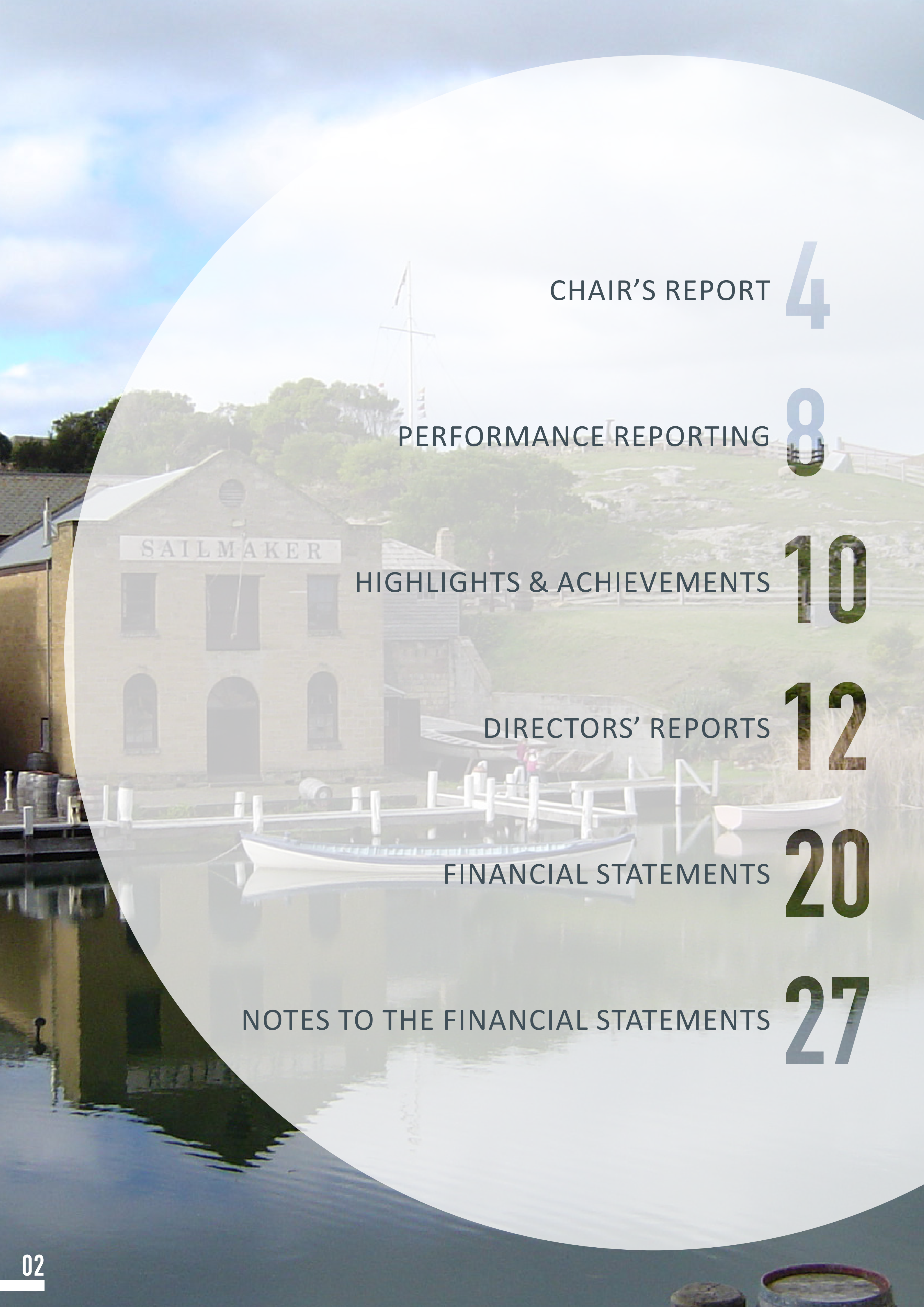
SouthWest Credit

ANNUAL REPORT 2017


SAILMAKER

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

I am pleased to present my report to members of South West Credit.

Planing for the future - Vision 2020

It is important, in challenging times for businesses to focus on planning for the future. Your Board and management have developed a 'five pillar' strategic plan called Vision 2020, that encompasses Sustainability, Delivery, Engagement, Competitiveness and Longevity.

Sustainability through managed organic growth of our loans and deposits.

Delivery by building and retaining highly capable people to ensure our members needs are delivered at the highest level.

Engagement via a relevant and compelling offer to members providing the latest in banking services, products and technology.

Competitiveness through efficiency and long term cost reduction.

Longevity by adopting sensible risk management practices and following a robust risk management framework.

Our Vision 2020 highlights the pillars of our short and long term business model, ensuring the needs of our members are our number one priority.

Through the year, we invested in new products and technology upgrades to enhance the banking services we offer to members. We have received very positive feedback from members, concerning the release of our banking app, and we are very excited to be preparing for the New Payment Platform that will provide members with the convenience of sending and receiving payments in 'real time'.

I would like to thank our Projects Team for the hours dedicated to the delivery of our projects.

Financial Overview

The financial year ended with a profit after tax of $188,409. While the end result is down on last year's result ($216,390), market conditions contributed to a 7.6% drop in Mortgage Loan interest revenue for the year.

Capital adequacy and liquidity ratios remain strong, and well above the prescribed regulatory requirements for financial institutions.
The year has certainly been a challenge, but has also seen us build on our asset base. I am very pleased to report our assets now stand at $122 million ($105.5 million 2016).

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

I would like to sincerely thank our finance and loan teams who managed through a very challenging period.

Our People & Culture

For many years now South West Credit has engaged in a positive culture program to build on our positive working environment. The strength of any organisation is its people, and the leadership of the management team.

The professionalism of our people, ensures high quality services and banking products are delivered to our members in a friendly and efficient manner. Our staff also support many organisations in our community, which enhances our brand as a local business that actively gives back to the community we live and work in.

On behalf of the members and board a big thank you to all employees who continue to deliver the best possible customer experience that can be offered.

Dynamic Leadership Team

I would like to acknowledge our leadership team led by Chief Executive Officer David Brown, Chief Financial Officer Ravi Ganeshalingam, Branch Manager Helen Boyd and the managers who provide invaluable and reliable assistance.

We are very fortunate to have such a capable and enthusiastic management team, with an extensive knowledge of the ever changing financial environment. Our management team is a driving force in the development of products and services that benefit all members.

Your Board at Work

The changing face of the financial services industry and heavy regulation is a challenge for any board. The focus on risk proofing our business has been a priority for the board to ensure policies and procedures are aligned with our risk strategies.
I assure all members that your interests are at the forefront of all decisions made by the board and that the board is focussed on ensuring South West Credit remains a relevant and secure long term financial service provider for members.

The responsibility of a Director is ever increasing and your Directors are committed to a regular Director Training program. I have personally witnessed each Director continually striving to meet and exceed all expectations placed on the role.

Directors actively engaged in the preparation and participation in monthly Board and sub-committee meetings and the attendance at the annual Director Planning Day as well as regularly representing the organisation at local community events.

Attendance at industry conferences and forums ensures the Board is actively engaged in industry initiatives and ongoing training which 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

The continuing consolidation within the Credit Union Industry and the changing financial sector will once again challenge South West Credit. I am confident we have positioned ourselves positively to be able to deliver our long term strategies that address the challenges that we will face going forward.

Looking forward there is a lot to be excited about. New initiatives and opportunities will add and enhance our member offering and benefit existing and prospective members. South West Credit's role in the community is building as a reliable and secure financial services provider, employer and supporter.

We are proud to be truly local. Your Credit Union is committed to providing you with innovative and relevant banking services putting members before profit.

I would like to again express my gratitude to our loyal members for their ongoing support

