SouthWest Credit

Your local Bank

ANNUAL REPORT 2019

SouthWest Credit

South West Credit is Warrnambool's own financial institution, and the only one that is truly local.

It is part of the Customer Owned Banking Association which operates on a much different model to the majors, providing a more satisfying banking experience, due to the fact it focus's on people rather than profits.

South West Credit was formed in 1964 to meet the financial needs of the community and has grown over time to offer the same high-quality banking products and services as its larger national competitors.

While the offering and operations of South West Credit have changed over time, its key focus – meeting its customer's 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 clients. It is steered by a Board of Directors, made up of a team of dedicated community member's, carefully selected for their skill in the areas of finance, accounting, human resources, administration and community representation.

Chair
Jennifer Waterhouse

Vice Chair
Gary Parsons

Directors
Michael Beks | Robert Lane | Lex McDowell | Matt Northeast | John Harris

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: Jenny Waterhouse

It is with pleasure that I present this report to our members on the activities of your Credit Union for the 2018-19 financial year.

Throughout the year South West Credit has continued to invest in a strategic direction that positions your credit union for a sustainable future delivering financial services that meet the needs of our members.

The change in banking activities by members continues to evolve particularly with the use of both the debit card in preference to cash and the use of digital applications (Apps) to make payments, check balances at a time and place that suits them. Face to face banking whilst still important is not the priority for the majority of members for routine matters, as busy lifestyles demand more convenient channels for members to conduct their banking. We are striving to meet the needs of our members with improved banking technology throughout all aspects of our business and at the same time retain the human touch when it is needed.

Cyber security and risk proofing our business and member privacy has been a major focus as you would expect from the organisation you entrust with your financial affairs.

The Board is very confident that we have a Risk Management strategy that overlays all aspects of our business ensuring the needs of our members remain our number one priority.

The industry has faced many challenges over the past year including an increase in regulatory and compliance requirements resulting from the Royal Commission into Financial Services.

Financial Overview

The financial year ended with a profit after tax of $209,188.

In a difficult economic climate and low interest rate environment the year end result is a pleasing one for South West Credit. Whilst the end result is an improvement on last year's result (2018 $203,251) the market conditions remain a constant challenge with increasing liquidity, costs of funding and lower returns.

The key prudential ratios relating of Capital adequacy and Liquidity have been managed well and remain strong and well above the prescribed regulatory requirements for financial institutions.

Whilst the year has certainly been a challenge it is pleasing to see the continuing trend of overall business strength. I am very pleased to report our total asset base now stands at $165 million inclusive of off balance sheet loans ($147 million 2018). Our net asset base of $11.3 million indicates a strong member support base.

Loan funding continued to be strong in a very competitive environment resulting in total loans portfolio of $115 million (2018 $105 million).

Total deposits of $144 million (2018 $126 million) an increase of $18 million reflected the adequately met loan funding and liquidity demands.

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

People & Culture

We embarked on a number of structural changes within the organisation throughout the year. A number of these changes have been driven by the change in banking behaviour of our members, as they migrate to cashless digital channels.

I would like to acknowledge and thank everyone in the organisation who have accepted these changes as a new way of doing business. Changes are not always openly accepted but if we are to remain relevant we must be proactive rather than reactive to best serve our members' needs.

As has been reported in past years South West Credit has

been active in our culture program to build a positive working environment and member engagement program. We are committed to continuing and building on the valuable work in this area, by acknowledging that the strength of any organisation is its people and the leadership of a dynamic and harmonious Management team.

Investment of new products and technology upgrades to enhance the banking services continued throughout the year. Upgrades to our mobile banking app and interactive web site were undertaken, as was the implementation of NPP (New Payment Platform).

On behalf of the members and Board a big thank you to all employees who continue to strive to deliver the best possible customer experience for all members.

Team at the Top

Successful businesses are all driven by capable and enthusiastic people with an extensive knowledge of the challenging and ever-changing operating environment around them. Our Management team are a driving force in the development of our business and the relevant products and services that benefit our members.

In acknowledging our leadership team led by, Chief Executive Officer David Brown, Chief Financial Officer Ravi Ganeshalingam, Branch Manager Helen Boyd, Risk & Compliance Manager Kylie Brookes, and the department managers who provide invaluable and reliable assistance I would like to say thank you.

The Board is reliant on receiving well prepared information to deliver sound decisions from the Board table, as well as setting the vision and strategic direction which is then implemented down the line. The close working relationship between the Board and Management has enabled the organisation to set a strong and clear direction for the future, ensuring our members best needs are always our first priority.

Your Board at Work

Quality Board Governance and Risk Culture have never been more essential in the positive performance of Boards.

I can 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 heightened responsibility of a Director continues to increase and strong working relationships around the Board table, delivered constructive debate and decision making. Your Directors are committed to continual renewal and personal development aligned to a regular Director Training program. Directors are also engaging with the Australian Institute of Company Director (AICD) course to further their skills and Director duties.

This year John Harris retired from the Board after 19 years as a Director and it would be remiss of me not to acknowledge John's contribution to the success of South West Credit during his term as a Director.

I can confidently advise that each Director continually strives to meet and exceed all expectations placed on the role and that each Director is suitably skilled and informed to represent our members.

Future Challenges

The future as reflected in previous years will also be full of new and old challenges. Changes that will derive from the Royal Commission will certainly impact on activities around governance and ethical practices. Continuing changes with technology and the ever constant challenge around low interest rate margin and cost consolidation will live on.

The changing financial sector will once again challenge South West Credit but I am confident we have positioned ourselves to deliver our long term strategies as we move forward. We will continue to deliver modern banking services for members and seek new initiatives and opportunities to build the business that will enhance our member offering.

I would like to express my gratitude to our loyal members for their never ending support. South West Credit is built on delivering reliable and secure financial services and to be a meaningful employer and an engaged community supporter.

Your Credit Union is a truly local bank committed to providing you with innovative and relevant banking services, always putting members before profit.

Jenny Waterhouse
Chair of the Board of Directors

in 2018/19 SouthWest: Credit

$122 MILLION
IN RETAIL DEPOSITS

$37 MILLION
APPROVED IN LOAN APPLICATIONS

13% INCREASE
IN CARD TRANSACTIONS

$1.4 MILLION
CARD TRANSACTIONS

1,054
NEW SAVINGS ACCOUNTS OPENED

$49,510
IN GRANTS & DONATIONS TO THE COMMUNITY

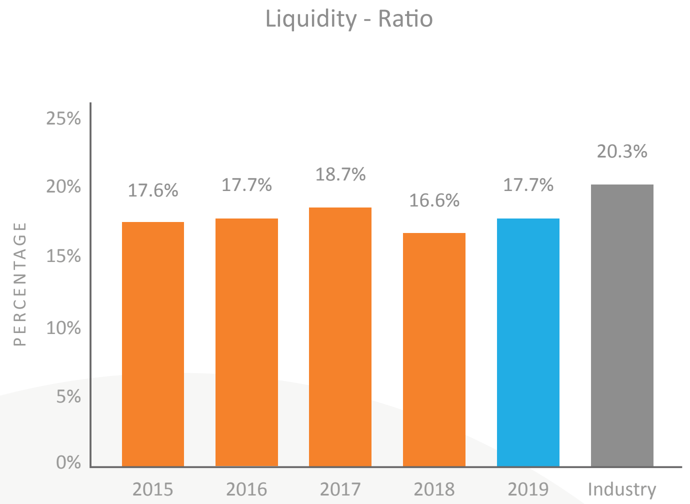
↑14.3%
DEPOSIT Growth of 14.3% in retail deposits. This shows confidence in the local bank.

↑13.7%
TOTAL ASSET Growth of 13.7% in 2019 with asset base of $158 million ($139 million in 2018).

↑14.7%
NET INTEREST REVENUE of $3.9 million (2018: $3.4 million) represents growth of 14.7% in a highly competitive interest rate environment.

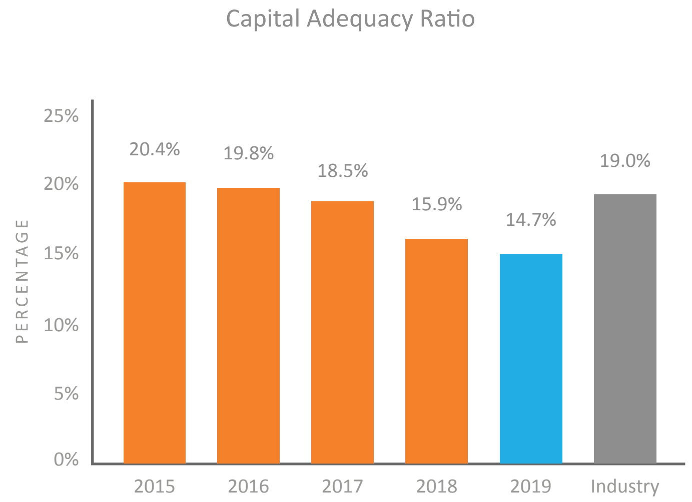
↑9.7%
LOAN Growth of 9.7% resulted in total loans of $115.1 million (2018: $104.9 million). A positive trend shown in borrowers seeking better "services" from a local bank.

Five-Year Performance Highlights



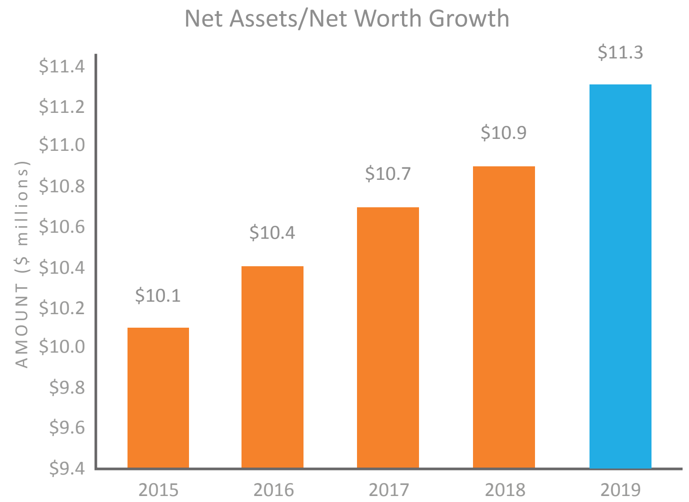
Liquidity Position

The Liquidity ratio has been maintained well above the APRA minimum threshhold. This ratio measures the strength of high liquid cash reserves to meet all expected cash outflows.



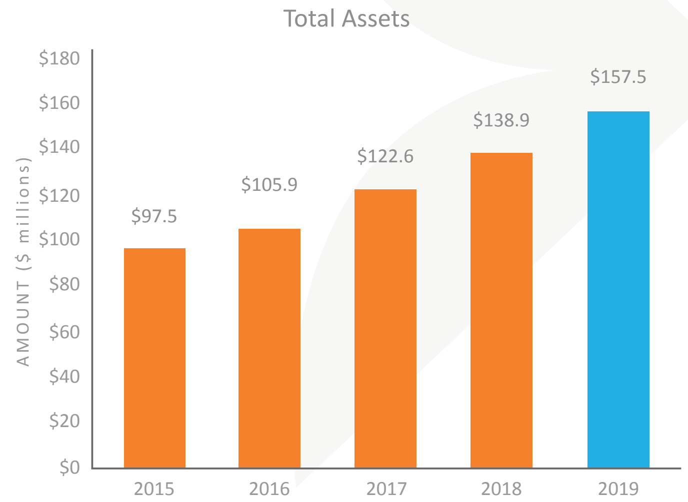
Capital Position

Risk management and capital strength are critical priorities, and SWC has maintained a strong capital position relative to its peer group and regulatory requirements. The ratio is driven by ratio of reserves to risk weighted assets, showing the capital strength of the Credit union.



