



50TH ANNUAL REPORT 2021

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CHAIRMAN'S REPORT

The core values of The Mac being "Friendly Helpful and Supportive" have never been more relevant. Over the last 12 months we have dealt with extraordinary social, public health and economic circumstances. Our core values have been at the heart of our responses to these circumstances.

The focus on the health & wellbeing of our stakeholders has been the most obvious and visible outcome of the ongoing global Pandemic. However the economic impact of the Pandemic cannot be understated-it has manifested itself in a number of different ways:

- Record growth in Real Estate prices
- A significant structural shift in wholesale investment markets
- An accelerated shift away from "face to face" transacting to remote/electronic channels

These factors have resulted in some "difficult conversations" as we negotiate a path forward while still staying true to our core values. This may mean in some cases that our stakeholders appear to have been disadvantaged-in actual fact we are likely making a decision that is best for both The Mac & the member in the longer term. These circumstances have included over the last 12 months:

- Significantly reduced interest rates for deposit holders
- A difficult conversation regarding the affordability of that "dream home"
- The closure of a delivery channel/location

These decisions-which have included continued reductions of deposit rates and Branch closures have not been taken lightly. However they are necessary to ensure the long term survival and growth of our business.

The operating result for 2020/21 is indeed a loss position. While the result from "ordinary operations" is a "break even" result there have been strategic level decisions taken which have impacted the result. This has been done however, with a view on the future-we look forward to improved results in 2021/22 and beyond.

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 18 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

At the time of writing the "extremely uncertain economic environment" continues. While periodic COVID outbreaks continue we continue to deal with "never before seen" economic indicators:

- Record property prices
- Record low interest rates
- Record levels of Government assistance & funds available in wholesale investment markets
- Unemployment levels which have returned to pre-Pandemic levels

These indicators have all had significant impacts on The Mac's results for the 2020/21 year. The low interest rates and strong employment data have meant that our members are able to purchase that new home or car. Our Loan Provisioning and write off history for the year indicates the strength of our members' financial position.

However, the record levels of Government assistance and funding, both to the finance sector and at an individual level has resulted in significant disruption to wholesale interest rate markets. This has impacted The Mac's operations in a number of different ways:

- Significantly reduced Investment Interest Income
- A significant reduction in deposit interest being paid to members

This, along with a number of other factors has resulted in a number of strategic decisions being taken which will significantly change the structure of our operations. The most visible of these is the closure of the Narellan Branch in July 2021. This decision was not taken lightly.

We have also taken the opportunity to commence a major redevelopment of our Camden site. This will culminate in a new Branch and a new "fit for purpose" Head Office. Our current Head Office of 30 years standing will be "reimagined" as tenanted office suites- which will provide an alternative source of income.

Over this period we have continued (as is appropriate) in ensuring that we maintain our position as a trusted pillar of the local community. We have played our part in:

- 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)
- Consistently putting the safety of our staff as our top priority.

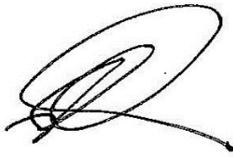
We take great pride in discharging these responsibilities.

We have continued to maintain 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 (and has been) relied on in tough times. Our forecasting indicates that these will remain at roughly the same level in the short to medium term.

Our Income Statement for 2020/21 reports a loss position. This is due primarily to strategic decisions taken to prepare us for our "post pandemic" future. However, the buffers & safeguards built by many years of prudent management will ensure that we remain on a sound economic footing. In addition our Forecasting for 2021/22 indicates a return to stronger levels of profitability-which will be reflective of the levels of the 2019/20 year.

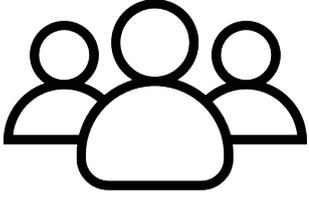
To the staff of The Mac-we are a very small team. However, what we deliver on a daily, monthly and annual basis continues to amaze me. We deliver products, services and delivery channels that compare favourably with our "major bank" competitors, with a small fraction of their resources and budgets. We do so via an inherent culture that respects traditional values delivered in a contemporary world. I thank you for another fantastic year of passion, commitment and honesty-particularly in a year where we have continued to face 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.

A handwritten signature in black ink, appearing to be 'D. Cadden', with a large loop at the top and a long horizontal stroke at the bottom.

Dave Cadden
Chief Executive Officer

YEAR IN REVIEW



11,733 members
are currently
banking with
The Mac



482 personal loans
728 home loans
1055 term deposits
39,948 deposit accounts



Donated \$17,498
to our community
groups

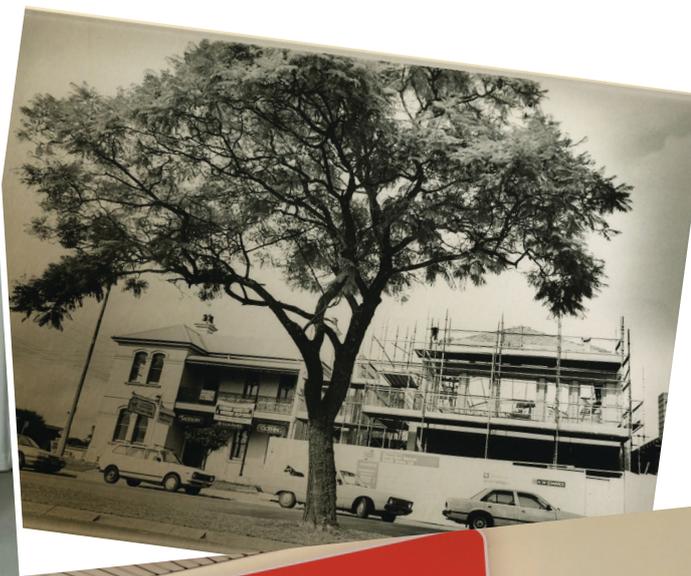


Sponsored 23
schools and
w/sporting groups



MOVEMBER.COM





CELEBRATING 50 YEARS OF THE MAC



Macarthur *CU*
a different kind of banking



MACARTHUR CREDIT UNION

1971
NOVEMBER 13th 1971
A DEDICATED GROUP OF COAL MINERS & TRUCK DRIVERS FROM THE OULTHA EMPLOYEES CREDIT UNION LTD TO SERVICE THE 2000 EMPLOYEES OF OULTHA MINES. THE FIRST BALANCE SHEET FOR THE CREDIT UNION RECORDS A LOSS OF \$8135.56