Gary Parsons
Chair of the Board of Directors

In 2016/17

SouthWest Credit

Grants & Donations to the Community

$53,121

FOR THE YEAR

AVERAGED
OVER-THE-
TRANSACTION

CARD TRANSACTIONS INCREASED BY **9%**

$61.6 million

IN RETAIL DEPOSITS

APPROVED

$36

MILLION IN LOAN APPLICATI
FOR 2016-2017

456
COUNTER
IS PER DAY

4% INCREASE IN ELECTRONI C TRANSACTIONS

OPENED
991 NEW
SAVINGS ACCOUNTS

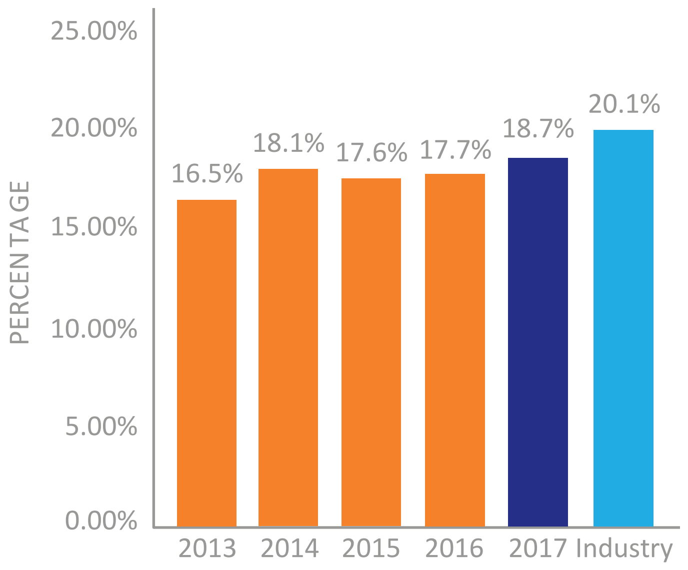
1,061,060
CARD TRANSACTIONS

Total Assets at
$122.6
MILLION

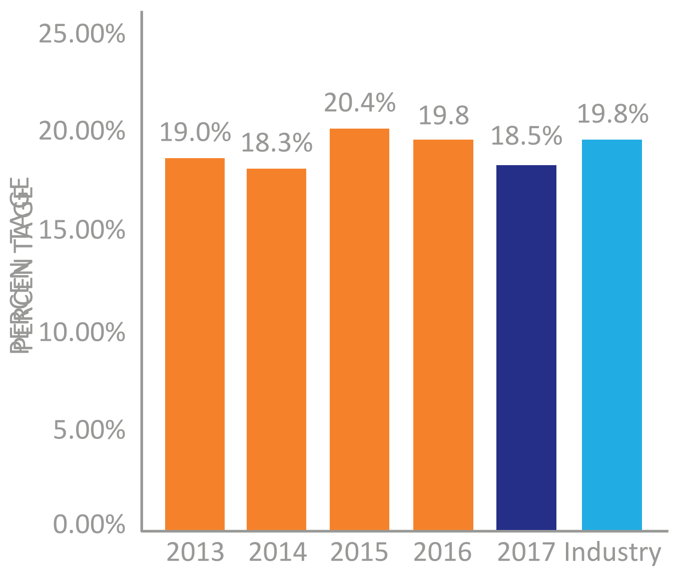
ONS

Performance Reporting

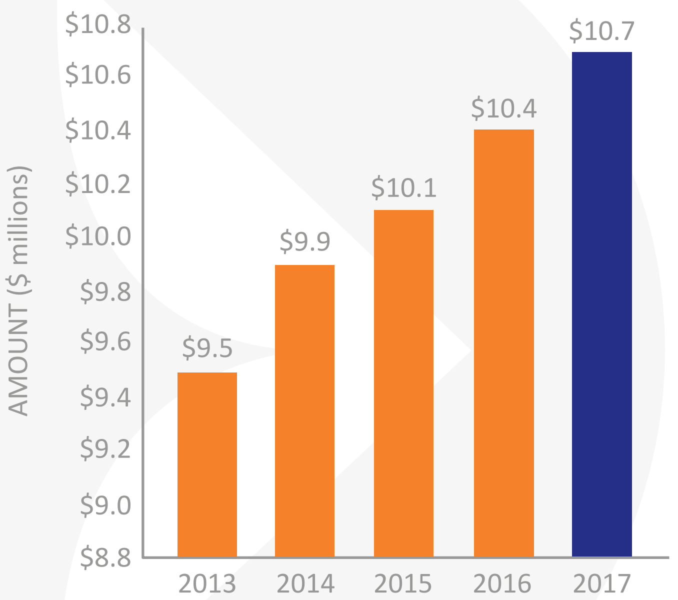
Liquidity - Ratio



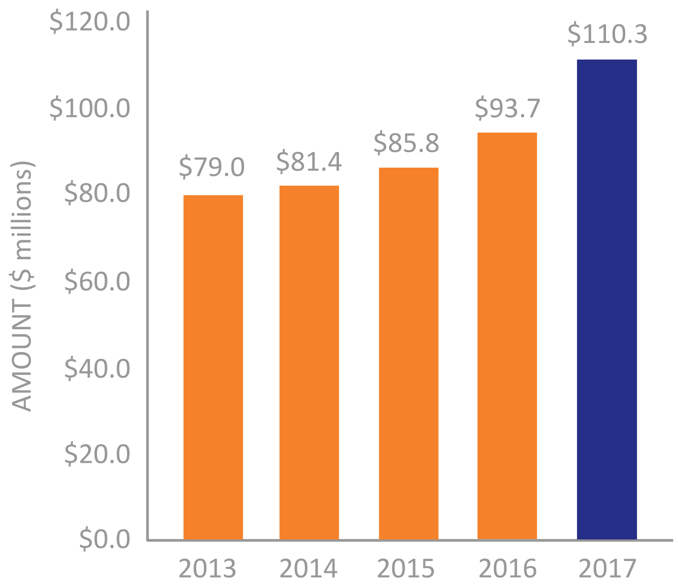
Capital Adequacy Ratio



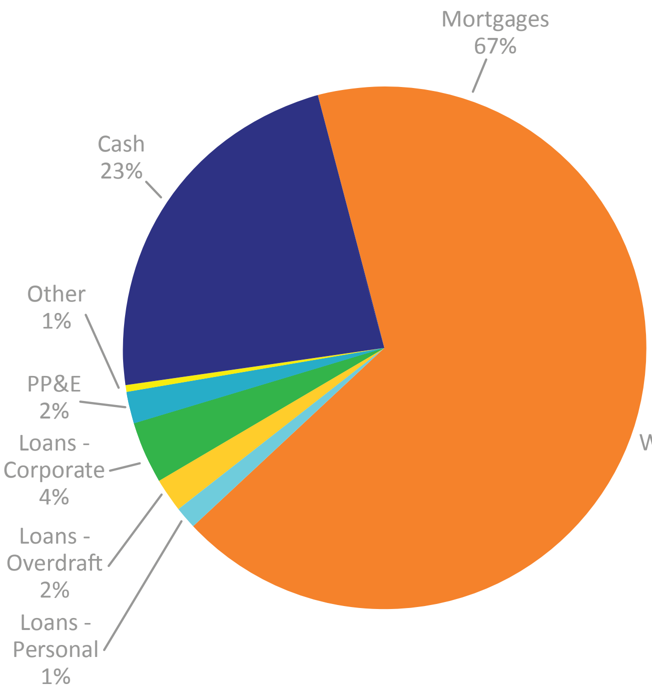
Net Assets / Net Worth



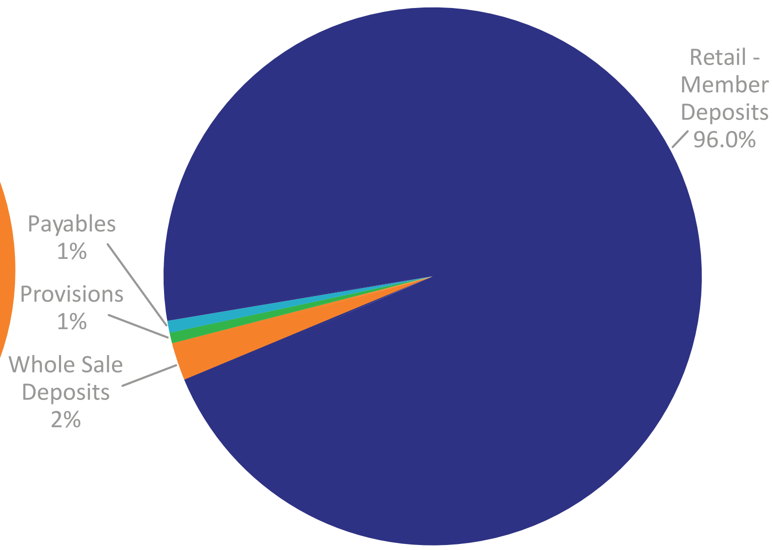
Total Deposits Trend Over 5 Years



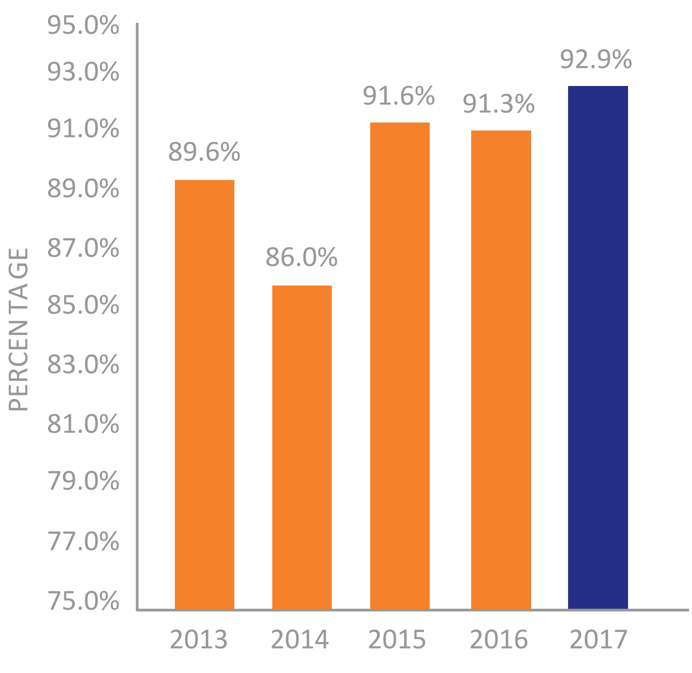
Composition of Assets
(as at June 17)



