ANNUAL REPORT 2016/2017

SWSCU

Big enough to help, yet small enough to care.

Our Mission

To meet members' financial needs through quality service at the best value while maintaining financial stability

Our Vision

To be the banking product and service provider of choice within our community

Big enough to help yet small enough to care

SWSCU

Big enough to help, yet small enough to care.

A.C.N 087 650 673
ABN 80 087 650 673

AFS & Australian Credit Licence No
240712

Registered Office
89 Boorowa Street, Young NSW 2594

Solicitors
K.P. Carmody & Co. Solicitor & Attorneys

Bankers
CUSCAL & National Australia Bank

Auditors
KPMG (Wollongong)

www.swscu.com.au

Find us on Facebook

ANNUAL REPORT 2016/2017

THE DIRECTORS

Keith Carmody
LLB

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

Director of SWSCU from 1988 until current - 29 years

Principal of K.P. Carmody Solicitors, Young NSW

Membership 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
- Chair of the Governance & Policy Review Committee

Director of SWSCU since 2008 - 9 years

General Manager of Young Shire Council (Retired)

Membership of Institute for Strategy, Innovation and Leadership (Instil)

No other directorships within the last 3 years

Lauren Peek

- Independent Non-Executive Director
- Member of the Governance & Policy Review Committee

Director of SWSCU since 1992 - 25 years

Proprietor of 'Framaglass'; a glass sales and glaziers business in Young NSW

Membership of Institute for Strategy, Innovation and Leadership (Instil)

No other directorships within the last 3 years

Craig McTavish
BBus, CPA

- Independent Non-Executive Director
- Member of the Audit Committee

Director of SWSCU since 2007 - 10 years

Partner of accounting firm Hunt & McTavish in Cootamundra

Membership of Institute for Strategy, Innovation and Leadership (Instil)

No other directorships within the last 3 years

Brian Page

- Independent Non-Executive Director
- Member of the Audit committee

Director of SWSCU from 1978-1981 and 2000 until current – 20 years

Director Environmental Services – Young Shire Council (Retired 2001), former health inspector

Membership 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 Audit committee
- Member of the Governance & Policy Review committee
- Chair of the Board Risk Committee

Director of SWSCU since 2010 - 7 years

Employed at Hilltops Council (Previously Harden Shire Council) since 2003.

21 years of banking experience with Commonwealth Bank (1976-1997)

Membership of Institute for Strategy, Innovation and Leadership (Instil)

No other directorships within the last 3 years

CHAIR'S 2017 ANNUAL REPORT TO MEMBERS

The most important thing about your credit union is that it is all about you, the members. Members come first, not profit.

This is not to mean that the Board and Management of your credit union are in any way complacent in carrying out their duty of prudently managing your money. Not the least. Your credit union is subject to substantial internal and external compliance checks to ensure that your credit union is safe and secure. Key staff and your Board members are constantly upskilling themselves to face the constant challenges associated with the successful running of a credit union.

However, I am pleased to advise that your credit union is also trading profitably. Against industry trend our credit union again showed a healthy profit for the last financial year and its Key Performance Indicators (KPI"s) were generally well above industry average.

Chief Executive Officer Andrew Jones has pointed out in his report the financial performance of your credit union and the commitment to providing the best possible 'member experience' for each of our members. I believe the credit union's dedicated, professional and experienced staff are committed to providing you with this 'member expertise'. In last year's report I told you of the credit union's Strategic Plan which provided a road map for the future. The basis of the Strategic Plan is providing you, our members, with the best 'member experience' possible and I firmly believe we, the Board, Management and Staff, are achieving this goal.

I would like to congratulate our CEO Andrew. He has placed his own stamp on his position as CEO and introduced a new approach to the way that your credit union is managed and does business. Compliance and technological innovation still remain formidable challenges for the credit union. I am confident that the management team and staff are well and truly up to the challenge. On behalf of the Board I would like to personally thank the management team and staff at all our branches Young, Cootamundra, Temora and West Wyalong for their commitment. I would like to emphasise that each and every branch is important in South West Slopes Credit Union.

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

I thank my fellow board members for their input and dedication in carrying out their duties during the last 12 months. At this point I would like to introduce and welcome a new board member, namely Mrs Jane Douch, who has been appointed to the Board. Mrs Douch holds an important position in the local community as an office manager and has previous experience in small business. Your Board is dedicated to renewal and diversification of views to ensure that the credit union's members are effectively represented.

Congratulations to Kevin Cloake and Craig McTavish who have been re-elected to the Board for another 3 years.

Finally I wish members all the very best for the coming season.

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

CEO'S REPORT

SWSCU the past year

SWSCU has had a busy year as we reviewed a number of our products and services to remain relevant to our members. A number of our products underwent change to better meet our members' needs, such as the introduction of a discounted new car loan at a very competitive rate, along with our introductory discounted home loan rate on our popular variable owner occupied home loan. It was this ability to adapt our product features in a very competitive environment that resulted in our loan and deposit portfolios both recording 6% growth.

While it is pleasing to see the growth in both the loans and deposit portfolios, it must also be pointed out that the combination of the low interest rate environment and the ever increasing costs of technology and regulation have had an affect on overall profit. However, despite challenging trading conditions SWSCU was pleased to announce a profit of $905k for the 2016/2017 financial year.