1978
APRIL 26th 1978
AN EXTRAORDINARY MEETING IS CALLED OF THE BOARD OF DIRECTORS AT WHICH IT IS AGREED TO CHANGE THE NAME OF THE CREDIT UNION TO THE MACARTHUR MUTUAL CREDIT UNION LTD. THE NEW NAME IS INCORPORATED LATER THAT YEAR ON SEPTEMBER 30th 1978. 1978 ALSO SEES THE CREDIT UNION EXPAND ITS FIELD OF MEMBERSHIP TO ALLOW MEMBERS OF THE LOCAL MACARTHUR COMMUNITY TO JOIN.

1979
MAY 15th 1979
THE MACARTHUR MUTUAL CREDIT UNION MOVES FROM RENTED PREMISES TO THEIR OWN PREMISES IN ARGYLE STREET, CAMDEN.

1985
AUGUST 31st 1985
THE MACARTHUR MUTUAL CREDIT UNION PURCHASES PRIME REAL ESTATE FROM ILLAWARRA MUTUAL BUILDING SOCIETY, ON WHICH TO ERECT MODERN LARGER PREMISES.

1988
JULY 26th 1988
CONCEPTUAL DRAWINGS FOR THE NEW PREMISES ARE COMMENCED. THE NEW BUILDING MUST PROVIDE MODERN, COMFORTABLE SURROUNDINGS TO SERVICE THE CREDIT UNION'S FAST INCREASING MEMBERSHIP.

1990
MARCH 1st 1990
THE NARELLAN BRANCH OF THE MACARTHUR MUTUAL CREDIT UNION IS OPENED.

1991
FEBRUARY 14th 1991
CONSTRUCTION HAS BEGUN ON THE NEW PREMISES FOR THE MACARTHUR MUTUAL CREDIT UNION.

1992
APRIL 11th 1992
THE NEW PREMISES OF THE MACARTHUR MUTUAL CREDIT UNION IS OFFICIALLY OPENED. NOW APPROACHING 440m² IN SIZE THE MACARTHUR MUTUAL CREDIT UNION IS THE LARGEST LOCALLY BASED FINANCIAL INSTITUTION, SERVING THE NEEDS OF THE COMMUNITIES OF CAMDEN, NARELLAN & PICTON.



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 \$24,041 for the 2020/21 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 2020/21:

- Cawdor Parents & Citizens Association
- Jeans for Genes Day
- Lions Club of Camden
- Macarthur Annual Breast Cancer Gala
- Macarthur District Temporary Family Care
- Macarthur Skylarks Hockey Club
- Mater Dai Foundation
- Mount Annan High School
- Movember
- Oakdale Public School
- Picton Public School
- Prostate Cancer Foundation of Australia
- Steve Wisby
- South West Sydney Academy of Sport
- Tahmoor Soccer Club
- Tahmoor Volunteer Fire Brigade
- The Oaks Netball Association
- Thirlmere Public School
- Turning Point Camden
- Wollondilly Business Awards
- Wollondilly Razorbacks Basketball
- Wollondilly Redbacks Junior AFL Club
- Wollondilly Council – Christmas Light Competition

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 2021 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 Absent 11 November 2020 to 18 February 2021
Ashley Jennings	Adv Dip Accounting, Adv Dip Mngmt, JP	Chairman Governance Committee Executive Committee member Director Nominations Committee member Audit Committee member Board member since 2020
Phillip Rankin	B.Bus (Accounting), CPA, ATI, JP	Chairman of Audit Committee Executive Committee member Director Nominations Committee member Risk Committee Member Appointed 11 November 2020
Antony Schesser	MBA	Governance Committee Member Risk Committee Member Appointed 11 November 2020
Emma Macfarlane	LLB, B.Bus (Mgt).	Audit Committee member Governance Committee member Appointed 18 May 2021
Lloyd Pollard	B Com, JP, MAMI	Governance Committee member Risk Committee member Appointed 18 May 2021
Deborah Vardy	Dip Law, MAMI, MAICD	Chairman Governance Committee Executive Committee member Director Nominations Committee member Risk Committee member Board Member since 2014 Resigned 11 November 2020
Katie Palmer	CA, B.Bus, Adv Dip. Accounting, GAICD	Chairman of Audit Committee Executive Committee member Risk Committee member Board member since 2016 Resigned 18 May 2021

Name	Qualifications	Responsibilities
Doug Ferris	B.Bus, MAICD	Audit Committee Member Governance Committee Member Board member since 2018 Resigned 18 May 2021
Ian Counsell	MMgt, F Fin, GIA (Affiliate), MAICD, JP	Risk Committee member Governance Committee member Board member since 2019 Resigned 18 February 2021

Information on Company Secretaries

David Cadden	Dip.HR, Dip. Fin Serv., Dip. F&MBM, GAICD, JP	Chief Executive Officer
Paul Brooks	B.Com, 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:	6		6		2		3		-		1	
Number of meetings attended:												
Geoffrey Ellis	6	6	2	-	2	2	3	3	-	-	1	1
Peter Buckley	2	2	4	4	2	2	1	-	-	-	-	-
Ashley Jennings	6	6	6	6	-	-	3	3	-	-	1	1
Phillip Rankin	5	5	3	3	1	1	1	-	-	-	1	1
Antony Schesser	5	5	2	2	-	-	2	2	-	-	-	-
Emma Macfarlane	1	1	2	2	-	-	1	1	-	-	-	-
Lloyd Polard	1	1	-	-	-	-	1	1	-	-	-	-
Deborah Vardy	1	1	-	-	1	1	1	1	-	-	-	-
Katie Palmer	4	4	3	3	2	2	1	1	-	-	-	-
Doug Ferris	3	3	2	1	-	-	1	1	-	-	-	-
Ian Counsell	5	5	-	-	1	1	1	1	-	-	-	-

E = Eligible to attend

A = Attended

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 2021, 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 operating result for the year was a loss of \$229,607. This compares to the profit result for 2019/20 of \$245,487.

