

CENTRAL WEST CREDIT UNION LIMITED
ABN 67 087 649 885

FINANCIAL STATEMENTS
FOR THE YEAR ENDED
30 JUNE 2019

CENTRAL WEST CREDIT UNION LIMITED
ABN 67 087 649 885

Registered Office:

269 Clarinda Street
Parkes NSW 2870

Website: www.cwcu.com.au

Company Secretary:

Brett Hartin

Management:

Brett Hartin – General Manager
Ron Hetherington – Assistant General Manager

Auditor:

Intentus Chartered Accountants

Internal Auditor:

DBP Consulting Pty Ltd

Solicitors:

Mathews Williams
Daniels Bengtsson Pty Ltd

Bankers:

CUSCAL Limited
Centralised Banking Scheme with the National Australia Bank

Australian Financial Services License Number: 245415

Australian Credit Licence: 245415

CENTRAL WEST CREDIT UNION LIMITED

ABN 67 087 649 885

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CENTRAL WEST CREDIT UNION LIMITED
ABN 67 087 649 885
DIRECTORS' REPORT

Your Directors submit the financial report of the Credit Union for the year ended 30 June 2019.

DIRECTORS

The names of the Directors in office at the date of this report, or who held office during the course of the financial year, are:

C.L. Berry
A.J. Howe
S.M. Harwood
P.D. Norris
P.N. Scholefield
R.F. Staples
G.M Dean

Unless otherwise stated, the Directors have been in office since the start of the financial year to the date of this report.

COMPANY SECRETARY

The following person held the position of company secretary at the end of the financial year:

Mr Brett Hartin – Diploma of Financial Services, Fellow of the Australasian Mutuals Institute. Mr Hartin has been the General Manager and Company Secretary of Central West Credit Union Limited since 1996. He has 30 years experience at management level in financial institutions including 28 years at Central West Credit Union Limited.

PRINCIPAL BUSINESS ACTIVITIES

The principal business activities of the Credit Union during the year were the provision of financial services to members in the form of taking deposits and giving financial accommodation as prescribed by the Constitution. There were no significant changes in the nature of the Credit Union's activities during the year.

OPERATING RESULTS

The amount of profit of the Credit Union for the financial year after providing for income tax was \$527,000 (2018: \$390,000).

CENTRAL WEST CREDIT UNION LIMITED

ABN 67 087 649 885

DIRECTORS' REPORT

(continued)

REVIEW OF OPERATIONS

The accompanying Statement of Financial Position shows that the Credit Union's total assets increased by \$8,144,000 (4.86%) during the year ended 30 June 2019. This increase is primarily the result of an increase in member deposits resulting in increased liquid assets of \$2,525,000 and loans to members \$6,342,000.

The accompanying Statement of Comprehensive Income for the year ended 30 June 2019 reveals a profit from ordinary activities after income tax of \$527,000. This represents an increase of \$137,000 (35.13%) from the previous year. This result is primarily a result of four unrelated matters:

- Increased Loan interest income of \$302,000 due to the \$6,342,000 increase in loans to members.
- Decreased fees and commission income -\$66,000.
- Increase in IT costs -\$66,000 and
- Increase in taxation expense -\$57,000.

The net profit for the year ended 30 June 2019 of \$527,000 continues to provide the Credit Union with good reserves, necessary to enable the Credit Union to grow, absorb sudden changes in its business structure and to maintain adequate funds to satisfy statutory requirements as prescribed by the Australian Prudential Regulatory Authority (APRA).

REGULATORY DISCLOSURES

The Credit Union is required by APRA to publicly disclose certain information on its risk profile, risk management, capital adequacy, capital instruments and remuneration practices to contribute to the transparency of financial markets and to enhance market discipline. These disclosures can be found on the Credit Union's website, Disclosure documents; Legal and Corporate; *Prudential Disclosures* or via the following link: <http://www.cwcu.com.au/disclosure-documents/legal-and-corporate>

EVENTS OCCURRING AFTER BALANCE DATE

No matters or circumstances have arisen since the end of the financial year which significantly affect or may significantly affect the operations of the Credit Union, the results of those operations, or the state of affairs of the Credit Union.

LIKELY DEVELOPMENTS AND RESULTS

There are currently no significant developments expected in the Credit Union's operations.

CENTRAL WEST CREDIT UNION LIMITED

ABN 67 087 649 885

DIRECTORS' REPORT

(continued)

INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICE HOLDERS

During the year, a premium was paid in respect of a contract insuring directors and officers of the company against liability. The officers of the Credit Union covered by the insurance contract include the directors, executive officers, secretary and employees. In accordance with normal commercial practice, disclosure of the total amount of premium payable under the insurance contract and the nature of liabilities covered is prohibited by a confidentiality clause in the contract. No insurance cover has been provided for the benefit of the auditors of the Credit Union.

ENVIRONMENTAL ISSUES

The Credit Union's operations are not regulated by any significant environmental regulation under a law of the Commonwealth or State.

PROCEEDINGS ON BEHALF OF CREDIT UNION

No person has applied for leave of the Court to bring proceedings on behalf of the Credit Union or intervene in any proceedings to which the Credit Union is a party for the purpose of taking responsibility on behalf of the Credit Union for all or any part of those proceedings.

The Credit Union was not a party to any such proceedings during the year.

AUDITOR'S INDEPENDENCE

The auditors have provided a declaration of independence to the Board of Directors (the Board) prescribed by the *Corporations Act 2001* (Cwlth) as set out on page 7.

INFORMATION ON DIRECTORS

The Directors in office at the date of this report, or who held office during the course of the financial year are:

C. L. Berry

Age	71
Current Occupation	Farmer (Retired Engineer, Cowra Shire Council)
Credit Union Experience	Credit Union Director for 27 years Director Member of Australasian Mutuals Institute
Current Board Positions	Chair of the Board of Directors Chair of the Corporate Governance Committee Chair of the Remuneration Committee
Interest in Shares	1 Member Share

CENTRAL WEST CREDIT UNION LIMITED
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DIRECTORS' REPORT
(continued)

INFORMATION ON DIRECTORS (continued)

A.J. Howe CA, MBA

Age	40
Current Occupation	Financial Analyst, Western NSW Local Health District
Credit Union Experience	Credit Union Director for 12 years Director Member of Australasian Mutuals Institute
Current Board Positions	Chair of the Risk Committee Member of the Audit Committee Member of the Corporate Governance Committee
Interest in Shares	1 Member Share

S.M. Harwood BA. LLB

Age	37
Current Occupation	Director Freight, Transport for NSW
Credit Union Experience	Credit Union Director for 11 years Director Member of Australasian Mutuals Institute
Current Board Positions	Chair of the Audit Committee Member of the Risk Committee Member of the Remuneration Committee
Interest in Shares	1 Member Share

P.D. Norris

Age	67
Current Occupation	Retired
Credit Union Experience	Credit Union Director for 25 years Director Member of Australasian Mutuals Institute
Current Board Positions	Member of the Audit Committee Member of the Risk Committee
Interest in Shares	1 Member Share

P.N. Scholefield

Age	76
Current Occupation	Farmer Company Director
Credit Union Experience	Credit Union Director for 24 years Director Member of Australasian Mutuals Institute
Current Board Positions	Member of the Corporate Governance Committee Member of the Remuneration Committee
Interest in Shares	1 Member Share

CENTRAL WEST CREDIT UNION LIMITED
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DIRECTORS' REPORT
(continued)

INFORMATION ON DIRECTORS (continued)

R.F. Staples

Age	66
Current Occupation	Consultant
Credit Union Experience	Credit Union Director for 19 years Director Member of Australasian Mutuals Institute
Current Board Positions	Member of the Corporate Governance Committee Member of the Remuneration Committee
Interest in Shares	1 Member Share

G.M. Dean

Age	58
Current Occupation	Shared Services Delivery Manager, Transport for NSW
Credit Union Experience	Credit Union Director for 9 years Director Member of Australasian Mutuals Institute
Current Board Positions	Member of the Audit Committee Member of the Risk Committee
Interest in Shares	1 Member Share

CENTRAL WEST CREDIT UNION LIMITED

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DIRECTORS' REPORT

(continued)

DIRECTORS' MEETINGS

The number of meetings of directors (including meetings of Committees of directors) held during the year and the numbers of meetings attended by each director were as follows:

No. held	Board 19*	Audit 5	Risk 4	Corporate Governance 3	Remuneration 2
No. attended:					
C.L. Berry	18	-	-	3	2
A.J. Howe	16	5	4	3	-
S.M. Harwood	15	5	3	-	1
P.D. Norris	19	5	4	-	-
P.N. Scholefield	16	-	-	3	2
R.F. Staples	18	-	-	3	2
G.M. Dean	19	5	4	-	-

* The 19 meetings held included eight (8) special meetings held 18 Jul, 12 Sep, 29 Oct, 13 Nov, 8 Mar, 12 Apr, 10 May and 28 Jun.

All Directors were eligible to attend all meetings for the Committees which they were a member Attendance details marked (-) denotes non-membership of the Committee.

DIRECTORS' BENEFITS

All Directors of the Credit Union have received or become entitled to receive a benefit for their duties and responsibilities as Directors. These benefits are detailed in the notes attached to these financial reports.

Signed in accordance with a resolution of the Board of Directors and is signed at Parkes on the 24th day of September 2019.



C. L. Berry
Chair of the Board of Directors

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

I declare that to the best of my knowledge and belief, during the year ended 30 June 2019, 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.

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14 Sale Street
Orange
Dated: 24th September 2019


John O'Malley
Director

CENTRAL WEST CREDIT UNION LIMITED
ABN 67 087 649 885

STATEMENT OF PROFIT AND LOSS AND COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2019

	Notes	2019 \$'000	2018 \$'000
Interest revenue	4.1	6,745	6,417
Interest expense	4.2	(2,249)	(2,238)
Net interest income		4,496	4,179
Fees, commissions and other income	5	514	580
Total interest and fee income		5,010	4,759
Non-interest expenses:			
Impairment (losses)/gains on loans receivable from members	6	(5)	25
General administration:			
- Employees compensation and benefit	6	(1,739)	(1,763)
- Depreciation and amortisation	6	(228)	(220)
- Information technology	6	(645)	(579)
- Occupancy expenses	6	(227)	(229)
- Other administration		(937)	(969)
- Procedures and compliance	6	(103)	(102)
- Corporate Governance	6	(168)	(152)
- Other operating expenses		(233)	(239)
Total non-interest expenses		(4,285)	(4,228)
Profit for the year before income tax		725	531
Income tax expense	8	(198)	(141)
Profit for the year after income tax		527	390
Other comprehensive income, net of income tax			
Movement in reserve for equity instruments at FVOCI	19	208	-
Total comprehensive income for the period		208	-

The accompanying notes form part of these financial statements.

CENTRAL WEST CREDIT UNION LIMITED
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STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2019

	Retained Earnings \$'000	Redeemed Capital Account \$'000	Reserve for Credit Losses \$'000	FVOCI Reserve \$'000	Total \$'000
As at 30 June 2017	18,506	146	326	-	18,978
Profit for the year after income tax	390	-	-	-	390
Transfer to / (from) reserves	(5)	5	-	-	-
Transfer from retained earnings to reserve for credit losses	(20)	-	20	-	-
As at 30 June 2018	18,871	151	346	-	19,368
Balance as at 1 July 2018					
Changes on initial adoption of AASB 9	-	-	-	208	208
Adjusted balance as at 1 July 2018	18,871	151	346	208	19,576
Profit for the year after income tax	527	-	-	-	527
Transfer to / (from) reserves	(4)	4	-	-	-
Transfer from retained earnings to reserve for credit losses	(13)	-	13	-	-
As at 30 June 2019	19,381	155	359	208	20,103

The accompanying notes form part of these financial statements.

