South West Slopes Credit Union

# Annual Report 2018/19

SWSCU

Big enough to help, yet small enough to care



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: various staff photos

# 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, 31 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)
- 30 years Local Government experience
- Director of SWSCU from 2008, 11 years experience on the Board of SWSCU

No other directorships within the last 3 year

## 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, 9 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, 14 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

Resigned July 2019

## 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, 27 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
- 22 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

It is my pleasure to present my annual report to members of South West Slopes Credit Union.  Once again the credit union has enjoyed a successful year focusing on engagement with and the best interests of members.

The focus of the Board and Management has always been on achieving better outcomes for members. Sometimes hard decisions need to be made but always with the above focus in mind. Your Board is acutely aware of the need to react to changing times especially in respect to technological challenges and innovations. The National Payment Platform is a perfect example. Possibly the greatest challenge in modern times is internet fraud. The oversight of staff in these areas is appreciated. I urge all members to be on their guard with respect to internet fraud. If you suspect something is not quite right in relation to a proposed transaction on your account contact the credit union to discuss.

With shrinking margins due to the lowering of interest rates members will be well satisfied that your credit union continues to return a healthy profit. It must be comforting for members to know that your credit union is in such a strong financial position.

"MANAGEMENT AND STAFF ARE TO BE CONGRATULATED ON THEIR EFFORTS TO SPREAD THE REACH OF THE CREDIT UNION. THE 'FACE TO FACE' PHILOSOPHY ADOPTED BY SOUTH WEST SLOPES CREDIT UNION IS APPEALING TO ITS MEMBERS AND ATTRACTING NEW MEMBERS."

Management and staff are to be congratulated on their efforts to spread the reach of the credit union. The 'face to face' philosophy adopted by South West Slopes Credit Union is appealing to its members and attracting new members. As CEO Andrew Jones has reported a mini branch has been opened at Grenfell and although it is early days appears to be operating successfully. All existing branches at Cootamundra, Temora, West Wyalong and Young continue to perform well. As banks reduce their presence in country centres the Credit Union is there to offer a viable and personal alternative.


Tahlia Johnson & SWSCU House at Young Cherry Festival

Increased regulation, governance and oversight, particularly following the Banking Royal Commission, is an ongoing challenge. In this respect the credit union is very well positioned to answer the challenge. The credit union has the Management Team and key staff to oversee these areas. The Board and Management ensure that there is adequate staff and director training and attendance at seminars and conferences by both staff and directors to mitigate this ongoing challenge.

I would like to thank my fellow directors for their input and dedication during the past year, Management and staff for their efforts, expertise and dedication and all members for their continued loyalty to South West Slopes Credit Union.

The credit union's reason for being is exemplified in its motto *"Big enough to help, small enough to care"*. May 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

# CEO's Report

I am very proud to present this year's CEO's report which reflects excellent member engagement and growth across all areas of SWSCU's business.

"IT IS OUR BELIEF THAT OUR MEMBERS SHOULD HAVE ACCESS TO QUALITY BANKING SERVICES AND PEOPLE THEY TRUST AND CAN RELY ON WITHIN THEIR OWN COMMUNITIES IN REGARDS TO FINANCIAL SERVICES."

## The past year at SWSCU

The past year has proven challenging on a national scale with a slowing economy and some nervousness in the housing market due to the highly publicised property price reductions in Sydney and Melbourne. This coupled with local concerns around the ongoing drought continues to cause concern and affect investment across a large part of regional NSW.

However despite this cautious economic environment, SWSCU has continued to deliver an excellent standard of member engagement through its frontline team which is reflected in the 2019 financial results.

It has been noted that the arrival of new Banks who focus only on online lending (known as neo banks) has meant that some of Australia's larger Banks have re-evaluated their presence in regional Australia in a bid to focus on facing increased competition within the capital cities. In the past year Temora has seen its ANZ branch close and Grenfell has lost the last of its Bank branches. It is this trend which looks likely to continue that reaffirms SWSCU's purpose of supporting its local communities with excellent banking products and service on a 'face to face' basis. As such the Board and Management were very pleased to announce the opening of our first 'mini branch' in Grenfell earlier this year in partnership with 'Clive J. Anderson & Co. Pty Ltd.'

The Grenfell mini branch is open from 10am to 4pm 5 days a week for normal banking operations and a lending consultant is always available to attend on site meetings in Grenfell. It is our hope that as the Grenfell community gets behind SWSCU as its local banking service provider, we will be in a position to expand this model to other areas where the larger financial institutions have withdrawn or are withdrawing their onsite services.

Right: Matthew Hall & SWSCU Car at Grenfell Branch BBQ.
Below: Young staff supporting Young Cherrypickers.

## Looking Forward

SWSCU's is committed to its members, who are predominantly located within regional and rural NSW. It is our belief that our members should have access to quality banking services and people they trust and can rely on within their own communities in regards to financial services.

Based on our strong financial position, excellent staff, products and services, we are in a unique position to become the financial institution of choice in all of the communities we currently operate within.

To deliver these outcomes we need to continue to invest in our staff, systems, processes and channels of delivery. This investment while important also needs to be balanced in an environment where interest rates are at historic lows which in turn squeezes profitability. This along with increasing costs around regulation and the threat of new online only, low cost service providers will continue to present challenges into the future.

We feel that we have a business plan in place that meets the above criteria and we look forward to the future confident that SWSCU is in an excellent position to continue to meet the needs of its members.

I would like to thank the Members of SWSCU, 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.


**Andrew Jones**
**CEO**

| SWSCU Performance | 2019 | 2018 | 2017 |
|---|---|---|---|
| **Profit before tax** | $899,472 | $883,000 | $905,000 |
| **Total loans** | $121,188,000 | $113,246,000 | $102,222,000 |
| **Loans Increase/Decrease** | 7% | 11% | 6% |
| **Deposits from Members** | $151,802,000 | $141,892,000 | $135,387,000 |
| **Deposits Increase/Decrease** | 7% | 5% | 6% |

Above: Staff supporting a great cause "Jeans for Genes Day".

# 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 2019 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**<br>– Chair of the Board since Nov 2014<br>– Independent Non-Executive Director<br>– Member of the Risk Committee<br>– Member of the Governance & Policy Review Committee | – Director of SWSCU from 1988 until current – 31 years<br>– Principal of KP Carmody Solicitors, Young NSW<br>– Member of Institute for Strategy, Innovation and Leadership (Instil)<br>– No other directorships within the last 3 years |
| **Adrian Hanrahan**<br>– Deputy Chair of the Board<br>– Independent Non-Executive Director<br>– Member of the Risk Committee<br>– Chair of the Governance & Policy Review Committee | – Director of SWSCU from 2008 – from 2010 until current – 11 years<br>– General Manager of Young Shire Council (Retired)<br>– Member of Institute for Strategy, Innovation and Leadership (Instil)<br>– No other directorships within the last 3 years |
| **Kevin Cloake**<br>– Independent Non-Executive Director<br>– Chair of the Risk Committee<br>– Chair of the Audit Committee<br>– Member of the Governance & Policy Review Committee | – Director of SWSCU 2010 – until current – 9 years<br>– Employed within the Finance division of Hilltops Council and formerly Harden Shire Council since 2003<br>– 21 years of banking experience with Commonwealth Bank (1976-1997)<br>– Member of Institute for Strategy, Innovation and Leadership (Instil)<br>– No other directorships within last 3 years |
| **Jane Douch**<br>– Independent Non-Executive Director<br>– Member of the Risk Committee<br>– Member of the Governance & Policy Review Committee | – Appointed as Director of SWSCU on 29 August 2017<br>– Resigned July 2019<br>– Member of Institute for Strategy, Innovation and Leadership (Instil)<br>– No other directorships within the last 3 years |
| **Brian Page**<br>– Independent Non-Executive Director<br>– Member of the Risk Committee<br>– Member of the Audit Committee | – Director of SWSCU from 1978-1981 and 2000 until current – 22 years. Chair of the Board from 2009-2014<br>– Director Environmental Services – Young Shire Council (Retired 2001), former Health Inspector<br>– Member of Institute for Strategy, Innovation and Leadership (Instil)<br>– No other directorships within the last 3 years |

