

SOUTH WEST SLOPES
CREDIT UNION

Financial Accounts
for year ending
30 June 2014



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DIRECTORS' REPORT

The directors present their report together with the financial report of South West Slopes Credit Union Ltd ("the Credit Union") for the financial year ended 30 June 2014 and the auditor's report thereon.

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

INFORMATION ON DIRECTORS

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

Name	Experience, Responsibilities and other directorships
Brian Page - Chair of the Board - Independent Non-Executive Director - Member of the Audit committee (Nov-Jun) - Member of Governance & Policy Review Committee (Jul-Nov)	Director of SWSCU from 1978-1981 and 2000 until current – 17 years Director Environmental Services – Young Shire Council (Retired 2001), former health inspector Membership of AMI (Australian Mutuals Institute) No other directorships within the last 3 years
Keith Carmody LLB - Deputy Chair of the Board - Independent Non-Executive Director - Member of the Governance & Policy Review Committee	Director of SWSCU from 1988 until current - 26 years Principal of K.P. Carmody Solicitors, Young NSW Membership of AMI (Australian Mutuals Institute) No other directorships within the last 3 years
Lauren Peek - Independent Non-Executive Director - Member of the Governance & Policy Review Committee	Director of SWSCU from 1992 – until current; 22 years Proprietor of 'Framaglass'; a glass sales & glaziers business in Young NSW Membership of AMI (Australian Mutuals Institute) No other directorships within the last 3 years
Craig McTavish BBus, CPA - Independent Non-Executive Director - Member of the Audit Committee	Director of SWSCU from 2007 – until current; 7 years Partner of accounting firm Hunt & McTavish in Cootamundra Membership of AMI No other directorships within the last 3 years
Adrian Hanrahan - Independent Non-Executive Director - Chair of the Governance & Policy Review Committee (Nov-Jun) - Member of the Audit Committee (Jul-Nov)	Director of SWSCU from 2008 – until current; 6 years General Manager of Young Shire Council (Retired) Membership of AMI No other directorships within the last 3 years
Kevin Cloake - Independent Non-Executive Director - Chair of the Audit Committee - Member of the Governance & Policy Review committee	Director of SWSCU 2010 – until current; 4 years Cost Clerk at Harden Shire Council since 2003 21 years of banking experience with Commonwealth Bank (1976-1997) Membership AMI No other directorships within last 3 years

DIRECTORS' REPORT (CONTINUED)

Unless indicated otherwise, all directors held their position as a director throughout the entire financial period and up until the date of this report.

The names of the Company Secretary and Executives in office at the end of the year are:

Name	Relevant Qualifications	Experience
Stephen W. Elsley General Manager Company Secretary	Diploma of Financial Services ASIC Tier 2 Fellow of the Australian Mutuals Institute (AMI)	38 Years of banking experience with Rural / State Bank and South West Slopes Credit Union; 19 years as General Manager of South West Slopes Credit Union
Elke Cleverdon FCPA, BBus, GAICD Assistant General Manager & Chief Financial Officer Deputy Company Secretary	Certified Practising Accountant (Fellow CPA) Bachelor of Business (Finance & Administration) Graduate of the Australian Institute of Company Directors ASIC Tier 2	18 years of banking experience with South West Slopes Credit Union, 14 years as Assistant General Manager & Chief Financial Officer Experience also includes other board positions & governance roles with local & regional organisations including a catchment management authority, a regional development committee and a NSW State Council. Completing a Master of Business Administration (MBA)

The number of directors' meetings and number of meetings attended by each of the directors of the Credit Union during the financial year are:

Director	Board Meetings		Audit Committee Meetings		Governance & Policy Review Committee		Period of appointment
	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend	Attended	
Brian Page	11	11	2	2	3	3	3 years (2013-2016)
Adrian Hanrahan	11	10	1	1	6	5	3 years (2013-2016)
Keith Carmody	11	10	-	-	9	9	3 years (2012-2015)
Lauren Peek	11	11	-	-	9	8	3 years (2012-2015)
Craig McTavish	11	9	3	3	-	-	3 years (2011-2014)
Kevin Cloake	11	11	3	3	6	4	3 years (2013-2016)

DIRECTORS' BENEFITS

No director has received or become entitled to receive during, or since the financial year, a benefit because of a contract made by the Credit Union, controlled by the Credit Union, or a related body corporate with a director, a firm of which a director is a member or a Credit Union in which a director has a substantial financial interest.

Mr Keith Carmody acts on behalf of the Credit Union in legal matters at normal commercial rates. During the course of the year amounts paid to Mr Keith Carmody totalled \$4,483 (2013 \$8,865).

DIRECTORS' REPORT (CONTINUED)

INDEMNIFYING OFFICER OR AUDITOR

Insurance premiums have been paid to insure each of the directors and officers of the Credit Union against any costs and expenses incurred by them in defending any legal proceeding arising out of their conduct while acting in their capacity as an officer of the Credit Union. 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 the Credit Union.

PRINCIPAL ACTIVITIES

The principal activities of the Credit Union during the year were the provision of retail financial services to members in the form of taking deposits and the extension of credit as prescribed by the Constitution.

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

OPERATING RESULTS

The net profit of the Credit Union for the year after providing for income tax was \$1,305,130 (2013 \$1,187,415).

DIVIDENDS

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

REVIEW OF OPERATIONS

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

SIGNIFICANT CHANGES IN STATE OF AFFAIRS

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

ENVIRONMENTAL REGULATIONS

The Credit Union's operations are not subject to any significant regulations under either Commonwealth or State legislation. However, the Board believes that the Credit Union has adequate systems in place for the management of its environmental responsibilities and is not aware of any breach of environmental requirements as they apply to the Credit Union.

EVENTS SUBSEQUENT TO REPORTING DATE

There has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the Credit Union, to affect significantly :

- (i) The operations of the Credit Union;
- (ii) The results of those operations; or
- (iii) The state of affairs of the Credit in the financial years subsequent to this financial year.

SOUTH WEST SLOPES CREDIT UNION LTD

ABN 80 087 650 673

2014 Annual Financial Report

DIRECTORS' REPORT (CONTINUED)

LIKELY DEVELOPMENTS

The Credit Union will continue to pursue its policy of increasing the profitability and market share of its business during the next financial year.

Further information about likely developments in the operations of the Credit Union and the expected results of those operations in future financial years has not been included in this report because disclosure of the information would be likely to result in unreasonable prejudice to the Credit Union.

LEAD AUDITOR'S INDEPENDENCE DECLARATION

The Lead auditor's independence declaration is set out on page 6 and forms part of the directors' report for the financial year ended 30 June 2014.

ROUNDING OFF

The Credit Union is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 and in accordance with that Class Order, amounts in the financial report and directors' report have been rounded off to the nearest thousand dollars, unless otherwise stated.

This report is made with a resolution of the directors:

Brian Page
Director


Dated at Young this 24th day of September 2014

DIRECTORS' DECLARATION

In the opinion of the Directors of South West Slopes Credit Union Ltd ("the Credit Union"):

- (a) the financial statements and notes that are set out on pages 7 to 41, are in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the Credit Union's financial position as at 30 June 2014 and of its performance for the financial year ended on that date; and
 - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*;
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1; and
- (c) there are reasonable grounds to believe that the Credit Union will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the Directors of South West Slopes Credit Union Ltd:


Adrian Hanrahan (Deputy Chair of the Board)
Director

Young
24 September 2014



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

To: the directors of South West Slopes Credit Union Limited

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2014 there have been:

- (i) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and
- (ii) no contraventions of any applicable code of professional conduct in relation to the audit.