The result is a reflection of the ongoing impact of the Global Pandemic. While the health concerns attaching to the Pandemic have been largely "kept in check" for the majority of the year, the financial impact has been significant and will continue for the foreseeable future. There has been significant structural changes in terms of:

- The dislocation of wholesale investment markets-brought about largely by the injection of additional funding into the financial system by the Federal Government. This has impacted both returns on invested funds and the pricing of deposit rates for members.
- The acceleration of loan repayments as a result of the low interest rate environment and higher available levels of disposable income.
- The rapid and continued growth in real estate prices-which has benefited many but has also disadvantaged some. The ultimate impact of this will not be "played out" for some time yet.

The operating result from ordinary operations is largely a "break even" figure. We have (and are currently) working on realigning both our core business structures and also our cost structures to reflect the "new world" we are operating in.

The asset impairment charges (ie. Loss on disposal of assets) reflected in the result are significant but reflect strategic and structural changes made which will have a positive impact on The Mac's operations for the 2021/22 year and beyond. These losses relate to:

- Expenses relating to the closure of the Narellan Branch. These costs related to the write down of Branch assets.
- The writing down of residual assets relating to the Camden site in relation to its redevelopment.

In addition to the challenges referenced above we have and are currently working through the implementation of a significant number of technology upgrades. While a number of these are Government mandated, some of these will provide greater functionality and "improve the user experience" for our members.

We continued to receive a number of COVID-19 related hardship applications from borrowers during the early part of 2020/21. It is pleasing that these hardship arrangements have all now ceased-as this is in the best interests of The Mac and also the member. This improved position is reflected in the reduction in the Expected Credit Loss (ECL) Provision during the year.

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

The ongoing impact of the COVID pandemic is referenced under Operating and Financial Review. This impact will be felt for the foreseeable future.

The closure of the Narellan Branch in July 2021 has impacted members in the short term. However this closure has the longer term strategic benefits of:

- Reduced cost structures that align with the "post-Pandemic" environment
- The creation of additional resourcing capacity to service the new Camden Branch

The Mac has been very active in ensuring that impacted members that used the Narellan Branch have been accommodated via access to electronic banking channels or the Camden Branch.

The redevelopment of the Camden site continues with the anticipated completion of the project being June 2022. The project is proceeding in accordance with timing and budgetary schedules. Once completed it will provide:

- A diversified revenue stream
- An efficient and "fit for purpose" facility for our Administration staff

Other than the items referenced above there are no matters or circumstances that 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 18.

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



Geoffrey Ellis
Chairman of Board of Directors



Phillip Rankin
Chairman of Audit Committee

Dated at Camden this 13th October 2021.

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 at the Annual General Meeting 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.

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 2021 were Geoffrey Ellis (Chairman), Peter Buckley, Phillip Rankin and Ashley Jennings.

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 2021 were Phillip Rankin (Chairman), Peter Buckley, Ashley Jennings and Emma Macfarlane.

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 2021 were Ashley Jennings (Chairman), Antony Schesser, Lloyd Pollard and Emma Macfarlane.

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 2021 were Peter Buckley (Chairman), Phillip Rankin, Antony Schesser and Lloyd Pollard.

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; and
- Reviewing processes for selection and removal of Directors, including succession planning.

The Members of the Director Nominations Committee as at 30 June 2021 were Geoffrey Ellis, Phillip Rankin and Ashley Jennings. 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, review process and a performance review of the Chair.

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 2021 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 AUDIT AUSTRALIA



BRADLEY D BOHUN
Partner

13th October 2021
Albury

Liability limited by a scheme approved under Professional Standards Legislation.

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 external audit, conducted via the Crowe Australasia external audit division and Unison SMSF Audit. All other professional services offered by Findex Group Limited are conducted by a privately owned organisation and/or its subsidiaries.

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STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the Year Ended 30 June 2021

	Note	2021 \$	2020 \$
Interest revenue calculated using the effective interest rate method	4	7,107,015	8,881,140
Interest expense	4	(893,800)	(2,338,880)
Net interest income		<u>6,213,215</u>	<u>6,542,260</u>
Fee and commission income	5	937,603	967,364
Fee and commission expenses	7	(485,682)	(449,105)
Net fee and commission income		<u>451,921</u>	<u>518,259</u>
Other income	6	122,342	217,781
Operating income		<u>6,787,478</u>	<u>7,278,300</u>
Net impairment gain/(loss) on loans and receivables		99,309	(84,386)
Non Lending Losses		(12,044)	(37,642)
Personnel expenses	7	(3,246,931)	(3,144,413)
ATM expenses		(444,272)	(384,589)
General administration expenses		(360,245)	(367,768)
Marketing expenses		(266,191)	(292,762)
Other operating expenses		(662,245)	(686,147)
Depreciation and amortisation expenses	7	(662,933)	(698,766)
Information technology expenses		(1,049,314)	(973,812)
Office occupancy expense		(245,794)	(251,345)
Loss on disposal of assets		(296,113)	(129)
Profit before income tax		<u>(359,295)</u>	<u>356,541</u>
Income tax benefit/(expense)	9	129,688	(111,054)
Profit/(Loss) for the year		<u><u>(229,607)</u></u>	<u><u>245,487</u></u>
Other comprehensive income			
Items that will not be reclassified to profit or loss (Loss)/gain on the revaluation of equity instruments at fair value through other comprehensive income, net of tax		184,758	86,432
Total other comprehensive income for the year		<u>184,758</u>	<u>86,432</u>
Total comprehensive income for the year		<u><u>(44,849)</u></u>	<u><u>331,919</u></u>

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 23 to 63.