| Name | Experience, responsibilities and other directorships |
|---|---|
| **Lauren Peek**<br>– Independent Non-Executive Director<br>– Member of the Risk Committee<br>– Member of the Audit Committee | – Director of SWSCU from 1992 – until current – 27 years<br>– Proprietor of 'Framaglass'; a glass sales & glaziers business in Young, NSW<br>– Member of Institute for Strategy, Innovation and Leadership (Instil)<br>– No other directorships within the last 3 years |
| **Allan Stuart**<br>– Independent Non-Executive Director<br>– Member of Risk Committee<br>– Member of the Audit Committee | – Appointed as Director of SWSCU 30 May 2018<br>– Previously served as SWSCU Director 1999 – 2012; 14 years Chair of the Board for 2 years<br>– Bachelor of Engineering/Electrical<br>– Member of Institute for Strategy, Innovation and Leadership (Instil)<br>– Engineering and Management Consultant<br>– Diploma of Financial Services<br>– Graduate of Institute of Company Directors (GAICD) 2010<br>– 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**<br>CEO<br>Company Secretary | – Bachelor of Science<br>– Diploma of Financial Services<br>– Certificate IV in Credit Management<br>– ASIC Tier 2<br>– 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.<br>Commenced as CEO of SWSCU on 1 June 2016. |
| **Serena Sullivan**<br>CFO<br>Company Secretary | – Bachelor of Commerce (Hons) (ANU)<br>– CPA<br>– 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).<br>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 | 11 | 11 | 9 | 9 | – | – | 8 | 8 | 3 years (2018–2021) |
| Adrian Hanrahan | 11 | 9 | 9 | 7 | – | – | 8 | 7 | 3 years (2016–2019) |
| Kevin Cloake | 11 | 10 | 9 | 8 | 4 | 4 | 8 | 7 | 3 years (2017–2020) |
| Jane Douch* | 11 | 8 | 9 | 6 | – | – | 8 | 5 | 2 years (2017–2019) |
| Brian Page | 11 | 10 | 9 | 8 | 4 | 4 | – | – | 3 years (2016–2019) |
| Lauren Peek | 11 | 10 | 9 | 8 | 4 | 4 | – | – | 3 years (2018–2021) |
| Allan Stuart | 11 | 9 | 9 | 7 | 2 | 2 | – | – | 2 years (2018–2020) |

*Director Douch resigned in July 2019.

## Directors' Benefits

Directors receive a director fee. Other than that, 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 Nil (2018 $977).

## 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 $644,000 (2018: $640,000)

## 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 2019.

## 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
Director

Keith Carmody

Dated at Young this 25th day of September 2019

# 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 2019 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

Keith Carmody (Chair of the Board)
Director

Signed in Young
25th September 2019

# Auditor’s Independence Declaration

## 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 2019 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*

Wollongong

25 September 2019

# Statement of Profit or Loss and other Comprehensive Income

## FOR THE YEAR ENDED 30 June 2019

| | Note | 2019 (1) $'000 | 2018 $'000 |
|---|---|---|---|
| Interest income calculated using the effective interest rate method | 2 | 7,631 | 7,044 |
| Interest expense | 2 | (1,684) | (1,556) |
| **Net interest income** | | **5,947** | **5,488** |
| Fee commission and other income | 2 | 485 | 566 |
| **Operating income** | | **6,432** | **6,054** |
| Impairment losses on member loans | 2 | (14) | (2) |
| Fee and commission expenses | | (807) | (777) |
| Employees' compensation and benefits | | (2,463) | (2,436) |
| Depreciation and amortisation | 10,11 | (360) | (297) |
| Information technology | | (644) | (523) |
| Office occupancy | | (168) | (134) |
| Other administration | | (1,087) | (1,002) |
| **Total operating expenses** | | **(5,543)** | **(5,171)** |
| **Profit before income tax** | | **889** | **883** |
| Income tax expense | 3 | (245) | (243) |
| **Profit for the year** | | **644** | **640** |
| **Other comprehensive income for the year, net of income tax** | | **–** | **–** |
| *Items that will not be reclassified subsequently to profit or loss* | | | |
| Movement in reserve for equity instruments at FVOCI*<br>Net change in fair value | | – | – |
| Net change in fair value (net of tax) | | – | – |
| Total other comprehensive income, net of income tax | | – | – |
| **Total comprehensive income for the period** | | **644** | **640** |

* FVOCI – Fair Value through Other Comprehensive Income

The Statement of Profit or Loss and Other Comprehensive Income is to be read in conjunction with the notes to the financial statements.

(1) The June 2019 financial statements reflect the adoption of AASB 9 Financial Instruments (AASB 9) on 1 July 2018. As permitted by AASB 9, the Credit Union and the Company have not restated the comparative financial reporting period. Refer to Note 1(h) for the impact from the initial adoption of AASB 9.

# Statement of Financial Position

AS AT 30 June 2019

| | Note | 2019 [1] $'000 | 2018 $'000 |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and cash equivalents | 4 | 5,839 | 7,652 |
| Loans and advances to ADIs | 5 | 47,310 | 41,856 |
| Other receivables | 6 | 245 | 249 |
| Current tax receivable | 12 | 58 | - |
| Prepayments | | 50 | 106 |
| Loans and advances to members | 7 | 121,056 | 113,089 |
| Investment securities | 9 | 419 | 225 |
| Property, plant and equipment | 10 | 776 | 804 |
| Deferred tax assets | 12 | 103 | 158 |
| Intangible assets | 11 | 373 | 522 |
| **TOTAL ASSETS** | | **176,229** | **164,661** |
| **LIABILITIES** | | | |
| Deposits from members | 13 | 151,938 | 142,028 |
| Creditor accruals and settlement accounts | 14 | 1,736 | 925 |
| Current tax payable | 12 | – | 40 |
| Provisions | 15 | 485 | 383 |
| **TOTAL LIABILITIES** | | **154,159** | **143,376** |
| **NET ASSETS** | | **22,070** | **21,285** |
| **MEMBERS' EQUITY** | | | |
| General reserve for credit losses | | 318 | 318 |
| Fair value reserve | | 141 | – |
| Retained earnings | | **21,611** | **20,967** |
| **TOTAL MEMBERS' EQUITY** | | **22,070** | **21,285** |

The Statement of Financial Position is to be read in conjunction with the notes to the financial statements.

(1) The June 2019 financial statements reflect the adoption of AASB 9 Financial Instruments (AASB 9) on 1 July 2018. As permitted by AASB 9, the Credit Union and the Company have not restated the comparative financial reporting period. Refer to Note 1(h) for the impact from the initial adoption of AASB 9.

# Statement of Changes in Equity

**FOR THE YEAR ENDED 30 June 2019**

| | General reserve for cred it losses $'000 | Retained earnings $'000 | Fair value Reserve | Total $'000 |
|---|---|---|---|---|
| **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 reserves | – | – | – | – |
| **Balance at 30 June 2018** | **318** | **20,967** | **–** | **21,285** |
| **Balance at 1 July 2018** | **318** | **20,967** | **–** | **21,285** |
| Changes on initial adoption of AASB 9 (Note 1) | – | – | 141 | 141 |
| **Adjusted balance at 1 July 2018** | **318** | **20,967** | **141** | **21,426** |
| Profit for the year | – | 644 | | 644 |
| Other comprehensive for the year | – | – | – | – |
| **Total comprehensive income for the year** | | **644** | **–** | **644** |
| Transfer to/(from) general reserves | – | – | – | – |
| Transfer to Retained Earnings | – | – | – | – |
| Transfer from reserve for Credit | – | – | – | – |
| Losses | – | – | – | – |
| **Balance at 30 June 2019** | **318** | **21,611** | **141** | **22,070** |

The Statement of Changes in Equity is to be read in conjunction with the notes to the financial statements.

