MACARTHUR CREDIT UNION LTD

ABN: 83 087 650 244

44th ANNUAL REPORT
2015

DIRECTORS
Greg Wright (Chairman)
Phillip Rankin (Vice Chairman)
Neville Hoskin
Geoffrey Ellis
Jill Martin
Lloyd Pollard
Kylie Powell
William Rooney
Robert Rofe
Deborah Vardy

CEO
David Cadden

REGISTERED OFFICE
52 Argyle Street
CAMDEN NSW 2570
Credit Union phone number: 1300 622 278

BRANCHES

52 Argyle St	109-111 Argyle St	1/8-10 Somerset Ave	Shop 7, 117 Remembrance Dr
CAMDEN 2570	PICTON 2571	NARELLAN 2567	TAHMOOR 2573

SOLICITOR
Daniels Bengtsson
Level 4, 171 Clarence St
SYDNEY NSW 2000

BANKERS
Credit Union Services Corporation (Australia) Limited
National Australia Bank Limited

AUDITOR
KPMG
Level 3, 63 Market Street
WOLLONGONG NSW 2500

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CORPORATE GOVERNANCE STATEMENT

OVERVIEW

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

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

COMPOSITION OF THE BOARD

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

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

COMMITTEE STRUCTURE

The following Committees support the work of the Board:

Executive Committee

The Executive Committee's powers are limited to those delegated to it by the Board from time to time. The Board invites the CEO to attend all Executive Committee Meetings in an advisory capacity, unless his attendance

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

Executive Committee (continued)
would be inappropriate because of reasons such as conflict of interest. The Members of the Executive Committee as at 30 June 2015 are Greg Wright (Chairman), Neville Hoskin, Lloyd Pollard, Geoffrey Ellis and Phillip Rankin.

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 Audit Committee consists of three nominated Directors. The Members of the Audit Committee as at 30 June 2015 are Lloyd Pollard (Chairman), Phillip Rankin and Robert Rofe.

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:

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

Governance Committee (continued)

- 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 2015 are Neville Hoskin (Chairman), Kylie Powell and Deborah Vardy.

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 Risk Committee consists of three nominated Directors. The Members of the Risk Committee as at 30 June 2015 are Geoffrey Ellis (Chairman), Jill Martin and William Rooney.

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;
- Reviewing the performance and setting the objectives of the institution's Chief Risk Officer (CRO); and
- Oversight of the appointment and removal of the CRO.

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 and compliance with Board requirements.

BOARD REMUNERATION

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

MONITORING THE BOARD'S PERFORMANCE

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

CHAIRMAN'S REPORT

The 2014/2015 financial year was predicted by your Board and management to be a difficult one for your credit union. Operating a financial institution in the lowest interest rate environment in living memory can be difficult indeed. Of course, low interest rates are excellent for borrowers of funds but challenging for depositors and investors. So are low interest rates challenging for small mutual financial institutions such as The Mac. Nevertheless, the year has delivered better than anticipated outcomes on a number of fronts.

Firstly, from a budgeted position of around $562,000, we have delivered a pre-tax profit of about $839,000. This is largely helped by asset sales with two of our properties sold during the year, however it is also due to the diligence and skill of the team at The Mac.

Secondly, a range of service and product improvements throughout the year has been achieved through the good planning, hard work and enthusiasm of our team. Though it is not strictly just products and services that we offer our members. We are constantly helping you to find solutions to your needs both now and in the future. The development and sustaining of a solutions culture is a prime goal of our team and we are all (staff and directors alike) working hard to ensure that finding solutions for you is our first priority.

In order to build and provide better solutions, we do need to make sure that we are offering you the services that you need.

The first of our Branch upgrades occurred in early December last year with the relocation of our Tahmoor branch to the Town Centre Shopping Plaza. For those of you who have visited, I think that you'll agree that it is a wonderful improvement with its clear focus on the needs of the members rather than the standard banking chamber layout. We have similar plans at Narellan – where we will be moving into the new section of the Narellan Town Centre – in this financial year and at our flagship Camden branch which will receive an upgrade and makeover as well.

The small things, too, make life easier for our members. An upgrade of all of our ATMs, new coin counting machines and receipt printers during the year smooths the way for your transactions. But these "things" really take a long second place to the real reason why you love banking with The Mac. Our people. We have a committed and passionate crew of people who love being able to find solutions for you each and every day. It is the people of The Mac that make the difference. A small team delivering big results for you.

As an organisation, it continues to be a difficult business environment for smaller customer-owned banking institutions. However, I am pleased to see that a

CHAIRMAN'S REPORT (CONTINUED)

number of the indicators which we use to measure our relevance to our community are trending favourably:

- New members per month – though fluctuating is trending upward
- Products per member – at its highest level since we started measuring
- Total assets entrusted to us – increased 10.5% last year

So, in short, we are finding solutions for more people and they are doing more of their financial business with us. That's what we're here for!

I have mentioned our extraordinary staff before. They are guided by an excellent management team with skill and enthusiasm. May I thank Dave Cadden, his management and staff for everything they do for our members. I'd also like to thank my colleague directors on the board of the credit union for their support and guidance.

We all look forward to the new financial year and its challenges as we continue to provide solutions for you.

Greg Wright
Chairman

CEO'S REPORT

Last year I spoke about "….investments that will ensure our sustainability and relevance into the future". I am pleased to report that we have brought some of these investments to "life". In addition, we have continued to further define the core values that make us "friendly, helpful & supportive". This will materialise in the next 12 months in the shape of more efficient products and processes for our members.

The most significant example of our "future investment" in 2014/15 was the relocation of our Tahmoor Branch. At a time where one of our "Big 4" competitors was withdrawing from Tahmoor, we took the decision to build for the future. Our new Tahmoor Branch represents the first iteration of our "Branch of the Future", with its emphasis on efficient transaction processing and creating an environment where staff can provide member solutions. This has brought to life our core values of friendly, helpful and supportive.

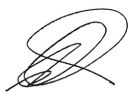
We have also commenced the process of updating transaction processing technology across our other Branch offices. This is already providing members with a more efficient process.

The interest rate environment has gone into further unchartered waters, with current rates the lowest in Australia's history. While this impacts general economic confidence, it has a direct impact on our depositors. As a large number of these depositors are self funded retirees, they are feeling the impact of the long term reductions in cash flows. Our goal is to provide them with continued cash flows while maintaining competitive rates.

Conversely, the low interest rate environment is good news for borrowers. A good number of members have taken advantage of our extremely competitive loan rates. However, this environment will not last forever. To this end we take a prudent approach and ensure that new borrowers can comfortably meet future increased loan repayments.

I would like to thank Chairman Greg Wright and the Board of Directors for another year of wise counsel and direction. I would also like to thank the Board for their courage and support in continuing to "invest for the future".

To the staff of The Mac, I am constantly amazed by what we achieve with our small, yet passionate and dedicated team. We don't have the luxury of thousands of staff to deliver products and services, yet what we deliver stands up against our major competitors. To all of you, I would like to extend my thanks for a job well done.



Dave Cadden
CEO

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 2015 and the auditor's report thereon.

