South West Slopes Credit Union

Annual Report 2019/20

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

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Cover image: various staff photos

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Chair's Report

It is with a tinge of sadness that I present my sixth and final report as Chair of this wonderful organisation known as South West Slopes Credit Union.

Under the Board Charter I must retire as Chair, which is only sensible good governance policy.

There is no need to tell you fellow members that the last year has been dramatic and unprecedented, so I won't labour the point of the effect of the corona virus on the community.

But I will congratulate CEO Andrew Jones, his management team and indeed every employee of the credit union who have done such a marvelous job in keeping the credit union not only viable but extremely profitable in such difficult economic circumstances. Members, you can be well assured that the credit union is in safe hands.

The focus of board and management has always been the best interests of you the members. The financial industry has gone through and continues to go through a multitude of challenging innovations including the National Payment Platform (NPP) and Open Banking which the staff of SWSCU are expertly introducing. Whether these innovations are for the overall betterment of members, time will only tell.

"I HAVE BEEN HONOURED TO HAVE SERVED YOU THE MEMBERS DURING THESE SOMETIMES DIFFICULT TIMES AND PLAYED A SMALL PART, ALONG WITH MY FELLOW BOARD MEMBERS, IN KEEPING YOUR CREDIT UNION PROFITABLE AND AN ORGANISATION THAT WE CAN ALL BE PROUD OF."

In the latter part of this year the dedicated staff of the credit union successfully oversaw the implementation of an upgraded core banking operations system. Staff worked overnight during one weekend to see to the successful implementation. As always there were the usual minor hiccups which the staff handled expertly and efficiently.

Internet fraud continues to be a major challenge for financial institutions around the globe. SWSCU is not immune from fraud attempts. SWSCU has systems in place and staff oversight which has proved very successful in preventing or minimising any losses. However, members must play their part. 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.

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 is 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.

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 my six years as Chair. These six years have seen a number of important events and issues having been experienced by the credit union including the appointment of a new CEO following the retirement of Steve Esley; the introduction of new technology; the expansion of the credit union's presence both physically and via an on-line presence; the rationalisation of ATM's; introduction of the NPP and Open Banking; the Banking Royal Commission; increased oversight of the finance industry by the regulators; drought; and finally Covid-19.

I have been honoured to have served you the members during these sometimes difficult times and played a small part, along with my fellow board members, in keeping your credit union profitable and an organisation that we can all be proud of. I would like to finish by again thanking Management and staff for their efforts, expertise and dedication and also thank 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
Chair of the Board of Directors
South West Slopes Credit Union

CEO's Report

The past year really has been a tale of two half's. The first 6 months saw SWSCU record strong growth across all lending products as well as new member applications.

The past year at SWSCU

SWSCU is proud of its close ties with the communities in which it operates and it is this relationship that continues to engender ongoing loyalty amongst its members. The relationship that SWSCU has with its members highlights the need for local institutions, such as SWSCU, that are here for 'face to face' conversations in regards to life's big financial decisions. It is also this connection to the community and our members that drives all of the staff and management at SWSCU to deliver the best possible experience at a time when the larger banks continue to withdraw from regional Australia.

The second 6 months coincided with the arrival of COVID-19 and this was a game changer in terms of how SWSCU engaged with its members. SWSCU was able to act quickly in response to the pandemic because of the commitment of our people, our technology capabilities, and our strong financial position. These factors allowed SWSCU to increase its educational engagement with our members around cashless banking and the use of internet banking and SWSCU's mobile app (for many of our members this was a new experience and was well received). While in branch transactions decreased during the heights of the pandemic SWSCU was also able to quickly move to increase telephone and online resources to meet a growing digital demand.

"SWSCU IS PROUD OF ITS CLOSE TIES WITH THE COMMUNITIES IN WHICH IT OPERATES AND IT IS THIS RELATIONSHIP THAT CONTINUES TO ENGENDER ONGOING LOYALTY AMONGST ITS MEMBERS."

The Credit Union operationally also responded to the pandemic by following the government's health advice and adhering to the government's restrictions, such as increasing cleaning and disinfecting, limiting the number of members visiting our branch's and in Young splitting our workforce into two separate teams with a team working from home that would be able to replace the in branch team if necessary.

This proved effective as all staff remained free of Covid-19 and all operations continued to remain relatively unaffected while delivering outstanding member service.

Looking forward

SWSCU is well progressed towards the implementation of the Open Banking regime, which is designed to provide members with greater control over their financial information. Members will be hearing more about the possible benefits of Open Banking as this project develops.

The COVID-19 pandemic will continue to have a significant effect on both global and domestic economies. The stimulus measures implemented by the Australian Federal Government have reduced the depth of the downturn in the Australian economy, however the impacts of higher unemployment and reduced consumer confidence and spending will likely lead to further contraction of economic activity.

We expect that low interest rates and lower demand for credit will affect net interest income over the medium term, and with further provisioning possible if the pandemic continues for an extended period, we expect profit levels to remain subdued for the 2020/21 financial year.

Notwithstanding this context, SWSCU's financial position is strong and we are well placed to continue to assist our members through these difficult times, while focusing on providing a competitive banking alternative to the major banks.

I would like to take this opportunity to thank all of the staff at SWSCU for their commitment to member service through a very difficult time. I would also like to thank the Board for their ongoing support to myself and my team through a period of heightened concern and regulatory oversight.

Last but certainly not least, I would like to acknowledge the support Keith Carmody as Chair of SWSCU since my arrival, has provided to me over the past 5 years. I certainly have appreciated the way Keith has made me feel welcome and his ongoing advice over this time.

Andrew Jones
CEO


STRUGGLING
TO BUY A HOUSE?

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 2020 and the auditor's report thereon.

