SouthWest Credit

ANNUAL REPORT 2016

South West Credit is Warrnambool's own financial institution, and the only one that is truly local. It has been proudly serving its members for over 50 years.

South West Credit was formed in 1964 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. It is a place where you matter. 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. 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, accounting, human resources, administration and community representation.

Chair

Gary Parsons

Vice Chair

Robert Lane

Directors

Michael Beks | John Harris | Jenny Waterhouse | Lex McDowell | Matt Northeast

Chief Executive Officer

David Brown

Registered Office

117 Lava Street, Warrnambool, Victoria, 3280
Telephone 03 5560 3900
Facsimile 03 5562 8195
AFSL / Australian Credit Licence Number 241 258
ABN 44 087 651 705

Auditors

Crowe Horwath Melbourne

Chair's Report

Chair: Gary Parsons

It is with pleasure that I provide my report to members of South West Credit reflecting on a challenging year in a very changing and highly competitive environment.

The Financial Overview

The financial year ended with a profit after tax of $216,390. This was 4% lower than budget in spite of an increase in loan funding and higher yield on loan products and asset growth. Capital adequacy and Liquidity ratios have remained strong and well above the prescribed regulatory requirements for financial institutions.

Throughout the year there were a number of interest rate cuts, which have impacted on income, placing pressure on our ability to manage a positive interest margin and the ever challenging cost pressures to the business. A big thankyou to our finance team who have provided the board with financial projections and updates.

Board and Management have endeavoured to ensure that strategic and proactive financial planning delivers a strong financial platform for positive long term growth and viability for all members to enjoy. It is extremely pleasing to have a Board and capable Management team who work so well together for the benefit of our members.

While the year has been challenging I am very pleased to report a very positive result from our lending team with loan approvals reaching $38.6 million for the year. This is an increase of $14.6 million on budget. The low interest rate environment has certainly impacted on the bottom line and as mentioned previously these testing times have challenged us all.

A full financial report is covered in greater detail in the Director's Report and Financial Statements in the following pages.

Growing Our People & Culture

Highly skilled and motivated people, along with a strong culture build a positive working environment. The strength of any organisation is its people and the leadership of a dynamic management team.

Our people have been amazing. They have embraced a changing culture throughout the business. They have developed new products and delivered high quality services to our members in a very professional manner. Staff have also initiated and been actively involved in many events and activities that have gained special acknowledgement and appreciation from many sectors of the local community.

The Alan O'Connor Memorial Award

Recognising outstanding performance through our quarterly Alan O'Connor Memorial Award acknowledges an employee who most consistently demonstrates the values of the organisation.

Those values include:
- We put our members' interests at the forefront of everything we do
- We work co-operatively with others
- We deal with issues objectively and honestly
- We look for opportunities to improve and take the initiative to get things done
- We take reasonable and well-calculated risks

Congratulations to this year's quarterly winners, Julia O'Neil, Sherry Zhang, Robyn Brooks and Jessie McConnell.
The annual recipient of this prestigious award will be announced during the Annual General Meeting.
On behalf of the members and board a big thank you to all employees who continue to strive to deliver the best possible customer experience that can be offered.

Our Leadership Team

It has been a pleasure working with our executive team led by Chief Executive Officer David Brown, Chief Financial Officer Ravi Ganeshalingam and Branch Manager Helen Boyd who have been well assisted by all divisional team leaders.

Our executive team has repeatedly delivered exceptional information to Directors during board and sub–committee meetings. This has enabled clear deliberations and sound financial decisions to be made at the board table and we are very fortunate to have such a capable, committed and enthusiastic team.

Board at Work

It has been a pleasure to be a part of such a hard working team of Directors who put member's interests at the forefront of all decisions. With three relatively new Directors on the board, the skills they have brought with them have delivered a fresh and vibrant approach to the way we discuss and develop strategies. This helps to ensure the business remains a relevant and secure long term financial institution for members.

Regulators demand that boards continually demonstrate an emphasis on risk management, delivering best practice in governance and focus on tested strategic planning. The role of the board in an ever changing regulatory environment has been a challenge to deliver and I am proud to say that I have personally witnessed each Director continually striving to meet and exceed all expectations placed on the role.

Apart from preparation and participation in monthly Board meetings Directors are actively engaged in our sub-committee structure and annual Director Planning Day. They are also regularly representing the organisation at local community events.

The board is actively engaged in industry initiatives and ongoing training through attendance at conferences and industry forums. This ensures each Director is suitably skilled and informed to represent our members. Directors are also engaging with the Australian Institute of Company Director (AICD) course to further their skills and Director duties.

Moving Forward

We cannot overstate the very important role South West Credit plays in our local community as an alternative financial services provider. We are also an important employer and supporter of the local business sector and supporter of many community organisations.

South West Credit has been very active in developing long term strategic plans and goals that address the challenges that we will face going forward. We are no stranger to addressing industry challenges, and the future looks certain to once again challenge and test us.

The Credit Union industry and the nature of a changing financial sector means we will remain vigilant and open to new opportunities that will ensure future sustainability for South West Credit and its' members.

As a member you can be assured that your Credit Union is committed to providing you with innovative financial services. South West Credit is a proudly local financial institution and I would like to express my gratitude to our many members who have remained loyal and contributed to building and maintaining a business that puts members before profit.