DIRECTORS

The directors of the Credit Union at any time during or since the end of the financial year are:

Name, qualifications, and special responsibilities

Greg Wright B Bus, MBA, MLGMA, AFAIM, MAICD, FAMI	Chairman of Directors Chairman Executive Committee Board Member since 1994
Phillip Rankin B Bus, CPA, MAMI, JP	Vice Chairman of Directors Audit Committee Member Board Member since 1995
Neville Hoskin MAMI	Chairman Governance Committee Executive Committee Member Board Member since 2002
Geoffrey Ellis B Bus, M Bus, FCPA, FAIM, CPBB, MIMC, MAIBB, JP, MAMI, MAICD	Chairman Risk Committee Executive Committee Member Board Member since 2012
Jill Martin MAMI	Risk Committee Member Board Member since 2012
Lloyd Pollard B Com, JP, MAMI	Chairman Audit Committee Executive Committee Member Board Member since 2008
Kylie Powell MAMI	Governance Committee Member Board Member since 2007
Robert Rofe MAMI	Audit Committee Member Board Member since 2007
William Rooney MAMI	Risk Committee Member Board Member since 2007
Deborah Vardy MAMI	Governance Committee Member Board member since 2014

DIRECTORS' REPORT (CONTINUED)

COMPANY SECRETARY

Mr David Cadden has been the CEO and Company Secretary since 2007. Mr Cadden has extensive experience in the broader financial services sector, and has held previous general management positions with other Credit Unions.

Mr Paul Brooks has been Deputy General Manager and Company Secretary since 25 October 2007. Mr Brooks was previously the Credit Union's Finance Manager for the period 2001-2007.

DIRECTORS' 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**		**Executive Committee meetings**		**Governance Committee meetings**	
	E	**A**	**E**	**A**	**E**	**A**	**E**	**A**	**E**	**A**
Number of meetings held:	12		8		9		2		2	
Number of meetings attended:										
Greg Wright	12	12		1			2	2		
Phillip Rankin	12	11	8	7			2	2		
Neville Hoskin	12	12					2	2	2	2
Geoffrey Ellis	12	11			9	9	2	2		
Jill Martin	12	9			9	8				
Lloyd Pollard	12	9	8	7			2	2		
Kylie Powell	12	11							2	2
Robert Rofe	12	11	8	7						
William Rooney	12	11			9	8				
Deborah Vardy	12	11							2	2

E = Eligible to attend
A = Attended

DIRECTORS' REPORT (CONTINUED)

DIRECTORS' INTERESTS AND BENEFITS

During or since the financial year ended 30 June 2015, 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 29, 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 29.

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

INDEMNIFICATION AND INSURANCE OF OFFICERS AND AUDITORS

Indemnification

The Credit Union has agreed to indemnify the officers of the Credit Union against all liabilities to another person that may arise from their position as officers of the Credit Union, except where the liability arises out of conduct involving a lack of good faith. The agreement stipulates that the Credit Union will meet the full amount of any such liabilities, including costs and expenses.

Insurance

The officers of the Credit Union covered by the insurance contract include the directors, executive officers, secretaries and employees.

The directors have not included details of the nature of the liabilities covered or the amount of the premium paid in respect of the directors' and officers' liability and legal expenses insurance contracts, as such disclosure is prohibited under the terms of the contract.

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

There has been no significant change in the nature of these activities during the year ended 30 June 2015.

DIRECTORS' REPORT (CONTINUED)

OPERATING AND FINANCIAL REVIEW

The amount of profit for the financial year after providing for income tax, was $612,234 (2014 $921,514).

The profit for the year was significantly impacted by two property sales. These were our former Tahmoor branch & a factory unit in Narellan deemed surplus to requirements. This is a continuation of a strategic initiative commenced in 2013/14 to refresh & in some cases relocate our Branch locations.

The year also saw a continuation of the "awareness raising" following the launch of The Mac brand in 2013. While the one-off expenses incurred in the year were not of the same quantum as in 2013/14, they did have an impact on the profit result.

The Directors are satisfied with the operating profit result for the year, particularly in light of:

- The lowest interest rate environment in Australia's history, particularly with the official Cash Rate falling further in early 2015
- Ongoing economic uncertainty, with mixed signals coming from the various economic indicators
- Intense competition (locally and nationally) in both the loan and deposit market
- The continuation of a number of significant strategic projects and the requisite commitment of financial and human resources

We have continued to grow our asset base in spite of the internal and external factors described above. This is testament to the value and service levels provided to our members. Evidence of this value is illustrated by:

- Many of our members have taken advantage of our extremely competitive Car & Home loans
- Members with a Fixed Rate or Standard Variable mortgage loan do not pay transaction fees
- The member service experience has been streamlined across our Branches with the introduction of new technology
- Our remote service delivery options include a mobile "app"
- Our service team is available to meet members at a time and place of their choosing

Unfortunately, with the continued record low interest rate environment, deposit holders have been significantly impacted in terms of falling rates and returns. This impact applies to a significant number of our long term, loyal members. Notwithstanding this, we will continue to strive to offer market competitive rates, as well as our renowned levels of service.

The Mac continues to maintain exceptionally strong prudential standards. These fundamentals are well in excess of prescribed minimum regulatory standards. It should be noted that these prescribed standards are the same as those applied to the major banks.

DIRECTORS' REPORT (CONTINUED)

OPERATING AND FINANCIAL REVIEW (CONTINUED)

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. These contributions range from our Community Grants Program to small donations for specific purposes. Our Staff and Directors are also extremely active with their involvement in local community 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
- Rental of premises at concessional rates
- Senior Management acting as Directors/Committee members on a number of Boards
- Director involvement at events staged by charitable/community groups

This support amounts to a figure in the order of $201,000 for 2014/15. 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 2014/15:

- Camden Mens Bowling Club
- Campbelltown Senior Cyber Seekers Inc
- Disability Services Australia
- Macarthur Singers Inc
- Men's Shed Narellan Inc
- Picton Community Preschool
- Picton Branch – CWA
- Softball Macarthur
- Special Ed. Support Unit – Currans Hill PS
- Wollondilly Netball Association Inc
- Camden Mens Bowling Club
- Narellan Vale Public School
- Picton High School
- Macarthur Skylarks Hockey Club
- St Pauls P & F Association
- Macarthur BMX Club
- Caring for Wollondilly
- Elderslie High School
- Elizabeth Macarthur High School
- Camden Country Music Festival

DIRECTORS' REPORT (CONTINUED)

COMMUNITY SUPPORT (CONTINUED)

The end of the 2014/15 year saw the conclusion of our arrangement with the Kids of Macarthur Health Foundation for the provision of premises in Argyle Street, Camden. These premises will be utilised for other purposes, while the Foundation will be returning to their spiritual base at Campbelltown Hospital. The Mac would like to extend its thanks and best wishes to the Foundation.

SIGNIFICANT CHANGES IN THE 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

No matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations, or state of affairs of the Credit Union in future financial years.

LIKELY DEVELOPMENTS

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.