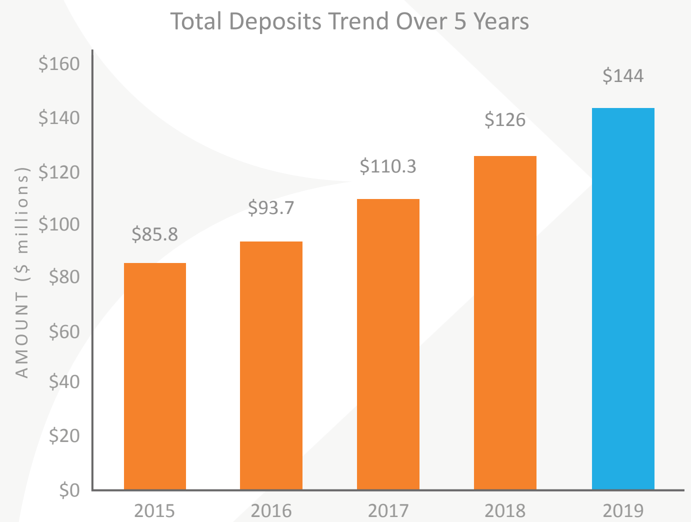
Net Asset/Net Worth

Net assets have continued to grow in the last five years from $10.1million to $11.3million (9%).



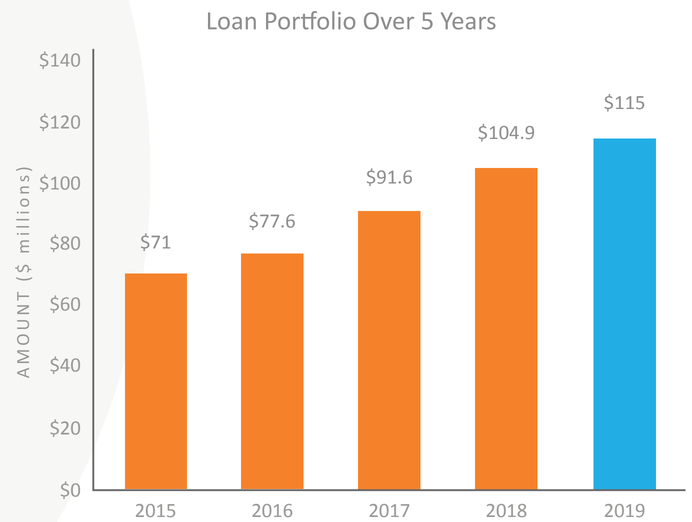
Total Asset

Total assets grew by 62% in last five years. From $97 million in 2015 to $158 million in 2019. This positions us as one of of the faster growing Credit Unions in 2019.



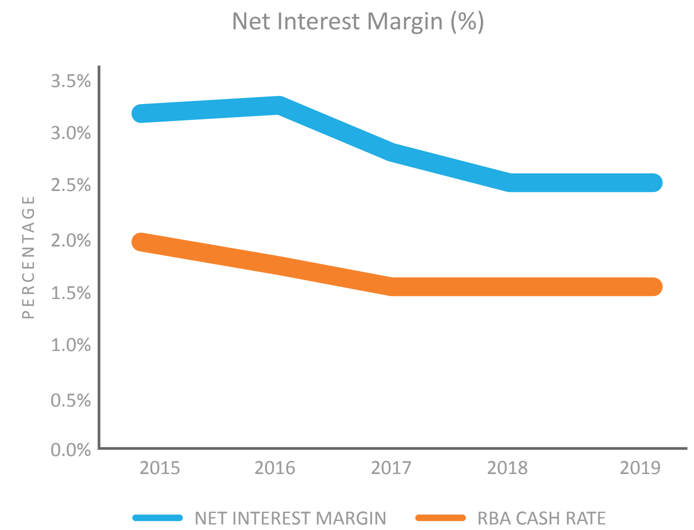
Deposit Portfolio ($M)

Deposit Growth of 14.3% is well above the industry average growth of 6.3%. The growth is proportionate to the interest rate volatility in the market.



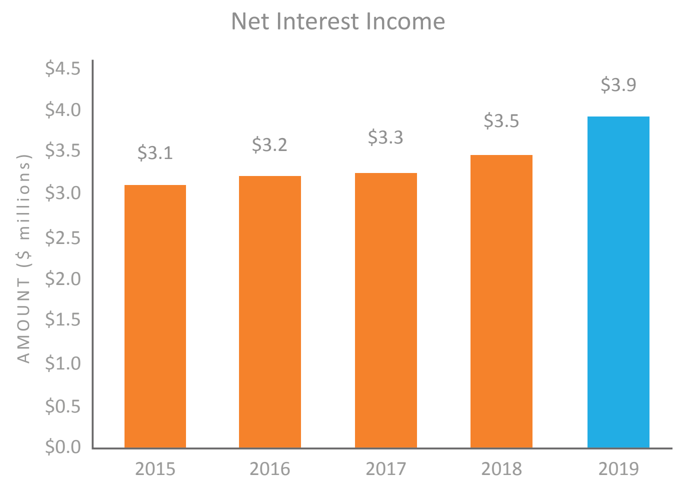
Loan Portfolio ($M)

Our focus on customer experience in highly competitive lending markets has underpinned an expansion of more than 62% in our loan portfolio over 5 years.



Net Interest Margin

SWC has maintained a solid Net Interest margin despite intense competition and historically low interest rate environment.



Net Interest Income

Net Interest Income has shown consistent improvement as a result of our focus on organic growth.

Highlights & Achievements

People & Culture

South West Credit has continued to invest in it's people and culture over the past year, developing a more skilled workforce to lead us into the future.

The revelations from the Royal Commission into Banking demonstrated the importance of having a positive workplace culture. In 2010 South West Credit commenced a Culture Program through Human Synergistics which has seen some great changes for the organisation.

Our work with Human Synergistics continues, with 8 staff members from the Leadership Team participating in a 12 month program, designed to improve leadership styles across the organisation. The program fosters a more constructive leadership style that will flow through to all areas of the business.

All staff are currently participating in a six month Mindset Coaching Program, facilitated by Top 5 Movement founder, Clare Desira. The program is driving behavioural change within the organisation, creating a more focused and productive team.

The following core values continue to guide our everyday decision making and interactions with each other:
- We put our members' interests at the forefront of everything we do;
- We work co-operatively with others;
- We deal with issues objectively and honestly;
- We look for opportunities to improve and take the initiative to get things done;
- We take reasonable and well calculated risks.

Over the past year, all staff have carried out their mandatory Compliance training through a newly introduced training portal. The training for 2018/19 covered all areas of banking including; AML / CTF, Privacy Act, National Credit Code (loans staff), Responsible Lending (loans staff), ePayments Code, Fraud Prevention and Customer Owned Banking Code of Practice.

During the year we celebrated the following service milestones:
- Ravi Ganeshalingam (10 years' service)
- Jessie McConnell (5 years' service)

We welcomed three former employees back to the South West Credit team, Chris Hansford, Debra Gapes and Erin Stewart. We also welcomed our new Lending Manager, Tom Hanson to the team in 2018.

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 day-to-day printing throughout the entire branch, including the move to electronic customer files and reporting storage. Reduction in the number of printed copies of our Annual Report by directing people to our website to read or download.

Service Milestones - Jessie McConnell and Ravi Ganeshalingam

Tom Hanson, Erin Stewart and Chris Hansford

Investment In Technology

The banking industry continues to change and evolve at a rapid pace, with new technology constantly being released.

Our Banking App underwent several upgrades throughout the year, incorporating technology such as retina recognition and facial recognition, providing the latest login security features. We have also enhanced our Banking App to provide card security management, allowing customers to lock/unlock their card 24/7, as well as report their cards lost or stolen any time of the day.

Behind the scenes we have carried out multiple upgrades to ensure compliance with the New Payment Platform, Common Reporting Standards, Single Touch Payroll and several APRA Prudential Standards and Compliance Requirements.

Over the next twelve months we will see some major changes within our industry with the introduction of Open Banking. Open Banking provides consumers with more control of their data and enables greater transparency and competition throughout the industry.
This requirement will rely on significant system upgrades to our existing banking platform to ensure compliance within the mandated timeframes.

One piece of technology we are excited to be launching to our customers this year is The Pays Digital Wallets. This will provide our customers with Apple Pay, Google Pay & Samsung Pay, including wearables. Interest in the digital wallets has increased significantly in recent times and we look forward to providing this service to our customers.

We expect there will be a lot of enhancements made over the next twelve months, particularly in the digital banking space.

As technology advancements in the banking industry continue, we will need to invest heavily in technology to stay abreast of these changes to benefit the entire membership.

Member Care Sales Team

Lending Team

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 Josh Shanahan, who was the recipient of this prestigious award in 2018.

The winner for 2019 will be announced at the Annual General Meeting.

Marketing & Communications

The strength of the customer-owned banking sector has never been more apparent than in the past twelve months, following the revelations of the Royal Commission into Banking. The structure of being owned by our customers ensures that we are focused at all times on looking after our customers best interests and this is something we believe will serve us well into the future, as people seek a financial institution they can trust to put them first.

As we move into a more digital world, we are seeing less of our customers in branch. To ensure we continue to stay in touch and engaged with our members we have put a lot of focus into our 'keeping in touch' call program. This program has had great results keeping the lines of communication open with our customers and ensuring all banking needs are being met.

A lot of work has gone into building our profile within the community through developing relationships with other local professionals, particularly through events such as our First Home Buyer Night. This annual event has become a great information source for those looking to enter the property market.

As a community credit union we have continued to develop our relationships with similar community organisations to offer them specialised Workplace Packages for their staff.

Our involvement with the Healthy Moves Program has continued, building our brand awareness in younger generations. We have also increased our involvement in local schools through our School Breakfast Program's. Our involvement includes both monetary support as well as hands on support attending these breakfasts on a weekly basis.

To ensure our brand stays relevant in an ever changing industry, South West Credit is undertaking a Brand Discovery Project with the assistance of Kinc Agency. This project will seek feedback from the community to ensure our brand remains current, to allow us to achieve our desired growth into the future.

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 people in the south-west 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, Brophy Family & Youth Services, Rotary Club of Warrnambool, Warrnambool & District Football Netball League and the South West Community Foundation.

Directors' Report

Your Directors present their report for the year ended 30th June, 2019.

Directors

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

Jennifer Waterhouse [Chair]

Chartered Accountant. Member of the Governance, Nomination, Remuneration Committees (from November 2018). Board member since 2013.

Gary Parsons [Vice-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, Nomination, Remuneration and Community @ Heart Committees. Board member since 1994.

