

Annual Report

2022/23

SWSCU

**Big enough to help,
yet small enough to care**

ACN 087650673
ABN 80 087 650 673

AFS & Australian Credit Licence No
240712

Registered Office
89 Boorowa Street, Young NSW 2594

Solicitors
KP Carmody & Co. Solicitors & Attorneys

Bankers
CUSCAL

Auditors
Intentus Chartered Accountants

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Find us on Facebook

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Chair's Report



It gives me pleasure to deliver this 2022/23 Chair's report following our 51st year of providing the banking services and support that our members require.

It has been a year where we have witnessed significant banking industry change from that of previous years. We have moved on from a period of COVID-related hesitation and near zero interest rates to one of rapidly rising interest rates and a dramatic acceleration of on-line banking. Indeed the term 'digital banking' is no longer an industry 'buzz' word but instead is rapidly becoming an everyday reality.

This rising interest rate environment has enabled South West Slopes Credit Union to deliver record profits brought about through the expert management of our wholesale investment portfolio, supported by the continued loyalty and support of our membership. In true 'mutual banking spirit' we have given back to our members some of these profits.

"AS OF 30TH JUNE 2023 SOUTH WEST SLOPES CREDIT UNION HAD 13,243 MEMBERS AND IS MANAGING IN EXCESS OF \$270M IN ASSETS. WE HAVE CERTAINLY GROWN FROM ONLY A HANDFUL OF MEMBERS SOME 51YEARS AGO."

For our borrowers, we were able to give back by not passing on 4 successive Reserve Bank (RBA) interest rate rises at a time when the RBA increases were starting to really hurt a portion of our membership. For our depositors, we were able to maintain market leading Term Deposit rates compared to many of the other banks in the communities we support. It has indeed given me great satisfaction to have been a part of this wonderful 'customer owned banking' story.

The number of Credit Unions (Mutual Banks) in Australia has continued to decline mainly through merger processes. This decline has continued to a point where of the 65 Mutual Banks still operating in Australia, only 23 of these remain named as credit unions with the remaining 42 opting to be identified by the more universally recognised word 'bank'. Industry research indicates the inclusion of the word 'bank' in transcript is becoming even more relevant with on-line enquiries.

To ensure our organisation remains current in this area, your board has recently resolved to investigate the potential advantages of a name change as part of a proposed re-branding exercise. A decision to change our name to incorporate the word 'bank' will certainly not be taken lightly and will only be considered following an extensive investigation and member consultation process.

As of 30th June 2023 South West Slopes Credit Union had 13,243 members and is managing in excess of \$270m in assets. We have certainly grown from only a handful of

members some 51 years ago. These numbers may seem large but in banking terms we still remain at the lower end of the banking industry. However from an Industry benchmark perspective we continually manage to be in the top one or two spots for all performance indicators. This is indeed a real credit to our dedicated and hardworking staff, executive and board.

Much of our early growth originated in and around the Young district and our early day members must be thanked for their loyalty and confidence during this period. However of late we have witnessed significant growth in our regional areas and look forward with enthusiasm to supporting these communities even further as the bigger banks continue to withdraw their services. This support process has been labelled as a strategic priority over the coming years.

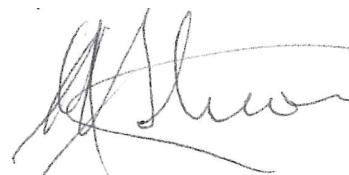
One of the major challenges to emerge particularly over the past year has been the rapid increase in cyber-crime events not only in the banking industry but in all organisations where on-line transacting occurs. Our members can be assured we will not spare any resource in our efforts to stay ahead of this criminal activity. In addition to several in-house staff, we also utilise the services of a specialist on-line surveillance company to continually search for any suspicious transacting events on a 24/7 basis.

As mentioned earlier, the recent COVID pandemic event has dramatically accelerated the change to a digital banking world. Your board

acknowledges the importance for South West Slopes Credit Union to keep at the forefront of this banking evolution. However, members can be assured we will not abandon the 'face to face' way of transacting, consultation and education. This traditional approach is the one aspect of our business that has continued to keep us strong over many decades. Our staff are always available to assist members should they require support with their banking.

I wish to thank my fellow Directors for their valued input and support in delivering the governance processes within our organisation over the past year. The role and responsibilities of a Director in today's highly regulated banking industry has changed dramatically in recent times to one which can be very time demanding. Again I thank our Directors for their continued commitment to this important role.

In closing I wish to thank the staff and executive for their continued dedication to completing their respective roles within the organisation. Any business is only as good as the staff who make it all happen and our organisation is no exception. The valued contribution of our staff is certainly appreciated.



Allan Stuart BE (Hons).Dip FS.GAICD
Board Chair

CEO's Report



Looking Back

The 2022/23 year was one of significant change. The biggest change was probably the Reserve Bank's stance on official interest rates, as they moved from a point of low rate stability to one where ever increasing rates were needed to head off inflation that sparked to life post COVID. Hindsight, as they say, is a wonderful thing and looking back, many would agree that between the government stimulus packages and extreme low interest rates, the economy was always set to be over stimulated once some confidence returned post COVID. Record low unemployment coupled with a strong demand for housing and imported inflation due to the Ukraine crisis, relentlessly drove inflation to a point above 8% per annum in December 2022. The RBA responded by moving the cash rate from 0.85% as at the end of June 2022 to 4.10% as at 30 June 2023, an increase of 3.25 %, through 10 increases over 12 months. This aggressive upward move in rates was generally mirrored in home loan rates causing severe anxiety amongst many borrowers with the introduction of the term 'mortgage cliff'.

"SWSCU MADE THE DECISION TO NOT PASS ON ALL OF THE INTEREST RATE INCREASES TO OUR MEMBERS AND ALSO PROVIDED BORROWERS WITH THE CHOICE TO LENGTHEN THEIR LOAN TERM RATHER THAN INCREASING THEIR MONTHLY COMMITMENTS, IN A BID TO SUPPORT THOSE WHO NEEDED SOME FLEXIBILITY AND HELP THROUGH THIS UNCERTAIN PERIOD."

SWSCU made the decision to not pass on all of the interest rate increases to our members and also provided borrowers with the choice to lengthen their loan term rather than increasing their monthly commitments, in a bid to support those who needed some flexibility and help through this uncertain period. In total SWSCU did not pass on an incredible 1.10% of increases to our standard variable loan rate over the 2022-23 rate increase cycle, while at the same time increasing several of our Term Deposit rates through 'specials' more than the increase in the official cash rate at that time.

SWSCU is also proud to be able to support our membership and the communities they live in post COVID, with a significant increase of close to 50%, in sponsorship and donations as part of our ongoing 'social dividend' to the communities and members that provide ongoing support to SWSCU.

Looking Forward

Banking in Australia will continue on a path of heightened change over the next 12 months and beyond. The reduction of regional services by some of Australia's larger banks look set to continue and we continue to see this in the areas where SWSCU operate with NAB recently shutting their Temora operation down. All of this activity provides enhanced focus for SWSCU, whose aim is to provide a banking choice to the communities we serve. Infact, I can announce that SWSCU is aiming to take over the exited NAB branch in Temora and after a small renovation look to launch the best banking facility that Temora has seen, which is an expression of our long term commitment to the communities we serve.

Other changes also on the horizon include; the phasing out of cheques as cheque clearing operations close their doors, meaning SWSCU's ability to write and accept cheques will cease over the next financial year. An Australian Bank (Australia's so called 5th largest Bank), has recently announced that their branches will no longer accept or distribute cash, no other banks have followed suit as yet, but there is a strong expectation that between 2025 and 2030 Australia will go close to becoming a cashless society.

While we cannot fight these trends, we do accept that the speed at which they are occurring can be upsetting for a large portion of not only our elderly members, but also members that struggle with everyday banking from school leavers to retirees. With this in mind SWSCU is focusing on redesigning our branches to make them more user friendly for activities that don't necessarily involve an over the counter transaction, with the introduction of member engagement and education zones. The idea is that a member will be able to come into a branch and engage with a staff member who will take them through new technology and help them understand the new world of banking.

This model of member education will also be rolled out to community groups as part of our social dividend to the communities that support us.

I would like to finish by thanking the Board for their ongoing support and to my executive team and all SWSCU'S staff that make our goals a reality.



Andrew Jones
CEO

Financials

Directors' Report

The directors present their report together with the financial report of South West Slopes Credit Union Ltd ("the Credit Union") for the financial year ended 30 June 2023 and the auditor's report thereon.

