MACARTHUR CREDIT UNION LTD

ABN: 83 087 650 244

45th ANNUAL REPORT
2016

DIRECTORS

Greg Wright (Chairman)
Lloyd Pollard (Vice Chairman)
Phillip Rankin
Neville Hoskin
Geoffrey Ellis
Deborah Vardy
Glenn Becker (Appointed 11 November 2015)
Jill Martin (Resigned 16 March 2016)
Kylie Powell (Resigned 11 November 2015)
William Rooney (Resigned 11 November 2015)
Robert Rofe (Resigned 11 November 2015)

ASSOCIATE DIRECTOR

Katie Palmer (Appointed 16 March 2016)

CEO

David Cadden

REGISTERED OFFICE

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

BRANCHES

52 Argyle St CAMDEN 2570	109-111 Argyle St PICTON 2571	1/8-10 Somerset Ave NARELLAN 2567	Shop 7, 117 Remembrance Dr 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 2016 are Greg Wright (Chairman), Neville Hoskin, Lloyd Pollard and Geoffrey Ellis.

The role of the Executive Committee is to:

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

Audit Committee

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

The Members of the Audit Committee as at 30 June 2016 are Lloyd Pollard (Chairman), Phillip Rankin, Neville Hoskin and Geoff Ellis.

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

The role of the Audit Committee is to:

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

Governance Committee

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

- Establishment and review of procedures to assess Board, Committee and Director performance;

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

Governance Committee (continued)

- 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 2016 are Neville Hoskin (Chairman), Phillip Rankin, Greg Wright, Deborah Vardy and Glenn Becker.

Risk Committee

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

The Members of the Risk Committee as at 30 June 2016 are Geoffrey Ellis (Chairman), Lloyd Pollard, Deborah Vardy and Glenn Becker.

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 credit union's Chief Risk Officer (CRO); and
- Oversight of the appointment and removal of the CRO.

Directors Nominations Committee

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

The specific functions of the Committee include:

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

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

Directors Nomination Committee (continued)

The Members of the Director Nominations Committee as at 30 June 2016 are Greg Wright, Lloyd Pollard and Phillip Rankin. In accordance with the Committee Charter an independent, external Chairman (Mark Bengtsson) has been appointed.

THE REVIEW OF CREDIT UNION POLICY

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

BOARD REMUNERATION

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

MONITORING THE BOARD'S PERFORMANCE

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

CHAIRMAN'S REPORT

The end of the 2015 / 2016 financial year sees an excellent result for your Credit Union. We have delivered a profit before tax of $862,978, well in excess of our budget forecast and generally against the trend for small community owned financial institutions like ours.

We have experienced significant growth in our home loan portfolio reflecting both the improvement in our product offering and the nature of the relationship that we have with our members. These relationships are particularly important when it comes to one of the biggest decisions and commitments most people ever make – the purchase of their family home. I am delighted that more of our members and members of our community are recognising the value of having a trusted adviser in The Mac.

Our membership continues to grow and our members use more of our services than they used to, both good signs that our desire to be friendly, helpful and supportive is delivering for our members. Our product suite is improving, we have fully transparent fees and charges and we are fair and reasonable with our customers. How many banks can say the same?

The great majority of the performance indicators that we set ourselves continue to be in positive territory and the results show great promise that the coming years of The Mac will be just as strong and secure as the past 45 years.

We have a dedicated team of Board directors and I would be remiss if I did not acknowledge the sterling service of four directors who retired from the Board during the past year. Kylie Powell, Robert Rofe and Bill Rooney all stepped down after eight years of committed service. Jill Martin also retired after several years on the Board. Each of these people made a difference. They undertook stewardship of your funds and your credit union. On behalf of all members, I thank them for their service.

It is also with some sadness that I note that stalwart director, Phillip Rankin, is retiring at this Annual General Meeting. Phil has been a true friend and colleague to all of us on the Board. He commenced his career on the Board in 1995 and has served continuously since. He has spent about 15 years as Deputy Chair to both myself and my predecessor and his annual summary of the financial results – presented at many AGMs in his role as Audit Committee Chair – was often a highlight of those meetings. We all wish Phil every happiness in the next phase of his life and thank him for his service.

CHAIRMAN'S REPORT (CONTINUED)

I would also like to acknowledge the seamless way in which the Board continued during my absence, due to ill health, over a three month period last year. This augurs well as I move towards my own retirement from the Board in 2018.

