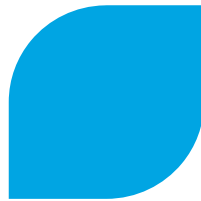




*Your region, **your money***

# ANNUAL REPORT 2013/14





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## Our region



## We remain committed to our members

*During the year, we introduced features and processes to enhance the overall banking experience, making it simpler for our members to manage their accounts, transact on their products, while still providing support and great customer service.*

The competitiveness of the banking landscape shows no signs of abating, and bcu, as a regional player, is up against tough competition from the banks and large mutuals, in addition to the online players who have no physical branch or store presence enabling them to price their products aggressively given their low overheads. It becomes critical for us to deliver enhanced functionality and features to ensure we remain in the race and continue to remain a viable, banking alternative.

**Some highlights of functionality and features introduced over the last 12 months include:**

- » Refurbishing existing stores and continued investment in upgrading and increasing our atm network to ensure members have access to modern, functional banking services.

- » Launching bcu Mobile banking enabling our members to do their banking on the go, no matter where they are. It's now possible to make online transfers or payments, check bank balances, and with Pay Anyone, customers can make a payment to someone without even knowing their bank account details, all you require is their mobile phone number or email address.
- » Mobile applications ('apps') were launched for iOS and Android devices providing additional features for the majority of mobile and tablet users.
- » Continued ongoing enhancements to our website and *iBank*, with new functionality and features implemented to improve the overall online banking experience.



## Our region



## We remain committed to supporting our community



While we remain committed to continually improving our products and services, ensuring all of our members receive a fair go when it comes to banking, we also continue to reinvest back in to the community through sponsorships and financial initiatives to benefit the people who live and work across our region.

During 2014, bcu supported many groups and initiatives, such as local sporting clubs and events, in addition to the following:

- » Macksville Gift Carnival, incorporating a whole weekend of activities building up to the historic footrace
- » bcu Bill Ussher Enterprise and Innovation Awards and Scholarships
- » bcu Coffs TRI
- » CSA donations
- » Sportz Central, Coffs Harbour
- » The Cancer Council
- » Community Transport
- » Coffs Business Women's Networking Association



## Our region



## 2014 bcu Bill Ussher Enterprise and Innovation Awards and Scholarships

*The Bill Ussher Enterprise and Innovation Awards and Scholarships, launched in 2013, were developed to recognise bcu's founding Chairman and first member, Bill Ussher, a banana grower who dedicated more than 30 years to bcu and many more to the agriculture industry on the NSW Mid North Coast, driving innovation and an enterprising spirit in his pursuits.*

Based on bcu's previous Bill Ussher Agricultural Grant, providing funding to businesses within the agricultural sector, the revised awards invited nominations from other industries, recognising the diversity of businesses across the region, including retail, hospitality, health, trades and construction. Additionally, we expanded what was purely a business award to make financial scholarships available to students engaged in full time study at university or undertaking an apprenticeship or traineeship. By providing financial assistance to businesses and students through this revised initiative, we are able to assist local businesses while also helping our students, to ensure the viability and future of our region, which bcu is extremely passionate about.

### **Congratulations to our 2014 business Award winners:**

- » **Trades category:**  
Southern Cross Commercial Cleaning  
Owners: Tammy and Dale Ryan
- » **Retail category:**  
Dalley Street Butchery  
Owners: Sharon and Brett Restall

### » **Heartland category:**

Direct Wholesale Services  
Owners: Barry and Deb Ford

### **Congratulations to our 2014 scholarship recipients:**

- » Samuel Kete, Daniel Turner, Luke Morrison, Courtney Belz, Caitlin Prior, Hannah Galea, Cameron Charleson, Jordi McAlister, Jamie Eichorn, Lauren Burnett and Abi Davidson.

We once again thank everyone who nominated for the 2014 program. bcu's Directors, management and staff had the opportunity to meet many of our winners at the Awards night held at bcu's Flagship store in April, providing an opportunity to celebrate their successes and achievements. We look forward to hearing of their future achievements and it is reassuring to realise that if these businesses and students are a reflection of the people who live and work across our region, the future is very bright indeed. Such enthusiasm and motivation can only have positive flow on effects which will benefit our community.



## bcu Coffs TRI

*The 2014 bcu Coffs TRI was held over the first weekend in March at the Coffs Jetty Foreshores, building on the success of 2013's inaugural event.*

The weekend attracted close to 700 competitors, with numbers in the children and enticer events up significantly on 2013. It was also fantastic to see more than 50% of all competitors had travelled to the event from outside of the Coffs Coast, which was one of our reasons for supporting this event - to bring people to our region, to help boost the economy through increased tourism.

We were fortunate to have Brad Kahlefeldt and Michellie Jones compete, helping to raise the profile of Coffs Harbour on the national and international triathlon stage. Brad is a top Olympic distance triathlete, with an impressive record consisting of Commonwealth Silver medals and Olympic representation and Michellie is also an ex Olympian and world Ironman champion. Both set a cracking pace for all the other competitors.

bcu staff, including our children's mascot, Scoot, enthusiastically supported the event and worked as volunteers across the weekend and some of our staff competed in the events. All of our volunteers and competitors were out in force across the weekend in branded gear, assisting competitors in the transition zone, handing out refreshments and helping around the village. It was a great atmosphere, and feedback from all in attendance was incredibly positive.

Our staff thoroughly enjoyed the weekend and we are already excited about our involvement in 2015. The bcu Coffs TRI not only promotes the Coffs Coast and brings tourists to our beautiful region but also helps to promote a healthy, active lifestyle which we feel can only benefit the whole community.





## Scoot had a another busy year!

Our children’s program mascot, Scoot, had another busy year, spruiking the benefits of being a super saver to children across the region. Scoot visited schools and day care centres to present the super saver financial literacy program, educating children in a fun way about finances. Our aim with this initiative is to encourage children to become money-wise and financially savvy to ensure a healthy, financial future. Scoot was also very visible throughout the year at events, including the bcu Coffs TRI, where Scoot enthusiastically cheered on competitors and happily mingled with spectators throughout the day.







The year  
in review

## Chief Executive's Report

*The Australian economy has remained weak with the flow on impact of the economic and political turmoil in Europe and weakening economic growth in China, with our own domestic economic growth cut by precautionary savings from households and reduced investment demand from businesses.*

Many business segments outside of those associated with or part of the resource and mining sector continue to experience tough trading conditions resulting from soft consumer confidence, the high Australian dollar weakening demand for Australian commodities in conjunction with households tightening their budgets. Given the uncertainty, we are continuing to see household saving at rates not experienced for many years.