Information on Directors

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

Name	Experience, responsibilities and other directorships
 Allan Stuart <ul style="list-style-type: none">- Chair of the Board from Nov 2022- Independent Non-Executive Director- Member of the Audit Committee- Member of the Risk Committee	<ul style="list-style-type: none">- Appointed as Director of SWSCU from 30 May 2018.- Previously served as SWSCU Director 1999 – 2012; 18 Years. Chair of the Board for 3 years.- Bachelor of Engineering/Electrical- Engineering and Management Consultant- Diploma of Financial Services- Graduate of Institute of Company Directors (GAICD) 2010- No other directorships within the last 3 years
 Dr Thomas Douch <ul style="list-style-type: none">- Elected as Director in Nov 2020- Deputy Chair from Nov 2022- Independent Non-Executive Director- Member of the Governance & Policy Review Committee- Member of the Risk Committee	<ul style="list-style-type: none">- Elected as SWSCU Director of SWSCU from November 2020 – 3 Years.- Doctor of Medicine- Medical Board of Australia registration- Graduate of Australia Institute of Company Directors (GAICD).- Deputy Chair NSW Rural Doctors' Network
 Keith Carmody LLB <ul style="list-style-type: none">- Independent Non-Executive Director- Member of the Risk Committee- Member of the Governance & Policy Review Committee	<ul style="list-style-type: none">- Director of SWSCU from 1988 until current – 35 years.- Chair of the Board for 6 years (2014–2020)- Principal of K.P. Carmody Solicitors, Young NSW- No other directorships within the last 3 years

Name	Experience, responsibilities and other directorships
 Elke Cleverdon FCPA <ul style="list-style-type: none"> - Independent Non-Executive Director - Chair of the Audit Committee - Chair of the Risk Committee 	<ul style="list-style-type: none"> - Director of SWSCU from November 2019. Previously served as SWSCU Director from 1997-1999. 6 years in total. - Formerly Assistant General Manager of SWSCU from 2000 to 2016. Accountant at SWSCU from 1992-1996. - Fellow of CPA Australia. - Graduate of Australia Institute of Company Directors (GAICD). - Master of Business Administration (MBA). - Director of Murrumbidgee Local Health District. - Director Horticulture Innovation Australia National Research and Development - Director Cattle Australia – National peak body for grass-fed cattle
 Kevin Cloake <ul style="list-style-type: none"> - Independent Non-Executive Director - Member of the Governance & Policy - Review Committee - Member of the Risk Committee 	<ul style="list-style-type: none"> - Director of SWSCU from November 2022. Previously served as SWSCU Director 2010-2020. 11 years total. - Employed within the Finance division of Hilltops Council and formerly Harden Shire Council since 2003. 21 years of banking experience with Commonwealth Bank (1976-1997). - No other directorships within last 3 years
 Lauren Peek <ul style="list-style-type: none"> - Independent Non-Executive Director - Member of the Audit Committee - Member of the Risk Committee 	<ul style="list-style-type: none"> - Director of SWSCU from 1992 – until current; 31 years - Proprietor of 'Framaglass'; a glass sales & glaziers business in Young NSW - No other directorships within the last 3 years
 Adrian Hanrahan <ul style="list-style-type: none"> - Chair of the Board from Nov 2020-2022 - Retired from SWSCU Board in Nov 2022 - Independent Non-Executive Director - Member of the Risk Committee - Member of the Audit Committee 	<ul style="list-style-type: none"> - Director of SWSCU from 2008 until November 2022 - 14 years - General Manager of Young Shire Council (Retired) - No other directorships within the last 3 years

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

The names of the Company Secretaries in office at the end of the year are:

Name	Relevant qualifications	Experience
Andrew Jones CEO Company Secretary	<ul style="list-style-type: none"> - Bachelor of Science - Diploma of Financial Services - Certificate IV in Credit Management - ASIC Tier 2 - Graduate of Institute of Company Directors (GAICD) 	<p>Over 25 years of banking and finance experience gained with international banks, NAB, ANZ and more recently TIO in the Northern Territory as General Manager of the banking division.</p> <p>Commenced as CEO of SWSCU on 1 June 2016.</p>
Serena Sullivan CFO Company Secretary	<ul style="list-style-type: none"> - Bachelor of Commerce (Hons) (ANU) - CPA - Advanced Diploma of Leadership and Management (Institute for Strategy, Innovation and Leadership) - Graduate of Institute of Company Directors (GAICD) 	<p>Over 20 years of accounting and finance experience gained with small and medium businesses (some of which are listed on UK's AIM Stock Exchange).</p> <p>Commenced as CFO of SWSCU on 14 July 2016.</p>

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

Director	Board Meetings		Risk Committee		Audit Committee Meetings		Governance & Policy Review Committee		Board Executive Committee		Period of appointment
	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend	Attended	
Adrian Hanrahan	4	4	3	3	1	1	0	0	0	0	3 years (2019-2022). Retired
Allan Stuart	12	12	8	8	2	2	0	0	1	1	3 years (2020-2023)
Keith Carmody	12	11	8	7	0	0	8	6	0	0	3 years (2021-2024)
Elke Cleverdon	12	10	8	6	3	3	0	0	1	1	3 years (2022-2025)
Kevin Cloake	8	8	5	5	0	0	6	6	0	0	3 years (2022-2025)
Thomas Douch	12	11	8	8	2	2	8	8	1	1	3 years (2020 -2023)
Lauren Peek	12	11	8	8	3	3	0	0	0	0	3 years (2021-2024)

Directors' Benefits

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

Mr Keith Carmody acts on behalf of the Credit Union in legal matters at normal commercial rates. During the course of the year amounts paid to Mr Keith Carmody totalled Nil (2022 Nil).

Indemnifying Officer or Auditor

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

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

Principal Activities

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

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

Operating Results

The before tax profit of SWSCU for the year was \$3,159,000 (2022: \$859,000)

Dividends

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

Environmental Regulations

The Credit Union's operations are not subject to any significant regulations under either Commonwealth or State legislation. However, the Board believes that the Credit Union has adequate systems in place for the

management of its environmental responsibilities and is not aware of any breach of environmental requirements as they apply to the Credit Union.

Events Subsequent to Reporting Date

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

- (i) The operations of the Credit Union;
- (ii) The results of those operations; or
- (iii) The state of affairs of the Credit Union in the financial years subsequent to this financial year.

Likely Developments

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

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

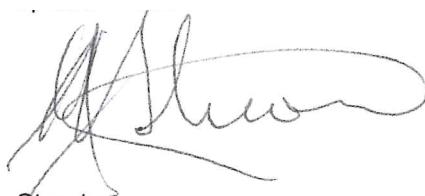
Auditor's Independence Declaration

The auditor's independence declaration is set out on page 7 and forms part of the directors' report for the financial year ended 30 June 2023.

Rounding Off

The Credit Union is of a kind referred to in ASIC Instruments 2016/191 and in accordance with that Class Order, amounts in the financial report and directors' report have been rounded off to the nearest thousand dollars, unless otherwise stated.

This report is made with a resolution of the directors:



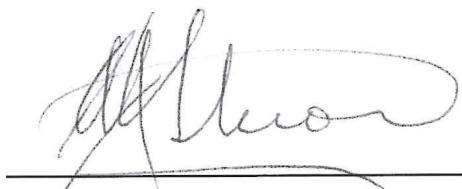
Allan Stuart
Board Chair and Director
Dated at Young this 28th day of September 2023

Directors' Declaration

In the opinion of the Directors of South West Slopes Credit Union Ltd:

- (a) the financial statements and notes of South West Slopes Credit Union Ltd are in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the Credit Union's financial position as at 30 June 2023 and of its performance for the financial year ended on that date; and
 - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*;
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1; and
- (c) there are reasonable grounds to believe that the Credit Union will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the Directors of South West Slopes Credit Union Ltd:



Allan Stuart (Chair of the Board)
Director

Signed in Young
28th September 2023

Auditor's Independence Declaration



**AUDITOR'S INDEPENDENCE DECLARATION
UNDER SECTION 307C OF THE *CORPORATIONS ACT 2001 (CWLTH)*
TO THE DIRECTORS OF SOUTH WEST SLOPES CREDIT UNION LTD**

I declare that to the best of my knowledge and belief, during the year ended 30 June 2023, there have been:

- (i) No contraventions of the auditor independence requirements as set out in the *Corporations Act 2001 (Cwlth)* in relation to the audit; and
- (ii) No contraventions of any applicable code of professional conduct in relation to the audit.

A handwritten signature of the word "intentus" in black ink.