SWSCU Performance	2017	2016
Profit before Tax	$905,000	$1,139,000
Loans	$102,021,000	$96,190,000
Loan Increase/(Decrease)	6%	2%
Deposits from Members	$135,387,000	$127,493,000
Deposits Increase/(Decrease)	6%	6%

Member experience

SWSCU continues to provide the best member experience through the ongoing review and delivery of its products and service. While many of the big banks have turned to Skype for loan interviews we continue to support our communities through our branch network and 'face to face' lending.

- ✓ "Face to Face" Lending
- ✓ Personalised Banking Experience
- ✓ Well-equipped, engaged Staff to serve member Banking needs

As we continue to keep pace with technology our members would have seen our new webpage that went live in mid 2017 which is designed to deliver a better online member experience through its modern and clear layout. The new webpage also delivers an equally pleasant experience whether it is accessed through a desktop, tablet or mobile. The next update will see a fully featured mobile app, delivered in the second half of 2017, giving our members an additional access point to their accounts or communication channel to SWSCU and our products and services.

SWSCU is also aiming to be one of the first financial institutions to provide its members with access to the soon to be released real time transfer of funds system. This new feature has the ability to transform the way banking is conducted in the future and is anticipated to go live in early 2018.

While it is important that SWSCU continues to update its technology to fulfil our member's needs, it is our people that are integral in delivering our member experience. At SWSCU we continue to invest in our people through staff training and leadership development. This investment will ensure our team is well-equipped, knowledgeable, engaged and delivering on the principals of community and mutuality that our credit union is known for.

Looking Forward

Member relevance achieved through continual improvement is crucial for a member based mutual such as SWSCU and we will continue to evaluate new technologies for our members.

At present we are looking at developing an option that will allow our members and potential members that do not have easy access to one of our branches the option of a user friendly online channel. This includes streamlining our online forms and product applications thereby creating an easy and intuitive experience while not cutting out the great customer service that we are known for.

It is an exciting time at SWSCU as we are well placed to engage with the changing landscape of banking while remaining focused on our member needs.

Andrew Jones
Chief Executive Officer

FINANCIAL REPORT 2016/2017

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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/

DIRECTORS' REPORT

The directors present their report together with the financial report of South West Slopes Credit Union Ltd ("the Credit Union") for the financial year ended 30 June 2017 and the auditor's report thereon.

INFORMATION ON DIRECTORS

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

Name	***Experience, Responsibilities and other directorships***
Keith Carmody LLB • Chair of the Board since Nov 2014 • Independent Non-Executive Director • Member of the Governance & Policy Review Committee	Director of SWSCU from 1988 until current - 29 years Principal of K.P. Carmody Solicitors, Young NSW Membership 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 • Chair of the Governance & Policy Review Committee • Member of the Audit Committee	Director of SWSCU from 2008 – until current; 9 years General Manager of Young Shire Council (Retired) Membership 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 Audit Committee • Member of the Governance & Policy Review committee	Director of SWSCU 2010 – until current; 7 years Employed at Hilltops Council (Previously Harden Shire Council) since 2003. 21 years of banking experience with Commonwealth Bank (1976-1997) Membership of Institute for Strategy, Innovation and Leadership (Instil) No other directorships within last 3 years
Craig McTavish BBus, CPA • Independent Non-Executive Director • Member of the Audit Committee	Director of SWSCU from 2007 – until current; 10 years Partner of accounting firm Hunt & McTavish in Cootamundra Membership of Institute for Strategy, Innovation and Leadership (Instil) No other directorships within the last 3 years
Brian Page • Independent Non-Executive Director • Member of the Audit committee • Member of Governance & Policy Review Committee	Director of SWSCU from 1978-1981 and 2000 until current –20 years. Chair of the Board from 2009-2014 Director Environmental Services – Young Shire Council (Retired 2001), former health inspector Membership of Institute for Strategy, Innovation and Leadership (Instil) No other directorships within the last 3 years
Lauren Peek • Independent Non-Executive Director • Member of the Governance & Policy Review Committee	Director of SWSCU from 1992 – until current; 25 years Proprietor of 'Framaglass'; a glass sales & glaziers business in Young NSW Membership of Institute for Strategy, Innovation and Leadership (Instil) No other directorships within the last 3 years

DIRECTORS' REPORT (CONTINUED)

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

The 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	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.

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

Director	**Board Meetings**		**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	12	12	6	4	1	1	10	10	3 years (2015-2018)
Adrian Hanrahan	12	10	6	5	1	1	10	9	3 years (2016-2019)
Kevin Cloake	12	11	6	6	4	4	10	10	3 years (2014-2017)
Craig McTavish	12	12	6	6	4	4	-	-	3 years (2014-2017))
Brian Page	12	12	6	6	4	4	-	-	3 years (2016-2019)
Lauren Peek	12	11	6	5	1	1	10	9	3 years (2015-2018)

DIRECTORS' BENEFITS

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

Mr Keith Carmody acts on behalf of the Credit Union in legal matters at normal commercial rates. During the course of the year amounts paid to Mr Keith Carmody totalled $775 (2016 $2,083).

DIRECTORS' REPORT (CONTINUED)

INDEMNIFYING OFFICER OR AUDITOR

Insurance premiums have been paid to insure each of the directors and officers of the Credit Union against any costs and expenses incurred by them in defending any legal proceeding arising out of their conduct while acting in their capacity as an officer of the Credit Union. In accordance with normal commercial practice disclosure of the premium amount and the nature of the insured liabilities is prohibited by a confidentiality clause in the contract.

No insurance cover has been provided for the benefit of the auditor of the Credit Union.

