annual report 2012

SouthWest Credit

CONTENTS

South West Credit is Warrnambool's own financial institution.
It is the city's only financial institution that is truly local.

It was formed in 1963 to meet the financial needs of the community and has grown over time to offer a range of banking products and services that would be found at any of its larger, national competitors.

While the offering and operations of South West Credit have changed over time, its key focus – meeting its members needs – has been a strong constant. Today, it continues to be the key reason South West Credit opens its doors.

Located in the heart of the coastal city of Warrnambool, South West Credit has more than 13,000 members and customers. It is steered by a Board of Directors, made up of a team of dedicated community members carefully selected for their skill in the areas of finance, law, human resources, administration and community representation.

Chairperson
Robert Lane

Vice Chairperson
Gary Parsons

Directors
John Harris
Damian Goss
Deborah Porter
Alan O'Connor
Michael Beks

Chief Executive Officer & Secretary
David Brown

Registered Office
117 Lava Street, Warrnambool, Victoria, 3280

Telephone	03 5560 3900
Facsimile	03 5562 8195
AFSL/Australian Credit Licence Number	241258
ABN	44 087 651 705

Auditors
Sinclair Wilson Accountants and Business Advisors

Chairman & Chief Executive Officer's Report

South West Credit is Warrnambool's only truly local financial institution. It was created to represent the region and meet the needs of the people that live and work here.

CHAIRMAN:
ROBERT LANE

CHIEF EXECUTIVE OFFICER:
DAVID BROWN

This year, we will be turning the page on South West Credit's 50th year of operation. A flick through the files accumulated over the years shows that much has changed in this time; the range of services we offer; the location of our banking chamber; the people who offer it; and, as one could guess, how these places and people look. However in reflecting where South West Credit has been, and how it has changed and evolved, there are many constants: like then, South West Credit today endeavours to be a credible choice for members needs; the board and management strive to create an organisation of skilled, educated professionals committed to the same values and culture founded by the organisation's first directors and profits are sought in order to improve, develop and support the organisation and the local community.

South West Credit also continues to exist so as to provide the region with a member-owned bank, under the direction of board members who are as skilled as they are community-minded.

Together, these enduring values drive our decision making so as to achieve an entity that, just like its humble beginnings in a local lounge room, provides a credible, reliable banking choice for South West Victoria.

Our point of difference

South West Credit works hard to ensure the utilitarian benefits of membership match the advantages anyone can expect from other so-called "Big Banks". Security of funds and range of products – we match our competitors on both fronts, and continue to invest in our operations to ensure this continues. But we're certainly not out to pretend we are just the same as our national competitors. Our difference is something we embrace. South West Credit will always be able to offer something the "Big Banks" can't; our affiliation with the South West community; our capacity to make the decisions here, in branch, rather than a larger office up the highway. We genuinely welcome the opportunity to hear what members believe can improve their banking experience with South West Credit. And we can act on it. Quickly. The decisions are made in the city where their impact will be seen and felt. In a way, it's what helps to sustain South West Credit's integrity. The impact of our decisions is immediate and obvious to us, and to those around us. This keeps us honest and it keeps us driven to ensure members' needs, no matter how they may change, continue to be met.

Our dedicated team

Meeting our members' needs is well-executed by our team of skilled and committed staff, who we work with to support their professional development and their own commitment to this region. We firmly believe that employing and developing skilled staff provides a strong foundation for the institution, reflected in the quality of our products and the level of our service. This then filters through to the community; our staff are not only committed to South West Credit - they are also dedicated volunteers for local service clubs, school and kindergarten committees, sporting groups and many other entities. The cultural fit between our staff and South West Credit's values helps to ensure our valued staff members can work in a similar way to how they live, with real understanding of how their commitment and responsiveness to members needs delivers a better service and helps the organisation in its efforts to build and support the region.

Investing for future

Responding to members' needs is also achieved by reinvesting the profits we achieve back into the organisation. This is simple, smart, long-term investment that means our systems and programs can satisfy members needs, and that our people can utilise these appropriately.

We believe it is important, vital even, that members receive the best in systems and programs that are available. Money spent on these matters is never considered a cost, but investment that facilitates our growth and continual improvement.

Our connection to community

That's not to say that every dollar earned remains in South West Credit's vault or is spent within the banking chamber. Our success provides the means to support our local community, by aiding local initiatives, reinvesting in a community-owned bank asset and establishing local strategic relationships that position the organisation as an important and attentive contributor to the region. A key example of this support is our sponsorship of the Wunta Fiesta. Like South West Credit, Wunta was created for the people that live here and, like us, gains its strength and success from the support it receives. We have also contributed to the South West Healthcare redevelopment and other local needs and causes as part of our Community @ Heart program.

Our 2011/2012 financial result

Of course, our capacity to contribute these funds is made possible via our strong financial performance.

This year's result, a profit after taxation of $410,217 is especially strong considering the current economic climate; investment is down nation-wide and competition for funds is at an all-time high.

But members can rest assured it is not all about the here and now; South West Credit's planning decisions are carefully made in order to best prepare for the unknown future.

Acknowledgements

Responsibility for such decisions lies with the South West Credit board, which is charged with ensuring the business delivers on members' expectations as custodians of the organisation. The Directors understand and appreciate the importance of this role and their obligation to remain diligent and active in understanding the current landscape, being across industry initiatives and educated about ways and means the organisation can better serve its membership.

Finally, I would like to thank the members for their ongoing support of the organisation. South West Credit's members and the community they live in have motivated this organisation's actions, practices and services, from the first meeting in a Kirkstall lounge room, to this year's Annual General Meeting. The capacity to maintain and execute our original values for 50 years running is something the board, and those that deliver the services in the branch, are proud of. It serves as a high benchmark for the next 50 years, which will be striving to not only maintain, but surpass in the name of members' and the community's best interests.