CENTRAL WEST CREDIT UNION LIMITED
ABN 67 087 649 885

STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2019

	Notes	2019 \$'000	2018 \$'000
Assets:			
Cash and liquid assets	9	10,369	7,844
Accrued receivables	10	628	787
Prepayments		111	98
Loans and advances to members	11	107,996	101,654
Investment securities	12	55,001	55,410
Property, plant and equipment	13	1,296	1,396
Taxation assets	17	97	105
Intangibles	14	68	128
Total Assets		175,566	167,422
Liabilities:			
Deposits from members	15	153,970	146,617
Payables and other liabilities	16	1,022	1,045
Provisions	18	340	360
Taxation liabilities	17	131	32
Total Liabilities		155,463	148,054
Net Assets		20,103	19,368
Members' Equity:			
Redeemed capital account		155	151
Reserve for credit losses		359	346
FOCI Reserve	19	208	-
Retained earnings		19,381	18,871
Total Members' Equity		20,103	19,368

The accompanying notes form part of these financial statements.

CENTRAL WEST CREDIT UNION LIMITED
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STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2019

	Notes	2019 \$'000	2018 \$'000
Cash flows from operating activities:			
<u>Revenue inflows:</u>			
Interest received on loans		5,137	4,835
Interest received on investments		1,758	1,568
Dividends received		16	26
Fees and commissions received		462	518
Other income		35	37
<u>Revenue outflows:</u>			
Interest paid on members' savings		(2,265)	(2,204)
Interest paid on borrowings		-	-
Payments to suppliers and employees		(4,064)	(3,967)
Income taxes paid		(167)	(162)
Net cash flows from revenue activities	31.3	912	651
Members' loan repayments		18,708	15,549
Members' loan fundings		(25,055)	(23,780)
Net increase in member deposits and shares		7,353	13,257
Net increase / (decrease) in members' clearing accounts		(19)	(67)
Net (increase) / decrease in deposits to other financial institutions		694	(3,022)
Net cash provided by operating activities		2,593	2,588
Cash flows from investing activities:			
Consideration for property, plant and equipment sold		-	9
Payment for property, plant and equipment		(24)	(65)
Payment for intangibles		(44)	(31)
Net cash used in investing activities		(68)	(87)
Net increase / decrease in cash held		2,525	2,501
Cash held at the beginning of the year		7,844	5,343
Cash held at the end of the year	31.2	10,369	7,844

The accompanying notes form part of these financial statements.

CENTRAL WEST CREDIT UNION LIMITED
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2019

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CENTRAL WEST CREDIT UNION LIMITED
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2019

1. BASIS OF PREPERATION

Statement of Compliance

These financial statements are prepared for Central West Credit Union Limited (the Credit Union) as a single credit union, for the year ended 30 June 2019. The Credit Union is a company, limited by shares, incorporated and domiciled in Australia. The statements were authorised for issue on 24th September 2019 in accordance with a resolution of the Board.

The financial statements are general purpose financial statements which have been prepared in accordance with Australian Accounting Standards (including Australian Accounting Interpretations) of the Australian Accounting Standards Board (AASB) and the *Corporations Act 2001* (Cwth). The entity is a for-profit entity for financial reporting purposes under Australian Accounting Standards.

Australian Accounting Standards set out accounting policies that the AASB has concluded would result in financial statements containing relevant and reliable information about transactions, events and conditions. Compliance with Australian Accounting Standards ensures that the financial statements and notes also comply with International Financial Reporting Standards (IFRS). Material accounting policies adopted in the preparation of the financial statements are presented below and have been consistently applied unless stated otherwise.

Basis of preparation

The financial statements have been prepared on an accruals basis and are based on historical costs, modified, where applicable, by the measurement at fair value of selected non-current assets, financial assets and financial liabilities. The financial statements are presented in Australian dollars. The amounts presented in the financial statements have been rounded to the nearest thousand dollars (\$'000).

2. CHANGES IN ACCOUNTING POLICIES

Financial Instruments - Adoption of AASB 9

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

The Credit Union has adopted AASB 9 Financial Instruments for the first time in the current year with a date of initial adoption of 1 July 2018. When adopting AASB 9, the Credit Union has applied transitional relief and opted not to restate prior periods.

As part of the adoption of AASB 9, the Company adopted consequential amendments to other accounting standards arising from the issue of AASB 9 as follows:

- AASB 101 Presentation of Financial *Statements* requires the impairment of financial assets to be presented in a separate line item in the statement of profit or loss and other comprehensive income. In the comparative year, this information was presented as part of other expenses.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2019

(continued)

2. CHANGES IN ACCOUNTING POLICIES (CONTINUED)

Financial Instruments - Adoption of AASB 9 (Continued)

The key changes to the Credit Union's accounting policy and the impact on these financial statements from applying AASB 9 are described below.

Classification of financial assets

The financial assets of the Company have been reclassified into one of the following categories on adoption of AASB 9 based on primarily the business model in which a financial asset is managed and its contractual cash flow characteristics:

- Measured at amortised cost;
- Fair value through other comprehensive income - equity instruments (FVOCI - equity); and
- Fair value through Profit and Loss (FVPL).

AASB 9 eliminates the previous categories of held to maturity, loans and receivables and available for sale. Classification of financial liabilities is largely unchanged. Refer table on next page for a reconciliation of changes in classification and measurement of financial instruments on adoption of AASB 9.

Measurement of equity instruments

Equity instruments are no longer subject to impairment testing and therefore all movements on equity instruments classified as fair value through other comprehensive income are taken to the relevant reserve.

Impairment of financial assets

The incurred loss model from AASB 139 has been replaced with an expected credit loss model in AASB 9 for assets measured at amortised cost, contract assets and fair value through other comprehensive income. This has resulted in the earlier recognition of credit loss (bad debt provisions).

CENTRAL WEST CREDIT UNION LIMITED
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2019
(continued)

2. CHANGES IN ACCOUNTING POLICIES (CONTINUED)

Transition adjustments

The impacts to reserves and retained earnings on adoption of AASB 9 at 1 July, 2018 are shown below:

	Original AASB 139 category	New AASB 9 category	Closing Balance 30 June 2018 (AASB 139) \$000's	Adoption of AASB 9 \$000's	Opening balance 1 July 2018 (AASB 9) \$000's
Financial assets					
Loans and advances to members	Loans and receivables	Amortised cost	101,654	-	101,654
Trade and other receivables	Receivables	Amortised cost	885	-	885
Investment securities - CUSCAL share/TAS	Available for sale	FVOCI - equity	261	286	547
Cash	Amortised cost	Amortised cost	7,844	-	7,844
Negotiable Certificates of Deposits (NCDs)	Held to maturity	Amortised cost	3,924	-	3,924
Floating Rate Notes/ Term Deposits	Held to maturity	Amortised cost	51,225	-	51,225
Total financial assets			165,793	286	166,079
Financial liabilities					
Payables and other liabilities	Amortised cost	Amortised cost	1,045	-	1,045
Deposits from members and other financial institutions	Amortised cost	Amortised cost	146,617	-	146,617
Total financial liabilities			147,662	-	147,662

On adoption of AASB 9 the Credit Union revalued its shares in Cuscal Ltd. This revaluation is reflected in the creation of a Fair Value Through Other Comprehensive Income Reserve. The revaluation caused the Credit Union to create a Deferred Tax Liability to the amount of 27.5% of the revaluation.

There was no other impact on the Financial Statements for the current year.

AASB 9 contains exemptions from full retrospective application for the classification and measurement requirements of the new standard, including impairment. These include an exception from the requirement to restate comparative information. Because the Credit Union has elected not to restate comparatives, different accounting policies apply to financial assets and financial liabilities pre- and post-adoption of the standard. Therefore, both the pre- and post-adoption accounting policies for financial instruments are disclosed in the note below.

CENTRAL WEST CREDIT UNION LIMITED
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2019
(continued)

2. CHANGES IN ACCOUNTING POLICIES (CONTINUED)

Revenue from Contracts with Customers - Adoption of AASB 15

The Credit Union has adopted AASB 15 Revenue from Contracts with Customers for the first time in the current year with a date of initial application of 1 July, 2018.

Under AASB 15, the Credit Union must evaluate the separability of promised goods or services based on whether they are 'distinct'. A promised good or service is 'distinct' if both of the following criteria are met:

- the customer benefits from the good or service either on its own or together with other readily available resources; and
- the entity's promise to transfer the good or service to the customer is separately identifiable from other promises in the contract (i.e. the Credit Union does not provide a significant service integrating, modifying or customising it).

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

3. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

3.1 Loans to members

(i) Basis of recognition

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. Any material difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the Statement of Comprehensive Income over the period of the loans using the effective interest method.

Loans to members are reported at their recoverable amount representing the aggregate amount of principal and unpaid interest owing to the Credit Union at balance date, less any allowance or provision against debts considered doubtful. A loan is classified as impaired where recovery of the debt is considered unlikely as determined by the Board.

APRA has mandated that interest is not recognised as revenue after contractually obligated payments have not been made for more than 90 days for a loan facility

CENTRAL WEST CREDIT UNION LIMITED
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 June 2019
(continued)

3. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.1 Loans to members (continued)

(ii) Interest earned

Term Loans - The loan interest is calculated on the basis of the daily balance outstanding and is charged in arrears to a member's account on the last day of each month.

Overdraft – The overdraft interest is calculated initially on the basis of the daily balance outstanding and is charged in arrears to a member's account on the last of each month.

Non-Accrual Loan Interest – while still legally recoverable, interest is not brought where a loan is impaired.

(iii) Loan origination fees and discounts

Loan establishment fees and discounts are brought to account as income upon funding of the loan. The amounts brought to account are included as part of fee revenue.

(iv) Transaction costs

Transaction costs are expenses that are direct and incidental to the establishment of the loan. The amounts brought to account are included as part of interest revenue.

(v) Fees on loans

The fees charged on loans after origination of the loan are recognised as income when the service is provided or costs are incurred.

3.2 Loan impairment

(i) Provision for impairment

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

Central West Credit Union considers a broad range of information when assessing credit risk and measuring expected credit losses, including past events, current conditions, reasonable and supportable forecasts that affect the expected collectability of the future cash flows of the instrument. In applying this forward-looking approach, a distinction is made between:

- financial instruments that have not deteriorated significantly in credit quality since initial recognition or that have low credit risk (performing loans) ('Stage 1'); and
- financial instruments that have deteriorated significantly in credit quality since initial recognition and whose credit risk is not low (underperforming loans) ('Stage 2').

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

CENTRAL WEST CREDIT UNION LIMITED
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 June 2019
(continued)

3. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Loan impairment (continued)

(ii) Provision for impairment (continued)

Measurement of ECL

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

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

Note 20.2(i) details the credit risk management approach for loans.

(iii) Reserve for credit losses

In addition to the above specific provision, the Board has recognised the need to make an allocation from retained earnings to ensure there is adequate protection for members against the prospect that some members will experience loan repayment difficulties in the future. The reserve is based on an estimation of potential risk in the loan portfolio based upon:

- The level of security taken as collateral;
- The actual number of days loans are delinquent; and
- Historical Bad Debt write-off performance.

(iv) Renegotiated loans

Loans which are subject to renegotiated terms which would have otherwise been impaired do not have the repayment arrears diminished and interest continues to accrue to income. Each renegotiated loan is retained at the full arrears position until the normal repayments are reinstated and brought up to date and maintained for a period of 6 months.

