the mac
macarthur credit union

friendly, helpful & supportive

49TH ANNUAL REPORT 2020

CONTENTS

CHAIRMAN'S REPORT

The core values of the Macarthur Credit Union Ltd ("The Mac") of being "Friendly Helpful and Supportive" are not just hollow words that are taken lightly. They speak to our culture and the ethical and transparent provision of all of our products and services, in particular our loan and deposit products. Never has this been more relevant & appropriate than over the past year-given the extraordinary circumstances we are currently living in.

The ethical provision of loans and deposits is applied with the members' best interests at heart. While this can be interpreted as a "conservative" approach by some it has meant that our members have for the most part been well positioned to weather the economic storm brought about by the significant external events that have occurred over the past 12 months.

The consideration of a members' "best interests" may require a "difficult conversation". This has been the case over the year with borrowers requiring assistance as a result of job losses during the global Pandemic period. In many cases an arrangement other than a "repayment holiday" was the member's best option - placing the member in a better position over the longer term. The overwhelming feedback from the member base was that this approach reflected our standing as a "trusted advisor". The external events of the last 12 months have seen our focus balance normal business (& its many challenges) with "Business Continuity" and a raised focus on the health & wellbeing of our stakeholders. I am proud to say that we have managed this very effectively - while simultaneously managing the financial impact of the global Pandemic on our business.

In such an environment the profit result could seem almost secondary to other concerns. However, it is critical that we continue to effectively manage our business to ensure its long-term survival & growth. In addition, the ongoing change & transformation of the banking sector continues in the background.

The profit result for 2019/20 was a significant improvement on the previous 2 years. This came about largely as a result of strategic decisions taken over previous years and a heavy focus on our core business. We also saw the benefit of the consolidation of the asset growth seen in previous years. This result has enabled us to effectively manage the impact of the global Pandemic - while acknowledging that it will impact our financial results in the short to medium term.

The role of a Director of a financial institution is one that is not for the faint hearted -something that has been reinforced with the events of the last 12 months. The performance expectations of Directors and Management continue to grow - through both legislative changes and more onerous operational requirements. However, I am confident that your Board and Management Team have the required skills, courage and commitment to continue to operate in such an environment.

Our CEO, Dave Cadden and his team do a fantastic job every day working with the Board and the Staff to improve The Mac for members. On behalf of the members I thank them all for their efforts.

I hope that you all continue to enjoy a productive and supportive relationship with The Mac. We will all continue to work hard to make sure that you do.

Geoffrey Ellis
Chairman

CEO's REPORT

Last year in my report I spoke about constant change within the business & economic environment. Who would have thought we would be discussing just one year later the following events:

- Bushfires
- Floods
- A Global Pandemic

The "extremely uncertain economic environment" of a year ago has compounded with further impact on property values, unemployment figures & market interest rates. This will continue for some time yet with uncertain outcomes following the probable conclusion of the various Government subsidies in the coming months.

In these circumstances it is appropriate that Financial Institutions be seen as a "pillar" of the community. Over the pandemic period Financial Institutions have effectively been tasked with the following:

- Ensuring that the flow of funds continues through the economy
- Ensuring that adequate buffers/safeguards are in place to ensure the safety of member/customer funds.
- Implementing processes to protect borrowers from default (via Hardship arrangements)

I am very proud to report that The Mac has played its part in discharging the above "duties". We have maintained the prescribed key ratios (Capital Adequacy & Liquidity) at levels well above the minimum required standards. These ratios are the cornerstone of a financial institution - the strength that can be relied on in tough times. Our forecasting indicates that these will remain at roughly the same level in the short to medium term.

The profit result for 2019/20 is a significant improvement on the previous 2 years. This was the result of a focus on cost control & consolidating the growth seen in our loan portfolio over the previous 2 years. However, this focus has shifted in the latter part of the year - given the current pandemic situation. Our more recent focus has been on ensuring the health & wellbeing of our members & staff, as well as meeting the duties described above.

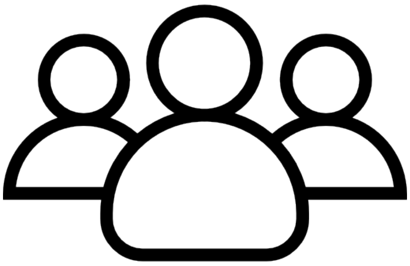
There remains significant uncertainty in terms of the current economic environment-which is reflected in our Budgeting & Forecasting for 2020/21. However, the buffers & safeguards built by many years of prudent management will ensure that we remain on a sound financial footing.

To the staff of The Mac-we are a very small team. However, what we deliver on a daily, monthly and annual basis continues to amaze me. We deliver products, services and delivery channels that compare favourably with our "major bank" competitors, with a small fraction of their resources and budgets. I thank you for another fantastic year of passion, commitment and honesty - particularly in a year where we have faced numerous challenges. I am very proud to lead a team that consistently strives to do the best that they can for our members in an ethical and transparent manner.

Finally, I would like to thank your Board of Directors, led by Chairman Geoff Ellis for a year of wise counsel, direction & encouragement. The Board continues to show courage and support in investing for the future of The Mac.

Dave Cadden
Chief Executive Officer

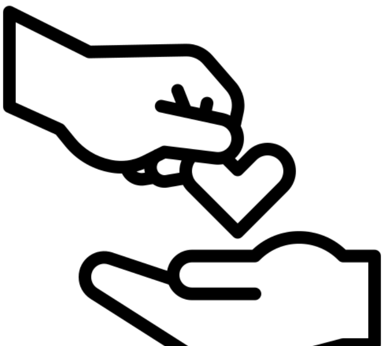
YEAR IN REVIEW



12,012 members are
currently banking
with The Mac

966 personal loans
1056 home loans
1159 term deposits
40,767 deposit accounts

Increased profit
by 59%



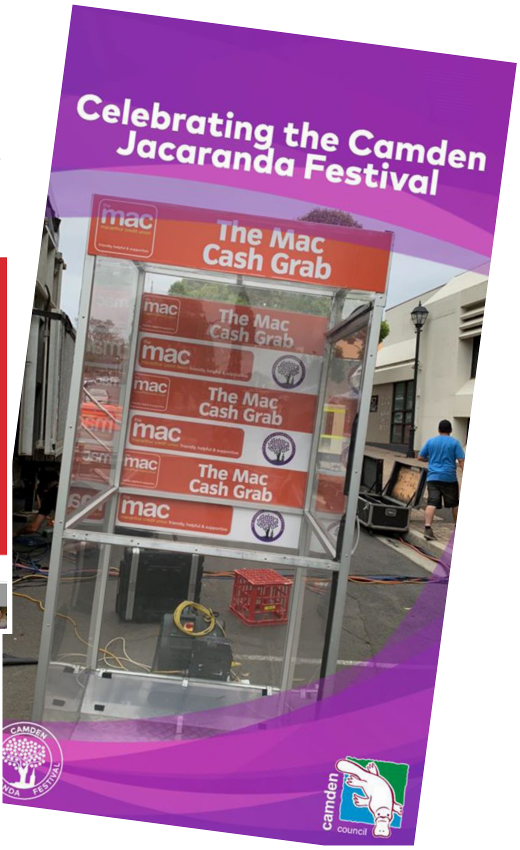
Donated $42,670 to
our community groups

Sponsored 17 schools
and sporting groups


mac
friendly, helpful & supportive

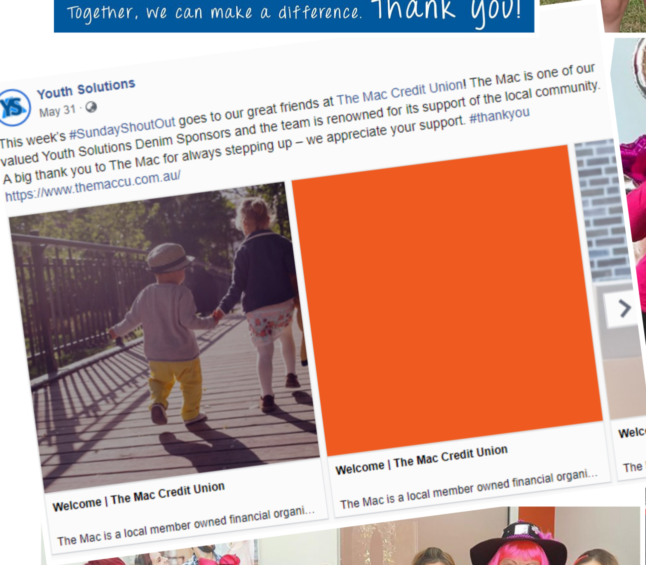

Solutions


South West Sydney Academy of Sport
May 24
CHANGING COMMUNITIES. CHANGING LIVES.
There are so many amazing volunteers that help SWSAS to keep programs rolling to talented athletes across the greater South West Sydney region.
So here are some snap shots of those who deliver more value to SWSAS than words can really describe...
#hatsofftoyouall #nationalvolunteerweek #changinglives #community #sport #swsasfam #sportsacademy #swsasmeetsonline #thankyou
See anyone you recognise? TAG them and help spread this post around
Notice someone not pictured that deserves a mention? Post a pic in comments and share the love... We are so grateful for everyone at SWSAS, parents and siblings included!!
Camden Council The Mac Credit Union Your local club
NATIONAL 18-24 MAY 2020
VOLUNTEER
CHANGING COMMUNITIES.
CHANGING LIVES.
WEEK
SWSAS


Celebrating the Camden Jacaranda Festival
mac
The Mac Cash Grab
camden council


Youth Solutions
Promoting Health • Preventing Harm
CHARITY SPONSOR - DENIM
the mac
macarthur credit union
friendly, helpful & supportive
Your local Credit Union started almost 50 years ago in the Macarthur and Wollondilly regions. The Mac's aim is to offer members friendly, helpful & supportive solutions to help them achieve their dreams. With 4 local branches, The Mac has a wide range of products to suit almost every body's banking needs. You'll always be greeted by a smiling face and a staff member who is only too happy to assist you.
Enjoy trusted banking with The Mac and remember, its better banking with a local.
www.themaccu.com.au
Together, we can make a difference. Thank you!


the mac
macarthur credit union
friendly, helpful & supportive
MEET THE MAC MO BROS
MOVEMBER®
PROUD MO GROWER
Craig
Matthew
Paul
Peter


Youth Solutions
May 31
This week's #SundayShoutOut goes to our great friends at The Mac Credit Union! The Mac is one of our valued Youth Solutions Denim Sponsors and the team is renowned for its support of the local community. A big thank you to The Mac for always stepping up – we appreciate your support. #thankyou
https://www.themaccu.com.au/
Welcome | The Mac Credit Union
The Mac is a local member owned financial organi...
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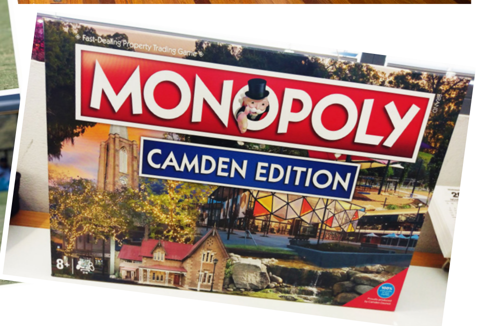
The Mac is a local member owned financial organi...


SWSAS


AFL
NSW/ACT
SWSAS
mac


MONOPOLY
CAMDEN EDITION

COMMUNITY SUPPORT

An integral part of The Mac being "friendly, helpful & supportive" is contributing to the community we serve. To this end, we continue to commit significant financial and human resources to a large number of charitable, community, school & sporting groups.