Chairperson

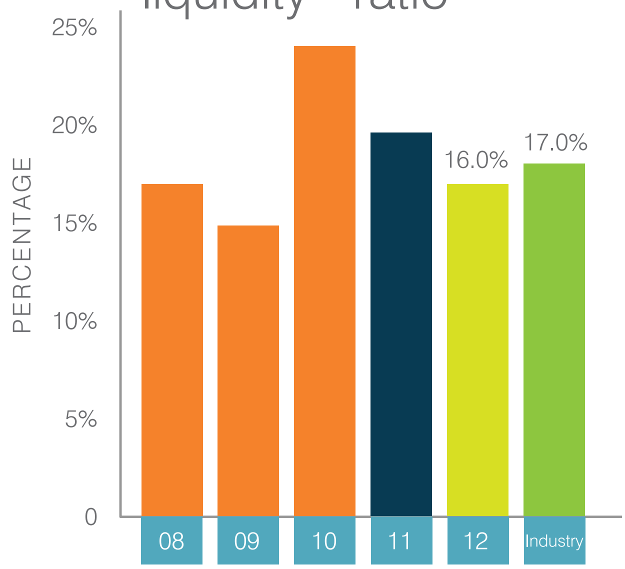
Robert Lane

Chief Executive Officer

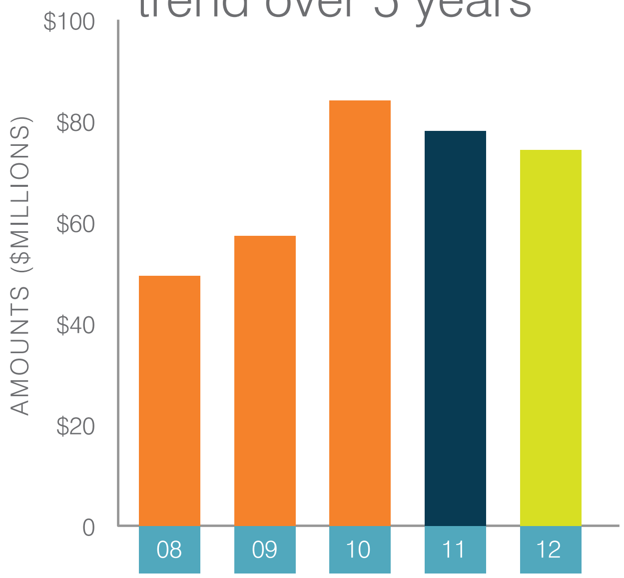
David Brown

Performance Reporting

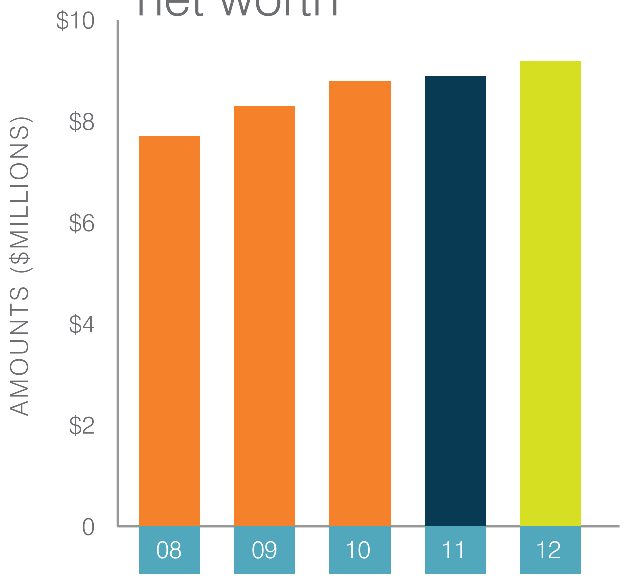
liquidity - ratio



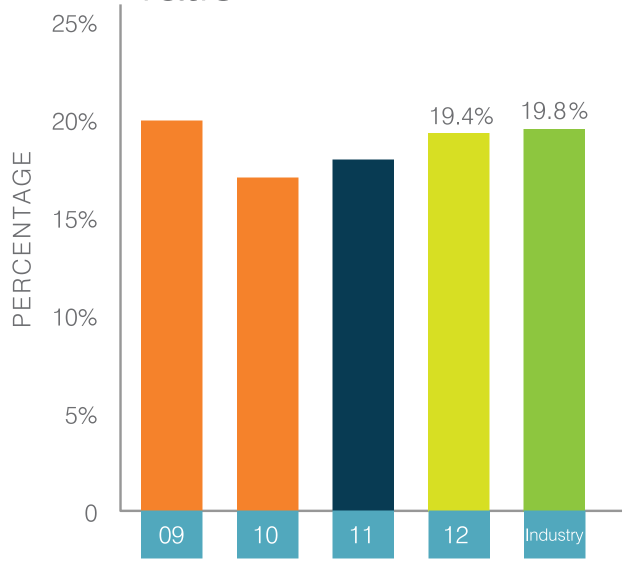
total deposits trend over 5 years



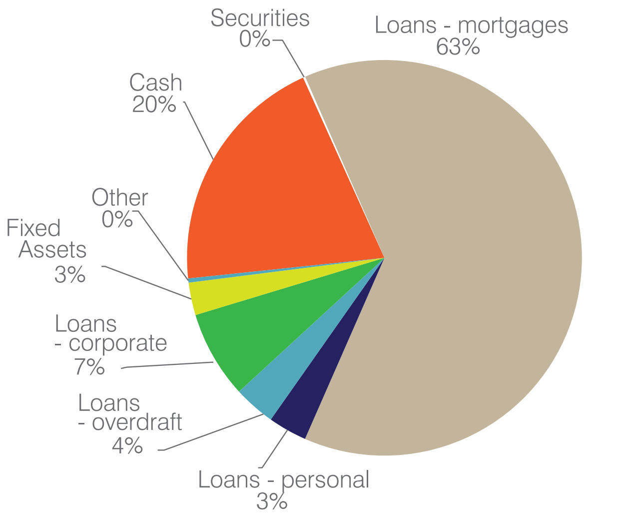
net assets/ net worth



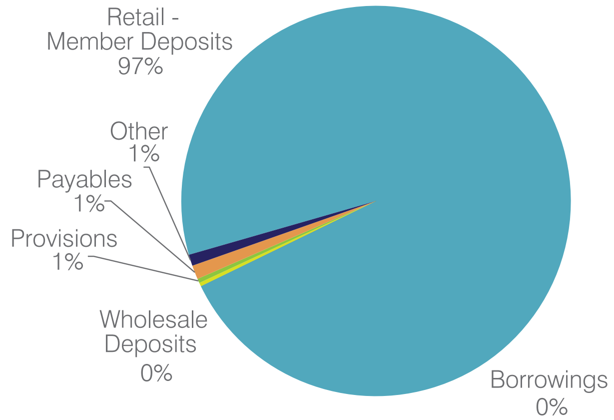
capital adequacy ratio



composition of assets
(as at June '12)

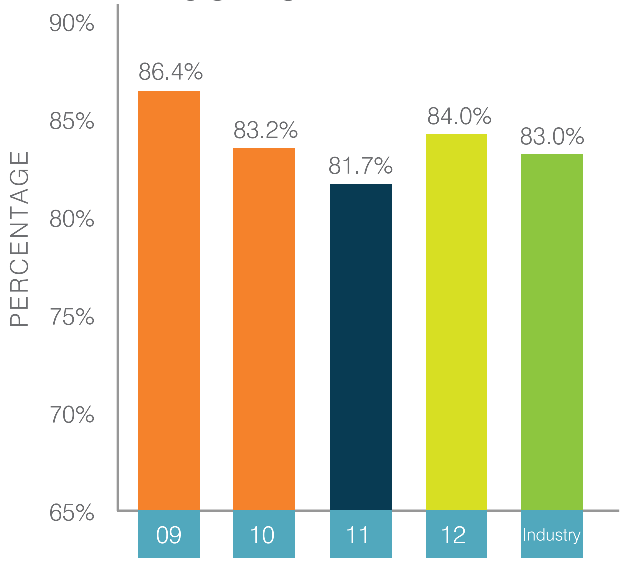


composition of liabilities
(as at June '12)



total assets
(including off balance sheet loans)

expenses to income



In 2011/2012 SouthWest Credit :

Opened
1531
new accounts

Loan Approval

Electronic Transactions

New Accounts

Community Grants & Donations

Term Deposits

Serving You

Approved
$13,500,000
in loans

Grants & donations
to community
$48,000
for the year

11%
increase in electronic transactions

Marked 49 YEARS
providing banking and financial services to South West Victoria.

Retail
term deposits
increased by
5%

Averaged 435
over-the-counter transactions
PER DAY

712,410
card transactions

Highlights & Achievements

Marketing:

South West Credits' presence in the community has grown stronger in the past twelve months with its involvement reaching out to new areas in the community.

Involvement in the annual Wunta Fiesta has been a great success yet again, with South West Credit being the major sponsor of this long running community festival. Staff and directors volunteered their time helping out over the 3 day event.

Our new 'Rate Crusher' home loan product has been an outstanding success over the past 12 months. This new product rewards members for their loyalty and banking relationship with South West Credit by offering them discounts off our standard variable home loan rate. The new product was supported by in-branch advertising, newspaper advertising and a direct mail campaign.

The Shared Value Program is an exciting venture that was created to support South West Credits' business members, and at the same time provide exclusive offers to all South West Credit members. The program is a win-win for all involved and will continue to grow as more and more businesses come on board.

The South West Credit Board of Directors have dedicated a lot of time into reviewing its Strategic Plan over the last 6 months, setting the vision for South West Credit into the future. The next stage of this process will see a Strategic Marketing Plan developed to support this vision and help SWC grow well into the future.

Work is underway for our 50 year celebration next year. This is a great milestone for South West Credit and something we are all very excited and proud to be a part of.

Promotion in e-channels have continued in the past 12 months, with e-statements, SMS Alerts and our Mobile App being well received. This area will be a big focus for 2012/13 as smart phone technology becomes more and more a part of our everyday life.

Investment in Technology:

South West Credit has continued to invest in the latest technology to ensure the organisation's products and services meet the needs of members.

Significant investment has been made to ensure our banking systems are adequately protected. A new piece of fraud monitoring software was introduced to work with our banking system to provide 24/7 monitoring, offering more security and protection to members.

We have outsourced the Local Area Network and are now working on a Managed Desktop Solution provided by TransAction Solutions. Amongst other benefits, this has enhanced our disaster recovery solution, providing a safety net for our data, information and services.

Card technology was heavily invested in allowing us to be at the forefront of this ever-changing technology. Our Visa Debit Card is now enhanced with the new PayWave 'wave and go' technology, the changes provide more security and ease of use to members.

We have also continued to invest in our website, to keep up to date with new legislation and to ensure functionality is optimal. Home Loan Key Fact Sheets were introduced on January 1 to comply with legislation that was introduced by the Federal Government. Enhancements were also made to the home page to improve usability and new Product Fact Sheets have recently been introduced to provide more information to our members when they need it 24/7.

Behind the scenes we are currently working on a major project that will store all forms and other correspondence electronically, reducing our reliance on paper and in time will reduce our overall storage. It will offer major benefits once complete and compliments our Environmental Action Plan.

People and Culture:

A recent review of our Strategic Plan and our experience over the past year has reinforced our view that continuing to invest in the development and training of our staff and ensuring that we continually improve our culture, remain critical factors in our ongoing success.

The flexibility and increased skills of our staff was demonstrated by over 20% of our workforce taking on significant new responsibilities throughout the year through either formal promotion or additional up-skilling.

In the 2011/12 financial year we also began to see the tangible benefits of continuing our drive towards our preferred culture. South West Credit has engaged Human Synergistics to undertake a bi-annual independent assessment of our culture so that we can measure our progress and benchmark ourselves against others. In just two years we have made substantial progress towards our ideal culture in almost all areas. One of the most pleasing results was when compared to all participants across all industries for factors which research demonstrates influence long-term performance, South West Credit rated above the historical average for 10 out of the 12 outcomes measured.

Directors' Report

Your Directors present their report for the year ended 30th June, 2012.

Directors

The names and qualifications of Directors in office at any time during or since the end of the year are:

1. Robert Lane [Chairperson]

Business Consultant and CPA.

Director of SED Partners Pty Ltd, Principal of the SED Consulting Group and Director of GenR8.

Member Remuneration and Governance Committees. Board member since 2005.

2. Gary Parsons [Vice-Chairperson]

Semi-retired Marketing Consultant.

Program co-ordinator Standing Tall in Warrnambool, Life Member Warrnambool Greyhound Racing Club.

Member Marketing and Community@Heart Committees. Chairperson of the Governance and Remuneration Committees. Chairman from 1999 – 2006. Board member since 1995.

3. Alan O'Connor

Principal, Warrnambool Accounting Services.

Previously held position of Chairperson for Fletcher Jones & Staff Employees Credit Co-operative Credit Union Ltd and South-West Credit Union Co-Operative Limited.

Alan has over thirty years experience in both accounting and finance positions.

Member Governance, Budget & Remuneration Committees. Chairperson of the Audit and Risk Committee. Board Member since 1992.

4. Deborah Porter

Lecturer in Law - Deakin University.

Member Marketing, Audit and Risk, Governance & Remuneration Committees. Board Member since 2008.

5. Michael Beks

Chartered Accountant.

Member Audit and Risk & Human Resources Committees. Chairperson of Budget Committee. Board member since 1999.

6. John Harris

Manager-Treatment Operations, Wannon Water.

Member Human Resources & Audit and Risk Committees Chairperson of the Human Resources Committee. Board member since 2002.

7. Damian Goss

Damian has retired from executive positions in Local Government following thirty-six years service. Member of the Community@Heart, Budget & Human Resources Committees. Board member since 2006.

All Directors were in office from the beginning of the financial year to the date of this report.

Company Secretary

The following person held the position of Company Secretary at the end of the Financial Year:

Mr David Brown

Chief Executive Officer for South-West Credit Union Co-Operative Limited since November, 2006.

Mr Brown has worked with the Credit Union for eight years, and prior to this worked with a large Banking organisation for over 30 years.

Principal Activities

The principal activities of the Credit Union during the financial year were the provision of a broad range of financial and related services to members. There were no material changes in these activities throughout the year.

Interests in Contracts or Proposed Contracts with the Credit Union

Since the end of the previous financial period, no Director has received or become entitled to receive a benefit [other than a benefit included in the aggregate amount of remuneration received or due and receivable by Directors shown in these financial statements] by reason of a contract made by the entity or a related corporation with the Director, or with a firm of which they are a member, or with a body corporate in which they have a substantial financial interest, save for agency service fees and commission paid to GenR8 and SED Consulting totalling $18,609. Mr Robert Lane, Chairman of the Credit Union is a Principal and Director of these entities. The agency services and consulting fees were billed to the Credit Union at commercial rates.

