Consolidated 2018 $'000	Parent 2018 $'000	Consolidated 2017 $'000	Parent 2017 $'000
Opening balance	158	158	158	158
Revaluation of available-for-sale financial assets	-	-	-	-
Tax on revaluation of available-for-sale financial assets	-	-	-	-
Total asset revaluation reserve	**158**	**158**	**158**	**158**

The asset revaluation reserve is used to record the unrealised increments and decrements on the revaluation of available-for-sale financial assets as described in Note 2(l)(i).

NOTE 29: RETAINED EARNINGS

	Consolidated 2018 $'000	Parent 2018 $'000	Consolidated 2017 $'000	Parent 2017 $'000
Opening balance	80,192	80,192	78,633	78,633
Net profit attributable to members	4,786	4,786	3,600	3,600
Transfer to redeemable share reserve	-	-	(2,000)	(2,000)
Dividends paid	-	-	(41)	(41)
Total retained earnings	**84,978**	**84,978**	**80,192**	**80,192**

NOTE 30: CONTRIBUTED EQUITY

	Consolidated 2018 $'000	Parent 2018 $'000	Consolidated 2017 $'000	Parent 2017 $'000
Opening balance	17,362	17,362	-	-
Increase due to transfer of business (Refer Note 38)	-	-	17,362	17,362
Total contributed equity	**17,362**	**17,362**	**17,362**	**17,362**

NOTE 31: REMUNERATION OF AUDITORS

Remuneration of the auditor for:

	Consolidated 2018 $'000	Parent 2018 $'000	Consolidated 2017 $'000	Parent 2017 $'000
Statutory audit and other assurance engagements	180	173	306	306
Taxation services	34	34	52	52
Other non-audit services	3	3	-	-
Total remuneration of auditors	**217**	**210**	**358**	**358**

NOTE 32: STATEMENT OF CASH FLOWS

(a) Reconciliations of cash and cash equivalents

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

	Consolidated 2018 $'000	Parent 2018 $'000	Consolidated 2017 $'000	Parent 2017 $'000
Cash and deposits at call	26,609	26,594	27,279	27,264
Total cash and cash equivalents	**26,609**	**26,594**	**27,279**	**27,264**

(b) Cash flows presented on a net basis

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

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

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

	Consolidated 2018 $'000	Parent 2018 $'000	Consolidated 2017 $'000	Parent 2017 $'000
Profit after income tax	4,786	4,786	3,600	3,600
Non-cash flows in profit after income tax:				
Net gain/(loss) on sale of property, plant and equipment	31	31	1	1
Loss on repayment of loan loss reserve	-	-	1	1
Amortisation of intangibles	529	528	559	559
Amortisation other	-	-	5	5
Depreciation	346	346	326	326
Provision for loan impairment movement	2,371	2,371	447	447
Lease incentive amortisation	-	-	(156)	(156)
Change in operating assets and liabilities:				
Decrease/(Increase) in due from other financial institutions	2,649	2,709	36,065	39,864
(Increase) in loans and advances	(35,192)	(35,192)	(41,742)	(41,742)
Increase in provisions	407	407	677	677
Decrease/(Increase) in other assets	(2,630)	(1,374)	1,731	(3,600)
(Decrease)/Increase in deposits	(2,115)	(2,115)	(3,391)	(3,391)
(Decrease)/Increase in repurchase borrowings	28,585	28,585	(8,572)	(8,572)
Decrease/(Increase) in current tax asset	671	671	214	214
(Increase) in deferred tax asset	(332)	(332)	(157)	(157)
Increase/(Decrease) in other liabilities	1,482	960	(996)	(332)
Net cash outflow from operating activities	**1,588**	**2,381**	**(11,388)**	**(12,256)**

NOTE 33: FAIR VALUE DISCLOSURE

(a) Valuation

Fair value reflects the amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties in an arms length transaction. Quoted prices or rates are used to determine fair value where an active market exists. If the market for a financial instrument is not active, fair values are estimated using present value or other valuation techniques, using inputs based on market conditions prevailing on the measurement date.