# Statement of Cash Flows

**FOR THE YEAR ENDED 30 June 2019**

| | Note | 2019 (1) $'000 | 2018 $'000 |
|---|---|---|---|
| **OPERATING ACTIVITIES** | | | |
| Interest received from members | | 6,151 | 5,869 |
| Investment interest & fees and commission received | | 1,925 | 1,215 |
| Dividends received | | 9 | 18 |
| Other cash receipts in the course of operations | | 521 | 525 |
| Interest paid | | (1,646) | (1,534) |
| Cash payments to suppliers and employees | | (5,052) | (4,643) |
| Income taxes paid | | (51) | (182) |
| Net cash from revenue generating activities | | 1,857 | 1,268 |
| **Cash from other operating activities** | | | |
| Net movement in member loans | | (7,943) | (11,078) |
| Net movement in member deposits and shares | | 9,910 | 6,641 |
| **Net cash from/(used by) operating activities** | **24** | **3,824** | **(3,169)** |
| **INVESTING ACTIVITIES** | | | |
| Proceeds from sale of property, plant and equipment | | – | 30 |
| Purchase of property, plant and equipment and intangibles | | (183) | (401) |
| (Purchase)/sale of investments | | (5,454) | 6,560 |
| **Net cash (used by)/from investing activities** | | **(5,637)** | **6,189** |
| **FINANCING ACTIVITIES** | | | |
| **Net cash from financing activities** | | **–** | **–** |
| Net increase in cash and cash equivalents | | (1,813) | 3,020 |
| Cash and cash equivalents at beginning of year | | 7,652 | 4,632 |
| Cash and cash equivalents at end of year | 4 | 5,839 | 7,652 |

The Statement of Cash flows is to be read in conjunction with the notes to the financial statements.

(1) The June 2019 financial statements reflect the adoption of AASB 9 Financial Instruments (AASB 9) on 1 July 2018. As permitted by AASB 9, the Credit Union and the Company have not restated the comparative financial reporting period. Refer to Note 1(h) for the impact from the initial adoption of AASB 9.

# 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 25th September 2019 in accordance with a resolution of the board of directors.

### c. Basis of measurement

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

### d. Functional and presentation currency

The financial report is presented in Australian dollars, which is the Credit Union's functional currency. The Credit Union is of a kind referred to in ASIC 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(m) –Impairment

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

### f. Measurement of fair values

A number of the Credit Union's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities. When measuring the fair value of an asset or liability, the Credit Union uses market observable data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

**Level 1:** quoted prices (unadjusted) in active markets for identical assets or liabilities.

**Level 2:** inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices).

**Level 3:** inputs for the asset or liability that are not observable. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

If the inputs used to measure the fair value of an asset or liability might be categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. The Credit Union recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

## g. Presentation changes

### Statement of financial position

Following the adoption of AASB 9 Financial Instruments, and in order to present items on the basis of the nature of the underlying item as opposed to its measurement basis, the Credit Union has made changes to the presentation of certain items in its statement of financial position. The effect of these presentation changes has been disclosed in the 'Change in Accounting Policy' section of this note and as footnotes to the other relevant notes to the financial statements.

### Income statement

The Credit Union has made certain presentation changes in its income statement and Note 2: Operating Income, in order to align the presentation of items of income and expense with the categories of financial instruments presented in the statement of financial position.

This has had no effect on the measurement of these items and therefore no impact on retained earnings or profit for any period. Comparative information has been represented, for all these presentation changes in the statement of financial position and income statement.

## h. Changes in accounting policy

The Credit Union has initially adopted AASB 9 and AASB 15 from 1 July 2018.

A number of other new standards are also effective from 1 July 2018 but they do not have a material effect on the Credit Union's financial statements.

Due to the transition method chosen by the Credit Union in applying AASB 9, comparative information throughout these financial statements has not been restated to reflect its requirements.

Except for the changes below, the Credit Union has consistently applied the accounting policies set out in Note 1 to all periods presented in these financial statements.

### AASB 9 Financial Instruments

AASB 9 sets out requirements for recognising and measuring financial assets. This standard replaces AASB 139 Financial Instruments: Recognition and Measurement. The requirements of AASB 9 represent a significant change from AASB 139 and brings fundamental changes to the accounting for financial assets.

AASB 9 also contains new requirements on the application of hedge accounting.  As at the 30th June 2019 the Credit Union did not use hedge accounting.

The Credit Union has adopted consequential amendments to AASB 7 Financial Instrument Disclosures that are applied to disclosures, but have not been applied to the comparative information.

The key changes to the Credit Union's accounting policies from its adoption of AASB 9 are summarised below.

### Classification of financial assets and financial liabilities

AASB 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). AASB 9 classification is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. The standard eliminates the previous AASB 139 categories of held-to-maturity, loans and receivables and available-for-sale. For an explanation of how the Credit Union's classifies financial assets under AASB 9, see Note 1 (i). AASB 9 largely retains existing requirements in AASB 139 for the classification of financial liabilities. For an explanation of how the Credit Union classifies financial liabilities under AASB 9 see Note 1 (i).

The following table explains the original measurement categories under AASB 139 and the new measurement categories under AASB 9 for the Credit Union's financial assets and financial liabilities as at 1 July 2018, as well as the impact of classification and measurement changes.

| | Original classification AASB 139 | New classification AASB 9 | AASB 139 Carrying amount at 30 June 2018 $'000 | Re–measurement $'000 | Re–classification $'000 | AASB 9 Carrying amount at 1 July 2018 $'000 |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Cash and cash equivalents | Amortised cost | Amortised cost | 7,652 | – | – | 7,652 |
| Financial assets | Loans and receivables | – | 21,320 | – | (21,320) | – |
| Financial assets | Held to maturity | – | 20,536 | – | (20,536) | – |
| Loans & Advances to ADIs | – | Amortised cost | – | – | 41,856 | 41,856 |
| Other receivables | Loans and receivables | Amortised cost | 249 | | | 249 |
| Loans & Advances to Members | Loans and receivables | Amortised cost | 113,089 | – | – | 113,089 |
| Investment securities[1] | Available–for–sale | FVOCI – equity | 225 | 194 | – | 419 |
| **Total Financial Assets** | | | **163,071** | **194** | **–** | **163,265** |
| **Liabilities** | | | | | | |
| Member Deposits | Amortised cost | Amortised cost | 142,028 | – | – | 142,028 |
| Trade and other payables | Amortised cost | Amortised cost | 925 | | | 925 |
| Total Financial Liabilities | | | 142,953 | – | – | 142,953 |

(1) 'Investment securities' that were recognised in previous financial years at amortised cost under AASB 139, were re-measured at FVOCI - equity on adoption of AASB 9 in 2019.

**Impairment of financial assets**

AASB 9 replaces the 'incurred loss' model in AASB 139 with an 'expected credit loss' (ECL) model. The new impairment model also applies to certain loan commitments and financial guarantee contracts but not equity investments.

Under AASB 9, credit losses are recognised earlier than under AASB 139. For an explanation of how the Credit Union applies the impairment requirements of AASB 9, see Note 1(m).

**Transition**

As permitted by AASB 9, the Credit Union has not restated its comparative financial statements and has recorded a transition adjustment to its opening balance sheet, retained earnings and OCI at 1 July 2018 for the impact of the adoption of AASB 9's classification and measurement and impairment requirements.

On adoption of AASB 9 the Credit Union revalued its shares in Cuscal Limited. This revaluation is reflected in the creation of a Fair value reserve. The revaluation caused the creation of a Deferred Tax Liability to the amount of 27.5% of the increment. There was no other impact on the Financial Statements for the current year.

**AASB 15 Revenue from Contracts with Customers**

AASB 15 Revenue from Contracts with Customers is effective from 1 July 2018 and replaces all the previous guidance on revenue recognition from contracts with customers. It requires the identification of discrete performance obligations within a customer contract and an associated transaction price that is allocated to these obligations. Revenue is recognised upon satisfaction of these performance obligations, which occur when control of the goods or services is transferred to the customer. No material adjustment to opening retained earnings was recognised as the amendments to accounting policies did not result in significant changes to the timing or amount of revenue recognised as at 30 June 2018.

## i. Financial instruments

**Classification and measurement**

On initial recognition, a financial asset is classified as measured at: amortised cost, FVOCI or FVTPL.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets measured at amortised cost include cash and cash equivalents, loans and advances to ADIs, loans and advances to members and other assets.

A financial asset is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flow and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets measured at FVOCI include equity investments. All other financial assets are classified as measured at FVTPL.

