SWSCU

Big enough to help,
yet small enough to care

South West Slopes Credit Union

Annual Report 2017/18

SWSCU

Big enough to help, yet small enough to care

ACN 087650673
ABN 80 087 650 673

AFS & Australian Credit Licence No
240712

Registered Office
89 Boorowa Street, Young NSW 2594

Solicitors
KP Carmody & Co. Solicitors & Attorneys

Bankers
CUSCAL & National Australia Bank

Auditors
KPMG (Wollongong)

www.swscu.com.au

Find us on Facebook

facebook.com/southwestslopescreditunion/

Cover image: Cootamundra staff participating
in the Cootamundra Wattle Time Festival

Contents

The Directors

Keith Carmody

Position

- Chair of the Board
- Independent Non-Executive Director
- Board Governance & Policy Review Committee
- Board Risk Committee
- Board Executive & Remuneration Committee

Qualifications and Experience

- Membership of Institute of Strategy, Innovation and Leadership (Instil)
- Self employed solicitor, Proprietor of KP Carmody & Co.
- LLB Sydney University 1973
- Director of SWSCU from 1988, 30 years experience on the Board of SWSCU
- Chair of SWSCU Board since 2015 current

No other directorships within the last 3 years

Adrian Hanrahan

Position

- Independent Non-Executive Director
- Deputy Chair of the Board
- Chair of the Governance & Policy Review Committee
- Board Executive & Remuneration Committee
- Board Risk Committee

Qualifications and Experience

- Membership of Institute of Strategy, Innovation and Leadership (Instil)
- General Manager Young Shire Council 2000-2008 (Retired)
- Change to 30 years Local Government experience
- Director of SWSCU from 2008, 10 years experience on the Board of SWSCU

No other directorships within the last 3 years

Kevin Cloake

Position

- Independent Non-Executive Director
- Chair of the Audit Committee
- Chair of the Board Risk Committee
- Board Governance & Policy Review Committee
- Board Executive & Remuneration Committee

Qualifications and Experience

- 40 years financial experience including 21 years with the Commonwealth Bank and 7 years with Local Government in various roles
- First appointment on 18-11-2010, elected
- Director of SWSCU since 2010, 8 years experience on the Board of SWSCU
- Membership of Institute of Strategy, Innovation and Leadership (Instil)

No other directorships within the last 3 years

Allan Stuart

Position

- Independent Non-Executive Director
- Board Audit Committee
- Board Risk Committee

Qualifications and Experience

- Bachelor of Engineering / Electrical 1982
- Electrical Engineer / Consultant, predominately to Country Energy
- Diploma Financial Services 2006
- Diploma Australian Institute of Company Directors, GAICD 2010
- Director of SWSCU 1998-2011 and 2018 ongoing, 13 years experience on the Board of SWSCU
- Chair of the Board June 2008 – November 2009

No other directorships within the last 3 years

Jane Douch

Position

- Independent Non-Executive Director
- Board Governance & Policy Review Committee
- Board Risk Committee

Qualifications and Experience

- Director of SWSCU 29 August 2017 (appointed)

No other directorships within the last 3 years

Lauren Peek

Position

- Independent Non-Executive Director
- Board Audit Committee
- Board Risk Committee

Qualifications and Experience

- Membership of Institute of Strategy, Innovation and Leadership (Instil)
- Self employed, Proprietor of 'Framaglass" a local framing and glass business
- Director of SWSCU since 1992, 26 years experience on the Board of SWSCU

No other directorships within the last 3 years

Brian Page

Position

- Independent Non-Executive Director
- Board Risk Committee
- Board Audit Committee

Qualifications and Experience

- Membership of Institute of Strategy, Innovation and Leadership (Instil)
- Director Environmental Services
- Young Shire Council, former Health Inspector (Retired 2001)
- Director of SWSCU from 1978-1981 and since 2000
- 21 years experience having served on the SWSCU Board
- Chair of SWSCU Board 2009-2014

No other directorships within the last 3 years

Chair's Report

I am pleased to present my annual report as Chair of South West Slopes Credit Union. Once again your credit union performed outstandingly during the last financial year achieving the same profit results as last year and meeting all other budgetary benchmarks.

CEO Andrew Jones will expand on the financial performance of the Credit Union in his report. I would like to congratulate all the staff of our four branches, Young, Cootamundra, Temora and West Wyalong for their expertise and the spirit in which they have performed their duties. I have visited all branches except West Wyalong (must get there soon) and I have been particularly impressed with the enthusiasm and team spirit which I have encountered.

The continued success of your credit union must be put down in no small way to the leadership of CEO Andrew Jones and his management team. Andrew and the management team continue to progress the Board's strategic plan to enhance the experience of members in their dealings with the credit union.

Above: West Wyalong branch promoting SWSCU Car Loan

Your Board of Directors is there to provide oversight and leadership and strategic direction for the credit union and its dedicated staff. Sometimes difficult decisions need to be made in the overall interests of your credit union. One such decision has been made recently in respect to the ATM's provided by your credit union. Because of changes to the existing rediATM agreement in place with Cuscal, the cost burden of operating ATM's will blow out substantially. It seems also that society is heading more and more down the path of cashless transactions.

The Board is ever mindful of current trends and increasing costs and its effect on the profitability of the credit union. In reaching a decision to remove ATM's from all branches except West Wyalong the Board took into account all factors including the ready and multiple availability of 'free' ATM's in all towns except West Wyalong. I hope you can appreciate that the decision was not taken lightly and was made with the best interests of members in mind. The credit union is constantly investigating new technology including the instant payment platform and where appropriate acquiring it for the benefit of members.

The annual meeting of members of South West Slopes Credit Union is taking place against the back drop of the Royal Commission into Banking. One could be forgiven for mistaking the events of the Royal Commission as a mini-series with an appropriate title such as Banks Behaving Badly. It has really opened the eyes of the Australian public into the misguided culture that allowed bankers to ignore the basic principles of right and wrong, fair play and decency. Such a culture is driven by an unprincipled drive for profit where the rules and the concept of decency and fair play are pushed to one side.