Information on Directors

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

	Name	Experience, responsibilities and other directorships
	**Keith Carmody LLB** – Chair of the Board since November 2014 – Independent Non-Executive Director – Member of the Risk Committee – Member of the Governance & Policy Review Committee	– Director of SWSCU from 1988 until current – 32 years – Principal of KP Carmody Solicitors, Young NSW – Member of Institute for Strategy, Innovation and Leadership (Instil) – No other directorships within the last 3 years
	**Adrian Hanrahan** – Deputy Chair of the Board – Independent Non-Executive Director – Member of the Risk Committee – Chair of the Governance & Policy Review Committee	– Director of SWSCU from 2008 – until current – 12 years – General Manager of Young Shire Council (Retired) – Member of Institute for Strategy, Innovation and Leadership (Instil) – No other directorships within the last 3 years
	**Kevin Cloake** – Independent Non-Executive Director – Chair of the Risk Committee – Chair of the Audit Committee – Member of the Governance & Policy Review Committee	– Director of SWSCU 2010 – until current – 10 years – Employed within the Finance division of Hilltops Council and formerly Harden Shire Council since 2003 – 21 years of banking experience with Commonwealth Bank (1976-1997) – Member of Institute for Strategy, Innovation and Leadership (Instil) – No other directorships within last 3 years

	Name	Experience, responsibilities and other directorships
	**Elke Cleverdon** – Independent Non-Executive Director – Member of the Risk Committee – Member of the Governance & Policy – Review Committee	– Director of SWSCU from November 2019. Director from 1997-1999. – Formerly Assistant General Manager of SWSCU from 2000 to 2016. Accountant at SWSCU from 1992-1996. – Graduate of Australia Institute of Company Directors (GAICD). Fellow CPA. – Master of Business Administration (MBA). – Director of Murrumbidgee Health and Director of Local Land Services.
	**Brian Page** – Independent Non-Executive Director – Member of the Risk Committee – Member of the Audit Committee	– Retired in November 2019. Director of SWSCU from 1978-1981 and 2000 until current –23 years. Chair of the Board from 2009-2014. – Director Environmental Services – Young Shire Council (Retired 2001), former Health Inspector – No other directorships within the last 3 years
	**Lauren Peek** – Independent Non-Executive Director – Member of the Risk Committee – Member of the Audit Committee	– Director of SWSCU from 1992 – until current – 28 years – Proprietor of 'Framaglass'; a glass sales & glaziers business in Young, NSW – No other directorships within the last 3 years
	**Allan Stuart** – Independent Non-Executive Director – Member of Risk Committee – Member of the Audit Committee	– Appointed as Director of SWSCU 30 May 2018 – Previously served as SWSCU Director 1999 – 2012; 15 years. Chair of the Board for 2 years – Bachelor of Engineering/Electrical – Engineering and Management Consultant – Diploma of Financial Services – Graduate of Institute of Company Directors (GAICD) 2010 – No other directorships within the last 3 years

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

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

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


vodafone

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	7	6	-	1	7	7	3 years (2018–2021)
Adrian Hanrahan	11	11	7	6	-	1	7	6	3 years (2019–2022)
Kevin Cloake	11	11	7	7	2	2	7	7	3 years (2017–2020)
Elke Cleverdon	7	5	4	3	-	-	4	3	3 years (2019–2022)
Brian Page*	4	4	3	3	1	1	-	-	3 years (2016–2019)
Lauren Peek	11	9	7	7	1	1	-	-	3 years (2018–2021)
Allan Stuart	11	9	7	7	2	2	-	-	2 years (2018–2020)

*Director Page retired in November 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 (2019 Nil).

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 gross profit of the Credit Union for the year was $622,000 (2019: $889,000)

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

In-line with government legislation and assisting our members, SWSCU approved Loan Pauses for members affected by the COVID-19 pandemic (please refer to "Significant Changes in State of Affairs for more detail).

Therefore, the results of the Credit Union's operations from its activities of providing financial services to its members were affected, with a one-off provision of $200,000 for 'Expected Economic Losses' associated with possible losses from COVID-19 loan pauses (as detailed under Note 8).

Significant Changes in State of Affairs

There were no significant changes in the state of the affairs of South West Slopes Credit Union (SWSCU) for the majority of the year. During February and March 2020 Australia began to experience the impacts of the COVID-19 virus which would be classified as a global pandemic by the World Health Organisation.

Following the declaration of COVID-19 by the World Health Organisation (WHO) as a pandemic on 11 March 2020, SWSCU activated its Pandemic Plan. SWSCU's Crisis Management Team (CMT) was convened. The CMT identified the need to maintain operational levels of staffing, branch services, member and staff safety, and financial soundness during the pandemic. Two sub-teams were activated in the event of local outbreaks or staff illness to ensure core business functions remained covered. The government's health advice and restrictions were also adhered to with increased cleaning and disinfecting, limiting the number of members at any one time, and temporarily closing on Saturday mornings for trade. These actions during the pandemic have proved effective to date, with all staff remaining free from COVID-19 and all operations continuing unaffected.

From March 2020, besides a slight initial dip in cash inflow, SWSCU has seen an exponential increase in member deposits from the month of April onwards. This has continued to increase during the months of May, June, July and has not abated as yet. This is positive and continues to reflect member engagement and community trust in SWSCU as an organisation.

For the year ending 30 June 2020, the financial results of SWSCU were impacted through significantly higher loan provisions due to COVID-19 member support actions. SWSCU experienced a contraction in the number of loan enquiries during the first "shut down" in April and May, but have seen an increase in enquiries since then.

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 8 and forms part of the directors' report for the financial year ended 30 June 2020.

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
Dated at Young this 6th day of October 2020

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 2020 and of its performance for the financial year ended on that date; and

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

(b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1; and

(c) There are reasonable grounds to believe that the Credit Union will be able to pay its debts as and when they become due and payable.