In addition, on initial recognition the Credit Union may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost, FVOCI or at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Subsequent to initial recognition the following measurement principles and recognition of gains and losses are applied as follows:

- financial assets at amortised cost are measured at amortised cost using the effective interest rate method. The amortised cost is reduced by impairment losses. Interest income and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss; and
- other financial assets at FVOCI - equity are measured at fair value. Dividends are recognised as income in profit or loss. Other net gains and losses are recognised in OCI and are never reclassified to profit or loss.

**Business Model Assessment**

The Credit Union makes an assessment of the objective of the business model in which a financial asset is held at portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice, including whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of assets;
- how the performance of the portfolio is evaluated and reported to the Credit Union's management;
- the risks that affect the performance of the business model (and the financial assets held within the business model) and how those risks are managed; and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Credit Union's stated objective for managing the financial assets is achieved and how cash flows are realised.

**Derecognition of financial assets**

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.

Prior to the adoption of AASB 9, the Credit Union's financial assets were classified into the following categories:

Available for sale investments - being financial assets consisting of debt securities that were not actively traded and are intended to be held until maturity. Such securities were available for sale and could be sold should the need have arisen, including liquidity needs, or impacts of changes in interest rates, or equity prices. Subsequent to initial recognition, they were measured at fair value and changes therein, other than impairment losses, were recognised in other comprehensive income and presented within equity in the fair value reserve (previously available for sale reserve). When the investment was derecognised the cumulative gain or loss in equity was transferred to profit or loss. Interest income on available for sale investments was aligned with that for financial assets classified as FVOCI under AASB 9.

Held-to-maturity financial assets were non-derivative financial assets with fixed or determinable payments and fixed maturity other than loans and receivables that the Credit Union's management had 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 have been tainted and reclassified. Held-to-maturity financial assets were measured at amortised cost using the effective interest method.

## j. 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.

## k. 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.

## l. Revenue and expense recognition

### (i) Net interest income

Interest income and expense is recognised using the effective interest rate (EIR) method for financial assets and financial liabilities carried at amortised cost or investment debt securities classified as at FVOCI. The EIR method calculates the amortised cost of a financial instrument at a rate that discounts estimated future cash receipts or payments through the expected life of the financial instrument, or where appropriate, a shorter period, to the net carrying amount of the financial asset or liability. Fees and transaction costs that are integral to the lending arrangement are recognised in the income statement over the expected life of the instrument in accordance with the EIR method.

When the estimates of payments or receipts of a financial instrument are subsequently revised, the carrying amount is adjusted to reflect the actual or revised cash flows with the re-measurement recognised as part of interest income (financial assets) or interest expense (financial liabilities).

The calculation of EIR does not include ECL. Interest income that is classified as credit impaired is recognised by applying the EIR to the amortised cost carrying value (being the gross carrying amount after deducting the impairment loss).

Prior to the adoption of AASB 9, interest income on financial assets that were measured at amortised cost (being loans and receivables to ADIs and loans and advances) or classified as available-for-sale, was recognised in accordance with the EIR method.

### (ii) Fees and commission income

Fees and commission income include fees other than those that are an integral part of EIR.

Fee income relating to deposit or loan accounts is either:

- transaction based and therefore recognised when the performance obligation related to the transaction is fulfilled, or
- related to performance obligations carried out over a period of time therefore recognised on a systematic basis over the life of the agreement as the services are provided.

Transaction fees and provision of services are defined within product terms and conditions.

Commission income which includes insurance, protection products and financial planning advice is recognised when the performance obligation is satisfied.

Prior to the adoption of AASB 15, fee and commission income was recognised when the fees and income could be reliably measured, and its receipt became highly probable.

### (iii) Dividend income

Dividends and distributions from controlled entities are brought to account in profit or loss when they are declared. Dividends and distributions from other parties are brought to account in profit or loss when the right to receive income is established.

### (iv) Expenses

Expenses are recognised in the income statement as and when the provision of services is received.

## m. Impairment

### (i) Financial assets

Financial assets within the scope of AASB 9 expected credit loss (ECL) requirements comprise all financial instruments measured at either amortised cost or FVOCI. These include cash, loans and advances to ADIs and loans and advances to members.

Financial assets are divided into homogeneous portfolios based on shared risk characteristics. These include mortgage loans, commercial loans, personal loans and revolving credit.

For loans and advances to ADIs, the Credit Union has applied the AASB 9 'low credit risk' exemption given their credit risk rating is equivalent to the globally understood definition of 'investment grade'.

The ECL represents the present value of expected cash shortfalls following the default of a financial instrument. A cash shortfall is the difference between the cash flows that are due in accordance with the contractual terms of the instrument and the cash flows that the Credit Union expects to receive.

The allowance for ECLs is based on an assessment of the probability of default, exposure at default and loss given default, discounted at the effective interest rate to give a net present value. The estimation of ECLs is unbiased and probability weighted, taking into account all reasonable and supportable information, including forward looking economic assumptions and a range of possible outcomes. ECLs are calculated from initial recognition of the financial asset for the behavioural life of the loan.

For financial assets recognised in the balance sheet at amortised cost, the allowance for ECLs is offset against the gross carrying value so that the amount presented in the statement of financial position is net of impairment provisions. For financial assets classified as FVOCI, any credit losses are recognised in the fair value reserve.

**Forward looking approach**

The approach to determining the ECL includes forward-looking information. The Credit Union has performed historical analysis and identified the key economic variables impacting credit risk and expected credit losses (ECL) for each portfolio segment. Given the lack of loss experience by the Credit Union and across the wider industry, more emphasis has been applied to the historical data available as opposed to forward looking information. Consideration has also been given to the level of undue cost and effort involved in utilising complex statistical models, which is not considered appropriate for the size and complexity of the portfolio.

The Credit Union has considered other forward-looking considerations such as the impact of future unemployment rates, property prices, regulatory change and external market risk factors, which are not deemed to have a material impact and therefore no adjustment has been made to the ECL for such factors. The Credit Union considers the ECL to represent its best estimate of the possible outcomes and is aligned with information used by the Credit Union for other purposes such as strategic planning and budgeting. Periodically the Credit Union carries out stress testing of more extreme shocks to calibrate its determination of other potential scenarios.

**Credit risk categorisation**

For the purpose of calculating ECLs, assets are categorised into three 'stages' as follows:

**Stage 1: no significant increase in credit risk since initial recognition**

On initial recognition, and for financial assets where there has not been a significant increase in credit risk since the date of advance, provision is made for losses from credit default events expected to occur within the next 12 months. Expected credit losses (ECL) for these stage 1 assets continue to be recognised on this basis unless there is a significant increase in the credit risk of the asset.

**Stage 2: significant increase in credit risk**

Financial assets are categorised as being within stage 2 where an instrument has experienced a significant increase in credit risk since initial recognition. For these assets, provision is made for losses from credit default events expected to occur over the lifetime of the instrument.

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Credit Union uses the criteria of 30 days past due or loans under credit watch as the criteria to identify whether there has been a significant increase in credit risk.

**Stage 3: credit impaired (or defaulted) loans**

Financial assets are transferred into stage 3 when there is objective evidence that an instrument is credit impaired. Provisions for stage 3 assets are made on the basis of credit default events expected to occur over the lifetime of the instrument. Assets are considered credit impaired when:

- significant financial difficulty of the borrower or issuer;
- a breach of contract as a default or past due event;
- the restructuring of a loan or advance by the Credit Union on terms that the Credit Union would not consider otherwise;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

A loan that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment. In addition, a retail loan that is overdue for 90 days or more is considered credit-impaired even when the regulatory definition is different.

Interest income on stage 3 credit impaired loans is recognised in the income statement on the loan balance net of the ECL provision. The balance sheet value of stage 3 loans reflects the contractual terms of the assets, and continues to increase over time with the contractually accrued interest.

**Transfers between stages**

Transfers from stage 1 to 2 occur when there has been a significant increase in credit risk and from stage 2 to 3 when credit impairment is indicated as described above. For assets in stage 2 or 3, loans can transfer back to stage 1 or 2 once the criteria for a significant increase in credit risk or impairment are no longer met.