Additionally, The Mac provides significant "in-kind" support to a number of large local charitable groups. This support takes a number of different forms, including:

- Concessional interest rates
- Other services such as bulk cash & coin deliveries provided free of charge
- Senior Management acting as Directors/Committee members on a number of Boards

This support amounts to a figure in the order of $53,682 for the 2019/20 year. Given our core values of being friendly, helpful and supportive, The Mac does not expect a financial return from this support.

The following groups have benefited from our support during 2019/20:

- Buxton Rural Fire Brigade
- Camden Coasters
- Camden Council – Camden Monopoly Game
- Camden High School
- Camden Hospital – Palliative Care Ward
- Camden Jacaranda Festival
- Camden Men's Bowling Club
- Camden Public School
- Camden South Public School
- Cancer Council
- Disability Macarthur
- Douglas Park Little Athletics
- Douglas Park/Wilton Football Club
- Elderslie High School
- Go Pink Breast Cancer Day
- Elizabeth Macarthur High School
- Lions Club of Camden
- Macarthur Annual Breast Cancer Gala
- Macarthur District Temporary Family Care
- Macarthur Skylarks Hockey Club
- Meals on Wheels Camden – Trivia Night
- Mount Annan High School
- Movember
- Narellan Chamber of Commerce – Christmas in Narellan
- Narellan Vale Public School
- Old Crows Touch Team
- Picton Chamber of Commerce
- Picton High School
- Razorback Basketball

- South West Sydney Academy of Sport
- St Anthony's Netball
- Tahmoor Volunteer Fire Brigade
- The Camden Show Society
- Turning Point Camden
- Wollondilly Business Awards
- Wollondilly Pony Club
- Wollondilly Redbacks Junior AFL Club
- Wollondilly Council – Christmas Light Competition
- Wollondilly Council – Garden Competition
- Wollondilly Council – Illuminate Wollondilly
- Wollondilly Council – Mayoral Charity Night
- World's Greatest Shave
- Youth Solutions

In addition, The Mac supports the Customer Owned Banking Sector via participation on a number of Committees and discussion groups.

DIRECTORS' REPORT

The directors present their report together with the financial report of Macarthur Credit Union Ltd ("the Credit Union") for the financial year ended 30 June 2020 and the auditor's report thereon.

Information on Directors

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

Name	Qualifications	Responsibilities
Geoffrey Ellis	FCPA, FIML, FAIBB, MAICD, MAMI, CBV, RBV, CPBB, M.Bus, B.Bus, JP	Chairman of Directors Chairman of Executive Committee Director Nominations Committee member Board member since 2012
Peter Buckley	MBA, B. Com, GAICD	Deputy Chairman of Directors Chairman of Risk Committee Executive Committee member Audit Committee member Board member since 2018
Deborah Vardy	Dip Law, MAMI, MAICD	Chairman Governance Committee Executive Committee member Director Nominations Committee member Risk Committee member Board Member since 2014
Katie Palmer	CA, B.Bus, Adv Dip. Accounting, GAICD	Chairman of Audit Committee Executive Committee member Risk Committee member Board member since 2016
Doug Ferris	B.Bus, MAICD	Audit Committee Member Governance Committee Member Board member since 2018
Ian Counsell	MMgt, F Fin, GIA (Affiliate), MAICD, JP	Risk Committee member Governance Committee member Board Appointed 8 October 2019
Ashley Jennings	Adv Dip Accounting, Adv Dip Mngmt, JP	Audit Committee member Governance Committee member Appointed 8 January 2020
Glenn Becker	MBA, GDip App Corp Gov, GCert Risk Mngmt, FFINSIA, FGIA, FCIS	Risk Committee member Governance Committee member Board Member since 2015 Resigned 22 July 2019
Lloyd Pollard	B Com, JP, MAMI	Governance Committee member Audit Committee member Board member since 2008 Resigned 12 December 2019

Information on Company Secretary

Name	Qualifications	Experience
David Cadden	Dip.HR, Dip. Fin Serv., Dip. F&MBM, GAICD, JP	Chief Executive Officer
Paul Brooks	B.Comm, FCPA, GAICD	Chief Financial Officer

Information on Board Meetings

The number of meetings of directors (including meetings of committees of directors) and number of meetings attended by each of the directors of the Credit Union during the financial year are:

	Directors meetings		Audit Committee meetings		Risk Committee meetings		Governance Committee meetings		Executive Committee meetings		Director Nominations Committee meetings	
	E	A	E	A	E	A	E	A	E	A	E	A
Number of meetings held:	7		5		4		3		2		2 *	
Number of meetings attended:												
Geoffrey Ellis	7	7	2	4	-	4	-	1	2	2	1	1
Lloyd Pollard	3	3	-	2	-	2	-	2	-	-	1	1
Peter Buckley	7	7	5	5	4	4	-	-	2	2		
Deborah Vardy	7	6	-	1	4	4	3	3	2	2	1	1
Katie Palmer	7	7	5	5	1	2	2	2	2	2	1	1
Doug Ferris	7	7	5	5	-	-	3	3	-	-	1	1
Ian Counsell	5	5	-	1	2	2	1	1	-	-		
Ashley Jennings	3	3	2	2	-	-	1	1	-	-		
Glenn Becker	-	-	-	-	1	1	1	1	-	-	1	1

E = Eligible to attend
A = Attended
* Directors Nominations Committee meeting held in July 2019; attended by Lloyd Pollard, Deborah Vardy, Glenn Becker and Geraldine Dean.
* Directors Nominations Committee meeting held in February 2020; attended by Geoffrey Ellis, Katie Palmer, Doug Ferris and Geraldine Dean.

Directors are entitled to attend meetings of other Committees in an ex-officio capacity.

Board Remuneration

During or since the financial year ended 30 June 2020, no director of the Credit Union has received or become entitled to receive a benefit, other than a benefit included in the aggregate amount of remuneration paid or payable to the directors disclosed in the accounts at Note 28, by reason of a contract entered into by the Credit Union with:

- A director; or
- A firm of which a director is a member; or
- An entity in which a director has a substantial financial interest except for loans disbursed to directors which are also disclosed at Note 28.

All directors hold one (1) ordinary $5 share of the Credit Union.

Indemnifying Directors, Officers and Auditors

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

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

Principal Activities

The principal activity of the Credit Union during the course of the financial year was the provision of a range of financial services and associated activities to members. No significant change in the nature of these activities occurred during the year.

Operating and Financial Review

The profit for the year after providing for income tax, was $245,487 (2019 $154,111). The result is a significant improvement on 2019. It is a very pleasing result in light of the extraordinary circumstances (Pandemic and other natural disasters) we have faced for much of the 2020 year.

The results highlight our strong prudential fundamentals amid a period of significant change and uncertainty. We have very established disciplines in terms of cost control and made some significant savings in the 2020 year. We continue to maintain exceptionally strong prudential standards. These prescribed standards are the same as those applied to our major bank competitors.

The result is even more pleasing when taking into consideration that the official RBA Cash Rate fell by a total of 1% across the year. While this is good news for borrowers (who are enjoying record low Home Loan rates) our deposit holders (a great number of which are long term members) continue to be impacted by low investment returns. We anticipate this interest rate environment will continue for the short to medium term. Not only does it impact our deposit holders-but also the returns on our investment portfolio.

In addition to the challenges referenced above in the 2020 year there has also been significant structural change within the EFTPOS/payments systems we use to enable card transactions. This resulted in significant changes to our member Fee structures. We have been required to respond quickly to these - our objective being to balance commercial reality and the impact on members.

The rapid rise of COVID-19 has seen an unprecedented global response by Governments, regulators and industry sectors. This has included an increased level of restrictions on corporate Australia's ability to operate, significant volatility and instability in financial markets and the release of a number of government stimulus packages to support individuals and businesses as the Australian and global economies face significant slowdowns and uncertainties.

The Credit Union received a number of COVID-19 related hardship applications from borrowers regarding their loan facilities during the 2020 financial year, which has been taken into account in the expected credit loss provision as at 30 June 2020.

Significant Changes In State Of Affairs

In the opinion of the Directors there were no significant changes in the state of affairs of the Credit Union that occurred during the financial year under review.

Events subsequent to reporting date

Other than the ongoing impact of the COVID-19 pandemic described under 'Operating and Financial Review', there are no matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations, or state of affairs of the Credit Union in future financial years.

Likely Developments and Results

The Credit Union's main strategy will be to continue to encourage members to use the Credit Union as their main financial institution. This will be done by both deepening existing relationships and encouraging new ones. This will largely reflect the growth in the region's population in the coming years. The Credit Union will support the growing membership over the coming years by establishing additional service delivery channels where appropriate. Other than disclosed in this report, there are no matters which would have a likely effect on the operations of the Credit Union or the expected results of its operations in future years.

Public Prudential Disclosure

In accordance with the APS 330 Public Disclosure requirements, the Credit Union is to publicly disclose certain information in respect of:

- details on the composition of regulatory capital;
- a reconciliation between the composition of its regulatory capital and its audited financial statements;
- the full details of the terms and conditions of its regulatory capital instruments;
- the quantitative and qualitative information about its capital adequacy, credit and other risks if advanced measurement approaches are used; and
- both qualitative disclosure and quantitative remuneration disclosures for Senior Managers and material risk-takers.

These disclosures can be viewed on the Credit Union's website: www.themaccu.com.au

Auditor’s Independence Declaration

A copy of the auditor’s independence declaration as required under section 307C of the Corporations Act 2001 is set out following the Director’s Report on page 16.

This report is made in accordance with a resolution of the directors.

Geoffrey Ellis	Katie Palmer
Chairman of Board of Directors	Chairman of Audit Committee

Dated at Camden this 16th September 2020.

CORPORATE GOVERNANCE STATEMENT

The Board of Directors of Macarthur Credit Union Ltd (the "Credit Union") is responsible for the overseeing of policy, performance and strategies to be implemented by Management. The Board, which also establishes and maintains a legal and ethical environment, is responsible to all Members of the Credit Union.

Guidelines have been established to ensure optimum Board performance and the Constitution of the Credit Union provides for one third of the Directors to retire each year. Directors may stand for re-election and where the number of candidates standing exceeds the available positions, a vote by members determines the successful candidates.

COMPOSITION OF THE BOARD

The composition of the Board is determined in accordance with the following principles and guidelines:

- In accordance with the Constitution of the Credit Union, the Board comprises a minimum of seven (7) Members elected by the Credit Union Membership. The Chairman is elected by the Board of Directors.
- Casual Board vacancies are filled by the Board having regard to appropriate qualifications and expertise.
- The Board is required to meet at least bi-monthly and follow meeting guidelines that ensure all Directors are made aware of, and have all necessary information to participate in an informed discussion of all agenda items.
- As part of its renewal process, the Board can appoint Associate Directors. These Associate Directors are engaged with the intention of replacing retiring Directors at a future time, but after gaining experience in proper Board/Governance practice. While the Associate Directors are encouraged to contribute to Board discussion, they do not have voting rights. It is envisaged that a successful Associate Director would be appointed in the future as a Director by the Credit Union Membership via the usual election process.
- All Directors are members of the Australian Mutuals Institute.

COMMITTEE STRUCTURE

The following Committees support the work of the Board:

Executive Committee

The Executive Committee's powers are limited to those delegated to it by the Board from time to time. The Board invites the CEO to attend all Executive Committee Meetings in an advisory capacity, unless his attendance would be inappropriate because of reasons such as conflict of interest. The Members of the Executive Committee as at 30 June 2020 were Geoffrey Ellis (Chairman), Peter Buckley, Deborah Vardy and Katie Palmer.

The role of the Executive Committee is to:

- Undertake any tasks assigned by the Board;
- Review the CEO's performance and salary; and
- Review policy recommendations from Management for Board consideration.