The Royal Commission has not criticised the credit union movement. Your credit union is here to serve its members. It does not answer to shareholders' expectations of ever increasing profits and consequent dividends. Although legislation has been changed to allow all credit unions to call themselves "banks" your credit union has deliberately chosen to differentiate itself from banks and to maintain its present description. Your money is safe at your credit union. Staff members are highly trained and professional in carrying out their duties.

The credit union is subject to regulatory compliance checks including internal and external auditing and oversight by the prudential regulator APRA.

Again it would be remiss of me if I did not mention the support which your credit union provides to the local communities through sponsorship and donations. This is in line with the credit union philosophy of people before profits.

I thank my fellow board members for their input and dedication in carrying out their duties during the last 12 months. At this point I would like to introduce and welcome a new board member, namely Alan Stuart, who has been re-appointed to the Board. Alan, as most of you will recall, previously served on the Board and is a past Chair of the Board. Alan's experience and his overall business acumen will be a great asset to the Board.

A position became available following the resignation of director Craig McTavish. I would like to thank Craig for his years of service on the Board and to wish him all the best for the future.

Lauren Peek and myself have been re-elected to the Board for the next three years and both of us will be representing your interests to the best of our abilities during that time.

Finally I wish all members financial security and good health for the future.

Keith Carmody

Keith Carmody
Chair of the Board of Directors
South West Slopes Credit Union

"YOUR BOARD OF DIRECTORS IS THERE TO PROVIDE OVERSIGHT AND LEADERSHIP AND STRATEGIC DIRECTION FOR THE CREDIT UNION AND ITS DEDICATED STAFF."

Left: St Mary's Primary School, Young – School Banking winners

CEO's Report

I am delighted to present this year's CEO report after another very busy and successful year at SWSCU.

The past year at SWSCU

Our philosophy of growing our business by providing quality products through outstanding service has delivered significant growth within our business over the past 12 months. In particular we have welcomed over 600 new members and written over $42m of new loans to our members.

All of our branches have contributed positively to our growth as our team members strive to deliver a positive experience across all member interactions.

Of note we have successfully delivered an upgrade to our online presence through the introduction of active online forms that allow new members to have their ID automatically verified when applying for membership. Our members can also now apply for a loan online at any time of the day from the comfort of their own home through the online channel.

"ALL OF OUR BRANCHES HAVE CONTRIBUTED POSITIVELY TO OUR GROWTH AS OUR TEAM MEMBERS STRIVE TO DELIVER A POSITIVE EXPERIENCE ACROSS ALL MEMBER INTERACTIONS."

SWSCU Performance	2018	2017	2016
Profit before Tax	$883,000	$906,000	$1,139,000
Loans	$113,246,000	$102,222,000	$96,190,000
Loan Increase/(Decrease)	11%	6%	2%
Deposits from Members	$141,892,000	$135,387,000	$127,493,000
Deposits Increase/(Decrease)	5%	6%	6%

Looking forward

The banking environment continues to experience change at a pace that is being set by non traditional sources.

The digital revolution and rise of Fintechs who are focused on financial services are driving change across all areas of banking, this includes the way we interact with members, the way we process and settle loans and the ever decreasing use of paper in the form of cheques and even cash.

The industry including SWSCU is continually evaluating new technology such as wearables which can take the place of the traditional ATM or Eftpos card and even the ongoing need for an expensive ATM leased fleet when most other bank ATM's are now fee free for SWSCU members.

While new technology will no doubt change many of the ways our members interact with SWSCU, it is our focus on our members and our dedication to delivering 'face to face' personal service that stands us above our competitors and is something that we are very proud of and highlights our position as a local.

I would like to thank the Board and every member of the SWSCU team for their support over the past 12 months and look forward to the next 12 months.

Above: Temora Branch Supervisor,
Melanie Heidemann promoting SWSCU products

Andrew Jones
CEO

Right: Temora Branch promoting
Refinancing Home Loans

Above: Young North Public School – School Banking winners
Right: West Wyalong Branch BBQ
Below: SWSCU sponsoring Young Junior Rugby League Cherry Pickers – U11's Tigers

Financials

Regulatory Disclosures

The Credit Union is required by APRA to publicly disclose certain information on its risk profile, risk management, capital adequacy, capital instruments and remuneration practices to contribute to the transparency of financial markets and to enhance market discipline. These disclosures can be found on the Credit Union's website under the About Us tab: Prudential Disclosures or via the following link:
https://www.swscu.com.au/index.php/prudential-disclosure/

Director's 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 2018 and the auditor's report thereon.

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
Keith Carmody LLB – Chair of the Board since Nov 2014 – Independent Non-Executive Director – Member of the Risk Committee – Member of the Governance & Policy Review Committee – Member of Executive & Remuneration Committee	– Director of SWSCU from 1988 until current – 30 years – Principal of KP Carmody Solicitors, Young NSW – Member of Institute for Strategy, Innovation and Leadership (Instil) – No other directorships within the last 3 years
Adrian Hanrahan – Deputy Chair of the Board – Independent Non-Executive Director – Member of the Risk Committee – Chair of the Governance & Policy Review Committee – Member of Executive & Remuneration Committee	– Director of SWSCU from 2008 – from 2010 until current; 10 years – General Manager of Young Shire Council (Retired) – Member of Institute for Strategy, Innovation and Leadership (Instil) – No other directorships within the last 3 years
Kevin Cloake – Independent Non-Executive Director – Chair of the Risk Committee – Chair of the Audit Committee – Member of the Governance & Policy Review Committee – Member of Executive & Remuneration Committee	– Director of SWSCU 2010 – until current; 8 years – Employed at Hilltops Council (previously Harden Shire Council) since 2003. Financial Officer – Expenditure – 21 years of banking experience with Commonwealth Bank (1976-1997) – Member of Institute for Strategy, Innovation and Leadership (Instil) – No other directorships within last 3 years
Craig McTavish BBus, CPA – Independent Non-Executive Director – Member of the Risk Committee – Member of the Audit Committee – Resigned 24 October 2017	– Director of SWSCU from 2007 – 24 October 2017; 10 years – Partner of accounting firm Hunt & McTavish in Cootamundra – No other directorships within the last 3 years
Jane Douch – Independent Non-Executive Director – Member of the Risk Committee – Member of the Governance & Policy Review Committee	– Appointed as Director of SWSCU on 29 August 2017 – No other directorships within the last 3 years