Gary Parsons

Chair of the Board of Directors

In 2015/16 SouthWest: Credit

925,000
CARD TRANSACTIONS

Opened
809
New Accounts

$44.8 MILLION
in term deposits

CARD TRANSACTIONS INCREASED BY **9%**

Grants & Donations to the Community

$63,484

For the Year

Averaged **486** Over-the-Counter Transactions Per Day

Approved

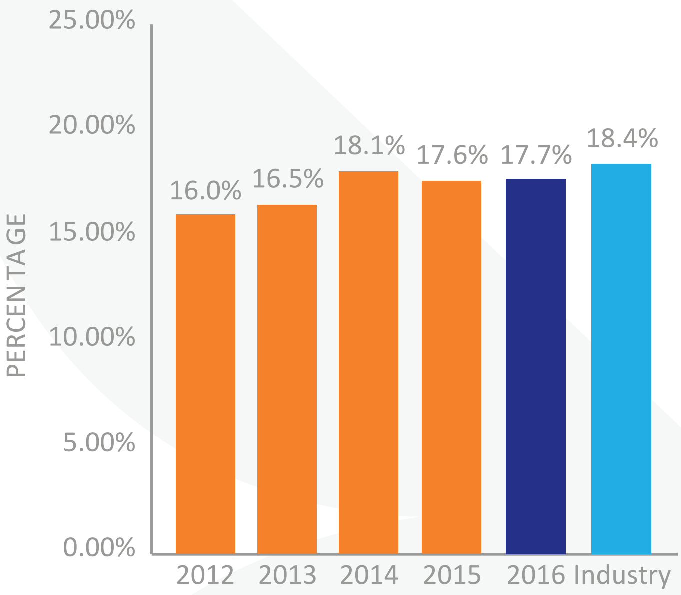
$38.6 Million

in Loan Applications for 2015/2016

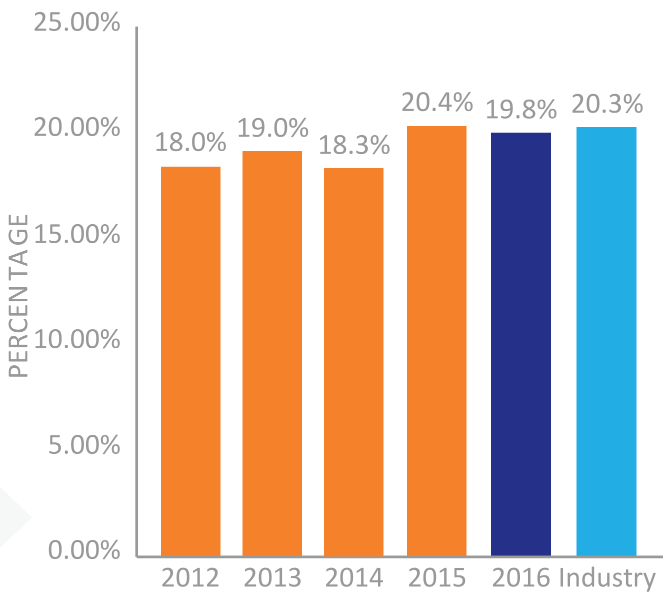
1% INCREASE IN ELECTRONIC TRANSACTIONS

Performance Reporting

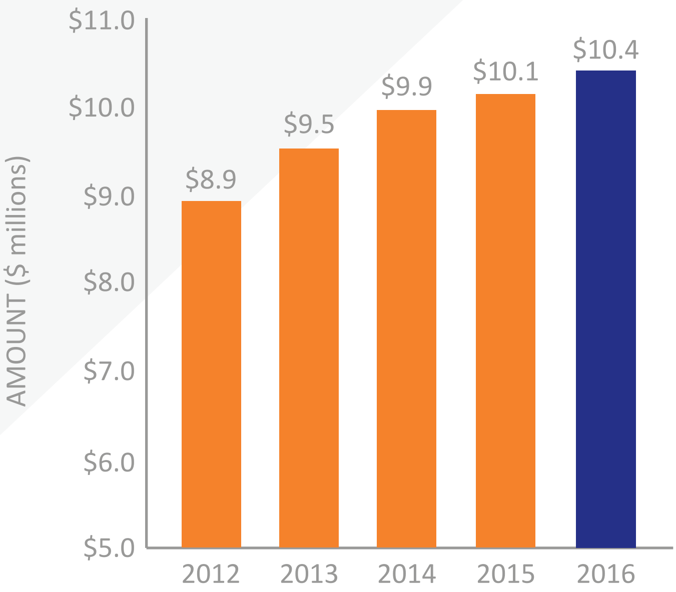
Liquidity – Ratio



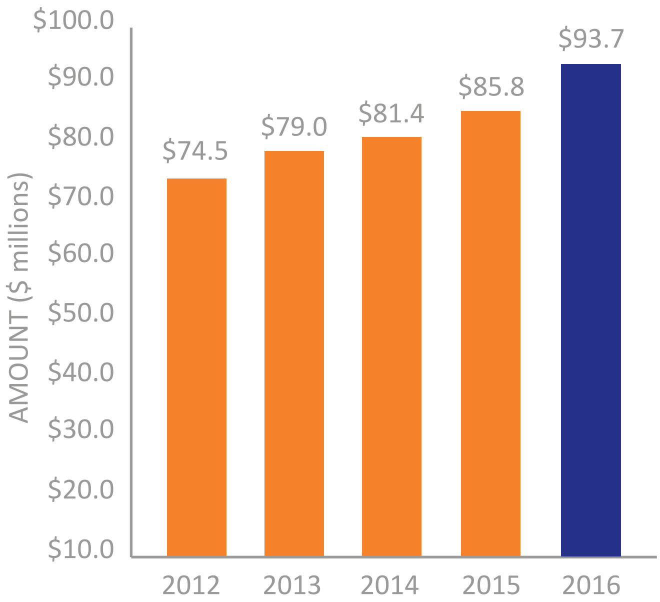
Capital Adequacy Ratio



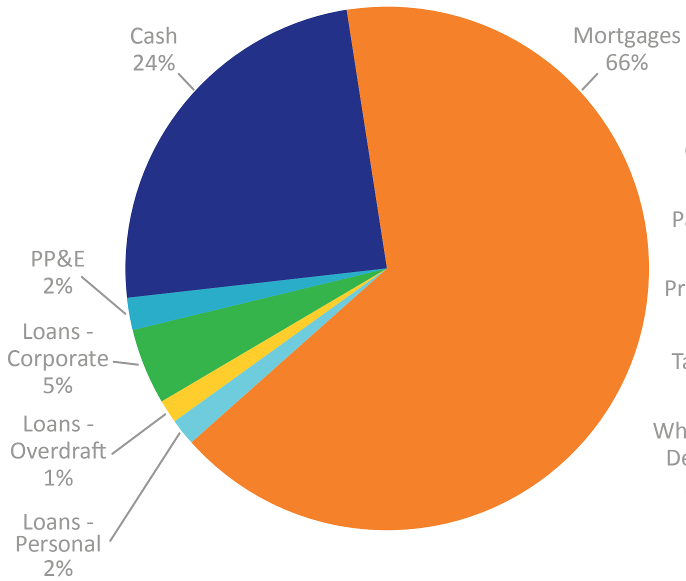
Net Assets / Net Worth



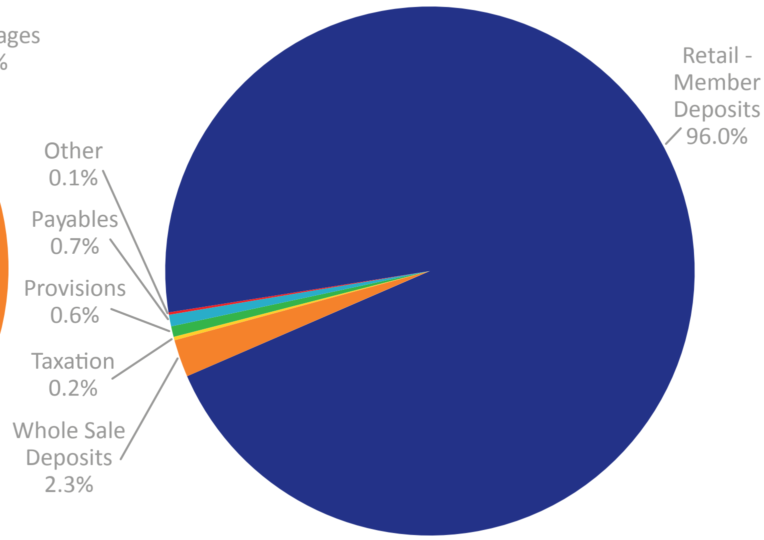
Total Deposits Trend Over 5 Years



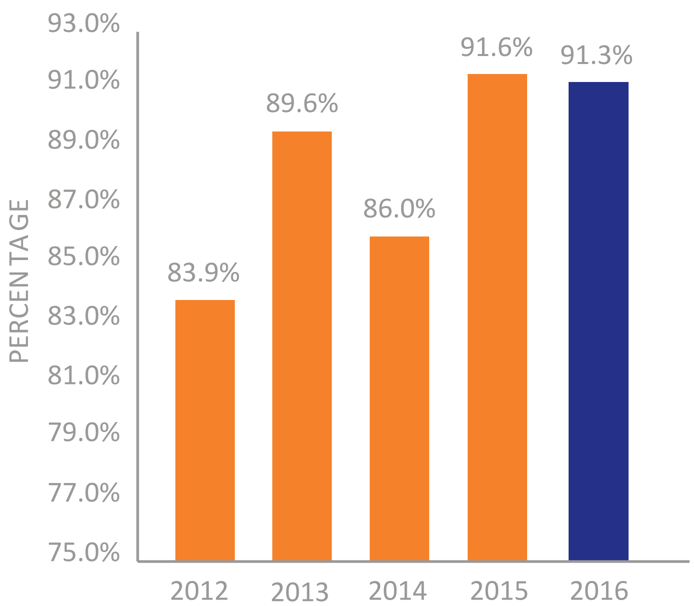
Composition of Assets
(as at June 16)



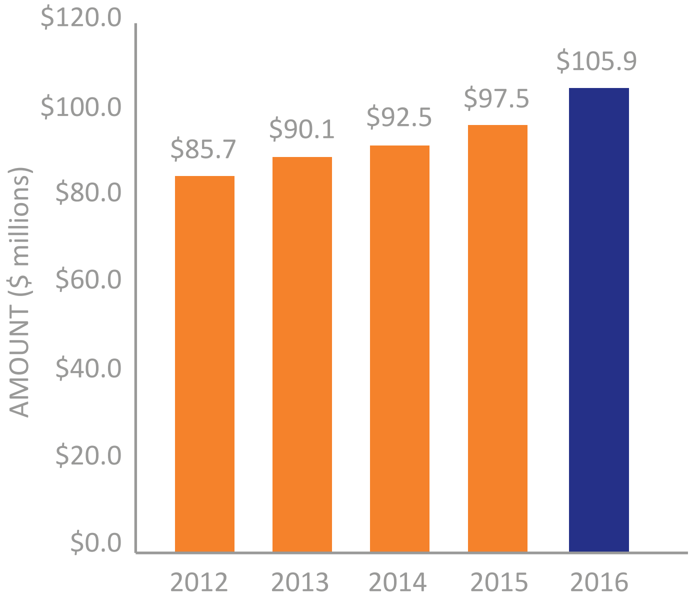
Composition of Liabilities
(as at June 16)



Expenses to Income



Total Assets



Highlights & Achievements

People & Culture

Developing our people and our culture continues to be a major focus at South West Credit.

Throughout the past 12 months we have continued to invest in our culture program which has seen the organisation and our people flourish. Our team of 24 staff operate in a positive workplace culture that is committed to its members and its core values.

The following core values guide our everyday decision making and interactions with each other:

- We put the membership's interest at the forefront of everything we do;
- We work co-operatively with others;
- We deal with issues objectively and honestly;
- We look for opportunities to be pro-active and get things done;
- We take reasonable and well calculated risks.

South West Credits commitment to developing its culture has been recognised, having recently received the highly regarded 'Culture Transformation Award' at the Human Synergistics 2016 Culture Awards. This national award recognises organisations which have developed a constructive culture and workplace. South West Credit started working with Human Synergistics in 2010 and our commitment to the program over the past 6 years has seen a positive transformation in how the business and our people operate.

We are extremely proud of our staff and their commitment to the organisation and its future. Throughout the year our staff have undergone significant training to up-skill and develop themselves, to meet the organisational needs well into the future.

Members may have noticed some role changes within the organisation over the past twelve months. We operate in an ever-changing industry and need to continually grow and adapt to the evolving needs of our customers. The changes made ensure we can sustainably serve our membership today, as well as into the future.

Investment in Technology

Throughout the year South West Credit have invested heavily in technology to ensure our products and services meet the ever-changing needs of our members and regulators.

One of the most significant investments we made was our Banking App which was launched to members in January. Our state of the art Banking App gives secure, 24/7 banking on the go from a range of different devices.

Module updates have provided system compatibility with both Banklink and Xero accounting software systems.

Behind the scenes we have carried out significant upgrades to our banking system which streamlines processing, particularly in the lending department.
Upgrades were also made to ensure the security of our banking platform is of the highest standard. Upgrades to fraud monitoring and card monitoring have also taken place.

Technology within the banking sector has developed significantly in the past 12 months and we are excited to see what the next 12 months will bring.

Alan O'Connor Memorial Award

The Alan O'Connor Memorial Award is an acknowledgement for outstanding performance by a staff member.

The Alan O'Connor Award is awarded to the staff member who most consistently demonstrates South West Credit values.

Congratulations to Patreena Kelly, the recipient of this prestigious award in 2015.

The winner for 2016 will be announced at the AGM.

Marketing

It has been a huge year in Marketing at South West Credit with significant growth achieved in a number of areas including QBE Insurance, Financial Planning and the most significant growth in our home lending. These results show an increase in brand awareness by the larger community and confirm that we are achieving our strategic marketing plan.

There were many new products and services introduced throughout the year, including our low rate car loan, responsive online application forms and our much anticipated Banking App. Our Banking App has been well received by our members offering improved service and the convenience of banking anywhere at anytime.

A number of initiatives have been launched the past year with great success, including our First Home Buyer Information Night which had fantastic attendance levels. Our Freedom Home Loan campaigns delivered great results and a much bigger reach into the market place then we had ever seen.

Our School Banking program continues to be a key focus, with our Active Saver Program launched at 2 new primary schools throughout the year. Our involvement with the Healthy Moves Program continues to be a great relationship and our partnership with the Warrnambool and District Network of Schools was a great fit, also building our brand awareness in younger generations.

Our social media presence grew significantly with our Facebook following doubling during 2015/16. We plan to expand our presence onto other platforms throughout this coming year.

We have continued to develop our relationships with similar community organisations to offer them specialised Workplace Packages for their staff. We are proud to be able to work with similar organisations and support our local community in this way.

We continued to be strongly involved in the local community, providing support to local clubs, schools and sporting organisations. As a community credit union, we strive to help our community and promote the benefits of banking with South West Credit. Major sponsorships for the year were the Healthy Moves Program, Warrnambool & District Umpires Association, the Warrnambool & District Network of Schools and the South West Regional Cancer Centre.

Home Loan Growth

South West Credit achieved $38.6M in lending approvals for 2015/16, which is the largest volume achieved in our 50 year history. Loan growth increased by 12%.

What makes this growth even more significant is how tough and competitive the market place has been over the past twelve months. This means South West Credit is finally being seen as a key player in the home loan market.

A number of factors have contributed to driving this success, including our competitive suite of home loan products, an effective marketing strategy, our highly competitive pricing and a skilled team that consistently follows through the whole lending process.

Our local lending centre is well equipped to challenge any of our larger national competitors and we look forward to seeing what the South West Credit Lending Centre can achieve in 2016/17.