Audit Committee

The primary objective of the Audit Committee is to assist the Board in fulfilling its responsibilities in respect of the accounting and reporting practices of the Credit Union.

The Members of the Audit Committee as at 30 June 2020 were Katie Palmer (Chairman), Doug Ferris, Peter Buckley and Ashley Jennings.

The Board invites the CEO or his nominee(s) to attend all Audit Committee Meetings in an advisory and secretarial capacity unless their attendance would be inappropriate because of reasons such as conflict of interest.

The role of the Audit Committee is to:

- Minimise accounting policy risk by reviewing all draft annual financial reports prior to approval by the Board;
- Monitor compliance with statutory requirements for financial reporting;
- Direct and monitor the Internal Audit function;
- Liaise with the External Auditor and review the adequacy of the scope and quality of the audit in consultation with the CEO;
- Initiate special projects and investigations on matters within its Terms of Reference, keeping the Board fully informed on progress and outcomes; and
- Review financial and prudential policies and procedures and to make recommendations.

Governance Committee

The primary objective of the Governance Committee is to assist the Board of Directors in the discharge of its responsibilities by way of enhancing and monitoring the performance of the Credit Union in matters of corporate governance. The specific functions of the Committee include the:

- Establishment and review of procedures to assess Board, Committee and Director performance;
- Development and review of appropriate corporate governance principles, policies and practices; and
- Development, implementation and monitoring of Director development policies and practices.

The Members of the Governance Committee as at 30 June 2020 were Deborah Vardy (Chairman), Doug Ferris, Ian Counsell and Ashley Jennings.

Risk Committee

The primary objective of the Risk Committee is to assist the Board in fulfilling its responsibilities in respect of the Credit Union's risk management framework.

The Members of the Risk Committee as at 30 June 2020 were Peter Buckley (Chairman), Deborah Vardy, Ian Counsell and Katie Palmer.

The role of the Risk Committee is to:

- Advise the Board on the Credit Union's risk appetite and risk management strategy;
- Oversee senior management's implementation of the risk management strategy;
- Review the performance and setting the objectives of the Credit Union's Chief Risk Officer; and
- Oversee the appointment and removal of the Chief Risk Officer.

Director Nominations Committee

The primary objective of the Director Nominations Committee is to assist the Board in assessing the fitness and propriety of potential candidates for Director of the Credit Union.

The specific functions of the Committee include:

- Assessing & determining the fitness of propriety of Directors, potential Directors, the Company Secretary & senior Credit Union Executives
- Providing advice to the Board to ensure that it has the adequate skills, expertise & experience to discharge its responsibilities
- Evaluating the performance of the Board (including individual Directors) & making recommendations to the Board in this regard
- Overseeing the induction process for new Directors and reviewing the continuing education program for Directors
- Reviewing processes for selection and removal of Directors, including succession planning.

The Members of the Director Nominations Committee as at 30 June 2020 were Geoffrey Ellis, Katie Palmer and Deborah Vardy. In accordance with the Committee Charter an independent, external Chair (Geraldine Dean) has been appointed.

THE REVIEW OF CREDIT UNION POLICY

The Board recognises the importance and the dynamic nature of its policies and has implemented a program of progressive review. This will ensure a relevant and up to date policy manual is available to assist staff in the day to day interpretation of, and compliance with, Board requirements.

BOARD REMUNERATION

Directors are remunerated by fees determined by the Board within the aggregate amount approved by Members at the Annual General Meeting.

MONITORING THE BOARD’S PERFORMANCE

In order to ensure that the Board continues to discharge its responsibilities in an appropriate manner, the performance of all Directors is reviewed annually by the Chairman. In conjunction with this review, the Board undertakes an annual self-assessment and review process.

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Albury NSW 2640 Australia

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www.crowe.com.au

Auditor Independence Declaration Under S307C of the *Corporations Act 2001* to the Directors of Macarthur Credit Union Ltd

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2020 there have been no contraventions of:

1) The auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and

2) Any applicable code of professional conduct in relation to the audit.

Crowe

CROWE AUDIT AUSTRALIA

BRADLEY D BOHUN
Partner

16th September 2020
Albury

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

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

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the Year Ended 30 June 2020

	Note	2020 $	2019 $
Interest revenue calculated using the effective interest rate method	4	8,881,140	9,690,597
Interest expense	4	(2,338,880)	(2,653,515)
Net interest income		6,542,260	7,037,082
Fee and commission income	5	967,364	1,090,351
Fee and commission expenses	7	(449,105)	(536,468)
Net fee and commission income		518,259	553,883
Other income	6	217,781	152,313
(Loss) on disposal of assets		(129)	(12,863)
Operating income		7,278,171	7,730,415
Net impairment (loss)/gain on loans and receivables		(84,386)	(167,376)
Non Lending Losses		(37,642)	(80,363)
Personnel expenses	7	(3,144,413)	(3,448,907)
ATM expenses		(384,589)	(370,276)
General administration expenses		(367,768)	(366,135)
Marketing expenses		(292,762)	(324,938)
Other operating expenses		(686,147)	(800,951)
Depreciation and amortisation expenses	7	(698,766)	(502,475)
Information technology expenses		(973,812)	(942,223)
Office occupancy expense		(251,345)	(531,761)
Profit before income tax		**356,541**	**195,010**
Income tax expense	9	(111,054)	(40,899)
Profit for the year		**245,487**	**154,111**
Other comprehensive income			
Items that will not be reclassified to profit or loss		-	-
Gain on the revaluation of equity instruments at fair value through other comprehensive income, net of tax		86,432	-
Total other comprehensive income for the year		86,432	-
Total comprehensive income for the year		**331,919**	**154,111**

The statement of profit or loss and other comprehensive income is to be read in conjunction with the notes to the financial statements as set out on pages 22 to 63.

STATEMENT OF FINANCIAL POSITION

As at 30 June 2020

	Note	2020 $	2019 (1) $
Assets			
Cash and cash equivalents	10	5,679,628	8,714,772
Loans and advances to members	11(a)	181,303,582	185,035,183
Placements with ADI's	11(b)	89,216,915	55,073,928
Other financial assets	13	1,256,133	1,136,917
Property, plant and equipment	15	2,197,980	2,329,990
Right of use assets	24	602,461	-
Investment property	16	117,725	129,464
Intangibles	17	306,308	270,767
Deferred tax assets	14	69,736	156,779
Other assets	18	1,778,142	996,138
Total assets		**282,528,610**	**253,843,938**
Liabilities			
Deposits	19	254,556,739	225,869,016
Trade and other payables	20	875,494	1,724,150
Current tax payable		1,986	14,132
Lease liabilities	24	634,427	-
Provisions	21	811,277	919,872
Total liabilities		**256,879,923**	**228,527,170**
Net assets		**25,648,687**	**25,316,768**
Equity			
Reserves	22(b)	1,006,809	950,807
Retained earnings	22(a)	24,641,878	24,365,961
Total equity		**25,648,687**	**25,316,768**

The statement of financial position is to be read in conjunction with the notes to the financial statements as set out on pages 22 to 63.

(1) The Credit Union has not restated comparatives when initially applying AASB 16 Leases. The comparative information has been prepared under AASB 117 Leases.

STATEMENT OF CASH FLOWS

For the Year Ended 30 June 2020

	Note	2020 $	2019 (1) $
Cash flows from operating activities			
Interest received		8,943,489	9,912,576
Dividends received		71,351	32,336
Other cash receipts in the course of operations		159,017	1,151,841
Interest paid		(2,369,140)	(2,604,460)
Income taxes paid		(68,940)	(22,537)
Net loans funded		3,647,216	(19,817,358)
Net (decrease)/increase in deposits		28,717,983	(1,290,734)
Other cash payments in the course of operations		(7,507,963)	(6,563,770)
Net cash flows from/(used in) operating activities	**26 a)**	**31,593,013**	**(19,202,106)**
Cash flows from investing activities			
Net decrease in investments with ADI's		(34,142,993)	26,330,478
Proceeds on sale of property, plant and equipment & assets held for sale		-	2,644
Rental income from investment properties		73,557	75,068
Acquisition of shares		-	(2,000)
Acquisitions of property, plant and equipment		(300,552)	(48,139)
Acquisition of intangible assets		(45,257)	(43,094)
Net cash flows from/(used in) investing activities		**(34,415,245)**	**26,314,957**
Cash flows from financing activities			
Repayment of the lease liabilities		(212,912)	-
Net cash flows from/(used in) financing activities		**(212,912)**	**-**
Net increase/(decrease) in cash held		**(3,035,144)**	**7,112,851**
Cash at the beginning of the financial year		8,714,772	1,601,921
Cash at the end of the financial year	**26 b)**	**5,679,628**	**8,714,772**

The statement of cash flows is to be read in conjunction with the notes to the financial statements as set out on pages 22 to 63.

(1) The Credit Union has not restated comparatives when initially applying AASB 16 Leases. The comparative information has been prepared under AASB 117 Leases.

STATEMENT OF CHANGES IN EQUITY

For the Year Ended 30 June 2020

	Redeemed share capital reserve	General reserve for credit losses	Retained earnings	Fair Value Reserve	Total equity
	$	$	$	$	$
Balance at 1 July 2018	113,505	358,695	24,272,056	-	24,744,256
Changes on initial adoption of AASB 9 (Note 3)	-	-	-	418,401	418,401
Total comprehensive income for the year					
Profit after tax	-	-	154,111	-	154,111
Other comprehensive income					
Total other comprehensive income for the year	-	-	-	-	-
Total comprehensive income for the year	-	-	154,111	-	154,111
Transfer from/(to) retained profits	2,540	57,666	(60,206)	-	-
Balance at 30 June 2019 (1)	116,045	416,361	24,365,961	418,401	25,316,768
Balance at 1 July 2019	116,045	416,361	24,365,961	418,401	25,316,768
Total comprehensive income for the year					
Profit after tax	-	-	245,487	-	245,487
Other comprehensive income					
Total other comprehensive income for the year	-	-	-	86,432	86,432
Total comprehensive income for the year	-	-	245,487	86,432	331,919
Transfer from/(to) retained profits	27,865	(58,295)	30,430	-	-
Balance at 30 June 2020	143,910	358,066	24,641,878	504,833	25,648,687

The statement of changes in equity is to be read in conjunction with the notes to the financial statements as set out on pages 22 to 63.

(1) The Credit Union has not restated comparatives when initially applying AASB 16 Leases. The comparative information has been prepared under AASB 117 Leases.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2020

1. Reporting entity

Macarthur Credit Union Ltd ("the Credit Union") is a company, limited by shares, incorporated and domiciled in Australia. The address of the Credit Union's registered office is 52 Argyle St, Camden. The Credit Union is a for-profit company.

2. Basis of preparation

a) Statement of compliance

The financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards ("AASB's") adopted by the Australian Accounting Standards Board ("AASB") and the Corporations Act 2001. The financial report of the Credit Union complies with International Financial Reporting Standards (IFRS's) and interpretations adopted by the International Accounting Standards Board (IASB).

This is the first set of the annual financial statements in which *AASB 16 Leases* has been applied. Changes to significant accounting policies are described in Note 3(r).

The financial report was approved for issue by the directors on 16 September 2020.

b) Basis of measurement

The financial report was prepared on the historical cost basis, except for equity investments that are stated at their fair value.

c) Functional and presentation currency

The financial report is presented in Australian dollars, which is the Credit Union's functional currency.

d) Use of estimates and judgements

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

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods. In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in the following note:

- Note 3(h) – Impairment
- Note 24 – Estimation of the lease term and determination of the appropriate rate to discount the lease payments.