Name	Experience, responsibilities and other directorships
Brian Page – Independent Non-Executive Director – Member of the Risk Committee – Member of the Audit Committee	– Director of SWSCU from 1978-1981 and 2000 until current –21 years. Chair of the Board from 2009-2014 – Director Environmental Services – Young Shire Council (Retired 2001), former Health Inspector – Member of Institute for Strategy, Innovation and Leadership (Instil) – No other directorships within the last 3 years
Lauren Peek – Independent Non-Executive Director – Member of the Risk Committee – Member of the Audit Committee – Member of the Governance & Policy – Review Committee (Jul-Oct 2017)	– Director of SWSCU from 1992 – until current; 26 years – Proprietor of 'Framaglass'; a glass sales & framing business in Young NSW – Member of Institute for Strategy, Innovation and Leadership (Instil) – No other directorships within the last 3 years
Allan Stuart – Independent Non-Executive Director – Member of Audit Committee – Member of the Risk Committee	– Appointed as Director of SWSCU 30 May 2018 – Previously served as SWSCU Director 1999 – 2012; 13 years Chair of the Board for 2 years – Bachelor of Engineering/Electrical – Engineering and Management Consultant – Diploma of Financial Services – Graduate of Institute of Company Directors (GAICD) 2010 – No other directorships within the last 3 years

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 name of the Company Secretary in office at the end of the year is:

Name	Relevant qualifications	Experience
Andrew Jones CEO Company Secretary	– Bachelor of Science – Diploma of Financial Services – Certificate IV in Credit Management – ASIC Tier 2 – Graduate of Institute of Company Directors (GAICD)	Over 25 years of banking and finance experience gained with international banks, NAB, ANZ and more recently TIO in the Northern Territory as General Manager of the banking division. Commenced as CEO of SWSCU on 1 June 2016.
Serena Sullivan CFO Company Secretary	– Bachelor of Commerce (Hons) (ANU) – CPA – Advanced Diploma of Leadership and Management (Institute for Strategy, Innovation and Leadership)	Over 20 years of accounting and finance experience gained with small and medium businesses (some of which are listed on UK's AIM Stock Exchange). Commenced as CFO of SWSCU on 14 July 2016.

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

Director	Board Meetings		Risk Committee		Audit Committee Meetings		Governance & Policy Review Committee		Period of appointment
	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend	Attended	
Keith Carmody	13	13	11	11	1	1	10	6	3 years (2015–2018)
Adrian Hanrahan	13	11	11	10	–	–	10	8	3 years (2016–2019)
Kevin Cloake	13	12	11	10	3	3	10	8	3 years (2017–2020)
Jane Douch	10	9	9	8	–	–	6	4	2 years (2017–2019)
Craig McTavish	4	4	4	4	1	1	–	–	3 years (2014–2017))
Brian Page	13	9	11	8	3	2	–	1	3 years (2016–2019)
Lauren Peek	13	12	11	10	3	3	4	3	3 years (2015–2018)
Allan Stuart	2	2	2	2	–	–	–	–	2 years (2018–2020)

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 $977 (2017 $775).

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 $640,000 (2017: $639,000)

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 Union in the financial years subsequent to this financial year.

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.

Auditor's Independence Declaration

The auditor's independence declaration is set out on page 7 and forms part of the directors' report for the financial year ended 30 June 2018.

Rounding Off

The Credit Union is of a kind referred to in ASIC Instruments 2016/191 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:

Keith Carmody
Chair of the Board of Directors

Dated at Young this 26th day of September 2018

Director's Declaration

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

(a) the financial statements and notes of South West Slopes Credit Union Ltd 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 2018 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:

Keith Carmody
Chair of the Board of Directors
Director

Signed in Young
26th September 2018

Auditor's Independence Declaration

SOUTH WEST SLOPES CREDIT UNION LTD
ABN 80 087 650 673
2018 Annual Financial Report

KPMG

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 of South West Slopes Credit Union Limited for the financial year ended 30 June 2018 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

Warwick Shanks
Partner

Signed in Young on this 26th day of September 2018

Statement of Profit or Loss and other Comprehensive Income

FOR THE YEAR ENDED 30 June 2018

	Note	2018 $'000	2017 $'000
Interest income	2	7,044	6,860
Interest expense	2	(1,556)	(1,567)
Net interest income		**5,488**	**5,293**
Fee commission and other income	2	566	603
Operating income		**6,054**	**5,896**
Impairment losses on loans receivable from members	2	(2)	(38)
Fee and commission expenses		(777)	(722)
Employees' compensation and benefits		(2,436)	(2,304)
Depreciation and amortisation	10,11	(297)	(250)
Information technology		(523)	(500)
Office occupancy		(134)	(137)
Other administration		(1,002)	(1,040)
Total operating expenses		**(5,171)**	**(4,991)**
Profit before income tax		**883**	**905**
Income tax expense	3	(243)	(266)
Profit for the year		**640**	**639**
Other comprehensive income for the year, net of income tax		–	–
Total comprehensive income for the year		**640**	**639**

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 19 to 51.

Statement of Financial Position

AS AT 30 June 2018

	Note	2018 $'000	2017 $'000
ASSETS			
Cash and cash equivalents	4	7,652	4,632
Financial assets	5	41,856	48,416
Other receivables	6	249	289
Current tax receivable	12	–	82
Prepayments		106	82
Loans to members	7	113,089	102,021
Available-for-sale investments	9	225	225
Property, plant and equipment	10	804	835
Deferred tax assets	12	158	179
Intangible assets	11	522	409
TOTAL ASSETS		**164,661**	**157,170**
LIABILITIES			
Deposits from members	13	142,028	135,387
Creditor accruals and settlement accounts	14	925	728
Current tax payable	12	40	–
Provisions	15	383	410
TOTAL LIABILITIES		**143,376**	**136,525**
NET ASSETS		**21,285**	**20,645**
MEMBERS' EQUITY			
General reserve for credit losses		318	318
Retained earnings		20,967	20,327
TOTAL MEMBERS' EQUITY		**21,285**	**20,645**

The Statement of Financial Position is to be read in conjunction with the notes to the financial statements set out on pages 19 to 51.