Under AASB 13 all financial and non-financial assets and liabilities measured or disclosed at fair value are categorised into one of the following three fair value hierarchy levels:

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

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

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

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

(ii) Loans and advances

The carrying value of member loans is net of unearned income and both general and specific provisions for doubtful debts. For variable loans (excluding impaired loans), the amount shown in the Balance Sheet is considered to be a reasonable estimate of net fair value. The net fair value for fixed rate loans is calculated by utilising discounted cash flow models (i.e. the net present value of the portfolio future principal and interest cash flows), based on the maturity of the loans. The discount rates applied were based on the current applicable rate offered for the average remaining term of the portfolio.

(iii) Financial assets - available-for-sale

Investments in unlisted equity investments included in available-for-sale investments held in TransAction Solutions Limited (TAS) are measured at fair value by reference to the quoted price for shares based on the last applicable market transactions. The unlisted equity investments in SocietyOne Holdings Pty Ltd, Shared Service Partners Pty Ltd and Cuscal Limited are measured at cost as the fair value could not be measured reliably, due to the lack of an actively traded market for these holdings.

(iv) Loss Reserve Loan

The carrying value approximates net fair value as it is short term in nature and reprices frequently.

(v) Deposits

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

(vi) Subordinated Debt

The carrying value approximates net fair value as it is short term in nature and reprices frequently.

NOTE 33: FAIR VALUE DISCLOSURE (Continued)

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

Consolidated and Parent

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

Consolidated and Parent

	Carrying value 2017 $'000	Fair value as at 30 June 2017 Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Financial Assets					
Financial Assets - available-for-sale	3,018	-	338	2,680	**3,018**
Total Financial Assets	**3,018**	**-**	**338**	**2,680**	**3,018**
Financial Liabilities					
Derivative liabilities	97	-	97	-	**97**
Total Financial Liabilities	**97**	**-**	**97**	**-**	**97**

(c) Analysis of movements between fair value hierarchy levels

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

Consolidated and Parent	Financial Assets - available-for-sale $'000	Total $'000
As at 1 July 2016	1,550	**1,550**
Purchases	1,130	**1,130**
Sales/Settlements	-	-
Gains/(losses) in the period:		
Recognised in the Statement of Comprehensive Income	-	-
As at 30 June 2017	2,680	**2,680**
Gains/(losses) recognised in the Statement of Comprehensive Income for financial instruments held as at 30 June 2017	-	-
As at 1 July 2017	2,680	**2,680**
Purchases	750	**750**
Sales/Settlements	-	-
Gains/(losses) in the period:		
Recognised in the Statement of Comprehensive Income	-	-
As at 30 June 2018	3,430	**3,430**
Gains/(losses) recognised in the Statement of Comprehensive Income for financial instruments held as at 30 June 2018	-	-

NOTE 33: FAIR VALUE DISCLOSURE (Continued)

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

Consolidated

	Carrying value	Fair value as at 30 June 2018			
	2018	Level 1	Level 2	Level 3	Total
	$'000	$'000	$'000	$'000	$'000
Financial Assets					
Due from other financial institutions	371,593	-	371,561	-	**371,561**
Other assets	6,264	-	-	6,264	**6,264**
Loans and advances	708,572	-	(26)	702,267	**702,241**
Total Financial Assets	**1,086,429**	**-**	**371,535**	**708,531**	**1,080,066**
Financial Liabilities					
Deposits	957,737	-	958,592	-	**958,592**
Other liabilities	14,754	-	14,754	-	**14,754**
Subordinated debt	0	-	-	-	**0**
Other financial liabilities	39,992	-	39,992	-	**39,992**
Total Financial Liabilities	**1,012,483**	**-**	**1,013,338**	**-**	**1,013,338**

Consolidated

	Carrying value	Fair value as at 30 June 2017			
	2017	Level 1	Level 2	Level 3	Total
	$'000	$'000	$'000	$'000	$'000
Financial Assets					
Due from other financial institutions	374,027	-	374,674	-	**374,674**
Other assets	3,634	-	-	3,634	**3,634**
Loans and advances	675,595	-	131	673,663	**673,794**
Total Financial Assets	**1,053,256**	**0**	**374,805**	**677,297**	**1,052,102**
Financial Liabilities					
Deposits	959,864	-	961,275	-	**961,275**
Other liabilities	13,328	-	13,328	-	**13,328**
Subordinated debt	999	-	1,000	-	**1,000**
Other financial liabilities	11,407	-	11,407	-	**11,407**
Total Financial Liabilities	**985,598**	**-**	**987,010**	**-**	**987,010**