LEAD AUDITOR'S INDEPENDENCE DECLARATION UNDER SECTION 307C OF THE CORPORATIONS ACT 2001

The lead auditor's independence declaration is set out on page 16 and forms part of the directors' report for the financial year ended 30 June 2015.

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

Phillip Rankin	Lloyd Pollard
Acting Chairman of Board of Directors	Chairman Audit Committee

Dated at Camden this 19th day of August 2015

KPMG

LEAD AUDITOR'S INDEPENDENCE DECLARATION UNDER SECTION 307C 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 2015 there have been:

(i) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and

(ii) no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

KPMG

Richard Drinnan
Partner

Signed at Camden this 19th day of August 2015

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2015

	Note	2015 $	2014 $
Interest revenue	4	10,626,855	10,512,844
Interest expense	4	(4,017,284)	(4,161,356)
Net interest income		6,609,571	6,351,488
Fee and commission income	5	1,359,916	1,352,381
Fee and commission expenses	7	(678,552)	(582,695)
Net fee and commission income		681,364	769,686
Other income	6	140,470	176,211
Profit/(Loss) on disposal of assets		413,005	1,119,377
Operating income		7,844,410	8,416,762
Net impairment loss on loans and receivables	12	(12,689)	(16,097)
Non Lending Losses		(16,393)	(14,155)
Personnel expenses	7	(3,462,685)	(3,461,204)
ATM expenses		(277,607)	(282,721)
General administration expenses		(460,013)	(478,045)
Other operating expenses		(1,285,327)	(1,571,627)
Depreciation and amortisation expenses	7	(283,180)	(343,711)
Information technology expenses		(787,535)	(738,716)
Office occupancy expense		(419,663)	(258,635)
Profit before income tax		**839,318**	**1,251,851**
Income tax expense	9	(227,084)	(330,337)
Profit for the year		**612,234**	**921,514**
Other comprehensive income			
Items that will not be reclassified to profit or loss		-	-
Items that may be reclassified subsequently to profit or loss		-	-
Total other comprehensive income for the year		-	-
Total comprehensive income for the year		**612,234**	**921,514**

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 21 to 66.

STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2015

	Note	2015 $	2014 $
Assets			
Cash and cash equivalents	10	2,234,111	1,284,100
Loans and receivables	11(a)	206,394,786	197,483,717
Held to maturity	11(b)	17,000,000	5,500,000
Other financial assets	13	557,812	557,812
Assets held for sale	15	-	227,690
Property, plant and equipment	16	2,613,763	2,475,819
Investment property	17	101,627	103,213
Intangibles	18	132,520	136,113
Deferred tax assets	14	326,474	318,811
Other assets	19	2,487,853	1,565,984
Total assets		**231,848,946**	**209,653,259**
Liabilities			
Deposits	20	206,836,173	184,946,333
Trade and other payables	21	841,648	1,210,113
Current tax payable	14	139,828	152,301
Provisions	22	755,296	680,745
Total liabilities		**208,572,945**	**186,989,492**
Net assets		**23,276,001**	**22,663,767**
Equity			
Reserves	23(b)	525,472	503,970
Retained earnings	23(a)	22,750,529	22,159,797
Total equity		**23,276,001**	**22,663,767**

The statement of financial position is to be read in conjunction with the notes to the financial statements set out on pages 21 to 66.

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2015

	Note	2015 $	2014 $
Cash flows from operating activities			
Interest received		10,604,030	10,226,262
Dividends received		85,842	110,915
Other cash receipts in the course of operations		564,854	1,531,010
Interest paid		(4,069,466)	(4,308,935)
Income taxes paid		(247,219)	(152,299)
Net loans funded		(1,222,921)	(2,869,602)
Net increase in deposits		21,942,022	8,326,582
Other cash payments in the course of operations		(7,762,761)	(7,097,599)
Net cash flows from operating activities	**27 a)**	**19,894,381**	**5,766,334**
Cash flows from investing activities			
Net (increase)/decrease in investments with ADI's		(19,200,838)	(7,040,180)
Proceeds on sale of equity securities		-	17,362
Proceeds on sale of investment property		-	262,061
Proceeds on sale of intangibles		-	19,681
Proceeds on sale of property, plant and equipment & assets held for sale		818,307	1,717,545
Rental income from investment properties		31,721	24,458
Acquisitions of property, plant and equipment		(517,625)	(154,332)
Acquisition of intangible assets		(75,935)	(147,919)
Net cash flows from investing activities		**(18,944,370)**	**(5,301,324)**
Net increase/(decrease) in cash held		**950,011**	**465,010**
Cash at the beginning of the financial year		1,284,100	819,090
Cash at the end of the financial year	**27 b)**	**2,234,111**	**1,284,100**

The statement of cash flows is to be read in conjunction with the notes to the financial statements set out on pages 21 to 66.

STATEMENT OF CHANGES IN EQUITY

	Redeemed share capital reserve	General reserve for credit losses	Retained earnings	Total equity
	$	$	$	$
Balance at 1 July 2013	84,900	393,337	21,264,016	21,742,253
Total comprehensive income for the year				
Profit after tax	-	-	921,514	921,514
Other comprehensive income				
Total other comprehensive income for the year	-	-	-	-
Total comprehensive income for the year	-	-	-	-
Transfer from/(to) retained profits	6,140	19,593	(25,733)	-
Balance at 30 June 2014	91,040	412,930	22,159,797	22,663,767
Balance at 1 July 2014	91,040	412,930	22,159,797	22,663,767
Total comprehensive income for the year				
Profit after tax	-	-	612,234	612,234
Other comprehensive income				
Total other comprehensive income for the year	-	-	-	-
Total comprehensive income for the year	-	-	-	-
Transfer from/(to) retained profits	12,695	8,807	(21,502)	-
Balance at 30 June 2015	103,735	421,737	22,750,529	23,276,001

The statement of changes in equity is to be read in conjunction with the notes to the financial statements set out on pages 21 to 66.

NOTES TO THE FINANCIAL STATEMENTS

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 19 August 2015.

b) Basis of measurement

The financial statements have been prepared on the historical cost basis unless otherwise indicated.

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.

NOTES TO THE FINANCIAL STATEMENTS

2. Basis of preparation (continued)

d) Use of estimates and judgements (continued)

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(j) – Impairment
- note 3(k) – Employee benefits

Management discussed with the Audit Committee the development, selection and disclosure of the Credit Union's critical accounting policies and estimates and the application of these policies and estimates.

3. Significant accounting policies

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

a) Property, plant and equipment

(i) Recognition and measurement

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

3 Significant accounting policies (continued)

a) Property, plant and equipment

(ii) Subsequent costs

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

(iii) Depreciation

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

The estimated useful life 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.

NOTES TO THE FINANCIAL STATEMENTS

3 Significant accounting policies (continued)

c) Intangibles

i) Computer software

Where computer software costs are not integrally related to associated hardware, the Credit Union recognises them as an intangible asset where they are clearly identifiable, can be reliably measured and it is probable they will lead to future economic benefits that the Credit Union controls.