Robert Lane

Business Advisor and Certified Practicing Accountant. Director of SED Partners Pty Ltd. Chair of Governance, Nomination, Remuneration, and the Risk and Compliance Committees. Board member since 2005.

Michael Beks

Chartered Accountant. Member of Audit and the Risk and Compliance Committees. Board member since 1998.

John Harris

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

Lex McDowell

Fellow Certified Practicing Accountant. Chair of Audit committee and Member of Risk and Compliance committee (From November 2018) Governance, Nomination and Remuneration Committees (until October 2018). Board member since 2015.

Matt Northeast

Director & Licensed Estate Agent. Member of the Risk and Compliance, 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 seventeen 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 $25,181. 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 2019 financial year resulted in a profit after taxation of $209, 188 (2018 $203,251). Continuing from the past year the result reflects the current economic conditions and low interest rate environment experienced by the whole mutual sector. These challenges include higher funding costs, contracted profitability with increasing adoption of technology and declining cost efficiency base.

With the increase of the loan portfolio (10%), the interest revenue increased by 18%. As a consequence this increased revenue partially reduced the impact of a 25% increase in funding costs.

Operating expenses, excluding loan impairment, have increased 10.0% overall compared to the prior year. The main increase was in the loan and deposit administration costs, which included the increasing technology updates covering remote access and services costs along with business acquisition costs. The cost to income ratio was 92.1% (2018 93.3%), above the industry average of 86%. Net earnings to total average assets were maintained at 0.2%, compared to the industry average of 0.3%.

Financial Position

The net assets of the Credit Union as at 30th June, 2019 were $11.3 million (2018 $10.9 million). Total

Directors' Report - Continued

assets as at 30th June 2019 were $157.5 million (2018 $138.9 million), including off balance sheet loans, total assets were $164.6 million (2018 $147.4 million). Loan funding of $28.0 million (2018 $32.8 million) increased total loans to $115.1 million (2018 $104.8 million). Total deposits increased by $17.9 million (2018 $15.9 million) in order to meet loan funding and liquidity requirements.

The Capital Adequacy ratio is the main measure of a Credit Union's overall financial soundness. This ratio as at 30th June 2019 was 14.7% (2018 15.9%). The current ratio is 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 2019 -2022" 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	Remuneration	Risk & Compliance Committee
Number of Meetings Held	12	5	4	4	4	6
Number of Meetings Attended						
Gary Parsons	10#	N/A	3*	3*	3*	N/A
Robert Lane	10*#	N/A	4	4	4	5*
Michael Beks	11#	5	N/A	N/A	N/A	6
John Harris	10*#	2#/3	N/A	N/A	N/A	3*#
Jenny Waterhouse	12	2^	2/2~	2/2~	2/2~	N/A
Lex McDowell	11*	5	2/2+	2/2+	2/2+	3#/4
Matt Northeast	11#	4#	N/A	N/A	N/A	3#/4

*Denotes : Leave of Absence ^Denotes : Attended Meeting as Guest #Denotes: Apology +Ceased membership post November 2018 AGM ~Member since November 2018 post AGM

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 2019 financial year Directors and Key Management Personnel undertook 89.5 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 and Risk Culture

The Risk Management Framework supports the achievement of our business strategy by providing management with a clear understanding of the process of how risk is to be effectively managed. This allows the Credit Union to achieve business growth, enhance financial performance, and protect our reputation through efficient and effective operational and management processes. During the last year, we have continued to invest in improvements to our Risk Culture, which includes our risk management processes, people and systems, whilst providing a positive member experience and delivering on strategic objectives.

The Credit Union's Strategic and operational outcomes are the result of effective management of key risks through the three lines of defence model. This model articulates the key layers of risk management including roles, accountability and responsibilities with the newly implemented Banking and Executive Accountability Regime (BEAR). During the year, the Credit Union continually evaluated and responded to emerging risks in accordance with our Risk Management Framework.

The Risk Management Framework focuses on the main areas of risk in the business which includes, Credit Risk, Market Risk, Capital Risk, Operational Risk, and Liquidity Risk.

The Credit Union's Board of Directors have overall responsibility for establishment and oversight of the Risk Management Framework. The Risk Management Framework compromises of structures, policies, and processes, which include:

- Risk Management Strategy (Provides the method for identifying and managing risk)
- Risk Appetite Statement (Identifies the degree of risk the Credit Union is willing to take to achieve its strategic objectives).

Risk Management Policies have been established to identify and analyse risks, to set appropriate risk limits and controls, and to monitor risks and adherence to risk limits. The risk management policies and systems are reviewed regularly to reflect changes in market conditions. Training, procedures and Prudential Standards aim to develop a control environment in which employees understand their roles and obligations.

Formal Governance Structure enables the management of risk. The key committees in place are:

- Audit Committee
- Risk & Compliance Committee
- Governance Committee
- Remuneration Committee
- Nomination Committee

These committees report regularly to the Board.

The aforementioned 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.

Prudential Standard CPS220 (Risk Management) requires the Board to ensure that they form a view of risk culture within the Credit Union, supporting the ability of the Credit Union to operate consistently within its Risk Appetite Framework. This sound risk culture refers to normal behaviours for individuals and groups within the Credit Union to be able to identify, understand and openly discuss and act on the organisation's current and future risks.

The Credit Union's risk culture is strongly influenced by "Tone at the Top". The Board and Senior Management demonstrate their commitment to risk management and foster a sound risk management environment in which staff are engaged in risk management processes and outcomes, culminating in an influential risk management function.

The Credit Union communicates its desired Risk Culture through its Risk Management Strategy, Risk Appetite Statement and the understanding of its key risks, as well as how risk management behaviours are encouraged and rewarded. This effective risk culture is considered throughout the Credit Union.

The Credit Union Risk Culture

- supports transparency and openness of risks, events and issues and facilitates effective internal controls and risk reporting;
- encourages awareness of risks and responsibilities for managing those risks;
- ensures that appropriate actions are taken in a timely manner;
- ensures that the Members' interests are at the forefront of everything we do;

This Risk Culture is maintained by ongoing risk education and awareness training processes to ensure behaviour is monitored and managed.

Banking Executive Accountability Regime (BEAR)

In February 2018, Australia introduced the Banking Executive Accountability Regime (BEAR) to establish clear and heightened expectations of accountability for authorised deposit-taking institutions (ADIs), their directors and senior executives, and to ensure there are clear consequences in the event of a material failure to meet those expectations.
The accountability regime imposes explicit accountability obligations on both an ADI and on individuals who are registered as accountable persons. Implementation of the accountability regime presents an opportunity to strengthen accountability and drive improvement in the way an ADI governs itself and a strong risk culture. This is relevant to all ADIs regardless of their size and complexity. APRA expects ADIs to take ownership of a carefully considered and thorough implementation, underpinned by genuine reflection and consideration of mechanisms to improve governance and accountability throughout their organisation.

The accountability regime is a dynamic regime that will continue to evolve over time. Its elements are expected to be well embedded as part of an ADIs internal accountability framework rather than operate separate to it. Through their ongoing supervision, APRA will review and challenge how an ADI is refining its frameworks and practices in order to effectively establish clear and strong accountability, as well as how that accountability can support and be supported by governance, and drive strong risk culture from the top down throughout a financial institution.

In summary BEAR requires

- ADIs identify who is accountable for each of the specified areas;
- Each accountable person has an accountability statement describing their areas of responsibility, which is provided to APRA;
- Each ADI has an accountability map showing lines of reporting and responsibility, which is also provided to APRA.

The BEAR regime came into effect from the 1 July 2018 for large ADIs, and effective 1 July 2019 for small to medium ADIs which includes SWC.

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, 2019, 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	Director
Jennifer Waterhouse	Gary Parsons
Chair	Vice Chair
Dated: 27 August, 2019	

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 2019 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 Melbourne

CROWE MELBOURNE

David Munday

David Munday
Partner

Melbourne, Victoria
29 August 2019

The title 'Partner' conveys that the person is a senior member within their respective division, and is among the group of persons who hold an equity interest (shareholder) in its parent entity, Findex Group Limited. The only professional service offering which is conducted by a partnership is the Crowe Australasia external audit division. All other professional services offered by Findex Group Limited are conducted by a privately owned organisation and/or its subsidiaries.

Findex (Aust) Pty Ltd, trading as Crowe Australasia is a member of Crowe Global, a Swiss verein. Each member firm of Crowe Global is a separate and independent legal entity. Findex (Aust) Pty Ltd and its affiliates are not responsible or liable for any acts or omissions of Crowe Global or any other member of Crowe Global. Crowe Global does not render any professional services and does not have an ownership or partners hip interest in Findex (Aust) Pty Ltd. Services are provided by Crowe Melbourne, an affiliate of Findex (Aust) Pty Ltd. Liability limited by a scheme approved under Professional Standards Legislation. Liability limited other than for acts or omissions of financial services licensees.

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 17 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 management 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, pricing, 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 29 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.

Tom Hanson

Lending Manager
12 years experience with a large banking organisation, covering areas of retail and commercial banking. Tom oversees the lending department, ensuring sound lending practices and compliance with the National Credit Code, Responsible Lending and Customer Owned Banking Code of Practice. Tom is responsible for the organisation's credit portfolio.

2018/19 Financial Statements

Contents

Statement of Profit or Loss

For the year ended 30 June 2019

	Note	2019	2018
		$	$
Interest income	7	6,212,650	5,284,440
Interest expense	7	(2,296,474)	(1,834,628)
Net interest income	7	3,916,176	3,449,812
Impairment Recovery/(losses) on loans and advances	8	(70,997)	21,571
Non-interest income	9	769,446	775,147
Depreciation and amortisation	10	(201,455)	(173,489)
Personnel expenses	11	(1,878,956)	(1,724,110)
Information technology expense	12	(630,566)	(591,032)
Office occupancy expense	13	(62,647)	(58,009)
Other expenses	14	(1,544,766)	(1,394,704)
Profit before income tax		296,235	305,186
Income tax expense	15	(87,047)	(101,935)
Profit for the year attributable to members		**209,188**	**203,251**

The notes on pages 27 to 58 are an integral part of these financial statements

Statement of Comprehensive Income

For the year ended 30 June 2019

	2019	2018
	$	$
Profit for the year	209,188	203,251
Other comprehensive income, net of tax Items that may be reclassified to profit or loss:		
Gain on revaluation of land and buildings, net of tax	68,300	50,496
Total comprehensive income for the year	277,488	253,747
Total comprehensive income for the year attributable to members	**277,488**	**253,747**

The notes on pages 27 to 58 are an integral part of these financial statements

Statement of Changes in Equity

For the year ended 30 June 2019

	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 2017	1,250,083	8,905,059	512,578	10,667,720
Total comprehensive income:				
Profit for the year, after tax	-	**203,251**	-	**203,251**
Other comprehensive income, net of tax	**50,496**	-	-	**50,496**
Transfers In/(Out)	-	**225,099**	**(225,099)**	-
Balance at 30 June 2018	1,300,579	9,333,409	287,479	10,921,467
Total comprehensive income:				
Changes on initial Adoption of AASB9	-	**111,582**	-	**111,582**
Profit for the year, after tax	-	**209,188**	-	**209,188**
Other comprehensive income, net of tax	68,300	-	-	**68,300**
Transfers In/(Out)	-	**(35,866)**	**35,866**	-
Balance at 30 June 2019	1,368,879	9,618,313	323,345	11,310,537