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

Keith Carmody (Chair of the Board)
Director

Signed in Young
6th October 2020

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 Ltd

I declare that, to the best of my knowledge and belief, in relation to the audit of South West Slopes Credit Union Ltd for the financial year ended 30 June 2020 there have been:

i. no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and

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

KPMG

Richard Drinnan

Partner

Wollongong

6 October 2020

Statement of Profit or Loss and other Comprehensive Income

FOR THE YEAR ENDED 30 June 2020

	Note	2020[1] $'000	2019 $'000
Interest income calculated using the effective interest rate method	2	7,222	7,631
Interest expense	2	(1,289)	(1,684)
Other interest expense		(8)	-
Net interest income		**5,925**	**5,947**
Fee, commission and other income	2	503	485
Operating income		6,428	6,432
Impairment losses on member loans	2	(259)	(14)
Fee and commission expenses		(767)	(807)
Employees' compensation and benefits		(2,503)	(2,463)
Depreciation and amortisation	10,11	(411)	(360)
Information technology		(696)	(644)
Office occupancy		(130)	(168)
Other administration		(1,040)	(1,087)
Total operating expenses		**(5,806)**	**(5,543)**
Profit before income tax		**622**	**889**
Income tax expense	3	(249)	(245)
Profit for the year		**373**	**644**
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*			
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		**373**	**644**

* 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 2020 financial statements reflect the adoption of AASB 16 Leases (AASB 16) on 1 July 2019. Refer to Note 1 (h) for the impact from the initial adoption of AASB 16. Refer to Note 1(g) for the impact from the initial adoption of AASB 9.

Statement of Financial Position

AS AT 30 June 2020

	Note	2020[1] $'000	2019 $'000
ASSETS			
Cash and cash equivalents	4	6,461	5,839
Loans and advances to ADIs	5	55,558	47,310
Other receivables	6	282	245
Current tax receivable	12	-	58
Prepayments		92	50
Loans and advances to members	7	128,059	121,056
Investment securities	9	419	419
Property, plant and equipment	10	863	776
Deferred tax assets	12	135	103
Intangible assets	11	295	373
TOTAL ASSETS		**192,164**	**176,229**
LIABILITIES			
Deposits from members	13	168,318	151,938
Creditor accruals and settlement accounts	14	728	1,736
Lease Liability		160	-
Current tax payable		83	-
Provisions	12	432	485
TOTAL LIABILITIES	**15**	**169,721**	**154,159**
NET ASSETS		**22,443**	**22,070**
MEMBERS' EQUITY			
General reserve for credit losses		318	318
Fair value reserve		141	141
Retained earnings		21,984	21,611
TOTAL MEMBERS' EQUITY		**22,443**	**22,070**

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

(1) The June 2020 financial statements reflect the adoption of AASB 16 Leases (AASB 16) on 1 July 2019. Refer to Note 1 (g) for the impact from the initial adoption of AASB 16.

Statement of Changes in Equity

FOR THE YEAR ENDED 30 June 2020

	General reserve for credit losses $'000	Retained earnings $'000	Fair value Reserve	Total $'000
Balance at 1 July 2018	**318**	**20,967**	**141**	**21,426**
Total comprehensive income for the year				
Profit for the year	-	644	-	644
Other comprehensive for the year	-	-	-	-
Total comprehensive income for the year		**644**	**-**	**644**
Transfer to/(from) reserves	-	-	-	-
Balance at 30 June 2019	**318**	**21,611**	**141**	**22,070**
Balance at 1 July 2019	**318**	**21,611**	**141**	**22,070**
Profit for the year	-	373		373
Other comprehensive for the year	-	-	-	-
Total comprehensive income for the year		**373**	**-**	**373**
Transfer to/(from) reserves	-	-	-	-
Transfer to Retained Earnings	-	-	-	-
Transfer from reserve for Credit Losses	-	-	-	-
Balance at 30 June 2020	**318**	**21,984**	**141**	**22,443**

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 2020

	Note	2020[1] $'000	2019 $'000
OPERATING ACTIVITIES			
Interest received from members		6,052	6,151
Investment interest & fees and commission received		1,221	1,925
Dividends received		24	9
Other cash receipts in the course of operations		448	521
Interest paid		(1,418)	(1,646)
Other interest paid		(8)	
Cash payments to suppliers and employees		(6,051)	(5,052)
Income taxes paid		(255)	(51)
Net cash from revenue generating activities		13	1,857
Cash from other operating activities			
Net movement in member loans		(7,262)	(7,943)
Net movement in member deposits and shares		16,380	9,910
Net cash from/(used by) operating activities	**24**	**9,131**	**3,824**
INVESTING ACTIVITIES			
Proceeds from sale of property, plant and equipment		-	-
Purchase of property, plant and equipment and intangibles		(222)	(183)
(Purchase)/sale of investments		(8,248)	(5,454)
Net cash (used by)/from investing activities		**(8,470)**	**(5,637)**
FINANCING ACTIVITIES			
Payment of lease liabilities		(39)	-
Net cash from financing activities		**(39)**	**-**
Net increase/(decrease) in cash and cash equivalents		622	(1,813)
Cash and cash equivalents at beginning of year		5,839	7,652
Cash and cash equivalents at end of year	4	6,461	5,839

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

(1) The June 2020 financial statements reflect the adoption of AASB 16 Leases (AASB 16) on 1 July 2019. Refer to Note 1 (g) for the impact from the initial adoption of AASB 16.

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 2nd October 2020 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, except for shares in an unlisted company which are measured at fair value.

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(l) –Impairment

The accounting policies set out below have been applied consistently to all periods presented in the financial report, except as disclosed in note 1(g).