The capitalised costs of computer software include all costs directly attributable to developing the software. This incorporates the direct cost of acquiring the computer software payable to the third party supplier.

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

Amortisation is recognised in profit or loss on a straight line basis over the estimated useful 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) Other financial assets

i) Available-for-sale financial assets

Investments in equity securities are classified by the Credit Union as available for sale financial assets. These financial instruments are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses, are recognised in other comprehensive income and presented within equity in the equity investments revaluation reserve. When an investment is derecognised, the cumulative gain or loss in equity is transferred to profit or loss.

The fair value of equity securities traded in an active market and classified as available for sale, is their quoted bid price at the balance sheet date.

Unlisted equity securities without a "readily tradeable market" are initially measured at fair value plus any directly attributable transaction costs.

NOTES TO THE FINANCIAL STATEMENTS

3. Significant accounting policies (continued)

d) Other financial assets (continued)

i) Available-for-sale financial assets (continued)

Subsequent to initial recognition the financial instruments are measured at amortised cost less any impairment losses. The Credit Union has two unlisted equity investments. Shares in CUSCAL Limited and TransAction Solutions Limited are held for operation reasons and are not held for capital gain of for the purposes of trading. There is no active market for these shares and they are only traded between other mutual ADI's and therefore measured at cost less any impairment.

ii) Held to maturity financial assets

Held to maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that an entity has the positive intention and ability to hold to maturity, other than those that the entity upon initial recognition designates as at fair value through profit or loss; those that the entity designates as available for sale; and those that meet the definition of loans and receivables.

These assets are initially recognised at fair value plus any directly attributable transaction costs. Subsequent to initial recognition they are measured at amortised cost using the effective interest rate method.

e) Loans and receivables

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

Loans to members are initially recorded at fair value plus any directly attributable transaction costs. Subsequent measurement is at amortised cost using the effective interest rate method, after assessing required provisions for impairment as described in note 3(j).

Term deposits with other financial institutions are unsecured and have a carrying amount equal to their principal amount. Interest is paid on the daily balance at maturity. The accrual for interest receivable at balance date is calculated on a proportional basis of the expired period of the term of the investment.

NOTES TO THE FINANCIAL STATEMENTS

3. Significant accounting policies (continued)

f) Assets classified as held for sale

Assets that are expected to be recovered primarily through sale rather than through continuing use are classified as held for sale. Immediately before classification as held for sale, the assets are remeasured in accordance with the Credit Union's accounting policies. Thereafter the assets are measured at the lower of their carrying amount and fair value less costs to sell. Impairment losses on initial classification as held for sale and subsequent gains or losses on re-measurement are recognised in profit and loss.

g) Trade and other receivables

Trade and other receivables are stated at amortised cost.

h) Other assets

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

i) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, cash balances in the Credit Union's bank accounts and at call deposits. 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.

j) Impairment

(i) Financial assets

Financial assets are assessed at each reporting date to determine whether there is any objective evidence that a financial asset is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate. An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its fair value.

NOTES TO THE FINANCIAL STATEMENTS

3. Significant accounting policies (continued)

j) Impairment (continued)

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised in profit or loss. Any cumulative loss in respect of an available-for-sale financial asset previously recognised in equity is transferred to profit or loss. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost and available-for-sale financial assets that are debt securities, the reversal is recognised in profit or loss. For available for sale financial assets that are equity securities, the reversal is recognised directly in equity.

(ii) Loan impairment

The methodology and assumptions used for estimating likely future losses are reviewed regularly to reduce any differences between loss estimates and actual loss experience. Changes in the assumptions used for estimating likely future losses could result in a change in the provision for loan impairment and have a direct impact on the impairment charge.

In cases where there is specific evidence of impairment a provision of 100% of the outstanding balance of personal loans is applied.

For those loans with arrears levels of greater than 30 days, a collective provision is allocated based on the level of arrears. All loans with arrears of greater than 180 days have a provision of 100% applied to them.

The Credit Union's past history on loans secured by a registered first mortgage over real estate indicates that the probability of loss is minimal. As such, no allowance has been made in the provision calculations for loans in arrears secured by a registered first mortgage over real estate.

A general reserve for credit losses is also held as an additional allowance for bad debts to meet prudential requirements.

All bad debts are written off in the period in which they are identified, as approved by the board of directors after consultation with management. This action is taken when it is reasonable to expect that the recovery of the debt is unlikely.

NOTES TO THE FINANCIAL STATEMENTS

3. Significant accounting policies (continued)

j) Impairment (continued)

(iii) 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 and loss, 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.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists.

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

k) Employee benefits

(i) 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 under short-term cash bonus or profit-sharing plans if the Company 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.

NOTES TO THE FINANCIAL STATEMENTS

3. Significant accounting policies (continued)

k) Employee benefits (continued)

(ii) Defined contribution plans

Obligations for contributions to defined contribution plans are expensed as the related service is provided. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

(iii) Other 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.

l) 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.

m) 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.

NOTES TO THE FINANCIAL STATEMENTS

3. Significant accounting policies (continued)

n) Revenue from financial assets

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Credit Union and the revenue can be reliably measured.

Interest income is recognised in the income statement as it accrues, using the effective interest method. Dividend income is recognised in the income statement on the date the Credit Union’s right to receive income is established.

o) Fees and commissions

Fee and commission income and expenses that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

Other fee and commission income is recognised as the related services are performed. Other fee and commission expense relates mainly to transaction and service fees which are expensed as the services are received.

p) 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.

q) Operating leases

Payments made under operating leases are recognised in the profit or loss on a straight-line basis over the term of the lease.

r) Income tax

Income tax on the profit or loss 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 balance sheet 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

NOTES TO THE FINANCIAL STATEMENTS

3. Significant accounting policies (continued)

r) Income tax (continued)

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 sheet 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.

s) Goods and services tax

Revenue, expenses and assets are recognised net of the amount of goods and services tax ("GST") except where the amount of GST incurred is not recoverable from the Australian Taxation Office ("ATO").

In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

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

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

NOTES TO THE FINANCIAL STATEMENTS

3. Significant accounting policies (continued)

t) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 July 2014, and have not been applied in preparing these financial statements. Those which may be relevant to the Company are set out below. The Company does not plan to adopt these standards early.

AASB 9 Financial Instruments

AASB 9, published in July 2014, replaces the existing guidance in AASB 139 *Financial Instruments: Recognition and Measurement*. AASB 9 includes revised guidance on the classification and measurement of financial instruments, including the new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from AASB 139.

AASB 9 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.

The Company has not yet determined the impact on its financial statements resulting from the application of AASB 9.