Review Of Operations

Operating Results

The 2011/2012 financial year ended strongly with a healthy net profit after taxation of $410,217 (2011- $52,876). The net profit after tax prior to impairment charges was $469,959 [2011 - $497,388]. This was a great achievement for the Credit Union considering the volatile interest rate environment with lower credit demand and higher funding costs. The lower level of impaired debts and continued review of operational overheads have also contributed towards a positive result.

The Credit Union achieved a return on total assets of 0.5%, which compares favourably with the industry average of 0.4%.

After Balance Date Events

The Directors are not aware of any after balance date events to the date of this report that would materially impact the operations of the Credit Union, the results of those operations, or the state of affairs of the entity in future years.

Future Developments, Prospects and Business Strategies

The Credit Union has developed Vision 2016 which provides for the strategic direction of the organisation.

Financial Position

The net assets of the Credit Union were $9.2 million as at 30th June, 2012. Total assets as at 30 June 2012 were $85.7 million (2011-$88.9 million). Including off balance sheet loans, total assets were $97.1 million (2011-$102.0 million).

The Capital Adequacy ratio is the main measure of a Credit Union's overall financial soundness. This ratio as at 30th June 2012 was 19% and is increasingly under pressure from an increasing asset base and relatively slow profit growth. The current ratio is well in excess of the 12% minimum required by Australian Prudential Regulation Authority [APRA] prudential standards, and is in line with the Credit Union industry average.

The Credit Union holds an Australian Financial Services Licence and Australian Credit Licence and continues to meet the requirements of both the Australian Securities and Investments Commission [ASIC] and APRA. South-West Credit maintains policies and procedures to ensure its compliance with the Anti-Money Laundering and Counter-Terrorism Financing Act 2006.

Significant Changes in State of Affairs

The Directors note no significant changes in the state of affairs of the Credit Union during the financial year, or to the date of this report.

Director Meetings

The number of meetings of Directors [including meetings of committees of Directors] held during the year and the numbers of meetings attended by each Director were as follows:

	Directors Meeting	Audit & Risk	Human Resources	Budget	Governance	Marketing	Remuneration
Number of meetings held:	12	7	3	2	5	4	4
Number of meetings attended:							
Alan O'Connor	10	6	n/a	1	3	n/a	3
Robert Lane	11	n/a	n/a	n/a	5	n/a	4
Gary Parsons	11	n/a	n/a	n/a	4	4	4
Deborah Porter	10	6	n/a	n/a	4	3	3
Michael Beks	12	7	3	2	n/a	n/a	n/a
John Harris	9	4	3	n/a	n/a	n/a	n/a
Damian Goss	11	n/a	2	2	n/a	n/a	n/a

Risk Management

The Credit Union's risk management system operates on the relationships and dependencies of an oversight structure, policies, internal controls and risk management framework.

The Board and the Executive Group oversee the management of the Credit Union's risks through Board and Management Committees, Credit Union Executives responsible for risk, and internal control and risk management systems.

The Credit Union's risks are categorised into liquidity, market, credit, and operational risk. The approach to risk management links the business strategies, objectives, vision and values to the internal control and risk management systems. Risk management processes include a regular business unit and enterprise wide identification, assessment and evaluation of risk.

The Credit Union's Board reviews and approves the risk management framework and sets key risk parameters for the major risk areas. The Board evaluates the effectiveness of risk management strategies and internal control processes. Each of the Board Committees has a significant role in the risk management processes. In addition, independent assurance on risk is provided through the audit activity.

Management, through the Executive Group and the Management Committees, recommend appropriate policies, practice and risk parameters for Board consideration. Management develop controls, processes and procedures for risk and compliance and initiate and oversee risk strategies within the parameters set by the Board.

Executive Management, members of the Audit and Risk Committee and the Board requested that in the 2012 financial year the Internal Audit plan include a review of the risk management framework at the Credit Union. This review was intended to provide an assessment of the Credit Union's current risk management practices and it's adherence to current policies.

This review considered processes and associated key controls in relation to the following areas of risk management:

1. Risk Governance and Strategy
    - Risk appetite
    - Governance structure (including adherence to 3 lines of defence model)
    - Roles and responsibilities
2. Risk Policies, Processes and Reporting
    - Policy and processes around the identification, analysis, evaluation and treatment of risk
    - Ongoing monitoring and reporting of risk
3. Credit Risk Review
    - The management of credit risk against the generic risk management framework.

Environmental Issues

The Directors are not aware of any environmental issues pertaining to the operation of the Credit Union.

Community@Heart

During the year the Credit Union continued its commitment to Corporate and Social responsibility in the community and the environment by distributing donations to local organisations from the Community @ Heart Program. The Committee consists of interested Directors, Staff and Members who administer the fund, and identify and report to the Board on appropriate projects for the program.

Indemnification and Insurance of Directors and Officers

During the year, a premium was paid regarding a contract insuring Directors and Officers against liability. The Officers of the Credit Union covered by the insurance contract include the Directors, Executive Officers, Secretary and Employees. In accordance with normal commercial practice, disclosure of the premium payable under, and the nature of liabilities covered by, the insurance contract is prohibited by a confidentiality clause in the contract. No insurance has been provided for the benefit of the auditors of the Credit Union.

Director and Key Management Personnel Training

The Board ensures all Directors and Key Management Personnel participate in formal professional education and training that is in excess of their normal Board and Committee duties. In the 2012 financial year Directors and Key Management Personnel undertook 188 hours of professional skills training and development.

Corporate Governance

The Directors of the Credit Union support and adhere to the principles of corporate governance, and recognise the necessity for the highest standard of corporate behaviour and accountability. A Governance Committee has been established by the Credit Union, which meets regularly to address matters of corporate governance.

Occupational Health and Safety [OHS]

The Credit Union actively monitors its obligations and responsibilities under the Occupational Health and Safety Act to ensure it mitigates employee risk. The Credit Union believes it is compliant with the OHS Act.

Auditor's Independence Declaration

The Auditor's Independence Declaration as required under Section 307C of the Corporations Act 2001, for the year ended 30th June, 2012, has been received and is included on the following page.

Rounding of amounts

The company is a company of the kind referred to in ASIC Class Order 98/0100, dated 10 July 1998, and in accordance with that Class Order amounts in the Director's Report and the Financial Report are rounded off to the nearest thousand dollars, unless otherwise indicated.

Signed in accordance with a resolution of the Board of Directors made pursuant to s.298 (2) of the Corporations Act 2001.

On behalf of the Directors

Director

Robert Lane - Chairperson

Director

Gary Parsons - Vice Chairperson

Dated: 28 August, 2012

SINCLAIR Wilson
ACCOUNTANTS & BUSINESS ADVISORS

Warrnambool
257 Timor Street
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Warrnambool VIC 3280
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Ausdoc DX: 28026

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Camperdown VIC 3260
Tel: 03 5593 1333

Mount Gambier
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Mount Gambier SA 5290
Tel: 08 8724 0399

Hamilton
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Hamilton VIC 3300
Tel: 03 5551 3111

Casterton
25 Henty Street
Casterton VIC 3311
Tel: 03 5581 1000

Cobden
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Cobden VIC 3266
Tel: 03 5595 1954

Colac
206 Murray Street
Colac VIC 3250
Tel: 03 5231 1527

Heywood
67 Edgar Street
Heywood VIC 3304
Tel: 03 5527 1394

Mortlake
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Mortlake VIC 3272
Tel: 03 5599 2244

Port Fairy
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Port Fairy VIC 3284
Tel: 03 5568 2823

Terang
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Terang VIC 3264
Tel: 03 5592 2020

Timboon
6 Main Street
Timboon VIC 3268
Tel: 03 5598 3466

DECLARATION OF INDEPENDENCE BY JOHN BOUWMAN TO THE DIRECTORS OF SOUTH-WEST CREDIT UNION CO-OPERATIVE LIMITED

As lead auditor of South-West Credit Union Co-Operative Limited for the year ended 30 June 2012, I declare that, to the best of my knowledge and belief, there have been no contraventions of:

(i) the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit, and

(ii) any applicable code of professional conduct in relation to the audit.

John Bouwman
Partner

Sinclair Wilson

Signed this 29th day of August 2012.

Financial Statements

income statement
FOR THE YEAR ENDED 30 JUNE 2012

	Note	2012 $	2011 $
Interest income	7	6,046,291	6,492,075
Interest expense	7	(2,713,887)	(2,961,785)
Net interest income	7	3,332,404	3,530,290
Impairment losses on loans and advances	8	(62,701)	(651,736)
Non-interest income	9	765,250	731,719
Depreciation and amortisation	10	(198,248)	(211,469)
Personnel expenses	11	(1,571,309)	(1,666,681)
Information technology expense	12	(365,972)	(322,567)
Office occupancy expenses	13	(60,377)	(59,069)
Other expenses	14	(1,230,378)	(1,236,872)
Profit before income tax		608,669	113,615
Income tax expense	15	(198,452)	(60,739)
Profit for the year		**410,217**	**52,876**

The notes on pages 22 to 51 are an integral part of these financial statements

statement of comprehensive income
FOR THE YEAR ENDED 30 JUNE 2012

	Note	2012 $	2011 $
Profit for the year		410,217	52,876
Other comprehensive income, net of tax			
Gain on revaluation of land and buildings, net of tax		(59,790)	33,795
Total comprehensive income for the year		350,427	86,671
Total comprehensive income for the year attributable to members		**350,427**	**86,671**

The notes on pages 22 to 51 are an integral part of these financial statements

statement of changes in equity
FOR THE YEAR ENDED 30 JUNE 2012

	Attributable to members of South-West Credit Union Co-operative Limited			
	Revaluation Reserve	Retained earnings	Reserve for Credit Losses	Total
	$	$	$	$
Balance at 1 July 2010	**1,066,287**	**7,375,244**	**349,612**	**8,791,143**
Total comprehensive income for the year	**33,795**	**52,876**	**-**	**86,671**
Transactions with owners, recognised directly in members equity	**-**	**-**	**-**	**-**
Transfers In/(Out)	**-**	**7,723**	**(7,723)**	**-**
Balance at 30 June 2011	**1,100,082**	**7,435,843**	**341,889**	**8,877,814**
Total comprehensive income for the year	**(59,790)**	**410,217**	**-**	**350,427**
Transactions with owners, recognised directly in members equity	**-**	**-**	**-**	**-**
Transfers In/(Out)	**-**	**11,617**	**(11,617)**	**-**
Balance at 30 June 2012	**1,040,292**	**7,857,677**	**330,272**	**9,228,241**