PRINCIPAL ACTIVITIES

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

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

OPERATING RESULTS

The net profit of the Credit Union for the year after providing for income tax was $639,000

(2016: $806,000)

DIVIDENDS

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

REVIEW OF OPERATIONS

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

SIGNIFICANT CHANGES IN STATE OF AFFAIRS

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

ENVIRONMENTAL REGULATIONS

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

EVENTS SUBSEQUENT TO REPORTING DATE

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

(i) The operations of the Credit Union;

(ii) The results of those operations; or

(iii) The state of affairs of the Credit Union

in the financial years subsequent to this financial year.

DIRECTORS' REPORT (CONTINUED)

LIKELY DEVELOPMENTS

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

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

AUDITOR'S INDEPENDENCE DECLARATION

The auditor's independence declaration is set out on page 6 and forms part of the directors' report for the financial year ended 30 June 2017.

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 20th day of September 2017

DIRECTORS' 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 2017 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, Young
20th September 2017

KPMG

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

To the Directors of South West Slopes Credit Union Limited

I declare that, to the best of my knowledge and belief, in relation to the audit of South West Slopes Credit Union Limited for the financial year ended 30 June 2017 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

KPMG

Warwick Shanks
Partner

Signed in Young on this 20th day of September 2017.

Statement of Profit or Loss and Other Comprehensive Income

FOR THE YEAR ENDED 30 June 2017

	Note	2017 $'000	2016 $'000
Interest income	2	6,860	6,987
Interest expense	2	(1,567)	(1,790)
Net interest income		5,293	5,197
Fee commission and other income	2	603	679
Operating income		5,896	5,876
Impairment losses on loans receivable from members	2	(38)	10
Fee and commission expenses		(640)	(706)
Employees' compensation and benefits		(2,304)	(2,182)
Depreciation and amortisation	10, 11	(168)	(199)
Information technology		(651)	(577)
Office occupancy		(137)	(125)
Other administration		(1,053)	(958)
Total operating expenses		(4,991)	(4,737)
Profit before income tax		905	1,139
Income tax expense	3	(266)	(333)
Profit for the year		639	806
Other comprehensive income for the year, net of income tax		-	-
Total comprehensive income for the year		639	806

The Statement of Profit or Loss and Other Comprehensive Income is to be read in conjunction with the notes to the financial statements set out on pages 8 to 46.

Statement of Changes In Member Equity

FOR THE YEAR ENDED 30 June 2017

	General reserve for credit losses	Retained earnings	Total
	$'000	**$'000**	**$'000**
Balance as at 1 July 2015	**315**	**18,885**	**19,200**
Total comprehensive income for the year			
Profit for the year	-	806	806
Other comprehensive for the year	-	-	-
Total comprehensive income for the year	-	**806**	**806**
Transfer to (from) general reserve for credit losses in year	(14)	14	-
Balance at 30 June 2016	**301**	**19,705**	**20,006**
Balance at 1 July 2016	**301**	**19,705**	**20,006**
Total comprehensive income for the year			
Profit for the year	-	639	639
Other comprehensive for the year	-	-	-
Total comprehensive income for the year	-	**639**	**639**
Transfer to (from) general reserve for credit losses in year	17	(17)	
Balance at 30 June 2017	**318**	**20,327**	**20,645**

The Statement of Changes in Equity is to be read in conjunction with the notes to the financial statements set out on pages 8 to 46.

Statement of Financial Position

AS AT 30 June 2017

	Note	2017 $'000	2016 $'000
ASSETS			
Cash and cash equivalents	4	4,632	4,553
Financial assets	5	48,416	46,234
Other receivables	6	289	323
Current tax receivable	12	82	65
Prepayments		82	62
Loans to members	7	102,021	96,190
Available-for-sale investments	9	225	225
Property, plant and equipment	10	835	849
Deferred tax assets	12	179	200
Intangible assets	11	409	535
TOTAL ASSETS		157,170	149,236
LIABILITIES			
Deposits from members	13	135,387	127,493
Creditor accruals and settlement accounts	14	728	1,279
Provisions	15	410	458
TOTAL LIABILITIES		136,525	129,230
NET ASSETS		20,645	20,006
MEMBERS' EQUITY			
General reserve for credit losses		318	301
Retained earnings		20,327	19,705
TOTAL MEMBERS' EQUITY		20,645	20,006

The Statement of Financial Position is to be read in conjunction with the notes to the financial statements set out on pages 8 to 46.

Statement of Cash Flows

FOR THE YEAR ENDED 30 June 2017

	Note	2017 $'000	2016 $'000
OPERATING ACTIVITIES			
Interest received from members		5,509	5,565
Investment interest & fees and commission received		1,385	1,360
Dividends received		31	31
Other cash receipts in the course of operations		552	628
Interest paid		(1,629)	(1,806)
Other cash payments in the course of operations		(5,221)	(4,702)
Income taxes paid		(310)	(461)
Net cash from revenue generating activities		317	615
Cash from other operating activities			
Net movement in deposits with ADIs and held to maturity investments		(2,182)	(7,247)
Net movement in member loans		(5,840)	(2,121)
Net movement in member deposits and shares		7,894	7,770
Net cash from operating activities	23	189	(983)
INVESTING ACTIVITIES			
Proceeds from sale of property, plant and equipment		28	52
Purchase of property, plant and equipment and intangibles		(138)	(356)
Payments for investments		-	(5)
Net cash from investing activities		(110)	(309)
FINANCING ACTIVITIES			
Net cash from financing activities		-	-
Net (decrease) increase in cash and cash equivalents		79	(1,292)
Cash and cash equivalents at beginning of year		4,553	5,845
Cash and cash equivalents at end of year	4	4,632	4,553

The Statement of Cash flows is to be read in conjunction with the notes to the financial statements set out on pages 8 to 46.