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NOTES TO THE FINANCIAL STATEMENTS
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(continued)

3. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.3 Bad debts written off

Bad debts are written off from time to time as determined by management and the Board when it is reasonable to expect that the recovery of the debt is unlikely. Bad debts are written off against the provision for impairment previously recognised. If no provision had been recognised, the write offs are recognised as expenses in the Statement of Comprehensive Income.

3.4 Property, plant and equipment

(i) Determination of carrying values

Each class of property, plant and equipment is carried at cost less, where applicable, any accumulated depreciation and impairment losses.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Credit Union and the cost of the item can be measured reliably.

All other repairs and maintenance are charged to the Statement of Comprehensive Income during the financial period in which they are incurred.

(ii) Depreciation

The depreciable amount of all fixed assets including building assets, but excluding freehold land, is depreciated on a straight line basis over their useful lives to the Credit Union commencing from the time the asset is held ready for use. Estimated useful lives are as follows:

Property	40 years
Improvements	5 to 7 years
Plant and Equipment	3 to 7 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

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NOTES TO THE FINANCIAL STATEMENTS
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3. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.4 Property, Plant and Equipment (Continued)

(ii) Depreciation (continued)

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains or losses are included in the Statement of Comprehensive Income.

Assets with a cost less than \$500 are not capitalised.

3.5 Intangible assets

Capitalised software costs that are not an integral part of the associated hardware are classified as intangibles, and are amortised over the useful life of the asset and assessed for impairment whenever there is an indication that the asset may be impaired. The amortisation of the intangible asset is recognised as an expense in the Statement of Comprehensive Income.

Intangible assets are amortised over the expected useful life of the software of 3 to 5 years.

3.6 Financial instruments

(i) Initial recognition and measurement

Financial assets and financial liabilities are recognised when the Credit Union becomes a party to the contractual provisions to the instrument. For financial assets, this is equivalent to the date that the Credit Union commits itself to either purchase or sale of the asset (i.e. trade date accounting is adopted).

Financial instruments are initially measured at fair value plus transactions costs, except where the instrument is classified "at fair value through profit or loss", in which case transaction costs are expensed to profit or loss immediately.

(ii) Classification and subsequent measurement

Financial instruments are subsequently measured at fair value, amortised cost using the effective interest method, or cost. Where available, quoted prices in an active market are used to determine fair value. In other circumstances, valuation techniques are adopted.

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NOTES TO THE FINANCIAL STATEMENTS
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3. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.6 Financial instruments (continued)

(ii) Classification and subsequent measurement (continued)

Amortised cost is calculated as the amount at which the financial asset or financial liability is measured at initial recognition less principal repayments and any reduction for impairment, and adjusted for any cumulative amortisation of the difference between that initial amount and the maturity amount calculated using the effective interest method.

The effective interest method is used to allocate interest income or interest expense over the relevant period and is equivalent to the rate that discounts estimated future cash payments or receipts (including fees, transaction costs and other premiums or discounts) over the expected life (or when this cannot be reliably predicted, the contractual term) of the financial instrument to the net carrying amount of the financial asset or financial liability. Revisions to expected future net cash flows will necessitate an adjustment to the carrying amount with a consequential recognition of an income or expense item in profit or loss.

Fair value is determined based on current bid prices for all quoted investments. Valuation techniques are applied to determine the fair value for all unlisted securities, including arm's length transactions, reference to similar instruments and option pricing models.

Policy applicable before 1 July 2018

a. Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortised cost.

b. Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets that have fixed maturities and fixed or determinable payments, and it is Central West's intention to hold these investments to maturity. They are subsequently measured at amortised cost.

Term deposits and negotiable certificates of deposit (NCDs) with other financial institutions are unsecured and have a carrying amount equal to their principal amount. Interest is paid on the daily balance at maturity. All deposits are in Australian currency. The accrual for interest receivable is calculated on a proportional basis of the expired period of the term of the investment. Interest receivable is included in the amount of receivables in the statement of financial position.

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NOTES TO THE FINANCIAL STATEMENTS
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(continued)

3. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.6 Financial instruments (Continued)

(ii) Classification and subsequent measurement (continued)

c. Available-for-sale investments

Available-for-sale financial assets are non-derivative financial assets that are either not capable of being classified into other categories of financial assets due to their nature or they are designated as such by management. They comprise investments in the equity of other entities where there is neither a fixed maturity nor fixed or determinable payments.

They are subsequently measured at fair value with change in such fair value (i.e. gains or losses) recognised in other comprehensive income (except for impairment losses). When the financial asset is derecognised, the cumulative gain or loss pertaining to that asset previously recognised in other comprehensive income is reclassified into profit or loss.

d. Financial liabilities

Non-derivative financial liabilities other than financial guarantees are subsequently measured at amortised cost.

Policy applicable from 1 July 2018

Financial assets are classified into the following categories upon initial recognition:

- Amortised cost;
- Fair value through profit or loss (FVPL); or
- Fair value through other comprehensive income (FVOCI).

Subsequent measurement of financial assets

Financial assets at amortised costs

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

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding.

After initial recognition, these are measured at amortised cost using the effective interest method. Discounting is omitted where the effect of discounting is immaterial. Central West Credit Union's cash equivalents (NCD, FRN & TDs) fall into this category of financial instruments and were previously classified as held to maturity under AASB 139.

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NOTES TO THE FINANCIAL STATEMENTS
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(continued)

3. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.6 Financial instruments (Continued)

(ii) Classification and subsequent measurement (continued)

Financial assets at Fair Value through Profit or Loss (FVPL)

Financial assets that are within a different business model other than 'hold to collect' or 'hold to collect and sell' are categorised as fair value through profit or loss. Further, irrespective of business model financial assets whose contractual cash flows are not solely payments of principal and interest are accounted for at FVPL. All derivative financial instruments fall into this category, except for those designated and effective as hedging instruments, for which the hedge accounting requirements apply.

Fair Value through Other Comprehensive Income (FVOCI)

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

(iii) Impairment

At the end of each reporting period, Central West assesses whether there is objective evidence that a financial instrument has been impaired. In the case of available-for-sale financial instruments, a prolonged decline in the value of the instrument is considered to determine whether impairment has arisen. Impairment losses are immediately recognised in profit or loss. Also, any cumulative decline in fair value previously recognised in other comprehensive income is reclassified to profit or loss at this point.

(iv) Derecognition

Financial assets are derecognised when the contractual rights to receipt of cash flows expire or the asset is transferred to another party whereby the entity no longer has any significant continuing involvement in the risks and benefits associated with the asset. Financial liabilities are derecognised when the related obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability extinguished or transferred to another party and the fair value of consideration paid, including the transfer of non-cash assets or liabilities assumed, is recognised in profit or loss.

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NOTES TO THE FINANCIAL STATEMENTS
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3. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.7 Members' deposits

(i) Basis for measurement

Member savings and term investments are initially measured at fair value plus transaction costs, and subsequently measured at amortised cost.

(ii) Interest payable

Interest on savings is calculated on the daily balance or minimum monthly 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 receivables in the Statement of Financial Position.

3.8 Employee benefits

Short-term employee benefits are current liabilities included in employee benefits, measured at the undiscounted amount that the Credit Union expects to pay as a result of the unused entitlement. Annual leave is included in 'other long-term benefit' and discounted when calculating the leave liability as the Credit Union does not expect all annual leave for all employees to be used wholly within 12 months of the end of reporting period.

Provision is made for the Credit Union's liability for employee benefits arising from services rendered by employees to the reporting date. Employee benefits expected to be settled within one year, have been measured at their nominal amount.

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

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

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NOTES TO THE FINANCIAL STATEMENTS
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(continued)

3. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.8 Employee benefits (continued)

Annual leave is accrued in respect of all employees on pro-rata entitlement for part years of service and leave entitlement due but not taken at the reporting date. Annual leave is reflected as part of the sundry creditors and accruals.

Contributions are made by the Credit Union to an employee's superannuation fund and are charged to profit or loss as incurred.

Defined benefit obligations

The Credit Union ceased being a sponsoring employer of a Schedule One Part B sub-group (the sub-group) of the Cuesuper Superannuation Defined Benefit Plan. The Credit Union no longer has any liabilities associated with this Plan, see Note 32.

3.9 Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks, other short-term, highly liquid investments with original maturities of three (3) months or less, and bank overdrafts.

3.10 Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases. Lease payments for operating leases, are charged as expenses in the periods in which they are incurred.

3.11 Income tax

The income tax expense shown in the Statement of Comprehensive Income is based on the operating profit before income tax adjusted for any non tax-deductible or non-assessable items between accounting profit and taxable income. Deferred tax assets and liabilities are recognised using the balance sheet liability method in respect of temporary differences arising between the tax bases of assets or liabilities and their carrying amounts in the financial statements.

Deferred tax assets and liabilities are recognised for all temporary differences between carrying amounts of assets and liabilities for financial reporting purposes and their respective tax bases at the rate of income tax applicable to the period in which the benefit will be received or the liability will become payable. These differences are presently assessed at 27.5%.

Deferred tax assets are only brought to account if it is probable that future taxable amounts will be available to utilise those temporary differences. The recognition of these benefits is based on the assumption that no adverse change will occur in income tax legislation; and the anticipation that the Credit Union will derive sufficient future assessable income and comply with the conditions of deductibility imposed by the law to permit a future income tax benefit to be obtained.

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NOTES TO THE FINANCIAL STATEMENTS
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3. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.12 Goods and services tax

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

Revenue, expenses and assets are recognised net of the amount of GST, except where the amount of the GST incurred is not recoverable from the Australian Tax Office (ATO). In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables are stated with the amount of GST included where applicable GST is collected.

The net amount of GST recoverable from, or payable to the Australian Tax Office (ATO), is included as a current asset or current liability in the Statement of Financial Position.

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.

3.13 Accounting estimates and judgements

The directors evaluate estimates and judgements incorporated into the financial statements based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within Central West.

Management have made critical accounting estimates when applying Central West's accounting policies with respect to the impairment provisions for loans - refer Note 11.

3.14 New standards applicable for the current year

The Credit Union has adopted all standards which became effective for the first time at 30 June 2019, refer to Note 2 for details of the changes due to standards adopted.