Coronavirus (COVID-19) pandemic – Judgement has been exercised in considering the impact that the Coronavirus (COVID-19) pandemic has had, or may have, on The Mac based on known information. This consideration extends to the nature of the products and services offered, members, staffing and the geographic regions in which The Mac operates. The key estimates and judgements associated with COVID-19 are detailed in Note 3(h) regarding expected credit loss on loans to members.

e) Measurement of fair values

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

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

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

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

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

f) Going Concern

The impact of the Global Pandemic and its impact on the Credit Union's operations has been the subject of close consideration in preparing these accounts. There has been a significant amount of scenario testing and forecasting undertaken to provide comfort that there is no material uncertainty in terms of the Credit Union as a "going concern". The scenario testing undertaken indicates that key metrics such as Capital Adequacy and Liquidity are able to be maintained at levels above both statutory requirements and internal benchmarks for the forecasting period.

3. Significant accounting policies

The Credit Union has consistently applied the following accounting policies to all periods presented in these financial statements.

a) Property, plant and equipment

Recognition and measurement
Items of property, plant and equipment (PPE) are measured at cost less accumulated depreciation and any accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment. When parts of an item of PPE have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

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

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

Depreciation
Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful life of each part of an item of property, plant and equipment. Land is not depreciated. The estimated useful lives in the current and comparative periods are as follows:

- Buildings 40 years
- Plant and equipment 3-7 years
- Leasehold improvements 7-10 years

The residual value, the useful life and the depreciation method applied to an asset are reviewed at least annually.

b) Investment property
Investment property is property which is held either to earn rental income or for capital appreciation or for both. Investment property is measured at cost less accumulated depreciation and any accumulated impairment losses. Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful life of each investment property. The estimated useful life for investment property in the current and comparative periods is 40 years.

c) Intangibles

Computer software

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

Amortisation is recognised in profit or loss on a straight line basis over the estimated useful life of the computer software. The estimated useful life of computer software in the current and comparative periods is 3 years. The estimated useful life of the computer software relating to the Credit Union's core banking system has been assessed at 5 years.

d) Financial assets and liabilities

Financial liabilities

The Credit Union classifies its financial liabilities, other than financial guarantees and loan commitments, as measured at amortised cost or Fair Value Through Profit or Loss (FVTPL).

Financial Assets

Classification and measurement

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

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

- 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 on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets measured at amortised cost include cash and cash equivalents, placements with ADI's, loans and advances to members and other assets.

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

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

Financial assets measured at FVOCI include equity investments.

All other financial assets are classified as measured at FVTPL.

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

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

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

Business Model Assessment

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

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

De-recognition of financial assets

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

e) Trade and other receivables

Trade and other receivables are stated at amortised cost.

f) Other assets

Other assets include prepayments to suppliers, and clearing accounts at balance date.

g) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, cash balances in the Credit Union's bank accounts and at call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Credit Union's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows. Cash and cash equivalents are measured at amortised cost using the effective interest method.

h) Impairment of financial assets

Financial assets within the scope of AASB 9 expected credit loss (ECL) requirements comprise all financial instruments measured at either amortised cost or FVOCI. These include cash, placements with ADIs and loans and advances to members. Financial assets are divided into homogeneous portfolios based on shared risk characteristics. These include mortgage loans, commercial loans, personal loans and revolving credit. The balance of commercial loans at 30 June 2020 is Nil.

For placements with ADIs, the Credit Union has applied the AASB 9 'low credit risk' exemption given their credit risk rating is equivalent to the globally understood definition of 'investment grade'.

The ECL represents the present value of expected cash shortfalls following the default of a financial instrument. A cash shortfall is the difference between the cash flows that are due in accordance with the contractual terms of the instrument and the cash flows that the Credit Union expects to receive. The allowance for ECLs is based on an assessment of the probability of default, exposure at default and loss given default, discounted at the effective interest rate to give a net present value. The estimation of ECLs is unbiased and probability weighted, taking into account all reasonable and supportable information, including forward looking economic assumptions and a range of possible outcomes. ECLs are calculated from initial recognition of the financial asset for the behavioural life of the loan.

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

Sensitivity analysis and forward looking approach

The uncertainty of the current pandemic/COVID-19 environment has created significant estimation uncertainty in terms of the measurement of the Credit Union's allowance for expected credit losses. This could potentially result in over/understatement as a result of:

- The extent/duration of measures to contain/eliminate the COVID-19 virus

- The extent/duration of any related economic downturn and subsequent recovery
- The effectiveness of continued government stimulus measures and their impact on any economic recovery.

The Credit Union has prepared a sensitivity analysis of the Expected Credit Loss model, taking into consideration the following scenarios. These have been developed using a combination of publicly available data, internal forecasting and third party information.

Base Case – prepared using reasonable and supportable information that is available without undue cost or effort. This information includes current COVID Hardship loans, current loan to valuation ratio, capacity to repay and expected default ratios. In addition, external factors such as unemployment rates and the level/continuation of government support are also considered.

Worse than Base Case – considers a deterioration of the borrower's position. I.e. increased unemployment and/or a decline in the property market.

Better than Base Case – considers an improvement in the metrics highlighted above.

The Credit Union has elected to use the base case to measure its expected credit loss allowance at 30 June 2020. This was based on an assessment of the probability of each scenario occurring.

Given current economic uncertainty and judgement applied to assumptions, the expected credit losses reported should be considered as a best estimate within a range of possibilities. The rapidly evolving COVID-19 environment could result in adjustments to the allowance over the next financial year.

Credit risk categorisation

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

<u>Stage 1: no significant increase in credit risk since initial recognition</u>

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

<u>Stage 2: significant increase in credit risk</u>

Financial assets are categorised as being within stage 2 where an instrument has experienced a significant increase in credit risk since initial recognition. For these assets, provision is made for losses from credit default events expected to occur over the lifetime of the instrument. In determining whether the risk of default has increased significantly since recognition, the Credit Union considers both quantitative and qualitative factors. These include:

- When a loan reaches 30 days past due;
- Loans with approved hardship or modified terms, including certain COVID-19 hardships.

Stage 3: credit impaired (or defaulted) loans

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

- there is evidence of significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default occurs or when a loan reaches 90 days past due;
- the restructuring of a loan or advance by the Credit Union on terms that the Credit Union would not consider otherwise;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

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

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

Transfers between stages

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

Restructured loans

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

- If the expected restructuring will not result in de-recognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset
- If the expected restructuring will result in de-recognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its de-recognition.

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

i) Impairment of non-financial assets

The carrying amount of the Credit Union's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. The recoverable amount of an asset is the greater of its fair value less costs to sell and its value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in profit or loss and other comprehensive income, unless the asset has previously been revalued, in which case the impairment loss is recognised as a reversal to the extent of that previous revaluation with any excess recognised through the income statement.

j) Provisions

Employee benefits

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

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

k) Trade and other payables

Trade and other payables are initially recognised at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these liabilities are measured at amortised cost using the effective interest method.

l) Member deposits

The Credit Union recognises member deposits on the date they are originated. Deposits are initially measured at fair value plus transaction costs, and are subsequently measured at their amortised cost using the effective interest method. Member savings and term deposits are stated at the aggregate amount of monies owing to depositors.

The Credit Union derecognises the financial liability when its contractual obligations are discharged or cancelled. Interest payable is recognised in profit or loss using the effective interest rate method. Interest on savings and term deposits is calculated on the daily balance and is posted to the members' accounts monthly or at maturity. Such interest is accrued on the basis of the interest rate, the terms and the conditions applicable to each savings and term deposit account as varied from time to time.

m) Revenue and expense recognition

Net Interest Income

Interest income and expense is recognised using the effective interest rate (EIR) method for financial assets and financial liabilities carried at amortised cost.

Fees and commissions

Fees and commission income include fees other than those that are an integral part of EIR. Fee income relating to deposit or loan accounts is either:

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

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

Dividend income

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

Government assistance

Government grants are recognised by the Credit Union when there is a reasonable assurance that:

- the Credit Union will comply with the conditions attaching to them; and
- the grants will be received.

The Credit Union presents government assistance grants received in the profit or loss, within 'other income'.

n) Rental income

Rental income from investment properties is recognised in the profit or loss on a straight-line basis over the term of the lease.

o) Leases

Policy applicable after 1 July 2019

Credit Union as a lessee

At inception of a contract, the Credit Union assesses whether a lease exists – i.e. whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Credit Union has elected to not separate non-lease components from lease components and has accounted for payments as a single component.

At the lease commencement, the Credit Union recognises a right-of-use asset and associated lease liability for the lease term. The lease term includes extension periods where the Credit Union believes it is reasonably certain that the option will be exercised.

The right-of-use asset using the cost model where cost on initial recognition comprises: the lease liability, initial direct costs, prepaid lease payments, estimated cost of removal and restoration, less any lease incentives. The right-of-use is depreciated over the lease term on a straight-line basis and assessed for impairment in accordance with the impairment of asset accounting policy.

The lease liability is initially recognised at the present value of the remaining lease payments at the commencement of the lease. The discount rate is the rate implicit in the lease, however where this cannot be readily determined then the Credit Union's incremental borrowing rate is used. Typically the Credit Union uses its incremental borrowing rate as the discount rate.

Subsequent to initial recognition, the lease liability is measured at amortised cost using the effective interest rate method. The lease liability is re-measured whether there is a lease modification, or change in estimate of the lease term or index upon which the lease payments are based (e.g. CPI).

Where the lease liability is re-measured, the right-of-use asset is adjusted to reflect the re-measurement.

The Credit Union has elected to apply the exceptions to lease accounting for both short-term leases (i.e. leases with a term of less than or equal to 12 months) and leases of low-value assets (defined by the Credit Union as $10,000). The Credit Union recognises the payments associated with these leases as an expense on a straight-line basis over the lease term.

Intangible assets such as software licences continue to be accounted for under AASB 138 Intangible Assets, regardless of whether the arrangement would otherwise meet the AASB 16 Leases definition.

Credit Union as a lessor
The lease is classified as either an operating or finance lease at inception date, based on whether substantially all of the risks and rewards incidental to ownership of the asset have been transferred to the lessee. If the risks and rewards have been transferred then the lease is classified as a finance lease, otherwise it is an operating lease.

When the Credit Union has a sub-lease over an asset and is the intermediate lessor then the head lease and sub-lease are accounted for separately. The classification of the sub-lease is based on the right-of-use asset which arises from the head lease rather than the useful life of the underlying asset.

If the lease contains lease and non-lease components then the non-lease components are accounted for in accordance with AASB 15 Revenue from Contracts with Customers. The lease income is recognised on a straight-line basis over the lease term.

Policy applicable before 1 July 2019

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

A distinction is made between finance leases, which effectively transfer from the lessor to the lessee substantially all the risks and benefits incidental to the ownership of leased assets, and operating leases, under which the lessor effectively retains substantially all such risks and benefits.

Leases are classified at their inception as either operating or finance leases based on the economic substance of the agreement so as to reflect the risks and benefits incidental to ownership.

Operating leases
Operating lease payments, net of any incentives received from the lessor, are charged to profit or loss on a straight-line basis over the term of the lease.

p) Income tax

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

Deferred tax is provided using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Temporary differences arising from the initial recognition of assets or liabilities that affect neither accounting nor taxable profit are not provided for. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

q) Goods and services tax

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

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

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 GST collection, and similarly the GST paid on related or apportioned purchases cannot be recovered. As some income is charged GST, the GST on purchases is generally recovered on a proportionate basis, using the safe harbour apportionment rate of 18% adopted per Practical Compliance Guide 2018/15 from 1 July 2018. In addition, certain prescribed purchases are subject to reduced input tax credits (RITC), of which 75% of the GST paid is recoverable.

r) New or amended accounting standards adopted

The Credit Union has adopted all of the new or amended Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period.