KPMG


Richard Drinnan
Partner

Wollongong

Dated this 24th day of September 2014

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 June 2014

	Note	2014 \$'000	2013 \$'000
Interest income	2	7,520	7,893
Interest expense	2	(2,319)	(2,788)
Net interest income		<u>5,201</u>	<u>5,105</u>
Fee commission and other income	2	860	916
Operating income		<u>6,061</u>	<u>6,021</u>
Impairment losses on loans receivable from members	2	(128)	(106)
Fee and commission expenses		(654)	(794)
Employees' compensation and benefits		(2,034)	(2,047)
Depreciation and amortisation	10,11	(135)	(151)
Information technology		(312)	(220)
Office occupancy		(120)	(145)
Other administration		(829)	(877)
Total operating expenses		<u>(4,212)</u>	<u>(4,340)</u>
Profit before income tax		1,849	1,681
Income tax expense	3	(544)	(494)
Profit for the year		<u>1,305</u>	<u>1,187</u>
Other comprehensive income for the year, net of income tax		<u>-</u>	<u>-</u>
Total comprehensive income for the year		<u><u>1,305</u></u>	<u><u>1,187</u></u>

The Statement of Profit or Loss and Other Comprehensive Income is to be read in conjunction with the notes to the financial statements set out on pages 11 to 41.

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 June 2014

	General reserve for credit losses \$'000	Retained earnings \$'000	Total \$'000
Balance as at 1 July 2012	286	15,476	15,762
Total comprehensive income for the year			
Profit for the year	-	1,187	1,187
Other comprehensive for the year	-	-	-
Total comprehensive income for the year	-	1,187	1,187
Transfer to (from) general reserve for credit losses in year	2	(2)	-
Balance at 30 June 2013	288	16,661	16,949
Balance at 1 July 2013	288	16,661	16,949
Total comprehensive income for the year			
Profit for the year	-	1,305	1,305
Other comprehensive for the year	-	-	-
Total comprehensive income for the year	-	1,305	1,305
Transfer to (from) general reserve for credit losses in year	18	(18)	-
Balance at 30 June 2014	306	17,948	18,254

The Statement of Changes in Equity is to be read in conjunction with the notes to the financial statements set out on pages 11 to 41.

STATEMENT OF FINANCIAL POSITION

AS AT 30 June 2014

	Note	2014 \$'000	2013 \$'000
ASSETS			
Cash and cash equivalents	4	11,551	10,332
Financial assets	5	27,478	14,482
Other receivables	6	293	140
Prepayments		60	64
Loans to members	7	96,028	101,845
Available-for-sale investments	9	220	220
Property, plant and equipment	10	848	833
Deferred tax assets	12	238	208
Intangible assets	11	93	13
TOTAL ASSETS		136,809	128,137
LIABILITIES			
Deposits from members	13	116,664	109,546
Creditor accruals and settlement accounts	14	1,255	1,126
Current tax payable	12	221	122
Provisions	15	415	394
TOTAL LIABILITIES		118,555	111,188
NET ASSETS		18,254	16,949
MEMBERS' EQUITY			
General reserve for credit losses		306	288
Retained earnings		17,948	16,661
TOTAL MEMBERS' EQUITY		18,254	16,949

The Statement of Financial Position is to be read in conjunction with the notes to the financial statements set out on pages 11 to 41.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 June 2014

	Note	2014 \$'000	2013 \$'000
OPERATING ACTIVITIES			
Interest received from members		6,321	6,899
Investment interest received		1,046	1,074
Dividends received		40	40
Other income received		814	854
Interest paid		(2,448)	(2,859)
Suppliers and employees paid		(3,670)	(3,936)
Income taxes paid		(475)	(507)
Net cash from revenue generating activities		1,628	1,565
Cash from other operating activities			
Net movement in receivables from other financial institutions		(12,996)	5,083
Net movement in member loans		5,689	(8,861)
Net movement in member deposits and shares		7,118	2,278
Net cash from operating activities	24	1,439	65
INVESTING ACTIVITIES			
Proceeds from sale of property, plant and equipment		76	-
Purchase of property, plant and equipment and intangibles		(296)	(27)
Net cash from investing activities		(220)	(27)
FINANCING ACTIVITIES			
Net cash from financing activities		-	-
Net increase in cash and cash equivalents		1,219	38
Cash and cash equivalents at beginning of year		10,332	10,294
Cash and cash equivalents at end of year	4	11,551	10,332

The Statement of Cash flows is to be read in conjunction with the notes to the financial statements set out on pages 11 to 41.

NOTES TO THE FINANCIAL STATEMENTS

1. SUMMARY OF ACCOUNTING POLICIES

a. Reporting entity

South West Slopes Credit Union Limited ("the Credit Union") is a company limited by shares domiciled in Australia.

The address of the registered office is 89 Boorowa Street, Young NSW 2594.

The credit union is a for-profit entity primarily involved in the provision to members of banking and financial services, including lending, deposits and insurance products.

b. Basis of preparation

The financial report is a general purpose financial report which has been prepared in accordance with Accounting Standards (AASBs), adopted by the Australian Accounting Standards Board (AASB) and the Corporations Act 2001.

The financial report of the Credit Union complies with International Financial Reporting Standards (IFRSs) adopted by the International Accounting Standards Board (IASB).

The report was authorised for issue on 24th September 2014 in accordance with a resolution of the board of directors.

c. Basis of measurement

The financial report has been prepared on an accruals basis, and is based on historical costs, which do not take into account changing money values or current values of non-current assets.

d. Functional and presentation currency

The financial report is presented in Australian dollars, which is the Credit Union's functional currency. The Credit Union is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 and in accordance with that Class Order, all financial information presented in Australian dollars has been rounded off to the nearest thousand dollars, unless otherwise stated.

e. Accounting estimates and judgements

The preparation of financial statements in conformity with AASBs requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements is included in the following notes:

- Note 1(n)(ii) – Loan impairment

The accounting policies set out below have been applied consistently to all periods presented in the financial report.

1. SUMMARY OF ACCOUNTING POLICIES (Continued)

f. Financial instruments

Non-derivative financial instruments

Non-derivative financial instruments comprise cash and cash equivalents, loans to members, loans and held to maturity financial assets, available-for-sale financial assets, other assets, member deposits and payables.

The Credit Union initially recognises loans and receivables and deposits on the date that they are originated. All other financial assets are recognised on the trade date at which the Credit Union becomes a party to the contractual provisions of the instrument.

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

Financial liabilities are derecognised when the Credit Union's obligations specified in the contract expire or are discharged or cancelled.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Credit Union has a legal right to offset the amounts and intends to settle on a net basis or to realise the asset and settle the liability simultaneously.

Non-derivative financial instruments are measured at amortised cost using the effective interest method, less any impairment loss. Refer to the following notes for further information;

- Cash and cash equivalents – note 1(g)
- Loans to members – note 1(h)
- Loans and receivables to other financial institutions – note 1(i)
- Available for sale financial assets – note 1(k)
- Held to maturity financial assets – note 1(j)
- Other assets – note 1(n)
- Member deposits – note 1(p)
- Payables – note 1(q)

g. Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, cash balances in the Credit Union's bank accounts and at call deposits with original maturities of three months or less that are subject to an insignificant risk of changes of their fair value, and are used by the credit union in the management of its short term commitments. Cash and cash equivalents are measured at amortised cost using the effective interest method.

h. Loans to members

i. (i) Basis of recognition

Loans and receivables to members are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

All loans are initially recognised at fair value, net of loan origination fees and inclusive of transaction costs incurred. Loans are subsequently measured at amortised cost, less any impairment losses.

Loans to members are reported at their recoverable amount representing the aggregate amount of principal and unpaid interest owing to the Credit Union at reporting date, less any allowance or provision against impairment for debts considered doubtful. A loan is classified as impaired where recovery of the debt is considered unlikely as determined by the board of directors.

1. SUMMARY OF ACCOUNTING POLICIES (Continued)

h. Loans to members (continued)

(ii) Securitised loans

The Credit Union has an arrangement with Integris Securitisation Services Pty Limited whereby it acts as an agent to promote and complete loans on their behalf, for on sale to an investment trust. The Credit Union also manages the loans portfolio on behalf of the trust. The Credit Union bears no risk exposure in respect of these loans. The Credit Union receives a management fee to recover the costs of on-going administration of the processing of the loan repayments and the issue of statements to the members.

In addition the Credit Union is able to assign mortgage secured loans to Integris at the book value of the loans, subject to acceptable documentation criteria. These loans qualify for de-recognition on the basis that the assignment transfers all the risks and rewards to Integris and there is no residual risks or benefits to the Credit Union.

During the current and prior year the Credit Union did not securitise any additional loans.

i. Loans and receivables to other financial institutions

Loans and receivables to other financial institutions are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

Term deposits with other financial institutions are unsecured and have a carrying amount equal to their principal amount. Interest is paid on the daily balance at maturity.