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 20th September 2017 in accordance with a resolution of the board of directors.

c. Basis of measurement

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

d. Functional and presentation currency

The financial report is presented in Australian dollars, which is the Credit Union's functional currency. The Credit Union is of a kind referred to in ASIC Instruments 2016/191 and in accordance with that Class Order, all financial information presented in Australian dollars has been rounded off to the nearest thousand dollars, unless otherwise stated.

e. Accounting estimates and judgements

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

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

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

- Note 1(o)(ii) – Loan impairment

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

1. SUMMARY OF ACCOUNTING POLICIES (continued)

f. Financial instruments

Non-derivative financial instruments

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

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

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

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

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

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

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

g. Cash and cash equivalents

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

h. Loans to members

(i) Basis of recognition

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

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

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

1. SUMMARY OF ACCOUNTING POLICIES (Continued)

i. Loans and receivables to other financial institutions

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

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

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

j. Held-to-maturity financial assets

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

Held-to-maturity financial assets are measured at amortised cost using the effective interest method.

k. Available for sale financial assets

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

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

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

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

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

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

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

1. SUMMARY OF ACCOUNTING POLICIES (Continued)

l. Property, plant and equipment

(i) Recognition and measurement

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

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

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

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

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

(ii) Subsequent expenditure

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

(iii) Depreciation

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

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

- Buildings - 40 years.
- Plant and equipment - 3 to 7 years.
- Leasehold improvements – 10 years.
- Assets less than $1000 are not capitalised.

m. Intangible assets

(i) Recognition and measurement

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

The Credit Union carries capitalised computer software assets at capitalised cost less amortisation and any accumulated impairment losses.

(ii) Subsequent expenditure

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

1. SUMMARY OF ACCOUNTING POLICIES (Continued)

(iii) **Amortisation**

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

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

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

n. Other assets

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

o. Impairment

(i) **Financial assets**

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

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

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

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

(i) **Financial assets**

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

(ii) **Loan Impairment**

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

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

1. SUMMARY OF ACCOUNTING POLICIES (Continued)

o. Impairment (continued)

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

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

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

(iii) **Non-financial assets**

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

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

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

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

p. Member Deposits

(i) **Basis for measurement**

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

(ii) **Interest payable**

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

1. SUMMARY OF ACCOUNTING POLICIES (Continued)

q. Payables

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

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

r. Employee Benefits

(i) **Superannuation**

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

(ii) **Long-term employee benefits**

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

(iii) **Short-term employee benefits**

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

s. Revenue from financial assets

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

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

(i) **Fees and commissions**

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

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

(ii) **Dividend income**

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

t. Leasehold on Premises

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

1. SUMMARY OF ACCOUNTING POLICIES (Continued)

u. Goods and Services Tax

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

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

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

v. Income Tax

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

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

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. As at 30 June 2017 temporary differences were assessed at 30% (2016: 30%).

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

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

w. Member shares

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

x. New standards and interpretations not yet adopted

There were no new or revised accounting standards applicable for financial years commencing from 1 July 2016 that had any significant impact on the financial statements of the Credit Union.

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2017 reporting period. The Credit Union's assessment of the impact of these new standards and interpretations is set out below. Changes that are not likely to impact the financial report of the Credit Union have not been reported.

1. SUMMARY OF ACCOUNTING POLICIES (Continued)

AASB 9 Financial Instruments

AASB 9 published in November 2014, replaces the existing guidance in AAB39 Financial Instruments: Recognition and Measurement. AASB 9 includes revised guidance on the classification and measurement of financial instruments, a new expected loss model for calculating impairment on financial assets. It also carries forward guidance on recognition and rerecognition of financial instruments from AASB 39. AASB 9 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.

The Credit Union has commenced work on the design and development of an Expected Credit Loss (ECL) impairment model, including incorporating forward looking information, for the calculation of ECL for its retail exposures. Until the model has been developed and fully tested, the Credit Union is unable to provide a quantitative impact on the adoption of the standard, however, based on an impact assessment completed using a Prototype Model, the adoption is not expected to result in a material change to equity.

AASB 15 Revenue from Contracts with Customers

AASB 15 establishes a comprehensive framework for the recognition of revenue and additional disclosures about revenue. AASB 15 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted. The Credit Union does not expect the application of AASB 15 will have any impact on its consolidated financial statements.

AASB 16 Leases

AASB 16 replaces AASB 117 Leases. AASB 16 eliminates the current dual accounting model for lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Instead, there is a single, on-balance sheet accounting model that is similar to current finance lease accounting. For lessees, the lease becomes an on-sheet liability that attracts interest, together with a new asset on the other side of the balance sheet. AASB 16 is effective for annual reporting periods beginning on or after 1 January 2019.

The Credit Union has not yet determined the impact on the new requirements on its financial statements.