The notes on pages 22 to 51 are an integral part of these financial statements

statement of financial position

FOR THE YEAR ENDED 30 JUNE 2012

	Note	2012 $	2011 $
Assets			
Cash and cash equivalents	16	7,197,901	3,835,271
Trade and other receivables	17	138,142	215,361
Other assets	18	64,791	63,517
Financial assets	19	10,055,714	13,905,714
Loans and advances	20	65,959,589	68,434,857
Current tax assets	21	(77,845)	61,228
Deferred tax assets	22	115,972	96,910
Property, plant and equipment	23	2,022,575	2,188,873
Intangible assets	24	183,103	133,506
Total assets		**85,659,942**	**88,935,237**
Liabilities			
Deposits	25	74,396,534	78,418,729
Trade and other payables	26	1,737,886	1,314,032
Provisions	27	126,585	128,342
Deferred tax liability	28	170,696	196,320
Total liabilities		**76,431,701**	**80,057,423**
Net Assets		**9,228,241**	**8,877,814**
Members equity			
Retained Earnings		7,857,677	7,435,843
Revaluation Reserve	30	1,040,292	1,100,082
General Reserve for credit losses	31	330,272	341,889
Total Members Equity		**9,228,241**	**8,877,814**

The notes on pages 22 to 51 are an integral part of these financial statements

statement of cash flows
FOR THE YEAR ENDED 30 JUNE 2012

	Note	2012 $	2011 $
Cash flows from operating activities			
Interest received		6,080,945	6,554,974
Dividends received		30,596	24,331
Non-interest income received		775,939	648,376
Interest paid		(2,786,146)	(2,997,360)
Payments to suppliers and employees		(2,733,812)	(3,033,309)
Income tax (paid)		(78,300)	(124,014)
Net (decrease)/increase in deposits		(4,022,195)	(6,129,865)
Net decrease/(increase) in members' loans		2,412,567	707,422
Net cash from operating activities	32(a)	**(320,406)**	**(4,349,445)**
Cash flow from investing activities			
Net movement in financial assets		3,850,000	4,015,347
Payment for purchase of property, plant and equipment		(43,655)	(67,440)
Payment for purchase of Intangibles		(123,309)	(112,109)
Net cash from/(used) investing activities		**3,683,036**	**3,835,798**
Cash flow from financing activities			
Repayment of borrowings		-	-
Net cash used in finance activities		-	-
Increase/(Decrease) in Cash		3,362,630	(513,647)
Cash at the beginning of the financial year		3,835,271	4,348,918
Cash at the end of the financial year	32(b)	7,197,901	3,835,271

The notes on pages 22 to 51 are an integral part of these financial statements

1. Reporting entity

South West Credit Union Co-Operative Limited is a company domiciled in Australia. The address of the Credit Union's registered office is 117 Lava Street, Warrnambool, Victoria, 3280.

2. Basis of Preparation

(a) Statement of compliance

The financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

The financial statements were authorised for issue by the board of directors on 28th August, 2012.

(b) Basis of measurement

The financial statements have been prepared on an accrual basis, and are based on historical costs, which do not take into account changing money values or current values of non current assets.

(c) Functional and presentation currency

These financial statements are presented in AUD, which is the Credit Union's functional currency.

(d) Use of estimates and judgments

The preparation of financial statements in conformity with IFRSs 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 estimate is revised and in any future periods affected.

Information about significant area of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are described in note 5.

3. Significant accounting policies

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

(a) Interest

Interest income and expense are recognised in profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. When calculating the effective interest rate, the Credit Union estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

The calculation of the effective interest rate includes all transaction costs and fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability.

Interest income is recognised on a time proportion basis using the effective interest method.

Interest charged on members' loans is calculated on a daily basis and charged monthly to the members' loan accounts.

3. Significant accounting policies (continued)

(b) Fees and commission

Fees and commission income and expense 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 fees and commission income, including account servicing fees, investment management fees, sales commission, placement fees and syndication fees, are recognised as the related services are performed.

Loan fees and charges made on the establishment of loans are amortised over the estimated life of the loan using the effective interest rate method. This includes fees that are transaction costs which constitutes an integral part of originating the loan.

The estimated average life for loans has been calculated as:

• Personal loans	4	years
• Mortgage loans	7	years

Other fees and commission expense relate mainly to transaction and service fees, which are expensed as the services are received.

(c) Bad debts written off (direct reduction in loan balance)

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 provisions 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 income statement.

(d) Tax expense

Tax expense comprises current and deferred tax. Current tax and deferred tax are 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 the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities against current tax assets, and they relate to taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

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.

(e) Goods and Services Tax

As a financial institution the Credit Union is input taxed on all income except for income from commissions and some fee. An input taxed supply is not subject to GST collection, and similarly the GST paid on related or apportioned purchases cannot be recovered. As some income is charged GST, the GST on purchases are generally recovered on a proportionate basis. In addition, certain prescribed purchases are subject to reduced input tax credits (RITC), of which 75% of the GST paid is recoverable.

3. Significant accounting policies (continued)

Goods and Services Tax (continued)

Revenue, expenses and assets are recognised net of the amount of goods and services tax (GST). To the extent that the full amount of the GST incurred is not recoverable from the Australian Tax Office (ATO), the GST is recognised as part of the cost of acquisition of the asset or as a part of an item 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 current liability in the statement of financial position. Cash flows are included in the cash flow statement 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.

(f) Financial assets

(i) Recognition and initial measurement

Regular purchases of financial assets are recognised on the trade date - the date on which the Credit Union commits to purchase the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets that the Credit Union holds.

(ii) Classification

The Credit Union classifies its financial assets in the following categories: loans and receivables, held to maturity investments and available for sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and, in the case of assets classified as held to maturity, re-evaluates this designation at each reporting date.

(iii) Derecognition

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Credit Union has transferred substantially all the risks and rewards of ownership.

When securities classified as available for sale are sold, the accumulated fair value adjustments recognised in equity are included in the income statement as gains and losses from investment securities.

(iv) Amortised cost measurement

Loans and receivables and held to maturity investments are carried at amortised cost using the effective interest method.

(v) Fair value cost measurement

Available for sale financial assets are subsequently carried at fair value. Gains or losses arising from changes in the fair value of available for sale investments are recognised in equity reserve. The fair values of quoted investments in active markets are based on current market prices. Equity securities that are not traded in an active market are carried at cost when the range of reasonable fair value estimates is significant and the probabilities of the various estimates cannot be reasonably assessed.

(vi) Identification and measurement of impairment

The Credit Union assesses at each balance date whether there is objective evidence that a financial asset or group of financial assets is impaired.

In terms of loans and advances, bad debts are written off when identified. If a provision for impairment has been recognised in relation to a loan or advance, write-offs for bad debts are made against the provision. If no provision for impairment has previously been recognised, write-offs for bad debts are recognised in the income statement . The provision for impairment is based on specific identification of impaired loan or advance at balance date.

In the case available for sale equity instruments, a significant or prolonged decline in the fair value of a security below its cost is considered as an indicator that the securities are impaired. Impairment will also occur if there is other objective evidence of impairment including information about significant changes with an adverse effect that have taken place in the technological, market, economic or legal environment in which the issuer operates and indicate that the cost of the investment in the equity instrument may not be recovered.

3. Significant accounting policies (continued)

Financial assets (continued)

(vi) Identification and measurement of impairment (continued)

If any such evidence exists for available for sale financial assets, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss is removed from equity and recognised in the income statement.

(viii) Identification and measurement of impairment

Impairment losses recognised in the income statement on equity instruments classified as available for sale are not reversed through the income statement.

(g) Cash and cash equivalents

Cash and cash equivalents includes notes and coins on hand, unrestricted balances held with central banks and highly liquid financial assets with maturities of three months or less form the acquisition date that are subject to an insignificant risk of changes in their fair value, and are used by the Credit Union in the management of its short-term commitments.

Cash and cash equivalents are carried at amortised cost in the statement of financial position.

(h) Loans and advances

Loans and advances are non-derivative financial assets with fixed or determinable payments, other than investment securities, that are not held for trading.

Subsequent to initial recognition loans and advances are measured at amortised cost using the effective interest method, except when the Credit Union recognises the loans and advances at fair value through profit or loss.

(i) Impairment of assets

At each reporting date the Credit Union assesses whether there is any indication that individual assets are impaired. Where impairment indicators exist, recoverable amount is determined and impairment losses are recognised in the income statement where the asset's carrying value exceeds its recoverable amount. Recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purpose of 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. Where it is not possible to estimate recoverable amount for an individual asset, recoverable amount is determined for the cash-generating unit to which the asset belongs.

(j) Investment securities

Subsequent to initial recognition investment securities are accounted for depending on their classification as either amortised cost, fair value through profit or loss or fair value through other comprehensive income.

Investment securities are measured at amortised cost using the effective interest method, if:

- they are held within a business model with an objective to hold assets in order to collect
- contractual cash flows and the contractual terms of the financial asset give rise, on specified dates, to cash flows that are solely payments of principal and interest; and
- they have not been designated previously as measured at fair value through profit or loss.

The Credit Union elects to present changes in fair value of certain investments in equity instruments held for strategic purposes in other comprehensive income. The election is irrevocable and is made on an instrument- by-instrument basis at initial recognition.

Gains and losses on such equity instruments are never reclassified to profit or loss and non impairment is recognised in profit or loss. Cumulative gains and losses recognised in other comprehensive income are transferred to retained earnings on disposal of an investment.

Other investment securities are measured at fair value through profit or loss.