A handwritten signature of the name "Leanne Smith" in black ink.

intentus

127 Keppel Street
Bathurst
Dated: 28th September 2023

Leanne Smith
Principal



Liability limited by a scheme approved under Professional Standards Legislation

Statement of Profit or Loss and other Comprehensive Income

FOR THE YEAR ENDED 30 June 2023

	Note	2023 \$'000	2022 \$'000
Interest income calculated using the effective interest rate method	2	11,313	6,366
Interest expense	2	(1,264)	(176)
Net interest income		10,049	6,190
Fee, commission and other income	2	605	584
Operating income		10,654	6,774
Impairment reversals (losses) on member loans	2	(137)	80
Fee and commission expenses		(1,216)	(973)
Employees' compensation and benefits		(3,098)	(2,738)
Depreciation and amortisation	10,11	(813)	(338)
Information technology		(956)	(811)
Office occupancy		(111)	(123)
Other administration		(1,164)	(1,012)
Total operating expenses		(7,495)	(5,915)
Profit before income tax		3,159	859
Income tax expense	3	(783)	(194)
Profit for the year		2,376	665
Other comprehensive income for the year, net of income tax			
Net change in fair value (net of tax)		-	47
Total comprehensive income for the period		2,376	712

* FVOCI – Fair Value through Other Comprehensive Income

The Statement of Profit or Loss and Other Comprehensive Income is to be read in conjunction with the notes to the financial statements.

Statement of Financial Position

AS AT 30 June 2023

	Note	2023 \$'000	2022 \$'000
ASSETS			
Cash and cash equivalents	4	20,203	7,192
Loans and advances to ADIs	5	97,701	110,931
Other receivables	6	724	343
Prepayments		138	163
Loans and advances to members	7	149,891	138,567
Other financial assets	9	482	482
Property, plant and equipment	10	625	831
Intangible assets	11	445	361
Current tax receivable	12	-	93
Net deferred tax assets	12	189	133
TOTAL ASSETS		270,398	259,096
LIABILITIES			
Deposits from members	13	239,800	231,223
Creditor accruals and settlement accounts	14	1,112	1,104
Lease liability	15	41	81
Current tax payable	12	225	-
Borrowings	16	2,441	2,441
Provisions	17	691	535
TOTAL LIABILITIES		244,310	235,384
NET ASSETS		26,088	23,712
MEMBERS' EQUITY			
General reserve for credit losses		-	-
Fair value reserve	18	188	188
Retained earnings		25,900	23,524
TOTAL MEMBERS' EQUITY		26,088	23,712

The Statement of Financial Position is to be read in conjunction with the notes to the financial statements.

Statement of Changes in Equity

	General reserve for credit losses \$'000	Retained earnings \$'000	Fair value Reserve \$'000	Total \$'000
Balance at 1 July 2021	318	22,541	141	23,000
Profit for the year	-			
Other comprehensive for the year		665	-	665
Total comprehensive income for the year	-	665	-	665
Fair value movement in equity investments – net of tax	-	-	47	47
Transfer to/(from) reserves	-	-	-	-
Transfer from General reserve for credit losses	(318)	318	-	-
Balance at 30 June 2022	-	23,524	188	23,712
Balance at 1 July 2022	-	23,524	188	23,712
Profit for the year	-	2,376		2,376
Other comprehensive for the year	-	-	-	-
Total comprehensive income for the year	-	2,376	-	2,376
Balance at 30 June 2023	-	25,900	188	26,088

The Statement of Changes in Equity is to be read in conjunction with the notes to the financial statements.

Statement of Cash Flows

FOR THE YEAR ENDED 30 June 2023

	Note	2023 \$'000	2022 \$'000
OPERATING ACTIVITIES			
Interest received from members		7,604	5,410
Other interest received		3,022	826
Other cash receipts in the course of operations		551	516
Interest paid to members		(702)	(193)
Other interest paid		(3)	(3)
Cash payments to suppliers and employees		(6,609)	(5,650)
Income taxes paid		(521)	(260)
Net cash from revenue generating activities		3,342	646
Cash from other operating activities			
Net movement in member loans		(11,406)	(3,973)
Net movement in member deposits		8,577	34,496
Net cash from operating activities	26	513	31,169
INVESTING ACTIVITIES			
Purchase of property, plant and equipment and intangibles		(746)	(322)
Proceeds from the sale of assets		30	-
Net (advances)/repayment of loans to ADIs		13,230	(34,686)
Dividends received		24	68
Net cash (used by)/from investing activities		12,538	(34,940)
FINANCING ACTIVITIES			
Payment of lease liabilities		(40)	(40)
Proceeds/(repayment) of borrowings		-	-
Net cash / (used by) financing activities		(40)	(40)
Net increase/(decrease) in cash and cash equivalents		13,011	(3,811)
Cash and cash equivalents at beginning of year		7,192	11,003
Cash and cash equivalents at end of year	4	20,203	7,192

The Statement of Cash flows is to be read in conjunction with the notes to the financial statements.

Notes to the Financial Statements

1. SUMMARY OF ACCOUNTING POLICIES

a. Reporting entity

South West Slopes Credit Union Limited is a company limited by shares domiciled in Australia.

The address of the registered office is 89 Boorowa Street, Young NSW 2594.

The credit union is a for-profit entity primarily involved in the provision to members of banking and financial services, including lending, deposits and insurance products.

b. Basis of preparation

The financial report is a general purpose financial report which has been prepared in accordance with Accounting Standards (AASBs), adopted by the Australian Accounting Standards Board (AASB) and the Corporations Act 2001.

The financial report of the Credit Union complies with International Financial Reporting Standards (IFRSs) adopted by the International Accounting Standards Board (IASB).

The report was authorised for issue 28th September 2023 in accordance with a resolution of the board of directors.

c. Basis of measurement

The financial report has been prepared on an accruals basis, and is based on historical costs, which do not take into account changing money values or current values of non-current assets, except for shares in an unlisted company which are measured at fair value.

d. Functional and presentation currency

The financial report is presented in Australian dollars, which is the Credit Union's functional currency. The Credit Union is of a kind referred to in *ASIC Corporations (Rounding in Financial/Directors' Reports) Instruments 2016/191* and in accordance with that instrument, all financial information presented in Australian dollars has been rounded off to the nearest thousand dollars, unless otherwise stated.

e. Accounting estimates and judgements

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

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

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

- Note 1(l) –Impairment

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

f. Measurement of fair values

A number of the Credit Union's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities. When measuring the fair value of an asset or liability, the Credit Union uses market observable data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices).

Level 3: inputs for the asset or liability that are not observable. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

If the inputs used to measure the fair value of an asset or liability might be categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. The Credit Union recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

g. Changes in accounting policy

SWSCU has consistently applied the following accounting policies to all periods presented in these financial statements unless otherwise stated.

h. Financial instruments

Classification and measurement

On initial recognition, a financial asset is classified as measured at: amortised cost, FVOCI or FVTPL (Fair Value through Profit and Loss).

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets measured at amortised cost include cash and cash equivalents, loans and advances to ADIs, loans and advances to members and other assets.

A financial asset is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets measured at FVOCI include equity investments.

In addition, on initial recognition the Credit Union may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or FVOCI at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Subsequent to initial recognition the following measurement principles and recognition of gains and losses are applied as follows:

- financial assets at amortised cost are measured at amortised cost using the effective interest rate method. The amortised cost is reduced by impairment losses. Interest income and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss; and
- other financial assets at FVOCI - equity are measured at fair value. Dividends are recognised as income in profit or loss. Other net gains and losses are recognised in OCI and are never reclassified to profit or loss.

Business Model Assessment

The Credit Union makes an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice, including whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of assets;
- how the performance of the portfolio is evaluated and reported to the Credit Union's management;
- the risks that affect the performance of the business model (and the financial assets held within the business model) and how those risks are managed; and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Credit Union's stated objective for managing the financial assets is achieved and how cash flows are realised.

Derecognition of financial assets

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

i. Cash and cash equivalents

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

j. Loans and advances to members

(i) Basis of recognition

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

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

Loans to members are reported at their recoverable amount representing the aggregate amount of principal and unpaid interest owing to the Credit Union at reporting date, less any allowance for expected credit losses (ECL). A loan is classified as impaired where recovery of the debt is considered unlikely as determined by the board of directors.

k. Revenue and expense recognition

(i) Net interest income

Interest income and expense is recognised using the effective interest rate (EIR) method for financial assets and financial liabilities carried at amortised cost or investment debt securities classified as at FVOCI. The EIR method calculates the amortised cost of a financial instrument at a rate that discounts estimated future cash receipts or payments through the expected life of the financial instrument, or where appropriate, a shorter period, to the net carrying amount of the financial asset or liability. Fees and transaction costs that are integral to the lending arrangement are recognised in the income statement over the expected life of the instrument in accordance with the EIR method.

When the estimates of payments or receipts of a financial instrument are subsequently revised, the carrying amount is adjusted to reflect the actual or revised cash flows with the re-measurement recognised as part of interest income (financial assets) or interest expense (financial liabilities).