2. NOTES TO THE STATEMENT OF COMPREHENSIVE INCOME

	2017 $'000	2016 $'000
Interest income		
Cash and deposits at call	93	88
Receivables from financial institutions	1,292	1,272
Loans to members	5,475	5,627
TOTAL INTEREST INCOME	6,860	6,987
Fee, commission and other income		
Fee income	419	475
Insurance commissions	54	56
Other commissions	63	72
Dividends received on available-for-sale assets	31	31
Bad debts recovered	7	-
Gain on disposal of property, plant and equipment	(2)	14
Other income	31	31
TOTAL FEE, COMMISSION AND OTHER INCOME	603	679
Interest expense		
Deposits from members	1,567	1,790
TOTAL INTEREST EXPENSE	1,567	1,790
Impairment losses		
Loans and advances		
Provision made during the year	6	(10)
Bad debts written off directly against profit	32	-
TOTAL IMPAIRMENT LOSSES	38	(10)
Other prescribed disclosures		
Employees compensation and benefits include:		
- Superannuation contributions to defined contribution plans	185	172
Office occupancy costs include:		
- Property operating lease payments		
- minimum lease payments	32	28

3. INCOME TAX EXPENSE

	2017 $'000	2016 $'000
The income tax expense comprises amounts set aside as:-		
Provision for income tax – current year	242	278
(Increase) Decrease in deferred tax asset account	21	
Income tax expense attributable to operating profit	263	394
The prima facie tax payable on profit is reconciled to the income tax expense in the accounts as follows:		
Profit before income tax	905	1,139
Prima facie tax payable on profit before income tax at 30%	272	342
2016: 30%)		
Add tax effect of expenses not deductible		
- Other non-deductible expenses / or taxable income	3	-
- Gross up dividends	4	4
	279	346
Less		
- Franking rebate	(13)	(13)
Income tax expense attributable to current year profit	266	266

4. CASH AND CASH EQUIVALENTS

Cash on hand	2,420	1,953
Deposits at call	1,500	2,600
	4,632	4,553

5. FINANCIAL ASSETS

RECEIVABLES FROM FINANCIAL INSTITUTIONS		
Deposits with industry bodies - CUSCAL	2,420	3,000
Deposits with Non Bank ADI's	1,500	12,253
Deposits with Australian Banks	15,000	11,500
	18,920	26,753
HELD-TO-MATURITY FINANCIAL ASSETS		
Deposits with Non Bank ADI's	1,507	2,519
Deposits with Australian Banks	27,989	16,962
	29,496	19,481
TOTAL FINANCIAL ASSETS	48,416	46,234

6. OTHER RECEIVABLES

Sundry debtors and settlement accounts	289	323
	289	323

7. LOANS TO MEMBERS

	2017 $'000	2016 $'000
Amount due comprises:		
Overdrafts and revolving credit (including VISA)	1,207	1,308
Term loans	101,015	95,074
	102,222	96,382
Provision on impaired loans (Note 8)	(201)	(192)
	102,021	96,190
Credit quality		
Secured by mortgage over real estate	85,808	82,594
Partly secured by goods mortgage	6,397	5,113
Wholly unsecured	10,017	8,675
	102,222	96,382

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

Credit quality profile of loans whole secured by mortgage against real estate	2017 $'000	2016 $'000
- loan to valuation ratio of less than 80%	78,406	75,755
- loan to valuation ratio of more than 80% but mortgage insured	5,368	4,962
- loan to valuation ratio of more than 80% and not mortgage insured	2,034	1,877
Total	85,808	82,594

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.

	2017 $'000	2016 $'000
Concentration of loans by purpose		
Loans to natural persons		
- Residential loans and facilities	84,951	79,506
- Personal loans and facilities	16,337	15,740
- Business loans and facilities	934	1,136
	102,222	96,382

8. PROVISION ON IMPAIRED LOANS

	2017 $'000	2016 $'000
Total provision comprises		
Collective provision	160	110
Specific provision	41	82
Total Provision	201	192
Movement in the provision for impairment		
Balance at the beginning of year	192	267
Add (deduct):		
Provision made during the year	9	(3)
Provision used during the year	-	(72)
Balance at end of year	201	192

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

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

	2017 $'000	2016 $'000
Individually impaired		
Gross amount	41	82
Provision for impairment	(41)	(82)
Carrying amount	-	-
Past due but not impaired		
Days in arrears:		
Less than one month	4	16
Greater than one month and less than two months	242	154
Greater than two months and less than three months	79	69
Greater than three months	90	55
Carrying amount	415	294
Neither past due nor impaired		
Secured by mortgage	85,446	80,231
Personal and commercial	15,203	14,492
Overdrafts/revolving	1,117	1,283
Carrying amount	101,766	96,006
Collective impairment provision	(160)	(110)
Total carrying amount	**102,021**	**96,190**

There are loans past due which are not considered to be impaired as the value of related security over residential property is in excess of the loan due.

9. AVAILABLE FOR SALE INVESTMENTS

	2017 $'000	2016 $'000
Shares in unlisted company – at cost		
CUSCAL Limited	220	220
Shared Service Partners	5	5
Total value of investments	225	225

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

10. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings $'000	Plant and equipment $'000	Total $'000
Cost or deemed cost	825	1,651	2,476
Balance at 30 June 2015	-	119	119
Additions	-	(60)	(60)
Balance at 30 June 2016	825	1,710	2,535
Additions	5	116	121
Disposals	-	(112)	(112)
Balance at 30 Jun 2017	830	1,714	2,544
Accumulated depreciation and impairment losses			
Balance at 30 June 2015	(227)	(1,384)	(1,611)
Depreciation for the year	(20)	(79)	(99)
Disposals	-	24	24
Balance at 30 June 2016	(247)	(1,439)	(1,686)
Depreciation for the year	(19)	(86)	(105)
Disposals	-	82	82
Balance at 30 June 2017	(266)	(1,443)	(1,709)

	2017 $'000	2016 $'000
Total property plant and equipment - at cost	2,544	2,535
Total accumulated depreciation	(1,709)	(1,686)
Total property, plant and equipment - carrying amount	835	849