The notes on pages 27 to 58 are an integral part of these financial statements

Statement of Financial Position

As at 30 June 2019

	Note	2019 $	2018 $
Assets			
Cash and cash equivalents	16	21,228,311	19,019,904
Trade and other receivables	17	302,822	277,914
Other assets	18	124,639	102,445
Investment securities	19	18,108,814	12,122,603
Loans and advances	20	115,120,430	104,866,023
Property, plant and equipment	23	2,253,842	2,154,655
Intangible assets	24	273,557	307,888
Deferred tax assets	22	107,058	89,674
Total Assets		**157,519,473**	**138,941,106**
Liabilities			
Deposits	25	144,083,120	126,207,017
Trade and other payables	26	1,463,603	1,183,045
Tax Liabilities	21	17,580	55,215
Provisions	27	290,241	299,976
Deferred tax liabilities	28	354,392	274,386
Total Liabilities		**146,208,936**	128,019,639
Net Assets		**11,310,537**	**10,921,467**
Members Equity			
Retained earnings	30	9,618,313	9,333,409
Revaluation reserve	31	1,368,879	1,300,579
General Reserve for credit losses	32	323,345	287,479
Total Members Equity		**11,310,537**	**10,921,467**

The notes on pages 27 to 58 are an integral part of these financial statements

Statement of Cash Flows

For the year ended 30 June 2019

	Note	2019	2018
		$	$
Cash flows from operating activities			
Interest received		6,024,114	5,367,935
Non-interest income received		725,441	704,616
Interest paid		(2,191,413)	(1,698,740)
Payments to suppliers and employees		(3,777,374)	(4,009,481)
Income tax paid		(127,001)	(54,579)
Net increase in deposits		17,876,103	15,895,127
Net increase in members' loans		(10,369,883)	(13,199,415)
Net cash from operating activities	33 (a)	**8,159,987**	**3,005,463**
Cash flow from investing activities			
Net movement in financial assets		(5,785,576)	(2,679,777)
Payment for purchase of property, plant and equipment		(94,375)	(22,018)
Payment for purchase of Intangibles		(81,641)	(144,704)
Dividends received		10,012	15,825
Net cash used investing activities		**(5,951,580)**	**(2,830,674)**
Increase in Cash		**2,208,407**	**174,789**
Cash at the beginning of the financial year		**19,019,904**	**18,845,115**
Cash at the end of the financial year	33 (b)	**21,228,311**	**19,019,904**

The notes on pages 27 to 58 are an integral part of these financial statements

Notes to and forming part of the Financial Statements

For the year ended 30 June 2019

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 2019.

The financial statements were authorised for issue on 27 August 2019 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) New standards applicable for the current year

AASB 15 Revenue from contracts with customers

AASB 15 replaces AASB 118 Revenue. The new standard has been applied as at 1 July 2018 using the modified retrospective approach. Under this method, the cumulative effect of initial application is recognised as an adjustment to the opening balance of retained earnings at 1 July 2018 and comparatives are not restated.

The adoption of AASB 15 has had an impact on the following for the Credit Union:
- Account fees
- Insurance commissions

Account fees

A monthly service fee is applicable on savings accounts for maintaining a customer's deposit account. Many of the Credit Union's savings account contracts with members comprise a variety of performance obligations including, but not limited to processing of transfers, use of ATMs for cash withdrawals, the issue of original debit cards, and provision of account statements. Under AASB 15, the Credit Union must evaluate the separability of the promised goods or services based on whether they are 'distinct'. A promised good or service is 'distinct' if both of the following criteria are met:
- the customer benefits from the good or service either on its own or together with other readily available resources; and
- the entity's promise to transfer the good or service to the customer is separately identifiable from other promises in the contract (i.e. the Credit Union does not provide a significant service integrating, modifying or customising it).

While this represents significant new guidance, the implementation of this new guidance had no material impact on the timing or amount of revenue recognised by the Credit Union during the year.

Insurance commission

Insurance commission revenue is in the form of commission generated on successful referral of an insurance application to the insurer. This commission is recognised at a point in time on inception of the insurance policy with the insurer

Notes to and forming part of the Financial Statements

For the year ended 30 June 2019

3. Significant accounting policies (continued)

which reflects when the Credit Union has fulfilled their performance obligation. On the date of initial application of AASB 15, 1 July 2018, there was no impact to retained earnings of the Credit Union.

AASB 9 Financial Instruments
AASB 9 Financial Instruments replaces AASB 139 Financial Instruments: Recognition and Measurement. It makes major changes to the previous guidance on the classification and measurement of financial assets and introduces an 'expected credit loss' model for impairment of financial assets.

When adopting AASB 9, the Credit Union has applied transitional relief and opted not to restate prior periods. Differences arising from the adoption of AASB 9 in relation to classification, measurement, and impairment are recognised in opening retained earnings as at 1 July 2018.

The adoption of AASB 9 has impacted the following areas:

Classification and measurement of the Credit Union's financial assets

AASB 9 allows for three classification categories for financial assets – amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit and loss (FVPL). Classification is based on the business model in which a financial asset is managed and the related contractual cashflows. AASB 9 eliminates previous categories of held to maturity, loans and receivables and available for sale (AFS). Classification of financial liabilities is largely unchanged. Refer table on next page for a reconciliation of changes in classification and measurement of financial instruments on adoption of AASB 9.

Impairment of the Credit Union's financial assets
The Credit Union's financial assets carried at amortised cost and those carried at fair value through other comprehensive income (FVOCI) are subject to AASB 9's new three-stage expected credit loss model. The Credit Union measures loss allowances at an amount equal to lifetime expected credit losses (ECL), except for the following, for which they are measured as 12 months ECL.
• Debt investment securities that are determined to have a low credit risk at the reporting date; and
• Other financial instruments on which credit risk has not significantly increased since initial recognition.

An impairment allowance of $42,817 was raised on 1 July 2018 in respect of loans and advances to members. No impairment allowance was recognised for other investments. Further detail of how the Credit Union has applied the ECL policy is included in Note 20.

Notes to and forming part of the Financial Statements

For the year ended 30 June 2019

3. Significant accounting policies (continued)

Reconciliation of financial instruments on adoption of AASB 9

On the date of initial application, 1 July 2018, the financial instruments of the Credit Union were reclassified as follows:

	Measurement Category		Carrying Amount		
	Original AASB 139 category	New AASB 9 category	Closing balance 30 Jun 2018 (AASB 139)	Adoption of AASB 9	Opening balance 1 Jul 2018 (AASB 9)
Assets					
Loans and advances to members	Loans and receivables	Amortised cost	104,892,136	(42,817)	104,849,319
Receivables	Receivables	Amortised cost	277,914	-	277,914
Investment securities – CUSCAL Share / Indue / TAS	AFS	FVOCI	188,403	196,723	385,126
Cash	Amortised cost	Amortised cost	19,019,904	-	19,019,904
Negotiable Certificates of Deposits (NCDs)	Held to maturity	Amortised cost	3,951,179	-	3,951,179
Floating Rate Notes / Term Deposits	Held to maturity	Amortised cost	7,983,021	-	7,983,021
Total financial assets			136,312,557	153,906	136,466,463
Liabilities					
Deposits from members and other financial institutions	Amortised cost	Amortised cost	128,019,639		128,019,639
Bank borrowings	Amortised cost	Amortised cost	-	-	-
Total financial liabilities			128,019,639	-	128,019,639

(b) 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.

(c) 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.

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.

Notes to and forming part of the Financial Statements

For the year ended 30 June 2019

3. Significant accounting policies (continued)

The estimated average life for loans has been calculated as:
- Personal loans 4 Years
- Mortgage loans 5 Years

(d) 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.

(e) 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.

(f) 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.

(g) Cash and cash equivalents
Cash and cash equivalents includes notes and coins on hand, unrestricted balances held with central banks and highly liquid financial assets with maturities of three months or less 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.

Notes to and forming part of the Financial Statements

For the year ended 30 June 2019

3. Significant accounting policies (continued)

(h) Financial assets

Policy applicable from 1 July 2018

Classification of financial assets
For the purpose of subsequent measurement, financial assets other than those designated and effective as hedging instruments are classified into the following categories upon initial recognition:
- amortised cost
- fair value through profit or loss (FVPL)
- fair value through other comprehensive income (FVOCI)

All income and expenses relating to financial assets that are recognised in profit or loss are presented within finance costs, finance income or other financial items, except for impairment of loans and receivables, which is presented within other expenses.

Classifications are determined by both:
- the entity's business model for managing the financial asset and
- the contractual cash flow characteristics of the financial assets.

Subsequent measurement of financial assets
Financial assets at amortised costs
A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVPL:
- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding.

After initial recognition, these are measured at amortised cost using the effective interest method. Discounting is omitted where the effect of discounting is immaterial. The Credit Union's cash and cash equivalents, trade receivables fall into this category of financial instruments as well as bonds that were previously classified as held to maturity under AASB 139.

Financial assets at Fair Value through Profit or Loss (FVPL)
Financial assets that are within a different business model other than 'hold to collect' or 'hold to collect and sell' are categorised as fair value through profit or loss. Further, irrespective of business model, financial assets whose contractual cash flows are not solely payments of principal and interest are accounted for at FVPL.

Financial assets at fair value through other comprehensive income (FVOCI)
Investments in equity instruments that are not held for trading are eligible for an irrevocable election at inception to be measured at FVOCI. Subsequent movements in fair value are recognised in other comprehensive income and are never reclassified to profit or loss. Dividend from these investments continue to be recorded as other income within the profit or loss unless the dividend clearly represents return of capital. This category includes unlisted equity securities – CUSCAL Ltd, TAS Pty Ltd, Shared Lending Pty Ltd and Shared Service Partners Pty Ltd - that were previously classified as 'available for sale' (AFS) under AASB 139.

Loans to Members
Loans and advances' captions in the statement of financial position include:

- loans and advances measured at amortised cost; they are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method; and
- loans and advances mandatorily measured at FVPL or designated as at FVPL; these are measured at fair value with changes recognised immediately in profit or loss;

When the Credit Union purchases a financial asset and simultaneously enters into an agreement to resell the asset (or a substantially similar asset) at a fixed price on a future date (reverse repo or stock borrowing), the arrangement is accounted for as a loan or advance, and the underlying asset is not recognised in the Credit Union's financial statements.

Notes to and forming part of the Financial Statements

For the year ended 30 June 2019

3. Significant accounting policies (continued)

'Loans and advances' were non-derivative financial assets with fixed or determinable payments that were not quoted in an active market and that the Credit Union did not intend to sell immediately or in the near term.

Loans and advances to customers included:

• those classified as amortised cost; and
• those designated as at FVPL;

Loans and advances were initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method.

Interest earned
Term loans - interest is calculated on the basis of the daily balance outstanding and is charged in arrears to a members account on the last day of each month.

Overdraft – interest is calculated initially on the basis of the daily balance outstanding and is charged in arrears to a members account on the last day of each month.
Nonaccrual loan interest – while still legally recoverable, interest is not brought to account as income where the Credit Union is informed that the member has deceased, or loan is impaired.