Directors' Report

Your Directors present their report for the year ended 30th June, 2016.

Directors

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

Gary Parsons [Chair]

Retired Marketing and Business Managing Director RPM Agency. Retired Program Coordinator for Standing Tall in Warrnambool and Life Member Warrnambool Greyhound Racing Club. Member of the Governance, Marketing, Nomination, Remuneration and Community @ Heart Committees. Board member since 1994.

Robert Lane [Vice-Chair]

Business Consultant and Certified Practicing Accountant. Director of SED Partners Pty Ltd, and Retired Director of GenR8. Member of Marketing Committee, Chair of Governance, Nomination, Remuneration and the Risk and Compliance Committees. Board member since 2005.

Michael Beks

Chartered Accountant. Chair of Audit Committee and member of the Risk and Compliance Committee. Board member since 1998.

John Harris

Manager Treatment Operations at Wannon Water. Member of Community @ Heart, Audit and the Risk and Compliance Committees. Board member since 2002.

Jenny Waterhouse

Chartered Accountant. Member of Audit committee and Chair of Marketing committee. Board member since 2013.

Lex McDowell

Certified Practicing Accountant. Member of Audit, Governance, Nomination and Remuneration committees. Board member since 2015.

Matt Northeast

Director & Licensed Estate Agent. Member of the Marketing Committee. Board member since 2015.

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

Directors' Report - Continued

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 fourteen years, and prior to this worked with a large banking organisation for over 31 years.

Director Benefits

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 by Directors shown in these financial statements] by reason of:

- A contract made with a related corporation;
- A firm which they are member;
- A body corporate in which they have a substantial financial interest.

Consultancy fees paid to SED Partners Pty Ltd totaling $10,385. Mr Robert Lane, Director of the Credit Union is a Principal and Director of SED Partners Pty Ltd. The consulting fees were billed to the Credit Union at commercial rates.

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 through the year.

REVIEW OF OPERATIONS

Operating Results

The 2016 financial year ended with a profit after taxation of $216,390, (2015 $236,579). This result reflects the current low interest rate environment and difficult economic conditions of low credit growth, higher liquidity with lower returns, contracted profitability and a declining cost efficiency base. Despite increased loan funding of $26.0 million (2015 $18.6 million), mortgage loan interest revenue reduced by 1.5%. Operating costs have been well contained at levels consistent with the prior year. The cost to income ratio was 91.3%, above the industry average of 87%. The earnings to total average assets was 0.2%, compared to the industry average of 0.3%.

Financial Position

The net assets of the Credit Union as at 30th June, 2016 were $10.4 million (2015 $10.1 million). Total assets as at 30th June 2016 were $105.9 million (2015 $97.5 million), including off balance sheet loans, total assets were $111.4 million (2015 $101.4 million).

The Capital Adequacy ratio is the main measure of a Credit Union's overall financial soundness. This ratio as at 30th June 2016 was 20.0% (2015 20.4%). The current ratio is well above the minimum required by the Australian Prudential Regulation Authority (APRA) prudential standards.

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.

Directors' Report-Continued

Events Occurring after Balance Date

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 2018, which provides for the strategic direction of the organisation.

Indemnification and Insurance of Directors and Officers

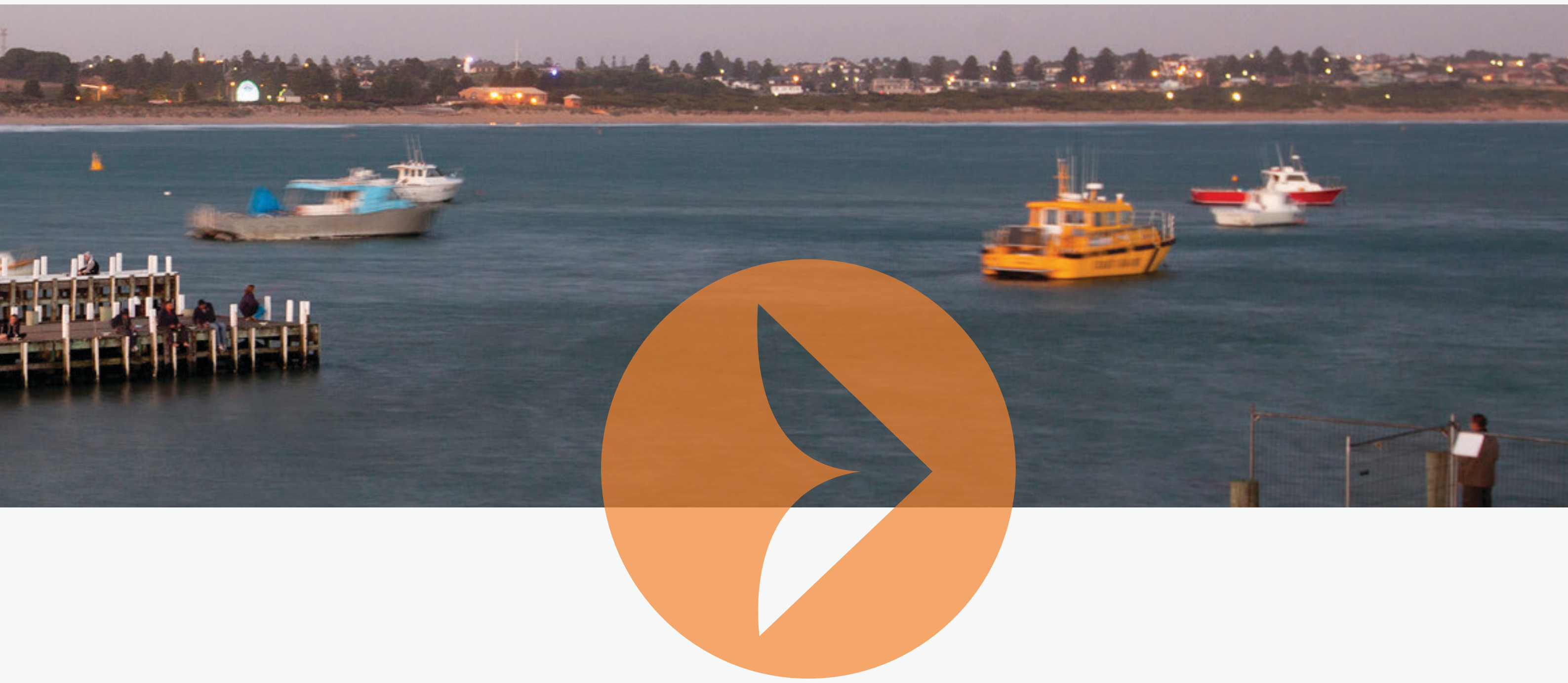
During the year, a premium was paid regarding a contract insuring Directors and officers against liability. The officers of the Credit Union covered by the insurance contract include the Directors, executive officers, secretary and employees. In accordance with normal commercial practice, disclosure of the premium payable 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 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 Committee	Nomination	Governance	Marketing	Remuneration	Risk & Compliance Committee
Number of Meetings Held	12	6	4	4	5	4	8
Number of Meetings Attended							
Gary Parsons	12	1^	4	4	4	4	2^
Robert Lane	12	n/a	4	4	2	4	8
Michael Beks	12	6	n/a	n/a	n/a	n/a	8
John Harris	10	4	n/a	n/a	n/a	n/a	7
Jenny Waterhouse	12	6	n/a	n/a	5	n/a	n/a
Lex McDowell*	11/11*	4	3/3*	3/3*	n/a	3/3*	n/a
Matt Northeast	10/11	n/a	n/a	n/a	5	n/a	n/a

**Denotes : Leave of Absence ^Denotes : Attended Meeting as Guest*



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 2016 financial year Directors and Key Management Personnel undertook 464 hours of professional skills training and development.

Corporate Governance

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

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 environment. The Credit Union distributes 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.

Risk Management

The Risk Management Framework was developed to meet the requirements of APRA's Prudential Standard CPS220 Risk Management.

SWC must maintain a Risk Management Framework that enables it to appropriately develop and implement strategies, policies, procedures and controls to manage material risks.

The Board of Directors has the overall responsibility for the establishment and oversight of its Risk Management Framework, including the Risk Appetite and its operations by Management. SWC's risks are managed through the Board and Management Committees, Credit Union Executives and internal control and Risk Management systems.

Directors' Report-Continued

SWC has adopted the 3 Lines of Defence associated with Risk Governance:

- 1st line of Defence is the Risk Owner (Senior Management)
- 2nd line of Defence is the Board Risk Committee (Risk Management & Compliance Function)
- 3rd line of Defence is the Board Audit Committee (Internal Audit function)

SWC's Risk Management function operates on a governance structure, with the main elements as follows:

Board: Is the primary governing body. It approves the level of risk which the Company is exposed to and the framework for identifying, monitoring, managing, mitigating, and reporting those risks. The Board has developed a Risk Appetite Framework that provides the Risk Profile of the Credit Union.

Management through the Executive Group, and Management Committees, recommend policies, and risk parameters for Board Consideration. The Risk Management Policies and systems are reviewed regularly to reflect any changes in market conditions and the Credit Unions activities. SWC through its training and procedures, aim to have a controlled environment that all employees understand their roles and responsibilities.

Risk & Compliance Committee: This is the key body in control of risk within the Credit Union. It consists of representatives from the Board of Directors. The Risk & Compliance Committee is responsible for oversight of the implementation and operation of the risk management framework.

Audit Committee: This is the key body to oversee and control the management and presentation of financial information of the Credit Union It consists of representatives of the Board of Directors. The Audit Committee also facilitates the External and Internal Auditor arrangements, and reviews the effectiveness of risk systems.

Asset and Liability Committee (ALCO): This is a committee of Senior Management that meets and discusses the identification, monitoring, management, mitigation and reporting of operational issues, and ensures that policies and procedures adopted by the Board are implemented.

Risk & Compliance Manager: This role has responsibility for the development and implementation of the risk management framework and policies, and providing assistance to board, management and staff in all aspects of risk management. The Risk & Compliance Manager reports directly to the CEO, attends the Audit Committee and Risk & Compliance Meetings, with unfettered access to the Board of Directors.

Internal Audit: Has the responsibility for implementing the testing and assessment in line with the Boards Compliance Plan/Audit Calendar.

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, 2016, has been received and is included on the following page.

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

On behalf of the Directors

Director	Director
Gary Parsons	Robert Lane
Chair	Vice Chair

Dated: 30 August, 2016

Crowe Horwath

Auditor Independence Declaration Under S307C of the *Corporations Act 2001* to the Directors of South West Credit Union Co-Operative Limited

I declare that, to the best of my knowledge and belief, during the year ended 30 June 2016 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.