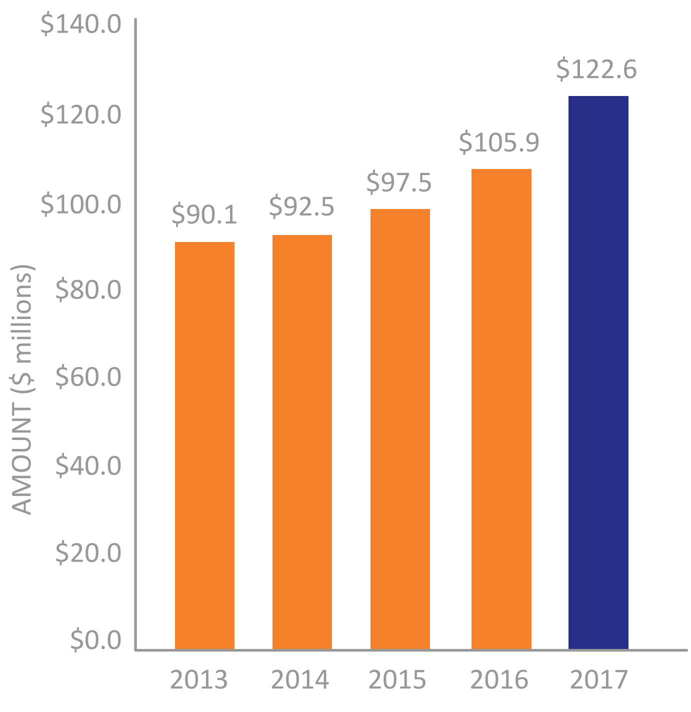
Composition of Liabilities
(as at June 17)



Expenses to Income



Total Assets



Highlights & Achievements

People & Culture

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

Our team of 27 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.

There were a number of achievements celebrated in 2016/17.
In August 2016, South West Credit received the highly regarded 'Culture Transformation Award' at the Human Synergistics Culture Awards.
The accolades continued in November when South West Credit won two awards at the 2016 QBE Membercare Awards. Our branch was awarded the 'Domestic Financial Institution of the Year', and our Insurance Specialist Jessie McConnell was awarded 'Outstanding Improvement from an Individual'.

During the year we celebrated the following staff service milestones:

- Annmarie Thwaites (5 years service)
- Jeanette Nelson (10 years service)
- David Brown (15 years service)

We are proud of our staff and their commitment to the organisation and its future. Staff have undergone significant training throughout 2016/17 to up-skill and develop themselves, to meet the organisational needs well into the future.

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 Julia O'Neill, Robyn Brooks and Patreena Kelly, who were the joint-recipients of this prestigious award in 2016.

The winner for 2017 will be announced at the Annual General Meeting.

Environmental Responsibility

South West Credit understands the importance of protecting our environment and therefore has a number of initiatives in place to reduce our carbon footprint:

eStatements
Members are encouraged to go paperless and choose eStatements for their accounts. eStatements are better for the environment and reduce the risk of mail fraud and identity theft, which unfortunately is becoming more common.

Green Loan
Our Green Loan rewards members for renovating or building in a sustainable way, with discounts on interest rates and savings on the loan establishment fee.

Recycling
Recycling of all printer cartridges and cardboard waste.

Reduced printing
Reduction in the number of printed copies of our Annual Report by directing people to our website to read or download.

Marketing & Communications

South West Credits presence in the community has strengthened over the past year, reaching new areas of the community.

Our School Banking program continued to be a key focus, with our Active Saver Program now in place at 4 local primary schools. Our involvement with the Healthy Moves Program continues to be a great relationship, building our brand awareness in younger generations.

Our First Home Buyer Information Nights were introduced in 2015 and have grown significantly, with this years event experiencing record attendance. This annual event is a great information source for those in the community looking to enter the property market. Throughout the next year we will be looking to expand these information nights into other areas of banking.

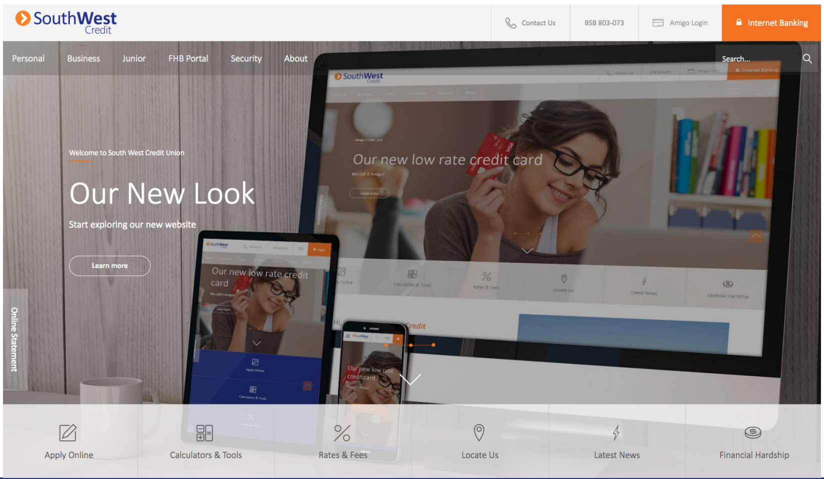
Digital marketing continues to evolve rapidly and we have delved into a number of new, more targeted channels this past year. Our social media presence grew significantly with our Facebook following doubling during 2016/17. We anticipate the use of new digital marketing channels over the next year.

Growth has continued to be achieved in a number of areas including QBE Insurance, Financial Planning and 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 credit card Amigo, University & Apprentice Account, full Mortgage Offset Account and 31 Day Notice Account.

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 ensure that the community is aware of the benefits of banking with South West Credit. Major sponsorships for the year were the Healthy Moves Program, Warrnambool & District Umpires Association, Rotary Club of Warrnambool, Warrnambool & District Football Netball League, the South West Regional Cancer Centre and ongoing support to the Leila Rose Foundation



Investment in Technology

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

The South West Credit website underwent a significant makeover, redesigning the layout to make the site fully responsive, to become our virtual branch for members.

Our digital banking channels underwent upgrades to provide functionality enhancements in preparation for our new payment platform 'Osko'. These upgrades related to Internet Banking, Mobile Banking and our Banking App.

The new payment platform 'Osko' has been a significant investment for South West Credit, in both system and channel upgrades. This upgrade will put South West Credit at the forefront of payment technology, allowing real time payments between participating financial institutions Australia wide. This new payment method will provide significant benefits to our members by providing a more superior payment platform than many of our national competitors.

Upgrades were also made to ensure the security of our banking platform is of the highest standard, this included upgrades to our fraud and card monitoring.

Technology within the banking sector continues to change and grow at a rapid rate and we look forward to seeing what the next 12 months provides.

Directors' Report

Your Directors present their report for the year ended 30th June, 2017.

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 Standing Tall in Warrnambool, 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 Advisor and Certified Practicing Accountant. Director of SED Partners Pty Ltd. 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 Operations, Wannon Water. Member of Community @ Heart, 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

Fellow 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 and Audit Committees. 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 fifteen 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 or due and receivable by Directors shown in these financial statements by reason of:

- a contract made by the entity or a related corporation;
- a firm of which they are a member;
- a body corporate in which they have a substantial financial interest

Consultancy fees paid to SED Partners Pty Ltd totaling $9,108. 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 throughout the year.

REVIEW OF OPERATIONS

Operating Results

The 2017 financial year ended with a profit after taxation of $188,409 (2016 $216,390).

The reduction in profitability was the result of low interest rate environment and higher loan repayments. These factors were offset by a 4% increase in interest revenue which maintained net interest income at prior year levels. Operating expenses, excluding loan impairment, have been well contained with an average increase of 4.5% overall compared to the prior year. The cost to income ratio was **92.9% (2016 91.3%)**, above the industry average of 86%. Net 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, 2017 were $10.7 million (2016 $10.4 million).Total assets as at 30th June 2017 were $122.6 million (2016 $105.9 million), including off balance sheet loans, total assets were $130.6 million (2016 $111.4 million). Loan funding of $35.6 million (2016 $26.0 million) resulted in total loans of $91.6 million (2016 $77.6 million). Total deposits increased by $16.6 million (2016 $7.9 million) to meet loan funding and liquidity demands.

The Capital Adequacy ratio is the main measure

Directors' Report-Continued

of a Credit Union's overall financial soundness. This ratio as at 30th June 2017 was 18.5% (2016 19.8%). The current ratio is well above the minimum required by Australian Prudential Regulation Authority (APRA) prudential standards and internal risk management thresholds.

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.

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 a document titled "Vision 2020" 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 Directors and Officers liability cover. The officers of the Credit Union covered by the insurance contract include the Directors, executive officers, secretary and employees. In accordance with normal commercial practice, disclosure of the premium payable under, and the nature of liabilities covered by, the insurance contract is prohibited by a confidentiality clause in the contract. No insurance has been provided for the benefit of the auditors of the Credit Union.