AASB 16 Leases

General impact of initial application
AASB 16 *Leases* replaced AASB 117 *Leases* from 1 July 2019.

AASB 16 introduces new or amended requirement with respect to lease accounting. It introduces significant changes to lessee accounting by removing the distinction between operating and finance leases and requiring the recognition of a right-of-use account and a lease liability at the lease commencement for all leases, except for short-term leases and leases of low value assets.

In contrast to lessee accounting, the requirements for lessor accounting have remained largely unchanged.

Details of these new requirements are described in Note 3(o), including the recognition exemptions to lease accounting as a lessee for low-value assets and short-term leases.

The impact of the adoption of AASB 16 on the Credit Union's financial statements is described below.

Financial impact on initial application
When adopting AASB 16, the Credit Union has applied the modified retrospective method from 1 July 2019. Therefore the comparative information has not been restated and continues to be reported under AASB 117 Leases and related Interpretations.

The impact of adoption as at 1 July 2019 on assets and liabilities is detailed below:

	Note	Original 30 June 2019 balance (under AASB 117)	Change	New 1 July 2019 balance (under AASB 16)
Right of use assets	24	-	847,339	847,339
Lease liabilities	24	-	(847,339)	(847,339)
Net Impact		-	-	-

As 1 July 2019, the Credit Union's right-of-use assets relate to leased properties used by the Credit Union as member service centres.

The Credit Union have presented right-of-use assets and the lease liabilities on the statement of financial position. They support the additional disclosure requirements introduced by AASB 16. Note 24 provides the required detail in terms of these requirements.

The application of AASB 16 has also had an impact on the statement of cash flows, as detailed below:

- Short-term lease payments and payments for leases of low-value assets are including as part of operating activities, payments to suppliers and employees;
- Cash paid for the interest portion of lease liability is included as part of operating activities; and
- Cash payments for the principal portion for lease liabilities is included as part of financing activities.

Under AASB 117, all lease payments on operating leases were presented as part of cash flows from operating activities.

The adoption of AASB 16 did not have an impact on net cash flows.

The following transition methods and practical expedients within AASB 16 were applied in adopting the standard:

- The Credit Union measured the lease liability at the present value of remaining lease payments, discounted using the Credit Union's incremental borrowing rate at the date of initial application (1 July 2019). The incremental borrowing applied at 1 July 2019 was 6.18%;
- The Credit Union recognised the right-of-use asset at an amount equal to the lease liability;
- The Credit Union applied a single discount rate to the portfolio of property leases, as they were assessed as having reasonably similar characteristics; and
- The Credit Union used hindsight in determining the lease term, when the contracts contained extension options.

In selecting which practical expedients to apply, the Credit Union has focused on reducing the complexity of implementation.

Reconciliation to previously reported operating lease commitments note

	$
Operating lease commitments note from 2019 financial statements (gross)	834,646
Add: non-lease components included within lease calculations	98,104
Less: discounting impact using 1 July 2019 incremental borrowing rate of 6.18%	(85,411)
Operating lease commitments note from 2019 financial statements (discounted)	**847,339**
Add: impact from inclusion of extension options that the Credit Union is 'reasonably certain' to exercise	-
Lease liabilities as at 1 July 2019 (under AASB 16)	**847,339**

s) New or amended accounting standards not yet mandatory

There are no new accounting standards or interpretations expected to have any significant impact on the Credit Union's financial report that are issued and not yet applicable.

4. **Interest revenue and expense**	**2020**	**2019**
Interest revenue calculated using the effective interest rate method	**$**	**$**
Financial assets measured at amortised		
Placements with ADIs	1,406,818	2,088,144
Loans and advances to members	7,474,322	7,602,453
	8,881,140	9,690,597
Interest expense		
Deposits	2,291,744	2,646,845
Interest bearing liabilities	1,955	6,670
Lease liabilities	45,181	-
	2,338,880	2,653,515
Net interest income	6,542,260	7,037,082

5. **Fee and commission income**		
ATM fees	156,876	283,973
Direct debit fees	42,594	40,958
Loan fees	86,875	86,250
Direct entry reference fees	107,079	125,280
Insurance commission	26,624	20,912
Cheque book issue fees	6,563	7,444
BPAY transaction commission	47,925	48,117
VISA card fees	202,198	211,788
VISA card commission	182,136	192,473
Other fee and commission income	108,494	73,156
	967,364	1,090,351

6. **Other income**		
Dividend income	71,351	32,336
Rental income from investment properties	73,557	75,068
Bad debts recovered	13,552	8,100
Government grant	50,000	-
Other revenue	9,321	36,809
	217,781	152,313

7. **Other expenses**		
Fee and commission expenses		
ATM fees	-	78,144
Dishonour fee expenses	5,645	5,564
VISA card fees	318,594	308,876
Other fee and commission expenses	124,866	143,884
	449,105	536,468
Personnel expenses		
Wages and salaries	2,916,039	3,023,781
Superannuation contributions	256,505	271,145
Payroll tax	96,544	136,965
Provision for employee entitlements	(124,675)	17,016
	3,144,413	3,448,907
Depreciation & amortisation expenses		
Plant and equipment	94,700	98,631
Buildings	102,122	102,123
Right of use assets	244,878	-
Leasehold improvements	117,331	119,964
Investment properties	11,739	11,740
Intangible assets	127,996	170,017
	698,766	502,475

8. Auditor's remuneration

Audit and review services	2020 $	2019 ^ $
Auditor of the Company		
Crowe		
Audit of financial statements	45,000	58,935
Other regulatory assurance services	15,000	29,215
	60,000	88,150
Other services		
Crowe		
Taxation services	6,800	10,500
	6,800	10,500
	66,800	98,650

^ KPMG were the auditors for the Credit Union in 2019

9. Income tax expense

a) Recognised in the income statement

	2020 $	2019 $
Current tax expense		
Current year	62,911	83,129
Adjustments for prior years	-	-
	62,911	83,129
Deferred tax expense		
Origination and reversal of temporary differences	54,255	(44,927)
Adjustments for prior years	(6,112)	2,697
	48,143	(42,230)
Total income tax expense in income statement	111,054	40,899

b) Reconciliation between income tax expense and profit before tax

	2020 $	2019 $
Profit before tax	356,541	195,010
Income tax using the domestic corporation tax rate	98,049	53,628
Increase/(decrease) in income tax expense due to:		
Imputation gross-up on dividends received	8,252	3,811
Non-deductible expenses	8,418	15,848
Other differences in tax treatment	46,205	(15,266)
Non assessable income	(13,750)	-
Franking credits on dividends received	(30,008)	(13,858)
(Over)/under provided in prior periods	(6,112)	(3,264)
Income tax expense	111,054	40,899

	Note	2020 $	2019 $
10. Cash and cash equivalents			
Cash on hand		552,054	537,023
Cash at bank		5,127,574	8,177,749
		5,679,628	8,714,772

	Note	2020 $	2019 $
11. Financial assets			
a) Loans and advances to members			
Overdrafts		42,294	47,765
Term loans		178,592,233	181,995,820
Loans to related parties	28	2,841,261	3,168,478
Provision for impairment	12	(172,206)	(176,880)
Total loans and advances to members		181,303,582	185,035,183
b) Placements with ADIs			
Investments placed with other ADIs		89,216,915	55,073,928
		89,216,915	55,073,928

Further details of the risks associated with financial assets and the management of those risks are contained in Note 27. Details of loans to related parties are included at Note 28.

12. Provision for Impairment - ECL

Loans and advances to members

	Stage 1 12 month ECL 2020 $	Stage 2 not credit impaired 2020 $	Stage 3 credit impaired 2020 $	Total 2020 $
2020				
Carrying amount at the beginning of the year	-	57,286	119,594	176,880
Transfers due to change in credit risk	-	(8,251)	8,251	-
Net remeasurement of loss allowance	-	(42,349)	(38,946)	(81,295)
New financial assets originated	19,780	89,240	56,660	165,680
Write Offs	-	-	(89,059)	(89,059)
Balance as at 30 June 2020	**19,780**	**95,926**	**56,500**	**172,206**
2019	**2019**	**2019**	**2019**	**2019**
Balance as at 30 June 2018	-	17,363	86,286	103,649
Change on initial applications of AASB 9	-	-	-	-
Balance as at 1 July 2018	**-**	**17,363**	**86,286**	**103,649**
Transfers during the period to:				
Net remeasurement of loss allowance	-	20,826	74,201	95,027
New financial assets originated	-	45,137	27,212	72,349
Write Offs	-	(26,040)	(68,105)	(94,145)
Balance as at 30 June 2019	**-**	**57,286**	**119,594**	**176,880**

The table above represents the reconciliation from the opening balance to the closing balance of the ECL allowance for loan and advances to members to which impairment requirements under AASB 9 apply.

The Credit Union holds a general reserve for credit losses as an additional allowance for bad debts to comply with prudential requirements. Refer to Note 22 for details of this reserve.

13. Other financial assets

	2020 $	2019 $
Other equity investments - at FVOCI	1,256,133	1,136,917
	1,256,133	1,136,917

14. Tax assets and liabilities

Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	2020 $	2019 $
Deferred tax assets		
Provisions	246,180	282,776
Accruals	36,661	46,871
Right of use asset (net of lease liability)	8,791	-
Other	21,625	23,910
Total deferred tax assets	313,257	353,557
Deferred tax liabilities		
Property, plant & equipment	(39,265)	(34,750)
Other financial assets - shares	(192,038)	(158,704)
Other	(12,218)	(3,324)
Total deferred tax liabilities	(243,521)	(196,778)
Net deferred tax assets	69,736	156,779

15. Property, plant and equipment

	2020 $	2019 $
Freehold land and buildings		
Freehold land-at cost	357,107	357,107
Buildings on freehold land-at cost	2,952,938	2,952,938
Provision for depreciation	(1,843,034)	(1,740,912)
	1,467,011	1,569,133
Leasehold improvements		
At cost	705,822	705,822
Provision for depreciation	(479,738)	(362,407)
	226,084	343,415
Plant and equipment		
At cost	1,301,008	1,371,038
Provision for depreciation	(1,002,468)	(953,596)
	298,540	417,442
Capital work in progress at cost	206,345	-
Total property, plant and equipment		
At cost	5,523,220	5,386,905
Provision for depreciation	(3,325,240)	(3,056,915)
	2,197,980	2,329,990

The Credit Union's Camden and Picton properties were valued as at 30 June 2020 by an independent valuer. The value has been assessed at $8.35m.

Reconciliations of the carrying amount for each class of property, plant and equipment are set out below:

2020	Freehold land and buildings	Leasehold improvements	Plant and equipment	Capital work in progress	Total
	$	$	$	$	$
Carrying amount at the beginning of the year	1,569,133	343,415	417,442	-	2,329,990
Additions	-	-	111,519	206,345	317,864
Transfer in/(out)	-	-	(135,592)	-	(135,592)
Disposals	-	-	(129)	-	(129)
Depreciation	(102,122)	(117,331)	(94,700)	-	(314,153)
Carrying amount at the end of the year	1,467,011	226,084	298,540	206,345	2,197,980

2019	Freehold land and buildings	Leasehold improvements	Plant and equipment	Total
	$	$	$	$
Carrying amount at the beginning of the year	1,671,256	475,326	514,891	2,661,473
Additions	-	-	48,139	48,139
Transfer in/(out)	-	-	(43,399)	(43,399)
Disposals	-	(11,947)	(3,558)	(15,505)
Depreciation	(102,123)	(119,964)	(98,631)	(320,718)
Carrying amount at the end of the year	1,569,133	343,415	417,442	2,329,990

	2020	2019
16. Investment property	**$**	**$**
Investment property-at cost	201,112	201,112
Provision for depreciation	(83,387)	(71,648)
	117,725	129,464

A reconciliation of the carrying amount of investment property is set out below:

Carrying amount at the beginning of the year	129,464	141,204
Depreciation	(11,739)	(11,740)
Carrying amount at the end of the year	117,725	129,464

Refer to Note 24(b) for further details of leasing activities for these investment properties.