Statement of Changes in Equity

FOR THE YEAR ENDED 30 June 2018

	General reserve for credit losses $'000	Retained earnings $'000	Total $'000
Balance at 1 July 2016	**301**	**19,705**	**20,006**
Total comprehensive income for the year			
Profit for the year	–	639	639
Other comprehensive for the year	–	–	–
Total comprehensive income for the year		639	639
Transfer to (from) general reserve for credit losses in year	17	(17)	–
Balance at 30 June 2017	318	20,327	20,645
Balance at 1 July 2017	**318**	**20,327**	**20,645**
Total comprehensive income for the year			
Profit for the year	–	640	640
Other comprehensive for the year	–	–	–
Total comprehensive income for the year		**640**	**640**
Transfer to (from) general reserve for credit losses in year	–	–	–
Balance at 30 June 2018	**318**	**20,967**	**21,285**

The Statement of Changes in Equity is to be read in conjunction with the notes to the financial statements set out on pages 19 to 51.

Statement of Cash Flows

FOR THE YEAR ENDED 30 June 2018

	Note	2018 $'000	2017 $'000
OPERATING ACTIVITIES			
Interest received from members		5,869	5,509
Investment interest & fees and commission received		1,215	1,385
Dividends received		18	31
Other cash receipts in the course of operations		525	552
Interest paid		(1,534)	(1,629)
Cash payments to suppliers and employees		(4,643)	(5,221)
Income taxes paid		(182)	(310)
Net cash from revenue generating activities		1,268	317
Cash from other operating activities			
Net movement in member loans		(11,078)	(5,840)
Net movement in member deposits and shares		6,641	7,894
Net cash (used by)/from operating activities	**23**	**(3,169)**	**2,371**
INVESTING ACTIVITIES			
Proceeds from sale of property, plant and equipment		30	28
Purchase of property, plant and equipment and intangibles		(401)	(138)
Sale/(Purchase) of investments		6,560	(2,182)
Net cash from/(used by) investing activities		**6,189**	**(2,292)**
FINANCING ACTIVITIES			
Net cash from financing activities		–	–
Net increase in cash and cash equivalents		3,020	79
Cash and cash equivalents at beginning of year		4,632	4,553
Cash and cash equivalents at end of year	**4**	**7,652**	**4,632**

The Statement of Cash flows is to be read in conjunction with the notes to the financial statements set out on pages 19 to 51.

Notes to the Financial Statements

1. Summary of Accounting Policies

a. Reporting Entity

South West Slopes Credit Union Limited 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 26th September 2018 in accordance with a resolution by 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 Instruments 2016/191 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(o)(ii) – Loan impairment

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

f. Financial Instruments

Non-derivative financial instruments

Non-derivative financial instruments comprise cash and cash equivalents, loans to members, loans & 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) 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.

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

Held-to-Maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturity other than loans and receivables that the Credit Union's management has the positive intention and ability to hold to maturity. If the Credit Union were to sell other than an insignificant amount of Held-to-Maturity financial assets, the whole category would be tainted and reclassified.

Held-to-Maturity financial assets 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.

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 has two unlisted equity investment. Shares in CUSCAL Limited and Shared Service Partners are held for operational reasons and are not held for capital gain or for the purposes of trading. There is no active market for these shares and they are only traded between other mutual ADI's and therefore are measured at cost less any impairment.

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.
- Leasehold improvements – 10 years.
- Assets less than $1,000 are not capitalised.

m. Intangible Assets

(i) Recognition and Measurement

Where computer software costs are not integrally related to associated hardware, the Credit Union recognises them as an intangible asset where they are clearly identifiable, can be reliably measured and it is probable they will lead to future economic benefits that the Credit Union controls. The capitalised costs of computer software include all costs directly attributable to developing the software. This incorporates the direct cost of acquiring the computer software payable to the third party supplier.

The Credit Union carries capitalised computer software assets at capitalised cost less 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 is 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 are 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.

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 arrears 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.

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 payable to depositors as at the reporting date.

(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) Superannuation

Contributions made by the Credit Union to an employee's superannuation fund are recognised in the profit or loss as the related service is provided.

(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 Credit Union 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.

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. Leases

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 2018 temporary differences were assessed at 27.5% (2017: 30%). For the year ended 30 June 2018, the tax rate for Base Rate Entities has reduced to 27.5%. The Credit Union meets the requirements of a Base Rate Entity, therefore the lower rate of 27.5% has been applied when assessing temporary differences.

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

Certain accounting standards and interpretations have been published that are not mandatory for the 30 June 2018 reporting period. The Credit Union's assessment of the impact of these new standards and interpretations is set out below:

AASB 9 Financial Instruments replaces the existing guidance in AASB 139 Financial Instruments: Recognition and Measurement. AASB 9 includes revised guidance on the classification of financial instruments, including a new expected credit loss model for calculating impairment of financial assets and the new general hedge accounting requirements. AASB 9 carries forward the guidance on recognition and derecognition of financial instruments from AASB 139. AASB 9 is effective for annual periods beginning on or after 1 January 2018 with early adoption permitted. The Credit Union will apply AASB 9 from 1 July 2018.

AASB 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics. Three principal classification categories for financial assets are stipulated: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL).

Based on a preliminary assessment of possible changes to the classification and measurement of financial assets as at 30 June 2018, the Credit Union's current expectation is that:

- Financial assets currently classified as available for sale under AASB 139 would generally be measured at FVOCI under AASB 9.
- The treatment of all other financial assets will remain largely unchanged and continue to be measured at amortised cost. AASB 9 replaces the 'incurred loss' model applied in AASB 139 with an expected credit loss (ECL) model. This will require considerable judgement in how changes in economic factors affect ECLs.

The Credit Union has commenced work on the design of an Expected Credit Loss (ECL) impairment model for the calculation of ECL for its retail exposures. Until the model has been developed and fully tested, the actual impact of adopting AASB 9 on the Credit Union's financial statements on the application date has not yet been finalised and the estimated adjustment from the adoption of AASB 9 on the opening balances of the Credit Union's equity at 1 July is not disclosed.