Director 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	5	4	4	6	4	6
Number of Meetings Attended							
Gary Parsons	11	1^	4	4	5	4	1^
Robert Lane	12	n/a	4	4	4	4	6
Michael Beks	12	5	n/a	n/a	n/a	n/a	6
John Harris	9	2/2#	n/a	n/a	n/a	n/a	5/5*
Jenny Waterhouse	10*	4/4*	n/a	n/a	5	n/a	n/a
Lex McDowell*	11	3	4	4	n/a	4	n/a
Matt Northeast	10	3	n/a	n/a	4	n/a	n/a

**Denotes : Leave of Absence ^Denotes : Attended Meeting as Guest # Denotes : Membership ceased*

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 2017 financial year Directors and Key Management Personnel undertook 283 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.

Directors' Report-Continued

Community@Heart

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

RISK MANAGEMENT

Risk is an important part of our business. Understanding and managing the risks that the Credit Union faces is the key to successful governance of Credit Union.
The Board of Directors have an overall responsibility for the establishment and oversight of the Credit Union's Risk Management Framework.

The Board has established the following committees:

- Audit Committee
- Risk and Compliance Committee
- Governance Committee

Which are responsible for developing and monitoring the Credit Union's Risk Management Policies. These Committees report regularly to the Board.

The fore mentioned committees are responsible for monitoring compliance with Risk Management policies and procedures, and reviewing the Risk Management Framework in relation to the risks faced by the Credit Union. These Committees are assisted in these functions by the Internal Auditors and Risk and Compliance Manager.

The Risk Management processes adopted assist the Board and senior management to identify and understand material risks to which the Credit Union is exposed to as a result of its strategic objectives.

The Board has approved an overarching risk management strategy which includes a description of those key risks identified by the Credit Union, and the risk management systems established to manage and monitor the exposure of each key risk. Central to this risk management system is the Board approved Risk Appetite Statement (RAS).

The Risk Appetite Statement describes the material risks to which the Credit Union is exposed, and the degree of risk that the Board is prepared to accept to fall in line with its strategic objectives and business plan. The RAS covers the Credit Union's appetite and tolerance levels for each material risk and is supported by a suite of board approved policies which provide operational guidance on expected risk management practices across the business.

Risk Management policies and procedures are reviewed regularly to reflect changes in market conditions, and products and services offered. Senior management and the Board monitor compliance with these policies as well as regular oversight of identified Key Risk Indicators (KRIs) to ensure that the Credit Union operates within this risk profile.

The Credit Union's risk management framework focuses on the major areas of credit risk, market risk, liquidity risk and operational risk. Authority flows from the Board of Directors to separate Risk and Audit Committees, which are integral to the overall management of risk for the Credit Union.

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, 2017, has been received and is included on the following page.

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

On behalf of the Directors

Director Gary Parsons Chair	Director Robert Lane Vice Chair

Dated: 29 August, 2017

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 2017 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

CROWE HORWATH MELBOURNE

David Munday

David Munday
Partner

Melbourne, Victoria
29 August 2017

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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. David has worked with the Credit Union for 15 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

Over 30 years working in the Finance industry, more than 20 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 25 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.