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

j. Held to maturity financial assets

These assets are initially recognised at fair value plus any directly attributable transaction costs.

Subsequent to initial recognition, they are measured at amortised cost using the effective interest method.

k. Available for sale financial assets

Investments in shares are classified as available-for-sale financial assets where they do not qualify for classification as loans and receivables, or investments held for trading.

Investments in shares without an active market are initially measured at fair value plus any directly attributable transaction costs. Subsequent to initial recognition instruments whose fair value cannot be reliably determined are measured at cost less any impairment loss.

When available-for-sale financial assets are derecognised, the cumulative gain or loss in the asset revaluation reserve is transferred to the profit or loss.

An available-for-sale financial asset is assessed at each reporting date to determine whether there is objective evidence that it is impaired.

Impairment losses on available-for-sale investments are recognised by transferring any cumulative loss that has been recognised in other comprehensive income, and presented in the fair value reserve in equity, to profit or loss. The cumulative loss that is removed from other comprehensive income and recognised in profit or loss is the difference between the acquisition cost and the current fair value, less any impairment loss previously recognised in profit or loss.

1. SUMMARY OF ACCOUNTING POLICIES (Continued)

k. Available for sale financial assets (continued)

If, in a subsequent period, the fair value of an impaired available-for-sale investment increases and the increase can be related objectively to an event occurring after the impairment loss was recognised in profit or loss, then the impairment loss is reversed, with the amount of the reversal recognised in other comprehensive income.

The credit union's shareholding in CUSCAL is measured at cost as its shares are not traded in an active market. This company was created to supply services to its member credit unions. These shares are held to enable the Credit Union to receive essential banking services. The shares are not able to be traded and are not redeemable.

The financial reports of CUSCAL record net tangible asset backing of these shares exceeding their cost. Based on the net assets of CUSCAL, any fair value determination on these shares is likely to be greater than their cost value, but due to the absence of an active market and restrictions on the ability to transfer the shares, a market value is not able to be determined readily.

l. Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment (PPE) are measured at cost less accumulated depreciation and any accumulated impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset.

Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When parts of an item of PPE have different useful lives, they are accounted for as separate items (major components) of PPE.

Gains and losses on disposal of an item of PPE are determined by comparing the proceeds from disposal with the carrying amount of PPE and are recognised within profit or loss.

(ii) Subsequent expenditure

The Credit Union recognises in the carrying amount of an item of PPE the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits embodied within the item will flow to the Credit Union and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of PPE are recognised in profit or loss as incurred.

(iii) Depreciation

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful life of each part of an item of PPE. Land is not depreciated.

The useful lives are adjusted if appropriate at each reporting date. Estimated useful lives for the current and comparative periods are as follows:

- Buildings - 40 years.
- Plant and equipment - 3 to 7 years.

1. SUMMARY OF ACCOUNTING POLICIES (Continued)

m. Intangible assets

(i) *Recognition and measurement*

Intangible assets consist of capitalised expenditure on mobile banking technology and setup, as well as expenditure on Ultradata upfront licence fees (20 % on sign-on) for the upcoming IT conversion. Intangible assets that have finite useful lives are measured at cost less accumulated amortisation and any accumulated impairment losses.

(ii) *Subsequent expenditure*

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the intangible asset to which it relates. All other expenditure is recognised in profit or loss as incurred.

(iii) *Amortisation*

Amortisation is calculated over the cost of the asset less its residual value.

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, from the date that they are available for use. The estimated useful lives for the current and comparative periods is 5 years.

Amortisation methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate.

n. Other assets

Other assets include interest receivable, prepayments and other receivables. Such assets are stated at their amortised cost.

o. Impairment

(i) **Financial assets**

Financial assets are assessed at each reporting date to determine whether there is any objective evidence that a financial asset is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more loss events have occurred after the initial recognition of the asset, and that loss event had a negative effect on the estimated cash flows of that asset that can be measured reliably.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate. An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its fair value.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised in profit or loss. Any cumulative loss in respect of an available-for-sale financial asset previously recognised in equity is transferred to profit or loss.

1. SUMMARY OF ACCOUNTING POLICIES (Continued)

o. Impairment (continued)

(i) Financial assets

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost and available-for-sale financial assets that are debt securities, the reversal is recognised in profit or loss. For available for sale financial assets that are equity securities, the reversal is recognised directly in equity.

(ii) Loan Impairment

A provision for losses on impaired loans is recognised when there is objective evidence that the impairment of a loan has occurred. Evidence of impairment may include indications that the borrower has defaulted, is experiencing significant financial difficulty, or where the debt has been restructured to reduce the burden to the borrower. In these instances a specific provision for impairment may be recognised in relation to anticipated losses.

Estimated impairment losses are calculated on a portfolio basis for loans of similar characteristics. The amount provided is determined by management and the board to recognise the probability of loan amounts not being collected in accordance with the terms of the loan agreement. For loans with arrear levels of greater than 90 days, a collective provision is recognised based on the level of arrears. Note 16 details the credit risk management approach for loans.

Loans which are subject to renegotiated terms which would have otherwise been impaired do not have the repayment arrears diminished and interest continues to accrue to income. Each renegotiated loan is retained at the full arrears position until the normal repayments are reinstated and brought up to date and maintained for a period of 6 months.

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

A general reserve for credit losses is also held as an additional allowance for impairment of loans and receivables to meet prudential requirements.

(iii) Non-financial assets

The carrying amount of the Credit Union's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

The recoverable amount of an asset is the greater of its fair value less costs to sell and its value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

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

1. SUMMARY OF ACCOUNTING POLICIES (Continued)

o. Impairment (continued)

(iii) Non-financial assets (continued)

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

p. Member Deposits

(i) Basis for measurement

Member savings and term investments are recognised on the date at which they originated and are measured initially at fair value plus incremental direct transaction costs. Member deposits are stated at the aggregate amount of monies owing to depositors. Member deposits are subsequently measured at their amortised cost using the effective interest method.

(ii) Interest payable

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

q. Payables

Payables include trade and other payables. Such liabilities are stated at their amortised cost and are recognised in relation to goods and services received by the Credit Union. Trade Payables are non-interest bearing and are normally settled on 30 day terms.

r. Employee Benefits

(i) Defined contribution plans

Defined contributions are made by the Credit Union to an employee's superannuation fund and are recognised in the profit or loss as the related service is provided. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

(ii) Long-term employee benefits

The Credit Union's net obligation in respect of long-term employee benefits is the amount of future benefit that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value. Re-measurements are recognised in profit or loss in the period in which they arise.

(iii) Short-term employee benefits

Short-term employee benefits are expensed as the related service is provided. A liability is recognised for the amount expected to be paid if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

1. SUMMARY OF ACCOUNTING POLICIES (Continued)

s. Revenue from financial assets

Revenue is recognised to the extent it is probable that the economic benefits will flow to the Credit Union and the revenue can be reliably measured.

Interest income is recognised in the profit or loss using the effective interest method. Credit Card products receive up to fifty five days interest free until the due date of payment. Interest on non-accrual loans is not recognised.

(i) Fees and commissions

Fee and commission income and expenses that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

Other fee and commission income is recognised as the related services are performed. Other fee and commission expense relates mainly to transaction and service fees which are expensed as the services are received.

(ii) Dividend income

Dividend income is recognised in the profit or loss on the date the Credit Union's right to receive income is established. Usually this is the ex-dividend date for equity securities.

t. Leasehold on Premises

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

u. Goods and Services Tax

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

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the balance sheet.

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

v. Income Tax

Income tax expense comprises current and deferred tax. Current and deferred tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in equity or in other comprehensive income.

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

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. As at 30 June 2014 temporary differences were assessed at 30% (2013: 30%).