CROWE HORWATH MELBOURNE

David Munday
Partner

Melbourne, Victoria
30 August 2016

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The Executive Team

David Brown

Chief Executive Officer

Chief Executive Officer for South-West Credit Union Co-Operative Limited since November, 2006. Mr Brown has worked with the Credit Union for 14 years, and prior to this worked with a large Banking organisation for over 31 years.

Ravi Ganeshalingam

Chief Financial Officer; CA (Aus & NZ); FCMA (London); CGMA(Chartered Global Management Accountant)

Ravi has extensive International experience in financial management, strategic planning, project and auditing in manufacturing, forestry and service industries. Ravi was appointed in February 2009 and is responsible for the financial stewardship of the organisation. He directly assists the CEO on all strategic and tactical matters as they relate to budget management, cost benefit analysis, forecasting needs and the securing of new funding.

Helen Boyd

Branch Manager

30 years working in the Finance industry, 21 of those spent at the Credit Union. Helen has experience across several departments within the Credit Union having worked in Marketing, Compliance, Training & Systems Management prior to becoming Branch Manager.

Kylie Brookes

Risk & Compliance Manager

Kylie has worked with South West Credit for 26 years. Over that time Kylie has had roles in different divisions in the organisation, working in the Branch, in Sales and Service and Compliance Officer prior to becoming Risk and Compliance Manager.

2015/16 Financial Statements

Contents

Statement of Profit or Loss

For the year ended 30 June 2016

	Note	2016	2015
		$	$
Interest income	7	4,603,990	4,670,794
Interest expense	7	(1,401,147)	(1,549,959)
Net interest income	7	3,202,843	3,120,835
Impairment Recovery/(losses) on loans and advances	8	(6,094)	22,251
Non-interest income	9	713,154	740,758
Depreciation and amortisation	10	(172,738)	(212,281)
Personnel expenses	11	(1,516,238)	(1,492,959)
Information technology expense	12	(470,244)	(491,379)
Office occupancy expense	13	(67,315)	(78,618)
Other expenses	14	(1,370,786)	(1,279,808)
Profit before income tax		312,582	328,799
Income tax expense	15	(96,192)	(92,220)
Profit for the year attributable to members		**216,390**	**236,579**

The notes on pages 27 to 60 are an integral part of these financial statements

Statement of Comprehensive Income

For the year ended 30 June 2016

	2016	2015
	$	$
Profit for the year	216,390	236,579
Other comprehensive income, net of tax Items that may be reclassified to profit or loss:		
Gain / (loss) on revaluation of land and buildings, net of tax	34,345	(15,945)
Total comprehensive income for the year	250,735	220,634
Total comprehensive income for the year attributable to members	**250,735**	**220,634**

The notes on pages 27 to 60 are an integral part of these financial statements

Statement of Changes in Equity

For the year ended 30 June 2016

	Attributable to members of South West Credit Union Co-operative Limited			
	Revaluation Reserve $	Retained earnings $	General Reserve for Credit Losses $	Total $
Balance at 30 June 2014	1,122,599	8,438,288	337,971	9,898,858
Total comprehensive income:				
Profit for the year, after tax	**-**	**236,579**	**-**	**236,579**
Other comprehensive income, net of tax	**(15,945)**	**-**	**-**	**(15,945)**
Transfers In/(Out)	**-**	**(9,588)**	**9,588**	**-**
Balance at 30 June 2015	1,106,654	8,665,279	347,559	10,119,492
Total comprehensive income:				
Profit for the year, after tax	**-**	**216,390**	**-**	**216,390**
Other comprehensive income, net of tax	**34,345**	**-**	**-**	**34,345**
Transfers In/(Out)	**-**	**(95,909)**	**95,909**	**-**
Balance at 30 June 2016	1,140,999	8,785,760	443,468	10,370,227

The notes on pages 27 to 60 are an integral part of these financial statements

Statement of Financial Position

As at 30 June 2016

	Note	2016	2015
Assets		$	$
Cash and cash equivalents	16	11,146,845	7,854,860
Trade and other receivables	17	176,010	144,435
Other assets	18	95,697	112,459
Financial assets	19	14,561,800	16,065,409
Loans and advances	20	77,553,376	71,057,765
Current tax assets	21	5,330	52,604
Property, plant and equipment	23	2,205,462	2,060,567
Intangible assets	24	46,465	92,208
Deferred tax assets	22	81,305	77,639
Total Assets		105,872,290	97,517,946
Liabilities			
Deposits	25	93,747,495	85,841,431
Trade and other payables	26	1,293,744	1,112,161
Provisions	27	246,968	245,726
Deferred tax liabilities	28	213,856	199,136
Total Liabilities		95,502,063	87,398,454
Net Assets		10,370,227	10,119,492
Members Equity			
Retained earnings		8,785,760	8,665,279
Revaluation reserve	30	1,140,999	1,106,654
General Reserve for credit losses	31	443,468	347,559
Total Members Equity		10,370,227	10,119,492

The notes on pages 27 to 60 are an integral part of these financial statements

Statement of Cash Flows

For the year ended 30 June 2016

	Note	2016	2015
		$	$
Cash flows from operating activities			
Interest received		4,586,844	4,647,121
Non-interest income received		671,818	711,580
Interest paid		(1,401,147)	(1,625,353)
Payments to suppliers and employees		(3,513,166)	(3,348,944)
Income tax (paid)		(52,584)	(196,095)
Net (decrease)/increase in deposits		7,906,064	4,823,247
Net decrease/(increase) in members' loans		(6,178,128)	(3,458,758)
Net cash from operating activities	32 (a)	**1,997,355**	**1,552,798**
Cash flow from investing activities			
Net movement in financial assets		1,503,609	(2,920,653)
Payment for purchase of property, plant and equipment		(211,844)	(95,469)
Payment for purchase of Intangibles		(22,303)	(4,370)
Proceeds from disposal of assets		1,028	3,028
Dividends received		24,140	23,895
Net cash from/(used) investing activities		**1,294,630**	**(2,993,569)**
Cash flow from financing activities			
Repayment of borrowings		-	-
Net cash used in finance activities		-	-
Increase/(Decrease) in Cash		3,291,985	(1,401,125)
Cash at the beginning of the financial year		7,854,860	9,255,985
Cash at the end of the financial year	32 (b)	**11,146,845**	**7,854,860**

The notes on pages 27 to 60 are an integral part of these financial statements

Notes to and forming part of the Financial Statements

For the year ended 30 June 2016

1. Reporting entity

South West Credit Union Co-Operative Limited (the Credit Union) 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 Report is prepared for South West Credit Union Co-Operative Limited as a single credit union for the year ended 30 June 2016.

The financial statements were authorised for issue on 30 August 2016 in accordance with a resolution of the Board of Directors.

South West Credit Union Co-Operative Limited is a for profit entity for the purpose of preparing financial statements.

The financial report is a general purpose financial report which has been prepared in accordance with the requirements of the Corporations Act 2001, Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board. Compliance with Accounting Australian Standards ensures compliance with the International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

(b) Basis of measurement

The financial statements have been prepared on an accrual basis, and are based on historical costs, except for land and buildings which are carried at fair value.

(c) Functional and presentation currency

These financial reports are presented in Australian dollars, which is the Credit Union's functional currency.

3. Significant accounting policies

The accounting policies are consistent with prior year unless otherwise stated.

(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 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.

Non-accrual loan interest – while still legally recoverable, interest is not brought to account as income where a loan is impaired.

(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 and sales commission, are recognised as the related services are performed.

3. Significant accounting policies (continued)

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 Statement of Profit or Loss.

(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 interest, commissions and some fees. 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.

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.

3. Significant accounting policies (continued)

(f) 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 from the acquisition date that are subject to an insignificant risk of changes in their value, and are used by the Credit Union in the management of its short-term commitments.

(g) 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 (HTM) investments, and
- available for sale (AFS) financial assets.

The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition.

(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 Statement of Profit or Loss as gains and losses from investment securities.

(iv) 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. 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 Statement of Profit or Loss. The provision for impairment is based on specific identification of impaired loans or advances at balance date.

In the case of 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. If any such evidence exists for available for sale financial assets, the impairment loss is recognised in the Statement of Profit or Loss.

Impairment losses on equity instruments classified as available for sale are not reversed through the Statement of Profit or Loss.

(v) Loans and receivables

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

After initial recognition, these are measured at amortised cost using the effective interest method, less provision for impairment. They are brought to account at the gross value of the outstanding balance. Interest is brought to account using the effective interest rate method.

3. Significant accounting policies (continued) - Financial assets (continued)

(vi) Held to Maturity (HTM) investments

HTM investments are non-derivative financial assets with fixed or determinable payments and fixed maturity other than loans and receivables. Investments are classified as HTM if the Credit Union has the intention and ability to hold them until maturity. The Credit Union currently holds Term deposits and Negotiable Certificates of Deposit (NCD) in this category. If more than an insignificant portion of these assets are sold or redeemed early then the asset class will be reclassified as Available For Sale financial assets.

HTM investments are measured subsequently at amortised cost using the effective interest method. If there is objective evidence that the investment is impaired, determined by reference to external credit ratings, the financial asset is measured at the present value of estimated future cash flows.

Any changes to the carrying amount of the investment, including impairment losses, are recognised in profit or loss.

(vii) Available for Sale (AFS) financial assets

AFS financial assets are non-derivative financial assets that are either designated to this category or do not qualify for inclusion in any of the other categories of financial assets. The Credit Union's AFS financial assets are the equity investment in Cuscal Limited and TransAction Solutions Pty Ltd.

The equity investment in Cuscal Limited and TransAction Solutions Pty Ltd are measured at cost less any impairment charges, as its fair value cannot currently be estimated reliably. Impairment charges are recognised in profit or loss.

Gains and losses on these assets are recognised in other comprehensive income and reported within the AFS reserve within equity, except for impairment losses, which are recognised in profit or loss. When the asset is disposed of or is determined to be impaired, the cumulative gain or loss recognised in other comprehensive income is reclassified from the equity reserve to profit or loss, and presented as reclassification adjustments within other comprehensive income. Interest calculated using the effective interest method and dividends are recognised in profit or loss within 'non-interest income'.

Reversals of impairment losses are recognised in other comprehensive income.

(h) Property, plant and equipment

(i) Recognition and measurement

Plant and Equipment

Items of plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

Land and Buildings

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 and land. 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

3. Significant accounting policies (continued)

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 Statement of Profit or Loss.

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, plant and equipment is determined by comparing the proceeds from disposal with the carrying amount of the item of property, plant and equipment, and is recognised in other income/other expenses in the Statement of 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.

(i) 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.