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NOTES TO THE FINANCIAL STATEMENTS
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3. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.15 New Accounting Standards for Application in Future Periods

The AASB has issued new and amended Accounting Standards and Interpretations that have mandatory application dates for future reporting periods. The Credit Union has decided not to early adopt these Standards. The following table summarises those future requirements, and their impact on the Credit Union where the standard is relevant:

AASB Reference	Nature of Change	Application date	Impact on Initial Application
AASB 16 <i>Leases</i>	<p>AASB 16 will cause the majority of leases of an entity to be brought onto the statement of financial position. There are limited exceptions relating to short-term leases and low value assets which may remain off-balance sheet.</p> <p>The calculation of the lease liability will take into account appropriate discount rates, assumptions about lease term and increases in lease payments.</p> <p>A corresponding right to use the asset will be recognised which will be amortised over the term of the lease. Rent expense will no longer be shown, the profit and loss impact of the leases will be through amortisation and interest charges.</p>	30 June 2020	<p>The entity is yet to undertake a detailed assessment of the impact of <i>AASB 16</i>.</p> <p>However, based on the entity's preliminary assessment, the Standard is not expected to have a material impact on the transactions and balances recognised in the financial statements when it is first adopted for the year ending 30 June 2020, since the Credit Union owns its premises and other operating leases are minimal.</p>

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NOTES TO THE FINANCIAL STATEMENTS
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4. INTEREST REVENUE AND INTEREST EXPENSE

4.1 Interest revenue

	2019	2018
	\$'000	\$'000
Interest revenue on assets carried at amortised cost:		
Receivables from financial institutions	1,608	1,582
Loans to members	5,137	4,835
	6,745	6,417

4.2 Interest expense

Interest expense on liabilities carried at amortised cost:		
Members savings deposits	1,077	1,041
Term deposits	1,172	1,197
External borrowings	-	-
	2,249	2,238

5. FEE, COMMISSIONS AND OTHER INCOME

Fees and commissions revenue

Fee income on loans	69	69
Other fee income	187	247
Insurance commissions	103	108
Other commissions	103	95
	462	519

Other income

Dividends received on available for sale assets	16	26
Bad debts recovered	7	12
Miscellaneous revenue	29	23
	52	61

Total fees, commissions and other income	514	580
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2019
(continued)

6. NON INTEREST EXPENSE

6.1 Impairment losses

Loans and advances

	2019	2018
	\$'000	\$'000
Increase in provision for impairment	5	(25)
Bad debts written off directly against profit	-	-
Total impairment losses	5	(25)

6.2 Prescribed disclosures

Depreciation and amortisation

Depreciation	123	130
Amortisation of intangible assets	105	90
Total depreciation and amortisation	228	220

<i>Information technology</i>	645	579
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<i>Property expenses</i>	227	229
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<i>Procedures and compliance</i>	103	102
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<i>Corporate governance</i>	168	152
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Employee benefits expenses

Salaries	1,245	1,177
Annual leave	119	118
Long service leave	41	20
Sick leave	36	53
Superannuation and other	298	395
Total employee benefits expenses	1,739	1,763

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NOTES TO THE FINANCIAL STATEMENTS
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6. NON INTEREST EXPENSE (Continued)

6.2 Individually significant items of expenditure

The following items of expense are shown as part of other administration and other operating expenses and are considered to be significant to the understanding of the financial performance of the Credit Union:

	2019	2018
	\$'000	\$'000
Card transaction fees	403	379
Printing and stationery	23	19
ATM encashment fees	42	48
Insurance	69	63

7. AUDITOR'S REMUNERATION

Amounts received or due and receivable by the auditors of the Credit Union for:

Audit of the financial statements	48	48
Other services	9	10
	<hr/> 57	<hr/> 58

8. INCOME TAX

8.1 Current Tax Expense

The components of tax expense comprise:

Current income tax payable	190	146
Decrease / (Increase) in deferred tax asset	8	(5)
Underprovision in respect of prior years	-	-
Total tax expense	<hr/> 198	<hr/> 141

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NOTES TO THE FINANCIAL STATEMENTS
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8. INCOME TAX (continued)

**8.2 Reconciliation of Current Year Tax
Payable to Income Tax Expense**

	2019	2018
	\$'000	\$'000
Prima facie tax on profit before income tax at 27.5%	199	146
Plus / (Less) tax effect of:		
- Employees compensation and benefit	2	2
- Change in tax rate	-	-
- Depreciation and amortisation	1	1
- Dividend rebate	(4)	(8)
	<u>198</u>	<u>141</u>
The applicable weighted average tax rates	27.5%	27.5%

9. CASH AND LIQUID ASSETS

Cash on hand	783	711
Cash at Bank	9,586	7,133
	<u>10,369</u>	<u>7,844</u>

10. ACCRUED RECEIVABLES

Sundry debtors and clearing accounts	234	243
Interest receivable on receivables from other financial institutions	394	544
	<u>628</u>	<u>787</u>

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NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019

(continued)

11. LOANS AND ADVANCES

	2019	2018
	\$'000	\$'000
Overdrafts and revolving credit	1,523	1,666
Term loans	106,478	100,005
	108,001	101,671
Less: Provision for impaired loans	(5)	(17)
	107,996	101,654

11.1 Credit quality – security held against loans

Secured by mortgage over real estate	99,308	92,479
Partly secured by goods mortgage	4,443	4,381
Secured by members' deposits	417	1,021
Secured by Guarantee	981	876
Wholly unsecured	2,852	2,914
	108,001	101,671

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

Security held as mortgages against real estate:		
- Loan to valuation ratio of less than 80%	90,744	85,271
- Loan to valuation ratio of more than 80% but mortgage insured	7,494	6,503
- Loan to valuation ratio of more than 80% but not mortgage insured	1,070	705
	99,308	92,479

11.2 Concentration of loans

The Credit Union has an exposure to groupings of individual loans which concentrate risk and create exposure to particular segments as follows:

- | | | |
|---|-------|-------|
| (i) Loans to individuals or related groups of members which exceed 5% of capital – aggregate value | 4,337 | 2,833 |
| (ii) Loans to members are mainly concentrated in Central New South Wales. All loans are within Australia. | | |

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NOTES TO THE FINANCIAL STATEMENTS
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(continued)

11. LOANS AND ADVANCES (continued)

11.2 Concentration of loans (continued)

	2019	2018
	\$'000	\$'000
(iii) Loans by type were:		
- Residential loans and facilities	91,450	84,576
- Personal loans and facilities	9,255	9,807
- Business loans and facilities	7,296	7,288
	108,001	101,671

11.3 Movement in the provision for impairment

Opening balance	17	44
Bad debts written off against provision	(17)	(2)
Loans provided for during the year	5	(25)
	5	17

11.4 Impaired Loans Written Off

Increase to the provision	5	(25)
Amounts written off directly to expense	-	-
	5	(25)

11.5 Amounts arising from ECL

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

	Gross Carrying Value 2019 \$'000	ECL Allowance 2019 \$'000	Carrying Value 2019 \$'000	Gross Carrying Value 2018 \$'000	Provision for Impairment 2018 \$'000	Carrying Value 2018 \$'000
Loans to members						
Mortgage	97,223	-	97,223	90,198	-	90,198
Personal	9,255	5	9,250	9,807	10	9,797
Overdrafts	1,523	-	1,523	1,666	7	1,659
Total	108,001	5	107,996	101,671	17	101,654

The Credit Union have performed an analysis of the ECL allowance and have determined, based on internal analysis, management judgements and other historical data, that the entire allowance for 2019 is classified as Stage 2.

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11. LOANS AND ADVANCES (Continued)

11.6 Analysis of loans that are impaired based on age of repayments outstanding

	2019	2019	2018	2018
	Carrying	Provisions	Carrying	Provisions
	Value	\$'000	Value	\$'000
	\$'000	\$'000	\$'000	\$'000
0 to 90 days in arrears	10	5	28	9
90 to 180 days in arrears	-	-	3	1
180 to 270 days in arrears	-	-	-	-
270 to 365 days in arrears	-	-	3	2
Over 365 days in arrears	-	-	42	2
Over limit facilities over 14 days	-	-	5	3
Total	<u>10</u>	<u>5</u>	<u>81</u>	<u>17</u>

The impaired loans are generally not secured against residential property, though in 2019 \$0 (2018 \$40,359) was secured by residential property. Some impaired loans are secured by bill of sale over motor vehicles or other assets of varying value. It is not practicable to determine the fair value of all collateral as at the balance date due to the variety of assets and their condition.

11.7 Loans with repayments past due but not regarded as impaired

There are loans with a value of \$897,829 past due which are not considered to be impaired, due to the very short number of days past due. It is not practicable to identify the security over all loans past due.

Loans with repayments past due but not impaired are in arrears as follows:

	0-3 months	3-6 months	6-12 months	> 1 year	Total
2019					
Mortgage & personal	897	-	-	-	897
Credit cards	-	-	-	-	-
Overdrafts	-	-	-	-	-
Total	<u>897</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>897</u>
2018					
Mortgage & personal	481	-	-	-	481
Credit cards	-	-	-	-	-
Overdrafts	5	-	-	-	5
Total	<u>486</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>486</u>

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NOTES TO THE FINANCIAL STATEMENTS
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11. LOANS AND ADVANCES (Continued)

2019
\$'000

2018
\$'000

11.8 Assets acquired via enforcement of security

Residential Property - 40

It is the policy of the Credit Union is to sell the assets via auction at the earliest opportunity after all measures to assist the members to repay the debts have been exhausted. The subject property was sold on 13 July 2018 with full recovery of the outstanding loan balance and costs.

11.9 Key assumptions in determining impairment

In the course of the preparation of the financial statements the Credit Union has determined the likely impairment loss on loans which have not maintained the loan repayments in accordance with the loan contract, or where there is other evidence of potential impairment such as job losses or economic circumstances. In identifying the impairment likely from these events the Credit Union estimates the potential impairment using the length of time the loan is in arrears and the historical losses arising in past years. Given the relatively small number of impaired loans, the circumstances may vary for each loan over time resulting in higher or lower impairment losses. An estimate is based on the period of impairment.

Period of Impairment	% of balance
Up to 90 days	0
90 days to 181 days	40
181 days to 270 days	60
270 days to 365 days	80
Over 365 days	100

2019
\$'000

2018
\$'000

12. INVESTMENT SECURITIES

Investment securities at amortised cost

Negotiable Certificate of Deposits 1,976
 Floating Rate Notes 27,300
 Term Deposits 25,178

Equity investment securities designated as FVOCI

Cuscal 534
 TAS 13

Available for sale investment securities

Cuscal - 248
 TAS - 13

Assets held to maturity

Negotiable Certificate of Deposits - 3,924
 Floating Rate Notes - 22,600
 Term Deposits - 28,625

Total Value of Investments **55,001** **55,410**

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NOTES TO THE FINANCIAL STATEMENTS
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(continued)

12. INVESTMENT SECURITIES (continued)

This company (Cuscal) supplies end-to-end payments services. At 1 July 2018, the Credit Union designated its investment in Cuscal equity securities as at FVOCI. In FY 2018, these investments were classified as available-for-sale and measured at cost. The shares are able to be traded but within a limited market and to other Mutual ADIs.

Policy applicable before 1 July 2018

In 2018 Central West Credit Union held the Cuscal Shares at historical cost. The value of the Cuscal Shares at historical cost was \$0.60 per share and this item was classified as Available for Sale.

Policy applicable after 1 July 2018

Management have used observable inputs to assess the fair value of the shares. The financial reports of Cuscal record net tangible asset backing of these shares exceeding their cost value.

Based on the net assets of Cuscal, any fair value determination on these shares is likely to be greater than their cost value. Management has determined that a value of \$1.29 per share (30 June 2018) is a reasonable approximation of the fair value based on the Net Assets backing per share calculation.

Central West Credit Union is not intending, nor able to, dispose of these shares.

	2019	2018
	\$'000	\$'000
13. PROPERTY, PLANT AND EQUIPMENT		
Land	140	140
Buildings – at cost	1,564	1,564
Less: provision for depreciation	(574)	(526)
	990	1,038
Plant and equipment – at cost	1,092	1,068
Less: provision for depreciation	(926)	(850)
	166	218
Total property, plant and equipment	1,296	1,396

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13. PROPERTY, PLANT AND EQUIPMENT (continued)

The movements in the carrying amounts for each class of property, plant and equipment between the beginning and end of the current financial year is shown below:

	Beginning balance \$'000	Additions \$'000	Disposals WDV \$'000	Depreciation expense \$'000	Carrying amount at year end \$'000
Land	140	-	-	-	140
Buildings	1,038	-	-	(46)	990
Plant & Equipment	218	23	-	(77)	166
Totals	1,396	23	-	(123)	1,296

14. INTANGIBLE ASSETS

	2019 \$'000	2018 \$'000
Computer software – at cost	839	795
Less: accumulated amortisation	(771)	(667)
Total intangible assets	68	128

The movement in the carrying amounts for the member transaction system software between the beginning and end of the current financial year is shown below:

	Beginning balance \$'000	Additions \$'000	Disposals WDV \$'000	Amortisation expense \$'000	Carrying amount at year end \$'000
Member Transaction System	128	44	-	(105)	68
Totals	128	44	-	(105)	68

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15. DEPOSITS FROM MEMBERS

	2019	2018
	\$'000	\$'000
Member deposits carried at amortised cost:		
- At call	100,228	91,845
- At term	53,640	54,670
Member withdrawable shares	102	102
	153,970	146,617

There were no defaults on interest and capital payments on this liability in the current or prior year.