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. Changes in accounting policy

AASB 16 Leases

AASB 16 Leases replaces the requirements in AASB 117 Leases and related interpretations.

This is the first set of the Credit Union's annual financial statements in which AASB 16 Leases has been applied.

AASB 16 Leases introduced a single, on-balance sheet accounting model for lessees. As a result, the Credit Union, as a lessee, has recognised right of use assets (ROUA), representing its rights to use the underlying assets and lease liabilities representing its obligation to make lease payments. The Credit Union has applied AASB 16 using the modified retrospective approach, under which the right of use asset is equal to the lease liability at the date of initial application. Accordingly, the comparative information presented for 2019 has not been restated, i.e. it is presented, as previously reported, under AASB 117 and related interpretations. The details of the changes in accounting policies are disclosed below.

(i) Definition of a lease

Previously, the Credit Union determined at contract inception whether an arrangement was or contained a lease under Interpretation 4 Determining Whether an Arrangement contains a Lease. The Credit Union now assesses whether a contract is or contains a lease based on the new definition of a lease.

Under AASB 16, a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration.

On transition to AASB 16, The Credit Union elected to apply the practical expedient to grandfather the assessment of which transactions are leases. It applied AASB 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under AASB 117 and Interpretation 4 were not reassessed.

At inception or on reassessment of a contract that contains a lease component, The Credit Union allocates the consideration in the contract to each lease and non-lease component on the basis of their relative standalone prices. However, for leases of properties in which it is a lessee, The Credit Union has elected not to separate non-lease components and will instead account for the lease and non-lease components as a single lease component.

(ii) As a lessee

The Credit Union only leases the 2 branches in Temora and West Wyalong (WW), and IT equipment. As a lessee, the Credit Union previously classified leases as operating leases or finance leases based on its assessment of whether the lease transferred substantially all the risks and rewards of ownership. Under AASB 16, the Credit Union recognises right of use assets and lease liabilities for the lease of the 2 branches at Temora and WW i.e. these leases are on balance sheet. However, the Credit Union has elected not to recognise right of use assets and lease liabilities for leases of low value items i.e. IT equipment. The Credit Union recognises the lease payments associated with these leases as an expense over the lease term.

The Credit Union presents right of use assets in 'property, plant and equipment' and lease liabilities in the statement of financial position. The carrying amounts of right of use assets (ROUA) are as below:

Property, Plant and Equipment	
Land and Buildings	$000
Balance at 1 July 2019	198
Balance at 30 June 2020	158

Significant accounting policies

Transition

Previously, the Credit Union classified property leases as operating leases under AASB 117. The leases typically run for a period of 5 years. Some leases include an option to renew the lease for an additional 2 to 10 years after the end of the non-cancellable period. Some leases provide for additional rent payments that are based on changes in local price indices.

At transition, for leases classified as operating leases under AASB 117, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Credit Union's incremental borrowing rate as at 1 July 2019 of 1.23%. Right of use assets are measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments.

AASB 16 Leases (cont…)

The Credit Union used the following practical expedients when applying AASB 16 to leases previously classified as operating leases under AASB 117:

- Applied the exemption not to recognise right of use assets and liabilities for leases with less than 12 months of lease term;
- Excluded initial direct costs from measuring the right of use asset at the date of initial application; and;
- Used hindsight when determining the lease term if the contract contains an option to extend or terminate the lease.

(iii) Impacts on financial statements

Impacts on transition

On transition to AASB 16, the Credit Union recognised additional right of use assets and lease liabilities. The impact on transition is summarised below.

	1 July 2019 ($000)
Operating lease commitments at 30 June 2018 as disclosed under IAS 17	74
Discounted using the incremental borrowing rate at 1 July 2019	(2)
Extension options reasonably certain to be exercised	126
Lease liabilities recognised at 1 July 2019	198

Impacts for the period

As a result of initially applying AASB 16, the Credit Union recognised $158,182 of right of use assets (ROUA) and $160,564 of lease liabilities for the West Wyalong and Temora as at 30 June 2020. Also, in relation to the leases under AASB 16, the Credit Union has recognised depreciation and interest costs, instead of operating lease expense. During the year ended 30 June 2020, the Credit Union recognised $39,426 of depreciation charges and $2,019 of interest costs in relation to this.

h. 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.

i. 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.

j. Loans and advances to members

(i) Basis of recognition

Loans and advances 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 for expected credit losses (ECL). A loan is classified as impaired where recovery of the debt is considered unlikely as determined by the board of directors.

k. 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).

(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.

(iii) Dividend income

Dividends 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.

I. 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.

COVID-19

SWSCU had approved $8.76 million ($8.05 million in residential mortgages and $0.71 million in personal loans) of loan pauses for members affected by the COVID-19 pandemic following the on-set of the COVID19 pandemic and Australian government legislation. Of the loan pauses approved $331,000 were in personal loans that the Credit Union were unable to mitigate.

As a result of this, South West Slopes Credit Union has taken up an additional provision of $200,000 for 'Expected Credi Losses (ECL)' associated with possible losses from COVID-19 loan pauses (as detailed under Note 8). This amount represents 60% of the COVID-19 loan balances that management had analysed had an increased credit risk per above.

(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.

m. 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.

n. 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.

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.

(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.

o. Other assets

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

p. Member Deposits

(i) Basis for measurement

Member savings and term investments are recognised on the date at which they originated and are measured initially at fair value plus incremental direct transaction costs. Member deposits are stated at the aggregate amount of monies payable to depositors as at the reporting date.

(ii) Interest payable

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

q. Payables

Payables include trade and other payables. Such liabilities are stated at their amortised cost and are recognised in relation to goods and services received by the Credit Union.