(j) Impairment of non-financial assets
The carrying amounts of Credit Union's non-financial assets 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.

3. Significant accounting policies (continued)

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's.

Impairment losses are recognised in the Statement of 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 is 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.

(k) Deposits

Deposits are the Credit Union's source of debt funding from member savings and term investments.

Member savings and term investments are quoted at the aggregate amount payable to depositors as at the balance date. Interest on savings is calculated on the daily balance and posted to the accounts periodically, or on maturity of the term deposit. Interest on deposits is brought to account on amount of money owing to depositors on an accrual basis in accordance with the interest rate terms and conditions of each savings and term deposit account as varied from time to time. The amount of the accrual is shown as part of amounts payable.

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

(l) 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.

(m) Employee benefits

Provision is made for the Credit Union's liability for employee benefits arising from services rendered by employees to balance date.

Short-term employee benefits are current liabilities included in employee benefits, measured at the undiscounted amount that the Group expects to pay as a result of the unused entitlement.

Other employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those benefits discounted using corporate bond rates.

Provision for long service leave is on a pro-rata basis from commencement of employment with the Credit Union based on the present value of its estimated future cash flows.

Annual leave is accrued in respect of all employees on pro-rata entitlement for part years of service and leave entitlement due but not taken at balance date.

Contributions are made by the Credit Union to an employee's superannuation fund and are charged to the Statement of Profit or Loss as incurred.

3. Significant accounting policies (continued)

(n) 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 are a financial liability and 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.

(o) 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.

(p) New standards applicable for the current year

The credit union applies the current revised accounting standards applicable for financial years commencing from 1 July 2015. The credit union has adopted the following amended standards in the presentation of the financial report

AASB Reference	Nature of Change	Application Date	Impact on initial application
AASB 2013-9 Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments (Part C: Financial Instruments)	This standard contains three main parts and makes amendments to a number of standards and interpretations. Part C makes amendments to a number of Australian Accounting Standards, including incorporating Chapter 6 Hedge Accounting in to AASB 9 Financial Instruments.	Periods commencing on or after 1 January 2015	The Amendments do not have a material impact.
AASB 2015-3 Amendments to Australian Accounting Standards arising from the Withdrawal of AASB 1031 Materiality	Amendments to Australian Accounting Standards arising from the Withdrawal of AASB 1031 materiality. The standard completes the AASB's project to remove Australian guidance on materiality from Australian Accounting Standards.	Periods commencing on or after 1 July 2015	The Amendments do not have a material impact.

(q) New or emerging standards not yet mandatory

Certain new accounting standards and interpretations have been published that are not mandatory for the 30 June 2016 reporting period. The Credit Union's assessment of the impact of these new standards and interpretations is set out below. Changes that are not likely to impact the financial report of the credit union have not been reported.

Notes to and forming part of the Financial Statements

For the year ended 30 June 2016

AASB Reference	Nature of Change	Application Date	Impact on initial application
AASB 15 Revenue from contracts with customers	Revenue is recognised to depict the transfer of control of promised goods and services to a customer – rather than when risks and rewards transfers. The amount reflects the consideration to which the entity expects to be entitled. Revenue from financial instruments is not covered by this new Standard.	Periods commencing on or after 1 January 2018	The entity has not yet made an assessment of the impact of AASB 15. However, based upon a preliminary assessment, the Standard is not expected to have a material impact upon the transactions and balances recognised when it is first adopted.
AASB 9 Financial Instruments	This new standard simplifies the classification of financial assets, aligns hedging with the entity's risk management practices, and introduces an 'expected credit losses' model for impairment that is based on credit risk.	Periods commencing on or after 1 January 2018	The entity has not yet made an assessment of the impact of the new standard.
AASB 16 Leases	This new standard abolishes the concept of the operating lease for lessees, replacing the existing AASB 117 Leases	Periods commencing on or after 1 January 2019	The entity has not yet made an assessment of the impact of the new standard.
AASB 2015-1 Amendments to various standards, including AASB5 and AASB 119	Miscellaneous changes to a number of standards, including those relating to servicing contracts, the discount rate for post-employment benefit obligations and changes in the method of disposal when applying AASB 5 Non-current Assets Held for Sale and Discontinued Operations.	Periods commencing on or after 1 January 2016	The entity has not yet made an assessment of the impact of the new standard.
AASB 2015-2 Amendments to AASB 101 Presentation of financial statements	Entities will be able to use the amendments to streamline or simplify disclosures in the financial statements. The amendments clarify that specific disclosures need not be made if the financial information resulting from the disclosure is not material; even if an Australian Accounting Standard states that the disclosure is a minimum requirement. Only significant accounting policies should be disclosed. There is flexibility as to the order in which notes are presented.	Periods commencing on or after 1 January 2016	The Amendments do not have a material impact.
AASB 2016-2 Amendments to AASB 107 Statement of Cash Flows Disclosures	This amendments requires disclosures related to financing activities to enable users to evaluate changes in liabilities.	Periods commencing on or after 1 January 2017	The entity has not yet made an assessment of the impact of the new standard.

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.

Risk Management Framework
The Credit Union's Board of Directors has overall responsibility for the establishment and oversight of the risk management framework, including the risk appetite.

The Audit Committee (AC) and the Risk and Compliance Committee (RCC) oversee how management monitors compliance with the Credit Union's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Credit Union.

The AC is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the AC.

The Risk Management function, headed by the Chief Risk Officer, contributes towards the progressive development of the Credit Union's risk management policies, risk management strategies, controls and processes. The function also provides management and the Board with risk reporting and maintains the regulatory compliance framework in line with regulator expectations.

The Credit Union's risk management policies are established to identify and analyse the risks faced by the Credit Union, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. The risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Credit Union's activities. The Credit Union, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

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.

Fair value sensitivity analysis for fixed rate instruments
The Credit Union does not account for any fixed rate financial assets and liabilities at fair value through profit or loss. Therefore a change in interest rates at the reporting date would not affect profit or loss.

Notes to and forming part of the Financial Statements

For the year ended 30 June 2016

4. Financial risk management (continued)

Sensitivity analysis
The Credit Union is exposed to interest rates arising from mismatches in the re pricing dates between financial assets and financial liabilities. As at 30 June 2016, it is estimated that a change from the base market scenario of a decrease of one percentage point in interest rates would change the Credit Union's net interest income by $410k or an effect of 4.17% of capital. A general increase of one percentage point in interest rates would have an equal but opposite effect to the amounts shown above.

Net Present Value impact
Net present value is defined as the sum of all discounted future cash flows; assets generate positive cash flows and liabilities generate negative cash flows. NPV variances a measure of risk that is calculated as a change in NPV for each market scenario from the base market scenario. A large change in NPV indicates more riskiness. Based on the current analysis the worst impact on capital for a 2% parallel shift in the yield curve is 6.72% impact on NPV.

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

		Fixed Interest Rate Maturing				
As at 30 June 2015	**Variable**	**0-3 months**	**4-12 months**	**1 - 5 Year**	**Non Interest Bearing**	**Total**
Financial assets						
Cash and cash equivalents	10,440,116	-	-	-	706,729	11,146,845
Loans and advances	76,906,329	-	-	671,092	-	77,577,421
Other receivables	-	-	-	-	176,010	176,010
Held-to-maturity investments	-	8,918,271	2,975,126	2,500,000	-	14,393,397
Available-for-sale investments	-	-	-	-	168,403	168,403
Total Financial assets	87,346,445	8,918,271	2,975,126	3,171,092	1,051,142	103,462,076
Financial liabilities						
Deposits	45,264,022	24,868,742	23,490,396	124,335	-	93,747,495
Other Payables	-	-	-	-	1,293,744	1,293,744
Total Financial liabilities	45,264,022	24,868,742	23,490,396	124,335	1,293,744	95,041,239

Notes to and forming part of the Financial Statements

For the year ended 30 June 2016

4. Financial risk management (continued)

As at 30 June 2016	Variable	Fixed Interest Rate Maturing 0-3 months	4-12 months	1 - 5 Year	Non Interest Bearing	Total
Financial assets						
Cash and cash equivalents	7,373,995	-	-	-	480,865	7,854,860
Loans and advances	71,025,211	-	-	45,624	-	71,070,835
Other receivables	-	-	-	-	144,435	144,435
Held-to-maturity investments	-	10,910,916	4,006,090	1,000,000	-	15,917,006
Available-for-sale investments	-	-	-	-	148,403	148,403
Total Financial assets	78,399,206	10,910,916	4,006,090	1,045,624	733,303	95,135,139
Financial liabilities						
Deposits	43,424,597	24,900,843	17,266,551	249,440	-	85,841,431
Other Payables	-	-	-	-	1,112,161	1,112,161
Total Financial liabilities	43,424,597	24,900,843	17,266,551	249,440	1,112,161	86,953,592

The Board has limited the level of mismatch of interest rate re pricing 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 trade able 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.

4. Financial risk management (continued)

(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.

The analysis of the Credit Union's loans by class is as follows:

	2016			2015		
	Carrying Value	Commitments	Max Exposure	Carrying Value	Commitments	Max Exposure
Loan type	$	$	$	$	$	$
Mortgage	71,203,473	12,524,643	83,728,116	63,672,417	10,918,993	74,591,410
Personal	1,684,160	152,292	1,836,452	1,469,858	149,696	1,619,554
Overdrafts	591,104	-	591,104	752,541	-	752,541
Total to natural persons	**73,478,737**	**12,676,935**	**86,155,672**	**65,894,816**	**11,068,689**	**76,963,505**
Corporate borrowers	4,098,684	96,500	4,195,184	5,176,019	96,500	5,272,519
Total	**77,577,421**	**12,773,435**	**90,350,856**	**71,070,835**	**11,165,189**	**82,236,024**

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 arrangement.
Past-due Loans	Loans where payments of principal and/or interest are at least 1 day or more in arrears. Full recovery of both principal and interest is expected. If impairment is required, the loan is included in non- accrual loans.

Refer to disclosures in Note 20 for the detailed analysis of the Credit Union's 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 fulfill commitments to lend.

The Credit Union's liquidity management process, as carried out within the Credit Union and monitored by the Risk and Compliance 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.

Assets available to meet all of the liabilities and to cover outstanding loan commitments include cash and loans and advances. The Credit Union would also be able to meet unexpected net cash outflows by redeeming debt securities and accessing additional funding sources such as the standby credit facility.

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 37.

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.

The table below presents the cash flows payable by the Credit Union on financial liabilities by remaining contractual maturities at the balance sheet date. The amounts disclosed in the table are the contractual undiscounted cash flows, including interest. Balances due within 12 months equal their carrying amounts as the impact of discounting is not significant.