NOTE 33: FAIR VALUE DISCLOSURE (Continued)

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

Parent

	Carrying value	Fair value as at 30 June 2018			
	2018	Level 1	Level 2	Level 3	Total
	$'000	$'000	$'000	$'000	$'000
Financial Assets					
Due from other financial institutions	366,137	-	366,105	-	**366,105**
Other assets	11,887	-	-	16,609	**16,609**
Loans and advances	778,405	-	(26)	767,819	**767,793**
Total Financial Assets	**1,156,429**	**-**	**366,079**	**784,428**	**1,150,507**
Financial Liabilities					
Deposits	957,737	-	958,592	-	**958,592**
Other liabilities	15,034	-	15,031	-	**15,031**
Subordinated debt	0	-	-	-	**0**
Other financial liabilities	109,697	-	109,473	-	**109,473**
Total Financial Liabilities	**1,082,468**	**-**	**1,083,096**	**-**	**1,083,096**

Parent

	Carrying value	Fair value as at 30 June 2017			
	2017	Level 1	Level 2	Level 3	Total
	$'000	$'000	$'000	$'000	$'000
Financial Assets					
Due from other financial institutions	368,631	-	369,278	-	**369,278**
Other assets	10,513	-	-	10,513	**10,513**
Loans and advances	786,741	-	131	786,871	**787,002**
Financial Assets - available-for-sale	-	-	-	-	**-**
Total Financial Assets	**1,165,885**	**0**	**369,409**	**797,384**	**1,166,793**
Financial Liabilities					
Deposits	959,864	961,275	-	-	**961,275**
Other liabilities	14,131	-	14,131	-	**14,131**
Subordinated debt	999	-	1,000	-	**1,000**
Derivative liabilities	0	-	-	-	**0**
Other financial liabilities	123,218	-	123,253	-	**123,253**
Total Financial Liabilities	**1,098,212**	**961,275**	**138,384**	**0**	**1,099,659**

NOTE 34: COMMITMENTS

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

(a) Future capital commitments

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

(b) Operating Lease Commitments

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

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

	Consolidated 2018 $'000	Parent 2018 $'000	Consolidated 2017 $'000	Parent 2017 $'000
Not longer than 1 year	1,679	1,679	1,541	1,541
Longer than 1 and not longer than 5 years	5,540	5,540	5,231	5,231
Longer than 5 years	1,156	1,156	2,386	2,386
Total operating lease commitments	**8,375**	**8,375**	**9,158**	**9,158**

(c) Undrawn Loan Commitments

	Consolidated 2018 $'000	Parent 2018 $'000	Consolidated 2017 $'000	Parent 2017 $'000
Loans approved but not funded	10,779	10,779	7,204	7,204
Undrawn lines of commitment	23,981	23,981	29,246	29,246
Loan redraw facilities	53,976	53,976	53,554	53,554
Undrawn Loan Commitments	**88,736**	**88,736**	**90,004**	**90,004**

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

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

NOTE 35: CONTINGENT LIABILITIES

(a) Liquidity Support Scheme

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

G&C Mutual Bank's minimum obligation requirement, in times of need, is 3.0% (2017: 3.0%) of the total on balance sheet assets as set out in the most recent quarterly report provided to APRA. If called, the minimum deposit must be held in a form acceptable to CUFSS and be free of any encumbrances. No claims have been made during the financial year.

NOTE 35: CONTINGENT LIABILITIES (Continued)

(b) Guarantees

The Mutual Bank has issued guarantees on behalf of members and suppliers for the purpose of lease and trade credit facilities. The amounts of the guarantees are in total $919,643 (2017: $919,643). The guarantee is payable only on the member or supplier defaulting on the contractual repayments to the lessor / supplier.