Of course, there are many people who make up our credit union. Our dedicated staff are all eager to help our members with the solutions they seek to their financial needs. They really do often go above and beyond in helping our members. This was demonstrated very clearly to me in early June after the extreme storms that devastated the township of Picton. Picton is my home and so I was in town early on the day after to check on The Mac's branch there among other things. A number of our senior staff were already on site and working in abominable conditions to make the branch safe and to salvage anything they could.

However, it was not this dedication that impressed me so much (even though it was impressive). It was the fact that those staff could report to me on how their Picton business customers had fared and it was clear that, even in those early hours, contact had been made with our friends and members in trouble. If that doesn't demonstrate The Mac being friendly, helpful and supportive, I don't know what does. I was that day, as every day, very proud of our people.

Dave Cadden, his management team and staff do a fabulous job every day and, on behalf of the members, I thank them all for their efforts.

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

Greg Wright
Chairman

CEO'S REPORT

A quick review of our financial results for the 2015/16 year would reveal a story of an improved profit result, a continuation of prudent asset growth levels and continued strong prudential ratios. The importance of these results cannot be underestimated, but they do not tell the story of the vast amount of background work being done on projects that will see the "light of day" in 2016/17.

We have been working over the past few years on creating an environment where staff can provide member solutions and bring to life our core values of being friendly, helpful and supportive. The 2016/17 year will see a very visible continuation of this, via the following initiatives:

- The relocation of our Narellan Branch into the new Narellan Town Centre
- An upgrade of our website
- An upgrade of both our internet banking service and mobile banking "app"
- An upgrade of our internet banking security processes
- The introduction of the "Android Pay" software-enabling those members with Android/Samsung "smartphones" to use their devices in the same way as a VISA debit card.

We are very excited about these initiatives and the benefits they will bring to our members. We are also very excited about a number of improvements to our loan product portfolio that will take place in late 2016.

While I am very proud to report on our results and accomplishments for the 2015/16 year, the year was not without its challenges. We continue to operate in a very low interest rate environment. While this is good news for borrowers, it impacts significantly on our depositors. A large number of these depositors are self-funded retirees who are feeling the impact of long term reductions in cash flows.

The Credit Union felt the full force of "Mother Nature" with our Picton Branch significantly damaged as a result of the June storms. Our hearts go out to our members, residents and businesses in Picton who suffered damage and loss from this unprecedented event. We are committed to rebuilding our Branch and serving the people of Picton through this difficult time.

I would like to thank Chairman Greg Wright and the Board of Directors for their wise counsel and direction. The Board has shown courage and conviction in continuing to invest in the future at a time of significant economic disruption and uncertainty. In saying that, times of disruption also present opportunity-which we are well placed to take advantage of.

To the staff of The Mac, we are a small team. However, we are passionate and dedicated. I see on a daily basis where our team truly delivers on our core values of being "friendly, helpful and supportive". We can be proud of our products and services and how we deliver them. 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 2016 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, Dip Finance, MBA, AFAIM, FAMI	Chairman of Directors Chairman Executive Committee Governance Committee Member Director Nominations Committee Member Board Member since 1994
Phillip Rankin B Bus, CPA, MAMI, JP	Audit Committee Member Governance Committee Member Director Nominations Committee Member Board Member since 1995
Neville Hoskin MAMI	Chairman Governance Committee Executive Committee Member Audit Committee Member Board Member since 2002
Geoffrey Ellis B Bus, M Bus, FCPA, FAIM, MAICD, CPBB, MIMC, MAIBB, JP, MAMI	Chairman Risk Committee Executive Committee Member Audit Committee Member Board Member since 2012
Lloyd Pollard B Com, JP, MAMI	Vice Chairman of Directors Chairman Audit Committee Executive Committee Member Director Nominations Committee Member Risk Committee Member Board Member since 2008
Deborah Vardy MAMI	Governance Committee Member Risk Committee Member Board Member since 2014
Glenn Becker (Appointed 11 November 2015) MBA, Grad dip App Corp Gov, Grad Cert Risk Mgmt, FFINSIA, AGIA	Governance Committee Member Risk Committee Member
Kylie Powell (Resigned 11 November 2015) MAMI	Governance Committee Member Board Member since 2007
Robert Rofe (Resigned 11 November 2015) MAMI	Audit Committee Member Board Member since 2007

DIRECTORS' REPORT (CONTINUED)