Government agencies continue to further tighten regulation around the banking sector, adding significantly to the cost and restricting the way that bcu offers lending and banking products. We believe these increasing costs and restrictions placed on bcu and mutual banking institutions are unbalanced and ultimately counter-productive to supporting long term diversity and

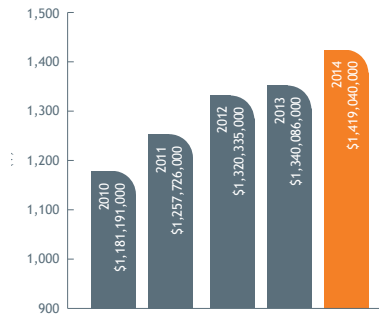
competition within the banking industry, notably throughout regional Australia. This ultimately means that all mutual banking institutions have to continue to become more profit-focused.

bcu unfortunately has no other option other than to comply and adhere to legislation and more onerous reporting and operating requirements, and consequently decisions regarding the management of bcu may sometimes seem at odds with the origins of the credit union and expectations of the communities we operate in. However we must reinforce that at the core of our decisions is the importance of building a sustainable business so bcu can continue to provide a fair go banking alternative, as our founders set out to do in the early 1970s.

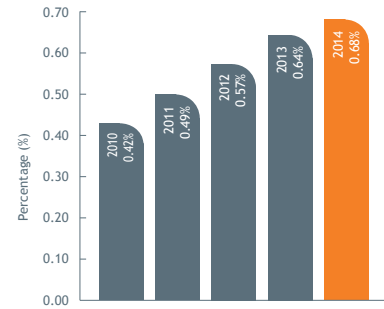
# The year in review

## Performance in a volatile market

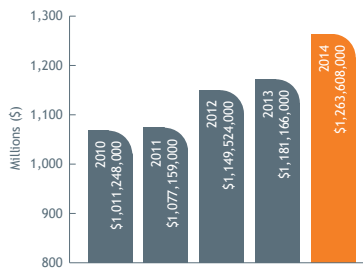
bcu has managed the competitive environment of another financial year by focusing on continuing with the program to reinvest in the business and shifting focus to improve our digital presence, namely internet banking and mobile banking functionality, so our members can do much more of their banking online, at their convenience. This continues to be a critical area of development for bcu as the volume of members wanting to conduct their banking online is increasing exponentially each year.



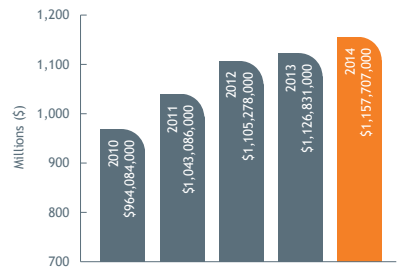
Total assets



Loan loss provisions as % of gross loans



Deposits



Loans and advances

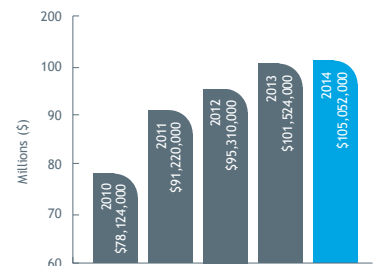
## Striving for sustainable profitability and a fair go!

*bcu does not aim to make a profit to satisfy shareholders, our aim for making a profit is for bcu to remain sustainable, so we can:*

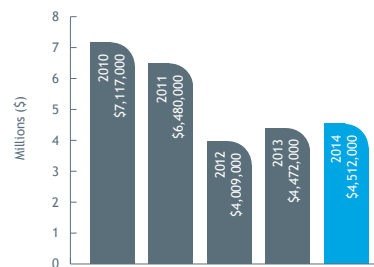
- » Fund investment in the business to continue with the program of modernising and upgrading bcu's stores, atms and systems to improve our banking proposition and experience for our members
- » Reinvest in the range of products and services offered
- » Continue to expand bcu's financial sponsorship of worthwhile initiatives across our community
- » Maintain the level of capital coverage as bcu grows, and to comply with APRA prudential capital standards. The primary means for bcu to increase capital is through profitability

In this regard, bcu's primary focus has to be ensuring we balance making a profit with providing fair go banking services as our original founders did. The provision of banking services that are competitive and fair is our driving motivation behind the initiatives implemented over the last few years, and those we are looking to deliver in the future.


Profit has not grown this financial year owing to the investment program in the business, the provision of competitive product benefits and the strong competition for household deposits and loans.



Capital Base



Net Profit



## The year in review



## The future

The American and European economies continue to struggle, in addition to the lacklustre growth of China's economy. Australia's economy very much hinges on the economies of these larger nations, and depending on how they fare in addition to how long the Australian dollar remains relatively high compared to other currencies, uncertainty around the strength of economic recovery in Australia remains. Notwithstanding this cautionary outlook, with the high rate of savings by households and strengthening property prices, the outlook is not all gloom and there are certainly signs for people to take confidence from.

With another financial year behind us, we wish to thank all of our loyal members for their ongoing support and our fantastic staff for their hard work and resilience in facilitating the changes needed to continue providing a competitive, sustainable banking alternative.

We remain as committed as ever in putting the fair go into banking and will deliver many new initiatives to further improve bcu's service and convenience to everyone across our region.



**Lyndon Kingston**  
Chief Executive

# Concise Financial Report 2013-14

The concise financial report is an extract from the full financial report for the year ended 30 June 2014. The financial statements and specific disclosures included in the concise financial report have been derived from the full financial report. The concise financial report cannot be expected to provide as full an understanding of the financial performance, financial position, financing and investing activities of the consolidated entity, being Bananacoast Community Credit Union Ltd (bcu) and its controlled entities, as the full financial report. Further financial information can be obtained from the full financial report. The full financial report and auditor's report will be sent to members on request, free of charge. Please call (02) 6690 3266 and a copy will be sent to you.