NOTES TO THE FINANCIAL STATEMENTS

	2015 $	2014 $
4. Interest revenue and expense		
Interest revenue		
Deposits with other ADI's	2,681,056	2,308,081
Loans to members	7,945,799	8,204,763
	10,626,855	10,512,844
Interest expense		
Deposits	4,015,605	4,159,555
Interest bearing liabilities	1,679	1,801
	4,017,284	4,161,356
Net interest income	6,609,571	6,351,488
5. Fee and commission income		
ATM fees	416,718	453,373
Direct debit fees	297,860	357,457
Loan fees	88,460	53,450
Direct entry reference fees	145,570	129,375
Insurance commission	75,975	64,121
Cheque book issue fees	18,918	19,700
BPAY transaction commission	79,548	80,793
Other fee and commission income	236,867	194,112
	1,359,916	1,352,381
6. Other income		
Dividends from available for sale equity securities	85,842	110,915
Rental income from investment properties	31,721	24,458
Bad debts recovered	22,319	30,024
Other revenue	588	10,814
	140,470	176,211

NOTES TO THE FINANCIAL STATEMENTS

	2015 $	2014 $
7. Other expenses		
Fee and commission expenses		
ATM fees	322,735	294,757
Card issue fees	63,689	12,057
Dishonour fee expenses	5,562	5,480
Other fee and commission expenses	286,566	270,401
	678,552	582,695
Personnel expenses		
Wages and salaries	2,984,077	3,018,360
Superannuation contributions	266,653	246,783
Payroll tax	137,403	129,019
Provision for employee entitlements	74,552	67,042
	3,462,685	3,461,204
Depreciation & amortisation expenses		
Plant and equipment	92,974	89,969
Buildings	97,700	131,752
Leasehold improvements	11,393	1,715
Investment properties	1,585	5,129
Intangible assets	79,528	115,146
	283,180	343,711

NOTES TO THE FINANCIAL STATEMENTS

	2015 $	2014 $
8. Auditors' remuneration		
Audit and review services		
Auditors of the Company		
KPMG		
Audit of financial statements	58,420	58,420
Other regulatory assurance services	31,080	25,080
	89,500	83,500
Other services		
KPMG		
Taxation services	11,803	11,555
Co-sourced internal audit activities	17,790	43,350
	29,593	54,905
	119,093	138,405

a) Recognised in the income statement		
Current tax expense		
Current year	231,135	287,162
Adjustments for prior years	3,613	(9,396)
	234,748	277,766
Deferred tax expense		
Origination and reversal of temporary differences	(4,051)	34,317
Adjustments for prior years	(3,613)	18,254
	(7,664)	52,571
Total income tax expense in income statement	227,084	330,337

NOTES TO THE FINANCIAL STATEMENTS

		$	$
9. Income tax expense (continued)			
b) Reconciliation between income tax expense and profit before tax			
Profit before tax		839,318	1,251,851
Income tax using the domestic corporation tax rate of 30%		251,795	375,555
Increase in income tax expense due to:			
Imputation gross-up on dividends received		11,037	14,261
Non-deductible expenses		20,439	30,665
Decrease in income tax expense due to:			
Other deductible expenses		(19,398)	(29,933)
Franking credits on dividends received		(36,789)	(47,535)
Recognition of previously unrecognised capital loss		-	(21,534)
Under/over provided in prior periods		-	8,858
Income tax expense		227,084	330,337
10. Cash and cash equivalents			
Cash on hand		583,905	614,667
Cash at bank		1,650,206	669,433
		2,234,111	1,284,100
11. Financial assets			
a) Loans and receivables			
Investments placed with other ADI's classified as loans and receivables		66,494,859	58,794,021
Loans to members:			
Overdrafts		64,523	63,911
Term loans		135,681,572	134,947,558
Loans to related parties	29	4,246,403	3,772,483
Provision for impairment	12	(92,571)	(94,256)
		139,899,927	138,689,696
Total loans and receivables		206,394,786	197,483,717
b) Held to maturity			
Investments placed with other ADI's classified as held to maturity		17,000,000	5,500,000
		17,000,000	5,500,000

Further details of the risks associated with loans and receivables and the management of those risks are contained in Note 28. Details of loans to related parties are included at Note 29.

NOTES TO THE FINANCIAL STATEMENTS

	2015 $	2014 $
12. Loans and receivables-provision for impairment		
The provision for impairment comprises:		
Specific provision		
Opening balance	43,555	69,201
Addition to provision	53,069	15,971
Loans written off , previously provided	-	(7,188)
Reversal of provision	(37,226)	(34,429)
Closing balance	59,398	43,555
Collective provision		
Opening balance	50,701	16,146
Addition to provision	24,417	34,555
Loans written off , previously provided	(2,253)	-
Reversal of provision	(39,692)	-
Closing balance	33,173	50,701
Total provision for impairment	92,571	94,256
Analysis of net impairment loss on loans and receivables:		
Movement in specific provision	15,843	(25,646)
Movement in collective provision	(17,528)	34,555
Loans written off directly against profit or loss	14,374	7,188
	12,689	16,097

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 23 for details of this reserve.

13. Other financial assets

Available for sale equity securities

	2015 $	2014 $
Unlisted shares-at cost	557,812	557,812
	557,812	557,812

NOTES TO THE FINANCIAL STATEMENTS

	2015	2014
	$	$
14. Tax assets and liabilities		
Deferred tax assets and liabilities		
Deferred tax assets and liabilities are attributable to the following:		
Deferred tax assets		
Property, plant & equipment	28,769	45,776
Provisions	254,360	232,500
Accruals	24,702	24,596
Intangibles	833	7,538
Other	25,300	8,401
Total deferred tax assets	333,964	318,811
Deferred tax liabilities		
Other	(7,490)	-
Total deferred tax liabilities	(7,490)	-
Net deferred tax assets	326,474	318,811
Deferred tax assets have not been recognised in respect of the following items:		
Capital losses	-	-

The capital losses do not expire under current tax legislation. Deferred tax assets with respect to capital losses have not been recognised because it is not probable that future taxable capital gains will be available against which the Credit Union can utilise the benefits.

Current tax assets and liabilities

The current tax liability for the Credit Union of $139,828 (2014: $152,301) represents the amount of income tax payable in respect of the current and prior periods due to the Australian Taxation Office.

NOTES TO THE FINANCIAL STATEMENTS

	2015 $	2014 $
15. Assets held for sale		
Investment properties	-	227,690

In February 2014 the Board of Directors approved the sale of the Exchange Parade, Narellan property. The sale of the property was settled in September 2014.

	2015 $	2014 $
16. Property, plant and equipment		
Freehold land and buildings		
Freehold land-at cost	357,107	357,107
Buildings on freehold land-at cost	2,938,790	3,272,111
Provision for depreciation	(1,428,129)	(1,504,397)
	1,867,768	2,124,821
Leasehold improvements		
At cost	247,057	-
Provision for depreciation	(11,393)	-
	235,664	-
Plant and equipment		
At cost	1,408,768	1,255,764
Provision for depreciation	(898,437)	(904,766)
	510,331	350,998
Total property, plant and equipment		
At cost	4,951,722	4,884,982
Provision for depreciation	(2,337,959)	(2,409,163)
	2,613,763	2,475,819

NOTES TO THE FINANCIAL STATEMENTS

16. Property, plant and equipment (continued)

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

2015	Freehold land and buildings	Leasehold improvements	Plant and equipment	Total
	$	$	$	$
Carrying amount at the beginning of the year	2,124,821	-	350,998	2,475,819
Additions	11,454	247,057	259,881	518,392
Disposals	(170,807)	-	(7,574)	(178,381)
Depreciation	(97,700)	(11,393)	(92,974)	(202,067)
Carrying amount at the end of the year	1,867,768	235,664	510,331	2,613,763

2014	Freehold land and buildings	Leasehold improvements	Plant and equipment	Total
	$	$	$	$
Carrying amount at the beginning of the year	3,115,831	9,433	399,653	3,524,917
Additions	47,218	-	107,114	154,332
Transfer (Out)/In	35,027	-	(35,027)	-
Transfer to assets held for sale	(227,690)	-	-	(227,690)
Disposals	(713,813)	(7,718)	(30,773)	(752,304)
Depreciation	(131,752)	(1,715)	(89,969)	(223,436)
Carrying amount at the end of the year	2,124,821	-	350,998	2,475,819

During the year obsolete plant and equipment with a carrying value of $2,443 (original cost $142,654) was written off.