1. SUMMARY OF ACCOUNTING POLICIES (Continued)

v. Income Tax (continued)

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

w. Member shares

The Credit Union issues redeemable preference shares to each Member upon joining in accordance with the constitution. The shares are redeemable at their face value on leaving the Credit Union.

x. New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 July 2013, and have not been applied in preparing this financial report. Those standards with the most significant potential impact on the financial statements are outlined below:

- *AASB 9 Financial Instruments* – This standard retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets; amortised cost and fair value. This standard is mandatory for the Credit Union's 2018 financial statements. The Credit Union does not plan to adopt this standard early and the extent of the impact has not been determined.

y. Change in Accounting policies

Except for the changes below, the Credit Union has consistently applied the accounting policies set out in Note 1 to all periods presented in these financial statements. The Credit Union has adopted the following new standards and amendments to standards, including any consequential amendments to other standards, with a date of initial application of 1 July 2013.

- AASB 13 Fair Value Measurement

The nature and effects of the changes are explained below.

(ii) Fair value measurement

AASB 13 establishes a single framework for measuring fair value and making disclosures about fair value measurements when such measurements are required or permitted by other AASBs. It unifies the definition of fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It replaces and expands the disclosure requirements about fair value measurements in other AASBs, including AASB 7. As a result, the Credit Union has included additional disclosures in this regard (see notes 19). In accordance with the transitional provisions of AASB 13, the Credit Union has applied the new fair value measurement guidance prospectively and has not provided any comparative information for new disclosures. Notwithstanding the above, the change had no significant impact on the measurements of the Credit Union's assets and liabilities.

2. NOTES TO THE STATEMENT OF COMPREHENSIVE INCOME

	2014	2013
	\$'000	\$'000
Interest income		
Cash and deposits at call	321	214
Receivables from financial institutions	726	861
Loans to members	6,473	6,818
TOTAL INTEREST INCOME	<u>7,520</u>	<u>7,893</u>
Fee, commission and other income		
Fee income	646	652
Insurance commissions	69	82
Other commissions	76	83
Dividends received on available-for-sale assets	40	40
Bad debts recovered	7	20
Gain on disposal of property, plant and equipment	10	-
Other income	12	39
TOTAL FEE, COMMISSION AND OTHER INCOME	<u>860</u>	<u>916</u>
Interest expense		
Deposits from members	2,319	2,788
TOTAL INTEREST EXPENSE	<u>2,319</u>	<u>2,788</u>
Impairment losses		
Loans and advances		
Provision made during the year	128	106
Bad debts written off directly against profit	-	-
TOTAL IMPAIRMENT LOSSES	<u>128</u>	<u>106</u>
Other prescribed disclosures		
Employees compensation and benefits include:		
- Superannuation contributions to defined contribution plans	158	156
Office occupancy costs include:		
Property operating lease payments		
- minimum lease payments	26	25

3. INCOME TAX EXPENSE	2014	2013
	\$'000	\$'000
The income tax expense comprises amounts set aside as:-		
Provision for income tax – current year	573	476
(Increase) Decrease in deferred tax asset account	(29)	18
Income tax expense attributable to operating profit	<u>544</u>	<u>494</u>
The prima facie tax payable on profit is reconciled to the income tax expense in the accounts as follows:		
Profit before income tax	<u>1,849</u>	<u>1,681</u>
Prima facie tax payable on profit before income tax at 30% (2013:30%)	555	504
Add tax effect of expenses not deductible		
- Other non-deductible expenses / or taxable income	1	2
- Gross up dividends	5	5
	<u>561</u>	<u>511</u>
Less		
- Franking rebate	(17)	(17)
Income tax expense attributable to current year profit	<u>544</u>	<u>494</u>
4. CASH AND CASH EQUIVALENTS		
Cash on hand	3,551	2,432
Deposits at call	8,000	7,900
	<u>11,551</u>	<u>10,332</u>
5. FINANCIAL ASSETS		
RECEIVABLES FROM FINANCIAL INSTITUTIONS		
Deposits with industry bodies - CUSCAL	2,000	2,500
Deposits with Non Bank ADI's	1,000	-
Deposits with banks	19,517	11,982
	<u>22,517</u>	<u>14,482</u>
HELD-TO-MATURITY FINANCIAL ASSETS		
Deposits with industry bodies – CUSCAL	-	-
Deposits with Non Bank ADI's	993	-
Deposits with banks	3,968	-
	<u>4,961</u>	<u>-</u>
TOTAL FINANCIAL ASSETS	<u>27,478</u>	<u>14,482</u>

6. OTHER RECEIVABLES

Sundry debtors and settlement accounts	293	140
	<u>293</u>	<u>140</u>

7. LOANS TO MEMBERS

	2014	2013
	\$'000	\$'000
Amount due comprises:		
Overdrafts and revolving credit (including VISA)	1,337	1,313
Term loans	94,905	100,690
	<u>96,242</u>	<u>102,003</u>
Provision on impaired loans (Note 8)	(214)	(158)
	<u>96,028</u>	<u>101,845</u>

Credit quality

Secured by mortgage over real estate	80,996	84,389
Partly secured by goods mortgage	3,429	4,180
Wholly unsecured	11,817	13,434
	<u>96,242</u>	<u>102,003</u>

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

Credit quality profile of loans whole secured by mortgage against real estate	2014	2013
	\$'000	\$'000
- loan to valuation ratio of less than 80%	72,771	76,801
- loan to valuation ratio of more than 80% but mortgage insured	7,565	7,159
- loan to valuation ratio of more than 80% and not mortgage insured	660	429
Total	<u>80,996</u>	<u>84,389</u>

Where the loan value is less than 80%, there is a 20% margin to cover the costs of any sale, or potential value reduction.

Concentration of loans

There are no loans to individual or related groups of members which exceed 10% of the Credit Union's regulatory capital.

The Credit Union's loans, and where applicable, the related collateral held against such loans, are predominantly concentrated in the South West Slopes region of New South Wales.

The amount of securitised loans under management as at 30 June 2014 is zero (2013: \$213,393).

	2014	2013
	\$'000	\$'000
8. PROVISION ON IMPAIRED LOANS		
Total provision comprises		
Collective provision	86	62
Specific provision	128	96
Total Provision	<u>214</u>	<u>158</u>
Movement in the provision for impairment		
Balance at the beginning of year	158	177
Add (deduct):		
Provision made during the year	128	106
Provision used during the year	(72)	(125)
Balance at end of year	<u>214</u>	<u>158</u>

Details of credit risk management are set out in Note 16.

Analysis of loans that are specifically impaired, past due but not impaired and neither past due nor impaired

	2014	2013
	\$'000	\$'000
Carrying amount	96,028	101,845
<i>Individually impaired</i>		
Gross amount	128	96
Provision for impairment	(128)	(96)
Carrying amount	-	-
<i>Past due but not impaired</i>		
Days in arrears:		
Less than one month	4,513	3,735
Greater than one month and less than two months	175	304
Greater than two months and less than three months	260	80
Greater than three months	286	198
Carrying amount	5,234	4,317
<i>Neither past due nor impaired</i>		
Secured by mortgage	71,605	75,685
Personal and commercial	18,155	20,949
Overdrafts/revolving	1,120	956
Carrying amount	90,880	97,590
Collective impairment provision	(86)	(62)
Total carrying amount	96,028	101,845

There are loans past due which are not considered to be impaired as the value of related security over residential property is in excess of the loan due. There have been no other provisions recognised on financial assets during the current period (2013: nil).

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	2014	2013
	\$'000	\$'000
9. AVAILABLE FOR SALE INVESTMENTS		
Shares in unlisted company – at cost		
CUSCAL Limited	220	220
Total value of investments	<u>220</u>	<u>220</u>

The Credit Union is not intending, nor able, to dispose of these shares.

10. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	Plant and equipment	Total
	\$'000	\$'000	\$'000
Cost or deemed cost			
Balance at 30 June 2012	825	1,769	2,594
Additions	-	27	27
Disposals	-	(20)	(20)
Balance at 30 June 2013	825	1,776	2,601
Additions	-	179	179
Disposals	-	(124)	(124)
Balance at 30 June 2014	825	1,831	2,656
Accumulated depreciation and impairment losses			
Balance at 30 June 2012	(170)	(1,509)	(1,679)
Depreciation for the year	(19)	(90)	(109)
Disposals	-	20	20
Balance at 30 June 2013	(189)	(1,579)	(1,768)
Depreciation for the year	(19)	(79)	(98)
Disposals	-	58	58
Balance at 30 June 2014	(208)	(1,600)	(1,808)

	2014	2013
	\$'000	\$'000
Total property plant and equipment - at cost	2,656	2,601
Total accumulated depreciation	(1,808)	(1,768)
Total property, plant and equipment - carrying amount	<u>848</u>	<u>833</u>

11. INTANGIBLE ASSETS

	2014	2013
	\$'000	\$'000
Cost		
Balance at 1 July	252	252
Additions	117	-
Disposals	-	-
Balance at 30 June	<u>369</u>	<u>252</u>
Accumulated amortisation		
Balance at 1 July	239	197
Amortisation for the year	37	42
Balance 30 June	<u>276</u>	<u>239</u>
Total Intangible Assets	<u>93</u>	<u>13</u>

12. DEFERRED TAX ASSETS

	2014	2013
	\$'000	\$'000
Deferred tax assets comprise:		
Accrued expenses	49	36
Provision on impaired loans	64	48
Provisions for employee benefits	117	112
Depreciation on fixed assets	1	1
Visa setup costs	7	11
	<u>238</u>	<u>208</u>

The Credit Union's current tax liability of \$221,065 (2013: \$122,000) represents the amount of income tax payable in respect of the current and prior year periods due to the Australian Taxation Office.

13. DEPOSITS FROM MEMBERS

	2014	2013
	\$'000	\$'000
Member Deposits		
- at call	53,458	47,467
- term	63,070	61,942
Member withdrawable shares	136	137
	<u>116,664</u>	<u>109,546</u>

There were no defaults on interest and capital payments on these liabilities in the current or prior year.

Concentration of Member Deposits / Geographic Concentration

There are no significant individual member deposits which in aggregate represent more than 10% of the total liabilities. The Credit Union's member deposits are predominantly concentrated in the South West Slopes region of New South Wales.

14. CREDITOR ACCRUALS AND SETTLEMENT ACCOUNTS

	2014	2013
	\$'000	\$'000
Creditors and accruals	162	175
Interest payable on deposits	420	549
Sundry creditors / Settlements	673	402
	<u>1,255</u>	<u>1,126</u>

15. PROVISIONS

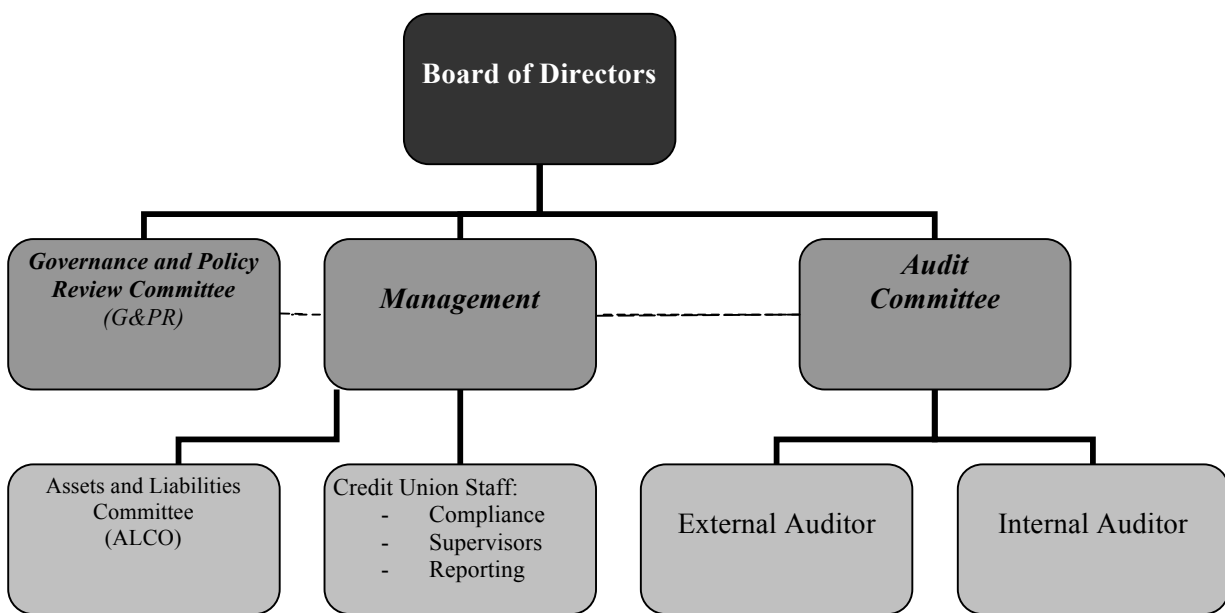
Current		
Annual Leave	115	132
Long service Leave	236	211
Provisions – other	25	19
	<u>376</u>	<u>362</u>
Non-current		
Long service leave	39	32
Total provisions	<u>415</u>	<u>394</u>

16 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Board of Directors has overall responsibility for the establishment and oversight of the risk management framework. The board has endorsed compliance and risk management policies to suit the risk profile of the Credit Union. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, procedures and services offered. The Credit Union, through its training and management standards and procedures, has developed a disciplined and constructive control environment, in which all employees understand their roles and objectives.

The Credit Union’s risk management focuses on the major areas of market risk, liquidity risk, credit risk and operational risk. Authority flows from the board of directors to the audit committee who are integral to the management of risk. The following diagram gives an overview of the structure in place since 2009.

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



Board: This is the primary governing body. It approves the level of risk which the Credit Union is exposed to and the framework for reporting and mitigating those risks. The Board is the key body in the control of risk. The Board reviews risks and the controls that are used to mitigate them. This includes the identification, assessment and reporting of risks. Regular monitoring is carried out by the Board through monthly review of risks, key risk indicators as well as an annual full review of all risks.

Risk controls are reviewed in an ongoing manner however formally at least annually to confirm whether risks are within the parameters endorsed by the Board. The Board seeks to ensure that the significant risks and controls are assessed cognisant with the endorsed internal audit plan.

16 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Audit Committee:

The Audit Committee has a documented charter, approved by the Board. The Committee advises on the establishment and maintenance of a framework of internal control.

The objectives of the Audit Committee are to assist the Board in the discharge of its duties by:

- 1.1 Overseeing the financial reporting process;
- 1.2 Providing an independent conduit for communication between the Board, senior management, internal auditors and external auditors;
- 1.3 Overseeing compliance with the Credit Union's internal and external audit requirements;
- 1.4 Overseeing the annual review and testing of the Business Continuity Plan;
- 1.5 Undertaking steps to satisfy themselves that the auditor is independent of SWSCU, its Board, management and staff, and that there is no conflict of interest arising that may compromise, or be seen to compromise the independence of the auditor or the integrity of any audit outcomes. The Committee will obtain a declaration from the auditor attesting that the auditor is independent, both in appearance and in fact, has no conflict of interest, and that there is nothing to the auditor's knowledge that could compromise impartiality.

Asset and Liability Committee (ALCO) – Credit Risk: This committee of senior management meets monthly and has responsibility for managing and reporting credit risk exposure. It scrutinises operational reports and monitors exposures against limits determined by the board. The ALCO also determines the credit risk of loans in the banking book, ensures provisioning is accurate and determines controls that need to be put in place regarding the authorisation of new loans.

The ALCO Committee has responsibility for implementing policies to ensure that all large credit exposures are properly pre-approved, measured and controlled. Details concerning a prospective borrower are subject to a criteria-based decision-making process. Criteria used for this assessment include: credit references, loan-to-value ratio on security and borrower's capacity to repay which vary according to the value of the loan or facility.

All large credit exposure facilities above policy limits are approved by the board. All exposures are checked monthly against approved limits, independently of each business unit, and are reported to the ALCO Committee.

All loans are managed weekly through the monitoring of the scheduled repayments. Accounts where the arrears are over 90 days or over limit facilities over 14 days, have collective provisions charged against them. Other provisions are taken up on accounts considered doubtful and the status of these loans is reported to the Board monthly and the Audit Committee quarterly.

Arrears are strictly controlled. The size of the loan book is such that it is possible to monitor each individual exposure to evaluate whether specific provisions are necessary and adequate. A dedicated credit control team, which reports to the ALCO, implements the Credit Union's credit risk policy.