William Rooney (Resigned 11 November 2015) MAMI	Risk Committee Member Board Member since 2007
Jill Martin (Resigned 16 March 2016) MAMI	Audit Committee Member Risk Committee Member Board Member since 2012
Katie Palmer (Appointed 16 March 2016) Associate Director	

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 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		Governance Committee meetings	
	E	**A**	**E**	**A**	**E**	**A**	**E**	**A**
Number of meetings held:	12		7		4		3	
Number of meetings attended:								
Greg Wright	9	8					3	3
Phillip Rankin	12	11	7	6			3	1
Neville Hoskin	12	12	7	7			3	3
Geoffrey Ellis	12	11	7	7	4	2		
Jill Martin	9	9	5	3	3	3		
Lloyd Pollard	12	12	7	7	4	4		
Kylie Powell	4	1			1	0		
Robert Rofe	4	3	3	2				
William Rooney	4	3			1	1		
Deborah Vardy	12	11			4	4	3	3
Glenn Becker	8	7			3	2	3	3
Katie Palmer (Associate)	4	3	0	1				

E = Eligible to attend
A = Attended

DIRECTORS' REPORT (CONTINUED)

DIRECTORS' INTERESTS AND BENEFITS

During or since the financial year ended 30 June 2016, no director/associate 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 2016.

DIRECTORS' REPORT (CONTINUED)

OPERATING AND FINANCIAL REVIEW

The amount of profit for the financial year after providing for income tax, was $618,754 (2015 $612,234).

On the surface, this result is broadly similar to the profit result for the 2014/15 year. However, there has been a substantial improvement in underlying profit performance from our core operations. While the profit performance for previous years had been underpinned by revenue from asset sales, this result has been achieved as a result of:

- Maintaining strict discipline in terms of cost/expense control
- Effective management of interest margin-while still managing to maintain competitive loan and deposit products
- Healthy levels of loan and deposit growth

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

- The lowest interest rate environment in Australian history. This shows no signs of abating, with the official Cash Rate falling further in May 2016.
- The intense competition from new and old competitors in both the loan and deposit market.
- Our ongoing commitment to a number of significant strategic projects. While the bulk of these projects will come to fruition in 2016/17, significant financial and human resourcing has been dedicated to them in the 2015/16 year.

Our profit levels and asset base has grown in a healthy and sustainable manner over the last 12 months. This is testament to the service levels and value provided to our members and is best illustrated by:

- An increasing number of members have taken advantage of our extremely competitive Car and Home Loans
- Members with a Fixed Rate or Standard Variable Home Loan do not pay transaction fees
- We offer a number of physical and remote service delivery options
- Our service team is available to meet members at a time and place of their choosing

DIRECTORS' REPORT (CONTINUED)

OPERATING AND FINANCIAL REVIEW (CONTINUED)

Unfortunately, a competitive market place and ongoing cost pressures has meant that some of our loyal members have been impacted:

- Deposit holders continue to be impacted by falling rates and returns
- The ever-increasing cost of providing the service delivery channels demanded by the market place has meant that we have had to increase some existing transaction fees and also charge new transaction fees

Notwithstanding this, we will continue to offer market competitive service delivery channels.

The Mac continues to maintain exceptionally strong key prudential standards ratios. As a result of prudent management these ratios have increased during 2015/16. Our ratios are well in excess of both minimum prescribed regulatory standards and the ratios of our major bank competition.

Community Support and Mutual Industry Support

An integral part of The Mac being "Friendly, Helpful and Supportive" is contributing to the communities we serve. We commit significant financial and human resources to a large number of charitable, community, school and sporting groups.

This support takes a number of forms, from Donations through to the provision of a significant level of "in kind" support. This support typically includes:

- Concessional interest rates
- Bulk cash and coin deliveries provided free of charge
- Rental of premises at concessional rates
- Senior Management acting as Directors/Committee members on volunteer Committees and Boards

This support amounts to a figure in the order of $96,229 for 2015/16. This commitment aligns with our core values of being friendly, help and supportive. As such we do not expect a commercial/financial return from this.

The following groups have benefited from our support during 2015/16:

- Mount Annan High School
- Elderslie High School
- Elizabeth Macarthur High School
- Picton High School
- Macarthur Skylarks Hockey Club
- Metropolitan South West Hockey Association

DIRECTORS' REPORT (CONTINUED)

- Camden Chamber of Commerce
- Sector Connect Inc
- Disability Macarthur
- South West Community Transport
- South West Networking Group
- Australasian Order of Old Bastards

In addition, The Mac supports the Mutuals industry via participation on a number of Committees and discussion groups.