17. Intangibles

Computer software-at cost	1,237,160	1,316,953
Provision for amortisation	(1,049,132)	(1,046,186)
Intangible Assets	188,028	270,767
Work in progress	118,280	-
Total Intangible Assets	306,308	270,767

A reconciliation of the carrying amount of intangible assets is set out below:

Carrying amount at the beginning of the year	270,767	354,291
Additions	27,945	43,094
Transfer in/(out)	135,592	43,399
Amortisation	(127,996)	(170,017)
Carrying amount at year end	306,308	270,767

		2020	2019
18. Other assets		**$**	**$**
Interest & fees receivable		205,829	268,178
Prepayments		294,883	331,755
Other (including member clearing accounts)		1,277,430	396,205
		1,778,142	996,138
19. Deposits			
Call deposits		159,834,629	142,146,363
Term deposits		94,438,990	83,409,273
Accrued interest payable		283,120	313,380
		254,556,739	225,869,016
20. Trade and other payables			
Trade creditors		187,993	264,675
Sundry creditors (including member clearing accounts)		687,501	1,459,475
		875,494	1,724,150
21. Provisions			
Employee benefits			
Annual leave		218,745	230,837
Long service leave-current		404,093	535,682
Long service leave-non current		103,884	84,878
		726,722	851,397
Other Provisions			
Make Good Provision			
Carrying amount at the beginning of the year		68,475	48,375
Provisions made during the year		16,080	20,100
Provisions used during the year		-	-
Carrying amount at year end		84,555	68,475
Total Provisions		811,277	919,872
22. Equity			
a) Retained earnings			
Balance at the beginning of the year		24,365,961	24,272,056
Profit for the year		245,487	154,111
Transfer to redeemed share capital account	22b(i)	(27,865)	(2,540)
Transfer (to)/from general reserve for credit losses	22b(ii)	58,295	(57,666)
Balance at the end of the year		24,641,878	24,365,961
b) Reserves			
Redeemed share capital account	22b(i)	143,910	116,045
General reserve for credit losses	22b(ii)	358,066	416,361
Fair value reserve	22b(iii)	504,833	418,401
		1,006,809	950,807
(i) Redeemed share capital account			
Balance at the beginning of the year		116,045	113,505
Member shares redeemed during year		27,865	2,540
Balance at the end of the year		143,910	116,045

The redeemed share capital account represents the value of member shares redeemed during the year. As the member shares are redeemable preference shares, the Corporations Act 2001 requires that any redemptions are made from retained earnings.

		2020	2019
(ii)	**General reserve for credit losses**	**$**	**$**
	Balance at the beginning and end of the year	416,361	358,695
	Transfer from/(to) retained profits	(58,295)	57,666
	Balance at the end of the year	358,066	416,361

The general reserve for credit losses contains an additional allowance for impairment, above that calculated in accordance with Note 12. The general reserve for credit losses together with the amounts calculated in accordance with Note 12 are held to comply with prudential requirements.

(iii)	**Fair value reserve**		
	Balance at the beginning of the year	418,401	-
	Add: increase on revaluation of investment (Shares)	119,216	577,105
	Less: deferred tax thereon	(32,784)	(158,704)
	Balance at the end of the year	504,833	418,401

23. Contingencies

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 Members. The Credit Union uses the same credit policies and assessment criteria in making commitments and conditional obligations for these risks as it does for ordinary loans and advances.

Guarantees	665,080	538,536

Financial guarantees written are conditional commitments issued by the Credit Union to guarantee the performance of a Member to a third party. The Credit Union holds security over all guarantees issued.

24. Leases

The Credit Union has applied AASB 16 *Leases* using the modified retrospective (cumulative catch -up) method from 1 July 2019, and therefore the comparative information has not been restated and continues to be reported under AASB 117 *Leases* and related Interpretations.

(a) Credit Union as a lessee

Nature of the leasing activities

The Credit Union leases properties in Tahmoor and Narellan, which are used as member service centres, and photocopiers (which have applied the low value asset exemption).

Terms and conditions of leases

Both leases had an initial term of 5 years, with one also including an extension option of 5 years – which was exercised during the 2020 financial year. Both leases have an annual pricing mechanism based on a fixed rate increase on each anniversary. There are no non-index (i.e. CPI) related variable lease payments associated with these property leases.

There are no leases not yet commenced to which the lessee is committed.

Right-of-use assets

	2020
	$
As cost	847,339
Accumulated depreciation	(244,878)
Balance at end of the year	602,461

Reconciliation of the carrying amount of each class of right of use assets is set out below:

	Land and buildings	**Total**
	$	**$**
Balance at 1 July 2019	847,339	847,339
Depreciation charge	(244,878)	(244,878)
Balance at 30 June 2020	602,461	602,461

Lease liabilities

	2020
Current	**$**
Not later than 1 year	235,559
Non-current	
Later than 1 year	398,868
Total	634,427

The maturity analysis of lease liabilities based on contractual undiscounted cash flows is shown in the table below:

	2020
	$
Not later than 1 year	267,325
Later than 1 year and not later than 5 years	438,092
Total	705,417

The Credit Union does not face a significant liquidity risk with regards to its lease liabilities. Lease liabilities are monitored within the Credit Union's finance function.

Extension options

A number of the building leases contain extension options which allow the Credit Union to extend the lease term by beyond the non-cancellable period. These options are detailed earlier.

The Credit Union includes options in the leases to provide flexibility and certainty to the Credit Union operations and reduce costs of moving premises, and the extension options are at the Credit Union's discretion.

At commencement date and each subsequent reporting date, the Credit Union assesses where it is reasonably certain that the extension options will be exercised.

There is no potential future lease payments not included in the lease liabilities, as the Credit Union has no unexercised option periods remaining on leases at 30 June 2020.

Income statement

The amounts recognised in the Statement of Profit or Loss and Other Comprehensive Income relating to leases where the Credit Union is a lessee are shown below:

	2020
	$
Interest expense on lease liabilities	45,181
Rental expense relating to low value assets	13,310
	58,491

Statement of cash flows

	2020
	$
Total cash outflow for leases	258,092

Exemptions applied

The Credit Union has applied the exemptions relating to short-term leases and leases of low-value assets, as described at Note 3(o).

As at 30 June 2020, the Credit Union has no commitment for short-term leases.

Key assumptions used in calculations

The calculation of the right-of-use assets and lease liabilities are dependent on the following critical accounting judgements:

Assessment of lease term – as discussed above, this considers consideration of extension options on a lease by lease basis.

Determination of the appropriate rate to discount the lease payments – The Credit Union has used its incremental borrowing rate, as the rate implicit in the leases is not known. The Credit Union's assessed incremental borrowing rate as at 1 July 2019 on adoption was 6.18%. This was determined based on consideration of reference rates for commercial lending, lease term and a lease specific adjustment considering the 'secured borrowing' element of the leases.

(b) Credit Union as a lessor

OPERATING LEASES

Nature of the leasing activities

The Credit Union receives rental income from various tenants who lease a portion of the land and buildings owned by the Credit Union in Camden. These leases have been classified as operating leases for financial reporting purposes and the assets are included as investment properties in the Statement of Financial Position (refer Note 16).

Terms and conditions of leases

These operating lease contracts contain extension options at the right of the lessee. All contracts contain market review clauses in the event that the lessee exercises its options to renew. The lessee does not have an option to purchase the property at the expiry of the lease period.

The Credit Union manages the risk associated with the underlying investment property via appropriate insurance coverage and use of real estate agents where appropriate.

Income statement

The amounts recognised in the Statement of Profit or Loss and Other Comprehensive Income relating to operating leases where the Credit Union is a lessor (i.e. investment properties) are shown below:

	2020	**2019**
	$	**$**
Lease/rental income (excluding variable lease payments not dependent on an index or rate	73,557	75,068
Total lease/rental income relating to investment properties	73,557	75,068
Direct operating expenses (including repairs & maintenance) arising from investment property that generated rental income during the period	11,739	11,739
Total direct operating expenses relating to investment properties	11,739	11,739

Maturity analysis of lease payments receivable showing the undiscounted lease payments to be received after reporting date for operating leases:

	2020	**2019**
	$	**$**
< 1 year	36,159	17,589
1 - 2 years	17,637	17,637
2 - 3 years	17,637	17,637
3 - 4 years	17,637	17,637
4 - 5 years	17,637	17,637
> 5 years	4,409	-
Total undiscounted lease payments receivable	**111,116**	**88,137**

Finance Leases

Nature of the leasing activities

The Credit Union is not the lessor in any arrangements assessed as a finance lease.

25. Commitments

	2020	2019
a) Outstanding loan commitments	**$**	**$**
Loans approved but not yet funded	1,262,140	4,402,405
b) Loan redraw facilities		
Undrawn value of redraw facilities	23,494,917	22,973,677

c) Industry support contract

The Credit Union is a member of the Credit Union Financial Support System ("CUFSS"), a company limited by guarantee to provide member Credit Unions with financial support in the event of any of them experiencing liquidity or capital adequacy difficulties. The significant conditions of participation are:

- The Credit Union has executed an equitable charge in favour of CUSCAL; and
- The Credit Union has deposited 3% of its total assets as deposits with CUSCAL.

There is a cap on the amount a member Credit Union would be required to contribute to the provision of a loan facility in the event of a Credit Union requiring assistance. The cap is equal to 3% of the contributing Credit Union's total assets.

26. Statement of cash flows

	2020	2019
	$	**$**
a) Reconciliation of cash flows from operating activities		
Profit after tax	245,487	154,111
Adjustments for:		
Loss on disposal of property, plant & equipment	129	12,863
Depreciation and amortisation	698,766	502,475
Impairment loss on loans and receivables	84,385	207,250
Rental income	(73,557)	(75,068)
Net cash from operating activities before changes in assets and liabilities	955,210	801,631
Net decrease/(increase) loans funded	3,647,216	(19,817,358)
Movement in interest receivable	62,349	221,979
Movement in other receivables	(881,219)	16,580
Movement in prepayments	36,872	32,861
Movement in current tax assets/(liabilities)	-	14,132
Movement in net deferred tax assets	42,113	4,230
Net increase/(decrease) in deposits	28,717,983	(1,290,734)
Movement in accrued interest payable	(30,260)	49,055
Movement in trade creditors	(60,602)	28,095
Movement in sundry creditors	(771,974)	720,407
Movement in employee benefits	(124,675)	17,016
Net cash (used in) operating activities	**31,593,013**	**(19,202,106)**
b) Reconciliation of cash and cash equivalents		
Cash and cash equivalents comprises:		
Cash on hand and at bank	**5,679,628**	**8,714,772**

Bank overdraft facility

The Credit Union has access to an overdraft facility provided by Cuscal Limited to the extent of $2,000,000 (2019: $2,000,000) and incurs an interest rate of 4% (2019: 5%). This overdraft facility is secured by a Cash Deposit. As at 30 June 2020, the facility was unused (2019: facility was unused).