STATEMENT OF FINANCIAL POSITION

As at 30 June 2021

	Note	2021 \$	2020 \$
Assets			
Cash and cash equivalents	10	8,173,096	5,679,628
Loans and advances	11(a)	189,274,612	181,303,582
Placements with ADI's	11(b)	113,492,465	89,216,915
Current tax receivable		40,616	-
Other financial assets	13	1,479,200	1,256,133
Property, plant and equipment	15	2,447,678	2,197,980
Right of use assets	24	357,582	602,461
Investment property	16	84,659	117,725
Intangibles	17	554,184	306,308
Deferred tax assets	14	147,342	69,736
Other assets	18	1,280,252	1,778,142
Total assets		317,331,686	282,528,610
Liabilities			
Deposits	19	289,686,811	254,556,739
Trade and other payables	20	770,404	875,494
Current tax payable		-	1,986
Lease liabilities	24	398,867	634,427
Provisions	21	871,766	811,277
Total liabilities		291,727,848	256,879,923
Net assets		25,603,838	25,648,687
Equity			
Reserves	22(b)	1,192,281	1,006,809
Retained earnings	22(a)	24,411,557	24,641,878
Total equity		25,603,838	25,648,687

The statement of financial position is to be read in conjunction with the notes to the financial statements as set out on pages 23 to 63.

STATEMENT OF CASH FLOWS

For the Year Ended 30 June 2021

	Note	2021 \$	2020 \$
Cash flows from operating activities			
Interest received		7,154,768	8,943,489
Dividends received		27,428	71,351
Other cash receipts in the course of operations		1,734,064	159,017
Interest paid		(1,081,243)	(2,369,140)
Income taxes paid		(28,826)	(68,940)
Net (increase)/decrease in loans funded		(7,871,719)	3,647,216
Net increase in deposits		35,317,515	28,717,983
Other cash payments in the course of operations		(7,105,567)	(7,507,963)
Net cash flows from/(used in) operating activities	26 a)	28,146,420	31,593,013
Cash flows from investing activities			
Net decrease in investments with ADI's		(24,275,542)	(34,142,993)
Proceeds on sale of property, plant and equipment & assets held for sale		1,792	-
Rental income from investment properties		36,498	73,557
Acquisitions of property, plant and equipment		(813,750)	(317,864)
Acquisition of intangible assets		(366,390)	(27,945)
Net cash flows from/(used in) investing activities		(25,417,392)	(34,415,245)
Cash flows from financing activities			
Repayment of the lease liabilities		(235,560)	(212,912)
Net cash flows from/(used in) financing activities		(235,560)	(212,912)
Net increase/(decrease) in cash held		2,493,468	(3,035,144)
Cash at the beginning of the financial year		5,679,628	8,714,772
Cash at the end of the financial year	26 b)	8,173,096	5,679,628

The statement of cash flows is to be read in conjunction with the notes to the financial statements as set out on pages 23 to 63.

STATEMENT OF CHANGES IN EQUITY

For the Year Ended 30 June 2021

	Redeemed share capital reserve	General reserve for credit losses	Retained earnings	Fair Value Reserve	Total equity
	\$	\$	\$	\$	\$
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
Balance at 1 July 2020	143,910	358,066	24,641,878	504,833	25,648,687
Total comprehensive income for the year					
Profit after tax	-	-	(229,607)	-	(229,607)
Other comprehensive income					
Total other comprehensive income for the year	-	-	-	184,758	184,758
Total comprehensive income for the year	-	-	(229,607)	184,758	(44,849)
Transfer from/(to) retained profits	4,890	(4,176)	(714)	-	-
Balance at 30 June 2021	148,800	353,890	24,411,557	689,591	25,603,838

The statement of changes in equity is to be read in conjunction with the notes to the financial statements as set out on pages 23 to 63.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2021

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).

The financial report was approved for issue by the directors on 13 October 2021.

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 notes:

- Note 3(d) – Fair value assumptions used for other financial assets
- Note 3(h) – Impairment of financial assets – expected credit loss

Coronavirus (COVID-19) pandemic – Judgement has been exercised in considering the ongoing impact that the Coronavirus (COVID-19) pandemic has had, or may have, on the Credit Union 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 Credit Union 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 continues to be the subject of close consideration in preparing these accounts. The impact of the Pandemic has been far reaching and includes:

- The repricing of loans and deposits
- The acceleration of loan repayments
- The significant yield reduction on our investment portfolio

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”. Indeed the strategic decisions taken during the year illustrate the level of confidence in the future of the Credit Union. These decisions include:

- The commitment to the redevelopment of the Camden site
- The ongoing commitment to Information Technology upgrades

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 foreseeable future.

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 PPE 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 PPE. 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, small business loans, personal loans and revolving credit. The balance of small business loans at 30 June 2021 is \$215,698 (2020: 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 ongoing uncertainty of the Global 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 ECL, 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 ECL allowance at 30 June 2021. 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 which has escalated since 30 June 2021 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:

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

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

Stage 2: significant increase in credit risk

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

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.

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.

None of the adopted Accounting Standards and Interpretations had a material impact on the financial statements of the Credit Union.

Any new or amended Accounting Standards and Interpretations that are not yet mandatory have not been early adopted.

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	2021	2020
	\$	\$
Interest revenue calculated using the effective interest rate method		
<i>Financial assets measured at amortised cost:</i>		
Placements with ADIs	785,157	1,214,241
Loans and advances	6,321,858	7,666,899
	<u>7,107,015</u>	<u>8,881,140</u>
Interest expense		
Deposits	861,326	2,291,744
Interest bearing liabilities	705	1,955
Lease liabilities	31,769	45,181
	<u>893,800</u>	<u>2,338,880</u>
Net interest income	<u>6,213,215</u>	<u>6,542,260</u>
5. Fee and commission income		
ATM fees	139,786	156,876
Direct debit fees	46,208	42,594
Loan fees	122,850	86,875
Direct entry reference fees	85,900	107,079
Insurance commission	10,843	26,624
Cheque book issue fees	5,300	6,563
BPAY transaction commission	44,529	47,925
VISA card fees	196,134	202,198
VISA card commission	184,097	182,136
Other fee and commission income	101,956	108,494
	<u>937,603</u>	<u>967,364</u>
6. Other income		
Dividend income	27,428	71,351
Rental income from investment properties	36,498	73,557
Bad debts recovered	6,131	13,552
Government grant	50,000	50,000
Other revenue	2,285	9,321
	<u>122,342</u>	<u>217,781</u>
7. Other expenses		
Fee and commission expenses		
Dishonour fee expenses	5,756	5,645
VISA card fees	324,090	318,594
Other fee and commission expenses	155,836	124,866
	<u>485,682</u>	<u>449,105</u>
Personnel expenses		
Wages and salaries	2,820,136	2,916,039
Superannuation contributions	257,654	256,505
Payroll tax	94,132	96,544
Provision for employee entitlements	75,009	(124,675)
	<u>3,246,931</u>	<u>3,144,413</u>
Depreciation & amortisation expenses		
Plant and equipment	80,431	94,700
Buildings	100,765	102,122
Right of use assets	244,879	244,878
Leasehold improvements	107,472	117,331
Investment properties	10,872	11,739
Intangible assets	118,514	127,996
	<u>662,933</u>	<u>698,766</u>