3. Significant accounting policies (continued)

(k) Property and equipment

(i) Recognition and measurement

Items of property and equipment are measured at cost less accumulated deprecation and accumulated impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self- constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located, and capitalised borrowing costs. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

Freehold land and buildings are shown at their fair value (being the amount for which an asset could be exchanged between knowledgeable willing parties in an arms length transaction), based on annual valuations by external independent valuers, less subsequent depreciation and impairment for buildings. Any accumulated depreciation at the date of valuation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset.

Increases in the carrying amounts arising on revaluation of land and buildings are credited, net of tax, to the asset revaluation reserve. To the extent that the increase reverses a decrease previously recognised in profit or loss, the increase is first recognised in profit or loss. Decreases that reverse previous increases of the same asset are first charged against revaluation reserves directly in equity to the extent of the remaining reserve attributable to the asset; all other decreases are charged to the income statement.

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

The gain or loss on disposal of an item of property and equipment is determined by comparing the proceeds from disposal with the carrying amount of the item of property and equipment, and is recognised in other income/other expenses in profit or loss.

(ii) Subsequent costs

The cost of replacing a component of an item of property or equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Credit Union and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property and equipment 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 lives of each part of an item of property and equipment since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Land is not depreciated.

The estimated useful lives for the current and comparative years are as follows:

• Freehold Buildings	40 years
• Computer Equipment	3 – 4 years
• Furniture and Equipment	7 – 10 years
• Motor Vehicles	5 years

Depreciation methods, useful lives and residual values are reassessed at each reporting date and adjusted if appropriate.

3. Significant accounting policies (continued)

(l) Intangible assets

Software license fees and other intangible assets acquired by the Credit Union are stated at cost less accumulated amortisation and accumulated impairment losses.

Subsequent expenditure on intangible assets are capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful life of the intangible asset, from the date that it is available for use since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. The estimated useful life of software is three to five years.

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

(m) Impairment of non-financial assets

The carrying amounts of Credit Union's non-financial assets, other than investment property and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. An impairment loss is recognised if the carrying amount of an asset or its Cash Generating Unit (CGU) exceeds its estimated recoverable amount.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. 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 or CGU.

For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGU.

Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU (group of CGUs) and then to reduce the carrying amount of the other assets in the CGU (group of CGUs) on a pro rata basis.

An impairment loss 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.

(n) Deposits

Deposits are the Credit Union's source of debt funding.

When the Credit Union sells a financial asset and simultaneously enters into an agreement to repurchase the asset (or a similar asset) at a fixed price on a future date, the arrangement is accounted for as a deposit, and the underlying asset continues to be recognised in the Credit Union's financial statements.

Subsequent to initial recognition deposits are measured at their amortised cost using the effective interest method.

(o) Provisions

A provision is recognised if, as a result of a past event, the Credit Union has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

3. Significant accounting policies (continued)

(p) Employee benefits

(i) Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an employee benefit expense in profit or loss in the periods during which services are rendered by employees. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available. Contributions to a defined contribution plan that are due more than 12 months after the end of the reporting period in which the employees render the service are discounted to their present value at the reporting date.

(ii) Other long-term employee benefits

The Credit Union's net obligation in respect of long-term employee benefits other than pension plans 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, and the fair value of any related assets is deducted. The discount rate is the yield at the reporting date on AA credit-rated bonds that have maturity dates approximating the terms of the Credit Union's obligations and that are denominated in the same currency in which the benefits are expected to be paid. The calculation is performed using the projected unit credit method. Any actuarial gains and losses are recognised in profit or loss in the period in which they arise.

(iii) Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans 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.

(q) Withdrawable shares

Shares issued to a person upon their becoming a member of the Credit Union are termed Withdrawable Shares and are disclosed as deposits in the financial statements. These withdrawable shares financial liability are initially recognised at their fair value and subsequently carried at amortised cost. As these are callable on demand their carrying amount equals their face value.

(r) Borrowings

Borrowings are recognised initially at fair value net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between proceeds net of transaction costs and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

3. Significant accounting policies (continued)

(s) New standards and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2012 reporting periods. The Credit Union's assessment of the impact of these new standards and interpretations is set out below.

AASB Reference	Nature of Change	Application date	Impact on Initial Application
AASB 9 Issued DEC 2009 Financial Instruments	Amends the requirements for classification and measurement of financial assets	Periods beginning on or after 1 January 2013	Due to the recent release of these amendments and that adoption is only mandatory for the 30 June 2014 year end, the entity has not yet made an assessment of the impact of these amendments.
AASB 7 Financial Instruments: Disclosures	Deletes various disclosures relating to credit risk, renegotiated loans and receivables and the fair value of collateral held	Periods commencing on or after January 2012	There will be no impact on initial adoption to amounts recognised in the financial statements as the amendments result in fewer disclosures
AASB 101 Presentation of Financial Accounts	A detailed reconciliation of each item of other comprehensive income may be included in the statement of changes in equity or in the notes to the financial statements.	Periods commencing on or after January 2012	There will be no impact on initial adoption of this amendment as a detailed reconciliation of each other comprehensive income has always been included in the statement of changes in equity
AASB 9 Financial Instruments (issued December 2009 and amended December 2010)	Amends the requirements for classification and measurement of financial assets. The following requirements have generally been carried forward unchanged from AASB 139 Financial Instruments: Recognition and Measurement into AASB 9. These include the requirements relating to: Classification and measurement of financial liabilities; and Derecognition requirements for financial assets and liabilities. However, AASB 9 requires that gains or losses on financial liabilities measured at fair value are recognised in profit or loss, except that the effects of changes in the liability's credit risk are recognised in other comprehensive income.	Periods beginning on or after 1 January 2015	Due to the recent release of these amendments and that adoption is only mandatory for the 31 December 2015 year end, the entity has not yet made an assessment of the impact of these amendments. The entity does not have any financial liabilities measured at fair value through profit or loss. There will therefore be no impact on the financial statements when these amendments to AASB 9 are first adopted.
AASB 2011-6 (issued November 2011)	Amendments to Australian Accounting Standards – Disclosures on Transfers of Financial Assets	Annual reporting periods commencing on or after 1 July 2012	Additional disclosures required for entities that transfer financial assets, including information about the nature of financial assets involved and the risks associated with them, As this is a disclosure standard only, there will be no impact on amounts recognised in the financial statements.
AASB 13 (issued September 2011) Fair Value Measurement	Currently, fair value measurement requirements are included in several Accounting Standards. AASB 13 establishes a single framework for measuring fair value of financial and non-financial items recognised at fair value in the statement of financial position or disclosed in the notes in the financial statements. Additional disclosures required for items measured at fair value in the statement of financial position, as well as items merely disclosed at fair value in the notes to the financial statements. Extensive additional disclosure requirements for items measured at fair value that are 'level 3' valuations in the fair value hierarchy that are not financial instruments, eg. land and buildings, investment properties etc.	Annual reporting periods commencing on or after 1 January 2013	When this standard is adopted for the first time for the year ended 31 December 2013, there will be no impact on the financial statements because the revised fair value measurement requirements apply prospectively from 1 January 2013. When this standard is adopted for the first time on 1 January 2013, additional disclosures will be required about fair values.

4. Financial risk management

(a) Introduction and overview

The Credit Union's activities expose it to a variety of financial risks: market risk (foreign exchange risk, interest rate risk, and other price risk), credit risk and liquidity risk.

The Credit Union's overall risk management programme focuses on ensuring compliance with the Credit Union's Product Disclosure Statement and seeks to maximise the returns derived for the level of risk to which the Credit Union is exposed. It also focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Credit Union.

Financial risk management is carried out by the Audit and Risk Committee under policies approved by the Board of Directors (the Board). The Board provides written principles for overall risk management, as well as policies covering specific areas, such as interest rate risk and credit risk, and investment of excess liquidity.

The Credit Union uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate, other price risks and analysis for credit risk.

(b) Market risk

(i) Foreign exchange risk

The Credit Union does not transact in any other foreign currency other than the Australian dollar. As such, it is not exposed to any risks arising from fluctuations in foreign currency exchange rates.

(ii) Interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The Credit Union takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks. Interest margins may increase or decrease as a result of such changes.

The table below summarises the Credit Union's exposure to interest rate risks categorised by the earlier of contractual repricing or maturity dates. Also refer to note 7.

As at 30 June 2012	0-3 months	4-12 month	1-5 year	Non Interest Bearing	Total
Financial assets					
Cash and cash equivalents	6,616,390	-	-	581,511	7,197,901
Loans and advances	65,452,835	378,771	240,760	-	66,072,366
Other receivables	-	-	-	138,142	138,142
Held-to-maturity investments	7,000,000	2,900,000	-	-	9,900,000
Available-for-sale investments	-	-	-	155,714	155,714
Total Financial assets	79,069,225	3,278,771	240,760	875,367	83,464,123
Financial liabilities					
Deposits	42,653,370	31,655,229	87,935	-	74,396,534
Other Payables	-	-	-	1,737,886	1,737,886
Total Financial liabilities	42,653,370	31,655,229	87,935	1,737,886	76,134,420
As at 30 June 2011					
Total Financial Assets	80,912,750	3,591,820	811,288	1,133,548	86,449,406
Total Financial Liabilities	56,233,170	18,747,926	3,379,933	1,371,732	79,732,761

4. Financial risk management (continued)

Market risk (continued)

The Board has limited the level of mismatch of interest rate repricing by maintaining the majority of the loans portfolio at variable rates, investments at short term fixed rates, savings accounts at variable rates and term deposits for fixed rate periods up to maximum of twelve months.

(iii) Price risk

The Credit Union is exposed to price risk to the extent of the available-for-sale investments. The Credit Union invests in equity instruments that are not tradeable in the market, and those investments are made to enable the Credit Union to carry out its operating activities rather than for short-term price gains. As such, exposure to price risk is not significant to the Credit Union.

(c) Credit risk

The Credit Union's maximum exposure to credit risk at balance date in relation to each class of recognised financial asset is the carrying amount of those assets as is indicated in the balance sheet. The Credit Union's strategies to minimise credit risk include the adoption of a risk assessment process for all members seeking finance, and obtaining mortgage insurance for members seeking finance outside of the Credit Union's normal lending policy.