Asset and Liability Committee (ALCO) - Market Risk: This committee meets weekly and has responsibility for managing interest rate risk exposures, and ensuring that the treasury and finance functions adhere to exposure limits as outlined in the market risk policy. The weekly scrutiny of market risk reports is intended to prevent any exposure breaches prior to reporting any breaches to the full Board.

Compliance Officer : This person has responsibility for both liaising with the operational function to ensure timely production of information for the committees and ensuring that instructions passed down from the board via the committees are implemented.

16 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

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

- Credit risk
- Liquidity risk
- Market risk

This note presents information about the Credit Unions' exposure to each of the above risks, the Credit Union's objectives, policies and processes for measuring and managing risk, and the Credit Unions management of capital.

A. MARKET RISK

Market risk is the risk that changes in interest rates, or other prices and volatilities will have an adverse effect on the Credit Union's financial condition or results. The Credit Union is not exposed to currency risk or other significant price risk. The Credit Union does not trade in the financial instruments it holds on its books. The Credit Union is exposed only to interest rate risk arising from changes in market interest rates.

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

Management is responsible for the development of detailed risk management policies which are submitted to the Board for review and approval, and for the day-to-day review of their implementation. In addition the ALCO, being a management committee, meets on a weekly basis to review and implement day-to-day market risk strategies.

INTEREST RATE RISK

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

Member loans

The Credit Union is exposed to some interest rate risk in its banking book due to mismatches between the repricing dates of assets and liabilities. However, as the Credit Union only offers variable rate loans and uses member deposits as a natural hedge, the Credit Union does not have significant interest rate risk as at 30 June 2014 and 30 June 2013 arising from member loans.

The interest rate risk on the banking book is measured formally and externally every 6 months. Monthly reports on interest rate margin are reviewed and reported to the ALCO and the Board.

Fixed rate financial instruments

In the banking book the most common risk the Credit Union faces arises from fixed rate assets and liabilities. This exposes the Credit Union to the risk of sensitivity should interest rates change.

The level of mismatch on the banking book is set out in Note 18 below. The table set out at Note 18 displays the period that each interest rate sensitive asset and liability will reprice as at the reporting date. This risk is not considered significant enough to warrant the use of derivatives to mitigate this risk.

16 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

A. MARKET RISK (CONTINUED)

Method of managing risk

The Credit Union manages its interest rate risk by the use of value at risk models (VaR). The detail and assumptions used are set out below.

Value at Risk (VaR)

The Credit Union's exposure to market risk is measured and monitored using the VaR methodology of estimating potential losses. VaR is a technique which estimates the potential losses that could occur as a result of the risk positions taken by the Credit Union and movements in market rates over a specified time period to a given level of confidence.

VaR, as set out in the table below, has been calculated using historical simulations, taking into account movements in market rates, a 99.5 per cent confidence level and a holding period of 10 days.

This function is outsourced to CUSCAL who prepare a detailed risk exposure summary every six months. The VaR on the non-trading book was as follows:

	2014	2013
Value at Risk / 10 day value at risk	\$5,512	\$25,538
Percentage of regulatory capital	0.03%	0.15%

Given the Credit Union's profile of assets and liabilities at 30 June 2014, and therefore its book sensitivity as at that date, for each 1% parallel downward shift in the yield curve the Credit Union can expect a reduction in profit of \$74,676 (2013: \$128,440). The Credit Union is therefore exposed to falling interest rates.

As book sensitivity is a measure only to a definite point in time the abovementioned expected loss does not reflect the position of the Credit Union subsequent to balance date. In addition, although VaR provides a useful tool for measuring and monitoring market risk, the assumptions on which the model are based give rise to some limitations, including the following:

- a 10 day holding period assumes that it is possible to dispose of financial instruments within that period. This is considered a realistic assumption in almost all cases but may not be the case in situations where there is severe market illiquidity;
- a 99 per cent confidence level does not reflect losses that may occur beyond this level. Even within the model used there is 1% probability that losses will exceed VaR;
- the use of historical data as a basis for determining the possible range of future outcomes may not always cover all possible scenarios, especially those on an exceptional nature; and
- VaR is dependent on the Credit Union's position of assets and liabilities and the volatility of market prices. The VaR of an unchanged book position will rise if market volatility increases and vice versa.

The Credit Union is therefore confident within a 99.5 per cent confidence level that, given the risks as at 30 June 2014, it will not incur a one day loss on its non-trading book of more than the amount calculated above, based on the 2013 VaR model used.

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

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

16 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

B. LIQUIDITY RISK

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

The Credit Union manages liquidity risk by:

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

The Credit Union has a longstanding arrangement with the industry liquidity support body, Credit Union Financial Support Services (CUFSS), which can access industry funds to provide support to the Credit Union should this be necessary at short notice.

The Credit Union is required to maintain at least 9% of total adjusted liabilities as liquid assets capable of being converted to cash within 24 hours under the APRA Prudential standards. The Credit Union policy is to apply 12% of funds as liquid assets to maintain adequate funds for meeting member withdrawal requests. The ratio is checked daily. Should the liquidity ratio fall below this level the management and board are to address the matter and ensure that the liquid funds are obtained from new deposits, or available borrowing facilities.

The maturity profile of the financial liabilities, based on the contractual repayment terms are set out in Note 18.

The ratio of high quality liquid funds over the past year is set out below:

	2014	2013
APRA minimum 9 %		
Total Liquidity as at 30 June	31.34 %	21.19 %
HQLA liquidity as at 30 June	14.86 %	14.36 %
Average HQLA liquidity for the year	15.95 %	14.96 %
Average Total liquidity for the year	28.40 %	23.17 %
Lowest HQLA liquidity for the year	14.26 %	11.87%

C. CREDIT RISK

Credit risk is the risk that members, financial institutions and other counterparties will be unable to meet their obligations to the Credit Union which may result in financial losses. Credit risk arises principally from the Credit Union's loan book and investment assets. The carrying amount of the Credit Union's financial assets represents the maximum credit exposure.

16 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

C. CREDIT RISK (CONTINUED)

(i) CREDIT RISK – LOANS (CONTINUED)

The Credit Union's maximum exposure to credit risk arising from loans to members at the reporting date is as follows:

	2014	2013
	\$'000	\$'000
<i>Loans to members</i>		
Mortgage (Home or Investment loans)	75,907	78,567
Personal	18,034	20,928
Credit cards	788	762
Overdrafts	549	552
Commercial	964	1,194
Total loans	<u>96,242</u>	<u>102,003</u>
Provision for impairment	<u>(214)</u>	<u>(158)</u>
	<u>96,028</u>	<u>101,845</u>

All loans and facilities are within Australia.

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

The Credit Union has established policies over the:

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

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

Past due and impaired

A financial asset is past due when the counterparty has failed to make a payment when contractually due. As an example, a member enters into a lending agreement with the Credit Union that requires interest and a portion of the principle to be paid every month. On the first day of the next month, if the agreed repayment amount has not been paid, the loan is past due. Past due does not mean that a counterparty will never pay, but it can trigger various actions such as renegotiation, enforcement of covenants, or legal proceedings. Once the past due exceeds 90 days the loans are regarded as impaired, unless other factors indicate the impairment should be recognised sooner.

Daily reports monitor the loan repayments to detect delays in repayments and recovery action is undertaken after 7 days. For loans where repayments are doubtful, external consultants are engaged to conduct recovery action once the loans are over 90 days in arrears. The exposures to losses arise predominantly in the personal loans and facilities not secured by registered mortgages over real estate.

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

16 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

C. CREDIT RISK (CONTINUED)

(i) CREDIT RISK – LOANS (CONTINUED)

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

Provisions of impairment are maintained at a level that management deems sufficient to absorb probable incurred losses in the Credit Union's loan portfolio from homogenous portfolios of assets and individually identified loans.

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

Bad debts

Amounts are written off when collection of the loan or advance is considered to be remote. All write offs are on a case by case basis, taking account of the exposure at the date of the write off.

On secured loans, the write off takes place on ultimate realisation of collateral value, or from claims on any lenders mortgage insurance.

A reconciliation in the movement of both past due and impaired exposure provisions is provided in Note 8.