NOTE 36: INVESTMENTS IN SUBSIDIARIES AND OTHER ENTITIES

(a) Subsidiaries

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

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

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

(b) Structured entities

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

Consolidated structured entities

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

(i) Securitisation Structured Entities

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

NOTE 37: RELATED PARTIES DISCLOSURES

(a) Directors

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

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

(b) Remuneration of Key Management Personnel (KMP)

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

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

	2018 $	2017 $
• Short-term employee benefits	2,614,964	2,830,808
• Retirement benefits paid	-	-
• Termination benefits	-	-
• Post-employment benefits	271,956	286,332
• Other long-term benefits	57,900	43,338
Total remuneration of key management personnel	**2,944,820**	**3,160,478**

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

(c) Loans to Key Management Personnel

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

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

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

NOTE 37: RELATED PARTIES DISCLOSURES (Continued)

(c) Loans to Key Management Personnel (continued)

	2018 $	2017 $
(i) The aggregate value of loans to key management personnel and close family members as at balance date amounted to	**9,023,015**	**9,743,160**
(ii) The total value of revolving credit facilities to key management personnel and close family members as at balance date amounted to	310,000	348,000
(iii) Less amounts drawn down and included in total loans above	(82,184)	(81,375)
Net balance available	**227,816**	**266,625**
Interest and other revenue earned on loans and revolving credit facilities to key management personnel and close family members	**291,325**	**302,109**

(d) Deposits from Key Management Personnel

	2018 $	2017 $
Total value of term and savings deposits from key management personnel and close family members at balance date	**1,578,865**	**2,521,692**
Total interest paid on deposits to key management personnel and close family members	**32,403**	**10,647**

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

NOTE 38: TRANSFER OF BUSINESS

Quay Credit Union Limited transferred all of its business to G&C Mutual Bank on 1 September 2016. All of the shares in Quay Credit Union Limited were cancelled and each member of Quay Credit Union was issued a member share in G&C Mutual Bank.

The primary reason for the transfer of business was detailed in the information pack issued to members, which was to amalgamate G&C Mutual Bank and Quay Credit Union Limited in order to create a larger organisation better able to withstand the economic pressures and regulatory requirements.

The consideration transferred was as follows:

	Fair Value Amount $'000
Redeemable share reserve	138
Contributed equity	17,362
Acquisition-date-fair-value of acquirer's equity interest	**17,500**

NOTE 38: TRANSFER OF BUSINESS (Continued)

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

	Book Value	Fair Value Adjustment	Fair Value Amount
	$'000	$'000	$'000
ASSETS			
Cash and deposits at call	16,747	-	16,747
Due from other financial institutions	70,263	-	70,263
Other assets	1,365	-	1,365
Loans and advances	130,867	(33)	130,834
Financial assets - available-for-sale	391	56	447
Intangible assets	20	(1)	19
Current tax assets	250	(51)	199
Deferred tax assets	179	(47)	132
Total Assets	220,082	(76)	220,006
LIABILITIES			
Deposits	198,879	-	198,879
Other liabilities	3,543	-	3,543
Provisions	83	1	84
Total Liabilities	202,505	1	202,506
Net identifiable assets acquired	**17,577**	**(77)**	**17,500**

There are no contingent considerations or indemnification assets and no contingent liabilities.

Acquisition related costs comprised:

Description	**$**
Professional due diligence and legal costs	34,283
Information technology and communication expense	174,778
Total Direct Costs	209,061

These costs were incurred in the 2016 ($31,446) and 2017 ($177,615) financial years and form part of the ‘Other Operating Costs’ of the G&C Mutual Bank. There were no costs of the acquisitions incurred but not expensed.

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

Accordingly the amounts of revenue and profit and loss of the acquiree since the acquisition date and as if it were transferred at the beginning of the financial year is included in the consolidated statement of comprehensive income for the reporting period are not available.

NOTE 39: EVENTS AFTER BALANCE SHEET DATE

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

Corporate Directory

Auditors

Ernst & Young
200 George Street
Sydney NSW 2000

Solicitors

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

Executive Management

Dave Taylor
Chief Executive Officer

Rosanna Argall
Deputy CEO and Company Secretary

Michael Coburn
Chief Sales Officer

Anthony Sluiter
Chief Financial Officer

Andrew Prichard
Chief Risk Officer

Registered Office

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Service Centres

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Bathurst
Shop 5/201 Howick Street, Bathurst

Lismore
60 Molesworth Street, Lismore

Malabar
Detention Centre Anzac Parade, Malabar

Melbourne
Level 1, 128 Exhibition Street, Melbourne

Newcastle
328 King Street, Newcastle

Parramatta
Level 8, 20 Smith Street, Parramatta

Wagga Wagga
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G&C Mutual Bank Limited

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

Prudential disclosure information can be located at www.gcmutualbank.com.au/disclosure-documents

Ask us today on

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