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 forms part of the directors' report for the financial year ended 30 June 2016.

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

Greg Wright	Lloyd Pollard
Chairman of Board of Directors	Chairman Audit Committee

Dated at Camden this 21st day of September 2016.

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 2016 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 the 21st day of September 2016

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2016

	Note	2016 $	2015 $
Interest revenue	4	10,046,560	10,626,855
Interest expense	4	(3,264,985)	(4,017,284)
Net interest income		6,781,575	6,609,571
Fee and commission income	5	1,420,484	1,359,916
Fee and commission expenses	7	(648,365)	(678,552)
Net fee and commission income		772,119	681,364
Other income	6	196,699	140,470
Profit/(Loss) on disposal of assets		10,092	413,005
Operating income		7,760,485	7,844,410
Net impairment loss on loans and receivables	12	(28,472)	(12,689)
Non Lending Losses		(40,955)	(16,393)
Personnel expenses	7	(3,302,683)	(3,462,685)
ATM expenses		(299,717)	(277,607)
General administration expenses		(426,420)	(460,013)
Other operating expenses		(1,111,215)	(1,285,327)
Depreciation and amortisation expenses	7	(296,890)	(283,180)
Information technology expenses		(786,828)	(787,535)
Office occupancy expense		(604,327)	(419,663)
Profit before income tax		**862,978**	**839,318**
Income tax expense	9	(244,224)	(227,084)
Profit for the year		**618,754**	**612,234**
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		**618,754**	**612,234**

The statement of profit or loss and other comprehensive income is to be read in conjunction with the notes to the financial statements as set out on pages 22 to 67.

STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2016

	Note	2016 $	2015 $
Assets			
Cash and cash equivalents	10	3,786,909	2,234,111
Loans and receivables	11(a)	198,849,033	206,394,786
Held to maturity	11(b)	34,500,000	17,000,000
Other financial assets	13	557,812	557,812
Assets held for sale	15	-	-
Property, plant and equipment	16	2,234,009	2,613,763
Investment property	17	161,203	101,627
Intangibles	18	198,523	132,520
Deferred tax assets	14	362,413	326,474
Other assets	19	1,706,212	2,487,853
Total assets		**242,356,114**	**231,848,946**
Liabilities			
Deposits	20	216,385,147	206,836,173
Trade and other payables	21	932,922	841,648
Current tax payable	14	243,078	139,828
Provisions	22	900,212	755,296
Total liabilities		**218,461,359**	**208,572,945**
Net assets		**23,894,755**	**23,276,001**
Equity			
Reserves	23(b)	500,684	525,472
Retained earnings	23(a)	23,394,071	22,750,529
Total equity		**23,894,755**	**23,276,001**

The statement of financial position is to be read in conjunction with the notes to the financial statements set out on pages 22 to 67.

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2016

	Note	2016 $	2015 $
Cash flows from operating activities			
Interest received		10,396,221	10,604,030
Dividends received		86,424	85,842
Other cash receipts in the course of operations		1,905,329	564,854
Interest paid		(3,339,016)	(4,069,466)
Income taxes paid		(140,974)	(247,219)
Net loans funded		(10,972,156)	(1,222,921)
Net increase in deposits		9,623,005	21,942,022
Other cash payments in the course of operations		(7,039,780)	(7,762,761)
Net cash flows from operating activities	**27 a)**	**519,053**	**19,894,381**
Cash flows from investing activities			
Net decrease/(increase) in investments with ADI's		989,437	(19,200,838)
Proceeds on sale of property, plant and equipment & assets held for sale		282,613	818,307
Rental income from investment properties		76,932	31,721
Acquisitions of property, plant and equipment		(166,646)	(517,625)
Acquisition of intangible assets		(148,591)	(75,935)
Net cash flows from investing activities		**1,033,745**	**(18,944,370)**
Net increase in cash held		**1,552,798**	**950,011**
Cash at the beginning of the financial year		2,234,111	1,284,100
Cash at the end of the financial year	**27 b)**	**3,786,909**	**2,234,111**

The statement of cash flows is to be read in conjunction with the notes to the financial statements set out on pages 22 to 67.