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**Registered Name:**

Bananacoast Community Credit Union Ltd

**Registered Office:**

Level 2, 144-148 West High Street,  
Coffs Harbour NSW 2450

**Telephone:** 1300 228 228

**Internet:** [www.bcu.com.au](http://www.bcu.com.au)

**ABN:** 50 087 649 750

**Australian Credit Licence Number:** 241077

**External auditor:**

BDO Audit Pty Ltd, Level 10,  
12 Creek St, Brisbane QLD 4000

# Directors' Report 2013-2014

The Directors present their report for the consolidated entity, being Banacoast Community Credit Union Ltd (bcu) and its controlled entities, for the year ended 30 June 2014.

## Non-Executive Directors

Independent Non-Executive Directors in office at any time during the year or since the end of the year are:

### Mr Grant Andrew Wallace

*BBus, GAICD, CA, FTIA, NTAA*

- » Chairman
- » Board Governance Committee
- » Board Audit and Risk Committee

#### *Experience and expertise*

Director since 2009 and Chairman from July 2012. Chairman of the Board Audit and Risk Committee from June 2010 to July 2012. Grant brings strong corporate governance and financial management understanding to the Board as a result of over 30 years' experience in the accounting profession advising medium and large family business coupled with post graduate development in taxation, finance, financial planning and corporate governance. He continues to advise family owned business in a range of industry sectors such as agriculture, engineering, mining services, medical and property. He also holds Directorships and committee roles with organisations within the private and public sector.

#### *Interests in shares*

- » 1 redeemable preference share

### Mr John Owen Hoey

*DipCM, FFIN, FAIM*

- » Deputy Chairman
- » Board Governance Committee
- » Board Audit and Risk Committee

#### *Experience and expertise*

Director since 2010 and Deputy Chairman from July 2012. John has over 40 years' experience in the Banking and Finance industry with a wealth of knowledge spanning retail banking, commercial banking, insurance and financial services as well as broad experience in the area of customer service. Through his involvement with the Australian Institute of Management as a past Director and Chairman, John also brings insights into best practice corporate governance and the importance of attracting, developing and retaining talented people to enhance organisational capability.

#### *Interests in shares*

- » 1 redeemable preference share

### Mr David Hamilton Christy

*BEcon (UQ), DipFS, Cert of Real Estate Practices (Qld), AAICD*

- » Board Audit and Risk committee chairman
- » Board Governance Committee

#### *Experience and expertise*

Director since June 2011 and Chairman of the Board Audit and Risk Committee from July 2012. David held the position of Group Resources Manager with a large, government-owned energy generator until his retirement in September 2012. A qualified Economist, David has over 30 years' experience within the

resources and trading sector, including responsibility for negotiating and managing multi-billion dollar long-term contracts and relationships with national and multinational resource companies. A significant component of his professional activity involved spending time in regional towns to understand the manner in which commercial decisions affected local communities. Application of David's commercial experience contributes to the sound, long term focus and governance of bcu's operations. In addition, having also been a small business owner and currently holding commercial real estate within regional communities, David is acutely aware of the issues and challenges facing bcu.

#### *Interests in shares*

- » 1 redeemable preference share

### Mr Michael Wayne Gould

*B Eng (Hons), GDEME, AMP173, CPEng, FAICD*

- » Board Audit and Risk Committee

#### *Experience and expertise*

Director since March 2013. Mike's experience of more than 35 years, in the private sector on projects throughout Australia, covers strategic planning, design, procurement, delivery and asset performance for public and private infrastructure. He brings to the Board this experience in the building and construction industry along with corporate governance understanding from his work on board and advisory positions on a number of companies.

#### *Interests in shares*

- » 1 redeemable preference share

## Directors' Report 2013-2014 Cont.

### Mr Geoffrey Keith Hardaker JP

» Board Audit and Risk Committee

#### Experience and expertise

Director since April 2011. Geoff is a self-employed businessman and Managing Director of Coffs Harbour Office Choice with stores located in Coffs Harbour and Taree. He has been involved in the office equipment industry for almost 40 years. Geoff sees the opportunity to serve on the Board of bcu as a privilege and has previously served as Chairman of the Westpac Rescue Helicopter, Coffs Harbour. Geoff previously worked in the real estate industry in Coffs Harbour and owns commercial properties in the city.

#### Interests in shares

» 1 redeemable preference share

## Executive Directors

Executive Directors in office at any time during the year or since the end of the year are:

### Mr Lyndon Allen Kingston

MCom, BBus, GradDipFin, GradDipBus, FFin, ACA

» Executive Director

#### Experience and expertise

Executive Director since May 2012 and Chief Executive from 2008 after having served as bcu's Chief Financial Officer. A Chartered Accountant with over 20 years' experience within the banking, finance and commercial sector, Lyndon came

to bcu from the Australian Prudential Regulation Authority, the organisation responsible for overseeing the governance and prudential operation of banks, credit unions, building societies, insurers and superannuation entities.

#### Interests in shares

» 1 redeemable preference share

## Company Secretary

Company Secretaries at any time during the year or since the end of the year are:

### Mr Peter Hunter Waters

DipFS, FACUI, JP

Company Secretary since 2008. Peter has considerable finance experience having worked in the industry for the past 40 years. Peter is the Executive Manager Governance which has responsibility for the Company Secretarial duties along with managing the Internal Audit, Compliance and Operational Risk functions. He attends all Board, Board Audit and Risk Committee and the Board Governance Committee meetings.

## Principal activities

bcu is a company registered under the Corporations Act 2001 and is domiciled in Australia. The principal continuing activities during the year were the provision of financial products and services to members. No significant changes in the nature of these activities occurred during the year.

## Review of operations and financial position

bcu's profit for the year was \$4.512 million compared to the previous year's profit of \$4.472 million. The increase of \$0.040 million (or 0.9%) was mainly due to higher net interest income, lower impairment losses on loans and advances and lower depreciation and amortisation expense. The favourable variances offset lower other revenue and income and higher other expenses.

The operating expense to income ratio (excluding impairment losses) increased marginally to 82.1% versus 81.7% the previous year.

Net interest income was higher by \$0.324 million (or 1.0%) when compared to the prior year. The increase was due to continued asset growth and disciplined management of loan and deposit rates in the wake of continued monetary policy easing by the Reserve Bank of Australia since 2011.

The impairment loss on loans and advances decreased by \$0.120 million (or 9.0%) when compared to the prior year. Prescribed provisions and additional specific provisions increased \$0.308m and the collective provision increased by \$0.400 million. bcu continued to prudently increase total loan loss provisions by \$0.708 million as uncertainties surrounding the domestic economic outlook remain.