11. INTANGIBLE ASSETS

	2017 $'000	2016 $'000
Cost		
Balance at 1 July	991	756
Additions / Disposals	19	11
Work in Progress (WIP) Ultradata Banking Platform	-	224
Balance at 30 June	1,010	991
Accumulated amortisation		
Balance at 1 July	(456)	(332)
Amortisation for the year	(145)	(124)
Balance 30 June	(601)	(456)
Total Intangible Assets	409	535

12. DEFERRED TAX ASSETS

	2017 $'000	2016 $'000
Deferred tax assets comprise:		
Accrued expenses	13	10
Provision on impaired loans	60	58
Provisions for employee benefits	106	132
Depreciation on fixed assets	-	-
Visa setup costs	-	-
	179	200

The Credit Union's current tax asset of $82,481 (2016: $64,824 receivable) represents the amount of income tax refundable to the Credit Union in respect of the current and prior year periods due to the Australian Taxation Office.

13. DEPOSITS FROM MEMBERS

	2017 $'000	2016 $'000
Member Deposits		
- at call	70,824	60,584
- term	64,426	66,772
Member withdrawable shares	137	137
	135,387	127,493

Concentration of Member Deposits / Geographic Concentration

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

14. CREDITOR ACCRUALS AND SETTLEMENT ACCOUNTS

	2017 $'000	2016 $'000
Creditors and accruals	160	236
Interest payable on deposits	286	348
Sundry creditors / Settlements	282	695
	728	1,279

15. PROVISIONS

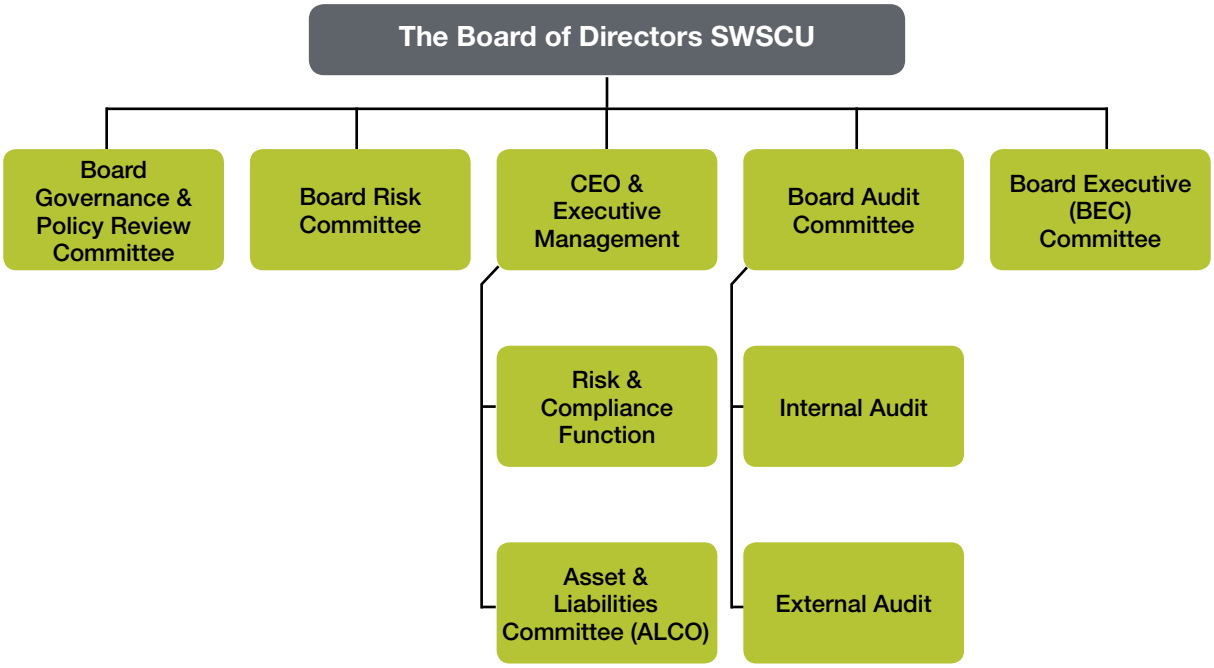
	2017 $'000	2016 $'000
Current		
Annual Leave	162	157
Long service Leave	197	259
Provisions – other	30	21
	389	437
Non-current		
Long service leave	21	21
Total provisions	410	458

16. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

The Credit Union's risk management focuses on the major areas of market risk, liquidity risk, credit risk and operational risk. Authority flows from the board of directors to the risk committee who are integral to the management of risk. The following diagram gives an overview of the structure in place in 2017.

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



Board: This is the primary governing body. It approves the level of risk which the Credit Union is exposed to and the framework for reporting and mitigating those risks.

The Board is the key body in the control of risk. The Board reviews risks and the controls that are used to mitigate them. This includes the identification, assessment and reporting of risks. Regular monitoring is carried out by the Board through monthly review of risks, key risk indicators as well as an annual full review of all risks.

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

16. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Audit Committee:

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

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

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

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

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

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

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

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

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

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

16 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

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 Unions management of capital.

16 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

A. MARKET RISK

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

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

Management is responsible for the development of detailed risk management policies which are submitted to the Board for review and approval, and for the day-to-day review of their implementation. In addition the ALCO, being a management committee, meets on a 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 2017 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.

16 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

A. MARKET RISK (CONTINUED)

Method of managing risk

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

Value at Risk (VaR)

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

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

This function is outsourced to Laminar Capital who prepare a detailed risk exposure summary every six months.