4. Financial risk management (continued)

As at 30 June 2016	Carrying Value	Up to 3 Months	3 - 12 Months	1 - 5 Years	After 5 years	No Maturity	Total Cash Flows
Financial liabilities							
Deposits from members – at call	45,264,022	45,264,605	-	-	-	-	45,264,605
Deposits from members – term	48,483,473	11,077,008	37,842,764	198,460	-	-	49,118,232
Other Payables	1,293,743	-	-	-	-	1,293,743	1,293,743
Subtotal	**95,041,238**	**56,341,613**	**37,842,764**	**198,460**	-	**1,294,743**	**95,676,580**
Undrawn overdraft facility	-	400,000	-	-	-	-	400,000
Other commitments	-	12,676,935	-	-	-	-	12,676,935
Total Financial liabilities	**95,041,238**	**69,418,547**	**37,842,764**	**198,460**	-	**1,294,743**	**108,753,515**
As at 30 June 2015							
Financial liabilities							
Deposits from members – at call	43,424,597	43,425,192	-	-	-	-	43,425,192
Deposits from members – term	42,416,834	14,158,611	28,145,247	741,713	-	-	43,045,572
Other Payables	1,112,161	-	-	-	-	1,112,161	1,112,161
Subtotal	**86,953,592**	**57,583,803**	**28,145,247**	**741,713**	-	**1,112,161**	**87,582,925**
Undrawn overdraft facility	-	400,000	-	-	-	-	400,000
Other commitments	-	11,068,689	-	-	-	-	11,068,689
Total Financial liabilities	**86,953,592**	**69,052,492**	**28,145,247**	**741,713**	-	**1,112,161**	**99,051,614**

(e) Fair value measurement

All financial assets and financial liabilities are recorded at carrying amounts that approximate their fair value.

The fair value is required to be disclosed where the financial instruments are not measured at fair value in the Statement of Financial Position. Disclosure of fair value is not required when the carrying amount is a reasonable approximation of fair value.

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).

4. Financial risk management (continued)

(e) Fair value measurement (continued)

For the financial assets and financial liabilities where the fair values are reported below, all are measured using a discounted cash flow model applying market rates based on the maturity of the asset or liability.

Fair value has been determined on the basis of the present value of expected future cash flows under the terms and conditions of each financial asset and financial liability. Significant assumptions used in the determining the cash flows are that the cash flows will be consistent with the contracted cash flows under the respective contracts. The calculation reflects the interest rate applicable for the remaining term to maturity not the rate applicable to original term.

The information is only relevant to circumstances at the reporting date and will vary depending on the contractual rates applied to each asset and liability, relative to market rates and conditions at the time. No assets held are regularly traded by the Credit Union, and there is no active market to assess the value of the financial assets and liabilities. The values reported have not been adjusted for the changes in credit ratings of the assets.

The following tables present the Credit Union's assets and liabilities measured and recognised at fair value at 30 June.

	Fair Value	2016 Carrying Value	Fair Value	2015 Carrying Value
Financial Assets				
Cash and cash equivalents	8,146,845	8,146,845	7,854,860	7,854,860
Loans and advances	77,577,421	77,577,421	71,070,835	71,070,835
Other receivables	176,010	176,010	144,035	144,035
Held-to-maturity investments	17,393,397	17,393,397	15,917,006	15,917,006
Available-for-sale investments	168,403	168,403	148,403	148,403
Total Financial assets	**103,462,076**	**103,462,076**	**95,135,139**	**95,135,139**
Financial liabilities				
Deposits from members – at call	45,206,081	45,209,792	43,421,627	43,424,597
Deposits from members – term	48,767,261	48,483,437	42,740,755	42,416,834
Other Payables	1,347,973	1,347,973	1,112,161	1,112,161
Total Financial liabilities	**95,321,315**	**95,041,238**	**87,274,543**	**86,953,592**

	2016	2015
4. Financial risk management (continued)	**$**	**$**

e) Fair value measurement (continued)
The following table presents the changes in level 3 equity instruments for the year ended 30 June:

Investment in equity instruments classified as available-for- sale

	2016	2015
Opening balance	148,403	148,403
Additions	20,000	
Losses recognised in other comprehensive income	-	-
Losses recognised in profit or loss	-	-
Closing Balance	168,403	148,403
Total gains included in other income that relate to assets held at the end of the reporting period	Nil	Nil

The Credit Union only has available-for-sale equity investments measured at cost value as their fair value could not be measured reliably. These are its holdings in unlisted shares in Cuscal Limited, Transactions Solutions Pty Ltd and Shared Service Partners Pty Ltd. Refer to Note 19.

(f) Transfer of financial assets
The Credit Union has established arrangements for the transfer of loan contractual benefits of interest and repayments to support ongoing liquidity facilities. These arrangements are with:-

- The Integris securitization trust where the Credit Union acts as agent for the trust in arranging loans on behalf of Integris, and/or can transfer the contractual rights to the trust of pre-existing loans at market value; and
- Bendigo and Adelaide Bank (Bendigo) where the Credit Union has arrangements where it can transfer the contractual rights to Bendigo of pre-existing loans at market value.

Only residential mortgage-backed securities (RMBS) that meet specified criteria, are eligible to be transferred in each of the above situations.

Securitised loans not on the balance sheet – Derecognised in their entirety
The values of securitised loans which are qualifying for de-recognition arising from transfer of interest in the loans, as the conditions do not meet the criteria in the accounting standards. In each case the loans are variable interest rate loans, hence the book value of the loans transferred equates to the fair value of those loans.

The associated liabilities are equivalent to the book value of the loans reported.

Integris Securitisation Services Pty Ltd
The Integris securitisation trust is an independent securitisation vehicle established by the peak Credit Union body Cuscal. The Credit Union has an arrangement with Integris Securitisation Services Pty Ltd whereby it acts as agent to promote and complete loans on their behalf, for on sale to an investment trust. The Credit Union also manages the loans portfolio on behalf of the trust. The Credit Union receives a management fee to recover the costs of administration of the processing of the loan repayments and the issue of statement to the members.
The Credit Union does not have any obligations in connection with performance or impairment guarantees, or call options to repurchase to loans. Refer to the Bendigo and Adelaide Bank lending facility below.

4. Financial risk management (continued)

(f) Transfer of financial assets (continued)

Bendigo and Adelaide Bank non-securitisation lending facility
As the Integris Securitisation program through Cuscal was disconnected in February 2014, the Credit Union as well as a number of other participating Credit Unions, as a consequence and as an alternative, entered into an APRA approved Receivables Acquisition and Servicing Agreement with the Bendigo and Adelaide Bank (Bendigo). This new off-Balance Sheet loan funding facility is designed to cater for larger loans and/or high loan demand that on-Balance Sheet liquidity cannot readily address. Under this arrangement the Credit Union will assign mortgage secured loans to Bendigo at the book value of the loans, subject to acceptable documentation criteria with a complete absence of any securitization vehicle and/or securitisation related matters.

The Credit Union will contract directly with Bendigo and will be responsible for ensuring the funding program is suitable for the organization as well as its ongoing availability and administration.

The loans transferred qualify for de-recognition on the basis that the assignment transfers all the risks and rewards to Bendigo and there are no residual benefits to the Credit Union. The Credit Union receives a management fee to recover the costs of ongoing administration for processing of the loan repayments and the issue of statements to the members. During the year the Credit Union has assigned total loans of book value $2,822,628 under the new lending facility to Bendigo. As at 30 June 2016, the Credit Union had loans under management with the Bendigo and Integris programs of $5,551,852 (2015: $4,328,552).

5. Use of estimates and judgments

Management discusses with the Audit 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).

(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) Valuation of Land and Buildings.
The 2016 revaluation was made by Preston Rowe Paterson Warrnambool as at 30 June 2016. The valuation basis of land and buildings is at fair value, in compliance with AASB 13. The fair value of non-financial assets takes into account a market participant's ability to generate economic benefits by using the assets in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use (see Note 23).

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.

Notes to and forming part of the Financial Statements

For the year ended 30 June 2016

	2016	2015
7. Interest Income and Interest Expense	**$**	**$**
(a) Interest income and interest expense		
Interest income		
Cash and cash equivalents	206,670	137,056
Loans and advances to customers	3,986,793	4,058,940
Investment securities	410,527	474,798
Total interest income	4,603,990	4,670,794
Interest expense		
Deposits from customers	1,401,147	1,549,959
Total interest expense	1,401,147	1,549,959
Net interest income	3,202,843	3,120,835

(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 reflect approximately the average daily results achieved by the Credit Union.

	2016			2015		
	Average Balance	**Interest**	**Average Interest Rate**	**Average Balance**	**Interest**	**Average Interest Rate**
(a) Interest Revenue						
Investment Securities	15,155,202	410,527	2.7%	14,456,679	474,798	3.3%
Loans and Advances	74,324,128	3,986,793	5.4%	69,332,555	4,058,940	5.9%
Cash and cash equivalents	9,500,853	206,670	2.2%	8,555,422	137,056	1.6%
Total		4,603,990			4,670,794	
(b) Interest Expense						
Member Deposits	90,946,885	1,401,147	1.5%	83,821,452	1,549,959	1.9%
Net Interest Income		**3,202,843**			**3,120,835**	

Notes to and forming part of the Financial Statements

For the year ended 30 June 2016

	2016	2015
8. Impairment Recovery / (losses) on loans and advances	**$**	**$**
(Increase)/decrease in provision for impairment	(10,975)	4,447
Bad debts recovered	26,152	17,804
Bad debts written off directly against profit	(21,271)	-
	(6,094)	22,251

9. Non-interest income

	2016	2015
Dividends	24,140	23,895
Fees and commissions		
- Loan fee income	86,203	42,020
- Insurance commissions	113,504	125,775
- Other fees and commissions	432,431	467,448
Other income	56,877	81,620
	713,154	740,758

10. Depreciation and amortisation expense

	2016	2015
Depreciation of plant and equipment	55,628	57,794
Depreciation of buildings	49,064	48,824
Amortisation of intangibles	68,046	105,663
	172,738	212,281

11. Personnel expenses

	2016	2015
Salaries and wages	1,247,254	1,226,320
Contributions to defined contribution plans	129,268	126,685
Payroll tax	47,975	45,046
Workers compensation insurance	3,653	5,138
Staff training	13,152	25,589
Other	74,936	64,181
	1,516,238	1,492,959

Notes to and forming part of the Financial Statements

For the year ended 30 June 2016

12. Information technology expense	2016 $	2015 $
Computer and software maintenance	238,017	239,732
Managed Desktop Services	232,227	251,647
	470,244	491,379