Collateral securing loans

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

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

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

Repossessed collateral

In the event of member default on a mortgage facility, any loan security is usually held as mortgagee in possession and therefore the Credit Union does not usually hold any real estate or other assets acquired through the enforcement of security. During the year the Credit Union did not take possession of any real estate assets (2013: nil).

Concentration risk – individuals

Concentration risk is a measurement of the Credit Union's exposure to an individual counterparty (or group of related parties). If prudential limits are exceeded as a proportion of the Credit Union's regulatory capital (10 per cent) a large exposure is considered to exist. No additional capital is required to be held against these but APRA must be informed. APRA may impose additional capital requirements if it considers the aggregate exposure to all loans over the 10% capital benchmark, to be higher than acceptable.

The Credit Union holds no significant concentrations of exposures to members. Concentration exposures to counterparties are closely monitored with annual reviews being prepared for all exposures over 5 per cent of the capital base.

16 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

C. CREDIT RISK (CONTINUED)

(i) CREDIT RISK – LOANS (CONTINUED)

The Credit Union's policy on exposures of this size is to insist on an initial Loan to Valuation ratio (LVR) of no more than 80 per cent and bi-annual reviews of compliance with this policy are conducted.

Concentration risk – industry

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

(ii) CREDIT RISK – LIQUID INVESTMENTS

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

There is a concentration of credit risk with respect to investment receivables with the placement of investments in CUSCAL. The credit policy is that investments are only made to institutions that are credit worthy. Directors have established policies that a maximum of 50 % of capital can be invested with any one financial institution at a time.

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

Under the liquidity support scheme at least 3.2% of the total assets must be invested in CUSCAL, to allow the scheme to have adequate resources to meet its obligations if needed. The Board's policy is to maintain at least 3.2 % of the investments in CUSCAL Limited, a company set up to support its member Credit Unions and which has an A1+ / AA- rating.

All other investments must be with financial institutions with a rating in excess of BBB. The policies of the board limit the investments outside CUSCAL to 50 % of capital base per counterparty.

External Credit Assessment for Institution Investments

The Credit Union accesses ratings agencies to assess the credit quality of all investment exposures, where applicable, using the credit quality assessment scale in APRA's prudential guidance note AGN 112. The credit quality assessment scale within this standard has been complied with.

The exposure values associated with each credit rating are as follows:

Investments with	2014	2014	2014	2013	2013	2013	2010
	Carrying value	Past due value	Provision	Carrying value	Past due value	Provision	Carrying value
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
CUSCAL	7,072	-	-	7,035	-	-	3,500
rated AA-							
Banks – rated A/ and above	23,517	-	-	13,000	-	-	7,000
Banks – rated below AA	6,961	-	-	3,982	-	-	3,067
Total	37,550	-	-	24,017	-	-	16,567

16 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

D. CAPITAL MANAGEMENT

Minimum capital levels are prescribed by the Australian Prudential Regulation Authority (APRA). Under the APRA prudential standards capital is determined in three components:

- Credit risk
- Market risk (trading book)
- Operational risk.

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

Capital resources

The Credit Union regulatory capital is analysed in two tiers:

- Tier 1 capital consisting of: Common Equity Tier 1 capital – which includes retained earnings; regulatory adjustments to Common Equity Tier 1 capital; Additional Tier 1 capital; and other Additional Tier 1 capital regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes; and
- Tier 2 capital, which includes transitional subordinated liabilities, collective impairment allowances and other Tier 2 capital regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes.

Capital in the Credit Union is made up as follows:

	2014	2013
	\$'000	\$'000
Tier 1		
Retained earnings	17,949	16,662
Less prescribed deductions	(551)	(442)
Common Equity Tier 1 capital	<u>17,398</u>	<u>16,220</u>
Tier 2		
Reserve for credit losses	306	288
Less prescribed deductions	-	-
Net tier 2 capital	<u>306</u>	<u>288</u>
Total Regulatory Capital	<u>17,704</u>	<u>16,508</u>
Risk Weighted Assets (Credit)	61,639	57,572
Capital Ratios		
Total regulatory capital expressed as a percentage of total risk weighed assets	25.64%	25.33 %
Total tier 1 capital expressed as a percentage of risk weighed assets	25.20%	24.89 %

APRA sets a prudential capital requirement for each ADI that sets capital requirements in excess of the minimum capital requirement of 8% as compared to the risk weighted assets at any given time. The prudential capital ratio remains confidential between each ADI and APRA in accordance with accepted practice.

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

17. CATEGORIES OF FINANCIAL INSTRUMENTS

The following information classifies the financial instruments into measurement classes:

		2014	2013
		\$'000	\$'000
Financial assets - carried at amortised cost			
Cash and deposits	4	11,551	10,332
Financial Assets including Investments held to Maturity	5	27,478	14,482
Other receivables	6	293	140
Loans to members	7	96,028	101,845
Total loans and receivables		<u>135,350</u>	<u>126,799</u>
Available-for-sale investments - carried at cost	9	220	220
TOTAL FINANCIAL ASSETS		<u>135,570</u>	<u>127,019</u>
Financial liabilities - carried at amortised cost			
Deposits from members	13	116,664	109,546
Creditors	14	1,255	1,126
TOTAL FINANCIAL LIABILITIES		<u>117,919</u>	<u>110,672</u>

18. MATURITY AND INTEREST PROFILE OF FINANCIAL ASSETS AND LIABILITIES

Monetary assets and liabilities have differing maturity profiles depending on the contractual term, and in the case of loans the repayment amount and frequency. The table below shows the period in which different monetary assets and liabilities held will mature and be eligible for renegotiation or withdrawal. In the case of loans, the table shows the period over which the principal outstanding will be repaid based on the remaining period to the repayment date assuming contractual repayments are maintained, and is subject to change in the event that current repayment conditions are varied. Financial liabilities are at the undiscounted values (including future interest expected to be earned or paid). Accordingly these values will not agree to the statement of financial position.

The residual contractual maturities of the Credit Union's financial liabilities are detailed as follows;

	Within 1 month	1-3 months	3-12 months	Total
	\$'000	\$'000	\$'000	\$'000
2014				
Creditor accrual and settlement accounts	1,255	-	-	1,255
Deposits from members	73,442	30,239	14,905	118,586
Total financial liabilities	<u>74,697</u>	<u>30,239</u>	<u>14,905</u>	<u>119,841</u>
2013				
Creditor accrual and settlement accounts	1,126	-	-	1,126
Deposits from members	62,922	33,380	15,602	111,904
Total financial liabilities	<u>64,048</u>	<u>33,380</u>	<u>15,602</u>	<u>113,030</u>

18 MATURITY AND INTEREST PROFILE OF FINANCIAL ASSETS AND LIABILITIES (continued)

	Within 1 month	1-3 months	3-12 months	Total
2014	\$'000	\$'000	\$'000	\$'000
Cash	11,551	-	-	11,551
Receivables from financial Institutions	5,994	7,000	14,484	27,478
Loans and advances - mortgage	75,907	-	-	75,907
Loans and advances - personal	18,034	-	-	18,034
Loans and advances – other	2,301	-	-	2,301
Total financial assets	113,787	7,000	14,484	135,271
Deposits from members	73,269	29,896	13,499	116,664
Total financial liabilities				
Gap	40,518	(22,896)	985	18,607
Cumulative gap				

A summary of the Credit Unions' interest rate gap positions is as follows: This table sets out the period in which the interest rate on the various financial instruments reprice.

	Within 1 month	1-3 months	3-12 months	Total
2013	\$'000	\$'000	\$'000	\$'000
Cash	10,332	-	-	10,332
Receivables from financial Institutions	3,482	3,000	8,000	14,482
Loans and advances - mortgage	78,567	-	-	78,567
Loans and advances - personal	20,770	-	-	20,770
Loans and advances – other	2,508	-	-	2,508
Total financial assets	115,659	3,000	8,000	126,659
Deposits from members	62,714	32,978	13,854	109,546
Total financial liabilities	62,714	32,978	13,854	109,546
Gap	52,945	(29,978)	(5,854)	17,113
Cumulative gap	52,945	22,967	17,113	-

Financial assets and liabilities have conditions which allow interest rates to be amended either on maturity (term deposits and term investments) or after adequate notice is given (loans and savings).