15.1 Concentration of member deposits

Member deposits held by individuals or related groups of members that exceed 5% of liabilities

	-	-
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16. PAYABLES AND OTHER LIABILITIES

	2019	2018
	\$'000	\$'000
Payables and accrued expenses	138	117
Accrued interest payable	284	300
Members' clearing accounts	595	623
Provision for FBT	5	5
	1,022	1,045

17. TAXATION ASSETS AND LIABILITIES

17.1 Taxation liabilities

Income tax	52	30
Deferred tax	79	2
	131	32

The movement in deferred tax liability during the year is as follows:

Opening balance	(1)	(1)
Tax due on assets held at fair value investments held in equity (due to initial adoption of AASB 9)	(78)	-
	(79)	(1)

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17. TAXATION ASSETS AND LIABILITIES (continued)

	2019	2018
	\$'000	\$'000
17.2 Taxation assets		
Loans	2	5
Employee Leave Entitlements	94	90
FBT provision	1	1
Superannuation	-	9
	97	105

(i) Deferred tax assets

The movement in deferred tax assets for each temporary difference during the year is as follows:

	2019	2018
	\$'000	\$'000
<i>Provision for impaired loans</i>		
Opening balance	5	12
Charge to Statement of Comprehensive Income	(3)	(7)
Closing balance	2	5
<i>Employee leave entitlements</i>		
Opening balance	90	87
Charge to Statement of Comprehensive Income	4	3
Closing balance	94	90
<i>Superannuation</i>		
Opening balance	9	9
Charge to Statement of Comprehensive Income	(9)	-
Closing balance	-	9
<i>Other</i>		
Opening balance	1	1
Charge to Statement of Comprehensive Income	-	-
Closing balance	1	1

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18. PROVISIONS

	2019	2018
	\$'000	\$'000
Annual leave	102	113
Long service leave	238	212
Superannuation	-	35
	340	360

18.1 Reconciliation of provision balances

The movement in each provision category during the year is as follows

<i>Annual leave</i>		
Opening balance	113	109
Additional provision raised during the year	119	118
Amounts used	(130)	(114)
Closing balance	102	113
 <i>Long service leave</i>		
Opening balance	212	206
Additional provision raised during the year	41	20
Amounts used	(15)	(14)
Closing balance	238	212

19. FVOCI RESERVE

<i>FVOCI reserve – Shares</i>		
Opening balance	-	-
Add: increase on revaluation of investment	287	-
Less: deferred tax thereon	(79)	-
Closing balance	208	-

The Credit Union has elected to recognise changes in fair value of certain investments in equity securities in Other Comprehensive Income. These changes are accumulated within the FVOCI reserve within equity. The Credit Union transfers amounts from this reserve to retained earnings when the relevant equity securities are derecognised.

20. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

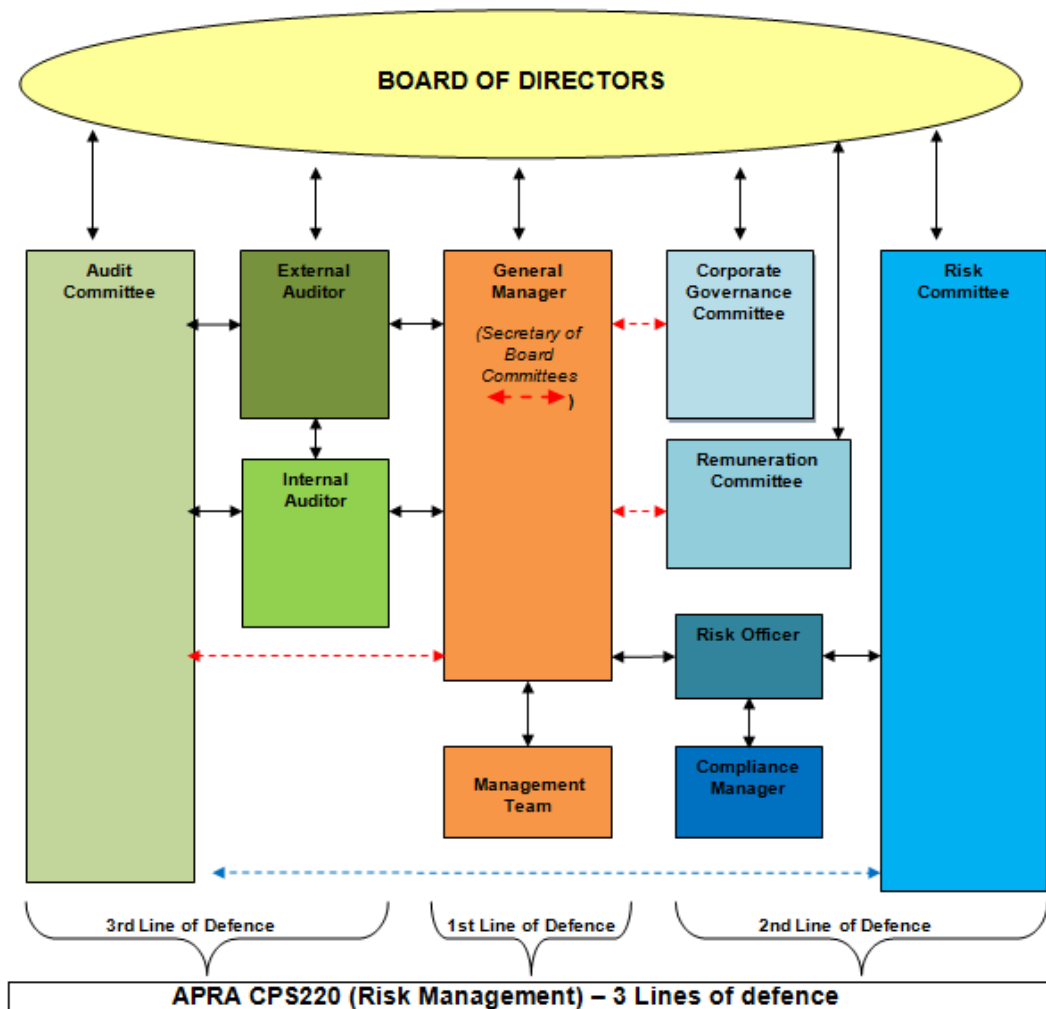
Introduction

The Board has endorsed a policy of compliance and risk management to suit the risk profile of the Credit Union.

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

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 FOR THE YEAR ENDED 30 JUNE 2019
 (continued)

20. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)



Board of Directors

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.

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(continued)

20. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Risk Committee

The Risk Committee plays a key role in assisting the board of directors to fulfil its corporate governance and overseeing responsibilities in relation to the Credit Union's identification of risk, monitoring of risk and oversight of risk management systems developed to manage risk within the Board's risk appetite.

The Committee carries out regular review of the management and reporting practices of the Credit Union. Overseeing and appraising the effectiveness of the Credit Union's internal risk management program and systems, including: Compliance, Operational Risk, Fraud & AML programs, Due Diligence assessment, Lending & Collection policies, processes and Provisioning practices. The Committee considers the adequacy of the Credit Unions Credit, Capital, Liquidity, Operational and Market Risk controls. It also determines policies to ensure the Credit Union's Risk Strategy is adhered to and monitoring adherence to those policies.

The Risk Committee monitors compliance with the framework laid out in the policy and reports in turn to the Board with relevant recommendations for Board consideration.

Audit Committee

The Audit Committee plays a key role in assisting the board of directors to fulfil its corporate governance and overseeing responsibilities in relation to the Credit Union's financial reporting, internal control system, and the internal and external audit functions

The Committee carries out a regular review of all operational areas through the Internal Audit function, external compliance reviews and Management reporting to ensure that operational risks are being properly controlled and reported. It also ensures that contingency plans are in place to achieve business continuity in the event of serious disruptions to business operations.

The Audit Committee monitors compliance with the framework laid out in the policy and reports in turn to the Board with relevant recommendations for Board consideration.

Corporate Governance Committee

The Committee meets at least bi-annually to manage and monitor the corporate governance functions of the Board of Directors of Central West Credit Union to ensure that the Board discharges its corporate responsibilities to the benefit of all stakeholders.

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20. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Corporate Governance Committee (continued)

Duties of the Corporate Governance Committee include:

- Initiate and perform annual review of the Corporate Governance Policy for subsequent Board consideration, with a specific focus on developments in relation to the current regulatory environment and the Credit Union's current risk profile and complexity of business;
- Establishing and monitoring the Credit Union's Remuneration Policy;
- Establishing and monitoring the Credit Union's Board Performance Evaluation Policy and process; and
- Establishing and monitoring the Credit Union's Board Composition, Succession, and Renewal Policy.

Remuneration Committee

The Committee's primary responsibility is to ensure that the Credit Union's Remuneration Policy and practices appropriately align remuneration and risk management in compliance with prudential standards. This responsibility covers the following specific duties:

- Conducting regular reviews of the Remuneration Policy to ensure it is effective; compliant with prudential requirements and encompasses the three key groups subject to the policy; and
- Making recommendations to the Board regarding the remuneration of the three key groups subject to the policy, in particular the General Manager, the Assistant General Manager and the non-executive Directors.

Internal Audit

Internal audit has responsibility for implementing the controls testing and assessment as required by the Audit Committee.

External Audit

The external auditor has responsibilities to the Board, Credit Union members, APRA and ASIC.

Chief Risk Officer

The Credit Union's Chief Risk Officer is an internal staffing resource which has been established to assist with the provision of structure, coordination of all risk related functions and systems, the maintenance of the Credit Union's overall Risk Management systems and development of a positive risk culture throughout the organisation.

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NOTES TO THE FINANCIAL STATEMENTS
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20. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Compliance Manager

The Credit Union's Compliance Manager is an internal staffing resource which has been established to assist with the provision of structure, coordination of compliance functions and systems, and the performance of regular internal "compliance checking" procedures. The Compliance Manager has a primary role of establishing, developing and increasing the culture of compliance within the Credit union.

Key Risk Management Policies

Key risk management policies encompassed in the overall risk management framework include:

- Interest rate risk;
- Liquidity management;
- Credit risk management; and
- Operations risk management including data risk management.

The Credit Union has undertaken the following strategies to minimise the risks arising from financial instruments.

20.1 Market risk

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.

Market risk is the risk that changes in interest rates, foreign exchange 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 and other significant price risks. 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.

(i) Interest rate risk

Interest rate risk is the risk of variability of the fair value of future cash flows arising from financial instruments due to the changes in interest rates.

Most banks are exposed to interest rate risk within its treasury operations. The Credit Union does not have a treasury operation and does not trade in financial instruments.

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**NOTES TO THE FINANCIAL STATEMENTS
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20. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

20.1 Market risk (continued)

(ii) Interest rate risk in the banking book

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

The interest rate risk on the banking book is reported to the Board monthly.

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 table set out in Note 22 displays the period that each asset and liability will reprice as at the balance date. This risk is not considered significant to warrant the use of derivatives to mitigate this risk.

(iii) Method of managing risk

The Credit Union manages its interest rate risk by the use of interest rate sensitivity analysis. The detail and assumptions used are set out below.

(iv) Interest rate sensitivity

The Credit Union's exposure to market risk is measured and monitored using interest rate sensitivity models.