The calculation of EIR does not include ECL. Interest income that is classified as credit impaired is recognised by applying the EIR to the amortised cost carrying value (being the gross carrying amount after deducting the impairment loss).

(ii) Fees and commission income

Fees and commission income include fees other than those that are an integral part of EIR.

Fee income relating to deposit or loan accounts is either:

- transaction based and therefore recognised when the performance obligation related to the transaction is fulfilled, or
- related to performance obligations carried out over a period of time therefore recognised on a systematic basis over the life of the agreement as the services are provided.

Transaction fees and provision of services are defined within product terms and conditions. Commission income which includes insurance, protection products and financial planning advice is recognised when the performance obligation is satisfied.

(iii) Dividend income

Dividends are brought to account in profit or loss when the right to receive income is established.

(iv) Expenses

Expenses are recognised in the income statement as and when the provision of services is received.

l. Impairment

(i) Financial assets

Financial assets within the scope of AASB 9 expected credit loss (ECL) requirements comprise all financial instruments measured at either amortised cost or FVOCI. These include cash, loans and advances to ADIs and loans and advances to members.

Financial assets are divided into homogeneous portfolios based on shared risk characteristics. These include mortgage loans, commercial loans, personal loans and revolving credit.

For loans and advances to ADIs, the Credit Union has applied the AASB 9 ‘low credit risk’ exemption given their credit risk rating is equivalent to the globally understood definition of ‘investment grade’.

The ECL represents the present value of expected cash shortfalls following the default of a financial instrument. A cash shortfall is the difference between the cash flows that are due in accordance with the contractual terms of the instrument and the cash flows that the Credit Union expects to receive.

The allowance for ECLs is based on an assessment of the probability of default, exposure at default and loss given default, discounted at the effective interest rate to give a net present value. The estimation of ECLs is unbiased and probability weighted, taking into account all reasonable and supportable information, including forward looking economic assumptions and a range of possible outcomes. ECLs are calculated from initial recognition of the financial asset for the behavioural life of the loan.

For financial assets recognised in the balance sheet at amortised cost, the allowance for ECLs is offset against the gross carrying value so that the amount presented in the statement of financial position is net of impairment provisions. For financial assets classified as FVOCI, any credit losses are recognised in the fair value reserve.

Forward looking approach

The approach to determining the ECL includes forward-looking information. The Credit Union has performed historical analysis and identified the key economic variables impacting credit risk and expected credit losses (ECL) for each portfolio segment. Given the lack of loss experience by the Credit Union and across the wider industry, more emphasis has been applied to the historical data available as opposed to forward looking information. Consideration has also been given to the level of undue cost and effort involved in utilising complex statistical models, which is not considered appropriate for the size and complexity of the portfolio.

The Credit Union has considered other forward-looking considerations such as the impact of future unemployment rates, property prices, regulatory change and external market risk factors, which are not deemed to have a material impact and therefore no adjustment has been made to the ECL for such factors. The Credit Union considers the ECL to represent its best estimate of the possible outcomes and is aligned with information used by the Credit Union for other purposes such as strategic planning and budgeting. Periodically the Credit Union carries out stress testing of more extreme shocks to calibrate its determination of other potential scenarios.

Credit risk categorisation

For the purpose of calculating ECLs, assets are categorised into three ‘stages’ as follows:

Stage 1: no significant increase in credit risk since initial recognition

On initial recognition, and for financial assets where there has not been a significant increase in credit risk since the date of advance, provision is made for losses from credit default events expected to occur within the next 12 months. Expected credit losses (ECL) for these stage 1 assets continue to be recognised on this basis unless there is a significant increase in the credit risk of the asset.

Stage 2: significant increase in credit risk

Financial assets are categorised as being within stage 2 where an instrument has experienced a significant increase in credit risk since initial recognition. For these assets, provision is made for losses from credit default events expected to occur over the lifetime of the instrument.

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Credit Union uses the criteria of 30 days past due or loans under credit watch as the criteria to identify whether there has been a significant increase in credit risk.

Stage 3: credit impaired (or defaulted) loans

Financial assets are transferred into stage 3 when there is objective evidence that an instrument is credit impaired. Provisions for stage 3 assets are made on the basis of credit default events expected to occur over the lifetime of the instrument. Assets are considered credit impaired when:

- significant financial difficulty of the borrower or issuer;
- a breach of contract 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 retail loan that is overdue for 90 days or more is considered credit-impaired even when the regulatory definition is different.

Interest income on stage 3 credit impaired loans is recognised in the income statement on the loan balance net of the ECL provision. The balance sheet value of stage 3 loans reflects the contractual terms of the assets, and continues to increase over time with the contractually accrued interest..

Transfers between stages

Transfers from stage 1 to 2 occur when there has been a significant increase in credit risk and from stage 2 to 3 when credit impairment is indicated as described above. For assets in stage 2 or 3, loans can transfer back to stage 1 or 2 once the criteria for a significant increase in credit risk or impairment are no longer met.

Restructured loans

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognised and ECL is measured as follows:

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.
- If the expected restructuring will result in the derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the effective interest rate method of the existing financial asset.

Write-off

Loans remain on the statement of financial position, net of associated provisions, until they are deemed to have no reasonable expectation of recovery. Loans are generally written off after realisation of any proceeds from collateral and upon conclusion of the collections process, including consideration of whether an account has reached a point where continuing attempts to recover are no longer likely to be successful. Where a loan is not recoverable, it is written off against the related provision for loan impairment once all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the value of impairment losses recorded in the income statement.

(ii) Non-financial assets

The carrying amounts of the Credit Union's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. The recoverable amount of other non-financial assets is the greater of their fair value less costs to sell and value in use.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss. In respect of other assets, impairment losses recognised in prior years are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

m. Property, plant and equipment

(i) Recognition and measurement

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

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

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

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

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

(ii) Subsequent expenditure

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

(iii) Depreciation

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

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

- Buildings - 40 years.
- Plant and equipment - 3 to 7 years.
- Leasehold improvements – 10 years.
- Assets less than \$1,000 are not capitalised.

The residual value, the useful life and the depreciation method applied to an asset are reassessed at least annually and adjusted if appropriate.

In 2020 the government introduced measures to help business recover from the impacts of the coronavirus pandemic (COVID-19), which extended to 2023. SWSCU have taken up the temporary full depreciation option during the 2023 financial year for some of its assets that qualify for this.

n. Intangibles

(i) Recognition and measurement

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

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

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

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

(ii) Subsequent expenditure

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

(iii) Amortisation

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

o. Other assets

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

p. Member Deposits

(i) Basis for measurement

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

(ii) Interest payable

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

q. Payables

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

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

r. Employee Benefits

(i) Superannuation

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

(ii) Long-term employee benefits

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

(iii) Short-term employee benefits

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

s. Goods and Services Tax

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

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

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

t. Income Tax

Income tax expense comprises current and deferred tax. Current and deferred tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in equity or in other comprehensive income. Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. As at 30 June 2023 temporary differences were assessed at 25% (2022: 25%). The Credit Union meets the requirements of a Base Rate Entity, therefore the lower rate of 25% has been applied when assessing temporary differences as this will be the tax rate that applies when the differences reverse.

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

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

u. Member shares

The Credit Union issues callable preference shares to each Member upon joining in accordance with the constitution. Members do not pay upfront for a member share in the credit union. Cash is only callable as and when it might be required by the Australian Corporations Act.

v. Leases

At inception of a contract, the Credit Union assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

(i) As a lessee

The Credit Union recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain re-measurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, and the Credit Union's incremental borrowing rate.

The Credit Union determines its incremental borrowing rate by obtaining interest rates from various external financing sources and makes certain adjustments to reflect the terms of the lease and the type of the asset leased.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or rate, initially measured using the index or rate as at the commencement date; and
- lease payments in an optional renewal period if the Credit Union is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Credit Union is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest rate method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if the Credit Union changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset.

The Credit Union presents right-of-use assets in 'property, plant and equipment' in the statement of financial position.

(ii) Short-term leases and leases of low-value assets

The Credit Union has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases, including IT equipment. The Credit Union recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

w. New accounting standards not yet adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 July 2022 and earlier application is permitted. The Credit Union has not early adopted any of these new or amended standards and has assessed that they are not expected to have a significant impact on the Credit Union's financial statements in future years.

x. Change in classification

Note 5 to the financial statements details the Credit Union's investments in a range of debt and deposit instruments. In previous years the disclosure in note 5 was based on the counterparty to the instrument. In the current year the disclosure has been based on the type of debt or deposit instrument that the Credit Union has invested in. The comparative information has been updated to reflect this revised disclosure.