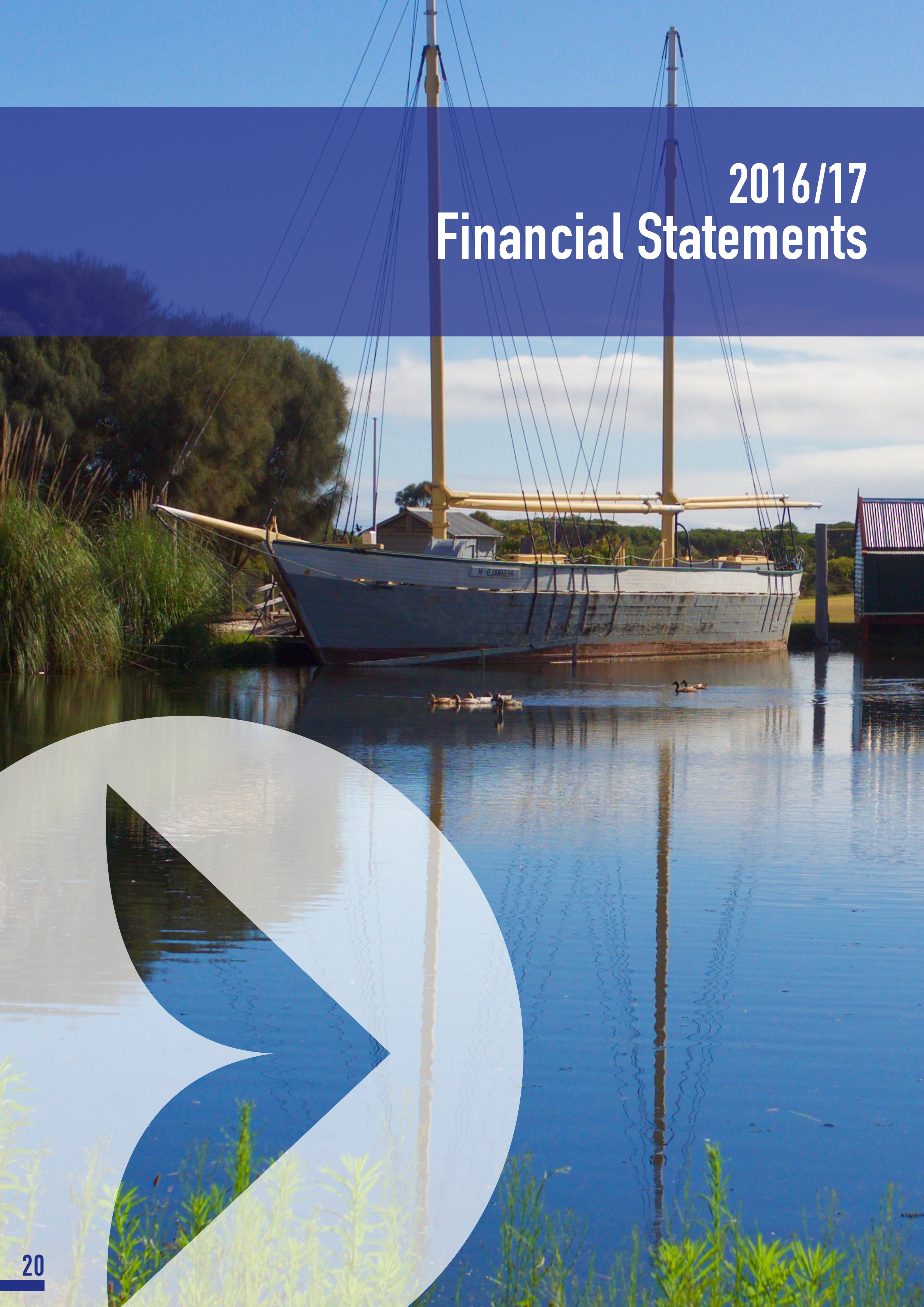
Jason Albert

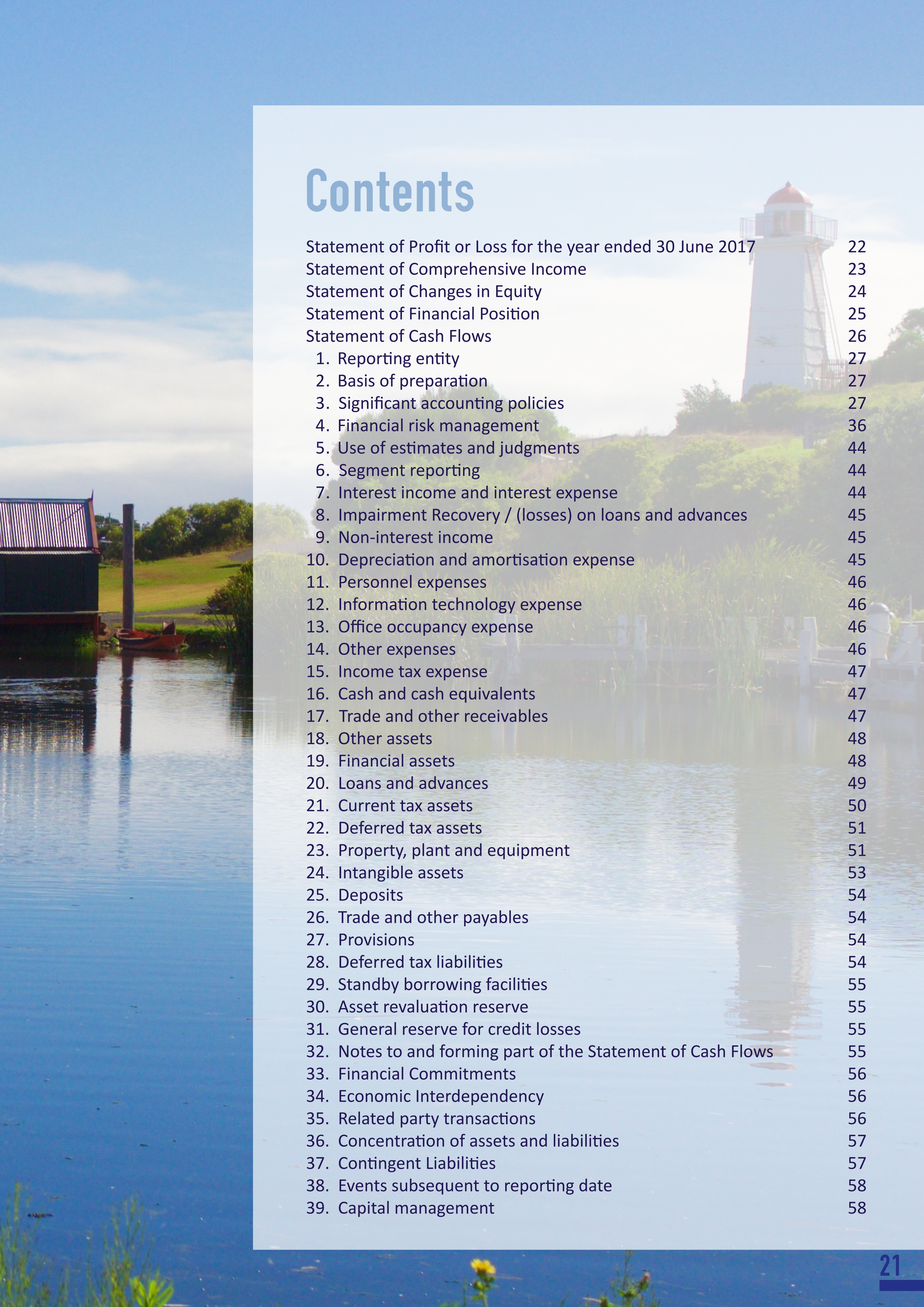
Credit Risk Manager

17 years experience with a large banking organisation, covering areas of retail and commercial banking. Previously owned small business consultancy business.

Jason oversees the maintenance of sound lending practices within the Loans department and the identification, measurement and management of risks associated with the organisation's credit portfolio.

2016/17
Financial Statements





Contents

Statement of Profit or Loss

For the year ended 30 June 2017

	Note	2017	2016
		$	$
Interest income	7	4,774,225	4,603,990
Interest expense	7	(1,508,272)	(1,401,147)
Net interest income	7	3,265,953	3,202,843
Impairment Recovery/(losses) on loans and advances	8	(11,738)	(6,094)
Non-interest income	9	764,651	713,154
Depreciation and amortisation	10	(162,209)	(172,738)
Personnel expenses	11	(1,628,926)	(1,516,238)
Information technology expense	12	(530,993)	(470,244)
Office occupancy expense	13	(61,481)	(67,315)
Other expenses	14	(1,377,320)	(1,370,786)
Profit before income tax		257,937	312,582
Income tax expense	15	(69,528)	(96,192)
Profit for the year attributable to members		**188,409**	**216,390**

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 2017

	2017	2016
	$	$
Profit for the year	188,409	216,390
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	109,084	34,345
Total comprehensive income for the year	297,493	250,735
Total comprehensive income for the year attributable to members	**297,493**	**250,735**

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 2017

	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 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
Total comprehensive income:				
Profit for the year, after tax	**-**	**188,409**	**-**	**188,409**
Other comprehensive income, net of tax	**109,084**	**-**	**-**	**109,084**
Transfers In/(Out)	**-**	**(69,110)**	**69,110**	**-**
Balance at 30 June 2017	1,250,083	8,905,059	512,578	10,667,720

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

Statement of Financial Position

As at 30 June 2017

	Note	2017	2016
Assets		$	$
Cash and cash equivalents	16	18,845,115	11,146,845
Trade and other receivables	17	138,022	176,010
Other assets	18	128,949	95,697
Financial assets	19	9,442,827	14,561,800
Loans and advances	20	91,601,116	77,553,376
Current tax assets	21	-	5,330
Property, plant and equipment	23	2,259,282	2,205,462
Intangible assets	24	140,378	46,465
Deferred tax assets	22	85,614	81,305
Total Assets		**122,641,303**	**105,872,290**
Liabilities			
Deposits	25	110,311,891	93,747,495
Trade and other payables	26	1,138,509	1,293,744
Tax Liabilities	21	7,859	-
Provisions	27	260,092	246,968
Deferred tax liabilities	28	255,232	213,856
Total Liabilities		111,973,583	95,502,063
Net Assets		**10,667,720**	**10,370,227**
Members Equity			
Retained earnings		8,905,059	8,785,760
Revaluation reserve	30	1,250,083	1,140,999
General Reserve for credit losses	31	512,578	443,468
Total Members Equity		**10,667,720**	**10,370,227**

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 2017

	Note	2017	2016
		$	$
Cash flows from operating activities			
Interest received		4,824,570	4,586,844
Non-interest income received		727,860	649,472
Interest paid		(1,482,660)	(1,401,147)
Payments to suppliers and employees		(3,799,696)	(3,513,166)
Income tax (paid)		(60,648)	(52,584)
Net (decrease)/increase in deposits		16,564,396	7,906,064
Net decrease/(increase) in members' loans		(14,059,478)	(6,178,128)
Net cash from operating activities	32 (a)	**2,714,344**	**1,997,355**
Cash flow from investing activities			
Net movement in financial assets		5,118,974	1,503,609
Payment for purchase of property, plant and equipment		(155,294)	(211,844)
Payment for purchase of Intangibles		(4,188)	(22,303)
Proceeds from disposal assets		-	1,028
Dividends received		24,434	24,140
Net cash from/(used) investing activities		**4,983,926**	**1,294,630**
Increase/(Decrease) in Cash		**7,698,270**	**3,291,985**
Cash at the beginning of the financial year		**11,146,845**	**7,854,860**
Cash at the end of the financial year	32 (b)	**18,845,115**	**11,146,845**

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 2017

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 2017.

The financial statements were authorised for issue on 29 August 2017 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.

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

3. Significant accounting policies (continued)

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

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.

(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.

3. Significant accounting policies (continued)

(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.

(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, TransAction Solutions Pty Ltd and Shared Services Partners Pty Ltd are measured at cost less any impairment charges, as their 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 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.

3. Significant accounting policies (continued)

(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. 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.

3. Significant accounting policies (continued)

(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.

(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 has adopted the following amended standards in the financial report commencing from 1 July 2016.

3. Significant accounting policies (continued)

AASB Reference	Nature of Change	Application Date	Impact on initial application
AASB 2014-4 Acceptable methods of depreciation and amortisation	Clarifies that the basis of depreciation and amortisation is the expected pattern of consumption of future economic benefits of an asset. Establishes that revenue-based methods are not appropriate as a depreciation method and unlikely to be appropriate (rebuttable presumption) as an amortisation method	Periods commencing on or after 1 January 2016	The Amendments do not have a material impact.
AASB 2015-1 Annual Improvements 2012-2014 Cycle	Amendments to various standards: AASB 5 Non-current Assets Held for Sale and Discontinued Operations: Changes in methods of disposal and clarification of reclassification of an asset from held for sale to held for distribution	Periods commencing on or after 1 January 2016	The Amendments do not have a material impact.
AASB 2015-2	Introduces flexibility in relation to the presentation of notes and information in the financial report and clarifies the ability to use judgement when applying the disclosure requirements in Australian Accounting Standards to remove immaterial information that can obstruct the usefulness of information in the financial report	Periods commencing on or after 1 January 2016	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 2017 reporting period. The Credit Union's assessment of the impact of these new standards and interpretations is set out below. Changes that are not likely to impact the financial report of the credit union have not been reported.

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	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, as most of Credit Union's revenue arises from the provision of financial services which are governed by AASB 9 Financial Instruments. AASB 9 continues the effective interest rate method for financial instruments carried at amortised cost. This is the method currently required under AASB 139.
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	No material impact is expected as Credit Union does not have any operating leases.

Notes to and forming part of the Financial Statements

For the year ended 30 June 2017

AASB Reference	Nature of Change	Application Date	Impact on initial application
AASB 2016-2	The amendments require 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.
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	Credit Union has conducted a high-level diagnostic on the impact of this standard. This highlighted that the move to an expected credit loss model for impairment will impact Credit Union with earlier recognition of expected credit losses. This is expected to impact the level of the provision for impairment (at Note 20). APRA released guidance in July 2017 highlighting the prudential reporting approach with regards to AASB 9. The quantitative impact of the expected credit loss model has not yet been determined by Credit Union. Based on the nature of Credit Union's financial assets, the classification and measurement of financial assets are not expected to have a material change. Credit Union does not conduct any hedge accounting, so these changes are not applicable. Management are developing an implementation project to quantify the impact of this standard during the 2018 financial year. To date, management have focused on analysing historical credit losses to enable a starting point for this implementation project.
AASB 2014-5 Amendments to Australian Accounting Standards arising from AASB 15	Introduces flexibility in relation to the presentation of notes and information in the financial report and clarifies the ability to use judgement when applying the disclosure requirements in Australian Accounting Standards to remove immaterial information that can obstruct the usefulness of information in the financial report	Periods commencing on or after 1 January 2018	Refer to the section on AASB 15 above.