**Restructured loans**

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognised and ECL is measured as follows:

- if the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.
- If the expected restructuring will result in the derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the effective interest rate method of the existing financial asset.

**Write-off**

Loans remain on the statement of financial position, net of associated provisions, until they are deemed to have no reasonable expectation of recovery. Loans are generally written off after realisation of any proceeds from collateral and upon conclusion of the collections process, including consideration of whether an account has reached a point where continuing attempts to recover are no longer likely to be successful. Where a loan is not recoverable, it is written off against the related provision for loan impairment once all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the value of impairment losses recorded in the income statement.

Prior to the adoption of AASB 9, credit impairment provisions were recognised on an incurred loss basis.

Key differences included:

- an impairment loss was recorded where there was objective evidence of impairment as a result of one or more events (loss event) which had an impact on the estimated future cash flows of the financial asset that could be reliably estimated;
- where the credit risk of an exposure had deteriorated but there was no objective evidence of impairment, no credit impairment was required to be recognised;
- forward looking or macroeconomic information was not required to be incorporated into the determination of the credit impairment loss; and
- credit impairments were only required to be recognised for on-balance sheet exposures.

Credit impairments were calculated on the basis of the difference between the exposure's carrying value and the present value of expected future cash flows, discounted using the original EIR.

For available-for-sale investment securities, where there was objective evidence of impairment and the fair value of the financial asset was less than its initial carrying amount then the cumulative loss was transferred from other comprehensive income to the income statement. Impairment losses recognised for investment securities classified as available-for-sale were subsequently reversed through the income statement if the fair value increased and the increase was objectively related to an event after the impairment loss was recognised in the income statement.

#### (ii) General reserve for credit losses

A general reserve for credit losses is also held as an additional allowance for impairment losses to meet current prudential requirements.

#### (iii) Non-financial assets

The carrying amounts 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, then the asset's recoverable amount is estimated. The recoverable amount of other non-financial assets is the greater of their fair value less costs to sell and 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. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss. In respect of other assets, impairment losses recognised in prior years 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.

### n. 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.

The residual value, the useful life and the depreciation method applied to an asset are reassessed at least annually and adjusted if appropriate.

## o. Intangibles

### (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.

## p. Other assets

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

## q. 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.

## r. 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.

## s. 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.

### (i) 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.

### (ii) 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.

### (iii) 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 2019 temporary differences were assessed at 27.5% (2018: 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.

### (iv) 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.

### (v) New standards and interpretations not yet adopted

#### AASB 16 Leases

AASB 16 replaces the current AASB 117 Leases standard and sets out a comprehensive model for identifying lease arrangements and the subsequent measurement. A contract contains a lease if it conveys the right to control the use of an identified asset for a period of time. The majority of leases from the lessee perspective within the scope of AASB 16 will require the recognition of a 'right-of-use' asset and a related lease liability, being the present value of future lease payments. This will result in an increase in the recognised assets and liabilities in the statement of financial position as well as a change in expense recognition, with interest and depreciation replacing operating lease expense.

As compared to AASB 117, the pattern of expense recognition changes with higher costs in the earlier stages of the lease as a result of the interest expense being determined on the lease liability that amortises over the lease term. Classification of leases from the Credit Union's perspective as lessor remains unchanged under AASB 16. AASB 16 is effective for annual reporting periods beginning on or after 1 January 2019 and therefore will be applied by the Credit Union from 1 July 2019.

#### Transition

Alternative methods for calculating the right-of-use asset are permitted under AASB 16 which impacts the size of the transition adjustment. The Credit Union will apply the modified retrospective transition approach, as a result prior period comparative financial statements are not restated.

Based on the elected transition method, the Credit Union will recognise right-of-use assets and lease liabilities for operating leases of approximately $207,206 as at 1 July 2019.

## 2. Notes to the Statement of Comprehensive Income

| | 2019<br>$'000 | 2018<br>$'000 |
|---|---|---|
| **Interest income calculated using the effective interest rate method** | | |
| *Financial assets measured at amortised cost:* | | |
| Cash and deposits at call | 50 | 85 |
| Loans and advances to ADIs | 1,430 | 1,130 |
| Loans and advances to members | 6,151 | 5,829 |
| **TOTAL INTEREST INCOME** | **7,631** | **7,044** |
| **Fee, commission and other income** | | |
| Fee income | 369 | 385 |
| Insurance commissions | 24 | 50 |
| Other commissions | 52 | 66 |
| Dividends received | 9 | 18 |
| Bad debts recovered | 2 | 11 |
| Gain/(Loss) on disposal of property, plant and equipment | - | 8 |
| Other income | 29 | 28 |
| **TOTAL FEE, COMMISSION AND OTHER INCOME** | **485** | **566** |
| **Interest expense** | | |
| Deposits from members | 1,684 | 1,556 |
| **TOTAL INTEREST EXPENSE** | **1,684** | **1,556** |
| **Impairment losses** | | |
| **Loans and advances** | | |
| Provision (utilised)/made during the year | (26) | (43) |
| Bad debts written off directly against profit | 40 | 45 |
| **TOTAL IMPAIRMENT LOSSES** | **14** | **2** |
| **Other prescribed disclosures** | | |
| Employees compensation and benefits include:<br>– Superannuation contributions to defined contribution plans | 189 | 187 |
| Office occupancy costs include:<br>Property operating lease payments – minimum lease payments | 34 | 29 |

## 3. Income tax expense

| | 2019<br>$'000 | 2018<br>$'000 |
|---|---|---|
| The income tax expense comprises amounts set aside as:- | | |
| Provision for income tax – current year | 245 | 243 |
| (Increase) Decrease in deferred tax asset account | – | – |
| **Income tax expense attributable to operating profit** | **245** | **243** |
| The prima facie tax payable on profit is reconciled to the income tax expense in the accounts as follows: | | |
| **Profit before income tax** | **889** | **883** |
| Prima facie tax payable on profit before income tax at 27.5% (2018: 27.5%)<br>Add tax effect of expenses not deductible | | |
| – Other non-deductible expenses / or taxable income | 13 | 11 |
| – Gross up dividends | (9) | (3) |
| | **249** | **251** |
| Less | | |
| – Franking rebate | (4) | (8) |
| **Income tax expense attributable to current year profit** | **245** | **243** |

## 4. Cash and cash equivalents

| | 2019 $'000 | 2018 $'000 |
|---|---|---|
| Cash on hand | 4,939 | 3,652 |
| Deposits at call | 900 | 4,000 |
| | **5,839** | **7,652** |

## 5. Loans and advances to ADIs

| | 2019 $'000 | 2018 $'000 |
|---|---|---|
| Deposits with industry bodies - CUSCAL | 2,420 | 2,420 |
| Deposits with Non-Bank ADI's | 10,891 | 8,376 |
| Deposits with Australian Banks | 33,999 | 31,060 |
| | **47,310** | **41,856** |

## 6. Other receivables

| | 2019 $'000 | 2018 $'000 |
|---|---|---|
| Sundry debtors and settlement accounts | 245 | 249 |
| | **245** | **249** |

## 7. Loans and advances to members

| | 2019 $'000 | 2018 $'000 |
|---|---|---|
| **Amount due comprises:** | | |
| Overdrafts and revolving credit (including VISA) | 1,305 | 1,239 |
| Term loans | 119,883 | 112,007 |
| | 121,188 | 113,246 |
| Provision on impaired loans (Note 8) | (132) | (157) |
| | 121,056 | 113,089 |
| **Credit quality** | | |
| Secured by mortgage over real estate | 103,202 | 95,364 |
| Partly secured by goods mortgage | 8,980 | 8,111 |
| Wholly unsecured | 9,006 | 9,771 |
| | **121,188** | **113,246** |

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:

| | 2019 $'000 | 2018 $'000 |
|---|---|---|
| Credit quality profile of loans wholly secured by mortgage against real estate | | |
| – loan to valuation ratio of less than 80% | 91,994 | 85,439 |
| – loan to valuation ratio of more than 80% but mortgage insured | 5,565 | 6,136 |
| – loan to valuation ratio of more than 80% and not mortgage insured | 5,643 | 3,789 |
| **Total** | **103,202** | **95,364** |