Depreciation and amortisation expense decreased by \$0.133 million (or 6.3%) when compared to the prior year.

## Directors' Report 2013-2014 Cont.

This reflects lower capital expenditure throughout the year compared to prior years and a review of the useful life of existing commercial fit outs.

Other revenue and income increased by \$0.352 million (or 4.3%) compared to the previous year primarily due to an insurance receivable which was offset by reduced product and transaction fee income following increased member use of bcu's low fee products, and also decreased net loan fee income as the result of higher broker commission payments.

Total expenses (excluding net impairment loss) increased by \$0.722 million (or 2.1%) from the previous year, mainly attributable to higher project and advertising expenses and operational losses.

Total assets ended the year at \$1.419 billion representing an increase of \$78.954 million (or 5.9%) for the year. The largest contributors to asset growth were \$49.033 million (or 25.9%) increases in cash, cash equivalents and financial assets held to maturity and a \$30.876 million (or 2.7%) increase in loans and advances. Growth in cash, cash equivalents and financial assets held to maturity is consistent with the position of growth in deposits exceeding growth in loans and advances. This reflects modest credit growth in the markets in which bcu operates.

Total liabilities ended the year at \$1.318 billion representing an increase of \$74.449 million (or 6.0%) on the prior year. This included growth in deposits of \$82.442 million (or 7.0%) and a decrease in borrowings of \$8.367 million (or 19.1%). The decrease in borrowings was largely attributable to the amortisation of loans supporting securitised borrowings.

Total equity increased by \$4.505 million to \$101.518 million (or 4.6%). The main contributor was the inclusion of the \$4.512 million profit for the year.

Other comprehensive income for the year (net of income tax), which includes items that do not form part of the profit for the year but result in a change in equity, was \$0.791 million higher than the prior year. Other comprehensive income for the prior year (net of income tax) of -\$0.791 million was due to a fair value adjustment to freehold land and buildings following a revaluation performed by an independent valuer as at 30 June 2013.

### Business strategies and prospects for future financial years

bcu intends to continue to pursue the principal activities of providing financial products and services to members. bcu's activities expose it to a variety of risks, including: credit risk; liquidity risk; market risk; and operational risk. Management of these risks is critical to bcu's prospects for future financial years. Please refer to the notes to the financial statements for information on bcu's risk management policy and objectives. Further information about business strategies and prospects for future financial years has not been included in this report because disclosure of the information is likely to result in unreasonable prejudice to bcu.

### Significant changes in state of affairs

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

### Events subsequent to the end of the reporting period

No other matters or circumstances have arisen since the end of the reporting period which have significantly affected or may significantly affect the operations, the results of those operations, or the state of affairs of bcu in subsequent financial years.

### Dividends

No dividends have been paid or declared since the beginning of the financial year and no dividends have been recommended or provided for by bcu.

### Options

No options over unissued shares or interests in bcu were granted during or since the end of the financial year and there were no options outstanding at the date of this report.

### Proceedings

No person has applied for leave of the Court to bring proceedings on behalf of bcu or interfere in any proceedings to which bcu is a party for the purpose of taking responsibility on behalf of bcu for all or part of those proceedings. bcu was not a party to any such proceedings during the year.

### Auditor's independence

The auditor's independence declaration for the year ended 30 June 2014 forms part of this report and a copy of this declaration is attached.

## Directors' Report 2013-2014 Cont.

### Indemnification of directors, officers and auditors

Insurance premiums have been paid to insure each of the Directors and Officers of bcu, against any costs and expenses incurred by them in defending any legal proceeding arising out of their conduct while acting in their capacity as an Officer of bcu. In accordance with normal commercial practice disclosure of the premium amount and the nature of the insured liabilities is prohibited by a confidentiality clause in the contract. No insurance cover has been provided for the benefit of the auditor of bcu.

### Environmental regulation

bcu's operations are not regulated by any significant environmental regulation under a law of the Commonwealth or of a State or Territory.

### Rounding

The amounts contained in the financial statements and the Directors' Report have been rounded to the nearest one thousand dollars in accordance with ASIC Class Order 98/100. bcu is permitted to round to the nearest one thousand dollars (\$'000) for all amounts except prescribed disclosures that are shown in whole dollars.

### Regulatory disclosures

The disclosures, required by *Prudential Standard APS330 Public Disclosures*, namely the common disclosures in Attachment A and the Regulatory Capital reconciliation, are available on bcu's website at [www.bcu.com.au/resources](http://www.bcu.com.au/resources).

### Directors' meetings

The number of meetings of Directors (including committee meetings) and the number of meetings attended by each Director during the financial year were:

| Director's Name | BOARD         |                   | BOARD AUDIT AND RISK COMMITTEE |                   | BOARD GOVERNANCE COMMITTEE |                   |
|-----------------|---------------|-------------------|--------------------------------|-------------------|----------------------------|-------------------|
|                 | Meetings Held | Meetings Attended | Meetings Held                  | Meetings Attended | Meetings Held              | Meetings Attended |
| G A Wallace     | 12            | 12                | 6                              | 6                 | 7                          | 7                 |
| J O Hoey        | 12            | 10                | 6                              | 6                 | 7                          | 6                 |
| D H Christy     | 12            | 9                 | 6                              | 4                 | 7                          | 5                 |
| M W Gould       | 12            | 12                | 6                              | 6                 | -                          | -                 |
| G K Hardaker    | 12            | 12                | 6                              | 6                 | -                          | -                 |
| L A Kingston    | 12            | 11                | -                              | -                 | -                          | -                 |

Signed for and on behalf of the Directors in accordance with a resolution of the Board



G A Wallace  
Chairman  
26 August 2014  
Brisbane



J O Hoey  
Deputy Chairman





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Fax: +61 7 3221 9227  
www.bdo.com.au

Level 10, 12 Creek St  
Brisbane QLD 4000  
GPO Box 457 Brisbane QLD 4001  
Australia

**DECLARATION OF INDEPENDENCE BY T J KENDALL TO THE DIRECTORS OF BANANACOAST  
COMMUNITY CREDIT UNION LTD**

As lead auditor of Bananacoast Community Credit Union for the year ended 30 June 2014, I declare that, to the best of my knowledge and belief, there have been:

1. No contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
2. No contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Bananacoast Community Credit Union and the entities it controlled during the period.