AASB Reference	Nature of Change	Application Date	Impact on initial application
AASB 2014-7 Amendments to Australian Accounting Standards arising from AASB 9	AASB 2014-7 incorporates the consequential amendments arising from the issuance of AASB 9. 1 January 2018	Periods commencing on or after 1 January 2018	Refer to the section on AASB 9 above.
AASB 2015-8 Amendments to Australian Accounting Standards – Effective Date of AASB 15	AASB 2015-8 amends the mandatory application date of AASB 15 Revenue from Contracts with Customers so that AASB 15 is required to be applied for annual reporting periods beginning on or after 1 January 2018 instead of 1 January 2017. It also defers the consequential amendments that were originally set out in AASB 2014-5 Amendments to Australian Accounting Standards arising from AASB 15. The amendments clarify the application of AASB 15 in three specific areas to reduce the extent of diversity in practice that might otherwise result from differing views on how to implement the requirements of the new standard. They will help companies: 1) Identify performance obligations (by clarifying how to apply the concept of 'distinct'); 2) Determine whether a company is a principal or an agent in a transaction (by clarifying how to apply the control principle); 3) Determine whether a licence transfers to a customer at a point in time or over time (by clarifying when a company's activities significantly affect the intellectual property to which the customer has rights).	Periods commencing on or after 1 January 2017	Refer to the section on AASB 15 above.

AASB Reference	Nature of Change	Application Date	Impact on initial application
ASB 2016-3 Amendments to Australian Accounting Standards – Clarifications to AASB	The amendments also create two additional practical expedients available for use when implementing AASB 15: I. For contracts that have been modified before the beginning of the earliest period presented, the amendments allow companies to use hindsight when identifying the performance obligations, determining the transaction price, and allocating the transaction price to the satisfied and unsatisfied performance obligations. II. Companies applying the full retrospective method are permitted to ignore contracts already complete at the beginning of the earliest period presented.	Periods commencing on or after 1 January 2018	Refer to the section on AASB 15 above.

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.

4. Financial risk management (continued)

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.

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 2017, 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 $416k or an effect of 4.32% 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 8.53% 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.

Notes to and forming part of the Financial Statements

For the year ended 30 June 2017

As at 30 June 2017	Variable	Fixed Interest Rate Maturing 0-3 months	4-12 months	1 - 5 Year	Non Interest Bearing	Total
Financial assets						
Cash and cash equivalents	8,137,489	9,971,317	-	-	736,309	18,845,115
Loans and advances	90,514,956	-	-	1,137,394	-	91,652,350
Other receivables	-	-	-	-	138,022	138,022
Held-to-maturity investments	-	3,464,894	4,308,905	1,500,625	-	9,274,424
Available-for-sale investments	-	-	-	-	168,403	168,403
Total Financial assets	**99,652,445**	**13,436,211**	**4,308,905**	**2,638,019**	**1,042,734**	**120,078,314**
Financial liabilities						
Deposits	48,672,777	38,398,767	23,133,448	106,899	-	110,311,891
Other Payables	-	-	-	-	1,138,509	1,138,509
Total Financial liabilities	**48,672,777**	**38,398,767**	**23,133,448**	**106,899**	**1,138,509**	**111,450,400**

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	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**

4. Financial risk management (continued)

The Board has limited the level of mismatch of interest rate 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 two years.

(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 tradable in the market, and those investments are made to enable the Credit Union to carry out its operating activities rather than for short-term price gains. As such, exposure to price risk is not significant to the Credit Union.

(c) Credit risk

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

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

	2017			2016		
	Carrying Value	Commitments	Max Exposure	Carrying Value	Commitments	Max Exposure
Loan type	$	$	$	$	$	$
Mortgage	84,564,576	8,842,394	93,406,970	71,203,473	12,524,643	83,728,116
Personal	1,700,013	24,711	1,724,724	1,684,160	152,292	1,836,452
Overdrafts	739,893	-	739,893	591,104	-	591,104
Total to natural persons	**87,004,482**	**8,867,105**	**95,871,587**	**73,478,737**	**12,676,935**	**86,155,672**
Corporate borrowers	4,647,868	96,615	4,744,483	4,098,684	96,500	4,195,184
Total	**91,652,350**	**8,963,720**	**100,616,070**	**77,577,421**	**12,773,435**	**90,350,856**

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.

As at 30 June 2017	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	48,672,777	48,668,782	-	-	-	-	48,668,782
Deposits from members – term	61,639,114	38,756,904	23,535,933	109,626	-	-	62,402,463
Other Payables	1,138,509	-	-	-	-	1,138,509	1,138,509
Subtotal	**111,450,400**	**87,425,686**	**23,535,933**	**109,626**	**0**	**1,138,509**	**112,209,754**
Undrawn overdraft facility	-	400,000	-	-	-	-	400,000
Other commitments	-	8,963,720	-	-	-	-	8,963,720
Total Financial liabilities	**111,450,400**	**96,789,406**	**23,535,933**	**109,626**	**0**	**1,138,509**	**121,573,474**

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**	**0**	**1,293,743**	**95,676,580**
Undrawn overdraft facility	-	400,000	-	-	-	-	400,000
Other commitments	-	12,676,935	-	-	-	-	12,676,935
Total Financial liabilities	**95,041,238**	**69,418,548**	**37,842,764**	**198,460**	**0**	**1,293,743**	**108,753,515**

(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).
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.

4. Financial risk management (continued)

	2017 Fair Value	2017 Carrying Value	2016 Fair Value	2016 Carrying Value
Financial Assets				
Cash and cash equivalents	18,845,115	18,845,115	11,146,845	11,146,845
Loans and advances	91,652,350	91,652,350	77,577,421	77,577,421
Other receivables	138,022	138,022	176,010	176,010
Held-to-maturity investments	9,274,424	9,274,424	14,393,397	14,393,397
Available-for-sale investments	168,403	168,403	168,403	168,403
Total Financial assets	**120,078,314**	**120,078,314**	**103,462,076**	**103,462,076**
Financial liabilities				
Deposits from members – at call	48,672,777	48,672,777	45,260,310	45,264,022
Deposits from members – term	62,008,048	61,639,114	48,767,261	48,483,473
Other Payables	1,138,509	1,138,509	1,293,744	1,293,744
Total Financial liabilities	**111,819,334**	**111,450,400**	**95,321,315**	**95,041,239**

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

	2017 $	2016 $
Investment in equity instruments classified as available-for- sale		
Opening balance	168,403	148,403
Additions	-	20,000
Losses recognised in other comprehensive income	-	-
Losses recognised in profit or loss	-	-
Closing Balance	168,403	168,403
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.

4. Financial risk management (continued)

(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.

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 with a book value of $3,435,934 under the new lending facility to Bendigo. As at 30 June 2017, the Credit Union had loans under management with the Bendigo and Integris programs of $8,018,110 (2016: $5,551,852).

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 2017 revaluation was made by Preston Rowe Paterson Warrnambool as at 31 May 2017. 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.

7. Interest income and interest expense

(a) Interest income and interest expense	2017 $	2016 $
Interest income		
Cash and cash equivalents	265,415	206,670
Loans and advances to customers	4,178,198	3,986,793
Investment securities	330,612	410,527
Total interest income	**4,774,225**	**4,603,990**
Interest expense		
Deposits from customers	1,508,272	1,401,147
Total interest expense	1,508,272	1,401,147
Net interest income	**3,265,953**	**3,202,843**

Notes to and forming part of the Financial Statements

For the year ended 30 June 2017

7. Interest income and interest expense (continued)

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

	2017			2016		
	Average Balance	Interest	Average Interest Rate	Average Balance	Interest	Average Interest Rate
(a) Interest Revenue						
Investment Securities	12,671,164	330,612	2.6%	15,155,202	410,527	2.7%
Loans and Advances	84,602,551	4,178,198	4.9%	74,324,128	3,986,793	5.4%
Cash and cash equivalents	14,712,573	265,415	1.8%	9,500,853	206,670	2.2%
Total		**4,774,225**			**4,603,990**	
(b) Interest Expense						
Member Deposits	101,975,397	1,508,272	1.5%	90,946,885	1,401,147	1.5%
Net Interest Income		**3,265,953**			**3,202,843**	

	2017 $	2016 $
8. Impairment Recovery / (losses) on loans and advances		
(Increase)/decrease in provision for impairment	(27,188)	(10,975)
Bad debts recovered	17,671	26,152
Bad debts written off directly against profit	(2,221)	(21,271)
	(11,738)	**(6,094)**
9. Non-interest income		
Dividends	24,434	24,140
Fees and commissions		
- Loan fee income	97,167	86,203
- Insurance commissions	164,014	113,504
- Other fees and commissions	437,170	432,430
Other income	41,866	56,877
	764,651	**713,154**
10. Depreciation and amortisation expense		
Depreciation of plant and equipment	53,277	55,628
Depreciation of buildings	50,460	49,064
Amortisation of intangibles	58,472	68,046
	162,209	**172,738**