13. Office occupancy expense

	2016 $	2015 $
Rates and taxes	14,789	13,179
Cleaning	17,390	19,451
Maintenance	15,429	12,123
Rent	11,606	22,590
Other	8,101	11,275
	67,315	78,618

14. Other expenses

	2016 $	2015 $
Advertising and promotion	103,155	107,664
Loan and deposit administration costs	499,123	433,589
Professional	219,212	205,161
General administration costs	340,020	338,436
Other	209,276	194,958
	1,370,786	1,279,808

(a) Auditor's remuneration

	2016 $	2015 $
External audit fees	44,000	44,000

Notes to and forming part of the Financial Statements

For the year ended 30 June 2016

15. Income tax expense	2016 $	2015 $
(a) Income tax expense		
Current tax expense	99,858	87,960
Deferred tax expense		
Current year	(3,666)	4,260
Total income tax expense in the Statement for Profit or Loss	96,192	92,220

(b) Numerical reconciliation between tax expense and pre-tax net profit

	2016 $	2015 $
Profit for the year	216,390	236,579
Total income tax expense	96,192	92,220
Profit excluding income tax	312,582	328,799
Income tax using rate of 30%	93,775	98,640
Tax effect of:		
- Depreciation of buildings	5,994	5,541
- Movements in Leave and Doubtful Debts	3,666	(4,260)
- Imputation tax credits	3,103	3,301
	106,538	103,222
Less:		
- Rebatable amount of imputation credits	(10,346)	(11,002)
	96,192	92,220

	2016 $	2015 $
Franking Credits held by the Credit Union after adjusting for franking that will arise from the payment of income tax payable as at the end of the financial year is:	3,380,525	3,285,289

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.

16. Cash and cash equivalents

	2016 $	2015 $
Cash on hand	706,729	480,865
Cash at banks	10,440,116	7,373,995
	11,146,845	**7,854,860**

Notes to and forming part of the Financial Statements

For the year ended 30 June 2016

17. Trade and other receivables		2016 $	2015 $
Interest Receivable		129,227	112,081
Other		46,783	32,354
		176,010	**144,435**

18. Other assets		2016 $	2015 $
Prepayments		**95,697**	**112,459**

19. Financial assets	Note	2016 $	2015 $
Available for sale financial assets	**19 (a)**	168,403	148,403
Held-to-maturity financial assets		14,393,397	15,917,006
		14,561,800	**16,065,409**

(a) Available for sale financial assets	Note	2016 $	2015 $
Unlisted shares in :			
Cuscal Limited	**19(a)(i)**	142,306	142,306
TransAction Solutions Pty Ltd	**19(a)(ii)**	6,097	6,097
Shared Services Partners Pty Ltd	**19(a)(iii)**	20,000	-
		168,403	**148,403**

(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 value of these shares was $142,306 at the 30 June 2016 (2015 - $142,306). These shares are carried at cost in the 'Unlisted Shares' above.

(ii) TransAction Solutions shares

At 30 June 2016 the Credit Union held 6,097 “A” class shares.

The deemed fair value of the “A” class shares at 30 June 2016 was $6,097 (2015 - $6,097), which equated to their cost base. Transaction Solutions Pty Ltd is an unlisted public company. The Shares of the Company are not tradeable in an open market.

19. Financial assets (continued)

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.

(iii) Shared Service Partners shares
In March 2016, Shares were purchased in Shared Service Partners Pty Ltd ("SSP"), an initiative of Customer Owned Banking Association ("COBA") including 25 syndicate members. The Credit Union will receive beneficial services from SSP as result of holding these shares.

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

The value of these shares was $20,000 at the 30 June 2016.

(b) Held to maturity investments	**Note**	**2016**	**2015**
Unlisted shares in :		**$**	**$**
NCDs		7,893,397	7,910,916
Term Deposits		3,000,000	6,000,000
Bonds		3,500,000	2,006,090
Total Fixed Term Investments		**14,393,397**	**15,917,006**

None of the held-to-maturity investments are either past due or impaired.
The current portion of the investments at reporting date is $11,893,397 (2015: $14,917,006) and non-current portion is $2,500,000 (2015: $1,000,000).

20. Loans and advances

(a) Loans by profile represented as follows:			
Unlisted shares in :			
Overdrafts		1,523,795	2,383,916
Term loans		76,053,626	68,686,919
		77,577,421	71,070,835
Less Provision for Impaired Loans	20(c)	(24,045)	(13,070)
Total Loans and Advances		**77,553,376**	**71,057,765**

(b) Loans by maturity represented as follows:		
Up to 3 months	1,526,587	2,385,918
Longer than 3 and not longer than 12 months	148,517	126,569
Longer than 1 but not longer than 5 years	3,167,925	3,064,757
Longer than 5 years	72,734,392	65,493,591
Total Loans and Advances	**77,577,421**	**71,070,835**

20. Loans and advances (continued)	2016 $	2015 $

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

The collective provision is the prescribed provision required under APRA Prudential Standards
Movements in the provision for impairment of Loans are as follows:

	2016 $	2015 $
Collective Provision		
At 1 July	13,070	17,517
Impairment charge for the year	-	(4,447)
Write back of provision not required	(3,225)	-
Balance at 30 June	**9,845**	**13,070**
Specific Provision		
At 1 July	-	-
Bad and Doubtful debts provided for during the year	14,200	-
Balance at 30 June	**14,200**	**-**
Total Provisions for Impairment	**24,045**	**13,070**

(d) Impairment of loans

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

	2016 $	2015 $
(e) Restructured loan balances	175,084	228,793

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.

	2016 $	2015 $
(f) Assets acquired through security enforcement restricted loans	-	-
(g) Interest revenue received on non accrual and restructured loans	3,226	3,378

Notes to and forming part of the Financial Statements

For the year ended 30 June 2016

	2016	2015
20. Loans and advances (continued)	**$**	**$**

(h) Interest lost on non-accrual or restructured loans

As at 30 June 2016, loans and advances of $847,888 (2015: $684,339) were past due but not impaired. Adequate security is held to cover recovery of the debt. The ageing analysis is as follows:

	2016	2015
Past due up to 90 days (fully secured)	847,888	381,164
Past due 91 - 365 days (fully secured)	-	234,135
Past due 365 and Over (fully secured)	-	69,040
	847,888	684,339

(i) Not Past due or impaired

Within loans and advances, $76,729,533 (2015: $70,386,496) 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.

(j) Credit quality – loan to value ratio on loans and advances secured by real estate

It is not practical to value all collateral as at the balance date due to the variety of assets and their nature and condition. A breakdown of the quality of the mortgage security on a portfolio basis is as follows:

	2016	2015
Loan to value ratio of 80% or less	67,087,150	59,747,689
Loan to value ratio of more than 80% but mortgage insured	4,070,024	2,562,604
Loan to value ratio of more than 80% not mortgage insured	2,357,786	4,097,612
Total	**73,514,960**	**66,407,905**

21. Current tax assets

	2016	2015
Income tax Receivable/(Payable)	5,330	52,604

22. Deferred tax assets

Deferred tax assets Comprise:

	2016	2015
Provision for Impairment	7,214	3,921
Annual Leave & Long Service leave entitlements	74,091	73,718
	81,305	**77,639**

	2016	2015
The deferred tax charge in the income statement		
comprises the following temporary differences:		
Provision for loan impairment	3,292	1,335
Annual leave and long service leave provisions	373	2,925

Notes to and forming part of the Financial Statements

For the year ended 30 June 2016

23. Property, plant and equipment	2016 $	2015 $
(a) Property		
Land - Warrnambool (at valuation 30 June)	830,000	830,000
Buildings (at valuation 30 June)	1,070,000	1,070,000
Less Accumulated Depreciation	-	-
Fair value as at 30 June	1,900,000	1,900,000

The 2016 revaluation was made by Preston Rowe Paterson Warrnambool as at 30 June 2016. The valuation basis of land and buildings is at fair value, in compliance with AASB 13. The fair value of non-financial assets takes into account a market participant's ability to generate economic benefits by using the assets in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

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 carrying amounts would be as follows:

	2016 $	2015 $
Freehold land – Cost	188,000	188,000
Buildings – Cost	488,201	488,201
Less: Accumulated Depreciation	(193,124)	(167,606)
Net carrying value of Land and Buildings	483,077	508,595
Revaluation attributable to Land and Buildings	1,416,923	1,391,405
Fair value at 30 June	**1,900,000**	**1,900,000**

Notes to and forming part of the Financial Statements

For the year ended 30 June 2016

23. Property, plant and equipment (continued)	2016 $	2015 $
(b) Plant and equipment		
Office Equipment (at cost)	216,723	214,206
Less Accumulated Depreciation	(159,300)	(174,085)
	57,423	**40,121**
Furniture & Fittings (at cost)	143,140	130,881
Less Accumulated Depreciation	(107,425)	(96,623)
	35,715	**34,258**
Motor Vehicles (at cost)	76,240	76,240
Less Accumulated Depreciation	(54,711)	(46,378)
	21,529	**29,862**
Computer Equipment (at cost)	327,461	221,975
Less Accumulated Depreciation	(136,666)	(165,649)
	190,795	**56,326**
Property (Land and Buildings) note 23(a)	**1,900,000**	**1,900,000**
Total Property, Plant and Equipment	**2,205,462**	**2,060,567**
(c) Depreciation		
Depreciation of Furniture and Fittings	10,802	12,934
Depreciation of Buildings	49,064	48,824
Depreciation of Office Equipment	13,111	15,635
Depreciation of Computer Equipment	23,381	20,891
Depreciation of Motor Vehicles	8,334	8,334
	104,692	106,618

Notes to and forming part of the Financial Statements

For the year ended 30 June 2016

23. Property, plant and equipment (continued)

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

	Office Equipment $	Furniture & Fittings $	Motor Vehicles $	Computer Equipment $	Land and Buildings $	Total $
Balance at 30 June 2014	**47,459**	**35,579**	**38,196**	**52,907**	**1,960,000**	**2,134,141**
Purchases	8,297	11,613	-	24,310	11,602	55,822
Less:						
Assets disposed	-	-	-	-	-	-
Depreciation charge	(15,635)	(12,934)	(8,334)	(20,891)	(48,824)	(106,618)
Revaluation	-	-	-	-	(22,778)	(22,778)
Balance at 30 June 2015	**40,121**	**34,258**	**29,862**	**56,326**	**1,900,000**	**2,060,567**
Purchases	41,735	12,259	-	157,850	-	211,844
Less:						
Assets disposed	(11,321)	-	-	-	-	(11,321)
Depreciation charge	(13,111)	(10,802)	(8,334)	(23,381)	(49,064)	(104,692)
Revaluation	-	-	-	-	49,064	49,064
Balance at 30 June 2016	**57,423**	**35,715**	**21,529**	**190,795**	**1,900,000**	**2,205,462**

24. Intangible assets

	2016 $	2015 $
Intangible Assets	407,973	385,669
Less Accumulated Amortisation	(361,508)	(293,461)
	46,465	**92,208**

Intangible includes software licence with Ultradata Australia Pty Ltd for the provision of a software licence and maintenance agreement.