All financial assets and financial liabilities are recorded at carrying amounts that approximate their fair value. All loans and advances are reviewed and graded according to the anticipated level of credit risk. The classification adopted is described below:

Non-Accrual Loans	loans and advances where the recovery of all interest and principal is considered to be reasonably doubtful, and hence provisions for impairment are recognised.
Restructured Loans	loans which arise when the borrower is granted a concession due to continuing difficulties in meeting the original terms, and the revised terms are not comparable to new facilities. Loans with revised terms are included in non-accrual loans when impairment provisions are required.
Assets acquired through enforcement of security	assets acquired in full or partial settlement of a loan or enforcement of security similar facility through the enforcement of security arrangements.
Past-due Loans	loans where payments of principal and/or interest are at least 90 days in arrears. Full recovery of both principal and interest is expected. If impairment is required, the loan is included in non-accrual loans.

4. Financial risk management (continued)

(d) Liquidity risk

Liquidity risk is the risk that the Credit Union is unable to meet its payment obligations associated with its financial liabilities when they fall due and to replace funds when they are withdrawn. The consequence may be the failure to meet obligations to repay depositors and fulfil commitments to lend.

The Credit Union's liquidity management process, as carried out within the Credit Union and monitored by the Audit and Risk Committee and management includes:

- Day-to-day funding, managed by monitoring future cash flows to ensure that requirements can be met. These include replenishment of funds as they mature or are borrowed by customers.
- Monitoring balance sheet liquidity ratios against internal and regulatory requirements; and
- Managing the concentration and profile of debt maturities.

Monitoring and reporting take the form of cash flow measurement and projections for the next day operationally, and monthly strategic forecasting for liquidity adequacy. The starting point for those projections is an analysis of the contractual maturity of the financial liabilities and the expected collection date of the financial assets.

The Credit Union also monitors unmatched medium-term assets, the level and type of undrawn lending commitments, the usage of overdraft facilities and the impact of contingent liabilities such as standby letters of credit and guarantees.

The Credit Union has an arrangement with the industry liquidity support Credit Union Financial Support Services (CUFSS) which can access industry funds to provide support to the Credit Union should it be necessary at short notice. Refer to disclosures in Note 34.

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 maintain a minimum 13% of funds as liquid assets to maintain adequate liquidity for meeting member withdrawal requests.

(e) Fair value measurement

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

The Credit Union only has available-for-sale equity investments measured at fair value. These are its holdings in unlisted shares in Cuscal Limited and Transactions Solutions Pty Ltd. Fair value as at the reporting date approximates the published price quotations.

Fair value hierarchy:

(i) quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1)

(ii) inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (level 2),and

(iii) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (level 3).

The following tables present the Credit Union's assets and liabilities measured and recognised at fair value at 30 June 2012. Comparative information has not been provided as permitted by the transitional provisions of the new rules.

4. Financial risk management (continued)

Fair value measurement (continued)

30-Jun-12	Level 1 $	Level 2 $	Level 3 $	Total $
Assets				
Available for sale financial assets	-	-	-	-
Equity securities	-	-	155,714	155,714
Total assets	-	-	155,714	155,714
Liabilities				
No liabilities at fair value	-	-	-	-
Total liabilities	-	-	-	-

The following table presents the changes in level 3 instruments for the year ended 30 June 2012:

	Investment in equity instruments classified as available-for-sale $	Total $
Opening balance	155,714	155,714
Additions	-	-
Losses recognised in other comprehensive income	-	-
Losses recognised in profit or loss	-	-
Closing balance	155,714	155,714
Total gains included in other income that relate to assets held at the end of the reporting period	Nil	Nil

5. Use of estimates and judgments

Management discusses with the Audit and Risk Committee the development, selection and disclosure of the Credit Union's critical accounting policies and their application, and assumptions made relating to major estimation uncertainties.

These disclosures supplement the commentary on financial risk management (see note 4).

5. Use of estimates and judgments (continued)

(i) Impairment losses on loans and advances

The Credit Union reviews its loan portfolios to assess impairment at least on a monthly basis. In determining whether an impairment loss should be recorded in the income statement, the Credit Union makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows of an individual loan.

This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers, or national or local economic conditions that correlate with defaults. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

(ii) Held-to-maturity investments

The Credit Union follows the guidance of AASB 139 on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. This classification requires significant judgment. In making this judgment, the Credit Union evaluates its intention and ability to hold such investments to maturity. If the Credit Union fails to keep these investments to maturity other than for specific circumstances – for example, selling an insignificant amount close to maturity – it will be required to reclassify the entire class as available-for-sale. The investments would therefore be measured at fair value not amortised cost. If the entire class of held-to-maturity investments is tainted, there would be no material impact to the income statement as the fair value of these investments which are predominantly interest bearing deposits would not be significantly different from the carrying value measured at amortised cost.

However, the tainting will impact on the classification from held-to-maturity to available-for-sale. Furthermore, the Credit Union will not be able to classify any financial assets as held-to-maturity for the following two annual reporting periods.

(iii) Impairment of available-for-sale financial assets
The Credit Union determines that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. The determination of what is significant or prolonged requires judgment. In making this judgment, the Credit Union evaluates among other factors the financial position of the entity invested in.

6. Segment reporting

The Credit Union operates predominantly in the finance industry within Victoria. The operations comprise of the acceptance of deposits and making loans to members.

7. Interest income and interest expense

	2012	2011
(a) Interest income and interest expense	$	$
Interest income		
Cash and cash equivalents	331,775	100,777
Loans and advances to customers	5,116,482	5,566,678
Investment securities	598,034	824,620
Total interest income	6,046,291	6,492,075
Interest expense		
Deposits from customers	2,713,529	2,960,290
Other	358	1,495
Total interest expense	2,713,887	2,961,785
Net interest income	3,332,404	3,530,290

7. Interest income and interest expense (continued)

(b) Analysis of interest income and interest expense

The following table shows the average balance for each of the major categories of interest-bearing assets and liabilities, the amount of interest revenue or expense and the average interest rate. Averages are based on monthly data and are believed to reflect approximately the average daily results achieved by the Credit Union.

	2012			2011		
	Average Balance	Interest	Average Interest Rate	Average Balance	Interest	Average Interest Rate
(a) Interest Revenue						
Investment Securities	9,075,000	598,034	6.5%	12,750,000	579,279	4.6%
Loans and Advances	67,282,714	5,116,482	7.6%	69,207,694	5,566,679	8.1%
Other	8,266,586	331,775	4.0%	6,342,094	346,117	5.5%
		6,046,291			6,492,075	
(b) Interest Expense						
Member Deposits and Commercial Borrowings	76,159,754	2,713,887	3.56%	80,938,014	2,961,785	3.7%
Net Interest Income		**3,332,404**			**3,530,290**	

	2012 $	2011 $
8. Impairment losses on loans and advance		
Decrease/(Increase) in provision for impairment	54,574	(12,489)
Bad debts written off directly against profit	8,127	664,225
	62,701	651,736
9. Non interest income		
Dividends	36,399	24,311
Fees and commissions		
- Loan fee income	49,651	54,617
- Insurance commissions	82,931	89,833
- Other fees and commissions	447,012	417,844
Bad debts recovered	6153	631
Other income	143,104	144,483
Gain on sale of assets	-	-
	765,250	731,719
10. Depreciation and amortisation expense		
Depreciation of plant and equipment	74,950	70,169
Depreciation of buildings	49,586	48,278
Amortisation of intangibles	73,712	93,022
	198,248	211,469
11. Personnel expenses		
Salaries and wages	1,313,214	1,317,618
Contributions to defined contribution plans	124,285	141,015
Increase/(decrease) in liability for annual leave	10,725	22,310
Increase in liability for long service leave	(1,757)	33,491
Payroll tax	47,841	47,535
Workers compensation insurance	5,504	8,370
Staff training	14,967	50,911
Other	56,530	45,431
	1,571,309	1,666,681

12. Information technology expense

	2012 $	2011 $
Computer and software maintenance expense	192,882	200,661
Other	173,090	121,906
	365,972	322,567

13. Office occupancy expense

	2012 $	2011 $
Rates and taxes	12,489	9,832
Cleaning	15,386	16,405
Maintenance	11,258	16,759
Rent	11,258	8,059
Other	9,986	8,014
	60,377	59,069

14. Other expenses

	2012 $	2011 $
Advertising and promotion	100,013	114,644
Loan and deposit administration costs	441,039	412,403
Professional costs	282,454	237,855
General administration costs	236,368	279,032
Other	170,504	197,806
	1,230,378	1,236,872

(a) Auditor's remuneration

	2012 $	2011 $
External audit fees	50,117	45,900
Other professional services	232,337	189,521
	282,454	235,421

15. Income tax expense

	2012 $	2011 $
Current tax expense	179,389	33,568
Deferred tax expense		
Current year	19,063	12,994
Adjustment for prior years	-	14,177
Total income tax expense in income statement	198,452	60,739
Numerical reconciliation between tax expense and pre-tax net profit		
Profit for the year	410,217	52,876
Total income tax expense	198,452	60,739
Profit excluding income tax	608,669	113,615
Income tax using rate of 30%	182,601	34,084
Tax effect of:		
- Investment allowance	-	-
- Depreciation of buildings	7,708	6,778
- Timing differences	19,063	12,994
- Imputation tax credits	4,680	3,125
	31,451	56,981
Less:		
- Rebatable amount of imputation credits	(15,600)	(10,419)
- Prior period tax adjustment	-	14,177
	198,452	60,739
Franking Credits held by the credit union after adjusting for franking credits that will arise from the payment of income tax payable as at the end of the financial year is:	2,858,475	2,823,599

Since the Credit Union rules prevent a dividend being declared these franking credits are not presently available to members. Franking credits represent reserves upon which income tax has been paid.

	Note	2012 $	2011 $
16. Cash and cash equivalents			
Cash on hand and at banks (including 11am Cash Management)		5,197,901	3,835,271
Other at call		2,000,000	-
		7,197,901	**3,835,271**
17. Trade and other receivables			
Interest Receivable		112,142	146,796
Other		26,000	68,565
		138,142	**215,361**
18. Other assets			
Prepayments		**64,791**	**63,517**
19. Financial assets			
Available for sale financial assets	19(a)	155,714	155,714
Held-to-maturity financial assets		9,900,000	13,750,000
		10,055,714	**13,905,714**
(a) Available for sale financial assets			
Unlisted Cuscal Limited Shares	19(a)(i)	142,306	142,306
TransAction Solutions	19(a)(ii)	13,408	13,408
		155,714	**155,714**

(i) Cuscal Limited shares

Shares were historically purchased in Credit Union Services Corporation (Australia) Limited ("Cuscal") to establish and maintain a central association of credit unions in Australia. The Credit Union received beneficial services from Cuscal as result of holding these shares, as Cuscal provides treasury, money market facilities and settlement services.