Loan origination fees and discounts
Loan establishment fees and discounts are initially deferred as part of the loan balance, and are brought to account as income over the expected life of the loan as interest revenue.

Transaction costs
Transaction costs are expenses which are direct and incremental to the establishment of the loan. These costs are initially deferred as part of the loan balance, and are brought to account as a reduction to income over the expected life of the loan, and included as part of interest revenue.

Fees on loans
The fees charged on loans after origination of the loan are recognised as income when the service is provided or costs are incurred.
Net gains and losses
Net gains and losses on loans to members to the extent that they arise from the partial transfer of business or on securitisation, do not include impairment write downs or reversals of impairment write downs.

Reclassifications

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Credit Union changes its business model for managing financial assets. There were no changes to any of the Credit Union business models during the current year (Prior year: Nil).

Loan impairment

AASB 9's impairment requirements use more forward looking information to recognise expected credit losses - the 'expected credit loss model' (ECL). Instruments within the scope of the new requirements include loans and advances and other debt-type financial assets measured at amortised cost and FVOCI, trade receivables and loan commitments.

The Credit Union considers a broader range of information when assessing credit risk and measuring expected credit losses, including past events, current conditions, reasonable and supportable forecasts that affect the expected collectability of the future cash flows of the instrument.

In applying this forward-looking approach, a distinction is made between:
• financial instruments that have not deteriorated significantly in credit quality since initial recognition or that have low credit risk (performing loans) ('Stage 1'); and
• financial instruments that have deteriorated significantly in credit quality since initial recognition and whose credit risk is not low ('Stage 2').

Notes to and forming part of the Financial Statements

For the year ended 30 June 2019

3. Significant accounting policies (continued)

'Stage 3' would cover financial assets that have objective evidence of impairment (loans in default) at the reporting date.

Measurement of ECL

'12-month expected credit losses' are recognised for the first category while 'lifetime expected credit losses' are recognised for the second category. Measurement of the expected credit losses is determined by a probability weighted estimate of credit losses over the expected life of the financial instrument. They are measured as follows:

• financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the Credit Union in accordance with the contract and the cash flows that the Credit Union expects to receive);
• financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows; and
• undrawn loan commitments: as the present value of the difference between the contractual cash flows that are due to the Credit Union if the commitment is drawn down and the cash flows that the Credit Union expects to receive.

The critical assumptions used in the calculation are as set out in Note 20.

Credit-impaired financial assets

At each reporting date, the Credit Union assesses whether financial assets carried at amortised cost are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.
Evidence that a financial asset is credit-impaired includes the following observable data:
• significant financial difficulty of the borrower or issuer;
• a breach of contract such as a default or past due event;
• the restructuring of a loan or advance by the Credit Union on terms that the Credit Union would not consider otherwise;
• it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
• the disappearance of an active market for a security because of financial difficulties.

A loan that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment. In addition, a personal loan that is overdue for 90 days or more is considered impaired.

Write-off

Loans and debt securities are written off (either partially or in full) when there is no realistic prospect of recovery. This is generally the case when the Credit Union determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Credit Union's procedures for recovery of amounts due.

Policy applicable before 1 July 2018
(i) Recognition and initial measurement
Regular purchases of financial assets are recognised on the trade date - the date on which the Credit Union commits to purchase the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets that the Credit Union holds.

(ii) 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.

Notes to and forming part of the Financial Statements

For the year ended 30 June 2019

3. Significant accounting policies (continued)

(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 equity investment in Cuscal Limited, TransAction Solutions Pty Ltd, Shared Lending Pty Ltd and Shared Services Partners Pty Ltd. Based on the information available shares are revalued as a more relevant fair value estimate.

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'.

Notes to and forming part of the Financial Statements

For the year ended 30 June 2019

3. Significant accounting policies (continued)

Reversals of impairment losses are recognised in other comprehensive income.

(i) 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 arm's 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.

(j) 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,

Notes to and forming part of the Financial Statements

For the year ended 30 June 2019

3. Significant accounting policies (continued)

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.

(k) Impairment of non-financial assets
The carrying amounts of the 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.

(l) 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 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.

(m) 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.

(n) 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 Credit Union 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.

Notes to and forming part of the Financial Statements

For the year ended 30 June 2019

3. Significant accounting policies (continued)

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.

(o) 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.

(p) 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.

(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 2019 reporting period. The Credit Union's assessment of the impact of these new standards and interpretations is set out below.

AASB Reference	Nature of Change	Application Date	Impact on initial application
AASB 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 the Credit Union does not hold any operating leases.

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

Notes to and forming part of the Financial Statements

For the year ended 30 June 2019

4. Financial risk management (continued)

provides management and the Board with risk reporting and maintains the regulatory compliance framework in line with regulator expectations.

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

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

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

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

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

Sensitivity analysis
Net interest income is calculated as the expected dollar difference between interest received and interest paid over a period of time. A going concern deposit taking institution will normally have a positive net interest income which rises and falls with market interest rates. Earnings at risk is defined as the worst case outcome in Net Interest Income under stressed market rate scenarios from the base case. As at 30 June 2019, the Credit Union's net interest and net margin over 1 year under different market scenarios were assessed. Standard +/-2% shocks to market rates and steepener and flattener scenarios have been applied. This showed the variability (dollar amount and % of capital) under different market scenarios. The Credit Union's net interest income risk range in the 2% shocks scenarios range at $1.1 million and the earnings-at-risk is 29.82% over the next one year. Under the steepener/flattener scenarios the net interest income will change by $0.2 million and the earnings at risk is 4.5% over the next one year.

Net Present Value impact
Net present value (NPV) is defined as the sum of all discounted future cash flows; assets generate positive cash flows and liabilities generate negative cash flows. NPV variances a measure of risk that is calculated as a change in NPV for each market scenario from the base market scenario. A large change in NPV indicates more riskiness. Based on the current analysis the worst impact on capital for a 2% parallel shift in the yield curve is 6.99% impact on NPV. On steepener/ flattener scenario the yield curve is 0.44% 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 2019

		Fixed Interest Rate Maturing				
As at 30 June 2019	**Variable**	**0-3 months**	**4-12 months**	**1 - 5 Year**	**Non Interest Bearing**	**Total**
Financial assets						
Cash and cash equivalents	10,388,014	10,272,178	-	-	568,119	21,228,311
Loans and advances	113,940,128	-	4,793	1,226,347	48,227	115,219,495
Other receivables	-	-	-	-	302,822	302,822
Investment Securities Measured at amortised cost	-	-	17,723,688	-	-	17,723,688
Equity investment Securities designated as FVOCI	-	-	-	-	385,126	385,126
Total Financial assets	**124,328,142**	**10,272,178**	**17,728,481**	**1,226,347**	**1,304,294**	**154,859,442**
Financial liabilities						
Deposits	54,537,567	49,286,501	39,961,991	297,062	-	144,083,120
Other Payables	-	-	-	-	1,463,603	1,463,603
Total Financial liabilities	**54,537,567**	**49,286,501**	**39,961,991**	**297,062**	**1,463,603**	**145,546,723**

		Fixed Interest Rate Maturing				
As at 30 June 2018	**Variable**	**0-3 months**	**4-12 months**	**1 - 5 Year**	**Non Interest Bearing**	**Total**
Financial assets						
Cash and cash equivalents	3,477,115	14,946,283	-	-	596,506	19,019,904
Loans and advances	103,788,865	-	10,659	1,048,691	43,921	104,892,136
Other receivables	-	-	-	-	277,914	277,914
Investment Securities Measured at amortised cost	-	3,951,179	1,900,000	6,083,021	-	11,934,200
Equity investment Securities designated as FVOCI	-	-	-	-	188,403	188,403
Total Financial assets	**107,265,980**	**18,897,462**	**1,910,659**	**7,131,712**	**1,106,744**	**136,312,557**
Financial liabilities						
Deposits	52,068,856	42,276,118	31,617,459	244,584	-	126,207,017
Other Payables	-	-	-	-	1,183,045	1,183,045
Total Financial liabilities	**52,068,856**	**42,276,118**	**31,617,459**	**244,584**	**1,183,045**	**127,390,062**

Notes to and forming part of the Financial Statements

For the year ended 30 June 2019

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 FVOCI 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 Statement of Financial Position. 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 Credit Union directly funds individual personal loans through the SocietyOne P2P Lending Trust and secured car loans through RateSetter P2P Lending platform.
Included within Loans and advances in the Statement of Financial Position are funds committed by the Credit Union via unconsolidated structured entities in accordance with the Credit Union's risk appetite.

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

	2019			2018		
	Carrying Value	Commitments	Max Exposure	Carrying Value	Commitments	Max Exposure
Loan type	$	$	$	$	$	$
Mortgage	103,884,688	16,439,251	120,273,939	96,313,462	17,252,730	113,566,192
Personal	3,919,498	-	3,969,498	2,919,735	52,433	2,972,168
Overdrafts	701,743	-	701,743	827,257	-	827,257
Total to natural persons	**108,505,929**	**16,439,251**	**124,945,180**	**100,060,454**	**17,305,163**	**117,365,617**
Corporate borrowers	6,665,335	2,115	6,667,450	4,787,761	501,276	5,289,037
Total	**115,171,264**	**16,441,366**	**131,612,630**	**104,848,215**	**17,806,439**	**122,654,654**

Notes to and forming part of the Financial Statements

For the year ended 30 June 2019

4. Financial risk management (continued)

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.

(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 lenders.

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 38.

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.

Notes to and forming part of the Financial Statements

For the year ended 30 June 2019

4. Financial risk management (continued)

As at 30 June 2019	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	54,537,567	54,533,090	-	-	-	-	54,533,090
Deposits from members							
– term	89,545,554	49,672,439	40,181,216	298,011	-	-	90,151,666
Other Payables	1,463,603	-	-	-	-	1,463,603	1,463,603
Subtotal	**145,546,724**	**104,205,529**	**40,181,216**	**298,011**	**0**	**1,463,603**	**146,148,359**
Undrawn overdraft facility	-	400,000	-	-	-	-	400,000
Other commitments	-	16,441,366	-	-	-	-	16,441,366
Total Financial liabilities	**145,546,724**	**121,046,895**	**40,181,216**	**298,011**	**0**	**1,463,603**	**162,989,725**

As at 30 June 2018	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	52,068,856	52,064,582	-	-	-	-	52,064,582
Deposits from members							
– term	74,138,161	42,583,948	31,822,670	249,314	-	-	74,655,932
Other Payables	1,068,525	-	-	-	-	1,183,045	1,183,045
Subtotal	**127,275,542**	**94,648,530**	**31,822,670**	**249,314**	**0**	**1,183,045**	**127,903,559**
Undrawn overdraft facility	-	400,000	-	-	-	-	400,000
Other commitments	-	17,806,439	-	-	-	-	17,806,439
Total Financial liabilities	**127,275,542**	**112,854,969**	**31,822,670**	**249,314**	**0**	**1,183,045**	**146,109,998**

(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

Notes to and forming part of the Financial Statements

For the year ended 30 June 2019

4. Financial risk management (continued)

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.