AASB 15 Revenue from contracts with customers, establishes a comprehensive framework for determining whether, how much, and when revenue is recognised. AASB 15 supersedes AASB 118 Revenue, and AASB 111 Construction Contracts along with a number of interpretations. AASB 15 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted. The Credit Union will apply AASB 15 from 1 July 2018. The Credit Union does not anticipate the application of this standard will have any impact on its financial statements.

AASB 16 Leases removes the classification of leases as either operating or finance leases (for the lessee) effectively treating all leases as finance leases and, subject to limited exceptions, requires all leases to be capitalised on the balance sheet. Lessor accounting would remain similar to current practice. AASB 16 is effective for annual reporting periods beginning on or after 1 January 2019 with early adoption permitted. The Credit Union has not yet determined the impact on the new requirements on its financial statements.

2. Notes to the Statement of Comprehensive Income

	2018 $'000	2017 $'000
Interest income		
Cash and deposits at call	85	93
Receivables from financial institutions	1,130	1,292
Loans to members	5,829	5,475
TOTAL INTEREST INCOME	**7,044**	**6,860**
Fee, commission and other income		
Fee income	385	419
Insurance commissions	50	54
Other commissions	66	63
Dividends received on available-for-sale assets	18	31
Bad debts recovered	11	7
Gain/(Loss) on disposal of property, plant and equipment	8	(2)
Other income	28	31
TOTAL FEE, COMMISSION AND OTHER INCOME	**566**	**603**
Interest expense		
Deposits from members	1,556	1,567
TOTAL INTEREST EXPENSE	**1,556**	**1,567**
Impairment losses		
Loans and advances		
Provision (utilised)/made during the year	(43)	6
Bad debts written off directly against profit	45	32
TOTAL IMPAIRMENT LOSSES	**2**	**38**
Other prescribed disclosures		
Employees compensation and benefits include: – Superannuation contributions to defined contribution plans	187	185
Office occupancy costs include: P roperty operating lease payments – minimum lease payments	29	32

3. Income Tax Expense

	2018 $'000	2017 $'000
The income tax expense comprises amounts set aside as:		
Provision for income tax – current year	243	242
(Increase) Decrease in deferred tax asset account	–	21
Income tax expense attributable to operating profit	**243**	**263**
The prima facie tax payable on profit is reconciled to the income tax expense in the accounts as follows: Profit before income tax	883	905
Prima facie tax payable on profit before income tax at 27.5% (2017: 30%)	243	272
Add tax effect of expenses not deductible – Other non-deductible expenses / or taxable income	11	3
– Gross up dividends	(3)	4
	251	279
Less – Franking rebate	(8)	(13)
Income tax expense attributable to current year profit	**243**	**266**

4. Cash and Cash Equivalents

	2018 $'000	2017 $'000
Cash on hand	3,652	2,932
Deposits at call	4,000	1,700
	7,652	**4,632**

5. Financial Assets

	2018 $'000	2017 $'000
RECEIVABLES FROM FINANCIAL INSTITUTIONS		
Deposits with industry bodies – CUSCAL	2,420	2,420
Deposits with Non Bank ADI's	4,900	1,500
Deposits with Australian Banks	14,000	15,000
	21,320	18,920
HELD-TO-MATURITY FINANCIAL ASSETS		
Deposits with Non Bank ADI's	3,476	1,507
Deposits with Australian Banks	17,060	27,989
	20,536	29,496
TOTAL FINANCIAL ASSETS	**41,856**	**48,416**

6. Other Receivables

	2018 $'000	2017 $'000
Sundry debtors and settlement accounts	249	289
	249	**289**

7. Loans to Members

	2018 $'000	2017 $'000
Amount due comprises:		
Overdrafts and revolving credit (including VISA)	1,239	1,207
Term loans	112,007	101,015
	113,246	102,222
Provision on impaired loans (Note 8)	(157)	(201)
	113,089	102,021
Credit quality		
Secured by mortgage over real estate	95,364	85,808
Partly secured by goods mortgage	8,111	6,397
Wholly unsecured	9,771	10,017
	113,246	**102,222**

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 wholly secured by mortgage against real estate	2018 $'000	2017 $'000
– loan to valuation ratio of less than 80%	85,439	78,406
– loan to valuation ratio of more than 80% but mortgage insured	6,136	5,368
– loan to valuation ratio of more than 80% and not mortgage insured	3,789	2,034
Total	**95,364**	**85,808**

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.

	2018 $'000	2017 $'000
Concentration of loans by purpose **Loans to natural persons**		
– Residential loans and facilities	94,104	84,951
– Personal loans and facilities	17,818	16,337
– Business loans and facilities	1,324	934
	113,246	**102,222**

8. Provision on Impaired Loans

	2018 $'000	2017 $'000
Total provision comprises		
Collective provision	157	160
Specific provision	–	41
Total Provision	**157**	**201**
Movement in the provision for impairment		
Balance at the beginning of year	201	192
Add (deduct):		
Provision made during the year	–	9
Provision used during the year	(44)	–
Balance at end of year	**157**	**201**

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	2018 $'000	2017 $'000
Individually impaired Gross amount	–	41
Provision for impairment	–	(41)
Carrying amount	–	–
Past due but not impaired Days in arrears:		
Less than one month	3	4
Greater than one month and less than two months	86	242
Greater than two months and less than three months	45	79
Greater than three months	229	90
Carrying amount	363	415
Neither past due nor impaired Secured by mortgage	95,364	85,446
Personal and commercial	16,280	15,203
Overdrafts/revolving	1,239	1,117
Carrying amount	112,883	101,766
Collective impairment provision	(157)	(160)
Total carrying amount	**113,089**	**102,021**

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.

9. Available for Sale Investments

	2018 $'000	2017 $'000
Shares in unlisted company – at cost		
CUSCAL Limited	220	220
Shared Service Partners	5	5
Total value of investments	**225**	**225**

The Credit Union is not intending to dispose of these shares.