These shares are held at cost because shares in Cuscal cannot be traded and are refunded when the Credit Union leaves Cuscal and sells back the shares to Cuscal.

The fair value of these shares was $142,306 at the 30 June 2012 (2011 - $142,306). These shares are carried at cost in the 'Unlisted Shares' above.

(ii) TransAction Solutions Pty Ltd

At 30 June 2012 the Credit Union held 13,408 "E" class shares.

The deemed fair value at 30 June 2012 was $13,408 (2011-$13,408), which equated to their cost base. Transaction Solutions Pty Ltd is an unlisted public company. The Shares of the Company are not tradeable on an open market.

The company's primary function is to provide a secure and stable platform for the Ultradata Credit Union Solution and Ultracs retail banking software used by the Tas Managed Services user group, of which South- West Credit Union is a party.

19. Financial assets (continued)

(b) Held to maturity investments

	Note	2012 $	2011 $
Cuscal Limited		-	4,250,000
Other Fixed Term Investments		9,900,000	9,500,000
		9,900,000	**13,750,000**

The fair value of the above investments based on published price quotations approximates the recorded values as at reporting date.

None of the held-to-maturity investments are either past due or impaired. The current portion of the investments at reporting date is $9,9000,000 (2011: $13,750,000) and non-current portion is $ Nil (2011: $ Nil).

20. Loans and advances

(a) Loans by profile represented as follows:

	Note	2012 $	2011 $
Overdrafts		2,726,009	2,907,982
Term loans		63,346,357	65,380,258
Directors and related party loans	20(k)	-	204,820
		66,072,366	68,493,060
Less Provision for Impaired Loans	20(c)	(112,777)	(58,203)
Total Loans and Advances		**65,959,589**	**68,434,857**

(b) Loans by maturity represented as follows:

	2012 $	2011 $
Not longer than 3 months	105,063	119,753
Longer than 3 and not longer than 12 months	487,273	1,702,624
Longer than 1 but not longer than 5 years	5,212,380	6,663,998
Longer than 5 years	60,154,873	59,948,482
Total Loans and Advances	**65,959,589**	**68,434,857**

(c) The provision for impaired loans is comprised as follows:

	2012 $	2011 $
Specific Component	**112,777**	**58,203**
Movements in the provision for impairment of Loans are as follows:		
At 1 July	58,203	70,693
Transfer (to)/from general reserves	-	-
Movement in Deferred Tax Asset - Impaired Loans	16,372	(3,747)
	38,202	(8,743)
Net Increase/(write back) of Impaired Loans (net of tax)	**112,777**	**58,203**

	2012 $	2011 $

20. Loans and advances (continued)

(d) Impairment of loans

All Loans are reviewed and graded according to the anticipated level of credit risk. The classification adopted is described in Note 3.

	2012 $	2011 $
(e) Restructured loan balances	54,014	-

Restructured loans are loans where the borrower's original terms and conditions have changed so that the borrower is given a concession in meeting the original terms. The revised terms are not comparable to new or existing loan facilities. The concession is provided to borrowers with financial difficulties.

	2012 $	2011 $
(f) Assets acquired through security enforcement restricted loans	-	6,755
(g) Interest revenue received on non accrual and restructure	-	-
(h) Interest lost on non-accrual or restructured loans	4,928	-

(i) Past due but not impaired

As at 30 June 2012 loans and advances of $1,260,860 (2011: $751,953) were past due but not impaired.
Adequate security is held to cover recovery of the debt. The ageing analysis is as follows:

	2012 $	2011 $
Past due up to 90 days (fully secured)	1,228,185	725,513
Past due 14-365 days	32,675	26,440
Past due 365 and Over (fully secured)	-	-
	1,260,860	751,953

(j) Past due but not impaired

Within loans and advances, $64,605,809 (2011: $67,674,733) represent those that are neither past due nor impaired. Based on credit history of the counterparties to these loans and advances, it is expected that these amounts will be received when due.

(k) Past due but not impaired

Directors concerned with Director and Related Party loans during the 2012 financial year were:

Nil

The following Directors and/or their Related Party had in place overdraft facilities for $110,000 at balance date:

- Robert Lane
- Michael Beks

These facilities were partially drawn as at 30 June 2012.

	2012 $	2011 $
Repayments against loans to Directors and Related Parties	204,820	37,564

Loans and overdraft facilities to Directors are made on the same terms and conditions as are available to all members of the Credit Union.

The terms and conditions in respect to all loans to Directors were not breached during the year ended 30 June 2012.

	2012 $	2011 $
21. Current tax assets		
Income Tax Receivable/(Payable)	(77,845)	61,228
22. Deferred tax asset		
Deferred Tax Assets Comprise:		
Impairment of Loans	33,833	17,461
Other	82,139	79,449
	115,972	**96,910**
The deferred tax charge in the income statement comprises the following temporary differences:		
Provision for loan impairment	(16,372)	3,747
Other provisions	(2,690)	(16,741)
23. Property, plant and equipment		
(a) Property		
Land - Warrnambool (at valuation 30 June 2012)	830,000	825,000
Buildings (at valuation 30 June 2012)	1,020,000	1,160,000
Less Accumulated Depreciation	-	-
Fair value as at 30 June 2012	1,850,000	1,985,000

The valuation basis of land and buildings is fair value being the amounts for which the assets could be exchanged between willing parties in an arm's length transaction, based on current prices in an active market for similar properties in the same location and condition. The 2012 revaluations were made by the Western District Valuation Services as at 30 June 2012. The revaluation surplus net of applicable deferred income taxes was credited to asset revaluation reserves in note 30.

If land and buildings were stated on the historical cost basis, the amounts would be as follows:

	2012	2011
Freehold land – Cost	188,000	188,000
Buildings – Cost	831,552	831,552
Total cost of Land and Buildings	1,019,552	1,019,552
Revaluation attributable to Land and Buildings	830,448	965,448
Fair value at 30 June 2012	**1,850,000**	**1,985,000**

23. Property, plant and equipment (continued)

(b) Plant and equipment

	2012 $	2011 $
Office Equipment (at cost)	254,008	236,799
Less Accumulated Depreciation	(182,076)	(160,397)
	71,932	**76,402**
Furniture & Fittings (at cost)	192,987	186,396
Less Accumulated Depreciation	(141,221)	(124,477)
	51,766	**61,919**
Motor Vehicles (at cost)	34,572	34,572
Less Accumulated Depreciation	(29,386)	(22,472)
	5,186	**12,100**
Computer Equipment (at cost)	403,111	383,256
Less Accumulated Depreciation	(359,420)	(329,804)
	43,691	**53,452**
Property (Land and Buildings) note 23(a)	**1,850,000**	**1,985,000**
Total Property, Plant and Equipment	**2,022,575**	**2,188,873**

(c) Depreciation

	2012 $	2011 $
Depreciation of Furniture and Fittings	16,744	15,941
Depreciation of Buildings	49,586	48,278
Depreciation of Office Equipment	21,679	18,849
Depreciation of Computer Equipment	29,616	28,465
Depreciation of Motor Vehicles	6,914	6,914
	124,539	118,447

(d) Movement in the assets balances during the year were:

	2012				2011			
	Property	Plant & Equipment	Land	Total	Property	Plant & Equipment	Land	Total
	$	$	$	$	$	$	$	$
Opening balance	1,160,000	203,873	825,000	2,188,873	1,160,000	206,603	825,000	2,191,603
Purchases	-	43,652	-	43,652	-	67,439	-	67,439
Less:								
Assets disposed	-	-	-	-	-	-	-	-
Depreciation charge	(49,586)	(74,950)	-	(124,536)	(48,278)	(70,169)	-	(118,447)
Revaluation	(90,414)	-	5,000	(85,414)	48,278	-	-	48,278
Balance at the end of the year	**1,020,000**	**172,575**	**830,000**	**2,022,575**	**1,160,000**	**203,873**	**825,000**	**2,188,873**

24. Intangible assets

	2012 $	2011 $
Software Licence Fee	27,364	27,364
Less Accumulated Amortisation	(17,044)	(27,364)
	10,320	**-**
Other Intangible Assets	451,602	328,293
Less Accumulated Amortisation	(278,819)	(194,787)
	172,783	**133,506**
	183,103	**133,506**

The software licence relates to an agreement with Ultradata Australia Pty Ltd for the provision of a software licence and maintenance agreement.

(a) Moment in the asset balances during the year were:

	2012	2011
Opening balance	133,506	114,419
Purchases	123,309	112,109
Less:		
Amortisation charge	(73,712)	(93,022)
Balance at the end of the year	**183,103**	**133,506**

25. Deposits

	2012 $	2011 $
Call deposits (including withdrawable member shares)	36,069,451	33,919,370
Term deposits	38,327,083	44,499,359
	74,396,534	**78,418,729**

The fair value of the above deposits approximates the recorded amounts as at the reporting dates.

Maturity Analysis:

	2012 $	2011 $
At call	42,653,370	33,919,368
Not longer than 3 months	13,657,441	8,587,181
Longer than 3 and not longer than 12 months	17,997,788	31,106,633
Longer than 1 but not longer than 5 years	87,935	4,805,547
	74,396,534	**78,418,729**

26. Trade and other payables

	2012 $	2011 $
Trade Creditors	581,056	139,257
Accrued Interest Payable	768,479	840,738
Employee Entitlements - Annual Leave	147,212	136,487
Other Creditors	241,139	197,550
	1,737,886	**1,314,032**

27. Provisions

	2012 $	2011 $
(a) Employee Entitlements (long service leave)	**126,585**	**128,342**
Movement in the Provision Long Service Leave balances during the year were:		
Balance at the beginning of year	128,342	93,156
Add / (Deduct)		
Transfers from (to) income statement	(1,757)	35,186
Balance at the end of the year	**126,585**	**128,342**

	2012 $	2011 $
27. Provisions (continued)		
(b) Number of Employees at year end (full and part-time)	27	29
Staff Movement		
Staff beginning of the Year	29	26
New Staff	4	**7**
Departures	6	4
Staff end of the Year	27	29

28. Deferred tax liability

	2012 $	2011 $
Non Current		
Deferred tax liability - Revaluation Adjustments	170,696	196,320

29. Standby borrowing facilities

Approved standby and overdraft facilities

The Credit Union also had an approved overdraft facility at 30 June 2012 of $500,000 (2011: $500,000) which is secured by way of a first ranking floating charge over the assets and undertakings of South-West Credit. The amount utilised at 30 June 2012 was $Nil (2011: $Nil).