8. Auditor's remuneration	2021	2020
Audit and review services	\$	\$
Auditor of the Company		
Crowe		
Audit of financial statements	47,100	45,000
Other regulatory assurance services	17,700	15,000
	<u>64,800</u>	<u>60,000</u>
Other services		
Crowe		
Taxation services	6,800	6,800
	<u>6,800</u>	<u>6,800</u>
	<u>71,600</u>	<u>66,800</u>
9. Income tax expense		
a) Recognised in the income statement	\$	\$
Current tax expense		
Current year	-	62,911
Adjustments for prior years	1,817	-
	<u>1,817</u>	<u>62,911</u>
Deferred tax expense		
Origination and reversal of temporary differences	(118,597)	54,255
Adjustments for prior years	(12,908)	(6,112)
	<u>(131,505)</u>	<u>48,143</u>
Total income tax expense in income statement	<u>(129,688)</u>	<u>111,054</u>
b) Reconciliation between income tax expense and profit before tax		
Profit before tax	(359,295)	356,541
Income tax using the domestic corporation tax rate	(93,417)	98,049
<i>Increase/(decrease) in income tax expense due to:</i>		
Imputation gross-up on dividends received	2,778	8,252
Non-deductible expenses	2,881	8,418
Other differences in tax treatment	(26,708)	46,205
Non assessable income	(13,000)	(13,750)
Franking credits on dividends received	10,686	(30,008)
(Over)/under provided in prior periods	(12,908)	(6,112)
	<u>(129,688)</u>	<u>111,054</u>
Income tax expense	<u>(129,688)</u>	<u>111,054</u>

	2021	2020
	\$	\$
10. Cash and cash equivalents		
Cash on hand	662,397	552,054
Cash at bank	7,510,699	5,127,574
	<u>8,173,096</u>	<u>5,679,628</u>
11. Financial assets		
a) Loans and advances		
Overdrafts	17,400	42,294
Term loans	184,681,587	178,592,233
Loans to related parties	28 4,612,481	2,841,261
Provision for impairment	12 (36,856)	(172,206)
Total loans and advances	<u>189,274,612</u>	<u>181,303,582</u>
b) Placements with ADIs		
Investments placed with other ADIs	<u>113,492,465</u>	<u>89,216,915</u>
	<u>113,492,465</u>	<u>89,216,915</u>

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	Stage 2 not credit impaired	Stage 3 credit impaired	Total
2021	\$	\$	\$	\$
Carrying amount at the beginning of the year	19,780	95,926	56,500	172,206
Transfers due to change in credit risk	-	2,526	(2,526)	-
Net remeasurement of loss allowance	(13,082)	(94,116)	7,887	(99,311)
Write Offs	-	-	(36,039)	(36,039)
Balance as at 30 June 2021	6,698	4,336	25,822	36,856
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	19,780	46,891	17,714	84,385
Write Offs	-	-	(89,059)	(89,059)
Balance as at 30 June 2020	19,780	95,926	56,500	172,206

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.

	2021	2020
	\$	\$
13. Other financial assets		
Other equity investments - at FVOCI	1,479,200	1,256,133
	<u>1,479,200</u>	<u>1,256,133</u>

Valuation techniques for other equity investments are discussed further in Note 27(d).

14. Tax assets and liabilities

Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

Deferred tax assets

Provisions	227,156	246,180
Accruals	11,897	36,661
Right of use asset (net of lease liability)	10,321	8,791
Carried forward tax losses	216,045	-
Other	14,219	21,625
Total deferred tax assets	<u>479,638</u>	<u>313,257</u>

Deferred tax liabilities

Property, plant & equipment	(30,970)	(39,265)
Other financial assets - shares	(230,347)	(192,038)
Other	(70,979)	(12,218)
Total deferred tax liabilities	<u>(332,296)</u>	<u>(243,521)</u>

Net deferred tax assets

	<u>147,342</u>	<u>69,736</u>
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15. Property, plant and equipment

Freehold land and buildings

Freehold land-at cost	357,107	357,107
Buildings on freehold land-at cost	2,533,161	2,952,938
Provision for depreciation	(1,709,653)	(1,843,034)
	<u>1,180,615</u>	<u>1,467,011</u>

Leasehold improvements

At cost	241,371	705,822
Provision for depreciation	(161,725)	(479,738)
	<u>79,646</u>	<u>226,084</u>

Plant and equipment

At cost	646,581	1,301,008
Provision for depreciation	(463,047)	(1,002,468)
	<u>183,534</u>	<u>298,540</u>

Capital work in progress at cost

	<u>1,003,883</u>	<u>206,345</u>
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Total property, plant and equipment

At cost	4,782,103	5,523,220
Provision for depreciation	(2,334,425)	(3,325,240)
	<u>2,447,678</u>	<u>2,197,980</u>

The Credit Union's Camden and Picton properties were valued as at 30 June 2020 by an independent valuer in line with the Accounting Policy. The value has been assessed at \$8.35m. Should the valuation be adjusted on a pro-rata basis to reflect the demolition of the rear building at the Camden site (as part of the ongoing redevelopment project) the value has been assessed at \$7.507m.