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NOTES TO THE FINANCIAL STATEMENTS
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20. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

20.1 Market risk (continued)

(iv) Interest rate sensitivity (continued)

The policy of the Credit Union to manage the risk is to maintain a balanced 'on book' strategy by ensuring the cumulative sensitivity between assets and liabilities are not excessive. The measured sensitivity not to be exceeded is 2% of the Credit Unions' capital. The cumulative sensitivity is measured monthly to identify any large exposures to the interest rate movements and to rectify the excess through targeted fixed rate interest products available through investment assets, and term deposits liabilities to rectify the imbalance to within acceptable levels. The policy of the Credit Union is not to undertake derivatives to match the interest rate risks. The Credit Union's exposure to interest rate risk is set out in Note 23 which details the contractual interest change profile.

The Board monitors these risks through monthly management reports.

There has been no change to the Credit Union's exposure to market risk or the way the Credit Union manages and measures market risk in the reporting period

20.2 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.

(i) Credit risk – loans

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

Loan class	2019 Carrying value \$'000	2019 Off balance sheet \$'000	2019 Maximum Exposure \$'000	2018 Carrying value \$'000	2018 Off balance sheet \$'000	2018 Maximum Exposure \$'000
Housing	91,450	14,720	106,170	84,576	15,071	99,647
Personal	9,255	1,941	11,850	9,807	2,027	11,834
Commercial	7,296	1,296	7,938	7,288	1,284	8,572
Total	108,001	17,957	125,958	101,671	18,382	120,053

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20. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

20.2 Credit risk (continued)

(i) Credit risk – loans (continued)

Carrying value is the value in the Statement of Financial Position. Maximum exposure is the value in the Statement of Financial Position plus the undrawn facilities (loans approved but not advanced, redraw facilities, etc.).

All loans and facilities are within Australia. The geographic distribution is not analysed into significant areas within Australia as the exposure classes are not considered material. Loans to members are mainly concentrated in Central New South Wales.

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 and commercial lending;
- 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; and
- Review of compliance with the above policies.

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

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NOTES TO THE FINANCIAL STATEMENTS
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20. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

20.2 Credit risk (continued)

(i) Credit risk – loans (continued)

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 principal 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 loan is regarded as impaired, unless other factors indicate the impairment should be recognised sooner.

Weekly 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 may be engaged to conduct recovery action once the loans are over 90 days in arrears. The exposure to losses is predominantly in 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 Statement of Comprehensive Income. In estimating these cash flows, management makes judgements about a counter-party's financial situation and the net realisable value of any underlying collateral.

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.

Provisions in the Statement of Financial Position are maintained at a level that management deems sufficient to absorb probable incurred losses in the Credit Union's loan portfolio from homogenous portfolios of assets and individually identified loans.

A provision for incurred losses is established on all past due loans after a specified period of repayment default where it is probable that some of the capital will not be repaid or recovered.

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NOTES TO THE FINANCIAL STATEMENTS
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20. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

20.2 Credit risk (continued)

(i) Credit risk – loans (continued)

Past due and impaired (continued)

The provisions for impaired and past due exposures relate to the loans to members.

Details of past due and impaired loans are as set out in Note 11.

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 and must be approved by the Board, taking account of the exposure at the date of the write off.

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

A reconciliation of the movement of both past due and impaired exposure provisions is provided in Note 11.

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 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.

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%) a large exposure is considered to exist. No capital is required to be held against these exposures 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.

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NOTES TO THE FINANCIAL STATEMENTS
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(continued)

20. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

20.3 Credit risk (continued)

(i) Credit risk – loans (continued)

Concentration risk – individuals (continued)

The aggregate value of large exposure loans are set out in Note 11. The Credit Union currently holds \$4,337,433 in significant concentrations of exposures to members. Concentration exposures to counterparties are closely monitored.

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 areas of employment.

The Credit Union has a concentration in the retail lending for members who reside in Central NSW. This concentration is considered acceptable on the basis that the Credit Union was formed to service these members and the employment concentration in the area is not exclusive. Should members leave the area, the loans continue and other employment opportunities are available to the members to facilitate the repayment of the loans.

(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 no concentration of credit risk with respect to investment receivables. The credit policy is that investments are only made to institutions that are creditworthy. Directors have established policies that, excluding CUSCAL, a maximum of 50% of capital can be invested with any one financial institution at a time.

The risk of losses from liquid investments is reduced by the nature and quality of the independent rating of the investment body and the limits to concentrating investments in one institution.

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NOTES TO THE FINANCIAL STATEMENTS
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(continued)

20. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

20.3 Credit risk (continued)

(ii) Credit risk – liquid investments

Under the liquidity support scheme, at least 3.0% of the Credit Union's total assets must be invested in CUSCAL and / or a Bank Financial Support Scheme (CUFSS) approved Authorised Deposit-taking Institution (ADI), to allow the scheme to have adequate resources to meet its obligations if needed.

All other rated investment must be with financial institutions with a Standards & Poors (S&P) short term rating in excess of BBB. Investments with unrated institutions are subject to financial review and board approval.

External credit assessment for institution investments

The Credit Union uses the ratings of S&P to assess the credit quality of all investment exposure, where applicable, using the credit quality assessment scale in APRA Prudential Guidance Note AGN 112. The credit quality assessment scale within this standard has been complied with.

The investment exposure values associated with each credit quality step are as follows:

	2019	2019	2019	2018	2018	2018
	Carrying	Past due	Provision	Carrying	Past due	Provision
	value	value	\$'000	value	value	\$'000
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
CUSCAL (A+)	3,100	-	-	3,100	-	-
Banks (BBB and above)	51,711	-	-	48,786	-	-
Unrated	4,000	-	-	7,000	-	-
Total	58,811	-	-	58,886	-	-

(iii) Credit risk – guarantees

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. At 30 June 2019 the Credit Union had \$30,000 in performance guarantees outstanding, secured by first mortgage over residential property or fixed term deposits.

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NOTES TO THE FINANCIAL STATEMENTS
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20. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

20.3 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 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;
- 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 provider Credit Union Financial Support Services (CUFSS) which can access industry funds to provide support to the Credit Union should it be necessary at short notice.

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 at least 12% of funds as liquid assets to maintain adequate funds for meeting member withdrawal requests. This 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. Note 26 describes the borrowing facilities as at the balance date. These facilities are in addition to the support from CUFSS.

The maturity profile of the financial liabilities, based on the contractual repayment terms are set out in Note 22.

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20. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

20.3 Liquidity risk (continued)

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

	2019	2018	2019	2018
	\$'000	\$'000	(%)	(%)
Total minimum liquidity holdings				
As at 30 June	39,642	34,367		
Total adjusted liabilities				
As at 30 June	178,767	171,591	22.18	20.03
Average for the year	174,652	169,680	22.41	21.38
Minimum during the year			21.92	19.31

20.4 Operational risk

Operational risk is the risk of loss to the Credit Union resulting from deficiencies in processes, personnel, technology and infrastructure and from external factors other than credit, market and liquidity risks. Operational risks in the Credit Union relate mainly to those risks arising from a number of sources including legal compliance, business continuity, data infrastructure, outsourced services failures, fraud, and employee errors.

The Credit Union's objective is to manage operational risk so as to balance the avoidance of financial losses through the implementation of controls, whilst avoiding procedures which inhibit innovation and creativity. These risks are managed through the implementation of policies and systems to monitor the likelihood of the events and minimise the impact. Systems of internal control are enhanced through:

- the segregation of duties between employee duties and functions, including approval and processing duties;
- documentation of the policies and procedures, employee job descriptions and responsibilities, to reduce the incidence of errors and inappropriate behaviour;
- implementation of whistle blowing policies to promote a compliant culture and awareness of the duty to report exceptions by staff;
- education of members to review their account statements and report exceptions to the Credit Union promptly;
- effective dispute resolution procedures to respond to member complaints;
- effective insurance arrangements to reduce the impact of losses;
- contingency plans for dealing with the loss of functionality of systems, premises or staff.

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20. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

20.4 Operational risk (continued)

Fraud

Fraud can arise from member card PINS and internet passwords being compromised where not protected adequately by the member. It can also arise from other systems failures. The Credit Union has systems in place which are considered to be robust enough to prevent any material fraud. However, in common with all retail banks, fraud is potentially a real cost to the Credit Union.

IT systems

The worst case scenario would be the failure of the Credit Union's core banking and IT network suppliers to meet customer obligations and service requirements.

The Credit Union has outsourced the IT systems management to an independent data processing centre (IDPC) which is owned by a collection of credit unions. This organisation has the experience in-house to manage any short-term problems and has a contingency plan to manage any related power or systems failures. Other network suppliers are engaged on behalf of the Credit Union by the industry body CUSCAL to service the settlements with other financial institutions for direct entry, ATM, Visa, and BPAY.

A full disaster recovery plan is in place to cover medium to long-term problems which is considered to mitigate the risk to an extent such that there is no need for any further capital to be allocated.

20.5 Capital management

The capital levels are prescribed by APRA. Under the APRA prudential standards, capital is determined in three components:

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

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

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20. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

20.5 Capital management (continued)

Regulatory capital

Tier 1 Capital

Tier 1 Capital is defined under APS 111 Capital Adequacy: Measurement of Capital.

For the Credit Union, Tier 1 Capital comprises of:

- Retained earnings;
- Redeemed capital account;
- Regulatory adjustments (equity holding in CUSCAL Ltd, net DTA/DTL position and intangible assets); and
- FVOCI Reserve.

Tier 2 Capital

Tier 2 Capital is defined under APS 111 Capital Adequacy: Measurement of Capital.

For the Credit Union, Tier 2 Capital comprises of:

- Reserve for credit losses.

	2019	2018
	\$'000	\$'000
Common Equity Tier 1 Capital		
Retained earnings	19,381	18,871
FVOCI Reserve	208	-
Redeemed capital account	155	151
Less: regulatory adjustments	(712)	(494)
Net Tier 1 Capital	19,032	18,528
Tier 2 Capital		
Reserve for credit losses	359	346
	359	346
Total Capital	19,391	18,874

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2019
(continued)

20. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

20.5 Capital management (continued)

Risk weighted assets

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

	Risk weighting	Carrying Value \$'000	Risk weighted value \$'000
Cash	0%	783	-
Deposits in highly rated ADIs	20-50%	64,422	24,097
Standard loans secured against eligible residential mortgages	35-100%	88,809	31,887
All claims on private sector counterparties other than ADIs	100%	18,617	18,617
Other assets	100%	2,088	2,088
Assets secured against deposits	0%	577	-
Total		175,296	76,689

Capital adequacy ratio

The capital ratio as at the end of the financial year over the past 5 years is as follows:

2019	2018	2017	2015	2014
21.60%	22.32%	23.80%	24.69%	24.79%

The level of capital ratio can be affected by growth in assets relative to growth in reserves and by changes in the mix of assets.

To manage the Credit Union's capital, the Board reviews the ratio monthly and monitors major movements in the asset levels. Policies have been implemented to require reporting to APRA if the capital ratio falls below 15%. A 5 year capital budget projection of the capital levels is maintained annually to address how strategic decisions or trends may impact on the capital level.

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NOTES TO THE FINANCIAL STATEMENTS
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(continued)

20. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

20.5 Capital management (continued)

Pillar 2 capital on operational risk

The Credit Union uses the standardised approach which is considered to be most suitable for its business given the small number of distinct transaction streams. The operational risk capital requirement is calculated by mapping the Credit Union's 3 year average net interest income and net non-interest income from these streams.

Based on this approach, the Credit Union's operational risk requirements is as follows:

Operational risk regulatory capital: \$9,957,646

It is considered that the standardised approach accurately reflects the Credit Union's operations risk.

Internal capital adequacy management

The Credit Union manages its internal capital levels for both current and future activities which are reviewed by the Board in its capacity as the primary governing body. The capital required for any change in the Credit Union's forecasts for asset growth or unforeseen circumstances are assessed by the Board.