In addition the Credit Union has an additional uncommitted wholesale loan facility of $5,000,000 (2011:$5,000,000).
The amount utilised at 30 June 2012 was $Nil (2011: $Nil).

30. Asset revaluation reserve

	2012 $	2011 $
Balance at 1 July	1,100,082	1,066,287
Add/(Less): Movement for year		
Revaluation of Property at 30 June	(85,414)	48,278
Deferred Tax Liability impact of revaluation	25,624	(14,483)
Balance at 30 June	**1,040,292**	**1,100,082**

31. General reserve for credit losses

	2012 $	2011 $
Balance at 1 July	341,889	349,612
Add/(Less): Movement for year		
Transfer to Provision for Impaired Loans	-	-
Transfer from/(to) retained earnings	(11,617)	(7,723)
Balance at 30 June	**330,272**	**341,889**

32. Notes to and forming part of the Statement of Cash Flows

(a) The net cash provided by operating activities is reconciled to the net profit after tax

	2012 $	2011 $
Net profit after tax	410,217	52,876
(Profit)/loss on sale of financial assets	-	-
Depreciation	124,539	118,447
Amortisation	73,712	93,022
Bad debts written off	62,701	664,225
Loss/(profit) on sale of fixed assets	-	-
Changes in assets and liabilities		
Decrease/(increase) in trade and other receivables	77,219	8,367
(Increase)/decrease in other assets	(1,274)	(4,480)
Decrease/(increase) in loans and advances	2,357,993	707,423
(Increase)/decrease in deferred tax assets	(19,062)	(12,994)
(Increase)/decrease in income tax receivable	139,073	(54,130)
(Decrease)/increase in deposits	(4,022,195)	(6,129,865)
Increase/(decrease) in trade and other payables	413,129	164,353
(Decrease)/increase in provision for doubtful debts	54,574	(12,490)
Increase/(decrease) in provisions	8,968	55,801
Cash flows provided by operating activities	**(320,406)**	**4,349,445**

(b) Reconciliation of cash

Cash includes cash on hand, and deposits at call with financial institutions.

	2012 $	2011 $
Cash as at balance date comprises:		
Cash on hand and at bank	7,197,901	3,835,271

(c) Cash flows presented on a net basis

Cash flows arising from loan advances, loan repayments, member deposits, member withdrawals and from sale and purchases of maturing certificates of deposits have been presented on a net basis in the Statement of Cash Flows.

33. Commitments to expenditure

	2012 $	2011 $
Loans to members approved but not advanced as at 30 June	2,535,630	1,239,494

34. Economic Interdependency

The Credit Union has entered into contracts with the following service providers:

Cuscal Limited

Service is provided by way of production and management of customer services including settlements with banks for member chequing, Redicard, Visa Debit, automatic teller machine, internet banking and EFTPOS transactions. Deposit taking facilities are also provided.

First Data International Limited

Service is provided by way of operating the interface system used to link domestic ATM's, customers' Redicards, Visa debit and the Credit Union's EDP System. This service will be provided by Cuscal Limited from October 2012 onwards.

TransAction Solutions Pty LTD

This entity is an EDP service bureau which also provides managed desk top services to the Credit Union.

Ultradata Australia Pty Ltd

Maintenance Agreement with Ultradata Australia Pty Ltd for the provision and maintenance of software was extended for a further five years until 2016, with the option to extend for a further term, subject to specific criteria.

35. Related party transactions

Directors Remuneration

As approved at the 2011 Annual General Meeting on 16 November 2011, $8,250 (previously $8,250) per annum was provided for each Director. An additional allowance of $8,250 (previously $8,250) for the Chairperson and $3,600 (previously $3,600) for the Vice-Chairperson was also provided. A $3,600 allowance (previously $3,600) to the Audit and Risk Committee Chair was also approved. Total directors remuneration was set at $73,200 plus superannuation guarantee where applicable.

In accordance with Commonwealth requirements for payment of SGC, an amount of $6,588 (2011: $6,519) was paid in superannuation on behalf of all Directors.

Key Management Personnel

Total remuneration including gross wages and superannuation contributions paid to Key Management
Personnel was $154,046 (2011: $169,063).

Transactions with Other Related Parties

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

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

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

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

36. Concentration of assets and liabilities

At the 30 June 2012 the Credit Union was not holding any individual or group deposits which accounted for more than 10% of its total liabilities or any individual or group loans except for one loan (exposure at 10.9%) which exceeded 10% of Members' Funds, as per Prudential requirements. It is noted, however, that the internally ratified policy of the Credit Union is for exposure to any individual or group to not exceed 5% of Members' Funds.

37. Contingent Liabilities

In the normal course of business the Credit Union enters into various types of contracts that give rise to contingent or future obligations. These contracts generally relate to the financing needs of customers. The Credit Union uses similar credit policies and assessment criteria in making commitments and conditional obligations for off-balance sheet risks as it does for on-balance sheet loan assets. The Credit Union holds collateral supporting these commitments where it is deemed necessary.

Guarantees

Letters of credit and financial guarantees written are conditional commitments issued by the Credit Union to guarantee the performance of a customer to a third Party.

Guarantees to the benefit of:	2012	2011
	$	$
- Members	70,000	100,650

Guarantees are provided by the Credit Union to CUSCAL on behalf of members to support payroll transfers.

38. Credit commitments

Liquidity support scheme

Credit Union Financial Support System Ltd (CUFSS)

The Credit Union is a member of the Credit Union Financial Support Scheme (CUFSS), a Credit Union established to provide financial support to member credit unions in the event of liquidity or capital shortfalls. Under CUFSS the Credit Union:

(a) is a member of Credit Union Financial Support System Limited (CUFSSL), a Credit Union limited by guarantee, the Credit Union's guarantee being $100;

(b) may as a member of CUFSSL and a party to CUFSS be required to advance funds up to 3% (excluding permanent loans) of total assets to another Credit Union requiring advance permanent loans of up to 0.2% of total gross assets per financial year to another credit union requiring financial support.

At the balance date there were no loans issued under this arrangement.

39. Contingent asset

The Credit Union insurance claim with their insurer in relation to events which occurred during the 2011 year has not been resolved at the 2012 year end.

40. Events subsequent to reporting date

Directors are not aware of any matter or circumstance since the end of the financial year which has significantly affected or may significantly affect the operations of the Credit Union.

41. Capital management

The Credit Union's objectives when managing capital, which is a broader concept than the 'equity' on the face of balance sheets, are:

- To comply with the capital requirements set by Australian Prudential Regulation Authority (APRA);
- To safeguard the Credit Union's ability to continue as a going concern so that it can continue to provide returns for members and benefits for other stakeholders; and
- To maintain a strong capital base to support the development of its business.

Capital adequacy and the use of regulatory capital are monitored daily by the Credit Union's management. The Credit Union's regulatory capital is divided into two tiers:

- Tier 1 capital: retained earnings and reserves created by appropriations of retained earnings.
- Tier 2 capital: reserve for credit losses and asset revaluation reserves

	2012 $	2011 $
Tier 1	7,857,675	7,435,843
General Reserve and Retained earnings	(254,468)	(205,163)
APRA Tier 1 adjustments		
Net Tier 1 Capital	**7,603,207**	**7,230,680**
Tier 2		
Reserve for Credit Losses	330,272	341,889
Asset Revaluation Reserve	1,040,292	1,100,082
APRA Tier 2 adjustments	(643,526)	(676,703)
Net Tier 2 Capital	**727,038**	**765,268**
Total Capital	**8,330,245**	**7,995,948**

Total risk weighted assets

The risk weighted exposures based on APRA prescriptions amounts to $43.1 million. The Capital adequacy ratio on total capital base is 19.3% (2011: 18.0%). The Tier 1 ratio stands at 17.7% (2011: 16.3%).

Directors' Declaration

In accordance with a resolution of the Directors of South West Credit Union Co-Operative Limited we declare that:

In the opinion of the Directors:

1. The financial statements and notes of the Credit Union are in accordance with the Corporations Act 2001, including:
   a. giving a true and fair view of the profit of the Credit Union's financial position as at 30th June, 2012 and of its performance for the year ended on that date; and

   b. complying with Accounting Standards and Corporations Regulations; and

2. There are reasonable grounds to believe that the Credit Union will be able to pay its' debts as and when they fall due.

Signed at Warrnambool this 28th day of August 2012.

Director:	Director:
Robert Lane Chairperson	Gary Parsons Vice Chairperson

SINCLAIR Wilson
ACCOUNTANTS & BUSINESS ADVISORS

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SOUTH-WEST CREDIT UNION CO-OPERATIVE LIMITED
ABN: 44 087 651 705

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF SOUTH-WEST CREDIT UNION CO-OPERATIVE LIMITED

Report on the Financial Report

We have audited the accompanying financial report of South-West Credit Union Co-Operative Limited, which comprises the balance sheet as at 30 June 2012, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, notes comprising a summary of significant accounting policies and other explanatory notes, and the directors' declaration.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. And for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error. In Note 2, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with compliance with *International Financial Reporting Standards*.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of South- West Credit Union Co-Operative Limited, would be in the same terms if provided to the directors as at the date of this auditor's report

Auditor's Opinion

In our opinion

a. the financial report of South-West Credit Union Co-Operative Limited is in accordance with the *Corporations Act 2001*, including:

   i. giving a true and fair view of the company's financial position as at 30 June 2012 and of its performance for the year ended on that date; and

   ii. complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*.

b. The financial report also complies with the International Financial Reporting Standards as disclosed in note 2.

John Bouwman
Partner
Sinclair Wilson

29th August 2012

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SouthWest Credit

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