NOTES TO THE FINANCIAL STATEMENTS

	2015 $	2014 $
17. Investment property		
Investment property-at cost	133,417	133,417
Provision for depreciation	(31,790)	(30,204)
	101,627	103,213

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

Carrying amount at the beginning of the year	103,213	216,267
Additions	-	-
Disposals	-	(107,925)
Depreciation	(1,586)	(5,129)
Carrying amount at the end of the year	101,627	103,213

Investment property comprises a commercial property which is leased to a third party. The carrying amount of investment property is cost less accumulated depreciation and any impairment losses.

18. Intangibles

Computer software-at cost	831,346	755,411
Provision for amortisation	(698,826)	(619,298)
	132,520	136,113

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

Carrying amount at the beginning of the year	136,113	123,021
Additions	75,935	147,919
Disposals	-	(19,681)
Amortisation	(79,528)	(115,146)
Carrying amount at year end	132,520	136,113

NOTES TO THE FINANCIAL STATEMENTS

	2015 $	2014 $
19. Other assets		
Interest & fees receivable	911,637	888,812
Prepayments	256,976	175,907
Other	1,319,240	501,265
	2,487,853	1,565,984
20. Deposits		
Call deposits	129,674,662	109,206,424
Term deposits	76,746,973	75,273,189
Accrued interest payable	414,538	466,720
	206,836,173	184,946,333
21. Trade and other payables		
Trade creditors	216,240	267,967
Sundry creditors	625,408	942,146
	841,648	1,210,113
22. Provisions		
Employee benefits		
Annual leave	303,554	273,016
Long service leave-current	361,304	321,791
Long service leave-non current	90,438	85,938
	755,296	680,745

NOTES TO THE FINANCIAL STATEMENTS

	Note	2015 $	2014 $
23. Equity			
a) Retained earnings			
Balance at the beginning of the year		22,159,797	21,264,016
Profit for the year		612,234	921,514
Transfer to redeemed share capital account	23(b)(i)	(12,695)	(6,140)
Transfer from/(to) general reserve for credit losses	23(b)(ii)	(8,807)	(19,593)
Balance at the end of the year		22,750,529	22,159,797
b) Reserves			
Redeemed share capital account	23(b)(i)	103,735	91,040
General reserve for credit losses	23(b)(ii)	421,737	412,930
		525,472	503,970
i) Redeemed share capital account			
Balance at the beginning of the year		91,040	84,900
Member shares redeemed during year		12,695	6,140
Balance at the end of the year		103,735	91,040

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.

ii) General reserve for credit losses		
Balance at the beginning and end of the year	412,930	393,337
Transfer (to)/from retained profits	8,807	19,593
Balance at the end of the year	421,737	412,930

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.

NOTES TO THE FINANCIAL STATEMENTS

24. 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.

	2015 $	2014 $
Guarantees	506,796	459,548

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.

25. Operating leases

a) Leases as lessee

Operating lease rentals are payable as follows:

Within one year	248,457	148,500
Between one and two years	255,910	152,955
Between two and five years	475,433	157,544
	979,800	458,999

The Credit Union leases both the Narellan and Tahmoor branches under an operating lease. The initial term of the Narellan lease will expire 1 July 2017, with a 1 year renew option. The initial term of the Tahmoor lease will expire on 30 October 2019, with a 5 year renew option.

Lease payments are increased every year by 3%. During the financial year ended 30 June 2015, $202,732 was recognised as an expense in the income statement in respect of operating leases (2014: $17,179).

b) Leases as lessor

The end of the 2014/15 year saw the conclusion of our arrangement with the Kids of Macarthur Health Foundation for the provision of premises in Argyle Street, Camden. These premises are now leased to LJ Hooker Camden.

NOTES TO THE FINANCIAL STATEMENTS

25. Operating Leases (continued)

b) Leases as lessor (continued)

The Credit Union sub-leases out Narellan shop 1A to the Macarthur District Temporary Family Care under an operating lease. The terms of this sublease terminate on 30 June 2017, with no option to renew.

The Credit Union leases roof space at its Argyle Street Camden property to Vodafone Network Pty Ltd upon which a mobile phone tower has been installed. The initial term of the lease is for 5 years from 30 September 2011 with 2 additional 5 year terms.

	2015 $	2014 $
Operating lessor rentals are receivable as follows:		
Within one year	72,820	24,821
Between one and two years	75,766	25,366
Between two and five years	208,530	25,939
	357,116	76,126

During the financial year ended 30 June 2015, $31,721 was recognised as rental income in the income statement (2014: $24,549) and $Nil in respect of repairs and maintenance was recognised as an expense in the income statement relating to investment properties (2014: $Nil).

26. Commitments

a) Outstanding loan commitments		
Loans approved but not yet funded	6,920,485	2,208,726
b) Loan redraw facilities		
Undrawn value of redraw facilities	17,722,524	16,059,071

Redraw facilities are contingent on members maintaining credit standards and ongoing repayment terms on amounts drawn.

NOTES TO THE FINANCIAL STATEMENTS

26. Commitments (continued)

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 3.2% 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 3.2% of the contributing Credit Union's total assets.

NOTES TO THE FINANCIAL STATEMENTS

	2015	2014
27. Statement of cash flows		
a) Reconciliation of cash flows from operating activities		
Profit after tax	612,234	921,514
Adjustments for:		
(Gain) on sale of property, plant & equipment	(413,005)	(1,119,377)
Depreciation and amortisation	283,180	343,711
Impairment loss on loans and receivables	12,689	16,097
Rental income	(31,721)	(24,458)
Net cash from operating activities before changes in assets and liabilities	**463,377**	**137,487**
Net loans funded	(1,222,921)	(2,869,602)
Movement in interest receivable	(22,825)	(286,581)
Movement in other receivables	(817,969)	137,793
Movement in prepayments	(81,069)	(30,921)
Movement in current tax assets	(12,471)	125,470
Movement in net deferred tax assets	(7,664)	52,568
Net increase in deposits	21,942,022	8,326,582
Movement in accrued interest payable	(52,182)	(147,578)
Movement in trade creditors	(51,727)	10,460
Movement in sundry creditors	(316,741)	243,614
Movement in employee benefits	74,551	67,042
Net cash from/(used in) operating activities	**19,894,381**	**5,766,334**
b) Reconciliation of cash and cash equivalents		
Cash and cash equivalents comprises:		
Cash on hand and at bank	2,234,111	1,284,100

NOTES TO THE FINANCIAL STATEMENTS

28. 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 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 Compliance and Internal Audit Manager, the co-sourced internal audit function and the Chief Risk Officer. 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.