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.

| | 2019 $'000 | 2018 $'000 |
|---|---|---|
| **Concentration of loans by purpose** | | |
| **Loans to natural persons** | | |
| – Residential loans and facilities | 100,405 | 94,104 |
| – Personal loans and facilities | 19,307 | 17,818 |
| – Business loans and facilities | 1,476 | 1,324 |
| | **121,188** | **113,246** |

## 8. Provision on Impaired Loans

| | Loans and advances to members ($'000's) | Total ($'000's) |
|---|---|---|
| **Loans to members** | | |
| Balance as at 30 June 2018 | 158 | 158 |
| Change on initial application of AASB 9 | – | – |
| **Balance as at 1 July 2018** | **158** | **158** |
| Impairment change/reversal | 14 | 14 |
| Amounts written off, previously provided for | (40) | (40) |
| **Balance as at 30 June 2019** | **132** | **132** |

*ECL for Investment debt securities measured at FVOCI recognised in OCI at 30 June 2019

The table below represents the reconciliation from the opening balance to the closing balance of the ECL allowance for loan and advances to customers to which impairment requirements under AASB 9 apply:

| ECL on loans and advances to members | Stage 1 12 month ECL $'000's | Stage 2 Not Credit Impaired $'000's | Stage 3 Credit Impaired $'000's | Collective Provision $'000's | Specific Provision $'000's | Total $'000's |
|---|---|---|---|---|---|---|
| Balance as at 30 June 2018 | – | – | – | 158 | – | 158 |
| Change on initial application of AASB 9 | 119 | 28 | 11 | (158) | – | – |
| **Balance as at 1 July 2018** | **119** | **28** | **11** | **–** | **–** | **158** |
| Transfers during the period to:<br>12 month ECL<br>lifetime ECL not credit impaired<br>lifetime ECL credit impaired | | | | | | |
| Net re–measurement of loss allowance | (19) | (5) | 38 | | | 14 |
| New financial assets originated | – | – | – | | | – |
| Financial assets that have been derecognised | – | – | – | | | – |
| Write–offs | – | – | (40) | | | (40) |
| **Carrying amount** | **100** | **23** | **9** | | | **132** |

(i) The following represent the comparative information prior to the adoption of AASB 9 on the movement in provision for impairment for the year ended 30 June 2018.

| | |
|---|---|
| **Total provision comprises** | |
| Collective provision | 157 |
| Specific provision | - |
| **Total Provision** | **157** |
| **Movement in the provision for impairment** | |
| Balance at the beginning of year | 201 |
| Add (deduct): | |
| Provision made during the year | – |
| Provision used during the year | (44) |
| **Balance at end of year** | **157** |

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 |
|---|---|
| **Individually impaired** | |
| Gross amount | – |
| Provision for impairment | – |
| **Carrying amount** | **–** |
| **Past due but not impaired** | |
| Days in arrears: | |
| Less than one month | 3 |
| Greater than one month and less than two months | 86 |
| Greater than two months and less than three months | 45 |
| Greater than three months | 229 |
| **Carrying amount** | **363** |
| **Neither past due nor impaired** | |
| Secured by mortgage | 95,364 |
| Personal and commercial | 16,280 |
| Overdrafts/resolving | 1,239 |
| **Carrying amount** | **112,883** |
| Collective impairment provision | (157) |
| **Total carrying amount** | **113,089** |

## 9. Investment securities

| | 2019 $'000 | 2018 $'000 |
|---|---|---|
| Shares in unlisted company | | |
| Shares at amortised cost | – | 225 |
| Shares at FVOCI | **419** | – |
| **Total value of investment securities** | **419** | **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 |
|---|---|---|---|
| **Accumulated depreciation and impairment losses** | | | |
| 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 |
| Additions | – | 88 | 88 |
| Disposals | – | (195) | (195) |
| Balance at 30 Jun 2019 | 836 | 1,496 | 2,332 |
| **Accumulated depreciation and impairment losses** | | | |
| 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) |
| Depreciation for the year | (20) | (96) | (116) |
| Disposals | – | 195 | 195 |
| Balance at 30 June 2019 | (306) | (1,250) | (1,556) |

| | 2019 $'000 | 2018 $'000 |
|---|---|---|
| Total Property Plant and Equipment – at cost | 2,332 | 2,439 |
| Total Accumulated Depreciation | (1,556) | (1,635) |
| Total Property, Plant and Equipment – carrying amount | 776 | 804 |

## 11. Intangible assets

| | 2019 $'000 | 2018 $'000 |
|---|---|---|
| **Cost** | | |
| Balance at 1 July | 1,319 | 1,010 |
| Additions | 95 | 309 |
| **Balance at 30 June** | **1,414** | **1,319** |
| **Accumulated Amortisation** | | |
| Balance at 1 July | (797) | (601) |
| Amortisation for the year | (244) | (196) |
| **Balance at 30 June** | **(1,041)** | **(797)** |
| **Total Intangible Assets** | **373** | **522** |

## 12. Deferred Tax Assets

| | 2019 $'000 | 2018 $'000 |
|---|---|---|
| Deferred tax assets comprise: | | |
| Accrued expenses | 21 | 18 |
| Provision on impaired loans | 36 | 43 |
| Provision for employee benefits | 99 | 97 |
| Depreciation on fixed assets | – | – |
| Visa setup costs | – | – |
| | **156** | **158** |

### DEFERRED TAX LIABILITY

On adoption of AASB 9 the Credit Union revalued its shares in Cuscal Limited. This revaluation is reflected in the creation of a Fair value reserve. The revaluation caused the creation of a Deferred Tax Liability of $53,474.

The Credit Union's current tax asset of $58,595 (2018: $42,439 receivable) represents the amount of income tax refundable to the Credit Union in respect of the current and prior year periods due from the Australian Taxation Office.

## 13. Deposits from members

| | 2019<br>$'000 | 2018<br>$'000 |
|---|---|---|
| Member Deposits | | |
| – at call | 79,675 | 74,219 |
| – term | 72,127 | 67,673 |
| Member withdrawable shares | 136 | 136 |
| | **151,938** | **142,028** |

**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 Accurals and Settlement Accounts

| | 2019<br>$'000 | 2018<br>$'000 |
|---|---|---|
| Creditors and accruals | 225 | 208 |
| Interest payable on deposits | 346 | 308 |
| Sundry creditors / Settlements | 1,165 | 409 |
| | **1,736** | **925** |

## 15. Provisions

| | 2019<br>$'000 | 2018<br>$'000 |
|---|---|---|
| **Current** | | |
| Annual Leave | 159 | 157 |
| Long Service Leave | 182 | 164 |
| Provisions – other | 124 | 30 |
| | **465** | **351** |
| **Non-Current** | | |
| Long Service Leave | 20 | 32 |
| **Total provisions** | **485** | **383** |

## 16. Fair Value Reserve

| | | |
|---|---|---|
| FVOCI reserve – Shares | | |
| Balance at the beginning of the year | – | – |
| Add: increase on revaluation of investment | 194 | – |
| Less: deferred tax thereon | (53) | – |
| **Balance at the end of year** | **141** | **–** |

On adoption of AASB 9 the Credit Union revalued its shares in Cuscal Limited. This revaluation is reflected in the creation of a Fair value reserve. The revaluation caused the creation of a Deferred Tax Liability to the amount of 27.5% of the increment. There was no other impact on the Financial Statements for the current year.