Notes to and forming part of the Financial Statements

For the year ended 30 June 2017

	2017	2016
11. Personnel expenses	**$**	**$**
Salaries and wages	1,355,946	1,247,254
Contributions to defined contribution plans	134,054	129,268
Payroll tax	47,650	47,975
Workers compensation insurance	4,968	3,653
Staff training	30,487	13,152
Other	55,821	74,936
	1,628,926	**1,516,238**
12. Information technology expense		
Computer and software maintenance	272,286	238,017
Managed Desktop Services	258,707	232,227
	530,993	**470,244**
13. Office occupancy expense		
Rates and taxes	13,141	14,789
Cleaning	18,549	17,390
Maintenance	11,363	15,429
Rent	10,089	11,606
Other	8,339	8,101
	61,481	**67,315**
14. Other expenses		
Advertising and promotion	112,184	103,155
Loan and deposit administration costs	532,039	499,123
Professional	193,630	219,212
General administration costs	333,883	340,020
Other	205,584	209,276
	1,377,320	**1,370,786**
(a) Auditor's remuneration		
External audit fees	**44,000**	**44,000**

15. Income tax expense	2017 $	2016 $
(a) Income tax expense		
Current tax expense	73,837	99,858
Deferred tax expense	(4,309)	(3,666)
Total income tax expense in the Statement for Profit or Loss	**69,528**	**96,192**
b) Numerical reconciliation between tax expense and pre-tax net profit		
Profit for the year	188,409	216,390
Total income tax expense	69,528	96,192
Profit excluding income tax	**257,937**	**312,582**
Income tax using rate of 27.5% (2016:30%)	70,933	93,775
Tax effect of:		
- Depreciation of buildings	5,879	5,994
- Movements in Leave and Doubtful Debts	11,160	3,666
- Small business asset deduction	(10,854)	-
- Imputation tax credits	2,879	3,103
	79,997	106,538
Less:		
- Rebatable amount of imputation credits	(10,469)	(10,346)
	69,528	96,192

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:

	3,545,546	3,474,425

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.

For the year ending 30 June 2017, the Credit Union has met the requirements to apply the Small Business Entity reduced tax rates and therefore has applied a tax rate of 27.5% for 2017.

16. Cash and cash equivalents		
Cash on hand	475,928	706,729
Cash at banks	18,369,187	10,440,116
	18,845,115	**11,146,845**

17. Trade and other receivables		
Interest Receivable	78,882	129,227
Other	59,140	46,783
	138,022	**176,010**

Notes to and forming part of the Financial Statements

For the year ended 30 June 2017

	Note	2017 $	2016 $
18. Other assets			
Prepayments		**128,949**	**95,697**
19. Financial assets			
Available for sale financial assets	**19(a)**	168,403	168,403
Held-to-maturity financial assets	**19(b)**	9,274,424	14,393,397
		9,442,827	**14,561,800**
(a) Available for sale financial assets			
Unlisted shares in :			
Cuscal Limited	**19(a)(i)**	142,306	142,306
TransAction Solutions Ptyl Ltd	**19(a)(ii)**	6,097	6,097
Shared Services Partners Pty Ltd	**19(a)(iii)**	20,000	20,000
		168,403	**168,403**

(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 2017 (2016 - $142,306). These shares are carried at cost in the 'Unlisted Shares' above.

(ii) TransAction Solutions shares

At 30 June 2017 the Credit Union held 6,097 "A" class shares.

The deemed fair value of the "A" class shares at 30 June 2017 was $6,097 (2016- $6,097), which equated to their cost base. Transaction Solutions Pty Ltd is an unlisted public company. The Shares of Credit Union are not tradeable in an open market.

Credit Union'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 2017.

	Note	2017 $	2016 $
19. Financial assets (continued)			
(b) Held to maturity investments			
NCDs (Negotiable Certificates of Deposits)		2,953,800	7,893,397
Term Deposits		3,320,000	3,000,000
Bonds		3,000,624	3,500,000
Total Fixed Term Investments		**9,274,424**	**14,393,397**

None of the held-to-maturity investments are either past due or impaired.

The current portion of the investments at reporting date is $7,773,799 (2016: $11,893,397) and non-current portion is $1,500,625 (2016: $2,500,000).

20. Loans and advances

	Note	2017 $	2016 $
(a) Loans by profile represented as follows:			
Overdrafts		2,417,099	1,523,795
Term loans		89,235,251	76,053,626
		91,652,350	77,577,421
Less Provision for Impaired Loans	**20(c)**	(51,234)	(24,045)
Total Loans and Advances		**91,601,116**	**77,553,376**
(b) Loans by maturity represented as follows:			
Up to 3 months		2,419,935	1,526,587
Longer than 3 and not longer than 12 months		169,084	148,517
Longer than 1 but not longer than 5 years		3,724,165	3,167,925
Longer than 5 years		85,339,166	72,734,392
Total Loans and Advances		**91,652,350**	**77,577,421**

(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:

	2017 $	2016 $
Collective Provision		
At 1 July	9,845	13,070
Impairment charge for the year	-	-
Write back of provision not required	(6,022)	(3,225)
Balance at 30 June	3,823	9,845
Specific Provision		
At 1 July	14,200	-
Bad and Doubtful debts provided for during the year	33,211	14,200
Balance at 30 June	47,411	14,200
Total Provisions for Impairment	**51,234**	**24,045**

	2017 $	2016 $

20. Loans and advances (continued)

(d) Impairment of loans

Loans are reviewed and graded according to the anticipated level of credit risk. The classification adopted is described in Note 4.

	2017 $	2016 $
(e) Restructured loan balances	**183,483**	**175,084**

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.

(f) Assets acquired through security enforcement restricted loans

	2017 $	2016 $
(g) Interest revenue received on non accrual and restructured loans	**371**	**3,226**

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

(i) Past due but not impaired

As at 30 June 2017, loans and advances of $718,182 (2016: $847,888) were past due but not impaired. Adequate security is held to cover recovery of the debt. The ageing analysis is as follows:

	2017 $	2016 $
Past due up to 90 days (fully secured)	534,328	847,888
Past due 91 - 365 days (fully secured)	183,854	-
Past due 365 and Over (fully secured)	-	-
	718,182	**847,888**

(j) Not Past due or impaired

Within loans and advances, $90,934,168 (2016: $76,729,533) represent those that are neither past due nor impaired. Based on credit history of the counterparties to these loans and advances, it is expected that these amounts will be received when due.

(k) 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:

	2017 $	2016 $
Loan to value ratio of 80% or less	76,229,771	67,087,150
Loan to value ratio of more than 80% but mortgage insured	8,674,268	4,070,024
Loan to value ratio of more than 80% not mortgage insured	2,260,407	2,357,786
Total	**87,164,446**	**73,514,960**

21. Current tax assets

	2017 $	2016 $
Income tax Receivable/(Payable)	**(7,859)**	**5,330**

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For the year ended 30 June 2017

22. Deferred tax assets	2017 $	2016 $
Deferred tax assets Comprise:		
Provision for Impairment	14,089	7,214
Annual Leave & Long Service leave entitlements	71,525	74,091
	85,614	**81,305**
The deferred tax charge in the income statement comprises the following temporary differences:		
Provision for loan impairment	6,875	3,292
Annual leave and long service leave provisions	(2,566)	373

23. Property, plant and equipment

(a) Property		
Land - Warrnambool (at valuation 30 June)	850,000	830,000
Buildings (at valuation 30 June)	1,150,000	1,070,000
Less Accumulated Depreciation	-	-
Fair value as at 30 June	**2,000,000**	**1,900,000**

The 2017 revaluation was made by Preston Rowe Paterson Warrnambool as at 31 May 2017. 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:

Freehold land – Cost	188,000	188,000
Buildings – Cost	488,201	488,201
Less: Accumulated Depreciation	(267,130)	(193,124)
Net carrying value of Land and Buildings	409,071	483,077
Revaluation attributable to Land and Buildings	1,590,929	1,416,923
Fair value at 30 June	**2,000,000**	**1,900,000**

Notes to and forming part of the Financial Statements

For the year ended 30 June 2017

23. Property, plant and equipment (continued)

	2017 $	2016 $
(b) Plant and equipment		
Office Equipment (at cost)	219,919	216,723
Less Accumulated Depreciation	(172,599)	(159,300)
	47,320	**57,423**
Furniture & Fittings (at cost)	180,221	143,140
Less Accumulated Depreciation	(119,438)	(107,425)
	60,783	**35,715**
Motor Vehicles (at cost)	76,240	76,240
Less Accumulated Depreciation	(63,045)	(54,711)
	13,195	**21,529**
Work in Progress (at cost)	99,106	156,315
	99,106	**156,315**
Computer Equipment (at cost)	196,562	171,146
Less Accumulated Depreciation	(157,684)	(136,666)
	38,878	**34,480**
Property (Land and Buildings) note 23(a)	2,000,000	1,900,000
Total Property, Plant and Equipment	**2,259,282**	**2,205,462**
(c) Depreciation		
Depreciation of Furniture and Fittings	12,013	10,802
Depreciation of Buildings	50,460	49,064
Depreciation of Office Equipment	13,300	13,112
Depreciation of Computer Equipment	19,630	23,381
Depreciation of Motor Vehicles	8,334	8,333
	103,737	**104,692**