NOTES TO THE FINANCIAL STATEMENTS

28. Financial risk management (continued)

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 Sales Manager, reporting to the Projects and Services Manager, 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 Regional Managers and Branch Administrators. 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 Loans Administration staff in conjunction with the Credit Union's Compliance and Internal Audit Manager. The reviews centre on compliance with the Credit Union's Policies and Procedures, specifically the assessment of loan serviceability.

NOTES TO THE FINANCIAL STATEMENTS

28. Financial risk management (continued)

a) Credit risk (continued)

Exposure to credit risk

The carrying amount of the Credit Union’s financial assets represents the maximum credit exposure. The Credit Union’s maximum exposure to credit risk at the reporting date was:

	Loans to members		Investments placed with ADI's		Cash and cash equivalents	
	2015	**2014**	**2015**	**2014**	**2015**	**2014**
	$	$	**$**	**$**	**$**	**$**
Carrying Amount	139,899,927	138,689,696	83,494,859	64,294,021	2,234,111	1,284,100
Individually impaired						
Gross amount	59,398	43,555	-	-	-	-
Provision for impairment	(59,398)	(43,555)	-	-	-	-
Carrying amount	-	-	-	-	-	-
Collectively impaired						
Days in arrears:						
Less than 30 days	-	-	-	-	-	-
Greater than 30 days and less than 90 days	599,809	566,542	-	-	-	-
Greater than 90 days and less than 182 days	13,303	400,044	-	-	-	-
Greater than 182 days and less than 273 days	45,360	-	-	-	-	-
Greater than 273 days and less than 365 days	12,043	-	-	-	-	-
Greater 365 days	-	-	-	-	-	-
Provision for impairment	(33,173)	(50,701)	-	-	-	-
Carrying amount	637,342	915,885	-	-	-	-

NOTES TO THE FINANCIAL STATEMENTS

28. Financial risk management (continued)

a) Credit risk (continued)

Exposure to credit risk (continued)

	Loans to members		Investments placed with ADI's		Cash and cash equivalents	
	2015	**2014**	**2015**	**2014**	**2015**	**2014**
	$	**$**	**$**	**$**	**$**	**$**
Past due but not impaired						
Days in arrears:						
Less than 30 days	957,318	1,952,248	-	-	-	-
Greater than 30 days and less than 90 days	-	-	-	-	-	-
Greater than 90 days and less than 182 days	-	-	-	-	-	-
Greater than 182 days and less than 273 days	-	-	-	-	-	-
Greater than 273 days and less than 365 days	-	-	-	-	-	-
Greater 365 days	-	-	-	-	-	-
Carrying amount	957,318	1,952,248	-	-	-	-
Neither past due nor impaired						
Secured by mortgage	125,013,148	123,132,386	-	-	-	-
Secured by other	10,450,085	9,550,888	-	-	-	-
Unsecured	2,842,034	3,138,289	-	-	-	-
APRA regulated ADI	-	-	83,494,859	64,294,021	2,234,111	1,284,100
Carrying amount	138,305,267	135,821,563	83,494,859	64,294,021	2,234,111	1,284,100
Includes loans with renegotiated terms	-	-	-	-	-	-

NOTES TO THE FINANCIAL STATEMENTS

28. Financial risk management (continued)

a) Credit risk (continued)

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. All loans with arrears of greater than 180 days are fully provided for.

NOTES TO THE FINANCIAL STATEMENTS

28. Financial risk management (continued)

a) Credit risk (continued)

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:

	2015 $	2014 $
Against Individually impaired		
Property value	-	-
Against past due but not impaired	-	-
Property value	3,671,000	4,910,000
Other	-	-
Total	3,671,000	4,910,000

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 (2014: $Nil).

NOTES TO THE FINANCIAL STATEMENTS

28. Financial risk management (continued)

a) Credit risk (continued)

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 single exposure to any one Bank or rated Authorised Deposit-taking Institution (ADI) is to be no more than 5% of Capital. Exposure to any one unrated Mutual ADI is limited to no more than 1.5% of capital. The Credit Union operates predominately 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.

NOTES TO THE FINANCIAL STATEMENTS

28. Financial risk management (continued)

b) Liquidity risk (continued)

Exposure to liquidity risk (continued)

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

	2015	2014
As at 30 June	19.98%	16.51%
Average liquidity for the year	19.64%	17.98%
Minimum liquidity during the year	17.59%	16.01%
Maximum liquidity during the year	20.90%	20.53%

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

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

2015	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	206,836,173	(208,487,590)	(147,672,528)	(33,217,357)	(22,917,280)	(4,680,426)
Trade and other payables	841,648	(841,648)	(841,648)	-	-	-
	207,677,821	(209,329,238)	(148,514,176)	(33,217,357)	(22,917,280)	(4,680,426)
Unrecognised loan commitments	6,920,485	(6,920,485)	(6,920,485)	-	-	-
Total financial liabilities	214,598,306	(216,249,723)	(155,434,661)	(33,217,357)	(22,917,280)	(4,680,426)

2014	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	184,946,333	(186,935,681)	(125,802,804)	(34,063,567)	(25,726,537)	(1,342,773)
Trade and other payables	1,210,113	(1,210,113)	(1,210,113)	-	-	-
	186,156,447	(188,145,794)	(127,012,917)	(34,063,567)	(25,726,537)	(1,342,773)
Unrecognised loan commitments	2,208,726	(2,208,726)	(2,208,726)	-	-	-
Total financial liabilities	188,365,173	(190,354,520)	(129,221,643)	(34,063,567)	(25,726,537)	(1,342,773)

NOTES TO THE FINANCIAL STATEMENTS

28. Financial risk management (continued)

b) Liquidity risk (continued)

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 market risk is vested in the Audit Committee. The Audit Committee is responsible for the development of detailed risk management policies and for the day to day 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. This is illustrated in the following table, where the assets and liabilities are allocated according to their maturity/repricing time buckets. Where possible, the maturity profiles of assets and liabilities are matched in these time buckets.