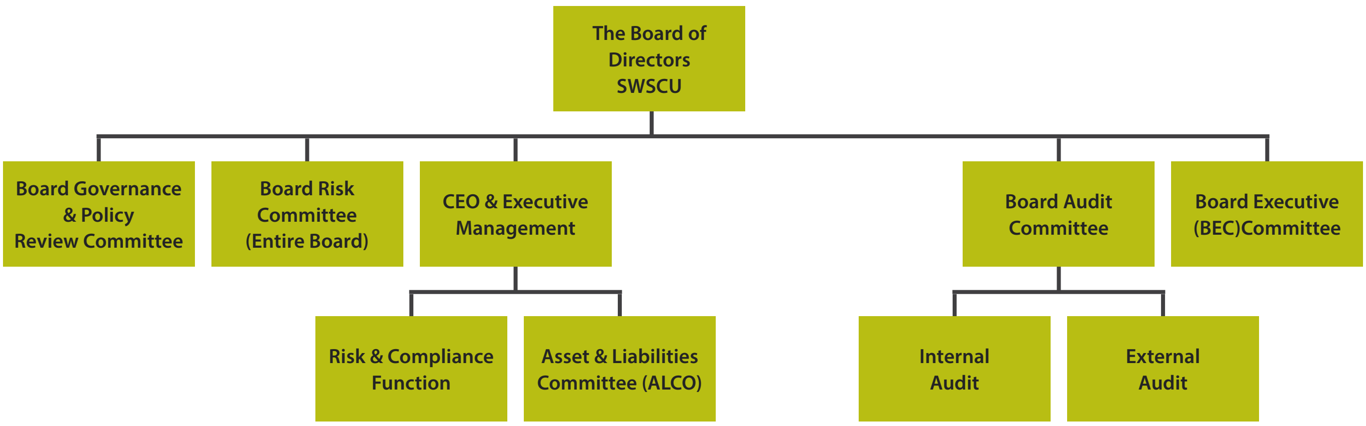
## 17. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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 2019.

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:**

Since 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 2019 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:

| | 2019 | 2018 |
|---|---|---|
| Value at Risk / 10 day value at risk | $(92,667) | $8,459 |
| Percentage of regulatory capital | (0.43)% | 0.04% |

Given the Credit Union's profile of assets and liabilities at 30 June 2019, and therefore its book sensitivity as at that date, for each 1% parallel downward shift in the yield curve the Credit Union can expect an increase in profit of $171,634 (2018 decrease of $39,813). The Credit Union is therefore presently exposed to rising 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 2019, it will not incur a one day loss on its non-trading book of more than the amount calculated above, based on the 2019 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 15% 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 19.

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

| APRA minimum 9% | 2019 | 2018 |
|---|---|---|
| Total Liquidity as at 30 June | 32.47% | 32.08% |
| MLH liquidity as at 30 June | 22.86% | 19.82% |
| Average MLH liquidity for the year | 21.91% | 24.46% |
| Average Total liquidity for the year | 32.62% | 31.31% |
| Lowest MLH liquidity for the year | 19.01% | 19.47% |

## 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:

| | 2019 $'000 | 2018 $'000 |
|---|---|---|
| **Loans and advances to members** | | |
| Mortgage (Home or Investment loans) | 100,405 | 94,104 |
| Personal | 18,002 | 16,579 |
| Credit cards | 776 | 757 |
| Overdrafts | 529 | 482 |
| Commercial | 1,476 | 1,324 |
| Total loans | 121,188 | 113,246 |
| Provision for impairment | (132) | (157) |
| | 121,056 | 113,089 |

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 losses in the Credit Union's loan portfolio from homogenous portfolios of assets and individually identified loans.

A provision for 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 (2018: 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 | 2019 Carrying value $'000 | 2018 Carrying value $'000 |
|---|---|---|
| Rated AA – (e.g. Cuscal) | 8,259 | 10,072 |
| Banks – rated AA and above | – | 3,533 |
| Banks – rated below AA | 24,418 | 18,024 |
| Mutual Banks | 9,372 | 10,965 |
| Unrated | 11,100 | 6,914 |
| **Total** | **53,149** | **49,508** |

## 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:

| | 2019 $'000 | 2018 $'000 |
|---|---|---|
| **Tier 1** | | |
| Retained earnings | 21,752 | 20,967 |
| Less prescribed deductions | (898) | (905) |
| Common Equity Tier 1 capital | 20,854 | 20,062 |
| **Tier 2** | | |
| Reserve for credit losses | 318 | 318 |
| Less prescribed deductions | – | – |
| Net tier 2 capital | 318 | 318 |
| **Total Regulatory Capital** | **21,172** | **20,380** |
| Risk Weighted Assets (Credit) | 71,893 | 67,524 |
| **Capital Ratios** | | |
| Total regulatory capital expressed as a percentage of total risk weighted assets | 26.60% | 26.12% |
| Total Tier 1 capital expressed as a percentage of total risk weighted assets | 25.22% | 25.71% |

APRA sets a prudential capital requirement for each ADI that sets capital requirements in excess of the minimum capital requirement of 9% 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.

## 18. CATEGORIES OF FINANCIAL INSTRUMENTS

The following information classifies the financial instruments into measurement classes

| | Note | 2019 $ | 2018 $ |
|---|---|---|---|
| Financial assets | | | |
| Cash | 4 | 5,839 | 7,652 |
| Loans and advances to ADIs | 5 | 47,310 | 41,856 |
| Loans and advances to members | 7 & 8 | 121,188 | 113,089 |
| **Total carried at amortised cost** | | **174,337** | **162,597** |
| Investment securities  - FVOCI (2018: amortised cost) | | 419 | 225 |
| **Total carried at FVOCI** | | **419** | **225** |
| **Total financial assets** | | **174,756** | **162,822** |
| **Financial liabilities** | | | |
| Creditors and other liabilities | 14 | 1,736 | 925 |
| Deposits from members | 13 | 151,938 | 142,028 |
| **Total financial liabilities** | | **153,674** | **142,953** |

## 19. 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;

| 2019 | Within 1 month $'000 | 1–3 months $'000 | 3–12 months $'000 | Total $'000 |
|---|---|---|---|---|
| Creditor accrual and settlement accounts | 1,736 | – | – | 1,736 |
| Deposits from members (incl. future interest) | 100,651 | 35,031 | 16,120 | 151,802 |
| **Total financial liabilities** | **102,387** | **35,031** | **16,120** | **153,538** |

| 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 |

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

| 2019 | Within 1 month $'000 | 1–3 months $'000 | 3–12 months $'000 | Total $'000 |
|---|---|---|---|---|
| Cash | 5,839 | – | – | 5,839 |
| Loans and advances to ADIs | 25,263 | 15,547 | 6,500 | 47,310 |
| Loans and advances – mortgage | 101,771 | – | – | 101,771 |
| Loans and advances – personal | 18,002 | – | – | 18,002 |
| Loans and advances – other | 1,415 | – | – | 1,415 |
| **Total financial assets** | **152,290** | **15,547** | **6,500** | **174,337** |
| Deposits from members | 100,651 | 35,031 | 16,120 | 151,802 |
| **Total financial liabilities** | **100,651** | **35,031** | **16,120** | **151,802** |
| **Gap** | **51,639** | **(19,484)** | **(9,620)** | **22,535** |
| **Cumulative gap** | **51,639** | **32,155** | **22,535** | **–** |

| 2018 | Within 1 month $'000 | 1–3 months $'000 | 3–12 months $'000 | Total $'000 |
|---|---|---|---|---|
| Cash | 7,652 | – | – | 7,652 |
| Loans and advances to ADIs | 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** | **–** |

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).

## 20. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

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

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

**Financial instruments carried at fair value**

- Financial instruments classified as FVOCI are measured at fair value by reference to recent market transaction prices where available, where not available a range of high level values were determined using various valuation methodologies based on underlying cash flow assumptions for these entities.

  Investment securities are recorded at fair value in the statement of financial position and are included in level 3 of the fair value hierarchy.

**Financial instruments carried at amortised cost**

- The carrying values of cash and liquid assets redeemable within 12 months approximate their fair value as they are short term in nature or are receivable on demand.
- 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 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.

Fair value information has not been provided for financial assets and liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

## 21. FINANCIAL COMMITMENTS

| | 2019 $'000 | 2018 $'000 |
|---|---|---|
| **Outstanding loan commitments** | | |
| Loans approved but not funded | 3,213 | 1,930 |
| **Loan redraw facilities** | | |
| Loan redraw facilities available | 9,825 | 8,260 |
| **Undrawn loan facilities** | | |
| Loan facilities available to members for overdrafts and line of credit loans are as follows: | | |
| Total value of facilities approved | 4,968 | 5,188 |
| Less: Amount advanced | (2,048) | (2,147) |
| Net undrawn value | 2,920 | 3,041 |
| **Total financial commitments** | **15,958** | **13,231** |
| 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 | 581 | 559 |
| Later than 1 year but not 2 years | 595 | 572 |
| Later than 2 years but not 5 years | 275 | 879 |
| Later than 5 years | – | – |
| | 1,451 | 2,010 |
| **Lease expense commitments for operating leases on property occupied by the Credit Union** | | |
| Not later than one year | 36 | 36 |
| Later than 1 year but not 2 years | 33 | 37 |
| Later than 2 years but not 5 years | 5 | 19 |
| | 74 | 92 |

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.