STATEMENT OF CHANGES IN EQUITY

	Redeemed share capital reserve	General reserve for credit losses	Retained earnings	Total equity
	$	$	$	$
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
Balance at 1 July 2015	103,735	421,737	22,750,529	23,276,001
Total comprehensive income for the year				
Profit after tax	-	-	618,754	618,754
Other comprehensive income				
Total other comprehensive income for the year	-	-	-	-
Total comprehensive income for the year	-	-	-	-
Transfer from/(to) retained profits	6,580	(31,368)	24,788	-
Balance at 30 June 2016	110,315	390,369	23,394,071	23,894,755

The statement of changes in equity is to be read in conjunction with the notes to the financial statements set out on pages 22 to 67.

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 21 September 2016.

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 lives in the current and comparative periods are as follows:

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

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

b) Investment property

Investment property is property which is held either to earn rental income or for capital appreciation or for both. Investment property is measured at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful life of each investment property. The estimated useful life for investment property in the current and comparative periods is 40 years.

NOTES TO THE FINANCIAL STATEMENTS

3 Significant accounting policies (continued)

c) Intangibles

(i) Computer software

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

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

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

Amortisation is recognised in profit or loss on a straight line basis over the estimated useful life of the computer software. The estimated useful life of computer software in the current and comparative periods is 3 years.

The estimated useful life of the computer software relating to the Credit Union's core banking system has been assessed at 5 years.

d) 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 operational 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 are 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) Provisions

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 if the Credit Union has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

NOTES TO THE FINANCIAL STATEMENTS

3. Significant accounting policies (continued)

k) Provisions (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.

Onerous Contracts

A provision for onerous contracts is measured at the present values of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Group recognises any impairment loss on the assets associated with that contract.

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.

NOTES TO THE FINANCIAL STATEMENTS

3. Significant accounting policies (continued)

r) Income tax (continued)

Deferred tax is provided using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Temporary differences arising from the initial recognition of assets or liabilities that affect neither accounting nor taxable profit are not provided for. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance 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 2016, 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.

AASB 16 Leases

AASB 16 Leases, removes the classification of leases as either operating leases or finance leases, for the lessee, effectively treating all leases as finance leases. There are also changes in accounting over the life of the lease. In particular, companies will have to recognise a front-loaded pattern of expense for most leases, even when they pay constant annual rentals.

AASB16 is effective for annual reporting periods beginning on or after 1 January 2019, with early adoption permitted for entities that also adopt AASB 15 *Revenue from Contracts with Customers.*

The Company has not yet determined the impact on its financial statements resulting from the application of AASB 16.

NOTES TO THE FINANCIAL STATEMENTS

	2016 $	2015 $
4. Interest revenue and expense		
Interest revenue		
Deposits with other ADI's	2,545,141	2,681,056
Loans to members	7,501,419	7,945,799
	10,046,560	10,626,855
Interest expense		
Deposits	3,263,375	4,015,605
Interest bearing liabilities	1,610	1,679
	3,264,985	4,017,284
Net interest income	6,781,575	6,609,571
5. Fee and commission income		
ATM fees	471,717	416,718
Direct debit fees	83,025	297,860
Loan fees	81,685	88,460
Direct entry reference fees	142,682	145,570
Insurance commission	75,461	75,975
Cheque book issue fees	18,551	18,918
BPAY transaction commission	76,048	79,548
Other fee and commission income	471,315	236,867
	1,420,484	1,359,916
6. Other income		
Dividends from available for sale equity securities	86,424	85,842
Rental income from investment properties	76,932	31,721
Bad debts recovered	22,799	22,319
Other revenue	10,544	588
	196,699	140,470

NOTES TO THE FINANCIAL STATEMENTS

	2016 $	2015 $
7. Other expenses		
Fee and commission expenses		
ATM fees	281,953	322,735
Card issue fees	49,416	63,689
Dishonour fee expenses	5,651	5,562
Other fee and commission expenses	311,345	286,566
	648,365	678,552
Personnel expenses		
Wages and salaries	2,878,513	2,984,077
Superannuation contributions	250,929	266,653
Payroll tax	129,517	137,403
Provision for employee entitlements	43,724	74,552
	3,302,683	3,462,685
Depreciation & amortisation expenses		
Plant and equipment	103,867	92,974
Buildings	79,111	97,700
Leasehold improvements	26,520	11,393
Investment properties	4,804	1,585
Intangible assets	82,588	79,528
	296,890	283,180