Trade Payables are non-interest bearing and are normally settled on 30 day terms.

r. Employee Benefits

(i) Superannuation

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

(ii) Long-term employee benefits

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

(iii) Short-term employee benefits

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

s. 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.

t. 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 2020 temporary differences were assessed at 26% (2019: 27.5%). The Credit Union meets the requirements of a Base Rate Entity, therefore the lower rate of 26% has been applied when assessing temporary differences as this will be the tax rate that applies when the differences reverse.

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.

u. 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 accounting standards not yet adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2020 and earlier application is permitted. The Credit Union has not early adopted any of these new or amended standards and has assessed that they are not expected to have a significant impact on the Credit Union's financial statements in future years.

2. Notes to the Statement of Comprehensive Income

	2020 $'000	2019 $'000
Interest income calculated using the effective interest rate method		
Financial assets measured at amortised cost:		
Cash and deposits at call	15	50
Loans and advances to ADIs	1,155	1,430
Loans and advances to members	6,052	6,151
TOTAL INTEREST INCOME	**7,222**	**7,631**
Fee, commission and other income		
Fee income	374	369
Insurance commissions	24	24
Other commissions	50	52
Dividends received	24	9
Bad debts recovered	2	2
Other income	29	29
TOTAL FEE, COMMISSION AND OTHER INCOME	503	485
Interest expense		
Deposits from members	1,289	1,684
Borrowing expenses	6	-
Lease Interest expenses	2	-
TOTAL INTEREST EXPENSE	**1,297**	**1,684**
Impairment losses		
Loans and advances		
Provision (utilised)/made during the year	233	(26)
Bad debts written off directly against profit	26	40
TOTAL IMPAIRMENT LOSSES	**259**	**14**
Other prescribed disclosures		
Employees compensation and benefits include: - Superannuation contributions to defined contribution plans	200	189

3. Income tax expense

	2020 $'000	2019 $'000
The income tax expense comprises amounts set aside as:-		
Current year tax expense	281	245
Deferred tax expense	(32)	-
Income tax expense attributable to operating profit	**249**	**245**
The prima facie tax payable on profit is reconciled to the income tax expense in the accounts as follows:		
Profit before income tax	622	889
Prima facie tax payable on profit before income tax at 26% (2019: 27.5%)	171	245
Add tax effect of expenses not deductible		
- Other non-deductible expenses / or taxable income	-	13
- Gross up dividends	2	(9)
- Change in tax rate	8	(9)
	181	249
Less		
- Franking rebate	(10)	(4)
- Prior period adjustment	78	(4)
Income tax expense attributable to current year profit	249	245

4. Cash and cash equivalents

	2020 $'000	2019 $'000
Cash on hand	3,561	4,939
Deposits at call	2,900	900
	6,461	**5,839**

5. Loans and advances to ADIs

	2020 $'000	2019 $'000
Deposits with industry bodies - CUSCAL	2,920	2,420
Deposits with Non-Bank ADI's	16,357	10,891
Deposits with Australian Banks	36,281	33,999
	55,558	**47,310**

6. Other receivables

	2020 $'000	2019 $'000
Sundry debtors and settlement accounts	282	245
	282	**245**

7. Loans and advances to members

	2020 $'000	2019 $'000
Amount due comprises:		
Overdrafts and revolving credit (including VISA)	1,062	1,305
Term loans	127,362	119,883
	128,424	121,188
Provision on impaired loans (Note 8)	(365)	(132)
	128,059	121,056
Credit quality		
Secured by mortgage over real estate	109,964	103,202
Partly secured by goods mortgage	10,459	8,980
Wholly unsecured	8,001	9,006
	128,424	**121,188**
It is not practicable to value all collateral as at the reporting date due to the variety of assets and conditions. A breakdown of the quality of the residential mortgage security on a portfolio basis is as follows:		
Credit quality profile of loans wholly secured by mortgage against real estate		
– loan to valuation ratio of less than 80%	95,369	91,994
– loan to valuation ratio of more than 80% but mortgage insured	6,283	5,565
– loan to valuation ratio of more than 80% and not mortgage insured	8,312	5,643
Total	**109,964**	**103,202**
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.		
Concentration of loans by purpose		
Loans to natural persons		
– Residential loans and facilities	107,230	100,405
– Personal loans and facilities	19,338	19,307
– Business loans and facilities	1,856	1,476
	128,424	**121,188**

8. Allowance for expected credit losses

The table below represents the reconciliation of opening balance to closing balance of ECL allowances:

	2020 ($'000's)	2019 ($'000's)
Balance as at 1 July	132	158
Impairment charge/reversal	259	14
Amounts written off, previously provided for	(26)	(40)
Balance as at 30 June	**365**	**132**

The tables 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, for the present (2019-2020) and previous (2018-2019) financial years:

2019-2020 Financial Year

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 1 July 2019	**100**	**23**	**9**	**-**	**-**	**132**
Transfers during the period to:						
12 month ECL						
lifetime ECL not credit impaired						
lifetime ECL credit impaired						
Net re-measurement of loss allowance	-	-	-			-
New financial assets originated	-	41	43			84
Financial assets originated – COVID-19	200	-	-			200
Financial assets that have been derecognised	(25)	-	-			(25)
Write-offs	-	-	(26)			(26)
Carrying amount	**275**	**64**	**26**			**365**

2018-2019 Financial Year

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 1 July 2018	**119**	**28**	**11**	**-**	**-**	**158**
Transfers during the period to:						
12 month ECL						
lifetime ECL not credit impaired						
lifetime ECL credit impaired						
Net re-measurement of loss allowance	(19)	(5)	38			14
New financial assets originated	-	-	-			-
Financial assets originated – COVID-19	-	-	-			-
Financial assets that have been derecognised	-	-	-			-
Write-offs	-	-	(40)			(40)
Carrying amount	**100**	**23**	**9**			**132**

Details of credit risk management are set out in Note 17.