NOTES TO THE FINANCIAL STATEMENTS

28. Financial risk management (continued)

c) Market risk (continued)

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

2015	Carrying amount	Less than 3 months	3 to 6 months	6 months to 1 year	1 to 2 years	2 to 3 years
Financial instruments						
Financial assets						
Cash and Cash Equivalents	2,234,111	2,234,111	-	-	-	-
Loans and Receivables	206,394,786	130,456,945	22,940,161	30,916,528	15,469,327	6,611,825
Held to Maturity	17,000,000	17,000,000	-	-	-	-
Total financial assets	225,628,897	149,691,056	22,940,161	30,916,528	15,469,327	6,611,825
Financial liabilities						
At Call Deposits	129,674,662	129,674,662	-	-	-	-
Term Deposits	77,161,511	50,345,619	16,098,053	6,183,641	4,534,198	-
Total financial liabilities	206,836,173	180,020,281	16,098,053	6,183,641	4,534,198	-
Gap	18,792,724	(30,329,225)	6,842,108	24,732,887	10,935,129	6,611,825
Cumulative gap		(30,329,225)	(23,487,118)	1,245,769	12,180,898	18,792,723

NOTES TO THE FINANCIAL STATEMENTS

28. Financial risk management (continued)

c) Market risk (continued)
A summary of the Credit Union's interest rate gap position is as follows. This table sets out the period in which the interest rate on the various financial instruments reprice.

2014	Carrying amount	Less than 3 months	3 to 6 months	6 months to 1 year	1 to 2 years	2 to 3 years
Financial instruments						
Financial assets						
Cash and Cash Equivalents	1,284,100	1,284,100	-	-	-	-
Loans and Receivables	197,483,717	109,652,443	31,074,229	33,422,471	3,138,804	20,195,770
Held to Maturity	5,500,000	5,500,000	-	-	-	-
Total financial assets	204,267,817	116,436,543	31,074,229	33,422,471	3,138,804	20,195,770
Financial liabilities						
At Call Deposits	109,206,424	109,206,424	-	-	-	-
Term Deposits	75,739,909	51,215,029	17,113,182	6,182,341	1,229,357	-
Total financial liabilities	184,946,333	160,421,453	17,113,182	6,182,341	1,229,357	-
Gap	19,321,484	(43,984,910)	13,961,047	27,240,130	1,909,447	20,195,770
Cumulative gap		(43,984,910)	(30,023,863)	(2,783,733)	(874,286)	19,321,484

NOTES TO THE FINANCIAL STATEMENTS

28. Financial risk management (continued)

c) Market risk (continued)

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 2015, the exposure was $36,331 (2014 $63,660). 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 2015:

	2015 $	2014 $
As at 30 June	0.16%	0.29%

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.

NOTES TO THE FINANCIAL STATEMENTS

28. Financial risk management (continued)

d) Fair value (continued)

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

- 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. The different levels have been defined 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 based on observable market data (unobservable inputs).

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.

NOTES TO THE FINANCIAL STATEMENTS

28. Financial risk management (continued)

d) Fair value (continued)

30 June 2015	Note	Carrying Amount	Level 1 $	Level 2 $	Level 3 $
Financial assets not measured at fair value					
Loans to members	11(a)	139,899,927	-	139,705,820	-
		139,899,927	**-**	**139,705,820**	**-**
Financial liabilities not measured at fair value					
Deposits	20	206,836,173	-	206,720,219	-
		206,836,173	**-**	**206,720,219**	**-**

30 June 2014	Note	Carrying Amount	Level 1 $	Level 2 $	Level 3 $
Financial assets not measured at fair value					
Loans to members	11(a)	138,689,696	-	138,688,356	-
		138,689,696	**-**	**138,688,356**	**-**
Financial liabilities not measured at fair value					
Deposits	20	184,946,333	-	184,900,353	-
		184,946,333	**-**	**184,900,353**	**-**

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:

	2015	2014
Loans to members	4.54% - 4.99%	5.24% - 5.49%
Deposits	2.2% - 2.5%	2.75% - 3.50%

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 as a whole. 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.

NOTES TO THE FINANCIAL STATEMENTS

28. Financial risk management (continued)

e) Capital management - regulatory capital (continued)

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).

NOTES TO THE FINANCIAL STATEMENTS

28. Financial risk management (continued)

e) Capital management - regulatory capital (continued)

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

	2015 $	2014 $
Common Equity Tier 1 capital		
Retained earnings	22,854,264	22,250,837
Regulatory adjustments to Common Equity Tier 1 Capital	(745,390)	(726,589)
Total Common Equity Tier 1 Capital	22,108,874	21,524,248
Tier 2 capital		
General reserve for credit losses	421,737	412,930
Regulatory adjustments to Tier 2 Capital	(278,906)	(271,665)
Total Tier 2 capital	142,831	141,265
Total capital base	22,251,705	21,665,513
Risk weighted assets	124,838,688	109,851,288
of which:		
Credit Risk	111,919,248	97,289,676
Operational Risk	12,919,440	12,561,612
Capital ratios		
Capital Adequacy Ratio	17.82%	19.72%

NOTES TO THE FINANCIAL STATEMENTS

29. 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

- Greg Wright
- Phillip Rankin
- Neville Hoskin
- Lloyd Pollard
- Kylie Powell
- Robert Rofe
- William Rooney
- Geoffrey Ellis
- Jill Martin
- Deborah Vardy

Executives

- David Cadden (CEO)
- Paul Brooks (Deputy General Manager)
- Graham Portors (Manager, Sales)
- Rebecca Brookes (Manager, Projects & Services)
- Craig Oliver (Manager, Compliance and Internal Audit)
- Bree Robbins (Chief Risk Officer)

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:

	2015 $	2014 $
Short term employee benefits	1,036,091	920,572
Post employment benefits- Superannuation contributions	89,852	78,030
Other long term benefits	54,156	25,602
Total	1,180,099	1,024,204

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

NOTES TO THE FINANCIAL STATEMENTS

29. Related parties (continued)

Loans to key management personnel

	2015 $	2014 $
The aggregate value of loans to KMP at balance date amounted to:	4,246,403	3,772,483
Addition of new KMP - Closing Balance brought forward	292,629	-
The aggregate value of loans disbursed to KMP during the year amounted to:	867,230	1,884,081
Interest and fees earned on loans to KMP	233,378	228,264
Repayments during the year	919,317	2,480,368

The Credit Union’s policy for lending to KMP 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.

NOTES TO THE FINANCIAL STATEMENTS

30. 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.

31. Subsequent events

There have been 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 subsequent financial years.

DIRECTORS' DECLARATION

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

(a) the financial statements and notes that are set out on pages 17 to 66 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 2015 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:

Phillip Rankin	Lloyd Pollard
Acting Chairman of Board of Directors	Chairman Audit Committee

Dated at Camden this 19th day of August 2015

Independent auditor's report to the members of Macarthur Credit Union Ltd

Report on the financial report

We have audited the accompanying financial report of Macarthur Credit Union Ltd (the Company), which comprises the statement of financial position as at 30 June 2015, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, notes 1 to 31 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In note 2a, the directors also state, in accordance with Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial report statements comply with International Financial Reporting Standards.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We performed the procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001* and Australian Accounting Standards, a true and fair view which is consistent with our understanding of the Company's financial position and of its performance.

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

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001.*

Auditor's opinion

In our opinion:

(a) the financial report of Macarthur Credit Union Ltd is in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the Company's financial position as at 30 June 2015 and of its performance for the year ended on that date; and

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

(b) the financial report also complies with International Financial Reporting Standards as disclosed in note 2a.

KPMG

KPMG

Richard Drinnan
Partner

Signed at Camden this 19th day of August 2015