27. Financial risk management

Introduction and overview

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

- credit risk
- liquidity risk
- market risk

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

Risk management framework

The Board of directors has an overall responsibility for the establishment and oversight of the Credit Union's risk management framework. The Board has established the Executive, Audit, Risk and Governance committees which are responsible for developing and monitoring the Credit Union's risk management policies. These Board committees report regularly to the Board of directors on their activities.

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

The Credit Union's Executive, Audit, Risk and Governance committees are responsible for monitoring compliance with the Credit Union's risk management policies and procedures, and reviewing the adequacy of the risk management framework in relation to the risks faced by the Credit Union. The Executive, Audit, Risk and Governance committees are assisted in these functions by the Chief Risk Officer and outsourced internal audit. Internal audit undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

a) Credit risk

Credit risk is the risk of financial loss to the Credit Union if a member or counterparty to the financial instrument fails to meet its contractual obligations, and arises principally from the Credit Union's loans and other receivables to members and deposits with other authorised deposit-taking institutions.

The Credit Union has established a credit risk management system incorporating methodologies with respect to monitoring and grading credit quality, measuring asset impairment, valuing security and provisioning.

Management of credit risk

The Board of Directors has delegated responsibility for the management of credit risk to the CEO. The Regional Lending Manager, reporting to the Chief Operating Officer (COO), is responsible for oversight of the Credit Union's credit risk, including:

- Formulation of credit policies covering collateral requirements, credit assessment risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements.
- Establishing delegation structures for the approval of loans. Delegation limits are allocated to the Regional Managers and Branch Managers. Larger loans require the approval of the CEO or the Board of Directors as appropriate.
- In reviewing credit risk a member's character and capacity to service the loan commitment is assessed.
- Compliance reviews are undertaken by the Credit Control staff in conjunction with the Credit Union's Chief Risk Officer. The reviews centre on compliance with the Credit Union's Policies and Procedures, specifically the assessment of loan serviceability.

Exposure to credit risk

The carrying amount of the Credit Union's financial assets represents the maximum credit exposure. The following table summarises the exposure to credit risk under AASB 9 at 30 June 2020:

	Loans and advances to members 2020 $	Placements with ADI's 2020 $	Cash and cash equivalents 2020 $
Carrying Amount	**181,303,582**	**89,216,915**	**5,679,628**
Stage 1: no significant increase in credit risk since initial recognition			
Secured by mortgage - current	171,214,995	-	-
Secured by mortgage - less than or equal to 30 days in arrears	-	-	-
Investment grade	-	67,612,032	5,679,628
Unrated	-	21,604,883	-
Other	7,963,693	-	-
Net deferred income and expenses	-	-	-
Carrying amount	179,178,688	89,216,915	5,679,628
Stage 2: significant increase in credit risk			
Secured by mortgage	1,836,652	-	-
Other	219,078	-	-
Carrying Amount	2,055,730	-	-
Stage 3: credit impaired (or defaulted) loans			
Secured by mortgage	174,850	-	-
Other	66,520	-	-
Carrying Amount	241,370	-	-
Expected credit loss	(172,206)	-	-
Total carrying amount	**181,303,582**	**89,216,915**	**5,679,628**

For a definition of Stage 1, 2 & 3 refer to Note 3(h)

Exposure to credit risk (continued)

The carrying amount of the Credit Union's financial assets represents the maximum credit exposure. The following table summarises the exposure to credit risk under AASB 9 at 30 June 2019:

	Loans and advances to members 2019 $	**Placements with ADI's 2019 $**	**Cash and cash equivalents 2019 $**
Carrying Amount	**185,035,183**	**55,073,928**	**8,714,772**
Stage 1: no significant increase in credit risk since initial recognition			
Secured by mortgage - current	172,134,762	-	-
Secured by mortgage - less than or equal to 30 days in arrears	-	-	-
Investment grade	-	42,962,947	8,714,772
Unrated	-	12,110,981	-
Other	10,340,470	-	-
Net deferred income and expenses	-	-	-
Carrying amount	182,475,232	55,073,928	8,714,772
Stage 2: significant increase in credit risk			
Secured by mortgage	32,181	-	-
Other	2,412,032	-	-
Carrying Amount	2,444,213	-	-
Stage 3: credit impaired (or defaulted) loans			
Secured by mortgage	-	-	-
Other	292,618	-	-
Carrying Amount	292,618	-	-
Expected credit loss	(176,880)	-	-
Total carrying amount	**185,035,183**	**55,073,928**	**8,714,772**

Impaired loans

Impaired loans are loans for which the Credit Union determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan agreement.

Past due loans but not impaired loans

Loans where contractual interest or principal payments are past due but the Credit Union believes that impairment is not appropriate on the basis of the level of security/collateral available and/or the stage of collection of amounts owed to the Credit Union.

Loans with renegotiated terms

Restructured loans have renegotiated terms due to deterioration in the borrower's financial position and where the Credit Union has made concessions outside of its normal policies and procedures. Once the loan has been restructured it remains in this category independent of satisfactory performance after restructuring.

Provision for impairment

The Credit Union establishes a provision for impairment losses that represents its estimate of incurred losses in its loan portfolio. The main components of this provision are a specific provision that relates to individually significant exposures subject to individual assessment for impairment, and a collective provision established for groups of homogeneous assets in respect of losses that have been incurred but have not been identified on loans that are not subject to individual assessment for impairment.

When a loan is classified as impaired, the Credit Union has become aware of a specific event that gives rise to potential impairment. Generally, this event would be one such as a declaration of bankruptcy or other notification from a member confirming financial difficulty. It is considered that all loans with arrears greater than 30 days demonstrate evidence of potential impairment. On this basis, a percentage of the outstanding balance is provided for as the collective provision for impairment.

Write off policy

The Credit Union writes off a loan balance (and any related allowances for impairment losses) when the loans are determined to be uncollectible. This determination is reached after consideration of information such as the occurrence of significant changes in the borrowers' financial position such that the borrower can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure.

Collateral and other credit enhancements

The Credit Union holds collateral against loans and advances to members in the form of mortgage interests over property, other registered securities over assets, and guarantees. Mortgage insurance contracts are entered into in order to manage the credit risk around the residential loan mortgage portfolio. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired.

An estimate of the fair value of collateral and other security enhancements held against financial assets is shown below:

	2020	2019
Against Individually impaired:	$	$
Property value	-	-
Against past due but not impaired:		
Property value	2,882,698	7,082,387
Other	-	-
Total	2,882,698	7,082,387

Repossessed collateral

In the event of member default on a mortgage facility, any loan security is usually held as mortgagee in possession and therefore the Credit Union does not usually hold any real estate or other assets acquired through the enforcement of security.

The Credit Union did not take possession of any property assets during the year (2019: $Nil).

Concentration of loans and other receivables

The Credit Union's maximum single exposure to an individual or groupings of individual loans should be no more than 10% of capital. Within the Credit Union's investment portfolio, the maximum capital exposure to any one Bank, rated Authorised Deposit-taking Institution (ADI), unrated Mutual ADI, and their related counterparties, is based on the long term rating published by the relevant ratings agency as follows:

- AA 50%
- A 40%
- BBB 30%
- Unrated 20%

The Credit Union operates predominantly in the finance industry within the Macarthur region of New South Wales.

b) Liquidity risk

Liquidity risk is recognised by the Credit Union as the risk associated with having difficulty in meeting financial obligations as they fall due.

Management of liquidity risk

Liquidity risk is managed by regular monitoring of the volatility and maturity structure of the deposits and loans portfolios and identifying other risks, such as concentration within the deposits and loans portfolios, and maintaining a forward commitments register. The Credit Union reviews on a daily basis the liquidity profile of its financial assets and liabilities, and details of other projected cash flows arising from projected future business. A portfolio of short term liquid assets is maintained, comprising of short term liquid investment securities. The Credit Union's liquidity position is reviewed on both a daily and weekly basis. Reporting to the Board is undertaken on a monthly basis.

Exposure to liquidity risk

The key measure used by the Credit Union for managing liquidity risk is the Minimum Liquidity Holdings (MLH) ratio as prescribed by the Credit Union's prudential regulator, the Australian Prudential Regulation Authority (APRA). This ratio measures the total of liquid assets as a percentage of the Credit Union's liability base. The Credit Union is to maintain a minimum 9% of total adjusted liabilities as liquid assets capable of being converted to cash within two business days.

Details of the Credit Union's MLH ratio at balance date and during the reporting period are as follows:

	2020	**2019**
As at 30 June	23.83%	17.60%
Average liquidity for the year	20.29%	20.61%
Minimum liquidity during the year	17.84%	17.47%
Maximum liquidity during the year	23.83%	23.38%

The Credit Union has a minimum internal MLH ratio limit of 15%.

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

2020	Carrying amount $	Gross nominal (outflow)/ inflow $	Less than 1 month $	1 to 3 months $	3 months to 1 year $	1 to 5 years $
Financial Liabilities						
Deposits	254,556,739	(255,424,041)	(182,927,788)	(41,082,153)	(27,287,901)	(4,126,199)
Trade and other payables	875,494	(875,494)	(875,494)	-	-	-
	255,432,233	(256,299,535)	(183,803,282)	(41,082,153)	(27,287,901)	(4,126,199)
Unrecognised loan commitments	1,262,140	(1,262,140)	(1,262,140)	-	-	-
Total financial liabilities	256,694,373	(257,561,675)	(185,065,422)	(41,082,153)	(27,287,901)	(4,126,199)

2019	Carrying amount $	Gross nominal (outflow)/ inflow $	Less than 1 month $	1 to 3 months $	3 months to 1 year $	1 to 5 years $
Financial Liabilities						
Deposits	225,869,016	(227,283,277)	(164,086,180)	(32,310,257)	(29,463,570)	(1,423,270)
Trade and other payables	1,724,150	(1,724,150)	(1,724,150)	-	-	-
	227,593,166	(229,007,427)	(165,810,330)	(32,310,257)	(29,463,570)	(1,423,270)
Unrecognised loan commitments	4,402,405	(4,402,405)	(4,402,405)	-	-	-
Total financial liabilities	231,995,571	(233,409,832)	(170,212,735)	(32,310,257)	(29,463,570)	(1,423,270)

The previous table shows the undiscounted cash flows on the Credit Union's financial liabilities on the basis of their earliest possible contractual maturity. The Credit Union's expected cash flows on these instruments vary significantly from this analysis. For example, at call deposits from members are expected to maintain a stable or increasing balance and unrecognised loan commitments are not expected to be drawn down immediately. The gross nominal inflow/(outflow) disclosed in the previous table is the contractual, undiscounted cash flow on the financial liability.

c) Market risk

Market risk is the risk that changes in market prices, such as interest rates and equity prices will affect the Credit Union's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

Management of market risk

The Credit Union has exposure to non traded interest rate risk generated by banking products such as loans and deposits. The Credit Union does not operate a trading book. Overall authority for the management of market risk is vested in the Audit Committee. The Audit Committee is responsible for the development of detailed risk management policies and for the review of their implementation.

Exposure to interest rate risk

The principal risk to which the Credit Union is exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instruments because of a change in market interest rates. Interest rate risk is managed principally through monitoring gaps in the maturity profiles of interest rate sensitive assets and liabilities.

In preparing and managing these maturity profiles, it is assumed that the contractual maturity period of assets and liabilities equates to their actual repricing.

The day to day monitoring of these gaps is undertaken by senior management, with the results of this monitoring reported to the Board of Directors on a monthly basis.

The Credit Union's potential exposure to movements in interest rates is measured as the cumulative gap in maturity time brackets as a percentage of pre-tax profit. This measures the impact of a 2% movement (either upwards or downwards) in market interest rates. At 30 June 2020, the exposure was $24,019 (2019 $137,337). This exposure reflects the potential impact on the Credit Union's annual profit.