NOTES TO THE FINANCIAL STATEMENTS

	2016 $	2015 $
8. Auditor's remuneration		
Audit and review services		
Auditors of the Company		
KPMG		
Audit of financial statements	59,590	58,420
Other regulatory assurance services	31,700	31,080
	91,290	89,500
Other services		
KPMG		
Taxation services	15,003	11,803
Co-sourced internal audit activities	-	17,790
	15,003	29,593
	106,293	119,093
9. Income tax expense		
a) Recognised in the income statement		
Current tax expense		
Current year	271,911	231,135
Adjustments for prior years	8,252	3,613
	280,163	234,748
Deferred tax expense		
Origination and reversal of temporary differences	(35,939)	(4,051)
Adjustments for prior years	-	(3,613)
	(35,939)	(7,664)
Total income tax expense in income statement	244,224	227,084

NOTES TO THE FINANCIAL STATEMENTS

9. Income tax expense (continued)

b) Reconciliation between income tax expense and profit before tax

	2016 $	2015 $
Profit before tax	862,978	839,318
Income tax using the domestic corporation tax rate of 30%	258,893	251,795
Increase in income tax expense due to:		
Imputation gross-up on dividends received	11,112	11,037
Non-deductible expenses	18,776	20,439
Decrease in income tax expense due to:		
Other deductible expenses	(15,770)	(19,398)
Franking credits on dividends received	(37,039)	(36,789)
Recognition of previously unrecognised capital loss	-	-
Under/over provided in prior periods	8,252	-
Income tax expense	244,224	227,084

10. Cash and cash equivalents

	2016 $	2015 $
Cash on hand	386,755	583,905
Cash at bank	3,400,154	1,650,206
	3,786,909	2,234,111

11. Financial assets

a) Loans and receivables

	Note	2016 $	2015 $
Investments placed with other ADI's classified as loans and receivables		48,005,422	66,494,859
Loans to members:			
Overdrafts		46,256	64,523
Term loans		147,803,400	135,681,572
Loans to related parties	29	3,104,024	4,246,403
Provision for impairment	12	(110,069)	(92,571)
		150,843,611	139,899,927
Total loans and receivables		198,849,033	206,394,786

b) Held to maturity

	2016 $	2015 $
Investments placed with other ADI's classified as held to maturity	34,500,000	17,000,000
	34,500,000	17,000,000

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

	2016 $	2015 $
12. Loans and receivables-provision for impairment		
The provision for impairment comprises:		
Specific provision		
Opening balance	59,398	43,555
Addition to provision	68,967	53,069
Loans written off , previously provided	(10,138)	-
Reversal of provision	(18,417)	(37,226)
Closing balance	99,810	59,398
Collective provision		
Opening balance	33,173	50,701
Addition to provision	9,764	24,417
Loans written off , previously provided	0	(2,253)
Reversal of provision	(32,678)	(39,692)
Closing balance	10,259	33,173
Total provision for impairment	110,069	92,571
Analysis of net impairment loss on loans and receivables:		
Movement in specific provision	40,412	15,843
Movement in collective provision	(22,914)	(17,528)
Loans written off directly against profit or loss	10,974	14,374
	28,472	12,689

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

	2016 $	2015 $
Unlisted shares-at cost	557,812	557,812
	557,812	557,812

NOTES TO THE FINANCIAL STATEMENTS

14. Tax assets and liabilities

Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	2016 $	2015 $
Deferred tax assets		
Property, plant & equipment	13,426	28,769
Provisions	272,727	254,360
Accruals	24,787	24,702
Intangibles	1,411	833
Other	51,651	25,300
Total deferred tax assets	364,002	333,964
Deferred tax liabilities		
Other	(1,589)	(7,490)
Total deferred tax liabilities	(1,589)	(7,490)
Net deferred tax assets	362,413	326,474

Current tax assets and liabilities

The current tax liability for the Credit Union of $243,078 (2015: $139,828) 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

	2016 $	2015 $
15. Assets held for sale		
Investment properties	-	-

	2016 $	2015 $
16. Property, plant and equipment		
Freehold land and buildings		
Freehold land-at cost	357,107	357,107
Buildings on freehold land-at cost	2,622,787	2,938,790
Provision for depreciation	(1,452,578)	(1,428,129)
	1,527,316	1,867,768
Leasehold improvements		
At cost	247,058	247,057
Provision for depreciation	(37,913)	(11,393)
	209,145	235,664
Plant and equipment		
At cost	1,343,139	1,408,768
Provision for depreciation	(845,591)	(898,437)
	497,548	510,331
Total property, plant and equipment		
At cost	4,570,091	4,951,722
Provision for depreciation	(2,336,082)	(2,337,959)
	2,234,009	2,613,763