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

2021	Freehold land and buildings \$	Leasehold improvements \$	Plant and equipment \$	Capital work in progress \$	Total \$
Carrying amount at the beginning of the year	1,467,011	226,084	298,540	206,345	2,197,980
Additions	-	-	16,212	797,538	813,750
Transfer in/(out)	-	-	-	-	-
Disposals	(185,631)	(38,966)	(50,787)	-	(275,384)
Depreciation/Amortisation	(100,765)	(107,472)	(80,431)	-	(288,668)
Carrying amount at the end of the year	<u>1,180,615</u>	<u>79,646</u>	<u>183,534</u>	<u>1,003,883</u>	<u>2,447,678</u>
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/Amortisation	(102,122)	(117,331)	(94,700)	-	(314,153)
Carrying amount at the end of the year	<u>1,467,011</u>	<u>226,084</u>	<u>298,540</u>	<u>206,345</u>	<u>2,197,980</u>

The increase in asset disposals in 2021 can be mainly attributed to the write off of fit outs, furniture & equipment at the Camden and Narellan sites.

The Capital Works in progress relate to the redevelopment of the Camden site.

16. Investment property	2021 \$	2020 \$
Investment property-at cost	123,308	201,112
Provision for depreciation	(38,649)	(83,387)
	<u>84,659</u>	<u>117,725</u>

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

Carrying amount at the beginning of the year	117,725	129,464
Additions	-	-
Disposals	(22,194)	-
Depreciation	(10,872)	(11,739)
Carrying amount at the end of the year	<u>84,659</u>	<u>117,725</u>

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

	2021	2020
	\$	\$
17. Intangibles		
Computer software-at cost	1,709,053	1,237,160
Provision for amortisation	<u>(1,167,318)</u>	<u>(1,049,132)</u>
Intangible Assets	541,735	188,028
Work in progress	<u>12,449</u>	<u>118,280</u>
Total Intangible Assets	<u><u>554,184</u></u>	<u><u>306,308</u></u>
A reconciliation of the carrying amount of intangible assets is set out below:		
Carrying amount at the beginning of the year	306,308	270,767
Additions	366,390	27,945
Transfer in/(out)	-	135,592
Amortisation	<u>(118,514)</u>	<u>(127,996)</u>
Carrying amount at year end	<u><u>554,184</u></u>	<u><u>306,308</u></u>
18. Other assets		
Interest & fees receivable	158,076	205,829
Floating rate note premiums	298,887	51,385
Prepayments	283,914	243,499
Other (including member clearing accounts)	<u>539,375</u>	<u>1,277,430</u>
	<u><u>1,280,252</u></u>	<u><u>1,778,143</u></u>
19. Deposits		
Call deposits	203,641,995	159,834,629
Term deposits	85,949,139	94,438,990
Accrued interest payable	<u>95,677</u>	<u>283,120</u>
	<u><u>289,686,811</u></u>	<u><u>254,556,739</u></u>
20. Trade and other payables		
Trade creditors	242,146	187,993
Sundry creditors (including member clearing accounts)	<u>528,258</u>	<u>687,501</u>
	<u><u>770,404</u></u>	<u><u>875,494</u></u>
21. Provisions		
Employee benefits		
Annual leave	253,045	218,745
Long service leave (1)	454,612	404,093
Long service leave (2)	<u>94,074</u>	<u>103,884</u>
	<u><u>801,731</u></u>	<u><u>726,722</u></u>
Other Provisions		
Make Good Provision		
Carrying amount at the beginning of the year	84,555	68,475
Provisions made during the year	1,680	16,080
Provisions used during the year	<u>(16,200)</u>	<u>-</u>
Carrying amount at year end	<u><u>70,035</u></u>	<u><u>84,555</u></u>
Total Provisions	<u><u>871,766</u></u>	<u><u>811,277</u></u>

(1) Expected to be settled within 12 months

(2) Expected to be settled outside of 12 months

	Note	2021 \$	2020 \$
22. Equity			
a) Retained earnings			
Balance at the beginning of the year		24,641,878	24,365,961
Profit for the year		(229,607)	245,487
Transfer to redeemed share capital account	22b(i)	(4,890)	(27,865)
Transfer (to)/from general reserve for credit losses	22b(ii)	4,176	58,295
Balance at the end of the year		<u>24,411,557</u>	<u>24,641,878</u>
b) Reserves			
Redeemed share capital account	22b(i)	148,800	143,910
General reserve for credit losses	22b(ii)	353,890	358,066
Fair value reserve	22b(iii)	689,591	504,833
		<u>1,192,281</u>	<u>1,006,809</u>
(i) Redeemed share capital account			
Balance at the beginning of the year		143,910	116,045
Member shares redeemed during year		4,890	27,865
Balance at the end of the year		<u>148,800</u>	<u>143,910</u>

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.

	2021 \$	2020 \$
(ii) General reserve for credit losses		
Balance at the beginning and end of the year	358,066	416,361
Transfer from/(to) retained profits	(4,176)	(58,295)
Balance at the end of the year	<u>353,890</u>	<u>358,066</u>

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	504,833	418,401
Add: increase on revaluation of investment (Shares)	223,067	119,216
Less: deferred tax thereon	(38,309)	(32,784)
Balance at the end of the year	<u>689,591</u>	<u>504,833</u>

The fair value reserve relates to the revaluation of equity investments (other financial assets) classified as fair value through other comprehensive income.

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.

	2021	2020
	\$	\$
Guarantees	<u>671,173</u>	<u>665,080</u>

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

(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).

The Narellan Branch was closed on 16th July 2021, in advance of the expiry of the lease on 15th September 2021. The Lease will not be renewed.

Terms and conditions of leases

The Tahmoor Branch has a lease term of 5 years which will expire in 2024. It has an annual pricing mechanism based on a fixed rate increase at each anniversary.

There is no non-index (i.e. CPI) related variable lease payments associated with this property lease.

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

Right-of-use assets

	2021	2020
	\$	\$
As cost	847,339	847,339
Accumulated depreciation	<u>(489,757)</u>	<u>(244,878)</u>
Balance at end of the year	<u>357,582</u>	<u>602,461</u>

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

Land and Buildings

Balance at 1 July	602,461	847,339
Depreciation charge	<u>(244,879)</u>	<u>(244,878)</u>
Balance at 30 June	<u>357,582</u>	<u>602,461</u>

Lease liabilities

	2021	2020
<i>Current</i>	\$	\$
Not later than 1 year	135,304	235,559
<i>Non-current</i>		
Later than 1 year	263,563	398,868
Total	<u>398,867</u>	<u>634,427</u>

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

Not later than 1 year	154,737	267,325
Later than 1 year and not later than 5 years	283,356	438,092
Total	<u>438,093</u>	<u>705,417</u>

The Credit Union does not face any significant liquidity risks with regard to its lease liabilities. Lease liabilities are monitored within the Credit Union's finance function.