T J Kendall  
Director

**BDO Audit Pty Ltd**

Brisbane: 26 August 2014

# Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 30 June 2014

|   | 2014<br>\$'000 | 2013<br>\$'000 |
|---|----------------|----------------|
| Interest income   | 72,183         | 80,368         |
| Interest expense  | (38,450)       | (46,959)       |
| Net interest income   | 33,733         | 33,409         |
| Other revenue and income  | 8,618          | 8,266          |
| Employment expense  | (16,032)       | (16,058)       |
| Occupancy expense   | (3,637)        | (3,686)        |
| Depreciation and amortisation expense                                     | (1,984)        | (2,117)        |
| Impairment loss on loans and advances                                     | (1,216)        | (1,336)        |
| Impairment loss on other financial assets                                 | (2)            | (10)           |
| Other expenses  | (13,123)       | (12,193)       |
| <b>PROFIT BEFORE INCOME TAX</b>   | <b>6,357</b>   | <b>6,275</b>   |
| Income tax expense  | (1,845)        | (1,803)        |
| <b>PROFIT FOR THE YEAR</b>  | <b>4,512</b>   | <b>4,472</b>   |
| <b>OTHER COMPREHENSIVE INCOME</b>   |                |                |
| Items that will not be reclassified to profit or loss -                   |                |                |
| Loss on revaluation of land and buildings                                 | -              | (1,130)        |
| Income tax relating to this item  | -              | 339            |
| <b>OTHER COMPREHENSIVE INCOME/(LOSS ) FOR THE YEAR, NET OF INCOME TAX</b> | <b>-</b>       | <b>(791)</b>   |
| <b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>                            | <b>4,512</b>   | <b>3,681</b>   |

## Discussion and analysis of the Consolidated Statement of Profit and Loss and Other Comprehensive Income

bcu's profit for the year was \$4.512 million compared to the previous year's profit of \$4.472 million. The increase of \$0.040 million (or 0.9%) was mainly due to higher net interest income, lower impairment losses on loans and advances and lower depreciation and amortisation expense. The favourable variances offset lower other revenue and income and higher other expenses.

The operating expense to income ratio (excluding impairment losses) increased marginally to 82.1% versus 81.7% the previous year.

Net interest income was higher by \$0.324 million (or 1.0%) when compared to the prior year. The increase was due to continued asset growth and disciplined management of loan and deposit rates in the wake of continued monetary policy easing by the Reserve Bank of Australia since 2011.

The impairment loss on loans and advances decreased by \$0.120 million (or 9.0%) when compared to the prior year. Prescribed provisions and additional specific provisions increased \$0.308m and the collective provision increased by \$0.400 million. bcu continued to prudently increase total loan loss provisions by \$0.708 million as uncertainties surrounding the domestic economic outlook remained.

Depreciation and amortisation expense decreased by \$0.133 million (or 6.3%) when compared to the prior year. This reflects lower capital expenditure throughout the year compared to prior years and a review of the useful life of existing commercial fit outs.

Other revenue and income increased by \$0.352 million (or 4.3%) compared to the previous year primarily due to an insurance receivable which was offset by reduced product and transaction fee

income following increased member use of bcu's low fee products, and also decreased net loan fee income as the result of higher broker commission payments.

Total expenses (excluding interest expense and net impairment loss) increased by \$0.722 million (or 2.1%) from the previous year, mainly attributable to higher project and advertising expenses and operational losses.

Other comprehensive income for the year (net of income tax), which includes items that do not form part of the profit for the year but result in a change in equity, was \$0.791 million higher than the prior year. Other comprehensive income for the prior year (net of income tax) of -\$0.791 million was due to a fair value adjustment to freehold land and buildings following a revaluation performed by an independent valuer as at 30 June 2013.

# Consolidated Statement of Financial Position

As at 30 June 2014

|                                     | 2014<br>\$'000   | 2013<br>\$'000   |
|-------------------------------------|------------------|------------------|
| <b>ASSETS</b>                       |                  |                  |
| Cash and cash equivalents           | 154,166          | 135,175          |
| Financial assets available for sale | 1,813            | 1,815            |
| Other receivables                   | 4,326            | 3,763            |
| Financial assets held to maturity   | 84,441           | 54,399           |
| Loans and advances                  | 1,157,707        | 1,126,831        |
| Property, plant and equipment       | 11,751           | 13,024           |
| Investment property                 | 335              | 875              |
| Net deferred tax assets             | 3,619            | 3,294            |
| Intangible assets                   | 453              | 326              |
| Other assets                        | 429              | 584              |
| <b>TOTAL ASSETS</b>                 | <b>1,419,040</b> | <b>1,340,086</b> |
| <b>LIABILITIES</b>                  |                  |                  |
| Deposits                            | 1,263,608        | 1,181,166        |
| Other payables                      | 9,015            | 9,225            |
| Income tax payable                  | 838              | 533              |
| Provisions                          | 3,060            | 2,781            |
| Borrowings                          | 35,501           | 43,868           |
| Subordinated borrowings             | 5,500            | 5,500            |
| <b>TOTAL LIABILITIES</b>            | <b>1,317,522</b> | <b>1,243,073</b> |
| <b>NET ASSETS</b>                   | <b>101,518</b>   | <b>97,013</b>    |
| <b>EQUITY</b>                       |                  |                  |
| Member bonus shares                 | 3,412            | 3,419            |
| Reserves                            | 39,370           | 39,338           |
| Retained earnings                   | 58,736           | 54,256           |
| <b>TOTAL EQUITY</b>                 | <b>101,518</b>   | <b>97,013</b>    |

## Discussion and analysis of the Consolidated Statement of Financial Position

Total assets ended the year at \$1.419 billion representing an increase of \$78.954 million (or 5.9%) for the year. The largest contributors to asset growth were \$49.033 million (or 25.9%) increases in cash, cash equivalents and financial assets held to maturity and a \$30.876 million (or 2.7%) increase in loans and advances.

Growth in cash, cash equivalents and financial assets held to maturity in consistent with growth in deposits exceeding growth in loans and advances.

This reflects modest credit growth in the markets in which bcu operates. bcu's minimum liquidity holding ratio increased from 14.5% to 16.6% during the year and remained above minimum prudential requirements.

Total liabilities ended the year at \$1.318 billion representing an increase of \$74.449 million (or 6.0%) on the prior year. This included growth in deposits of \$82.442 million (or 7.0%) and a decrease in borrowings of \$8.367 million (or 19.1%).