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:

2016	Freehold land and buildings	Leasehold improvements	Plant and equipment	Total
	$	$	$	$
Carrying amount at the beginning of the year	1,867,768	235,664	510,331	2,613,763
Additions	-	-	102,266	102,266
Disposals	(261,341)	-	(11,182)	(272,523)
Depreciation	(79,111)	(26,519)	(103,867)	(209,497)
Carrying amount at the end of the year	1,527,316	209,145	497,548	2,234,009

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

During the year obsolete plant and equipment with a carrying value of $1,933 (original cost $67,687) was written off.

Further disposals with a carrying value of $270,590 related to the write off of damaged assets at our Picton branch, which was severely damaged during the storm which occurred on the 5th of June 2016. An insurance claim has been lodged with respect to this write off.

NOTES TO THE FINANCIAL STATEMENTS

	2016 $	2015 $
17. Investment property		
Investment property-at cost	197,797	133,417
Provision for depreciation	(36,594)	(31,790)
	161,203	101,627

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

Carrying amount at the beginning of the year	101,627	103,213
Additions	64,380	-
Disposals	-	-
Depreciation	(4,804)	(1,586)
Carrying amount at the end of the year	161,203	101,627

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	974,356	831,346
Provision for amortisation	(775,833)	(698,826)
	198,523	132,520

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

Carrying amount at the beginning of the year	132,520	136,113
Additions	148,591	75,935
Disposals	-	-
Amortisation	(82,588)	(79,528)
Carrying amount at year end	198,523	132,520

NOTES TO THE FINANCIAL STATEMENTS

	2016 $	2015 $
19. Other assets		
Interest & fees receivable	561,976	911,637
Prepayments	312,436	256,976
Other	831,800	1,319,240
	1,706,212	2,487,853
20. Deposits		
Call deposits	141,127,819	129,674,662
Term deposits	74,916,821	76,746,973
Accrued interest payable	340,507	414,538
	216,385,147	206,836,173
21. Trade and other payables		
Trade creditors	239,023	216,240
Sundry creditors	693,899	625,408
	932,922	841,648
22. Provisions		
Employee benefits		
Annual leave	286,836	303,554
Long service leave-current	382,891	361,304
Long service leave-non current	129,295	90,438
	799,022	755,296
Other Provisions		
Onerous Contracts	101,190	-
Total Provisions	900,212	755,296

The Credit Union holds a lease over the Somerset Ave, Narellan premises that expires on 30/6/17. With the relocation of the Narellan Branch to the new Narellan Town Centre, the Somerset Ave premises generate a significantly reduced benefit. The Onerous Contracts Provision has been calculated as the net total of the remaining lease commitment less a market assessment of the rent receivable from a short term lease.

NOTES TO THE FINANCIAL STATEMENTS

	Note	2016 $	2015 $
23. Equity			
a) Retained earnings			
Balance at the beginning of the year		22,750,529	22,159,797
Profit for the year		618,754	612,234
Transfer to redeemed share capital account	23(b)(i)	(6,580)	(12,695)
Transfer from/(to) general reserve for credit losses	23(b)(ii)	31,368	(8,807)
Balance at the end of the year		23,394,071	22,750,529
b) Reserves			
Redeemed share capital account	23(b)(i)	110,315	103,735
General reserve for credit losses	23(b)(ii)	390,369	421,737
		500,684	525,472
(i) Redeemed share capital account			
Balance at the beginning of the year		103,735	91,040
Member shares redeemed during year		6,580	12,695
Balance at the end of the year		110,315	103,735

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	421,737	412,930
Transfer (to)/from retained profits	(31,368)	8,807
Balance at the end of the year	390,369	421,737

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.