9. Investment securities

	2020 $'000	2019 $'000
Shares in unlisted company		
Shares at FVOCI	419	419
Total value of investment securities	**419**	**419**

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

10. Property, Plant and Equipment

	Land and buildings $'000	Plant and equipment $'000	Total $'000
Cost or deemed cost			
Balance at 30 Jun 2018	836	1,603	2,439
Additions	-	88	88
Disposals	-	(195)	(195)
Balance at 30 Jun 2019	836	1,496	2,332
Additions	-	38	38
Changes due to AASB 16 Leases	197	-	197
Disposals	-	(3)	(3)
Balance at 30 Jun 2020	1,033	1,531	2,564
Accumulated depreciation and impairment losses			
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)
Depreciation for the year	(58)	(90)	(148)
Disposals	-	3	3
Balance at 30 June 2020	(364)	(1,337)	(1,701)

	2020 $'000	2019 $'000
Total Property Plant and Equipment – at cost	2,564	2,332
Total Accumulated Depreciation	(1,701)	(1,556)
Total Property, Plant and Equipment – carrying amount	**863**	**776**

11. Intangible assets

	2020 $'000	2019 $'000
Cost		
Balance at 1 July	1,414	1,319
Additions	144	95
Work in Progress (WIP)	40	-
Balance at 30 June	**1,598**	**1,414**
Accumulated Amortisation		
Balance at 1 July	(1,040)	(797)
Amortisation for the year	(263)	(244)
Balance at 30 June	**(1,303)**	**(1,041)**
Total Intangible Assets	**295**	**373**

12. Deferred Tax Assets

	2020 $'000	2019 $'000
Deferred tax assets comprise:		
Accrued expenses	12	21
Provision on impaired loans	96	36
Provision for employee benefits	107	99
	215	156
Deferred tax liabilities comprise:		
Equity investments	50	53
Depreciation on fixed assets	30	-
	80	53
Net deferred tax assets	**135**	**103**

DEFERRED TAX LIABILITY

The Credit Union's current tax payable of $83,017 (2019: $58,595 receivable) represents the amount of income tax payable by the Credit Union in respect of the current and prior year periods to the Australian Taxation Office.

13. Deposits from members

	2020 $'000	2019 $'000
Member Deposits		
- at call	96,446	79,675
- term	71,746	72,127
Member withdrawable shares	126	136
	168,318	**151,938**

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

	2020 $'000	2019 $'000
Creditors and accruals	250	225
Interest payable on deposits	217	346
Sundry creditors / Settlements	261	1,165
	728	**1,736**

15. Provisions

	2020 $'000	2019 $'000
Current		
Annual Leave	204	159
Long Service Leave	184	182
Provisions – other	19	124
	407	465
Non-current		
Long Service Leave	25	20
Total provisions	**432**	**485**

16. Fair Value Reserve

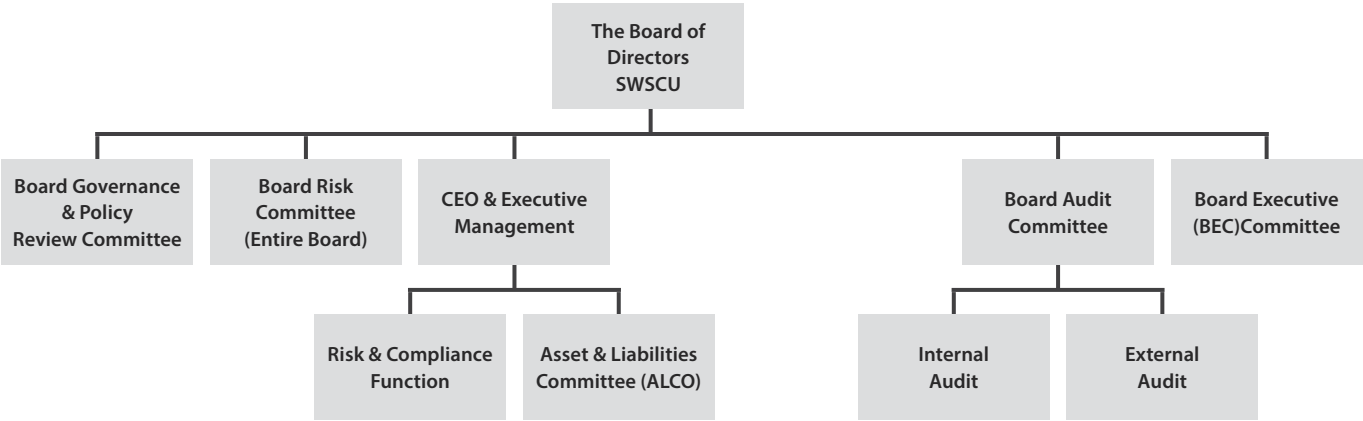
	2020 $'000	2019 $'000
FVOCI reserve - Shares		
Balance at the beginning of the year	141	141
Add: increase on revaluation of investment	-	-
Less: deferred tax thereon	-	-
Balance at the end of year	**141**	**141**

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 2020.

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 allowances for expected credit losses 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 allowance of expected credit losses (ECL) charged against them. Other ECL 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 ECL are necessary and adequate. A dedicated credit control officer, who reports to the ALCO, implements the Credit Union's credit risk policy.

Asset and Liability Committee (ALCO) - Market Risk:

This committee meets monthly, or as required, and has responsibility for managing interest rate risk exposures, and ensuring that the treasury and finance functions adhere to exposure limits as outlined in the market risk policy. The monthly scrutiny of market risk reports is intended to prevent any exposure breaches prior to reporting any breaches to the full Board.