This change in disclosure has not had any impact on the measurement of these assets and has been made to provide more relevant information on the type of investment held.

Details of the counterparties that the Credit Union has invested in can be found in Note 19.

2. Notes to the Statement of Comprehensive Income

	2023 \$'000	2022 \$'000
Interest income calculated using the effective interest rate method		
<i>Financial assets measured at amortised cost:</i>		
Cash and deposits at call	245	17
Loans and advances to ADIs	3,464	939
Loans and advances to members	7,604	5,410
TOTAL INTEREST INCOME	11,313	6,366
Fee, commission and other income		
Fee income	468	430
Insurance commissions	11	14
Other commissions	36	34
Dividends received	24	68
Bad debts recovered	4	7
Gain on sale of assets	30	-
Other income	32	31
TOTAL FEE, COMMISSION AND OTHER INCOME	605	584
Interest expense		
Deposits from members	1,261	173
Borrowing expenses	2	2
Lease Interest expenses	1	1
TOTAL INTEREST EXPENSE	1,264	176
Impairment (reversals)/losses on member loans		
Loans and advances		
Bad debts written off directly	54	34
Provisions (reversed)/made during the year	83	(114)
TOTAL IMPAIRMENT (REVERSALS)/LOSSES ON MEMBER LOANS	137	(80)
Other prescribed disclosures		
Employees compensation and benefits include:		
- Superannuation contributions to defined contribution plans	257	229

3. Income tax expense

	2023 \$'000	2022 \$'000
The income tax expense comprises amounts set aside as:-		
Current year tax expense	840	174
Deferred tax expense	(57)	(20)
Income tax expense attributable to operating profit	783	194
The prima facie tax payable on profit is reconciled to the income tax expense in the accounts as follows:		
Profit before income tax	3,159	859
Prima facie tax payable on profit before income tax at 25.0% (2022: 25.0%)	790	215
Add tax effect of expenses not deductible		
- Other non-deductible expenses	-	1
- Gross up dividends	3	7
Less		
- Non-assessable income	-	-
- Franking rebate	(10)	(29)
- Prior period adjustment	-	-
Income tax expense attributable to current year profit	783	194

4. Cash and cash equivalents

	2023 \$'000	2022 \$'000
Cash on hand	741	1,001
Cash at bank	10,021	6,091
Deposits at call	9,441	100
	20,203	7,192

5. Investments

	2023 \$'000	2022 \$'000
Floating rate notes	59,506	69,068
Term deposits	20,181	26,150
Negotiable certificates of deposit	-	10,313
Other debt securities	18,014	5,400
	97,701	110,931

6. Other receivables

	2023 \$'000	2022 \$'000
Accrued interest receivable	701	274
Sundry debtors and settlement accounts	-	54
GST receivable	22	15
	724	343

7. Loans and advances to members

	2023 \$'000	2022 \$'000
Amount due comprises:		
Overdrafts and revolving credit	982	865
Term loans	149,125	137,836
	150,107	138,701
Allowance for expected credit losses (Note 8)	(216)	(134)
	149,891	138,567
Credit quality		
Secured by mortgage over real estate	131,930	122,140
Partly secured by goods mortgage	14,192	13,064
Wholly unsecured	3,985	3,497
	150,107	138,701
It is not practicable to value all collateral as at the reporting date due to the variety of assets and conditions. A breakdown of the quality of the residential mortgage security on a portfolio basis is as follows:		
Credit quality profile of loans wholly secured by mortgage against real estate		
– loan to valuation ratio of less than 80%	114,931	106,165
– loan to valuation ratio of more than 80% but mortgage insured	5,283	6,862
– loan to valuation ratio of more than 80% and not mortgage insured	11,716	9,113
Total	131,930	122,140
Where the loan value is less than 80%, there is a 20% margin to cover the costs of any sale, or potential value reduction.		
Concentration of loans		
There are no loans to individual or related groups of members which exceed 10% of the Credit Union's regulatory capital. The Credit Union's loans, and where applicable, the related collateral held against such loans, are predominantly concentrated in the South West Slopes region of New South Wales.		
Concentration of loans by purpose		
Loans to natural persons		
– Residential loans and facilities	126,922	118,405
– Personal loans and facilities	18,523	17,376
– Business loans and facilities	4,662	2,920
	150,107	138,701

8. Allowance for expected credit losses

The table below represents the reconciliation of opening balance to closing balance of ECL allowances:

	2023 (\$'000's)	2022 (\$'000's)
Balance as at 1 July	134	248
Impairment charge/reversal	137	(80)
Amounts written off that were previously provided for	(55)	(34)
Balance as at 30 June	216	134

The tables below represents the reconciliation from the opening balance to the closing balance of the ECL allowance for loan and advances to customers to which impairment requirements under AASB 9 apply, for the present (2022-2023) and previous (2021-2022) financial years:

2022-2023 Financial Year

ECL on loans and advances to members	Stage 1 12 month ECL \$'000's	Stage 2 Not Credit Impaired \$'000's	Stage 3 Credit Impaired \$'000's	Total \$'000's
Balance as 1 July 2022	60		74	134
Transfers during the period to:				
12 month ECL				
lifetime ECL not credit impaired				
lifetime ECL credit impaired				
Net re-measurement of loss allowance	-	-	-	-
New financial assets originated	87	-	-	87
Changes in modelling assumptions	50	-	-	50
Financial assets derecognised	-	-	-	-
Write-offs	(55)	-	-	(55)
Carrying amount	142	-	74	216

2021-2022 Financial Year

ECL on loans and advances to members	Stage 1 12 month ECL \$'000's	Stage 2 Not Credit Impaired \$'000's	Stage 3 Credit Impaired \$'000's	Total \$'000's
Balance as at 1 July 2021	217	22	9	248
Transfers during the period to:				
12 month ECL				
lifetime ECL not credit impaired				
lifetime ECL credit impaired				
Net re-measurement of loss allowance	-	-	65	65
New financial assets originated	-	-	-	-
Changes in modelling assumptions	(59)	-	-	(59)
Financial assets derecognised	(94)	(22)	-	(116)
Write-offs	(4)	-	-	(4)
Carrying amount	60	-	74	134

Details of credit risk management are set out in Note 19.

9. Other financial assets

	2023 \$'000	2022 \$'000
Shares in unlisted company		
Equity investments at FVOCI	482	482
Total value of investment securities	482	482

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

10. Property, Plant and Equipment

	Land and buildings \$'000	Plant and equipment \$'000	Right-of-Use-Assets (ROUA) \$'000	Total \$'000
Cost or deemed cost				
Balance at 30 June 2021	836	1,678	194	2,708
Additions	7	76	-	83
Disposals	-	(2)	-	(2)
Balance at 30 June 2022	843	1,752	194	2,789
Additions	-	365	-	365
Disposals	-	(482)	-	(482)
Balance at 30 June 2023	843	1,635	194	2,672
Accumulated depreciation and impairment losses				
Balance at 30 June 2021	(345)	(1,400)	(78)	(1,823)
Depreciation for the year	(19)	(77)	(41)	(137)
Disposals	-	2	-	2
Balance at 30 June 2022	(364)	(1,475)	(119)	(1,958)
Depreciation for the year	(18)	(514)	(39)	(571)
Disposals	-	482	-	482
Balance at 30 June 2023	(382)	(1,507)	(158)	(2,047)
			2023 \$'000	2022 \$'000
Total Property Plant and Equipment – at cost			2,672	2,789
Total Accumulated Depreciation			(2,047)	(1,958)
Total Property, Plant and Equipment – carrying amount			625	831

11. Intangible assets

	2023 \$'000	2022 \$'000
Cost		
Balance at 1 July	2,081	1,842
Additions	359	239
Work in Progress (WIP)	94	-
Balance at 30 June	2,534	2,081
Accumulated Amortisation		
Balance at 1 July	(1,720)	(1,519)
Amortisation for the year	(369)	(201)
Balance at 30 June	(2,089)	(1,720)
Total Intangible Assets	445	361

12. Deferred Tax

	2023 \$'000	2022 \$'000
Deferred tax assets comprise:		
Accrued expenses	16	11
Provision on impaired loans	58	33
Provision for employee benefits	152	134
Lease liability	1	1
Intangibles	27	19
	254	198
Deferred tax liabilities comprise:		
Equity investments	65	64
Depreciation on fixed assets	-	1
	65	65
Net deferred tax assets	189	133

Current tax receivable

The Credit Union's current tax payable of \$225,320 (2022: \$92,595 receivable) represents the amount of income tax payable by the Credit Union in the current and receivable from the Australian Taxation Office in prior year periods.