The decrease in borrowings was largely attributable to the amortisation of loans supporting securitised borrowings.

Total equity increased by \$4.505 million to \$101.518 million (or 4.6%). The main contributor was the inclusion of the \$4.512 million profit for the year. bcu's capital adequacy ratio decreased from 13.1% to 12.7% during the year and remained above minimum prudential requirements.

## Consolidated Statement of Changes in Equity

For the year ended 30 June 2014

|  | Member Bonus Shares<br>\$'000 | Redeemed Preference Shares<br>\$'000 | General Reserve<br>\$'000 | Reserve for Credit Losses<br>\$'000 | Revaluation Reserves<br>\$'000 | Retained earnings<br>\$'000 | Total Equity<br>\$'000 |
|--|-------------------------------|--------------------------------------|---------------------------|-------------------------------------|--------------------------------|-----------------------------|------------------------|
| <b>BALANCE AT 1 JULY 2012</b>  | 3,441                         | 563                                  | 34,087                    | 2,467                               | 2,961                          | 49,835                      | 93,354                 |
| <b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>                       |                               |                                      |                           |                                     |                                |                             |                        |
| Profit for the year  |                               |                                      |                           |                                     |                                | 4,472                       | 4,472                  |
| Other comprehensive income for the year                              |                               |                                      |                           |                                     | (791)                          |                             | (791)                  |
| Transfer from retained earnings to redeemed preference share reserve |                               | 51                                   |                           |                                     |                                | (51)                        | -                      |
| Member bonus shares redeemed   | (22)                          |                                      |                           |                                     |                                |                             | (22)                   |
| <b>BALANCE AT 30 JUNE 2013</b>                                       | 3,419                         | 614                                  | 34,087                    | 2,467                               | 2,170                          | 54,256                      | 97,013                 |
| <b>BALANCE AT 1 JULY 2013</b>  | 3,419                         | 614                                  | 34,087                    | 2,467                               | 2,170                          | 54,256                      | 97,013                 |
| <b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>                       |                               |                                      |                           |                                     |                                |                             |                        |
| Profit for the year  |                               |                                      |                           |                                     |                                | 4,512                       | 4,512                  |
| Other comprehensive income for the year                              |                               |                                      |                           |                                     |                                |                             | -                      |
| Transfer from retained earnings to redeemed preference share reserve |                               | 32                                   |                           |                                     |                                | (32)                        | -                      |
| Member bonus shares redeemed   | (7)                           |                                      |                           |                                     |                                |                             | (7)                    |
| <b>BALANCE AT 30 JUNE 2014</b>                                       | 3,412                         | 646                                  | 34,087                    | 2,467                               | 2,170                          | 58,736                      | 101,518                |

### Discussion and analysis of the Consolidated Statement of Changes in Equity

Total equity increased \$4.505 million to \$101.518 million (or 4.6%). The main influence was the inclusion of the \$4.512 million profit for the year.

# Consolidated Statement of Cash Flows

For the year ended 30 June 2014

|  | 2014<br>\$'000  | 2013<br>\$'000  |
|--|-----------------|-----------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                |                 |                 |
| Interest received  | 72,174          | 80,687          |
| Dividends received   | 240             | 239             |
| Fees and commissions received                              | 8,511           | 7,823           |
| Interest paid  | (39,854)        | (48,603)        |
| Payments to suppliers and employees                        | (33,583)        | (28,920)        |
| Net movement in loans and advances                         | (32,221)        | (22,903)        |
| Net movement in deposits                                   | 83,845          | 32,875          |
| Income taxes paid/(refunded)                               | (2,166)         | (3,200)         |
| <b>Net cash provided by/(used in) operating activities</b> | <b>56,946</b>   | <b>17,998</b>   |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                |                 |                 |
| Payments for property, plant and equipment                 | (283)           | (2,079)         |
| Proceeds from sale of property, plant and equipment        | 744             | -               |
| Net movement in financial assets held to maturity          | (30,043)        | 20,444          |
| Net movement in financial assets available for sale        | -               | 870             |
| <b>Net cash provided by/(used in) investing activities</b> | <b>(29,582)</b> | <b>19,235</b>   |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                |                 |                 |
| Redemption of member bonus shares                          | (6)             | (23)            |
| Repayment of borrowings                                    | -               | (25,000)        |
| Net movement in securitised loans                          | (8,367)         | 8,359           |
| <b>Net cash provided by/(used in) financing activities</b> | <b>(8,373)</b>  | <b>(16,664)</b> |
| <b>Net increase/(decrease) in cash held</b>                | <b>18,991</b>   | <b>20,569</b>   |
| Cash at the beginning of the financial year                | 135,175         | 114,606         |
| <b>CASH AT THE END OF THE FINANCIAL YEAR</b>               | <b>154,166</b>  | <b>135,175</b>  |

## Discussion and analysis of the Consolidated Statement of Cash Flows

Cash at the end of the financial year increased from \$135.175 million to \$154.166 million representing an increase of \$18.991 million during the year.

The cash provided by operating activities during the year was \$56.946 million compared to \$17.998 million in the previous year. The increase in cash provided by operating activities was largely due to a \$50.970 million increase in net cash provided by deposits. This was partially offset by a \$9.318 million increase in cash outflows from the net movement in loans and advances as the

result of more loans being advanced. Lower interest receipts and payments reflect the impact of monetary policy easing by the Reserve Bank of Australia since 2011.

The cash used in investing activities during the year was \$29.582 million compared to \$19.235 million provided by investing activities the previous year. The increase in cash used was mainly due to the acquisition of \$30.043 million of financial assets to be held to maturity during the year compared to a \$20.444 million reduction the previous year.

The cash used in investing activities was provided by operating activities.

The net cash used in financing activities during the year was \$8.373 million compared to \$16.664 million the previous year. The decrease was mainly due to an \$8.367 million decrease in securitised borrowings compared to an increase of \$8.359 million the previous year and the repayment of \$25.000 million of fixed rate bond borrowings during the previous year.

# Notes to the Concise Financial Report

For the year ended 30 June 2014

The concise financial report was authorised for issue on 26 August 2014 by the Board of Directors.