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

	2017	2016
Value at Risk / 10 day value at risk	$44,896	$24,672
Percentage of regulatory capital	0.217%	0.125%

Given the Credit Union's profile of assets and liabilities at 30 June 2017, and therefore its book sensitivity as at that date, for each 1% parallel downward shift in the yield curve the Credit Union can expect a reduction in profit of $144,762 (2016: $85,747). The Credit Union is therefore exposed to falling interest rates.

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

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

The Credit Union is therefore confident within a 99.5 per cent confidence level that, given the risks as at 30 June 2017, it will not incur a one day loss on its non-trading book of more than the amount calculated above, based on the 2017 VaR model used.

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

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

16 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

B. LIQUIDITY RISK

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

The Credit Union manages liquidity risk by:

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

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

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

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

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

APRA minimum 9 %	**2017**	**2016**
Total Liquidity as at 30 June	35.91%	36.73%
MLH liquidity as at 30 June	24.73%	16.97%
Average MLH liquidity for the year	27.18%	26.69%
Average Total liquidity for the year	38.88%	37.44%
Lowest MLH liquidity for the year	19.11%	14.87%

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

16 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

C. CREDIT RISK (CONTINUED)

(i) CREDIT RISK – LOANS (CONTINUED)

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

	2016	2015
	$'000	$'000
Loans to members		
Mortgage (Home or Investment loans)	84,951	79,385
Personal	15,130	14,553
Credit cards	733	749
Overdrafts	474	559
Commercial	934	1,136
Total loans	**102,222**	**96,382**
Provision for impairment	(201)	(192)
	102,021	**96,190**

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.

16 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

C. CREDIT RISK (CONTINUED)

(i) CREDIT RISK – LOANS (CONTINUED)

Past due and impaired (continued)

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

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

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

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

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

Bad debts

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

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

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

Collateral securing loans

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

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

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

Repossessed collateral

In the event of member default on a mortgage facility, any loan security is usually held as mortgagee in possession and therefore the Credit Union does not usually hold any real estate or other assets acquired through the enforcement of security. During the year the Credit Union did not take possession of any real estate assets (2016: nil).

16 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

C. CREDIT RISK (CONTINUED)

(i) CREDIT RISK – LOANS (CONTINUED)

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:

	2017	**2016**
Investments with	Carrying value	Carrying value
	$'000	$'000
CUSCAL – rated AA-	6,453	6,852
Banks – rated AA and above	14,033	17,024
Banks – rated below AA	11,525	11,221
Mutual Banks	18,938	6,984
Unrated – other Credit Unions	1,500	8,005
Total	**52,449**	**50,086**

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

	2017 $'000	2016 $'000
Tier 1		
Retained earnings	20,318	19,683
Less prescribed deductions	(859)	(1,015)
Common Equity Tier 1 capital	19,459	18,668
Tier 2		
Reserve for credit losses	318	301
Less prescribed deductions	-	-
Net tier 2 capital	318	301
	19,777	
Total Regulatory Capital	63,627	18,969
Risk Weighted Assets (Credit)	63,627	59,782
Capital Ratios		
Total regulatory capital expressed as a percentage of total risk weighted assets	27.00%	27.74%
Total Tier 1 capital expressed as a percentage of total risk weighted assets	26.59%	27.30%

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

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

17. CATEGORIES OF FINANCIAL INSTRUMENTS

The following information classifies the financial instruments into measurement classes

	Note	2017 $	2016 $
Financial assets			
Cash	4	4,632	4,553
Negotiable certificates of deposit	5	30,496	26,753
Receivables from financial institutions	5	17,920	19,481
Loans to members	7 & 8	102,021	96,190
Total carried at amortised cost			
		155,069	146,977
Available for sale equity investments - carried at cost		225	225
Total available for sale investments		225	225
Total financial assets		155,294	147,202
Financial liabilities			
Creditors and other liabilities	14	728	1,279
Deposits from members	13	135,387	127,493
Total financial liabilities		136,115	128,772

18. MATURITY AND INTEREST PROFILE OF FINANCIAL ASSETS AND LIABILITIES

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

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

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

2016	Within 1 month	1-3 months	3-12 months	Total
	$'000	$'000	$'000	$'000
Creditor accrual and settlement accounts	1,279	-	-	1,279
Deposits from members (incl. future interest)	79,645	32,879	15,314	127,838
Total financial liabilities	**80,924**	**32,879**	**15,314**	**129,117**

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

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

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.

2016	Within 1 month $'000	1-3 months $'000	3-12 months $'000	Total $'000
Cash	4,553	-	-	4,553
Receivables from financial Institutions	11,517	21,284	13,433	46,234
Loans and advances - mortgage	80,444			80,444
Loans and advances - personal	14,547			14,547
Loans and advances – other	1,391			1,391
Total financial assets	**112,452**	**21,284**	**13,433**	**147,170**
Deposits from members	79,645	32,879	15,314	127,838
Total financial liabilities	**79,645**	**32,879**	**15,314**	**127,838**
Gap	**32,807**	**(11,595)**	**(1,880)**	**19,332**
Cumulative gap	**32,807**	**21,212**	**19,332**	**-**