10. Property, Plant and Equipment

	Land and buildings $'000	Plant and equipment $'000	Total $'000
Cost or deemed cost			
Balance at 30 June 2016	825	1,710	2,535
Additions	5	116	121
Disposals	–	(112)	(112)
Balance at 30 Jun 2017	830	1,714	2,544
Additions	6	86	92
Disposals	–	(197)	(197)
Balance at 30 Jun 2018	**836**	**1,603**	**2,439**
Accumulated depreciation and impairment losses			
Balance at 30 June 2016	(247)	(1,439)	(1,686)
Depreciation for the year	(19)	(86)	(105)
Disposals	–	82	82
Balance at 30 June 2017	(266)	(1,443)	(1,709)
Depreciation for the year	(20)	(81)	(101)
Disposals	–	175	175
Balance at 30 June 2018	**(286)**	**(1,349)**	**(1,635)**

	2018 $'000	2017 $'000
Total Property Plant and Equipment – at cost	2,439	2,544
Total Accumulated Depreciation	(1,635)	(1,709)
Total Property, Plant and Equipment – carrying amount	**804**	**835**

11. Intangible Assets

	2018 $'000	2017 $'000
Cost		
Balance at 1 July	1,010	991
Additions	309	19
Balance at 30 June	**1,319**	**1,010**
Accumulated Amortisation		
Balance at 1 July	(601)	(456)
Amortisation for the year	(196)	(145)
Balance 30 June	(797)	(601)
Total Intangible Assets	**522**	**409**

12. Deferred Tax Assets

	2018 $'000	2017 $'000
Deferred tax assets comprise:		
Accrued expenses	18	13
Provision on impaired loans	43	60
Provisions for employee benefits	97	106
Depreciation on fixed assets	–	–
Visa setup costs	–	–
	158	**179**

The Credit Union's current tax liability of $42,439 (2017: $82,481 receivable) represents the amount of income tax refundable to the Credit Union in respect of the current and prior year periods due to the Australian Taxation Office.

13. Deposits from Members

	2018 $'000	2017 $'000
Member Deposits		
– at call	74,219	70,824
– term	67,673	64,426
Member withdrawable shares	136	137
	142,028	**135,387**

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

	2018 $'000	2017 $'000
Creditors and accruals	208	160
Interest payable on deposits	308	286
Sundry creditors / Settlements	409	282
	925	**728**

15. Provisions

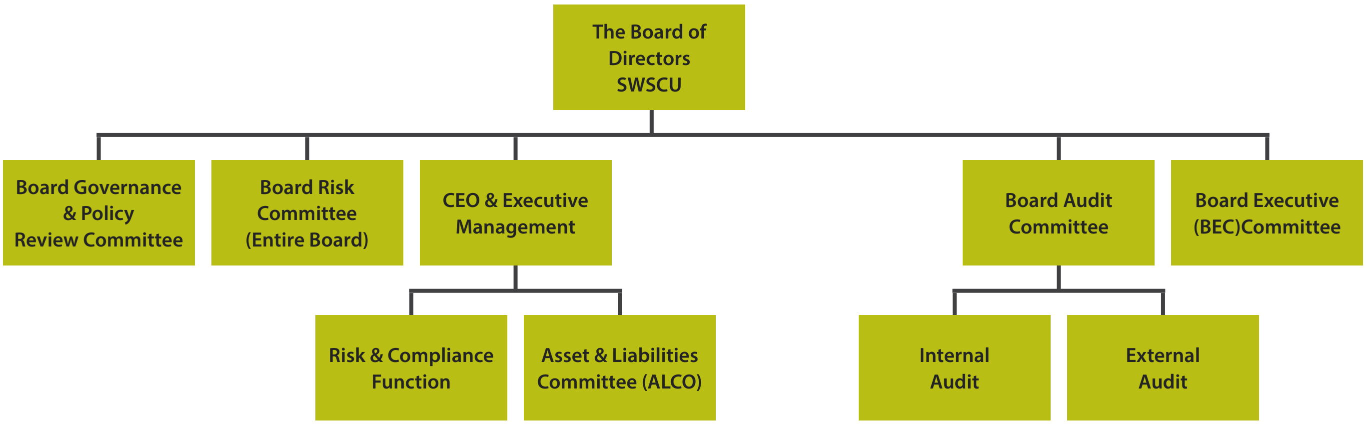
	2018 $'000	2017 $'000
Current		
Annual Leave	157	162
Long Service Leave	164	197
Provisions – other	30	30
	351	389
Non-current		
Long Service Leave	32	21
Total provisions	**383**	**410**

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 Risk Committee who are integral to the management of risk. The following diagram gives an overview of the structure in place in 2018.

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.

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:

- Overseeing the financial reporting process;
- Providing an independent conduit for communication between the Board, senior management, internal auditors and external auditors;
- Overseeing compliance with the Credit Union's internal and external audit requirements;
- Overseeing the annual review and testing of the Business Continuity Plan;
- Undertaking steps to satisfy themselves that the auditor is independent of the Credit Union, it's 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 noted by the board. All exposures are checked monthly against approved limits, independently, 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 officer, who reports to the ALCO, implements the Credit Union's credit risk policy.

Asset and Liability Committee (ALCO) – Market Risk

This committee meets monthly, or as required, 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 monthly scrutiny of market risk reports is intended to prevent any exposure breaches prior to reporting any breaches to the full Board.

Chief Risk 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.

Risk Committee

From March 2017, this committee meets monthly prior to the full Board meeting. The objectives of the Risk Committee are to assist the Board in full and proper discharge of its risk management duties under Prudential Standard CPS 510 Governance, CPS 220 Risk Management and the Credit Union's Risk Management Framework. This includes (but may not necessarily be limited to) the following:

(a) advising the Board on the overall current and future risk appetite and risk management strategy;

(b) establishing an institution-wide view of the current and future risk position relative to risk appetite and capital strength;

(c) oversight of senior management's implementation of the risk management strategy;

(d) constructive challenge of senior management's proposals and decisions on all aspects of risk management arising from the institution's activities.

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 Union's exposure to each of the above risks, the Credit Union's objectives, policies and processes for measuring and managing risk, and the Credit Union's 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 monthly or as required to review and implement day-to-day market risk strategies.