Moment in the asset balances during the year were:

	2016	2015
Opening balance	92,208	196,529
Purchases	22,303	4,370
Less:		
Disposals	-	(3,028)
Amortisation charge	(68,046)	(105,663)
Balance at the end of the year	**46,465**	**92,208**

Notes to and forming part of the Financial Statements

For the year ended 30 June 2016

25. Deposits

	2016 $	2015 $
Call deposits (including withdrawable member shares)	45,264,022	43,424,597
Term deposits	48,483,473	42,416,834
	93,747,495	**85,841,431**
Maturity Analysis:		
At call	45,224,022	43,424,597
Not longer than 3 months	24,868,742	24,900,843
Longer than 3 and not longer than 12 months	23,490,396	17,266,551
Longer than 1 but not longer than 5 years	124,335	249,440
	93,747,495	**85,841,431**

26. Trade and other payables

	2016 $	2015 $
Trade Creditors	96,173	127,669
Accrued Interest Payable	293,548	318,661
Other Creditors	904,023	665,831
	1,293,744	**1,112,161**

27. Provisions

(a) Employee Entitlements (annual leave)

	2016 $	2015 $
Movement in the Provision for Annual Leave balances during the year:		
Balance at beginning of year	133,478	129,554
Add / (Deduct)		
Additional provision recognised	95,762	80,470
Amounts used during the year	(102,097)	(76,546)
Balance at the end of the year	**127,143**	**133,478**

(b) Employee Entitlements (long service leave)

	2016 $	2015 $
Movement in the Provision for Annual Leave balances during the year:		
Balance at beginning of year	112,248	127,681
Add / (Deduct)		
Additional provision recognised	24,849	(12,967)
Amounts used during the year	(17,272)	(2,466)
Balance at the end of the year	**119,825**	**112,248**
Total Provisions	**246,968**	**245,726**

Notes to and forming part of the Financial Statements

For the year ended 30 June 2016

	2016	2015
28. Deferred tax liabilities	**$**	**$**
Deferred tax liability - Revaluation Adjustments	213,856	199,136

29. Standby borrowing facilities

Approved standby and overdraft facilities

The Credit Union had an approved overdraft facility at 30 June 2016 of $400,000 (2015: $400,000) which is secured by way of a first ranking floating charge over the assets and undertakings of the Credit Union. The amount utilised at 30 June 2016 was $Nil (2016: $Nil).

30. Asset revaluation reserve

This reserve represents gains on revaluation of property owned by the Credit Union.

Balance at 1 July	1,106,654	1,122,599
Add/(Less): Movement for year		
Revaluation of property at 30 June	49,064	(22,778)
Deferred tax liability impact of revaluation	(14,719)	6,833
Balance at 30 June	**1,140,999**	**1,106,654**

31. General reserve for credit losses

This reserve records amount maintained to comply with the Prudential Standards set down by APRA.

Balance at 1 July	347,559	337,971
Add/(Less): Movement for year		
Transfer from /(to) retained earnings	95,909	9,588
Balance at 30 June	**443,468**	**347,559**

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

	2016 $	2015 $
(a) The net cash provided by operating activities is reconciled to the net profit after tax		
Net profit after tax	216,390	236,579
Depreciation	104,692	106,618
Amortisation	68,046	105,663
Loss/(profit) on sale of fixed assets	10,294	-
Dividends received	(24,140)	(23,895)
Changes in assets and liabilities		
Decrease/(increase) in trade and other receivables	(31,575)	(8,370)
(Increase)/decrease in other assets	16,762	(20,586)
Decrease/(increase) in loans and advances	(6,505,586)	(3,476,562)
(Increase)/decrease in deferred tax assets	(3,666)	4,260
(Increase)/decrease in income tax receivable	47,274	(146,527)
(Decrease)/increase in deposits	7,906,064	4,443,555
Increase/(decrease) in trade and other payables	181,553	348,019
(Decrease)/increase in provision for doubtful debts	10,975	(4,447)
Increase/(decrease) in provisions	1,242	(11,509)
Cash flows provided by operating activities	**1,977,355**	**1,552,798**

(b) Reconciliation of cash

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

Cash as at balance date comprises:		
Cash on hand, at bank and at call	**11,146,845**	**7,854,860**

(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. Financial Commitments

Loan to members approved but not advanced as at 30 June	5,139,670	3,734,627
Loan redraw facilities	7,537,265	7,334,062

Notes to and forming part of the Financial Statements

For the year ended 30 June 2016

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.
In addition Cuscal has commenced providing an interface system used to link domestic ATM's, customers' Redicards, Visa debit and the Credit Union's EDP System.

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. Further extension for another five years is under negotiation, subject to specific criteria.

35. Related party transactions

(a) Directors Remuneration
As approved at the 2015 Annual General Meeting on 28 October 2015, $9,100 (previously $9,000) per annum was provided for each Director.
An additional allowances of:

- $9,100 (previously $9,000) for the Chairperson and $4,150 (previously $4,100) for the Vice-Chairperson
- $4,150 allowance (previously $4,100) to the Audit Committee Chair
- $4,150 allowance (previously $4,100) to the Risk and Compliance Committee Chair were also provided.

Total directors' remuneration was set at $85,250 (previously $84,300) plus superannuation guarantee where applicable.

(b) Key Management Personnel
Key management personnel are the Directors and those Senior Executives that are responsible for the planning, directing and controlling of the activities of the Credit Union. Details of changes to the Directors are shown in the Directors Report.

	2016	2015
(i) Compensation paid to key management personnel	**$**	**$**
Short-term employee benefits	453,129	404,352
Post employment benefits	-	-
Other long term benefits	7,156	6,293
Termination benefits	-	-
	460,285	**410,644**
(ii) Compensation paid to key management personnel		
Loans outstanding at beginning of year	302,773	15,326
Net balances from changes in personnel	-	-
Advances made during the year	-	317,108
Interest and fees charged	12,942	15,183
Repayments made during the year	(33,750)	(44,845)
Loans outstanding at end of year	**281,965**	**302,773**

Loans granted at commercial terms are provided at the same interest rate and terms available to members generally. Security is taken in the majority of cases in accordance with the Credit Union's normal credit

35. Related party transactions (continued)

risk policy. At balance date key management personnel had in place overdraft facilities for $70,000. These facilities were partially drawn as at 30 June 2016.

(c) Transactions with other Related Parties

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

A total of $10,385 was paid to SED Partners Pty Ltd. Mr. Robert Lane, Director of the Credit Union is a Principal and Director of the entity. The consulting fees were billed to the Credit Union at commercial rates.

36. Concentration of assets and liabilities

At the 30 June 2016 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 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.

	2016	2015
	$	$
Guarantees to the benefit of Members:	96,500	96,500

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

Liquidity support scheme

The credit union is a member of the Credit Union Financial Support Scheme Limited (CUFSS) a Company limited by guarantee, established to provide financial support to member credit unions in the event of a liquidity or capital problem. As a member, the credit union is committed to maintaining 3.1% of the total assets as deposits with CUSCAL Limited.

Under the terms of the Industry Support Contract (ISC), the maximum call for each participating credit union would be 3.1% of the credit union's total assets (3% under loans and facilities and 0.1% under the cap on contributions to permanent loans). This amount represents the participating credit union's irrevocable commitment under the ISC. At the balance date there were no loans issued under this arrangement.

38. Events subsequent to reporting date

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

39. Capital management

The capital levels are prescribed by Australian Prudential Regulation Authority (APRA). Under the APRA prudential standards capital is determined in three components:

- Credit risk
- Market risk (trading book)
- Operations risk.

The market risk component is not required as the credit union is not engaged in a trading book for financial instruments.

Capital resources

Tier 1 Capital

The vast majority of Tier 1 capital comprises

- Retained profits
- Reserves.

From 1 January 2014 the Tier 1 capital also includes

- Asset Revaluation Reserves on Property

Additional Tier 1 capital

This is a new classification of capital and includes

- Preference share capital approved by APRA and qualify as Tier 1 capital

Tier 2 Capital

Tier 2 Capital consists of capital instruments that combine the features of debt and equity in that they are structured as debt instruments, but exhibit some of the loss absorption and funding flexibility features of equity. There are a number of criteria that capital instruments must meet for inclusion in Tier 2 capital resources as set down by APRA.

Tier 2 capital generally comprises:

- General reserve for Credit Losses
- Tier 2 capital instruments - subordinated loan.

	2016 $	2015 $
Tier 1		
General Reserve and Retained earnings	8,785,760	8,665,279
Capital Reserve	1,140,999	1,106,654
APRA Tier 1 adjustments	(214,868)	(240,610)
Net Tier 1 Capital	**9,711,891**	**9,531,323**
Tier 2		
Reserve for Credit Losses	443,468	347,559
Net Tier 2 Capital	**443,468**	**347,559**
Total Capital	**10,155,359**	**9,878,882**

Total risk weighted assets

The risk weighted exposures based on APRA prescriptions amounts to $51.3 million. The Capital adequacy ratio on total capital base is 19.8% (2015: 20.4%). The Tier 1 ratio stands at 18.9% (2015: 19.6%).

Directors' Declaration

In the opinion of the Directors of South West Credit Union Co-Operative Limited:

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, 2016 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.

3. The Financial statements comply with the International Financial Reporting Standards

Signed in accordance with a resolution of the Directors:

Director:

Gary Parsons
Chair

Director:

Robert Lane
Vice Chairman

Dated this 30th day of August 2016

Crowe Horwath™

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 statement of financial position as at 30 June 2016, the statement of profit or loss, the statement of comprehensive income, the statement of changes in members' equity and the statement of cash flows for the year then ended, 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 that gives a true and fair view in accordance with Australian Accounting Standards 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 International Financial Reporting Standards (IFRS).

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. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about 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 judgment, 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 company's preparation 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*.

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 entity's financial position as at 30 June 2016 and of its performance for the year ended on that date; and

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

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

Crowe Horwath Melbourne

CROWE HORWATH MELBOURNE

David Munday

David Munday

Partner

Melbourne, Victoria

30 August 2016

SouthWest Credit

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