13. Deposits from members

	2023 \$'000	2022 \$'000
Member Deposits		
- at call	160,038	160,398
- term	79,643	70,704
Member withdrawable shares	119	121
	239,800	231,223

Concentration of Member Deposits / Geographic Concentration

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

14. Creditor Accruals and Settlement Accounts

	2023 \$'000	2022 \$'000
Creditors and accruals		
Creditors and accruals	288	294
Interest payable on deposits	595	36
Sundry creditors / Settlements	229	774
Total Sundry creditors / Settlements	1,112	1,104

15. Lease Liabilities

	2023 \$'000	2022 \$'000
Lease Liability		
Lease Liability	41	81
Total lease liabilities	41	81

For a maturity analysis of lease liabilities refer to Note 21.

16. Borrowings

	2023 \$'000	2022 \$'000
Reserve Bank Term Facility Funding (RBA TFF)	2,441	2,441
Balance at the end of the year	2,441	2,441

In April 2020 as part of the RBA's monetary policy response to the COVID-19 pandemic, a Term Funding Facility (TFF) was made available to ADIs under which the Credit Union qualified for a \$3.8 million facility. SWSCU drew this amount down on 29 Sep 2020 but repaid it on 24 March 2021.

In September 2020, the RBA announced the provision of a new Supplementary Allowance, under which SWSCU qualified for a further \$2.5 million. The TFF is a three-year facility where tranches drawn pre-November 2020 have a fixed interest rate of 0.25% per annum, and tranches drawn from November 2020 have a fixed rate of 0.10% per annum. SWSCU drew this on 28 May 2021. At the reporting date, floating-rate notes issued by UBS AG were pledged as security for the TFF with a face value of \$2.7 million (2022: unchanged \$2.7 million).

Information regarding the interest and maturity profile of the facility is set out in Note 21.

During the current and prior years, there have been no defaults or breaches on the facility or any of its conditions.

17. Provisions

	2023 \$'000	2022 \$'000
Current		
Annual Leave	260	257
Long Service Leave	270	218
Provisions for Taxation (PAYG Only)	57	-
Total Current	587	475
Non-current		
Long Service Leave	104	60
Total non-current	104	60
Total provisions	691	535

18. Fair Value Reserve

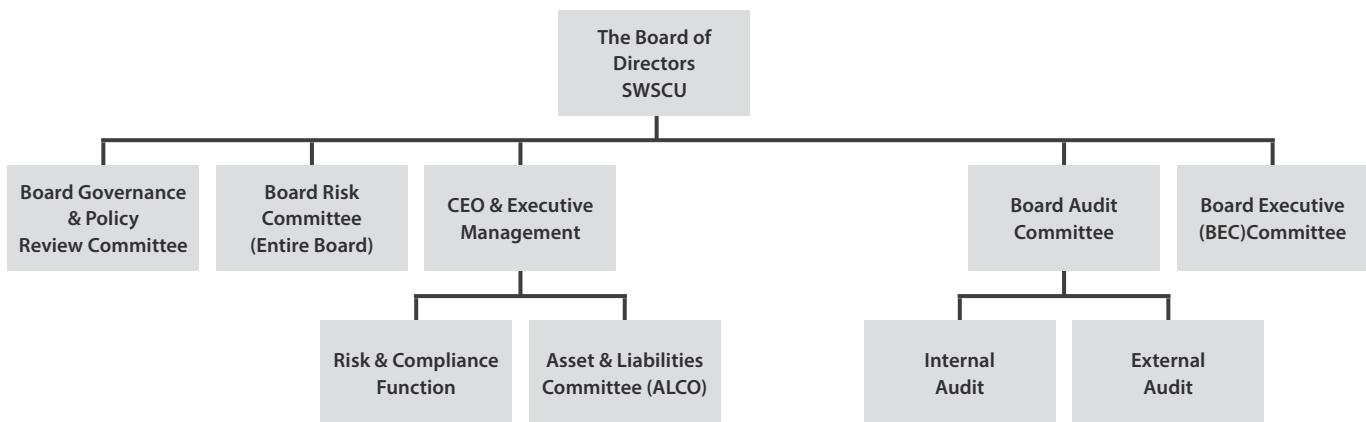
	2023 \$'000	2022 \$'000
FVOCI reserve - Shares		
Balance at the beginning of the year	188	141
Add: increase on revaluation of investment	-	62
Less: deferred tax thereon	-	(15)
Balance at the end of year	188	188

19. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

The Credit Union's risk management focuses on the major areas of market risk, liquidity risk, credit risk and operational risk. Authority flows from the Board of Directors to the Risk Committee who are integral to the management of risk. The following diagram gives an overview of the structure in place in 2022.

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



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

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

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

Audit Committee:

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

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

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

Asset and Liability Committee (ALCO) – Credit Risk:

This committee of senior management meets monthly and has responsibility for managing and reporting credit risk exposure. It scrutinises operational reports and monitors exposures against limits determined by the board. The ALCO also determines the credit risk of loans in the banking book, ensures allowances for expected credit losses is accurate and determines controls that need to be put in place regarding the authorisation of new loans.

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

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

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

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

Asset and Liability Committee (ALCO) - Market Risk:

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

Chief Risk Officer:

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

Risk Committee:

This committee meets monthly prior to the full Board meeting. The objectives of the Risk Committee are to assist the Board in full and proper discharge of its risk management duties under Prudential Standard CPS 510 Governance, CPS 220 Risk Management and the Credit Union's Risk Management Framework. This includes (but may not necessarily be limited to) the following:

- (a) Advising the Board on the overall current and future risk appetite and risk management strategy;
- (b) Establishing an institution-wide view of the current and future risk position relative to risk appetite and capital strength;
- (c) Oversight of senior management's implementation of the risk management strategy;
- (d) Constructive challenge of senior management's proposals and decisions on all aspects of risk management arising from the institution's activities;

The Credit Union has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

This note presents information about the Credit Unions' exposure to each of the above risks, the Credit Union's objectives, policies and processes for measuring and managing risk, and the Credit Union's management of capital.

A. MARKET RISK

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

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

Management is responsible for the development of detailed risk management policies which are submitted to the Board for review and approval, and for the day-to-day review of their implementation. In addition the ALCO, being a management committee, meets monthly or as required to review and implement day-to-day market risk strategies.

INTEREST RATE RISK

The Credit Union is exposed to interest rate risk in its Credit Union book due to mismatches between the repricing dates of assets and liabilities.

Member loans

The Credit Union is exposed to some interest rate risk in its banking book due to mismatches between the repricing dates of assets and liabilities. SWSCU commenced offering Fixed Rate Loans during the 2020 financial year. However, the Credit Union has a set limit on its Fixed portfolio. As at the end of 30 June 2023 only 26% of its loan portfolio book was fixed. With the bulk of its Loans Portfolio in variable rate loans, SWSCU uses member deposits as a natural hedge, and does not have significant interest rate risk as at 30 June 2023 arising from member loans per Value at Risk (VaR) analysis in Note 19.

The interest rate risk on the banking book is measured formally and externally every 6 months. Monthly reports on interest rate margin are reviewed and reported to the ALCO and the Board.

Fixed rate financial instruments

In the banking book the most common risk the Credit Union faces arises from fixed rate assets and liabilities. This exposes the Credit Union to the risk of sensitivity should interest rates change.

The level of mismatch on the banking book is set out in Note 21. The table set out at Note 21 displays the period that each interest rate sensitive asset and liability will reprice as at the reporting date. This risk is not considered significant enough to warrant the use of derivatives to mitigate this risk.

Method of managing risk

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

Value at Risk (VaR)

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

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

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

VaR on the non-trading book	2023	2022
Value at Risk / 10 day value at risk	\$200,958	\$283,074
Percentage of regulatory capital	0.77%	1.20%

Given the Credit Union's profile of assets and liabilities at 30 June 2023, and therefore its book sensitivity as at that date, for each 1% parallel upward shift in the yield curve the Credit Union can expect an increase in profit of \$456,654 (2022 decrease of \$542,484). The Credit Union is therefore presently positively exposed to rising interest rates.

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

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

The Credit Union is therefore confident within a 99 per cent confidence level that, given the risks as at 30 June 2023, it will not incur a one day loss on its non-trading book of more than the amount calculated above, based on the 2023 VaR model used.

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

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

B. LIQUIDITY RISK

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

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

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

The Credit Union is required to maintain at least 9% of total adjusted liabilities as liquid assets capable of being converted to cash within 24 hours under the APRA Prudential Standards. The Credit Union policy is to apply 15% of funds as liquid assets to maintain adequate funds for meeting member withdrawal requests. The ratio is checked daily. Should the liquidity ratio fall below this level the management and board are to address the matter and ensure that the liquid funds are obtained from new deposits, or available borrowing facilities.