The Credit Union uses Value At Risk (VAR) as its measure of interest rate risk exposure. A summary of the gap position of the Credit Union's banking book, expressed as a percentage of regulatory capital, as at 30 June 2020:

	2020	2019
As at 30 June	0.10%	0.58%

In addition, the Credit Union uses a wide range of stress tests to model the financial impact of a variety of exceptional market scenarios on the banking book.

d) Fair value

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

Fair values have been determined for measurement and/or disclosure purposes based on the following methods:

Financial instruments carried at fair value

- Financial instruments classified as FVOCI are measured at fair value by reference to quoted market prices where available. If quoted market prices are not available, then fair values are estimated based on pricing models or other recognised valuation techniques.

Financial instruments carried at amortised cost

- The fair values of liquid assets and other assets maturing within 12 months approximate their carrying amounts. This assumption is applied to liquid assets and the short-term elements of all other financial assets and financial liabilities.
- The fair value of at call deposits with no specific maturity is approximately their carrying amount as they are short term in nature or are payable on demand.
- The fair value of term deposits at amortised cost is estimated by reference to current market rates offered on similar deposits.
- The fair value of variable rate financial instruments, including loan assets and liabilities carried at amortised cost are approximated by their carrying value. In the case of loan assets held at amortised cost, changes in the fair value do not reflect changes in credit quality, as the impact of credit risk is largely recognised separately by deducting the amount of an allowance for credit losses.
- The fair value of fixed rate loans at amortised cost is estimated by reference to current market rates offered on similar loans.

Fair value hierarchy

The following tables show the fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy. It does not include fair value information for financial assets and liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

30 June 2020	Note	Carrying Amount	Level 1 $	Level 2 $	Level 3 $
Financial assets measured at FVOCI					
Equity investments	13	1,256,133	-	-	1,256,133
		1,256,133	**-**	**-**	**1,256,133**
Financial assets measured at amortised cost					
Loans and advances to members	11(a)	181,303,582	-	-	181,827,373
		181,303,582	**-**	**-**	**181,827,373**
Financial liabilities measured at amortised cost					
Deposits	19	254,556,739	-	254,437,882	-
		254,556,739	**-**	**254,437,882**	**-**

30 June 2019	Note	Carrying Amount	Level 1 $	Level 2 $	Level 3 $
Financial assets measured at FVOCI					
Equity investments	13	1,136,917	-		1,136,917
		1,136,917	**-**	**-**	**1,136,917**
Financial assets measured at amortised cost					
Loans and advances to members	11(a)	185,035,183	-	-	184,997,709
		185,035,183	**-**	**-**	**184,997,709**
Financial liabilities measured at amortised cost					
Deposits	19	225,869,016	-	225,833,705	-
		225,869,016	**-**	**225,833,705**	**-**

Valuation techniques

Deposits and loans are valued by means of a discounted cash flow model which considers the present value of future cash flow. The discount factors are derived from the term structure of interest rates corresponding to the term of the cash flow being present valued. A yield curve is constructed from benchmark market rates. For fixed rate mortgages cash flows are adjusted for the effect of principal prepayment.

Equity investments classified as FVOCI are valued with reference to recent market transaction prices where available, where not available a range of high level values were determined using various valuation methodologies based on underlying cash flow assumptions for these entities.

Interest rates used for determining fair value

The interest rates used to discount estimated cash flows, when applicable, are based on current market rates at the reporting date which incorporate an appropriate credit spread, and were as follows:

	2020	2019
Loans to members	2.69% - 4.68%	3.64% - 4.94%
Deposits	0.80%	1.85% - 2.20%

e) Capital management - regulatory capital

The Credit Union's regulator, the Australian Prudential Regulation Authority (APRA) sets and monitors capital requirements for the Credit Union. The Credit Union reports to APRA under Basel II capital requirements and has adopted the standardised approach for credit risk and operational risk.

In implementing current capital requirements APRA requires the Credit Union to maintain a prescribed ratio of total capital to total risk weighted assets.

The Credit Union's regulatory capital is analysed in two tiers:

- Tier 1 capital, which includes ordinary share capital, general reserves and retained earnings, and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes.
- Tier 2 capital, which includes qualifying subordinated liabilities, collective impairment allowances and the element of the fair value reserve relating to unrealised gains on readily marketable securities classified as available for sale.

Risk weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and off balance sheet exposures. The Credit Union's policy is to maintain a strong capital base so as to maintain member, creditor and market confidence and to sustain future development of the business. The Credit Union has complied with all externally imposed capital requirements throughout the period.

There have been no material changes in the Credit Union's management of capital during the period.

APRA has set a prudential capital requirement (PCR) for each Approved Deposit-Taking Institution (ADI) which must be met at all times. Subject to the minimum capital requirements of 8%, PCR's are set at a level proportional to each ADI's overall risk profile. A key principle of APRA's capital management framework is that ADI's should have a process for assessing their overall capital adequacy in relation to their risk profile and strategy for maintaining capital levels. This process is referred to as the Internal Capital Adequacy Assessment Process (ICAAP).

The Credit Union's regulatory capital position at 30 June was as follows:

	2020	2019
Common Equity Tier 1 capital	**$**	**$**
Retained earnings	25,290,621	24,900,407
Regulatory adjustments to Common Equity Tier 1 Capital	(1,481,724)	(1,521,818)
Total Common Equity Tier 1 Capital	23,808,897	23,378,589
Tier 2 capital		
General reserve for credit losses	358,066	416,361
Regulatory adjustments to Tier 2 Capital	-	-
Total Tier 2 capital	358,066	416,361
Total capital base	24,166,963	23,794,950
Risk weighted assets	128,914,775	118,825,053
of which:		
Credit Risk	113,402,955	103,649,917
Operational Risk	15,511,820	15,175,136
Capital ratios		
Capital Adequacy Ratio	18.75%	20.03%
Tier 1 capital ratio	18.47%	19.67%

28. Related parties

The following were key management personnel of the Credit Union at any time during the reporting period, and unless otherwise indicated were key management personnel for the entire period:

Non-executive directors

- Geoffrey Ellis
- Deborah Vardy
- Katie Palmer
- Doug Ferris
- Peter Buckley
- Ian Counsell (Appointed 8 October 2019)
- Ashley Jennings (Appointed 8 January 2020)
- Glenn Becker (Resigned 22 July 2019)
- Lloyd Pollard (Resigned 12 December 2019)

Executives

- David Cadden (CEO)
- Paul Brooks (CFO)
- Rebecca Brookes (COO)
- Craig Oliver (CRO)

Remuneration of key management personnel ("KMP")

The aggregate compensation of KMP comprises amounts paid, payable or provided for during the year. These amounts are as follows:

	2020	2019
	$	$
Short term employee benefits	881,979	732,938
Post employment benefits- Superannuation contributions	81,465	67,785
Other long term benefits	16,342	(2,900)
Total	979,786	797,823

Remuneration shown as "Short term employee benefits" in the above table is defined as cash salaries, paid annual leave and movements in annual leave provision. All remuneration to directors was approved by the members at the previous Annual General Meeting of the Credit Union.

Loans to key management personnel

	2020	2019
	$	$
The aggregate value of loans to KMP at balance date amounted to:	2,841,261	3,168,478
The aggregate value of loans disbursed to KMP during the year amounted to:	896,958	2,178,867
Interest and fees earned on loans to KMP	126,893	139,204
Less: KMP loan balance at date of resignation or restructure ^	193,666	356,525
Repayments during the year	1,157,403	1,567,755

^ Movement is due to a director(s) retiring and/or staff member re-classified as KMP during the year

The Credit Union's policy for lending to directors is that all loans are approved on the same terms and conditions that apply to members.

There are no benefits or concessional terms and conditions applicable to related parties of KMP. There are no loans to related parties which are impaired.

29. Economic dependency

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

Credit Union Services Corporation (Australia) Limited ("CUSCAL")

CUSCAL supplies the Credit Union with rights to member cheques, access cards and provides services in the form of settlement with bankers for member cheques, EFT, visa card transactions and the production of access cards for use by members. It also provides central banking facilities to the Credit Union.

In addition, CUSCAL operates the switching computer used to link access cards operated through the RediATM network and other approved ATM and EFT suppliers to the Credit Union's IT systems.

TransAction Solutions Pty Limited ("TAS")

TAS provides computing services to the Credit Union. 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.

Service Contracts

All service contracts are capable of being cancelled within 12 months.

30. Subsequent Events

The Coronavirus (COVID-19) was declared a world-wide pandemic by the World Health Organisation in March 2020. COVID-19, as well as measures to slow the spread of the virus, have since had an impact on the Australian and local economy.

As at the date of preparation of these financial statements the impact of the Coronavirus (COVID-19) pandemic is ongoing and the situation is rapidly changing and developing. The speed and recovery of economic activity is largely dependent on measures imposed by the Australian Government, such as maintaining social distancing requirements, quarantine, travel restrictions and any economic stimulus that may be provided.

Given the dynamic and evolving nature of COVID-19, limited recent experience of the economic and financial impacts of such a pandemic on the preparation of these financial statements, changes to the estimates and judgements that have been applied in the measurement of assets and liabilities may arise in the future. Other than adjusting events that provide evidence of conditions that existed at the end of the reporting period, the impact of events that arise after the reporting period will be accounted for in future reporting periods.

Other than the above, there has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the Directors, to affect significantly the operations of the Credit Union, the results of those operations, or the state of affairs of the Credit Union in subsequent financial years.

DIRECTORS' DECLARATION

1 In the opinion of the directors of Macarthur Credit Union Limited ('the Credit Union'):

(a) the financial statements and notes that are set out on pages 18 to 63 are in accordance with the Corporations Act 2001, including:

(i) giving a true and fair view of the Credit Union's financial position as at 30 June 2020 and of its performance, for the financial year ended on that date; and

(ii) complying with Australian Accounting Standards and the Corporations Regulations 2001; and

(b) 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.

2 The directors draw attention to Note 2 (a) which includes a statement of compliance with International Financial Reporting Standards.

Signed in accordance with a resolution of the directors:

Geoffrey Ellis	Katie Palmer
Chairman of Board of Directors	Chairman of Audit Committee

Dated at Camden this 16th September 2020.

Crowe Audit Australia
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Macarthur Credit Union Ltd

Independent Auditor's Report to the Members of Macarthur Credit Union Ltd

Opinion

We have audited the financial report of Macarthur Credit Union Ltd ('the Credit Union'), which comprises the statement of financial position as at 30 June 2020, the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying financial report of Macarthur Credit Union Ltd is in accordance with the *Corporations Act 2001*, including:

(a) giving a true and fair view of the Credit Union's financial position as at 30 June 2020 and of its financial performance for the year then ended; and

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

Basis for Opinion

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

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

Other Information

The directors are responsible for the other information. The other information comprises the directors' report information contained in the Credit Union's annual report for the year ended 30 June 2020, 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.

Responsibilities of the Directors for the Financial Report

The directors of the Credit Union are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the Credit Union 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 Credit Union or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

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

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

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

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

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

Crowe

CROWE AUDIT AUSTRALIA

BRADLEY D BOHUN
Partner

16th September 2020
Albury

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

Branch Locations

Camden
52 Argyle Street, Camden NSW 2570

Narellan
Shop 308 / 326 Camden Valley Way, Narellan NSW 2567

Picton
109-111 Argyle Street, Picton NSW 2571

Tahmoor
Shop 7 Tahmoor Town Centre, 117 Remembrance Drive, Tahmoor NSW 2573

1300 622 278
mail@themaccu.com.au
PO Box 121, Camden NSW 2570

the mac
macarthur credit union

friendly, helpful & supportive