	2019 Fair Value	2019 Carrying Value	2018 Fair Value	2018 Carrying Value
Financial Assets				
Cash and cash equivalents	21,228,311	21,228,311	19,019,904	19,019,904
Loans and advances	115,219,495	115,219,495	104,892,136	104,892,136
Other receivables	302,822	302,822	277,914	277,914
Investment Securities Measured at amortised cost	17,723,688	17,723,688	11,934,200	11,934,200
Equity investment Securities designated as FVOCI	385,126	385,126	188,403	188,403
Total Financial assets	**154,859,442**	**154,859,442**	**136,312,557**	**136,312,557**
Financial liabilities				
Deposits from members – at call	54,533,090	54,537,567	52,064,582	52,068,856
Deposits from members – term	90,151,666	89,545,553	74,655,932	74,138,161
Other Payables	1,463,603	1,463,603	1,183,045	1,183,045
Total Financial liabilities	**146,148,359**	**145,546,723**	**127,903,559**	**127,390,062**

There have been no transfers between levels during the year.
The following table presents the changes in level three equity instruments for the year ended 30 June:

	2019 $	2018 $
Investment in equity instruments classified as FVOCI		
Opening balance	188,403	188,403
Revaluation on transition to AASB 9 Financial Instruments	196,723	-
Additions	-	-
Losses recognised in other comprehensive income	-	-
Losses recognised in profit or loss	-	-
Closing Balance	**385,126**	**188,403**

Notes to and forming part of the Financial Statements

For the year ended 30 June 2019

4. Financial risk management (continued)

The Credit Union only has equity instrument FVOCI. Based on the information available, Cuscal's and TAS's shares have been revalued to fair value as AASB 9 no longer permits cost to be used as a proxy for fair value where observable inputs are not available. These are its holdings in unlisted shares in Cuscal Limited, Transactions Solutions Pty Ltd, Shared Lending Pty Ltd and Shared Service Partners Pty Ltd. Refer to Note 19.

(f) Fair value hierarchy

The following table provides the fair value measurement hierarchy of the Credit Union's assets and liabilities.

	Note	Level 1	Level 2	Level 3	Level 2
		$'000	$'000	$'000	$'000
Assets measured at fair value					
Land and buildings	23(a)	-	2,100	-	2,100
Other investments	19(a)	-	-	85	385
Total assets measured at fair value		-	**2,100**	**385**	**2,485**
Assets for which fair values are disclosed					
Cash and cash equivalents	4(e)	-	21,228	-	21,228
Receivables due from other financial institutions		-	-	-	-
Investment securities		-	17,724	-	17,724
Trade and other receivables		-	-	303	303
Loans and advances		-	-	115,219	115,219
Total assets for which fair value is disclosed		-	**38,952**	**115,522**	**154,474**
Liabilities for which fair values are disclosed					
Deposits	4(e)	-	144,685	-	144,685
Trade and other payables		-	-	1,464	1,464
Total liabilities for which fair value is disclosed		-	**144,685**	**1,464**	**146,149**

(g) 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 securitisation 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

Notes to and forming part of the Financial Statements

For the year ended 30 June 2019

4. Financial risk management (continued)

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.

This program was discontinued in February 2014. No further loans are being transferred in to this vehicle, however, existing loans will remain and continue to run their course until fully repaid or refinanced.

Bendigo and Adelaide Bank non-securitisation lending facility
As the Integris Securitisation program through Cuscal was discontinued 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 securitisation 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 organisation 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 $310,000 under the new lending facility to Bendigo. As at 30 June 2019, the Credit Union had loans under management with the Bendigo and Integris programs of $7,062,783 (2018: $8,636,025).

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

Management have made critical accounting estimates when applying the Credit Union's accounting policies with respect to the measurement of expected credit loss (ECL) allowance – refer Note 20. In the current year, the approach to estimation of impairment losses has been revised following adoption of AASB 9 effective 1 July 2018. Key areas of judgement to be considered under the new standard include:

- Recognition of credit losses based on "Stage 1" 12 month expected losses and "Stage 2" and "Stage 3" lifetime expected credit losses.
- Determining criteria for significant increase in credit risk: An asset moves to stage 2 when its credit risk has increased significantly since initial recognition. In assessing whether the credit risk of an asset has significantly increased the Credit Union takes into account qualitative and quantitative reasonable and supportable forward looking information.
- Choosing appropriate models and assumptions for the measurement of ECL;
- Establishing groups of similar financial assets for the purposes of measuring ECL: When ECLs are measured on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics.

(ii) Valuation of Land and Buildings.
The 2019 revaluation was made by Preston Rowe Paterson Warrnambool as at 31 May 2019. 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)

Notes to and forming part of the Financial Statements

For the year ended 30 June 2019

6. Segment reporting

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

7. Interest income and interest expense

(a) Interest income and interest expense	2019 $	2018 $
Interest income		
Cash and cash equivalents	333,719	260,138
Loans and advances to customers	5,426,997	4,736,654
Investment securities	451,934	287,648
Total interest income	**6,212,650**	**5,284,440**
Interest expense		
Deposits from customers	(2,296,474)	(1,834,628)
Total interest expense	(2,296,474)	(1,834,628)
Net interest income	**3,916,176**	**3,449,812**

(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.

	2019			2018		
	Average Balance	Interest	Average Interest Rate	Average Balance	Interest	Average Interest Rate
(a) Interest Revenue						
Investment Securities	16,377,283	451,934	2.79%	10,154,648	287,648	2.83%
Loans and Advances	110,993,069	5,426,997	4.89%	99,276,392	4,736,654	4.72%
Cash and cash equivalents	17,847,582	333,719	1.87%	17,823,011	260,138	1.46%
Total		**6,212,650**			**5,284,440**	
(b) Interest Expense						
Member Deposits	136,315,362	2,296,474	1.68%	17,799,580	1,834,628	1.57%
Net Interest Income		**3,916,176**			**3,449,812**	

Notes to and forming part of the Financial Statements

For the year ended 30 June 2019

	2019 $	2018 $
8. Impairment Recovery / (losses) on loans and advances		
(Increase)/decrease in provision for impairment	(30,132)	25,120
Bad debts recovered	3,685	1,010
Bad debts written off directly against profit	(44,550)	(4,559)
	(70,997)	**21,571**
9. Non-interest income		
Dividends	10,012	15,825
Fees and commissions		
- Loan fee income	45,897	68,594
- Insurance commissions	217,229	162,254
- Other fees and commissions	467,201	494,916
Other income	29,107	33,558
	769,446	**775,147**
10. Depreciation and amortisation expense		
Depreciation of plant and equipment	51,628	52,539
Depreciation of buildings	33,855	44,650
Amortisation of intangibles	115,972	76,300
	201,455	**173,489**
11. Personnel expenses		
Salaries and wages	1,605,740	1,436,131
Contributions to defined contribution plans	154,296	146,517
Payroll tax	27,523	39,155
Workers compensation insurance	4,907	4,192
Staff training	43,985	4,856
Other	42,505	93,259
	1,878,956	**1,724,110**
12. Information technology expense		
Computer and software maintenance	309,343	301,104
Managed desktop services	321,223	289,928
	630,566	**591,032**

Notes to and forming part of the Financial Statements

For the year ended 30 June 2019

13. Office occupancy expense	2019	2018
	$	$
Rates and taxes	12,805	13,329
Cleaning	19,377	18,299
Maintenance	6,710	5,551
Rent	11,685	11,357
Other	12,070	9,473
	62,647	**58,009**

14. Other expenses

Advertising and promotion	105,643	84,882
Loan and deposit administration costs	641,445	564,692
Professional and consultancy fees	221,470	192,181
General administration costs	373,004	347,676
Other	203,204	205,273
	1,544,766	**1,394,704**

(a) Auditor's remuneration

External audit fees	**51,750**	**45,750**

15. Income tax expense

(a) Income tax expense		
Current tax expense	90,337	105,995
Deferred tax expense	(3,290)	(4,060)
Total income tax expense in the Statement for Profit or Loss	**87,047**	**101,935**
(b) Numerical reconciliation between tax expense and pre-tax net profit		
Profit for the year	209,188	203,251
Total income tax expense	87,047	101,935
Profit excluding income tax	**296,235**	**305,186**
Income tax using rate of 27.5% (2018:27.5%)	81,465	83,926
Tax effect of:		
- Depreciation of buildings	7,047	6,727
- Movements in leave and expected credit losses	5,609	17,876
- Small business asset deduction	(2,272)	(1,677)
- Imputation tax credits	1,822	1,865
	93,671	108,717
Less:		
- Rebatable amount of imputation credits	(6,624)	(6,782)
Total income tax expense	87,047	101,935

Notes to and forming part of the Financial Statements

For the year ended 30 June 2019

15. Income tax expense (continued)

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:

2019	2018
$	$
3,735,249	3,610,967

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 2019, 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 2019.

16. Cash and cash equivalents	Note	2019	2018
		$	$
Cash on hand		461,196	473,225
Cash at banks		20,767,115	18,546,679
		21,228,311	**19,019,904**

17. Trade and other receivables

Interest receivable	117,855	103,313
Other receivable	184,967	174,601
	302,822	**277,914**

18. Other assets

Prepayments	**124,639**	**102,445**

19. Financial assets

Equity Investment Securities classified as FVOCI	**19(a)**	385,126	188,403
Investment Securities measured at amortised cost	**19(b)**	17,723,688	11,934,200
		18,108,814	**12,122,603**
(a) Equity Investment Securities classified as FVOCI			
Unlisted shares in :			
Cuscal Limited	**19(a)(i)**	301,581	142,306
TransAction Solutions Pty Ltd	**19(a)(ii)**	43,545	6,097
Shared Lending Pty Ltd	**19(a)(iii)**	20,000	20,000
Shared Services Partners Pty Ltd	**19(a)(iv)**	20,000	20,000
		385,126	**188,403**

The value of these shares was $385,126 at 30 June 2019 (2018 - $188,403). All shares have been revalued to fair value estimate on 1 July 2018 on adoption of AASB 9. The Credit Union is not intending to dispose of these shares and will reassessed the values in 2020 financial year.

Notes to and forming part of the Financial Statements

For the year ended 30 June 2019

19. Financial assets (continued)

(i) Cuscal Limited shares
This company supplies services to the member organisations which are all Credit Unions and Mutual Banks. At 1 July 2018, the Credit Union classified its investment in Cuscal equity securities as at FVOCI in accordance with AASB 9. For the year ended 30 June 2018, these investments were classified as available-for-sale and measured at cost. The shares are able to be traded but within a market limited to other mutual ADI's.

Management have used unobservable inputs to assess the fair value of the shares. The financial reports of CUSCAL record net tangible asset backing of these shares exceeding their cost value. Based on the net assets of CUSCAL, any fair value determination on these shares is likely to be greater than their cost value, but due to the absence of a deep and liquid market, a market value is not able to be determined readily. Management has determined that the net tangible asset value of $1.27 per share as at 30 June 2018 is a reasonable approximation of fair value based on Cuscal's net assets as at 30 June 2018.

At year end the Credit Union has utilised a similar valuation methodology, taking into consideration all available financial information as well as factors including, but not limited to, changes in the investee's performance, technological advancements, market and economic conditions, as well as recent sales information where available.