19 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

Fair value has been determined on the basis of the present value of expected future cash flows under the terms and conditions of each financial asset and financial liability.

Significant assumptions used in determining the cash flows are that the cash flows will be consistent with the contracted cash flows under the respective contracts.

The information is only relevant to circumstances at balance date and will vary depending on the contractual rates applied to each asset and liability, relative to market rates and conditions at the time. No assets held are regularly traded by the Credit Union, and there is no active market to assess the value of financial assets and liabilities.

The values reported have not been adjusted for any changes in credit ratings of the assets.

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

Liquid assets and receivables from other financial institutions

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

Loans and advances

The carrying value of loans and advances is net of unearned income and both general and specific provisions for doubtful debts.

For variable rate loans, (excluding impaired loans) the amount shown in the statement of financial position is considered to be a reasonable estimate of fair value. The Credit Union does not provide fixed rate lending.

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

Deposits from members

The fair value of call and variable rate deposits, and fixed rate deposits repricing within 12 months, is the amount shown in the statement of financial position. The Credit Union does not provide fixed rate deposits exceeding 12 months.

The carrying value of payables due to other financial institutions approximate their fair value as they are short term in nature and reprice frequently. The Credit Union does not have any short term borrowings.

	2014	2013
	\$'000	\$'000
20 FINANCIAL COMMITMENTS		
Outstanding loan commitments		
Loans approved but not funded	1,176	1,024
Loan redraw facilities		
Loan redraw facilities available	4,262	2,774
Undrawn loan facilities		
Loan facilities available to members for overdrafts and line of credit loans are as follows:		
Total value of facilities approved	3,047	2,955
Less: Amount advanced	(1,317)	(1,295)
Net undrawn value	1,730	1,660
These commitments are contingent on members maintaining credit standards and ongoing repayment terms on amounts drawn.		
Total financial commitments	7,168	5,458
Lease expense commitments for operating leases on property occupied by the Credit Union		
Not later than one year	25	27
Later than one year but not later than five years	2	20
Over five years	-	-
	27	47

The operating leases are in respect of property used for providing branch services to members. There are no contingent rentals applicable to leases taken out. The terms of the leases are for between 2 to 5 years and options for renewal are usually obtained for a further 3 years.

There are no restrictions imposed on the Credit Union so as to limit the ability to undertake further leases or borrow funds.

21 CONTINGENT LIABILITIES

Liquidity support scheme

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

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

Guarantees

There are no contingent guarantees as at 30 June 2014 (2013: nil).

22 RELATED PARTIES

Remuneration of key management persons

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

The following were the key management personnel of the Credit Union at any time during the period and unless otherwise indicated were key management personnel for the entire period;

- Directors: Mr. B Page, Mr. K Carmody, Mr. L Peek, Mr. C McTavish, Mr. A Hanrahan and Mr. K Cloake
- Senior Executives: Mr. S Elsley, Ms E. Cleverdon,
- Operational Managers: Ms J Trudgett (Loans Manager) , Ms N Woods (Operations Manager)

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

	2014	2013
	\$	\$
(a) short-term employee benefits;	556,418	551,350
(b) post-employment benefits - superannuation contributions	51,458	68,198
(c) other long-term benefits	9,661	16,937
Total	617,537	636,485

In the above table, remuneration shown as short term benefits means (where applicable) wages, salaries and superannuation contributions, paid annual leave and paid sick leave, profit sharing and bonuses, value of fringe benefits received, but excludes out of pocket expense reimbursements.

All remuneration to directors was approved by the members at the previous Annual General Meeting of the Credit Union.

Loans to Directors and other Key Management Persons

	2014	2013
	\$	\$
(i) The aggregate value of loans to directors and other key management persons as at balance date amounted to	636,350	749,424
(ii) The total value of revolving credit facilities including VISA, to directors and other key management persons, as at balance date amounted to	56,000	56,000
- Less amounts drawn down and included in (i)	(35,549)	(33,284)
Net Balance available	20,451	22,716
(iii) During the year the aggregate value of loans disbursed to directors and other key management persons amounted to:	-	-
Term Loans	-	-
(iv) The aggregate value of interest paid by key management personnel amounted to:	51,360	55,355

The Credit Union's policy for lending to directors and management is that all loans are approved and deposits accepted on the same terms and conditions which applied to members for each class of loan or deposit. There are no loans which are impaired in relation to the loan balances with directors or other KMP.

22 RELATED PARTIES (CONTINUED)

Other transactions between related parties include deposits from KMP and their related parties.

	2014	2013
	\$	\$
Total value of term and saving deposits from KMP	864,279	683,137

The Credit Union's policy for receiving deposits from KMP is that all transactions are approved and deposits accepted on the same terms and conditions which applied to members for each type of deposit.

Transactions with Other Related Parties

Mr Keith Carmody (Director and Deputy Chairman of the Board) acts on behalf of the Credit Union in legal matters at normal commercial rates. During the course of the year amounts paid to Mr Keith Carmody totalled \$ 4,483 (2013 \$8,800). There are no amounts outstanding at 30 June 2014 (2013: nil).

Other transactions between related parties include deposits from director related entities or close family members of directors, and other KMP.

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

There are no benefits paid or payable to the close family members of the key management persons. There are no service contracts to which key management persons or their close family members are an interested party.

23 ECONOMIC DEPENDENCY

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

CUSCAL Limited

CUSCAL is an Approved Deposit Taking Institution registered under the Corporations Act 2001 and the Banking Act. This Credit Union:

- (i) provides the license rights to Visa Card in Australia and settlement with Bankers for ATM, Visa card and cheque transactions, direct entry transactions, as well as the production of Visa and Redicards for use by members;
- (ii) provides treasury and money market facilities to the Credit Union. The Credit Union has invested liquid assets with the Credit Union to maximise return on funds, and to comply with the Liquidity Support Scheme requirements.
- (iii) operates the computer network used to link redicards (CUSCAL switch), visa debit & credit cards operated through Reditellers and other approved ATM suppliers to the Credit Union's EDP systems.(previously provided by First Data International FDI)

Lynx / Indue

Provides and maintains the application software utilised by the Credit Union.

24 NOTES TO STATEMENT OF CASH FLOWS

	2014	2013
	\$'000	\$'000
Reconciliation of cash from operations to accounting profit		
Profit after income tax	1,305	1,187
Add (Deduct) :		
Depreciation and amortisation expense	135	151
Profit on sale of assets	(10)	-
Impairment Loss on loans and receivables	128	106
Change in provisions	21	12
Change in current tax payable	99	(30)
Change in creditor accruals and settlement accounts	129	62
Change in other receivables	(153)	81
Change in prepayments	4	(22)
Change in deferred tax assets	(30)	18
Net cash from revenue activities	<u>1,628</u>	<u>1,565</u>
Add (Deduct) non revenue operations		
Change in receivables from other financial institution balances	(12,996)	5,083
Change in loans balances	5,689	(8,861)
Change in deposit balances	<u>7,118</u>	<u>2,278</u>
Net cash from operating activities	<u><u>1,439</u></u>	<u><u>65</u></u>

25 AUDITORS' REMUNERATION

	2014	2013
	\$	\$
Audit services:		
Auditors of the Credit Union – KPMG		
Audit and review of the financial reports	41,170	39,210
Other regulatory audit services	13,340	12,765
Taxation services	645	599
	<u>55,155</u>	<u>52,574</u>



Independent auditor's report to the members of South West Slopes Credit Union Limited

Report on the financial report

We have audited the accompanying financial report of South West Slopes Credit Union Limited (the Company), which comprises the statement of financial position as at 30 June 2014, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, notes 1 to 25 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration.

Directors' responsibility 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 is free from material misstatement, whether due to fraud or error. In note 1(b), the directors also state, in accordance with Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with International Financial Reporting Standards.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These 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 is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the 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 financial report that gives a true and fair view 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We performed the procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001* and Australian Accounting Standards, a true and fair view which is consistent with our understanding of the Company's financial position and of its performance.

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*.

Auditor's opinion

In our opinion:

- (a) the financial report of South West Slopes Credit Union Limited is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the Company's financial position as at 30 June 2014 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001.
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in note 1(b).


Richard Drinnan
Partner

Wollongong

Dated this 24th day of September 2014