Chief Risk Officer:

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

Risk Committee:

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

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

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

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

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

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

- Credit risk
- Liquidity risk
- Market risk

This note presents information about the Credit Unions' 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 2020 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:

VaR on the non-trading book	2020	2019
Value at Risk / 10 day value at risk	$(4,167)	$(92,667)
Percentage of regulatory capital	(0.02)%	(0.43)%

Given the Credit Union's profile of assets and liabilities at 30 June 2020, 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 decrease in profit of $46,993 (2019 increase of $171,634). The Credit Union is therefore presently exposed to falling interest rates.

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

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

The Credit Union is therefore confident within a 99 per cent confidence level that, given the risks as at 30 June 2020, it will not incur a one day loss on its non-trading book of more than the amount calculated above, based on the 2020 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%	2020	2019
Total Liquidity as at 30 June	34.21%	32.47%
MLH liquidity as at 30 June	23.38%	22.86%
Average MLH liquidity for the year	19.76%	21.91%
Average Total liquidity for the year	31.63%	32.62%
Lowest MLH liquidity for the year	16.11%	19.01%

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:

	2020 $'000	2019 $'000
Loans and advances to members		
Mortgage (Home or Investment loans)	107,230	100,405
Personal	18,276	18,002
Credit cards	650	776
Overdrafts	412	529
Commercial	1,856	1,476
Total loans	128,424	121,188
Allowance for expected credit losses	(365)	(132)
	128,059	121,056

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.

(i) CREDIT RISK – LOANS

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.

Allowance for expected credit losses are maintained at a level that management deems sufficient to absorb expected 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, specific delinquency events or a decline in the value of security.

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 (2019: 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	2020 Carrying value $'000	2019 Carrying value $'000
Rated AA – (e.g. Cuscal)	9,756	8,259
Banks – rated AA and above	15,972	-
Banks – rated below AA	11,074	24,418
Mutual Banks	9,742	9,372
Unrated	15,850	11,110
Total	**62,394**	**53,149**

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:

	2020 $'000	2019 $'000
Tier 1		
Retained earnings	22,062	21,752
Less prescribed deductions	(677)	(898)
Common Equity Tier 1 capital	21,385	20,854
Tier 2		
Reserve for credit losses	318	318
Less prescribed deductions	-	-
Net tier 2 capital	318	318
Total Regulatory Capital	**21,703**	**21,172**
Risk Weighted Assets (Credit)	87,361	71,893
Capital Ratios		
Total regulatory capital expressed as a percentage of total risk weighted assets	22.24%	26.60%
Total Tier 1 capital expressed as a percentage of total risk weighted assets	21.91%	25.22%

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	2020 $	2019 $
Financial assets			
Cash	4	6,461	5,839
Loans and advances to ADIs	5	55,558	47,310
Loans and advances to members	7 & 8	128,424	121,188
Total carried at amortised cost		**190,443**	**174,337**
Investment securities - FVOCI		419	419
Total carried at FVOCI		**419**	**419**
Total financial assets		**191,237**	**174,756**
Financial liabilities			
Creditors and other liabilities	14	728	1,736
Deposits from members	13	168,318	151,938
Total financial liabilities		**169,046**	**153,674**

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;

2020	Within 1 month $'000	1–3 months $'000	3–12 months $'000	1–5 years $'000	Total $'000
Creditor accrual and settlement accounts	728	-	-	-	728
Deposits from members (incl. future interest)	115,875	34,987	17,330	-	168,192
Lease Liabilities	3	7	33	115	158
Total financial liabilities	**116,606**	**34,994**	**17,363**	**115**	**169,078**

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**

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.

2020	Within 1 month $'000	1–3 months $'000	3–12 months $'000	1–5 years $'000	Total $'000
Cash	6,461	-	-	-	6,461
Loans and advances to ADIs	20,828	23,480	9,850	1,400	55,558
Loans and advances – mortgage	107,230	-	-	-	107,230
Loans and advances – personal	19,338	-	-	-	19,338
Loans and advances – other	1,856	-	-	-	1,856
Total financial assets	**155,713**	**23,480**	**9,850**	**1,400**	**190,443**
Deposits from members	115,875	34,987	17,330	-	168,192
Lease liabilities	3	7	33	115	158
Total financial liabilities	**115,878**	**34,994**	**17,363**	**115**	**168,350**
Gap	**39,835**	**(11,514)**	**(7,513)**	**1,285**	**22,093**
Cumulative gap	**39,835**	**28,321**	**20,808**	**22,093**	**-**

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**	**-**

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 Credit Union does not provide fixed rate lending.
- 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

	2020 $'000	2019 $'000
Outstanding loan commitments		
Loans approved but not funded	1,987	3,213
Loan redraw facilities		
Loan redraw facilities available	10,539	9,825
Undrawn loan facilities		
Loan facilities available to members for overdrafts and line of credit loans are as follows:		
Total value of facilities approved	5,499	4,968
Less: Amount advanced	(2,254)	(2,048)
Net undrawn value	3,245	2,920
Total financial commitments	**15,771**	**15,958**
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	594	581
Later than 1 year but not 2 years	511	595
Later than 2 years but not 5 years	54	275
Later than 5 years	-	-
	1,159	1,451

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 2020 (2019: 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:

	2020 $'000	2019 $'000
(a) short-term employee benefits;	783	768
(b) post-employment benefits - superannuation contributions	74	72
(c) other long-term benefits	-	-
Total	**857**	**840**

In the above table, remuneration shown as short term benefits means (where applicable) wages, salaries, 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

	2020 $'000	2019 $'000
(i) The aggregate value of loans to directors and other key management persons as at balance date amounted to	2,260	2,098
(ii) The total value of revolving credit facilities including VISA, to directors and other key management persons, as at balance date amounted to	41	61
Less amounts drawn down and included in (i)	(24)	(23)
Net Balance available	17	38
(iii) During the year the aggregate value of loans disbursed to directors and other key management persons amounted to:	239	-
Term Loans	-	-
(iv) The aggregate value of interest paid by key management personnel amounted to:	105	104

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.