23. Property, plant and equipment (continued)

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

	Office Equipment $	Furniture & Fittings $	Motor Vehicles $	Computer Equipment $	Work in Progress $	Land and Buildings $	Total $
Balance at 30 June 2015	**40,121**	**34,258**	**29,862**	**32,245**	**24,081**	**1,900,000**	**2,060,567**
Purchases	41,735	12,259	-	4,745	153,105	-	211,844
Transfers to/from WIP	-	-	-	20,871	(20,871)	-	
Less:							
Assets disposed	(11,321)	-	-	-	-	-	(11,321)
Depreciation charge	(13,112)	(10,802)	(8,333)	(23,381)	-	(49,064)	(104,692)
Revaluation	-	-	-			49,064	49,064
Balance at 30 June 2016	**57,423**	**35,715**	**21,529**	**34,480**	**156,315**	**1,900,000**	**2,205,462**
Purchases	3,197	37,081	-	24,028	90,988	-	155,294
Less:							-
Assets transferred to intangibles	-	-	-	-	(148,197)	-	(148,197)
Assets disposed	-	-	-	-		-	-
Depreciation charge	(13,300)	(12,013)	(8,334)	(19,630)	-	(50,460)	(103,737)
Revaluation	-	-	-	-	-	150,460	150,460
Balance at 30 June 2017	**47,320**	**60,783**	**13,195**	**38,878**	**99,106**	**2,000,000**	**2,259,282**

24. Intangible assets

	2017 $	2016 $
Intangible Assets	560,358	407,973
Less Accumulated Amortisation	(419,980)	(361,508)
	140,378	**46,465**

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

	2017 $	2016 $
Movements in the asset balances during the year were:		
Opening balance	46,465	92,208
Purchases	4,188	22,303
Transfer from work in progress	148,197	-
Less:		
Disposals	-	-
Amortisation charge	(58,472)	(68,046)
Balance at the end of the year	**140,378**	**46,465**

Notes to and forming part of the Financial Statements

For the year ended 30 June 2017

	2017 $	2016 $
25. Deposits		
Call deposits (including withdrawable member shares)	48,672,777	45,264,022
Term deposits	61,639,114	48,483,473
	110,311,891	**93,747,495**
Maturity Analysis:		
At call	48,672,777	45,224,022
Not longer than 3 months	38,098,538	24,868,742
Longer than 3 and not longer than 12 months	23,433,677	23,490,396
Longer than 1 but not longer than 5 years	106,899	124,335
	110,311,891	**93,747,495**
26. Trade and other payables		
Trade Creditors	102,505	96,173
Accrued Interest Payable	323,609	293,548
Other Creditors	712,395	904,023
	1,138,509	**1,293,744**
27. Provisions		
(a) Employee Entitlements (annual leave)		
Movement in the Provision for Annual Leave balances during the year:		
Balance at beginning of year	127,143	133,478
Add / (Deduct)		
Additional provision recognised	92,153	95,762
Amounts used during the year	(103,224)	(102,097)
Balance at the end of the year	**116,072**	**127,143**
(b) Employee Entitlements (long service leave)		
Movement in the Provision for Long Service Leave balances during the year:		
Balance at beginning of year	119,825	112,248
Add / (Deduct)		
Additional provision recognised	27,182	24,849
Amounts used during the year	(2,987)	(17,272)
Balance at the end of the year	**144,020**	**119,825**
Total Provisions	**260,092**	**246,968**
28. Deferred tax liabilities		
Deferred tax liability - Revaluation Adjustments	255,232	213,856

29. Standby borrowing facilities

Approved standby and overdraft facilities

The Credit Union had an approved overdraft facility at 30 June 2017 of $400,000 (2016: $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 2017 was $Nil (2016: $Nil).

	2017 $	2016 $
30. Asset revaluation reserve		
This reserve represents gains on revaluation of property owned by the Credit Union.		
Balance at 1 July	1,140,999	1,106,654
Add/(Less): Movement for year		
Revaluation of property at 30 June	150,460	49,064
Deferred tax liability impact of revaluation	(41,376)	(14,719)
Balance at 30 June	**1,250,083**	**1,140,999**

31. General reserve for credit losses

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

	2017 $	2016 $
Balance at 1 July	443,468	347,559
Add/(Less): Movement for year		
Transfer from /(to) retained earnings	69,110	95,909
Balance at 30 June	**512,578**	**443,468**

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

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

	2017 $	2016 $
Net profit after tax	**188,409**	**216,390**
Depreciation	103,737	104,692
Amortisation	58,472	68,046
Loss/(profit) on sale of fixed assets	-	10,294
Dividends received	(24,434)	(24,140)
Changes in assets and liabilities		
Decrease/(increase) in trade and other receivables	37,988	(31,575)
(Increase)/decrease in other assets	(33,252)	16,762
Decrease/(increase) in loans and advances	(14,074,929)	(6,505,586)
(Increase)/decrease in deferred tax assets	(4,309)	(3,666)
(Increase)/decrease in income tax receivable	13,189	47,274
(Decrease)/increase in deposits	16,564,395	7,906,064
Increase/(decrease) in trade and other payables	(155,235)	181,553
(Decrease)/increase in provision for doubtful debts	27,189	10,975
Increase/(decrease) in provisions	13,124	1,242
Cash flows provided by operating activities	**2,714,344**	**1,977,355**

Notes to and forming part of the Financial Statements

For the year ended 30 June 2017

	2017 $	2016 $

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

(b) Reconciliation of cash

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

	2017 $	2016 $
Cash as at balance date comprises:		
Cash on hand, at bank and at call	**18,845,115**	**11,146,845**

(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

	2017 $	2016 $
Loan to members approved but not advanced as at 30 June	3,454,982	5,139,670
Loan redraw facilities	5,508,738	7,537,265

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 seven years until 2023.

35. Related party transactions

(a) Directors Remuneration

As approved at the 2016 Annual General Meeting on 9 November 2016, $9,450 (previously $9,100) per annum was provided for each Director.

An additional allowance of:

- $9,450 (previously $9,100) for the Chairperson
- $5,250 allowance (previously $4,150) to the Audit Committee Chair
- $5,250 allowance (previously $4,150) to the Risk and Compliance Committee Chair were also provided.

Total directors’ remuneration was set at $86,100 (previously $85,250) 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

	2017	2016
	$	$
35. Related party transactions (continued)		
(i) Compensation paid to key management personnel		
Short-term employee benefits	446,196	453,129
Post employment benefits	-	-
Other long term benefits	12,541	7,156
Termination benefits	-	-
	458,737	**460,285**
(ii) Loans to key management personnel (included related parties)		
Loans outstanding at beginning of year	281,965	302,773
Net balances from changes in personnel	-	-
Advances made during the year	47,000	-
Interest and fees charged	13,000	12,942
Repayments made during the year	(36,050)	(33,750)
Loans outstanding at end of year	**305,915**	**281,965**

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 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 2017.

(c) Transactions with other Related Parties

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

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

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

A total of $9,108 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 2017 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 greater than 10% of regulatory capital as per Prudential requirements other than one loan. 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.

37. Contingent Liabilities (continued)

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.

	2017	2016
	$	$
Guarantees to the benefit of Members:	58,000	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 3.0% 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. 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

39. Capital management (continued)

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.

	2017 $	2016 $
Tier 1		
General Reserve and Retained earnings	8,905,059	8,785,760
Capital Reserve	1,250,083	1,140,999
APRA Tier 1 adjustments	(308,781)	(214,868)
Net Tier 1 Capital	**9,846,361**	**9,711,891**
Tier 2		
Reserve for Credit Losses	512,578	443,468
Net Tier 2 Capital	**512,578**	**443,468**
Total Capital	**10,358,939**	**10,155,359**

Total risk weighted assets
The risk weighted exposures based on APRA prescriptions amounts to $55.8 million. The Capital adequacy ratio on total capital base is 18.5% (2016:19.8%). The Tier 1 ratio stands at 17.6% (2016: 18.9%).

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 Credit Union's financial position as at 30th June, 2017 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 29th day of August 2017

Independent Auditor's Report to the Members of South West Credit Union Co-Operative Limited

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of South West Credit Union Co-Operative Limited (the Company), which comprises the statement of financial position as at 30 June 2017, 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, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

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

(a) giving a true and fair view of the Company's financial position as at 30 June 2017 and of its financial performance for the year then ended; and

(b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Company in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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

Other Information

The directors are responsible for the other information. The other information comprises the information included in the Company's annual report for the year ended 30 June 2017, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

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If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors 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 preparing the financial report, the directors are responsible for assessing the ability of the Company to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/auditors_files/ar3.pdf. This description forms part of our auditor's report.

Crowe Horwath Melbourne

CROWE HORWATH MELBOURNE

David Munday

David Munday

Partner

Melbourne, Victoria

29 August 2017

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