The maturity profile of the financial liabilities, based on the contractual repayment terms are set out in Note 19.

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

APRA minimum 9%	2023	2022
Total Liquidity as at 30 June	44.62%	45.39%
MLH liquidity as at 30 June	34.73%	35.26%
Average MLH liquidity for the year	34.44%	31.23%
Average Total liquidity for the year	42.24%	42.40%
Lowest MLH liquidity for the year	31.98%	26.96%

C. CREDIT RISK

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

(i) CREDIT RISK – LOANS

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

	2023 \$'000	2022 \$'000
Loans and advances to members		
Mortgage (Home or Investment loans)	126,922	118,405
Personal	17,541	16,511
Credit cards	666	632
Overdrafts	316	233
Commercial	4,662	2,920
Total loans	150,107	138,701
Allowance for expected credit losses	(216)	(134)
	149,891	138,567

All loans and facilities are within Australia.

The method of managing credit risk is by way of strict adherence to the credit assessment policies before the loan is approved; and close monitoring of defaults in the repayment of loans thereafter on a weekly basis. The credit policy has been endorsed by the board to ensure that loans are only made to members that are creditworthy (capable of meeting loan repayments).

The Credit Union has established policies over the:

- Credit assessment and approval of loans and facilities covering acceptable risk assessment and security requirements;
- Limits of acceptable exposure over the value to individual borrowers, non-mortgage secured loans, commercial lending and concentrations to geographic and industry groups considered at high risk of default;
- Reassessing and review of the credit exposures on loans and facilities;
- Establishing appropriate provisions to recognise the impairment of loans and facilities;
- Debt recovery procedures;
- Review of compliance with the above policies.

A regular review of compliance is conducted as part of the internal audit scope.

Past due and impaired

A financial asset is past due when the counterparty has failed to make a payment when contractually due. As an example, a member enters into a lending agreement with the Credit Union that requires interest and a portion of the principle to be paid every month. On the first day of the next month, if the agreed repayment amount has not been paid, the loan is past due. Past due does not mean that a counterparty will never pay, but it can trigger various actions such as renegotiation, enforcement of covenants, or legal proceedings. Once the past due exceeds 90 days the loans are regarded as impaired, unless other factors indicate the impairment should be recognised sooner.

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

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

(i) CREDIT RISK – LOANS

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

Allowance for expected credit losses are maintained at a level that management deems sufficient to absorb expected losses in the Credit Union's loan portfolio from homogenous portfolios of assets and individually identified loans.

An allowance for expected credit losses (ECL) is established on all past due loans after a specified period of repayment default where it is probable that some of the principal will not be repaid or recovered. Specific loans and portfolios of assets are provided against depending on a number of factors including deterioration in counterparty risk, specific delinquency events or a decline in the value of security.

Bad debts

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

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

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

Collateral securing loans

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

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

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

Repossessed collateral

In the event of member default on a mortgage facility, any loan security is usually held as mortgagee in Possession and therefore the Credit Union does not usually hold any real estate or other assets acquired through the enforcement of security. During the year the Credit Union did not take possession of any real estate assets (2022: nil).

Concentration risk – individuals

Concentration risk is a measurement of the Credit Union's exposure to an individual counterparty (or group of related parties). If prudential limits are exceeded as a proportion of the Credit Union's regulatory capital (10 per cent) a large exposure is considered to exist. No additional capital is required to be held against these but APRA must be informed. APRA may impose additional capital requirements if it considers the aggregate exposure to all loans over the 10% capital benchmark, to be higher than acceptable.

The Credit Union holds no significant concentrations of exposures to members. Concentration exposures to counterparties are closely monitored with annual reviews being prepared for all exposures over 5 per cent of the capital base.

The Credit Union's policy on exposures of this size is to insist on an initial Loan to Valuation ratio (LVR) of no more than 80 per cent and bi-annual reviews of compliance with this policy are conducted.

Concentration risk – industry

There is no concentration of credit risk with respect to loans and receivables as the Credit Union has a large number of customers dispersed in different areas of employment.

(ii) CREDIT RISK – LIQUID INVESTMENTS

Credit risk is the risk that the other party to a financial instrument will fail to discharge their obligation resulting in the Credit Union incurring a financial loss. This usually occurs when debtors fail to settle their obligations owing to the Credit Union.

There is a concentration of credit risk with respect to investment receivables with the placement of investments in CUSCAL. The credit policy is that investments are only made to institutions that are credit worthy. Directors have established policies that a maximum of 25% of capital can be invested with any one financial institution at a time, and 50% with the major banks.

External Credit Assessment for Institution Investments

The Credit Union accesses ratings agencies to assess the credit quality of all investment exposures, where applicable, using the credit quality assessment scale in APRA's prudential guidance note AGN 112. The credit quality assessment scale within this standard has been

complied with.

The exposure values associated with each credit rating are as follows:

Investments with	2023 Carrying value \$'000	2022 Carrying value \$'000
Cuscal	22,148	9,636
Rated AA- and above	43,443	26,442
Rated below AA-	41,118	68,169
Unrated	10,500	13,500
Total	117,209	117,747

D. CAPITAL MANAGEMENT

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

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

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

Capital resources

The Credit Union regulatory capital is analysed in two tiers:

- Tier 1 capital consisting of: Common Equity Tier 1 capital – which includes retained earnings; regulatory adjustments to Common Equity Tier 1 capital; Additional Tier 1 capital; and other Additional Tier 1 capital regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes; and
- Tier 2 capital, which includes transitional subordinated liabilities, collective impairment allowances and other Tier 2 capital regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes.

Capital in the Credit Union is made up as follows:

	2023 \$'000	2022 \$'000
Tier 1		
Retained earnings	25,900	23,504
Less prescribed deductions	(927)	(775)
Common Equity Tier 1 capital	24,973	22,729
Tier 2		
Reserve for credit losses	-	-
Less prescribed deductions	-	-
Net tier 2 capital	-	-
Total Regulatory Capital	24,973	22,729
Risk Weighted Assets (Credit)	108,542	124,120
Capital Ratios		
Total regulatory capital expressed as a percentage of total risk weighted assets	23.01%	18.31%
Total Tier 1 capital expressed as a percentage of total risk weighted assets	23.01%	18.31%

APRA sets a prudential capital requirement for each ADI that sets capital requirements in excess of the minimum capital requirement of 9% as compared to the risk weighted assets at any given time. The prudential capital ratio remains confidential between each ADI and APRA in accordance with accepted practice.

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

20. CATEGORIES OF FINANCIAL INSTRUMENTS

The following information classifies the financial instruments into measurement classes:

	Note	2023 \$'000
Financial assets		
Cash	4	20,203
Investments	5	97,701
Loans and advances to members	7	150,107
Total carried at amortised cost		268,011
Investment securities - FVOCI		482
Total carried at FVOCI		482
Total financial assets		268,493
Financial liabilities		
Deposits from members	13	239,800
Creditors and other liabilities	14	1,112
Lease Liability	15	41
Reserve Bank Term Funding Facility (RBA TFF)	16	2,441
Total financial liabilities		243,394
		234,849

21. MATURITY AND INTEREST PROFILE OF FINANCIAL ASSETS AND LIABILITIES

Monetary assets and liabilities have differing maturity profiles depending on the contractual term and in the case of loans the repayment amount and frequency. The table below shows the period in which different monetary assets and liabilities held will mature and be eligible for renegotiation or withdrawal. In the case of loans, these are broken down by loan risk, where there is a mortgage security attached to the loan, for personal loans and other loans like credit cards and overdraft facilities.

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

2023	Within 1 month \$'000	1–3 months \$'000	3–12 months \$'000	1–5 years \$'000	Total \$'000
Creditor accrual and settlement accounts	1,112	-	-	-	1,112
Borrowings	-	-	-	2,441	2,441
Deposits from members	175,588	28,023	34,594	1,595	239,800
Lease Liabilities	3	7	26	5	41
Total financial liabilities	176,703	28,030	34,620	4,041	243,394

2022	Within 1 month \$'000	1–3 months \$'000	3–12 months \$'000	1–5 years \$'000	Total \$'000
Creditor accrual and settlement accounts	1,104	-	-	-	1,104
Borrowings	-	-	-	2,441	2,441
Deposits from members	179,313	33,923	17,932	55	231,223
Lease Liabilities	3	7	30	41	81
Total financial liabilities	180,420	33,930	17,962	2,537	234,849

A summary of the Credit Unions' interest rate gap positions is as follows: This table sets out the period in which the interest rate on the various financial instruments reprice.

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

21. MATURITY AND INTEREST PROFILE OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

A summary of the Credit Unions' interest rate gap positions (in-line with APRA's directive for deposit maturity) is as follows: This table sets out the period in which the interest rate on the various financial instruments reprice.