## NOTE 1

### Basis of preparation of the Concise Financial Report

The concise financial report relates to the consolidated entity consisting of Bananacoast Community Credit Union Ltd (bcu) and Special Purpose Vehicle (SPV) for the year ended 30 June 2014. The consolidated entity operates within the finance industry within Australia and its principal continuing activities during the year comprised the provision of financial products and services to members.

The concise financial report has been prepared in accordance with the requirements of the *Corporations Act 2001* and *Accounting Standard AASB 1039 Concise Financial Reports*. bcu is a for profit mutual entity.

The concise financial report has been prepared on an accruals basis and are based on historical costs except for land and buildings, investment property, derivatives and financial assets available for sale that have been measured at fair value. The carrying values of recognised assets and liabilities that are hedged are adjusted to record changes in the fair value attributable to the risks that are being hedged.

Accounting policies have been consistently applied to all years presented, unless otherwise stated. Where necessary, comparative figures have been adjusted to conform to

changes in presentation in the current year. Note 1 of the full financial report details all accounting policies.

The presentation currency of the concise financial report is Australian Dollars.

bcu has applied the relief available to it under ASIC Class Order 98/100 and accordingly, amounts in the concise financial report and directors' report have been rounded to the nearest thousand dollars (\$'000) unless otherwise stated.

## NOTE 2

### Statement of compliance

The full financial report complies with all Australian equivalents to International Financial Reporting Standards in the entirety.

## NOTE 3

### Accounting estimates and judgements

Management has made accounting estimates and judgements when applying bcu's accounting policies. Information about the significant accounting estimates and judgements is detailed in Note 1 of the full financial report. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectation of future events that may have a financial impact on bcu and that are believed to be reasonable under the circumstances.

## NOTE 4

### Dividends and options

No dividends have been paid or declared since the end of the financial year and no dividends have been recommended or provided for. No options over issued shares were granted during or since the end of the financial year and there were no options outstanding at the date of the concise financial report.

## NOTE 5

### Events subsequent to the end of the reporting date

No circumstances have arisen since the end of the financial year which have significantly affected, or may significantly affect, the operations of bcu, the results of these operations, or the state of the affairs of bcu in future financial years.

## NOTE 6

### Income

|                                  | 2014<br>\$'000 | 2013<br>\$'000 |
|----------------------------------|----------------|----------------|
| <b>INTEREST INCOME</b>           | <b>72,183</b>  | <b>80,368</b>  |
| <b>NON-INTEREST INCOME</b>       |                |                |
| Dividend revenue                 | 240            | 239            |
| Transaction and account fees     | 4,273          | 4,325          |
| Loan fees and other commissions  | 3,329          | 3,305          |
| Rental income                    | 86             | 144            |
| Other                            | 690            | 253            |
| <b>TOTAL NON-INTEREST INCOME</b> | <b>8,618</b>   | <b>8,266</b>   |
| <b>TOTAL INCOME</b>              | <b>80,801</b>  | <b>88,634</b>  |

**NOTE 7****Profit before income tax**

Profit before income tax has been determined after the following items:

|   | 2014<br>\$'000 | 2013<br>\$'000 |
|---|----------------|----------------|
| <b>EXPENSES</b>                                       |                |                |
| Employment expenses                                   | 16,032         | 16,058         |
| General and administration expense                    | 8,788          | 7,734          |
| Fees and commission expenses                          | 4,350          | 4,282          |
| Rental expense on operating leases                    | 1,795          | 1,802          |
| Occupancy expenses                                    | 1,842          | 1,884          |
| Net impairment loss on loans and receivables          | 1,216          | 1,336          |
| Impairment loss on other financial assets             | 2              | 10             |
| Depreciation of plant and equipment                   | 1,083          | 1,108          |
| Amortisation of computer software                     | 238            | 165            |
| Amortisation of leasehold improvements                | 423            | 453            |
| Net loss on disposal of property, plant and equipment | 13             | 177            |
| Depreciation of buildings                             | 212            | 391            |

**NOTE 8****Prudential remuneration disclosures**

The Board Governance Committee is responsible for overseeing remuneration. The members of the Board Governance Committee are:

GA Wallace (Chairman) - Chairman of the Board and Non-Executive Director

JO Hoey - Deputy Chairman of the Board and Non-Executive Director

DH Christy - Chairman of the Board Audit and Risk Committee and Non-Executive Director

The Board Governance Committee's mandate includes responsibility for overseeing the remuneration structure for the Board, the Chief Executive, Executive Management and other persons whose activities in the opinion of the committee may affect the financial soundness of the institution. The Board Governance Committee confirms that twelve persons are senior managers in accordance with *Prudential Standard CPS510* (2013: 13). No persons were considered to be material risk-takers as per *Prudential Standard CPS510* (2013: nil).

The Board Governance Committee meets as required with the number of meetings held during the year and attendance noted in the Directors' Report. There is no separate remuneration paid to the Board Governance Committee members in relation to their duties on this committee.

Advice regarding levels of remuneration and remuneration management practices is sought annually from:

- » McGuirk Management Consultants "Mutual Financial Board Remuneration Survey"
- » Australian Institute of Management "Large Companies Salary Survey"
- » Australian Institute of Company Directors "Australian Board Remuneration Survey Report"

bcu's Remuneration Policy was reviewed on and approved by the Board Governance Committee on 29 April 2014. The Remuneration Policy applies to all employees of bcu and its controlled entities. The key features and objectives and the policy are to:

- » establish a Remuneration Policy for bcu that complies with the APRA Prudential Standards and aligns remuneration to enterprise wide risk management;
- » outline bcu's remuneration objectives;
- » outline bcu's remuneration arrangements for any performance based structures applicable to the Board, the Chief Executive, Executive Management or other persons whose activities in the opinion of the Board Governance Committee may affect the financial soundness of the bcu; and
- » establish a mechanism whereby performance based remuneration practices for the Board, the Chief Executive, Executive Management and other persons are regularly reviewed.