## 22. 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 2019 (2018: nil).

## 23. 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 5 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:

| | 2019<br>$ | 2018<br>$ |
|---|---|---|
| (a) short-term employee benefits; | 767,794 | 698,146 |
| (b) post-employment benefits - superannuation contributions | 72,508 | 68,091 |
| (c) other long-term benefits | – | 3,771 |
| **Total** | **840,302** | **770,008** |

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**

| | 2019<br>$ | 2018<br>$ |
|---|---|---|
| (i) The aggregate value of loans to directors and other key management persons as at balance date amounted to | 2,098,275 | 2,139,668 |
| (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 | 61,000 |
| Less amounts drawn down and included in (i) | (22,765) | (10,118) |
| Net Balance available | 38,235 | 50,882 |
| (iii) During the year the aggregate value of loans disbursed to directors and other key management persons amounted to: | – | 536,495 |
| Term Loans | – | – |
| (iv) The aggregate value of interest paid by key management personnel amounted to: | 104,083 | 83,145 |

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.

| | 2019<br>$ | 2018<br>$ |
|---|---|---|
| Total value of term and saving deposits from KMP | 614,152 | 612,419 |

**Transactions with Other Related Parties**

Mr Keith Carmody (Director and Chairman of the Board) acts on behalf of the Credit Union in legal matters at normal commercial rates. During the course of the year amounts paid to Mr Keith Carmody totalled Nil (2018: $977).

There are no amounts outstanding at 30 June 2019 (2018: 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.

## 24. NOTES TO STATEMENT OF CASH FLOWS

| | 2019<br>$'000 | 2018<br>$'000 |
|---|---|---|
| **Reconciliation of cash from operations to accounting profit** | | |
| Profit after income tax | 644 | 640 |
| **Add ( Deduct) :** | | |
| Depreciation and amortisation expense | 360 | 297 |
| (Profit)/loss on sale of assets | – | (8) |
| Impairment Loss on loans and advances | 14 | 2 |
| Movement in employee benefits | 8 | 53 |
| Movement in other provisions | 94 | 2 |
| Change in current tax liabilities | (16) | 40 |
| Movement in trade creditors | 811 | 197 |
| Movement in interest receivable | (4) | 40 |
| Movement in prepayments | (56) | (15) |
| Movement in net deferred tax assets | 2 | 20 |
| **Net cash from revenue activities** | 1,857 | 1,268 |
| **Add (Deduct) non-revenue operations** | | |
| Change in loans balances | (7,943) | (11,078) |
| Change in deposit balances | 9,910 | 6,641 |
| **Net cash (used by)/from operating activities** | **3,824** | **(3,169)** |

## 25. AUDITOR'S REMUNERATION

| | 2019<br>$ | 2018<br>$ |
|---|---|---|
| Audit services: | | |
| Auditors of the Credit Union – KPMG | | |
| Audit and review of the financial reports | 48,200 | 47,025 |
| Other regulatory services | 22,570 | 22,020 |
| Taxation services | 2,534 | 2,368 |
| | **73,304** | **71,413** |



Above: Tracey Lewis at Temora Branch promoting our Car Loan

Right: Libby Perry & Hannah Oliver at the Wattle Time Festival in Cootamundra

# Independent Auditor's Report

To the members 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 2019 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 2019
- *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.*

## Basis for opinion

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.

## Other Information

Other Information is financial and non-financial information in South West Slopes Credit Union Limited's annual reporting which is provided in addition to the Financial Report and the Auditor's Report. The Directors are responsible for the Other Information.

Our opinion on the Financial Report does not cover the Other Information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon.

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*

Wollongong

25 September 2019



Left and above: Staff at Grenfell Agency BBQ

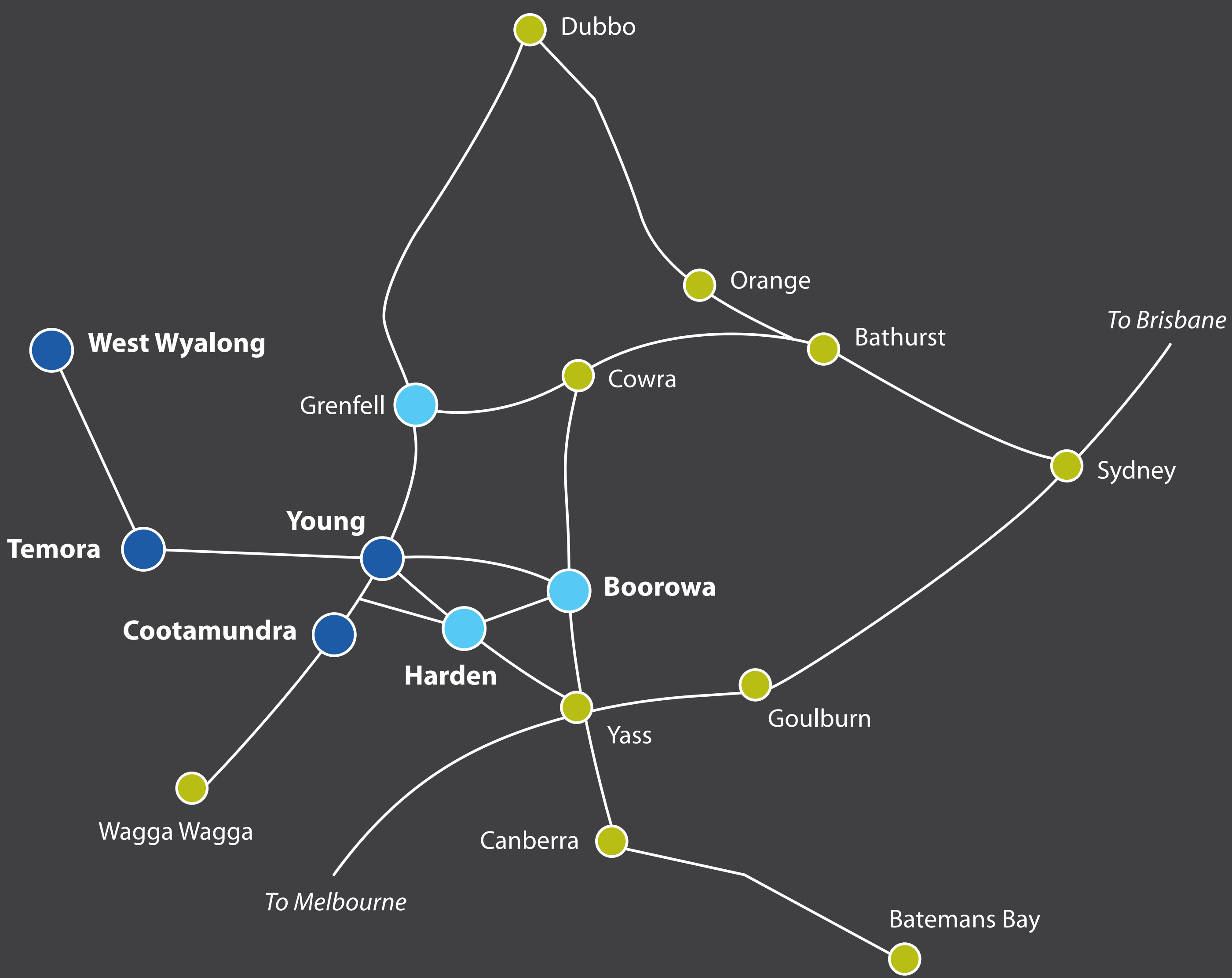
Below: Staff at Cootamundra Wattle Time festival

# 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

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

**Grenfell**
89 Main Street
Grenfell NSW 2810
P: 02 6384 1161

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

## Telephone banking

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