INTEREST RATE RISK

The Credit Union is exposed to interest rate risk in its Credit Union book due to mismatches between the repricing dates of assets and liabilities.

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 2018 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. 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.

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 Laminar Capital who prepare a detailed risk exposure summary every six months.

The VaR on the non-trading book was as follows:

	2018	2017
Value at Risk / 10 day value at risk	$8,459	$44,896
Percentage of regulatory capital	0.04%	0.217%

Given the Credit Union's profile of assets and liabilities at 30 June 2018, 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 $39,813 (2017: $144,762). 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 2018, it will not incur a one day loss on its non-trading book of more than the amount calculated above, based on the 2018 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.

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:

APRA minimum 9%	2018	2017
Total Liquidity as at 30 June	32.08%	35.91%
MLH liquidity as at 30 June	19.82%	24.73%
Average MLH liquidity for the year	24.46%	27.18%
Average Total liquidity for the year	31.31%	38.88%
Lowest MLH liquidity for the year	19.47%	19.11%

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.

(i) CREDIT RISK – LOANS

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

	2018 $'000	2017 $'000
Loans to members		
Mortgage (Home or Investment loans)	94,104	84,951
Personal	16,579	15,130
Credit cards	757	733
Overdrafts	482	474
Commercial	1,324	934
Total loans	**113,246**	**102,222**
Provision for impairment	**(157)**	**(201)**
	113,089	**102,021**

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.

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.

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 (2017: 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.

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.

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	2018 Carrying value $'000	2017 Carrying value $'000
CUSCAL – rated AA-	10,072	6,453
Banks – rated AA and above	3,533	14,033
Banks – rated below AA	18,024	11,525
Mutual Banks	10,965	18,938
Unrated – other Credit Unions	6,914	1,500
Total	**49,508**	**52,449**

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:

	2018 $'000	2017 $'000
Tier 1		
Retained earnings	20,967	20,318
Less prescribed deductions	(905)	(859)
Common Equity Tier 1 capital	20,062	19,459
Tier 2		
Reserve for credit losses	318	318
Less prescribed deductions	–	–
Net tier 2 capital	318	318
Total Regulatory Capital	20,380	19,777
Risk Weighted Assets (Credit)	67,524	63,627
Capital Ratios		
Total regulatory capital expressed as a percentage of total risk weighted assets	26.12%	27.00%
Total Tier 1 capital expressed as a percentage of total risk weighted assets	25.71%	26.59%

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 APS 112.
The 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

	Note	2018 $	2017 $
Financial assets			
Cash	4	7,652	4,632
Negotiable certificates of deposit	5	20,536	29,496
Receivables from financial institutions	5	21,320	18,920
Loans to members	7 & 8	113,089	102,021
Total carried at amortised cost		**162,597**	**155,069**
Available for sale equity investments – carried at cost		225	225
Total available for sale investments		**225**	**225**
Total financial assets		**162,822**	**155,294**
Financial liabilities			
Creditors and other liabilities	14	925	728
Deposits from members	13	142,028	135,387
Total financial liabilities		**142,953**	**136,115**

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, these are broken down by loan risk, where there is a mortgage security attached to the loan, for personal loans and other loans like credit cards and overdraft facilities. 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;

2018	Within 1 month $'000	1–3 months $'000	3–12 months $'000	Total $'000
Creditor accrual and settlement accounts	926	–	–	926
Deposits from members (incl. future interest)	93,115	33,265	15,512	141,892
Total financial liabilities	**94,041**	**33,265**	**15,512**	**142,818**

2017	Within 1 month $'000	1–3 months $'000	3–12 months $'000	Total $'000
Creditor accrual and settlement accounts	728	–	–	728
Deposits from members (incl. future interest)	89,063	32,329	13,837	135,229
Total financial liabilities	**89,791**	**32,329**	**15,837**	**135,957**

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

2018	Within 1 month $'000	1–3 months $'000	3–12 months $'000	Total $'000
Cash	7,652	–	–	7,652
Financial Assets	13,420	16,462	11,974	41,856
Loans and advances – mortgage	95,364	–	–	95,364
Loans and advances – personal	16,579			16,579
Loans and advances – other	1,306			1,306
Total financial assets	**134,321**	**16,462**	**11,974**	**162,757**
Deposits from members	93,115	33,265	15,512	141,892
Total financial liabilities	**93,115**	**33,265**	**15,512**	**141,892**
Gap	**41,206**	**(16,803)**	**(3,538)**	**20,865**
Cumulative gap	**41,206**	**24,403**	**20,865**	**–**

2017	Within 1 month $'000	1–3 months $'000	3–12 months $'000	Total $'000
Cash	4,632	–	–	4,632
Financial Assets	15,453	20,533	12,430	48,416
Loans and advances – mortgage	85,808	–	–	85,808
Loans and advances – personal	15,126			15,126
Loans and advances – other	1,288			1,288
Total financial assets	**122,307**	**20,533**	**12,430**	**155,270**
Deposits from members	89,084	32,329	13,837	135,250
Total financial liabilities	**89,084**	**32,329**	**13,837**	**135,250**
Gap	**33,223**	**(11,796)**	**(1,407)**	**20,020**
Cumulative gap	**33,223**	**21,427**	**20,020**	**–**

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.

20. Financial Commitments

	2018 $'000	2017 $'000
Outstanding loan commitments		
Loans approved but not funded	1,930	2,218
Loan redraw facilities		
Loan redraw facilities available	8,260	8,198
Undrawn loan facilities		
Loan facilities available to members for overdrafts and line of credit loans are as follows:		
Total value of facilities approved	5,188	4,975
Less: Amount advanced	(2,147)	(2,108)
Net undrawn value	3,041	2,867
Total financial commitments	**13,231**	**13,283**
These commitments are contingent on members maintaining credit standards and ongoing repayment terms on amounts drawn.		
Computer capital commitments The cost committed under contracts with Ultradata Australia and Transaction Solutions are as follows:		
Not later than one year	559	564
Later than 1 year but not 2 years	572	606
Later than 2 years but not 5 years	879	1,394
Later than 5 years	–	–
	2,010	**2,564**
Lease expense commitments for operating leases on property occupied by the Credit Union		
Not later than one year	36	28
Later than 1 year but not 2 years	37	4
Later than 2 years but not 5 years	19	–
	92	**32**

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.