Balanced key performance indicators covering risk, capital, compliance, financial performance, people management, sales, service and reporting are taken into account in determining fixed and variable components of remuneration. As detailed in the Remuneration Policy, remuneration arrangements comprise the following components:

- » a fixed component consisting of salary, FBT charges related to employee benefits, leave entitlements and employer contribution to superannuation funds dependent on position accountability, responsibility, strategic direction, decision-making capability, performance and demonstrated leadership; and
- » a discretionary capped variable or short term cash bonus component differentiated by performance that takes into account the achievement of both individual and institution-wide financial and non-financial key performance indicators, business plans and priorities. The timing and payment of short term bonuses for senior managers (excluding the Chief Executive) is at the discretion of the Chief Executive. The timing and payment of a performance bonus for the Chief Executive is at the discretion of the Chairman of the Board. Given the discretionary nature of bonuses, there is no entitlement or guarantee to bonuses if either individual or institution-wide metrics are weak.
- » bcu does not offer and has not awarded or paid during the year any long term incentives (including deferred fixed or variable remuneration); shares and share-linked instruments; sign-on awards; and/or guaranteed bonuses.

Total remuneration levels and performance are measured on a regular basis but at a minimum, at least annually.

During the year the Remuneration Policy was reviewed by the Board Governance Committee. No material changes were made during this review.

Management of risk is critical to bcu's continuing profitability and sustainability and bcu actively manages risk through the operational responsibilities of management in accordance with policies approved by the Board and the Board Audit and Risk Committee. The following key risks are taken into account in the performance and remuneration:

| Risk        | Measure  |
|-------------|--|
| Capital     | Capital adequacy ratio   |
| Credit      | Prescribed and specific provisions, Loan write-offs, Arrears, Geographic and industry exposures, Credit risk review findings           |
| Market      | Net interest income at risk, Value at risk as a percentage of capital  |
| Liquidity   | High quality liquidity asset ratio   |
| Operational | Number and category of fraud events and losses, Number and category of operational losses, Customer feedback, Turnover and absenteeism |
| Compliance  | Adherence to APRA requirements, Internal and external audit findings, Credit risk review findings                                      |

The performance and remuneration of risk and compliance staff is assessed in accordance with the framework contained in the remuneration policy (as described above). Performance is assessed according to key performance indicators related to the risk and compliance role undertaken. The key performance indicators may cover risk, capital, compliance, financial control, people management, service and reporting. The performance and remuneration of risk and compliance staff is reviewed annually to ensure that it is appropriate. Payment of any performance bonuses to risk and compliance staff is at the discretion of the Chief Executive.

The total value and type of remuneration for senior managers during the year is listed in the table below. Senior managers are defined as per *Prudential Standard APS330 Public Disclosure* and do not include Directors.

|   | 2014<br>\$'000 | 2013<br>\$'000 |
|---|----------------|----------------|
| <b>UNRESTRICTED UNRESTRICTED</b>  |                |                |
| <b>FIXED REMUNERATION</b>   |                |                |
| Cash-based (including short-term, long-term and post-employment benefits) | 2,774          | 2,768-         |
| Shares and share-linked instruments                                       | -              | -              |
| Other   | -              | -              |
| <b>DISCRETIONARY VARIABLE REMUNERATION</b>                                |                |                |
| Cash-based (including short-term, long-term and post-employment benefits) | 9              | 273            |
| Shares and share-linked instruments                                       | -              | -              |
| Other   | -              | -              |

No deferred remuneration, either fixed or discretionary variable, was provided during the year (2013: nil).

The number of senior managers who received discretionary variable remuneration during the year was 1 (2013: 6).

No termination payments were made to senior managers during the year.

No persons were exposed to implicit or explicit adjustments of deferred remuneration and retained remuneration.

No remuneration was provided to material risk takers. Material risk-takers are defined as per *Prudential Standard APS330 Public Disclosure*.



## Directors' Declaration

The Directors of Banacoast Community Credit Union Ltd declare that:

- (a) The concise financial report of the entity for the year ended 30 June 2014 is in accordance with *Accounting Standard AASB 1039 Concise Financial Reports*; and
- (b) The financial statements and specific disclosures included in the concise financial report have been derived from and are consistent with the full financial report for the year end 30 June 2014.

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



G A Wallace  
Chairman



J O Hoey  
Deputy Chairman

26 August 2014  
Brisbane



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## INDEPENDENT AUDITOR'S REPORT

To the members of Bananacoast Community Credit Union Ltd

### Report on the Concise Financial Report

We have audited the accompanying concise financial report of Bananacoast Community Credit Union Ltd which comprises the consolidated statement of financial position as at 30 June 2014, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity, consolidated statement of cash flows for the year then ended, and related notes, derived from the audited financial report of Bananacoast Community Credit Union Ltd for the year ended 30 June 2014 and the discussion and analysis. The concise financial report does not contain all the disclosures required by the Australian Accounting Standards and accordingly, reading the concise financial report is not a substitute for reading the audited financial report.

#### Directors' Responsibility for the Concise Financial Report

The Directors are responsible for the preparation of the concise financial report in accordance with Accounting Standard AASB 1039 Concise Financial Reports, and the Corporations Act 2001 and for such internal control as the directors determine are necessary to enable the preparation of the concise financial report.

#### Auditor's Responsibility

Our responsibility is to express an opinion on the concise financial report based on our procedures which were conducted in accordance with Auditing Standard ASA 810 *Engagements to Report on Summary Financial Statements*. We have conducted an independent audit, in accordance with Australian Auditing Standards, of the financial report of Bananacoast Community Credit Union Limited for the year ended 30 June 2014. We expressed an unmodified opinion on that financial report in our report dated 26 August 2014. The Australian Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report for the year is free from material misstatement.

An audit involves performing procedures to obtain evidence about the amounts and disclosures in the concise financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the concise financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the concise financial report 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 entity's internal control. Our procedures included testing that the information in the concise financial report is derived from, and is consistent with, the financial report for the year, and examination on a test basis, of audit evidence supporting the amounts, discussion and analysis, and other disclosures which were not directly derived from the financial report for the year.

These procedures have been undertaken to form an opinion whether, in all material respects, the concise financial report complies with AASB 1039 Concise Financial Reports and whether the discussion and analysis complies with the requirements laid down in AASB 1039 Concise Financial Reports.

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

**Independence**

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Bananacoast Community Credit Union Ltd would be in the same terms if it had been given to the directors as at the time of this auditor's report.

**Opinion**

In our opinion, the concise financial report including the discussion and analysis, of Bananacoast Community Credit Union Ltd for the year ended 30 June 2014 complies with Accounting Standard AASB 1039 *Concise Financial Reports*.

BDO Audit Pty Ltd

A handwritten signature in blue ink, appearing to read 'T J Kendall', written over a faint BDO logo.

T J Kendall  
Director

Brisbane, 26 August 2014



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