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

19. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

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

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

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

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

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

Liquid assets and receivables from other financial institutions

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

Loans and advances

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

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

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

Deposits from members

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

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

20. FINANCIAL COMMITMENTS

	2017 $'000	2016 $'000
Outstanding loan commitments		
Loans approved but not funded	2,218	3,232
Loan redraw facilities		
Loan redraw facilities available	8,198	7,078
Undrawn loan facilities		
Loan facilities available to members for overdrafts and line of credit loans are as follows:		
Total value of facilities approved	4,975	4,203
Less: Amount advanced	(2,108)	(1,881)
Net undrawn value	2,867	2,322
Total financial commitments	13,283	12,632

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	564	350
- Later than 1 year but not 2 years	606	350
- Later than 2 years but not 5 years	1,394	1,049
- Later than 5 years	-	141
	2,564	1,890

Lease expense commitments for operating leases on property occupied by the Credit Union

Not later than one year	28	28
Later than one year but not later than five years	4	13
	32	41

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

21. CONTINGENT LIABILITIES

Liquidity support scheme

The Credit Union is a member of the Credit Union Financial Support Scheme Limited (CUFSS) a Company limited by guarantee, established to provide financial support to member Credit Unions in the event of a liquidity or capital problem. As a member, the Credit Union is committed to maintaining 3.0% of the total assets as deposits with CUSCAL Limited and/or a CUFFS approved ADI.

Under the terms of the Industry Support Contract (ISC), the maximum call for each participating Credit Union would be 3.0% of the Credit Union's total assets. This amount represents the participating Credit Union's irrevocable commitment under the ISC. At the balance date there were no loans issued under this arrangement.

Guarantees There are no contingent guarantees as at 30 June 2017 (2016: nil).

22. RELATED PARTIES

Remuneration of key management persons

Key management persons are those persons having authority and responsibility for planning, directing and controlling the activities of the Credit Union, directly or indirectly, including any director (whether executive or otherwise) of that Credit Union. Control is the power to govern the financial and operating policies of a Credit Union so as to obtain benefits from its activities. Key Management persons have been taken to comprise the directors and the 4 members of the executive management responsible for the day to day financial and operational management of the Credit Union.

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

	2017 $	**2016** $
(a) short-term employee benefits;	692,592	675,268
(b) post-employment benefits - superannuation contributions	64,939	63,343
(c) other long-term benefits	**6,390**	**16,560**
Total	**763,921**	**755,171**

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

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

Loans to Directors and other Key Management Persons

		2017 **$**	**2016** **$**
(i)	The aggregate value of loans to directors and other key management persons as at balance date amounted to	1,226,763	926,997
(ii)	The total value of revolving credit facilities including VISA, to directors and other key management persons, as at balance date amounted to	81,000	82,000
	- Less amounts drawn down and included in (i)	(25,054)	(36,446)
	Net Balance available	55,946	45,554
(iii)	During the year the aggregate value of loans disbursed to directors and other key management persons amounted to:	447,136	-
	Term Loans	-	-
(iv)	The aggregate value of interest paid by key management personnel amounted to:	71,605	40,354

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

22. RELATED PARTIES (CONTINUED)

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

	2017 $	2016 $
Total value of term and saving deposits from KMP	836,686	908,572

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

Transactions with Other Related Parties

Mr Keith Carmody (Director and Deputy Chairman of the Board) acts on behalf of the Credit Union in legal matters at normal commercial rates. During the course of the year amounts paid to Mr Keith Carmody totalled $775(2016: $2,083).

There are no amounts outstanding at 30 June 2017 (2016: Nil).

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

There are no benefits paid or payable to the close family members of the key management persons.

There are no service contracts to which key management persons or their close family members are an interested party.

23 NOTES TO STATEMENT OF CASH FLOWS

	2017 $'000	2016 $'000
Reconciliation of cash from operations to accounting profit		
Profit after income tax	639	806
Add (Deduct) :		
Depreciation and amortisation expense	250	223
(Profit)/loss on sale of assets	-	(14)
Impairment Loss on loans and receivables	9	(3)
Movement in employee benefits	(9)	(10)
Movement in other provisions	9	(2)
Change in current tax liabilities	(65)	(183)
Movement in trade creditors	(551)	(189)
Movement in interest receivable	34	(62)
Movement in prepayments	(20)	(6)
Movement in net deferred tax assets	21	55
Net cash from revenue activities	317	615
Add (Deduct) non revenue operations		
Change in receivables from other financial institution balances	(2,182)	(7,247)
Change in loans balances	(5,840)	(2,121)
Change in deposit balances	7,894	7,770
Net cash from operating activities	189	(983)

24 AUDITORS' REMUNERATION

	2017 $	2016 $
Audit services:		
Auditors of the Credit Union – KPMG		
Audit and review of the financial reports	45,655	49,550
Other regulatory audit services and internal audit	21,280	20,760
Taxation services	1,900	687
	68,835	70,997

KPMG

Independent Auditor's Report

To the member of South West Slopes Credit Union Limited,

Report on the audit of the Financial Report

Opinion

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

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

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

The ***Financial Report*** comprises:

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

Basis for opinion

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

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

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

KPMG

Other Information

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

The Other Information we obtained prior to the date of this Auditor's Report was the Directors Report.

Our opinion on the Financial Report does not cover the Other Information and, accordingly, we do not express 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. 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 this 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_files/ar3.pdf. This description forms part of our Auditor's Report.

KPMG

KPMG

Warwick Shanks
Partner
Signed at Young this 20th day of September 2017

LOCATIONS

BRANCHES

Young (Registered Office)
89 Boorowa Street Young NSW 2594
P: 02 6384 1111 **F:** 02 6382 1744
Telephone banking: 02 6384 1121

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

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

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

AGENCIES

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

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

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Call Local Branch and Select Option 1 (one)

INTERNET
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