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 3.0% of the total assets as deposits with CUSCAL Limited and/or a CUFFS approved ADI.

Under the terms of the Industry Support Contract (ISC), the maximum call for each participating Credit Union would be 3.0% of the Credit Union's total assets. 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 2018 (2017: 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. Key Management persons have been taken to comprise the directors and the 4 members of the executive management responsible for the day to day financial and operational management of the Credit Union.

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

	2018 $	2017 $
(a) short-term employee benefits;	698,146	692,592
(b) post-employment benefits – superannuation contributions	68,091	64,939
(c) other long-term benefits	3,771	6,390
Total	**770,008**	**763,921**

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	2018 $	2017 $
(i) The aggregate value of loans to directors and other key management persons as at balance date amounted to	2,139,668	1,838,839
(ii) The total value of revolving credit facilities including VISA, to directors and other key management persons, as at balance date amounted to	61,000	81,000
– Less amounts drawn down and included in (i)	(10,118)	(25,054)
Net Balance available	50,882	55,946
(iii) During the year the aggregate value of loans disbursed to directors and other key management persons amounted to:	536,495	447,136
Term Loans	–	–
(iv) The aggregate value of interest paid by key management personnel amounted to:	83,145	71,605

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.

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

	2018 $	2017 $
Total value of term and saving deposits from KMP*	**612,419**	**836,686**

*Closing balances in 2017 include $137,510 in loans and $14,257 in term and saving deposits for key management personnel and their related parties that were not classified as key management personnel in the 2018 financial year.

Transactions with Other Related Parties

Mr Keith Carmody (Chair of the Board of Directors) 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 $977 (2017: $775).

There are no amounts outstanding at 30 June 2018 (2017: Nil).

Other Transactions between Related Parties include Deposits from Director Related Entities or Close Family Members of Directors, and other Kmp:

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. Notes to Statement of Cash Flows

	2018 $'000	2017 $'000
Reconciliation of cash from operations to accounting profit		
Profit after income tax	640	639
Add (Deduct):		
Depreciation and amortisation expense	297	250
(Profit)/loss on sale of assets	(8)	–
Impairment Loss on loans and receivables	2	9
Movement in employee benefits	53	(9)
Movement in other provisions	2	9
Change in current tax liabilities	40	(65)
Movement in trade creditors	197	(551)
Movement in interest receivable	40	34
Movement in prepayments	(15)	(20)
Movement in net deferred tax assets	20	21
Net cash from revenue activities	**1,268**	**317**
Add (Deduct) non revenue operations		
Change in loans balances	(11,078)	(5,840)
Change in deposit balances	6,641	7,894
Net cash (used by)/from operating activities	**(3,169)**	**2,371**

24. Auditor's Remuneration

	2018 $	2017 $
Audit services		
Auditors of the Credit Union – KPMG		
Audit and review of the financial reports	47,025	45,655
Other regulatory services	22,020	21,280
Taxation services	2,368	1,900
	71,413	**68,835**

Independent Auditor's Report

To the member of South West Slopes Credit Union Limited,

Opinion

We have audited the ***Financial Report*** of South West Slopes Credit Union Limited (the Company).

In our opinion, the accompanying Financial Report of the Company is in accordance with the *Corporations Act 2001*, including:

- giving a true and fair view of the Company's financial position as at 30 June 2017 and of its financial performance for the year ended on that date; and
- complying with *Australian Accounting Standards* and the *Corporations Regulations 2001*.

The ***Financial Report*** comprises:

- Statement of financial position as at 30 June 2017
- Statement of profit or loss and other comprehensive income, Statement of changes in equity, and Statement of cash flows for the year then ended
- Notes including a summary of significant accounting policies
- Directors' Declaration.

We conducted our audit in accordance with *Australian Auditing Standards*. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

We are independent of the Company in accordance with the *Corporations Act 2001* and the ethical requirements of the *Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the Financial Report in Australia. We have fulfilled our other ethical responsibilities in accordance with the Code.

In connection with our audit of the Financial Report, our responsibility is to read the Other Information. In doing so, we consider whether the Other Information is materially inconsistent with the Financial Report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We are required to report if we conclude that there is a material misstatement of this Other Information, and based on the work we have performed on the Other Information that we obtained prior to the date of this Auditor's Report we have nothing to report.

Responsibilities of the Directors for the Financial Report

The Directors are responsible for:

- preparing the Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001*
- implementing necessary internal control to enable the preparation of a Financial Report that gives a true and fair view and is free from material misstatement, whether due to fraud or error
- assessing the Company's ability to continue as a going concern and whether the use of the going concern basis of accounting is appropriate. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Financial Report

Our objective is:

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

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with *Australian Auditing Standards* will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the Financial Report.

A further description of our responsibilities for the audit of the Financial Report is located at the *Auditing and Assurance Standards Board* website at: http://www.auasb.gov.au/auditors_responsibilities/ar4.pdf. This description forms part of our Auditor's Report.

KPMG

KPMG

Warwick Shanks

Partner

Young

26 September 2018

Notes

swscu

Big enough to help, yet small enough to care

Locations

Branches

Young (registered office)
89 Boorowa Street NSW 2594
P: 02 6384 1111 F: 02 6382 1744
Telephone banking: 02 6382 1121

Cootamundra
268 Parker Street NSW 2590
P: 02 6942 4144 F: 02 6942 4110
Telephone banking: 02 6942 1121

Temora
171 Hoskins Street NSW 2666
P: 02 6978 1014 F: 02 6978 1016
Telephone banking: 02 6978 1121

West Wyalong
147 Main Street NSW 2671
P: 02 6972 4400 F: 02 6972 4422
Telephone banking: 02 6972 1121

Agencies

Harden
Harden Newsagency
26 Neill Street NSW 2587
P: 02 6386 2333

Boorowa
Boorowa Real Estate
34 Marsden Street NSW 2586
P: 02 6385 3337

Telephone banking

Call your local branch and select option 1 (one) | **swscu.com.au**