Extension options

The lease for the Tahmoor branch premises contained an extension option, which allowed the Credit Union to extend the lease term beyond the original period. These options are detailed at Note 24(a).

The Credit Union includes options in the leases to provide flexibility and certainty to the Credit Union operations and reduce costs of moving premises. 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 are 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 2021 (2020: nil).

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:

	2021	2020
	\$	\$
Interest expense on lease liabilities	31,769	45,181
Rental expense relating to low value assets	14,434	13,310
	<u>46,203</u>	<u>58,491</u>

Statement of cash flows

Total cash outflow for leases	267,325	258,092
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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 2021, the Credit Union has no commitment for short-term leases (2020: nil).

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 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 a tenant who leases a portion of the land and buildings owned by the Credit Union in Camden. This lease has been classified as an operating lease 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:

	2021	2020
	\$	\$
Lease/rental income (excluding variable lease payments not dependent on an index or rate)	36,498	73,557
Total lease/rental income relating to investment properties	<u>36,498</u>	<u>73,557</u>
Direct operating expenses (including repairs & maintenance) arising from investment property that generated rental income during the period	10,872	11,739
Total direct operating expenses relating to investment properties	<u>10,872</u>	<u>11,739</u>

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

< 1 year	17,637	36,159
1 - 2 years	17,637	17,637
2 - 3 years	17,637	17,637
3 - 4 years	17,637	17,637
4 - 5 years	4,409	17,637
> 5 years	-	4,409
Total undiscounted lease payments receivable	<u>74,957</u>	<u>111,116</u>

Finance Leases

Nature of the leasing activities

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

25. Commitments	2021	2020
	\$	\$
a) Outstanding loan commitments		
Loans approved but not yet funded	<u>6,620,189</u>	<u>1,262,140</u>
b) Loan redraw facilities		
Undrawn value of redraw facilities	<u>29,502,370</u>	<u>23,494,917</u>
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.

	2021	2020
	\$	\$
d) Capital expenditure commitments		
Estimated capital expenditure contracted for at balance date but not provided for (payable not later than one year):		
Property, plant & equipment	<u>6,462,849</u>	<u>-</u>

Expenditure commitments are stated inclusive of Goods and Services Tax.

	\$	\$
26. Statement of cash flows		
Reconciliation of cash flows from		
a) operating activities		
Profit after tax	(229,607)	245,487
<i>Adjustments for:</i>		
Loss on disposal of property, plant & equipment	296,113	129
Depreciation and amortisation	662,933	698,766
Impairment loss on loans and receivables	(99,310)	84,385
Rental income	(36,498)	(73,557)
Net cash from operating activities before changes in assets and liabilities	<u>593,631</u>	<u>955,210</u>
Net (increase)/decrease loans funded	(7,871,719)	3,647,216
Movement in interest receivable	47,753	62,349
Movement in other receivables	737,717	(881,219)
Movement in prepayments	(287,919)	36,872
Movement in current tax assets/(liabilities)	-	-
Movement in net deferred tax assets	(158,514)	42,113
Net increase in deposits	35,317,515	28,717,983
Movement in accrued interest payable	(187,443)	(30,260)
Movement in trade creditors	39,633	(60,602)
Movement in sundry creditors	(159,243)	(771,974)
Movement in employee benefits	75,009	(124,675)
Net cash from/(used in) operating activities	<u>28,146,420</u>	<u>31,593,013</u>
Reconciliation of cash and cash equivalents		
b) equivalents		
<i>Cash and cash equivalents comprises:</i>		
Cash on hand and at bank	<u>8,173,096</u>	<u>5,679,628</u>

Bank overdraft facility

The Credit Union has access to an overdraft facility provided by Cuscal Limited to the extent of \$2,000,000 (2020: \$2,000,000) and incurs an interest rate of 3.85% (2020: 4%). This overdraft facility is secured by a Cash Deposit. As at 30 June 2021, the facility was unused (2020: 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 at 30 June 2021:

	Loans and advances to members 2021 \$	Placements with ADI's 2021 \$	Cash and cash equivalents 2021 \$
Carrying Amount	189,274,612	113,492,465	8,173,096
Stage 1: no significant increase in credit risk since initial recognition			
Secured by mortgage - current	180,674,844	-	-
Secured by mortgage - less than or equal to 30 days in arrears	-	-	-
Investment grade	-	84,079,551	8,173,096
Unrated	-	29,412,914	-
Other	8,590,154	-	-
Net deferred income and expenses	-	-	-
Carrying amount	189,264,998	113,492,465	8,173,096
Stage 2: significant increase in credit risk			
Secured by mortgage	-	-	-
Other	23,128	-	-
Carrying Amount	23,128	-	-
Stage 3: credit impaired (or defaulted) loans			
Secured by mortgage	-	-	-
Other	23,342	-	-
Carrying Amount	23,342	-	-
Expected credit loss	(36,856)	-	-
Total carrying amount	189,274,612	113,492,465	8,173,096

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 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

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:

	2021	2020
Against Individually impaired:	\$	\$
Property value	-	-
Against past due but not impaired:		
Property value	2,000,000	2,882,698
Other	-	-
Total	<u>2,000,000</u>	<u>2,882,698</u>

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 (2020: \$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 and/or APRA guidelines.