	2020 $'000	2019 $'000
Total value of term and saving deposits from KMP	262	614

Transactions with Other Related Parties

There are no amounts outstanding at 30 June 2020 (2019: 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

	2020 $'000	2019 $'000
Reconciliation of cash from operations to accounting profit		
Profit after income tax	373	644
Add (Deduct) :		
Depreciation and amortisation expense	411	360
(Profit)/loss on sale of assets	-	-
Impairment Loss on loans and advances	259	14
Movement in employee benefits	52	8
Movement in other provisions	(105)	94
Change in current tax liabilities	142	(16)
Movement in trade creditors	(1,008)	811
Movement in interest receivable	(37)	(4)
Movement in prepayments	(42)	(56)
Movement in net deferred tax assets	(32)	2
Net cash from revenue activities	**13**	**1,857**
Add (Deduct) non-revenue operations		
Change in loans balances	(7,262)	(7,943)
Change in deposit balances	16,380	9,910
Net cash (used by)/from operating activities	**9,131**	**3,824**

25. AUDITOR'S REMUNERATION

	2020 $	2019 $
Audit services:		
Auditors of the Credit Union – KPMG		
Audit and review of the financial reports	51,200	48,200
Other regulatory services	22,500	22,570
Taxation services	2,536	2,534
	76,236	**73,304**

Independent Auditor's Report

Independent Auditor's Report

To the members of South West Slopes Credit Union Ltd

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 2020 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 2020
- *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 (including Independence Standards) (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 Ltd'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

Richard Drinnan

Partner

Wollongong

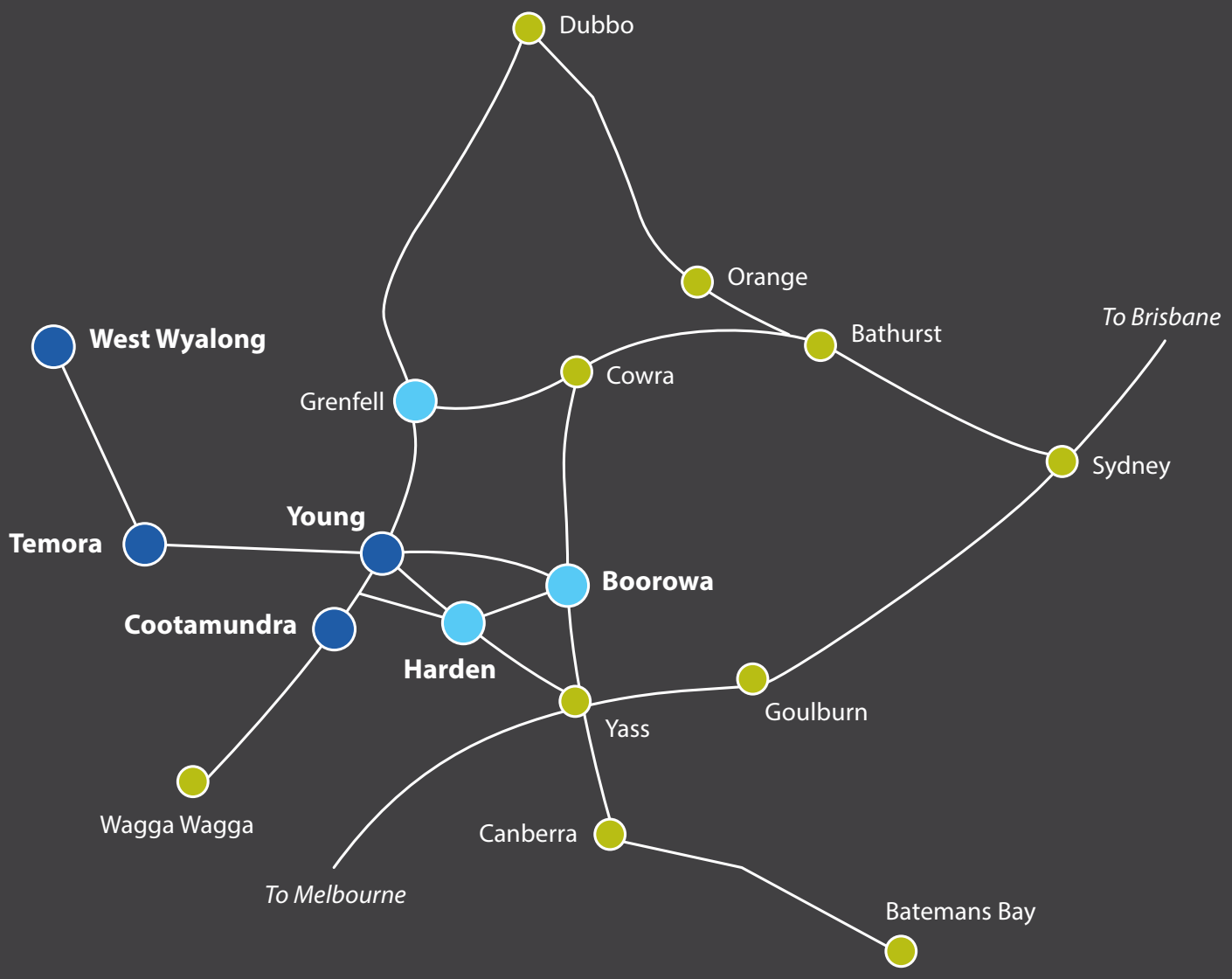
6 October 2020

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**