(ii) TransAction Solutions Pty Ltd
At 30 June 2019 the Credit Union held 6,097 "A" class shares.

The deemed fair value of the "A" class shares at 30 June 2019 was $43,545 (2018- $6,097). Transaction Solutions Pty Ltd is an unlisted public company. The shares held by the Credit Union are not tradeable in an open market. The Credit Union is not intending to dispose of these shares.

Management have used unobservable inputs to assess the fair value of the shares. The financial reports of TAS record net tangible asset backing of these shares exceeding their cost value. Based on the net assets of TAS, any fair value determination on these shares is likely to be greater than their cost value, but due to the absence of a deep and liquid market, a market value is not able to be determined readily. Management has determined that the net tangible asset value of $7.14 per share as of 30 June 2018 is a reasonable approximation of fair value based on TAS's net assets as at 30 June 2018.

TAS'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.

At year end the Credit Union has utilised a similar valuation methodology, taking into consideration all available financial information as well as factors including, but not limited to, changes in the investee's performance, technological advancements, market and economic conditions, as well as recent sales information where available.

(iii) Shared Lending Pty Ltd
In February 2018, shares were purchased in Shared Lending Pty Ltd, an initiative by six credit union members. The company was formed as Shared Lending Pty Ltd and registered under a trade name ConXsyn, to manage the loan sharing scheme on behalf of the six founding credit unions (which includes South West Credit Union).

Based on the information available these shares were revalued at 30 June 2019 and the carrying value of these shares was assessed to approximate their fair value. The value of these shares was $20,000 at 30 June 2019.

(iv) Shared Service Partners Pty Ltd
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.

Based on the information available these shares were revalued at 30 June 2019 and the carrying value of these shares was assessed to approximate their fair value as a more relevant fair value estimate and the value of these shares were $20,000. These shares in SSP cannot be traded and are refunded when the Credit Union leaves SSP and sells back the shares to SSP.

Notes to and forming part of the Financial Statements

For the year ended 30 June 2019

19. Financial assets (continued)

(b) Investment Securities measured at amortised cost	2019	2018
	$	$
NCDs (Negotiable Certificates of Deposits)	-	3,951,179
Term Deposits	5,762,289	3,320,000
Bonds	11,961,399	4,663,021
Total Fixed Term Investments	**17,723,688**	**11,934,200**

None of the investments securities are either past due or impaired.

The current portion of the investments at reporting date is $14,723,687 (2018: $10,934,200) and non-current portion is $3,000,000 (2018: $1,000,000).

20. Loans and advances

(a) Loans by profile represented as follows:		
Overdrafts	3,180,970	2,950,214
Term loans	112,038,524	101,941,922
	115,219,494	104,892,136
Less Provision for Impaired Loans	(99,064)	(26,113)
Total Loans and Advances	**115,120,430**	**104,866,023**
(b) Loans by maturity represented as follows:		
Up to 3 months	1,008	2,952,563
Longer than 3 and not longer than 12 months	6,477,130	153,128
Longer than 1 but not longer than 5 years	5,450,130	5,598,437
Longer than 5 years	103,291,226	96,188,008
Total Loans and Advances	**115,219,494**	**104,892,136**

20. Loans and advances (continued)

(c) Provision for impaired:
Amounts arising from ECL

The loss allowance as of the year end by class of asset is summarised in the table below. Comparative amounts for 2018 represent allowance account for credit losses and reflect the measurement basis under AASB 139.

	2019			2018		
	Gross Carrying value	ECL Allowance	Carrying value	Gross Carrying value	ECL Allowance	Carrying value
	$	$	$	$	$	$
Mortgages	109,736,369	-	109,736,369	100,542,985	-	100,542,985
Personal loans	2,972,524	(40,239)	2,932,285	1,847,485	(17,010)	1,830,475
Overdrafts	1,598,140	(30,786)	1,567,354	1,493,050	(9,103)	1,483,947
SocietyOne	912,461	(28,039)	884,422	1,008,616	-	1,008,616
Total	**115,219,494**	**(99,064)**	**115,120,430**	**104,892,136**	**(26,113)**	**104,866,023**

An analysis of the Credit Unions credit risk exposure per class of financial asset and "stage" without reflecting the effects of any collateral or other credit enhancements is demonstrated in the following tables. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts.

	2019				2018
	Stage 1 12 month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total	Total
	$	$	$	$	$
Mortgages	-	-	-	-	-
Personal loans	(13,536)	(581)	(26,122)	(40,239)	(17,010)
Overdrafts	(9,398)	(269)	(21,119)	(30,786)	(9,103)
SocietyOne	(22,047)	(2,103)	(3,889)	(28,039)	-
Loss allowance	**(44,981)**	**(2,953)**	**(51,130)**	**(99,064)**	**(26,113)**
Carrying amount	**114,889,340**	**59,548**	**270,606**	**115,219,494**	**104,866,023**

Notes to and forming part of the Financial Statements
For the year ended 30 June 2019

20. Loans and advances (continued)

The reconciliation from the opening to the closing balance of the allowance for impairment is shown in the table below:

	2019				2018
	Stage 1 12 month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total	Total
	$	$	$	$	$
Loans to members					
Balance at 1 July per AASB 139	-	-	-	(26,113)	(51,234)
Adjustment on initial application of AASB 9	-	-	-	(42,819)	-
Balance at 1 July per AASB 9	(42,703)	(634)	(25,595)	(68,932)	(51,234)
Changes in the loss allowance					
- Transfer to stage 1	(30,129)	-	-	(30,129)	-
- Transfer to stage 2	-	(3,946)	-	(3,946)	-
- Transfer to stage 3	-	-	(28,680)	(28,680)	-
- Net movement due to change in credit risk	-	-	-	-	28,670
- Write-offs	27,851	1,627	3,145	32,623	(4,559)
Recoveries of amounts previously written off	-	-	-	-	1,010
Balance at 30 June	**(44,981)**	**(2,953)**	**(51,130)**	**(99,064)**	**(26,113)**

Key assumptions in determining the ECL
Measurement of ECL's:
The key inputs into the measurement of ECL's include the following variables:
- Probability of default (PD);
- Loss given default (LGD);
- Exposure at default (EAD); and
- discounting.

These parameters are generally derived from internal analysis, management judgements and other historical data. They are adjusted to reflect forward-looking information as described below.
PD estimates are calculated based on arrears over 90 days and other loans and facilities where the likelihood of future payments is low. The definition of default is consistent with the definition of default used for internal credit risk management and regulatory reporting purposes. Instruments which are 90 days past due are generally considered to be in default.

LGD is the magnitude of the likely loss if there is a default. The Credit Union estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD percentage applied considers the structure of the loan, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset. For loans secured by retail property, Loan to Value Ratios (LVR) are a key parameter in determining LGD. LGD estimates are recalibrated for different economic scenarios and, for real estate lending, to reflect possible changes in property prices. They are calculated on a discounted cash flow basis using the effective interest rate as the discounting factor.

EAD represents the expected exposure in the event of a default. The Credit Union derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract including amortisation. The EAD of a financial asset is its gross carrying amount. For lending commitments and financial guarantees, the EAD includes the amount drawn, as well as potential future amounts that may be drawn under the

Notes to and forming part of the Financial Statements

For the year ended 30 June 2019

20. Loans and advances (continued)

contract, which are estimated based on historical observations and future expectations.

Where appropriate, in calculating the ECL, future cash flows are discounted at the original effective interest rate of the exposure.

Grouping of similar assets
Since the loans are homogenous in terms of borrower type and contractual repayment terms, the portfolio is currently managed through the dissection of the portfolio arrears reports.

The Credit Union has elected to use the following segments when assessing credit risk for Stages 1 and 2 of the impairment model:
• Mortgages
• Personal loans
• Overdrafts
• SocietyOne

Stage 3 of the impairment model will be assessed on an individual basis.

The groupings are subject to regular review to ensure that exposures within a particular group remain appropriately homogeneous.

Significant increase in credit risk
The Credit Union is not required to develop an extensive list of factors in defining a 'significant increase in credit risk'. In assessing significant increases in credit risk where a loan or group of loans must move to Stage 2 the following factors have been considered in the Credit Union's current model:
• Loans more than 30 days past due
• Overdrafts and overdrawn accounts 14 days past due

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Credit Union considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Credit Union's historical experience and expert judgement, relevant external factors and including forward-looking information.

The Credit Union presumes that the credit risk on a financial asset has increased significantly since initial recognition when the exposure is more than 30 days past due (or 14 days for overdrafts and overdrawn accounts) unless the Credit Union has reasonable and supportable information that demonstrates otherwise.

	2019	2018
	$	$
	394,329	418,584

(e) Restructured loan balances
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.

	2019	2018
(f) Assets acquired through security enforcement restricted loans	-	-
(g) Interest revenue received on non-accrual and restructured loans	18,898	11,633
(h) Interest lost on non-accrual or restructured loans	-	-

Notes to and forming part of the Financial Statements

For the year ended 30 June 2019

20. Loans and advances (continued)

(i) Passed due not impaired
As at 30 June 2019, loans and advances of $227,223 (2018: $298,410) were past due but not impaired. Adequate security is held to cover recovery of the debt. The ageing analysis is as follows:

	2019	2018
	$	$
Past due up to 90 days (fully secured)	14,216	243,118
Past due 91 - 365 days (fully secured)	213,007	55,292
Past due 365 and Over (fully secured)	-	-
	227,223	**298,410**

(j) Not Past due or impaired
As at 30 June 2019 within loans and advances $114,992,271 (2018: $104,593,726) 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:

	2019	2018
Loan to value ratio of 80% or less	93,997,786	85,526,690
Loan to value ratio of more than 80% but mortgage insured	8,451,520	7,524,218
Loan to value ratio of more than 80% not mortgage insured	5,326,277	6,380,755
Total	**107,775,583**	**99,431,663**

21. Current tax assets

	2019	2018
Income tax (Payable)	**(17,580)**	**(55,215)**

22. Deferred tax assets

	2019	2018
Deferred tax assets comprise:		
Provision for impairment	27,242	7,181
Annual leave & long Service leave entitlements	79,816	82,493
	107,058	**89,674**
The deferred tax charge in the income statement comprises the following temporary differences:		
Provision for loan impairment	(5,967)	(6,908)
Annual leave and long service leave provisions	(2,677)	10,968

Notes to and forming part of the Financial Statements

For the year ended 30 June 2019

23. Property, plant and equipment

	2019	2018
	$	$
(a) Property		
Land - Warrnambool (at valuation 30 June)	900,000	875,000
Buildings (at valuation 30 June)	1,200,000	1,150,000
Less Accumulated Depreciation	-	-
Fair value as at 30 June	**2,100,000**	**2,025,000**

The 2019 revaluation was made by Preston Rowe Paterson Warrnambool as at 21 May 2019. This valuation has been carried out by PRP in accordance with Royal Institution of Charted Surveyors (RICS) red book valuation professional standards and/or the Australian Property Institute (API) "Professional Practice" guidance notes. 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 31.