The Credit Union have determined to maintain a minimum capital level of 12% as compared to the risk weighted assets of the Credit Union at any given time.

21. CATEGORIES OF FINANCIAL INSTRUMENTS

	Note	2019 \$'000	2018 \$'000
Financial assets – carried at amortised cost			
Cash and liquid assets	9	10,369	7,844
Investment Securities	12	54,454	55,148
Accrued receivables	10	628	787
Loans to members	11	107,996	101,654
Total cash		173,447	165,433
FVOCI investments	12	546	-
Available-for-sale investments	12	-	261
TOTAL FINANCIAL ASSETS		173,993	165,694

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NOTES TO THE FINANCIAL STATEMENTS
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(continued)

21. CATEGORIES OF FINANCIAL INSTRUMENTS (continued)

	Note	2019 \$'000	2018 \$'000
Financial liabilities – carried at amortised cost			
Deposits from members	15	153,970	146,617
Payables and other liabilities	16	1,017	1,040
TOTAL FINANCIAL LIABILITIES		154,987	147,657

22. MATURITY PROFILE OF FINANCIAL INSTRUMENTS

Monetary assets and liabilities have differing maturity profiles depending on the contractual term. The table below shows the period in which different monetary assets and liabilities held will mature and be eligible for renegotiation or withdrawal. Financial assets and liabilities are at the undiscounted values (including future interest expected to be paid or received). Accordingly, these values will not agree to the Statement of Financial Position.

2019	Carrying Amount \$'000	0 to 3 months \$'000	3 to 12 months \$'000	1 to 5 years \$'000	5 + years \$'000	No maturity \$'000	Total Cash Flows \$'000
Financial assets							
Cash on hand	783	-	-	-	-	783	783
Cash at bank and investments	66,781	12,186	27,983	17,026	-	9,586	66,781
Loans to members	103,297	1,062	4,977	20,846	76,412	-	103,297
FVOCI equity investments	547	-	-	-	-	547	547
Total financial assets	171,408	13,248	32,960	37,872	76,412	10,916	171,408
Financial Liabilities							
Trade payables and other liabilities	1,017	1,017	-	-	-	-	1,017
Deposits from members	154,545	22,274	28,068	3,873	-	100,330	154,545
Total financial liabilities	155,562	23,291	28,068	3,873	-	100,330	155,562

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NOTES TO THE FINANCIAL STATEMENTS
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(continued)

22. MATURITY PROFILE OF FINANCIAL INSTRUMENTS (continued)

Monetary assets and liabilities have differing maturity profiles depending on the contractual term. The table below shows the period in which different monetary assets and liabilities held will mature and be eligible for renegotiation or withdrawal. Financial assets and liabilities are at the undiscounted values (including future interest expected to be paid or received). Accordingly these values will not agree to the Statement of Financial Position.

2018	Carrying Amount	0 to 3 months	3 to 12 months	1 to 5 years	5 + years	No maturity	Total Cash Flows
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Financial assets							
Cash on hand	711	-	-	-	-	711	711
Cash at bank and investments	65,444	21,394	15,177	21,740	-	7,133	65,444
Loans to members	99,992	1,604	4,470	20,002	73,916	-	99,992
Available for sale investments	261	-	-	-	-	261	261
Total financial assets	166,408	22,998	19,647	41,742	73,916	8,105	166,408
Financial Liabilities							
Trade payables and other liabilities	1,040	1,040	-	-	-	-	1,040
Deposits from members	147,173	25,946	26,926	2,354	-	91,947	147,173
Total financial liabilities	148,213	26,986	26,926	2,354	-	91,947	148,213

23. INTEREST RATE CHANGE PROFILE OF FINANCIAL INSTRUMENTS

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). The table below shows the respective value of funds where interest rates are capable of being altered within the prescribed time bands, being the earlier of the contractual repricing date or maturity date.

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NOTES TO THE FINANCIAL STATEMENTS
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23. INTEREST RATE CHANGE PROFILE OF FINANCIAL INSTRUMENTS (continued)

2019

	Within 1 month \$'000	1 to 3 months \$'000	3 to 12 months \$'000	1 to 5 years \$'000	Non- interest rate sensitive \$'000	Total \$'000
Financial assets						
Cash and liquid assets	9,586	-	-	-	783	10,369
Receivables due from other financial institutions	6,000	5,976	26,678	15,800	-	54,454
Accrued receivables	628	-	-	-	-	628
Loans to members	81,912	1,062	4,977	20,846	13	108,010
FVOCI equity investment	-	-	-	-	547	547
Total financial assets	98,126	7,038	31,655	36,646	1,343	174,808
Financial Liabilities						
Deposits from members	105,499	16,926	27,693	3,750	102	153,970
Trade payables and other liabilities	-	-	-	-	1,017	1,017
Total financial liabilities	105,499	16,926	27,693	3,750	1,119	154,987

2018

	Within 1 month \$'000	1 to 3 months \$'000	3 to 12 months \$'000	1 to 5 years \$'000	Non- interest rate sensitive \$'000	Total \$'000
Financial assets						
Cash and liquid assets	7,133	-	-	-	711	7,844
Receivables due from other financial institutions	9,000	11,962	14,487	19,700	-	55,149
Accrued receivables	787	-	-	-	-	787
Loans to members	75,583	1,604	4,470	20,002	12	101,671
Available for sale investments	-	-	-	-	261	261
Total financial assets	92,503	13,566	18,957	39,702	984	165,712
Financial Liabilities						
Deposits from members	98,956	18,742	26,544	2,273	102	146,617
Trade payables and other liabilities	-	-	-	-	1,040	1,040
Total financial liabilities	98,956	18,742	26,544	2,273	1,142	147,657

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NOTES TO THE FINANCIAL STATEMENTS
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(continued)

24. FINANCIAL COMMITMENTS

	2019	2018
	\$'000	\$'000
Loans approved, but not funded	3,542	3,249
Loan redraw facilities available	11,225	11,835
Loan facilities available to members for overdrafts and line of credit loans, as follows:		
- Total value of approved facilities	4,725	4,977
- At term	<u>(1,534)</u>	<u>(1,678)</u>
- Net undrawn value	3,191	3,299

25. EXPENDITURE COMMITMENTS

25.1 Lease expenditure commitments

Operating leases

Within 1 year	71	40
1 to 5 years	19	46
Over 5 years	-	-
	<u>90</u>	<u>86</u>

This commitment relates to two (2) premises lease for the branches located in Cowra and Forbes.

25.2 Other expenditure commitments

The costs committed under contracts with Ultradata and TransAction Solutions (TAS) are as follows:

Within 1 year	531	484
1 to 5 years	321	783
Over 5 years	-	-
	<u>852</u>	<u>1,267</u>

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NOTES TO THE FINANCIAL STATEMENTS
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(continued)

25. EXPENDITURE COMMITMENTS (continued)

25.3 Other

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

26. STANDBY BORROWING FACILITIES

The Credit Union has the following credit facilities with CUSCAL:

	2019	2018
	\$'000	\$'000
Overdraft facility		
Gross	1,000	1,000
Current borrowings	-	-
Net available	<u>1,000</u>	<u>1,000</u>

There are no restrictions as to withdrawal of these funds subject to the availability of funds to CUSCAL at the time of draw down.

The borrowing facilities are secured by a fixed and floating charge over the assets and undertakings of the Credit Union.

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NOTES TO THE FINANCIAL STATEMENTS
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(continued)

27. CONTINGENT LIABILITIES

The Credit Union is a member of CUFSS Ltd, a company established to provide financial support to member Mutual ADIs in the event of a liquidity or capital problem arising. As a member, the Credit Union is committed to maintaining an amount equivalent to 3.0% of total assets as deposits in a nominated account. The maximum call for each member ADI would be 3.0% of the Credit Union's total assets. The Credit Union has the opportunity under certain circumstances to draw on this scheme.

At 30 June 2019 the Credit Union had \$30,000 in performance guarantees outstanding, secured by first mortgage over residential property or fixed term deposits.

28. KEY MANAGEMENT PERSONNEL DISCLOSURES

28.1 Remuneration of key management personnel

Key management personnel (KMP) are those persons having authority and responsibility for planning, directing and controlling the activities of the Credit Union, directly or indirectly including any Director. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

KMP have been taken to comprise of the Directors and the five members (four 2017) of the executive management team during the financial year, responsible for the day-to-day financial and operational management of the Credit Union.

	Year ended 30 June 2019			Year ended 30 June 2018		
	Directors	Other KMP	Total	Directors	Other KMP	Total
Short-term benefits	149	601	750	137	543	680
Post-employment benefits	14	56	70	19	68	87
Other long-term benefits	-	-	-	-	-	-
Termination benefits	-	-	-	-	-	-
Total	163	657	820	156	611	767

Compensation includes all employee benefits as defined in AASB 119 *Employee Benefits*. Employee benefits are all forms of consideration paid, payable or provided by the Credit Union, or on behalf of the Credit Union, in exchange for services rendered to the Credit Union.

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NOTES TO THE FINANCIAL STATEMENTS
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28. KEY MANAGEMENT PERSONNEL DISCLOSURES (continued)

28.1 Remuneration of key management personnel (continued)

Compensation includes:

- (i) short-term employee benefits, such as wages, salaries, paid annual leave, paid sick leave, and bonuses (if payable within twelve months of the end of the period) and non-monetary benefits (such as salary packaged) for current employees;
- (ii) post-employment benefits such as pensions, and other retirement benefits;
- (iii) other long-term employee benefits, including long-service leave or other long-service benefits, and, if they are not payable wholly within twelve months after the end of the period, bonuses; and
- (iv) termination benefits.

28.2 Loans to key management personnel and their close members of family

	Year ended 30 June 2019			Year ended 30 June 2018		
	Directors	Other KMP	Total	Directors	Other KMP	Total
Opening balance	1,083	632	1,715	1,022	595	1,617
Interest charged	67	27	94	50	25	75
Write-off	-	-	-	-	-	-
Closing Balance	1,865	638	2,503	1,083	632	1,715
Amount of impairment loss expense recognised	-	-	-	-	-	-

Loans provided to staff / spouse jointly for any purpose are provided at the lower of the current FBT Benchmark rate as advised by the ATO or the rate of interest on offer to members for a similar loan / overdraft facility. Loans provided to Directors and KMP's close members of family are on conditions no more favourable than those extended to members generally. Security has been obtained for these loans in accordance with the Credit Union's lending policy.

There is no provision for impairment in relation to any loan extended to KMP or their close members of family. No loan impairment expense in relation to these loans has been recognised during the period.

28.3 Other transactions

There were no other transactions during the financial year between the Credit Union and members of the Board.

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2019
(continued)

28. KEY MANAGEMENT PERSONNEL DISCLOSURES (continued)

28.4 KMP and their close members of family saving, term deposit and revolving credit facility accounts

	Year ended 30 June 2019			Year ended 30 June 2018		
	Directors	Other KMP	Total	Directors	Other KMP	Total
Opening balance	1,761	86	1,847	1,670	112	1,782
Interest paid	74	1	75	30	1	31
Closing Balance	1,409	104	1,513	1,761	86	1,847

Directors and related parties have received interest on deposits with the Credit Union during the financial year. Interest has been paid on terms and conditions no more favourable to those available on similar transactions to members of the Credit Union.