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:

	2021	2020
As at 30 June	22.91%	23.83%
Average liquidity for the year	25.62%	20.29%
Minimum liquidity during the year	22.91%	17.84%
Maximum liquidity during the year	27.60%	23.83%

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:

2021	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	289,686,811	(289,906,597)	(225,107,035)	(53,503,792)	(10,075,126)	(1,220,644)
Trade and other payables	770,404	(770,404)	(770,404)	-	-	-
	<u>290,457,215</u>	<u>(290,677,001)</u>	<u>(225,877,439)</u>	<u>(53,503,792)</u>	<u>(10,075,126)</u>	<u>(1,220,644)</u>
Unrecognised loan commitments	6,620,189	(6,620,189)	(6,620,189)	-	-	-
Total financial liabilities	<u>297,077,404</u>	<u>(297,297,190)</u>	<u>(232,497,628)</u>	<u>(53,503,792)</u>	<u>(10,075,126)</u>	<u>(1,220,644)</u>
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)	-	-	-
	<u>255,432,233</u>	<u>(256,299,535)</u>	<u>(183,803,282)</u>	<u>(41,082,153)</u>	<u>(27,287,901)</u>	<u>(4,126,199)</u>
Unrecognised loan commitments	1,262,140	(1,262,140)	(1,262,140)	-	-	-
Total financial liabilities	<u>256,694,373</u>	<u>(257,561,675)</u>	<u>(185,065,422)</u>	<u>(41,082,153)</u>	<u>(27,287,901)</u>	<u>(4,126,199)</u>

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 2021, the exposure was \$25,969 (2020: \$24,019). 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 2021:

	<u>2021</u>	<u>2020</u>
As at 30 June	0.11%	0.10%

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 2021	Note	Carrying Amount	Level 1	Level 2	Level 3
			\$	\$	\$
Financial assets measured at FVOCI					
Equity investments	13	1,479,200	-	-	1,479,200
		1,479,200	-	-	1,479,200
Financial assets measured at amortised cost					
Loans and advances to members	11(a)	189,274,612	-	-	189,462,999
		189,274,612	-	-	189,462,999
Financial liabilities measured at amortised cost					
Deposits	19	289,686,811	-	289,655,759	-
		289,686,811	-	289,655,759	-
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	-

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.

None of the Credit Union's 'equity investments' are traded in active markets. As such, the Credit Union is unable to base the fair value of its other investments on quoted market prices. Other valuation techniques have been applied.

The Board has considered whether the latest available reported net assets of the underlying investments reflect the probable value of the investment as a whole. Should this not be the case the carrying fair value of the assets are adjusted accordingly. This is done in consultation with the management of the respective investment entity.

Given the inherent uncertainty of valuing these underlying investments (arising from their illiquid nature) the values of these underlying investments may differ from the values that would have been used had a ready market for the investments existed.

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:

	2021	2020
Loans to members	2.39% - 3.82%	2.69% - 4.68%
Deposits	0.20% - 0.25%	0.80%

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:

	2021	2020
	\$	\$
Common Equity Tier 1 capital		
Retained earnings	25,249,948	25,290,621
Regulatory adjustments to Common Equity Tier 1 Capital	<u>(2,180,726)</u>	<u>(1,481,724)</u>
Total Common Equity Tier 1 Capital	23,069,222	23,808,897
Tier 2 capital		
General reserve for credit losses	353,890	358,066
Regulatory adjustments to Tier 2 Capital	<u>-</u>	<u>-</u>
Total Tier 2 capital	353,890	358,066
Total capital base	<u>23,423,112</u>	<u>24,166,963</u>
Risk weighted assets	143,424,258	128,914,775
<i>of which:</i>		
Credit Risk	127,062,062	113,402,955
Operational Risk	16,362,196	15,511,820
Capital ratios		
Capital Adequacy Ratio	16.33%	18.75%
Tier 1 capital ratio	16.08%	18.47%

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 (Resigned 11 November 2020)
- Katie Palmer (Resigned 18 May 2021)
- Doug Ferris (Resigned 18 May 2021)
- Peter Buckley (Absent 11 November 2020 to 18 February 2021)
- Ian Counsell (Resigned 18 February 2021)
- Ashley Jennings
- Phillip Rankin (Appointed 11 November 2020)
- Antony Schesser (Appointed 11 November 2020)
- Lloyd Pollard (Appointed 18 May 2021)
- Emma Macfarlane (Appointed 18 May 2021)

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:

	2021	2020
	\$	\$
Short term employee benefits	892,584	881,979
Post employment benefits- Superannuation contributions	81,879	81,465
Other long term benefits	19,695	16,342
Total	<u>994,158</u>	<u>979,786</u>

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

	2021	2020
	\$	\$
The aggregate value of loans to KMP at balance date amounted to:	<u>4,612,481</u>	<u>2,841,261</u>
The aggregate value of loans disbursed to KMP during the year amounted to:	3,500,003	896,958
Interest and fees earned on loans to KMP	104,134	126,893
Less: KMP loan balance at date re-classification ^	(653,149)	193,666
Repayments during the year	2,486,065	1,157,403

^ Movement is due to re-classification of 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 ongoing impact of the COVID pandemic will continue to be felt for the foreseeable future.

The closure of the Narellan Branch in July 2021 has impacted members in the short term. However this closure has the longer term strategic benefits of:

- Reduced cost structures that align with the "post-Pandemic" environment
- The creation of additional resourcing capacity to service the new Camden Branch

The Mac has been very active in ensuring that impacted members that used the Narellan Branch have been accommodated via access to electronic banking channels or the Camden Branch.

The redevelopment of the Camden site continues with the anticipated completion of the project being June 2022. The project is proceeding in accordance with timing and budgetary schedules. Once completed it will provide:

- A diversified revenue stream
- An efficient and "fit for purpose" facility for our Administration staff

Other than the items referenced above there are no matters or circumstances that 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.

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 19 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 2021 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
Chairman of Board of Directors



Phillip Rankin
Chairman of Audit Committee

Dated at Camden this 13th October 2021.

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 2021, 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 2021 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 (including Independence Standards)* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We 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 2021, 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 AUDIT AUSTRALIA



BRADLEY D BOHUN
Partner

13 October 2021
Albury

Liability limited by a scheme approved under Professional Standards Legislation.

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 external audit, conducted via the Crowe Australasia external audit division and Unison SMSF Audit. All other professional services offered by Findex Group Limited are conducted by a privately owned organisation and/or its subsidiaries.

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Branch Locations

Camden

52B Argyle Street, Camden NSW 2570

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