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

	2019	2018
Freehold land – Cost	188,000	188,000
Buildings – Cost	502,850	488,201
Less: Accumulated Depreciation	(345,635)	(311,780)
Net carrying value of Land and Buildings	345,215	364,421
Revaluation attributable to Land and Buildings	1,754,785	1,660,579
Fair value at 30 June	**2,100,000**	**2,025,000**

	2019	2018
(b) Plant and equipment		
Office Equipment (at cost)	171,764	215,725
Less Accumulated Depreciation	(110,905)	(176,505)
	60,859	**39,220**
Furniture & Fittings (at cost)	181,908	181,908
Less Accumulated Depreciation	(145,223)	(132,693)
	36,685	**49,215**
Motor Vehicles (at cost)	76,240	76,240
Less Accumulated Depreciation	(76,240)	(71,379)
	-	**4,861**
Computer Equipment (at cost)	185,245	211,771
Less Accumulated Depreciation	(128,947)	(175,412)
	56,298	**36,359**
Property (Land and Buildings) note 31(a)	2,100,000	2,025,000
Total Property, Plant and Equipment	**2,253,842**	**2,154,655**

Notes to and forming part of the Financial Statements

For the year ended 30 June 2019

23. Property, plant and equipment (continued)

(c) 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 2017	**47,320**	**60,783**	**13,195**	**38,878**	**99,106**	**2,000,000**	**2,259,282**
Purchases	5,105	1,695	-	15,209	-	-	22,009
Transfers to/from WIP							-
Less:	-	-	-	-	(99,106)	-	(99,106)
Assets disposed	-	-	-	-	-	-	-
Depreciation charge	(13,205)	(13,263)	(8,334)	(17,728)	-	(44,650)	(97,180)
Revaluation	-	-	-	-	-	69,650	69,650
Balance at 30 June 2018	**39,220**	**49,215**	**4,861**	**36,359**	**-**	**2,025,000**	**2,154,655**
Purchases	37,035	-	-	42,691	-	14,649	94,375
Less:							
Assets transferred to intangibles	-	-	-	-	-	-	-
Assets disposed	(2,058)	-	-	(1,853)	-	-	(3,911)
Depreciation charge	(13,338)	(12,530)	(4,861)	(20,899)	-	(33,855)	(85,483)
Revaluation	-	-	-	-	-	94,206	94,206
Balance at 30 June 2019	**60,859**	**36,685**	**-**	**56,298**	**-**	**2,100,000**	**2,253,842**

24. Intangible assets

	2019	2018
	$	$
Intangible Assets	885,809	804,168
Less Accumulated Amortisation	(612,252)	(496,280)
	273,557	**307,888**

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

Movements in the asset balances during the year were:

	2019	2018
Opening balance	307,888	140,378
Purchases	81,641	144,704
Transfer from work in progress	-	99,106
Amortisation charge	(115,972)	(76,300)
Balance at the end of the year	**273,557**	**307,888**

Notes to and forming part of the Financial Statements

For the year ended 30 June 2019

25. Deposits

	2019	2018
	$	$
Call deposits (including withdrawable member shares)	54,537,567	52,068,856
Term deposits	89,545,553	74,138,161
	144,083,120	**126,207,017**

Maturity Analysis:		
At call	54,537,567	52,068,856
Not longer than 3 months	49,286,500	42,276,118
Longer than 3 and not longer than 12 months	39,961,991	31,617,459
Longer than 1 but not longer than 5 years	297,062	244,584
	144,083,120	**126,207,017**

Geographical concentration of deposits
The Credit Union operates in the geographic area of South West Victoria and customers deposits at balance date were principally received from customers employed in this area.

The geographical segments details are below:		
Victoria	123,962,130	114,303,112
New South Wales	14,619,113	10,533,708
Other	5,501,877	1,370,197
	144,083,120	**126,207,017**

26. Trade and other payables

Trade Creditors	177,270	121,150
Accrued Interest Payable	564,558	459,497
Other Creditors	721,775	602,398
	1,463,603	**1,183,045**

27. Provisions

(a) Employee Entitlements (annual leave)

Movement in the Provision for Annual Leave balances during the year:		
Balance at beginning of year	125,163	116,072
Add / (Deduct):		
Additional provision recognised	111,875	107,440
Amounts used during the year	(115,609)	(98,349)
Balance at the end of the year	**121,429**	**125,163**

(b) Employee Entitlements (long service leave)

Movement in the Provision for Long Service Leave balances during the year:		
Balance at beginning of year	174,814	144,020
Add / (Deduct):		
Additional provision recognised	21,505	31,950
Amounts used during the year	(27,507)	(1,157)
Balance at the end of the year	**168,812**	**174,813**
Total Provisions	**290,241**	**299,976**

Notes to and forming part of the Financial Statements

For the year ended 30 June 2019

28. Deferred tax liabilities

	2019	2018
	$	$
Deferred tax liability - Revaluation Adjustments	354,392	274,386

29. Standby borrowing facilities

Approved standby and overdraft facilities

The Credit Union had an approved overdraft facility at 30 June 2019 of $400,000 (2018: $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 2019 was $Nil (2018: $Nil).

30. Retained Earnings

Annually a transfer is performed between retained profits and the retained earnings. The retained earnings represents the accumulation of prior years' trading profits of the Credit Union after transfers to reserves. The retained earnings as at 30 June 2019 is $9,618,313 (2018: $9,333,409).

Shareholder share redemption reserve
The retained earnings includes amounts allocated for the purpose of a shareholder share redemption balance per section 254K of the Corporations Act 2001. The balance at 30 June 2019 of $11,930 (2018: $11,620) represents the amount of redeemable shares redeemed by the Credit Union since 1999. The law requires that the redemption of the shares be made out of profits. Since the value of the shares has been paid to members in accordance with the terms and conditions of the share issue, the account represents the amount of profits appropriated to the account. The 2019 allocation amounts to $310 (2018: $310)

31. Asset revaluation reserve

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

Balance at 1 July	1,300,579	1,250,083
Add/(Less): Movement for year		
Revaluation of property at 30 June	94,206	69,650
Deferred tax liability impact of revaluation	(25,906)	(19,154)
Balance at 30 June	**1,368,879**	**1,300,579**

32. General reserve for credit losses

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

Balance at 1 July	287,479	512,578
Add/(Less): Movement for year		
Transfer from /(to) retained earnings	35,866	(225,099)
Balance at 30 June	**323,345**	**287,479**

Notes to and forming part of the Financial Statements

For the year ended 30 June 2019

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

	2019 $	2018 $
(a) The net cash provided by operating activities is reconciled to the net profit after tax		
Net profit after tax	**209,188**	**203,251**
Depreciation	85,483	97,189
Amortisation	115,972	76,300
Dividends received	(10,012)	(15,825)
Changes in assets and liabilities		
(increase) in trade and other receivables	(24,908)	(139,892)
(Increase) in other assets	(22,194)	26,504
(increase) in loans and advances	(10,323,053)	(13,195,865)
(Increase) in deferred tax assets	(17,384)	(4,060)
(Increase) in income tax receivable	(25,860)	47,356
Increase in deposits	17,876,103	15,895,127
Increase in trade and other payables	276,253	(615)
increase in expected credit losses	30,134	(25,121)
(decrease) in provisions	(9,735)	39,884
Cash flows provided by operating activities	**8,159,987**	**3,005,463**
(b) Reconciliation of cash		
Cash includes cash on hand, and deposits at call with financial institutions.		
Cash as at balance date comprises:		
Cash on hand, at bank and at call	**21,228,311**	**19,019,904**

(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.

34. Financial Commitments

	2019	2018
Loan to members approved but not advanced as at 30 June	10,419,736	3,454,982
Loan redraw facilities	6,021,630	5,508,738

35. 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, 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' Visa debit and the Credit Union's EDP System.

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

Ultradata Australia Pty Ltd
Maintenance Agreement with Ultradata Australia Pty Ltd for the provision and maintenance of software was extended for a further five years until 2023.

Notes to and forming part of the Financial Statements

For the year ended 30 June 2019

36. Related party transactions

(a) Directors Remuneration
As approved at the 2018 Annual General Meeting on 13 November 2018, $10,197 (previously $9,900) per annum was provided for each Director.
An additional allowance of:
- $10,197 (previously $9,900) for the Chairperson
- $5,562 allowance (previously $5,400) to the Audit Committee Chair
- $5,562 allowance (previously $5,400) to the Risk and Compliance Committee Chair were also provided.

Total directors' remuneration was set at $92,700 (previously $88,700) 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.

	2019 $	2018 $
(i) Compensation paid to key management personnel		
Short-term employee benefits	514,013	497,853
Post employment benefits	-	-
Other long term benefits	8,268	12,871
Termination benefits	-	-
	522,281	**510,724**
(ii) Loans to key management personnel (included related parties)		
Loans outstanding at beginning of year	336,474	305,915
Net balances from changes in personnel	-	-
Advances made during the year	750,000	47,000
Interest and fees charged	15,459	12,606
Repayments made during the year	(344,819)	(29,047)
Loans outstanding at end of year	**757,114**	**336,474**

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 $102,000. These facilities were partially drawn as at 30 June 2019.

(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 $25,181 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.

37. Concentration of assets and liabilities

At the 30 June 2019 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

Notes to and forming part of the Financial Statements

For the year ended 30 June 2019

37. Concentration of assets and liabilities (continued)

requirements. It is noted, however, that the internally ratified policy of the Credit Union is for exposure to any individual or group to not exceed 5% of Members' Funds.

38. Contingent Liabilities

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

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

	2019	2018
	$	$
Guarantees to the benefit of Members:	83,975	65,360

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.

39. 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.

40. 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

Notes to and forming part of the Financial Statements

For the year ended 30 June 2019

40. Capital management (continued)

Additional Tier 1 capital
This classification of capital includes
• Preference share capital approved by APRA and qualify as Tier 1 capital

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

Tier 2 capital generally comprises:
• General reserve for Credit Losses
• Tier 2 capital instruments - subordinated loan.

	2019	2018
	$	$
Tier 1		
General Reserve and Retained earnings	9,606,383	9,321,789
Redemption Reserve	11,930	11,620
Capital Reserve	1,368,879	1,300,579
APRA Tier 1 adjustments	(658,684)	(496,291)
Net Tier 1 Capital	**10,328,508**	**10,137,697**
Tier 2		
Reserve for Credit Losses	323,345	287,479
Net Tier 2 Capital	**323,345**	**287,479**
Total Capital	**10,651,853**	**10,425,176**

Total risk weighted assets
The risk weighted exposures based on APRA prescriptions amounts to $72.7 million. The Capital adequacy ratio on total capital base is 14.65% (2018:15.9%). The Tier 1 ratio stands at 14.20% (2018: 15.5%).

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 30 June 2019 and of its performance for the year ended on that date; and
   (b) complying with Accounting Standards and the Corporations Regulations 2001; 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 as stated in Note 2.

Signed in accordance with a resolution of the Directors.

Director:	Director:
Jennifer Waterhouse	Gary Parsons
Chair	Vice Chairperson

Dated this 27th day of August 2019

Crowe

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 2019, 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 2019 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 2019, 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.

Crowe

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.

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.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

Crowe

- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during the audit.

Crowe Melbourne

CROWE MELBOURNE

David Munday

David Munday

Partner

Melbourne, Victoria

29 August 2019

SouthWest Credit

Your local Bank

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