29. ECONOMIC DEPENDENCY

The Credit Union has an economic dependency on the following suppliers of services:

- (i) CUSCAL Limited – This entity supplies the Credit Union rights to members’ cheques and Redicards in Australia and provides services in the form of settlement with bankers for member chequeing, Redicard transactions and the production of members’ cheque books and Redicards for use by members. It also provides central banking facilities. In addition, CUSCAL operates the switching computer used to link Redicards and Visa cards operated through reditellers, and other approved ATM suppliers and merchants, to the Credit Union EDP systems.
- (ii) TransAction Solutions – this company operates the computer facility on behalf of the Credit Union, in conjunction with other Credit Unions. The Credit Union has a management contract with the bureau to supply computer support staff and services to meet the day to day needs of the Credit Union and compliance with relevant prudential standards.
- (iii) Credit Union Financial Support System (CUFSS) – this entity provides emergency liquidity support to the Credit Union.
- (iv) Ultradata Australia Pty Ltd – this company supplies and maintains the application software utilised by the Credit Union.

30. SEGMENTAL REPORTING

The Credit Union operates exclusively in the retail financial services industry within Australia.

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2019
(continued)

31. STATEMENT OF CASH FLOWS

31.1 Cash flows presented on a net basis

Cash arising from the following activities are presented on a net basis in the Statement of Cash Flows:

- (i) member deposits to and withdrawals from savings, money market and other deposit accounts;
- (ii) sales and purchases of maturing certificates of deposit.

31.2 Reconciliation of cash

For the purposes of the Statement of Cash Flows, cash includes cash on hand and at call with other financial institutions. Cash at the end of the financial year as shown in the Statement of Cash Flows is reconciled to the related items in the Statement of Financial Position as follows:

	2019	2018
	\$'000	\$'000
Cash balance comprises:		
- Cash on hand	783	711
- Imprest accounts	9,586	7,133
- Deposits at call less than 90 days	-	-
	<hr/> 10,369	<hr/> 7,844

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NOTES TO THE FINANCIAL STATEMENTS
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(continued)

31. STATEMENT OF CASH FLOWS (continued)

31.3 Reconciliation of cash flows from revenue activities to profit for the year after income tax

	2019	2018
	\$'000	\$'000
Profit for the year after income tax	527	390
Non-cash items		
Provision for loan impairment	5	(25)
Depreciation and amortisation	228	220
(Gain) / loss on disposal of property, plant and equipment	-	-
Movements in assets and liabilities		
Deferred taxes	8	(4)
Provision for income tax	22	(15)
Provision for employee entitlements	(20)	45
Interest and other receivables	137	2
Accrued interest payable	(16)	33
Creditors and accruals	21	5
Net cash flows from revenue activities	912	651

32. SUPERANNUATION LIABILITIES

The Credit Union has been a Participating Employer of the Cuesuper Defined Benefits Superannuation Plan (the Plan), a sub-plan of NGS Super, since commencement of the Plan in NGS Super on 1 April 2011. Prior to this time, CWCU was a Participating Employer in the stand-alone Cuesuper Plan which was not affiliated with NGS Super.

With effect from 25 July 2018, two defined benefit members of the Plan agreed with CWCU and the Trustee to convert their defined benefit entitlements to accumulation entitlements, and hence were transferred from the Plan to the Accumulation Section of NGS Super. With effect from a similar date, the third and final member of the Plan left the service of CWCU and hence their benefit was also paid out from the Plan.

In order to facilitate the above transactions, and as requested by the Trustee, CWCU contributed a final amount of \$34,500 to the Plan to ensure full funding of the benefit payments and settlement of CWCU's portion of Plan expenses.

As a result of these transactions, NGS Super have confirmed that CWCU no longer has active liabilities or responsibilities in relation to the Plan.

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(continued)

33. CORPORATE INFORMATION

The Credit Union is a company limited by shares, and is registered under the *Corporations Act 2001* (Cwlth).

The address of the registered office is:	Central West Credit Union Limited 269 Clarinda Street Parkes NSW 2870
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The address the principal place of business is:	269 Clarinda Street Parkes NSW 2870
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The nature of the operations and its principal activities are the provision of deposit taking facilities and loan facilities to the members of the Credit Union.

34. CORPORATE GOVERNANCE DISCLOSURES

Board

The Credit Union Board has responsibility for the overall management and strategic direction of the Credit Union.

Board members are independent of management and are either Board appointed or elected by members on a rotation of every 3 years. Currently there is one Board appointed Director.

Each Director must be eligible to act under the constitution as a member of the Credit Union and *Corporations Act 2001* (Cwlth) criteria. Directors need to also satisfy the fit and proper criteria set down by APRA.

The Board has established policies to govern conduct of the Board meetings, director conflicts of interest and training so as to maintain director awareness of emerging issues and to satisfy all governance requirements.

The Board:

- Monitors the matters of operational risk management and APRA reporting obligations;
- Monitors the compliance with applicable laws;
- Reviews General Manager performance and remuneration;
- Approves financial budgets and performance criteria;
- Ratifies funding that exceeds General Manager's approved delegation levels prior to funding; and
- Ratifies management approved interest rate changes.

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NOTES TO THE FINANCIAL STATEMENTS
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(continued)

34. CORPORATE GOVERNANCE DISCLOSURES (continued)

Board remuneration

The Board receives remuneration from the Credit Union in the form of Director fees approved by members and reimbursement of out of pocket expenses. There are no other benefits received from the Credit Union by the Directors.

Audit Committee

An Audit Committee has been formed to assist the Board in relevant matters of financial prudence. The directors form the majority of this Committee with General Manager participation as secretary.

The Audit Committee is established to oversight the financial reporting and audit process. Its role includes:

- Monitoring audit reports received from internal and external auditors and management's responses thereto;
- Liaising with the auditors (internal and external) on the scope of their work and experience in conducting an effective audit;
- Ensuring the external auditors remain independent in the areas of work conducted;
- Monitoring the matters of operational risk management and APRA reporting obligations; and
- Monitoring the compliance with applicable laws

Risk Committee

The Risk Committee plays a key role in assisting the board of directors to fulfil its corporate governance and overseeing responsibilities in relation to the Credit Union's identification of risk, monitoring of risk and oversight of risk management systems developed to manage risk within the Board's risk appetite.

The Risk Committee has no direct decision making power, however will be required to provide suggestions and recommendations to the board of directors in relation to matters and issues that it has considered on behalf of the board. The responsibility for formal decisions on all board related issues remains with the board as a whole, despite the fact that the board may rely upon committee recommendations to make such decisions.

The primary objective of the Committee is to assist the Board of Directors in fulfilling its responsibilities relating to the following risk management and reporting practices of the Credit Union:

- Oversee and appraise the effectiveness of the Credit Union's internal risk management program and systems, including:
 - Compliance program;
 - Operational Risk Program;
 - Fraud & AML programs;
 - Due Diligence assessment process;
 - Lending & Collection process; and
 - Provisioning practices.

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2019
(continued)

34. CORPORATE GOVERNANCE DISCLOSURES (continued)

Risk Committee (continued)

- Consider the adequacy of the Credit Unions Credit, Capital, Liquidity, Operational and Market Risk controls;
- Undertake any role assigned to the committee in accordance with any Board policy including the Board's Lending & Collections policy and Provisioning Policy.
- Determination of policies that ensure that the Credit Union's Risk Strategy is adhered to and monitoring adherence to those policies.

Policies

The Board has endorsed a policy of compliance and risk management to suit the risk profile of the Credit Union's ethical guidelines to staff and to reinforce the practice of providing efficient service to members with courtesy and recognition of members as owners.

The ethical principles adopted by the Credit Union are in accordance with the Mutual Banking Code of Practice.

Key risk management policies include:

- Capital adequacy management
- Liquidity management
- Credit risk management
- Data risk management
- Operations risk management
- Human resources
- Work health & safety
- Accounting
- Business continuity management
- Corporate governance

Compliance

The Credit Union has a Compliance Manager who is responsible for maintaining the awareness of staff for all changes in compliance legislation and responding to staff inquiries on compliance matters. The officer also monitors the Financial Services Reform (FSR) and Australian Credit license (ACL) obligations and responds to all member complaints and disputes should they arise.

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NOTES TO THE FINANCIAL STATEMENTS
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(continued)

34. CORPORATE GOVERNANCE DISCLOSURES (continued)

External audit

Audit is performed by Intentus Chartered Accountants, whose history with auditing credit unions exceeds 35 years and who audit 4 credit unions in NSW. Intentus utilises sophisticated computer assisted audit software to supplement the compliance testing.

The work performed by the external auditors is examined by the Audit Committee to ensure that it is consistent with the current external audit reporting role and does not impair their independence.

Internal audit

An internal audit function has been established using the services of DBP Consulting Pty Ltd (Glenn Pannam) to deal with the areas of internal control compliance and regulatory compliance.

Regulation

The Credit Union is regulated by:

- Australian Prudential Regulation Authority (APRA) for the prudential risk management of the Credit Union.
- Australian Securities and Investments Commission (ASIC) for adherence to *Corporations Act 2001* (Cwth), Accounting Standards disclosures in the financial statements and FSR requirements. The FSR legislation requires the Credit Union to disclose details of products and services, maintain training for all staff that deal with the members and provide an effective and independent complaints handling process.

Under the FSR licensing arrangements all staff which deal with the public are required to be trained and certified to a level of skill commensurate with the services provided.

Both ASIC and APRA conduct periodic inspections and the auditor's report to both regulators annually on compliance with respective requirements. The external auditors also report to both ASIC on the FSR compliance and APRA on the prudential policy compliance.

Work Health & Safety (WHS)

The nature of the finance industry is such that the risk of injury to staff and the public are less apparent than in other high risk industries. Nevertheless the Credit Union's two most valuable assets are staff and members and steps need to be taken to maintain their security and safety when circumstances warrant.

**CENTRAL WEST CREDIT UNION LIMITED
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**NOTES TO THE FINANCIAL STATEMENTS
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(continued)**

34. CORPORATE GOVERNANCE DISCLOSURES (continued)

Work Health & Safety (WHS) (continued)

WHS policies have been established for the protection of both members and staff and are reviewed at least annually for relevance and effectiveness.

Staff are trained in robbery procedures and offices are designed to detract from such acts by:

- Minimum cash levels being held in accessible areas
- Cameras and monitoring equipment visible throughout the office

Office premises are examined regularly to ensure that the electrical safety and physical safety measures are appropriate to the needs to the public and staff.

The Credit Union has established an independent WHS review that is completed on a bi-annual basis. The resulting Independent reports are reviewed by the Audit Committee, with any concerns raised actioned in a prompt manner. Secure cash handling policies are in place and injury from lifting heavy weights and RSI are managed by proper techniques to minimise the risk of damage.

All staff have access to trauma counsellors where required following an incident which may impair their feeling of safety in the work place.

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DIRECTORS' DECLARATION

The Directors of Central West Credit Union Limited declare that:

- (a) The financial statements and notes set out on pages 8 to 72:
 - (i) comply with Accounting Standards and the *Corporations Act 2001* (Cwlth); and
 - (ii) give a true and fair view of the financial position as at 30 June 2019 and performance for the year ended on that date of the Credit Union.

- (b) In the Directors' opinion 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.

This declaration is made in accordance with a resolution of the Board of Directors and is signed at Parkes on the 24th day of September 2019 for and on behalf of the Directors by:



C. L. Berry
Director
Chair of the Board of Directors

**INDEPENDENT AUDIT REPORT
TO THE MEMBERS OF CENTRAL WEST CREDIT UNION LIMITED
ABN 67 087 649 885**

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Central West Credit Union Ltd (the Credit Union), which comprises the statement of financial position as at 30 June 2019, the statement of 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 Central West Credit Union Limited 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 2019 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 (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.

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 2019, but does not include the financial report and our auditor's report thereon.

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

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.


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14 Sale Street
Orange
Dated: 26th September 2019


John O'Malley
Director