2023	Within 1 month \$'000	1–3 months \$'000	3–12 months \$'000	1–5 years \$'000	Total \$'000
Cash	20,203	-	-	-	20,203
Investments	18,258	53,929	9,564	15,950	97,701
Loans and advances - mortgage	95,497	-	10,992	20,434	126,923
Loans and advances - personal	18,523	-	-	-	18,523
Loans and advances – other	4,661	-	-	-	4,661
Total financial assets	157,143	53,929	20,556	36,384	268,011
Deposits from members	175,588	28,023	34,594	1,595	239,800
Borrowings	-	-	-	2,441	2,441
Lease liabilities	3	7	31	-	41
Total financial liabilities	175,591	28,030	34,625	4,036	242,282
Gap	(18,449)	25,899	(14,069)	32,348	25,729
Cumulative gap	(18,449)	7,450	(6,619)	25,729	-

2022	Within 1 month \$'000	1–3 months \$'000	3–12 months \$'000	1–5 years \$'000	Total \$'000
Cash	7,192	-	-	-	7,192
Investments	20,497	62,504	20,530	7,400	110,931
Loans and advances - mortgage	95,806	1,161	3,757	17,681	118,405
Loans and advances - personal	17,376	-	-	-	17,376
Loans and advances – other	2,920	-	-	-	2,920
Total financial assets	143,791	63,665	24,287	25,081	256,824
Deposits from members	179,313	33,923	17,932	55	231,223
Borrowings	-	-	-	2,441	2,441
Lease liabilities	3	7	30	41	81
Total financial liabilities	179,316	33,930	17,962	2,537	233,745
Gap	(35,525)	29,735	6,325	22,544	23,079
Cumulative gap	(35,525)	(5,790)	535	23,079	-

22. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

Fair value reflects the amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Quoted prices or rates are used to determine fair value where an active market exists. If the market for a financial instrument is not active, fair values are estimated using present value or other valuation techniques.

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

Financial instruments carried at fair value

- Financial instruments classified as FVOCI are measured at fair value by reference to recent market transaction prices where available, where not available a range of high level values were determined using various valuation methodologies based on underlying cash flow assumptions for these entities.
- Investment securities are recorded at fair value in the statement of financial position and are included in level 3 of the fair value hierarchy.

Financial instruments carried at amortised cost

- The carrying values of cash and liquid assets redeemable within 12 months approximate their fair value as they are short term in nature or are receivable on demand.
- The carrying value of loans and advances is net of unearned income and both general and specific provisions for doubtful debts. For variable and fixed rate loans, (excluding impaired loans) the amount shown in the statement of financial position is considered to be a reasonable estimate of fair value.
- The fair value of call and variable rate deposits, and fixed rate deposits repricing within 12 months, is the amount shown in the statement of financial position. The Credit Union does not provide fixed rate deposits exceeding 12 months.
- The carrying value of payables due to other financial institutions approximate their fair value as they are short term in nature and reprice frequently. The Credit Union does not have any short term borrowings.

Fair value information has not been provided for financial assets and liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

23. FINANCIAL COMMITMENTS

	2023 \$'000	2022 \$'000
Outstanding loan commitments		
Loans approved but not funded	4,965	7,861
Loan redraw facilities		
Loan redraw facilities available	17,955	14,858
Undrawn loan facilities		
Loan facilities available to members for overdrafts and line of credit loans are as follows:		
Total value of facilities approved	3,217	6,152
Less: Amount advanced	(982)	(2,379)
Net undrawn value	2,235	3,773
Total financial commitments	25,155	26,492
These commitments are contingent on members maintaining credit standards and ongoing repayment terms on amounts drawn.		
Computer capital commitments		
The cost committed under contracts with Ultradata Australia and Experteq are as follows:		
Not later than one year	872	775
Later than 1 year but not 2 years	915	814
Later than 2 years but not 5 years	374	357
Later than 5 years	-	-
	2,161	1,946

24. CONTINGENT LIABILITIES

Liquidity support scheme

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

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

Guarantees

There are no contingent guarantees as at 30 June 2023 (2022: nil).

25. RELATED PARTIES

Remuneration of key management persons

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

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

	2023 \$'000	2022 \$'000
(a) short-term employee benefits;	888	907
(b) post-employment benefits - superannuation contributions	93	90
(c) other long-term benefits	-	-
Total	981	997

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

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

Loans to Directors and other Key Management Persons

	2023 \$'000	2022 \$'000
(i) The aggregate value of loans to directors and other key management persons as at balance date amounted to	2,284	2,140
(ii) The total value of revolving credit facilities including VISA, to directors and other key management persons, as at balance date amounted to	36	36
Less amounts drawn down and included in (i)	(24)	(24)
Net Balance available	12	12
(iii) During the year the aggregate value of loans disbursed to directors and other key management persons amounted to:	966	73
Term Loans	-	-
(iv) The aggregate value of interest paid by key management personnel amounted to:	84	62

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

25. RELATED PARTIES(CONTINUED)

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

	2023 \$	2022 \$
Total value of term and saving deposits from KMP	680	877

Transactions with Other Related Parties

There are no amounts outstanding at 30 June 2023 (2022: Nil).

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

There are no benefits paid or payable to the close family members of the key management persons. There are no service contracts to which key management persons or their close family members are an interested party.

26. NOTES TO STATEMENT OF CASH FLOWS

	2023 \$'000	2022 \$'000
Reconciliation of cash from operations to accounting profit		
Profit after income tax	2,376	665
Add (Deduct):		
<i>Non-cash items</i>		
Depreciation and amortisation expense	813	338
Impairment gain on loans and advances	137	(80)
<i>Gain on sale of assets</i>	(30)	-
<i>Items classified as investing activities</i>		
Dividends received	(24)	(68)
<i>Movements in assets and liabilities</i>		
Movement in employee benefits	156	47
Movement in current tax receivable	318	(87)
Movement in creditors, accruals and settlement accounts	8	(19)
Movement in other receivables	(381)	(130)
Movement in prepayments	25	(41)
Movement in net deferred tax assets	(56)	21
Net cash from revenue activities	3,342	646
Add (Deduct) non-revenue operations		
Net movement in member loans	(11,406)	(3,973)
Net movement in member deposits	8,577	34,496
Net cash (used by) / from operating activities	513	31,169

27. AUDITOR'S REMUNERATION

	2023 \$	2022 \$
Audit services:		
Auditors of the Credit Union – Intentus (2022: KPMG)		
Audit and review of the financial reports	49,100	55,200
Other regulatory services	12,400	21,700
Taxation services	-	6,861
	61,500	83,761

Independent Auditor's Report



INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF SOUTH WEST SLOPES CREDIT UNION LTD
ABN 67 087 649 885

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of South West Slopes Credit Union Ltd (the Credit Union), which comprises the Statement of Financial Position as at 30 June 2023, the Statement of Profit or Loss and Other Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the declaration by those charged with governance.

In our opinion:

- (a) the financial report of the South West Slopes Credit Union Ltd is in accordance with the *Corporations Act 2001* (Cwlth), including:
 - (i) giving a true and fair view of the Credit Union's financial position as at 30 June 2023 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001* (Cwlth)
- (b) The financial report also complies with International Financial Reporting Standards as discussed in Note 1.

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 Corporations Act 2001 and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants (including Independence Standards) (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 confirm that the independence declaration required by the Corporations Act 2001, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's report.

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

Other Matter

The financial report of the Credit Union for the year ended 30 June 2022 was audited by KPMG who expressed an unmodified opinion on that financial report on 29 September 2022.



Liability limited by a scheme approved under Professional Standards Legislation

Information Other than the Financial Report and Auditor's Report Thereon

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 2023 but does not include the financial report and our auditor's report thereon.

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

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

Directors' responsibility for the financial statements

The directors of the Company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001* (Cwlth). This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

In preparing the financial report, the directors are responsible for assessing the Company's ability 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

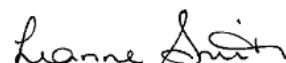
Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with 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 the financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/auditors_responsibilities/ar4.pdf. This description forms part of our auditor's report.



intentus

127 Keppel Street
Bathurst
Dated: 28th September 2023



Leanne Smith
Principal

Locations



Branches

Young (registered office)
89 Boorowa Street NSW 2594
P: 02 6384 1111 F: 02 6382 1744
Telephone banking: 02 6384 1121

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

Telephone banking

Call your local branch and select option 3 (three) | swscu.com.au

Agencies

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

West Wyalong
147 Main Street NSW 2671
P: 02 6972 4400 F: 02 6972 4422
Telephone banking: 02 6384 1121