	2016 $	2015 $
Guarantees	558,865	506,796

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:

	2016	2015
Within one year	361,910	248,457
Between one and two years	373,828	255,910
Between two and five years	680,448	475,433
	1,416,186	979,800

The Credit Union has operating leases for the Somerset Ave Narellan branch, Narellan Town Centre branch and the Tahmoor branch. The initial term of the Somerset Ave Narellan lease will expire on 1 July 2017, with a 1 year renew option. The 5 year term of the Narellan Town Centre lease will expire on the 15 September 2021, with no renewal 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 in line with the contracts. During the financial year ended 30 June 2016, $268,426 was recognised as an expense in the income statement in respect of operating leases (2015: $202,732).

b) Leases as lessor

The Credit Union leases premises in Argyle Street, Camden to LJ Hooker Camden. The initial term of the lease is for 3 years from 20 June 2015 with option for 2 additional 3 year terms.

NOTES TO THE FINANCIAL STATEMENTS

25. Operating Leases (continued)

b) Leases as lessor (continued)

The Credit Union sub-leases out Narellan shop 1A to Disability Macarthur (formerly 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 options for 2 additional 5 year terms.

	2016 $	2015 $
Operating lessor rentals are receivable as follows:		
Within one year	75,766	72,820
Between one and two years	66,820	75,766
Between two and five years	216,872	208,530
	359,458	357,116

During the financial year ended 30 June 2016, $76,932 was recognised as rental income in the income statement (2015: $31,721) and $Nil in respect of repairs and maintenance was recognised as an expense in the income statement relating to investment properties (2015: $Nil).

26. Commitments

a) Outstanding loan commitments

Loans approved but not yet funded	2,592,279	6,920,485

b) Loan redraw facilities

Undrawn value of redraw facilities	19,060,898	17,722,524

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 3.1% 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 3.1% of the contributing Credit Union's total assets.

NOTES TO THE FINANCIAL STATEMENTS

	2016	2015
27. Statement of cash flows		
a) Reconciliation of cash flows from operating activities		
Profit after tax	618,754	612,234
Adjustments for:		
(Gain) on sale of property, plant & equipment	(10,092)	(413,005)
Onerous contracts	101,190	-
Depreciation and amortisation	296,890	283,180
Impairment loss on loans and receivables	28,472	12,689
Rental income	(76,932)	(31,721)
Net cash from operating activities before changes in assets and liabilities	**958,282**	**463,377**
Net loans funded	(10,972,156)	(1,222,921)
Movement in interest receivable	349,661	(22,825)
Movement in other receivables	487,440	(817,969)
Movement in prepayments	(55,460)	(81,069)
Movement in current tax liabilities	103,250	(12,471)
Movement in net deferred tax assets	(35,938)	(7,664)
Net increase in deposits	9,623,005	21,942,022
Movement in accrued interest payable	(74,031)	(52,182)
Movement in trade creditors	22,783	(51,727)
Movement in sundry creditors	68,491	(316,741)
Movement in employee benefits	43,726	74,551
Net cash from/(used in) operating activities	**519,053**	**19,894,381**
b) Reconciliation of cash and cash equivalents		
Cash and cash equivalents comprises:		
Cash on hand and at bank	3,786,909	2,234,111

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 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 the Branch Manager 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	
	2016	2015	2016	2015	2016	2015
	$	$	$	$	$	$
Carrying Amount	150,843,611	139,899,927	82,505,422	83,494,859	3,786,909	2,234,111
Individually impaired						
Gross amount	99,810	59,398	-	-	-	-
Provision for impairment	(99,810)	(59,398)	-	-	-	-
Carrying amount	-	-	-	-	-	-
Collectively impaired						
Days in arrears:						
Less than 30 days	-	-	-	-	-	-
Greater than 30 days and less than 90 days	462,305	599,809	-	-	-	-
Greater than 90 days and less than 182 days	25,408	13,303	-	-	-	-
Greater than 182 days and less than 273 days	19,777	45,360	-	-	-	-
Greater than 273 days and less than 365 days	0	12,043	-	-	-	-
Greater 365 days	6,260	-	-	-	-	-
Provision for impairment	(10,259)	(33,173)	-	-	-	-
Carrying amount	503,491	637,342	-	-	-	-

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	
	2016	2015	2016	2015	2016	2015
	$	$	$	$	$	$
Past due but not impaired						
Days in arrears:						
Less than 30 days	1,857,730	957,318	-	-	-	-
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	1,857,730	957,318	-	-	-	-
Neither past due nor impaired					`	
Secured by mortgage	137,316,649	125,013,148	-	-	-	-
Secured by other	8,652,100	10,450,085	-	-	-	-
Unsecured	2,513,641	2,842,034	-	-	-	-
APRA regulated ADI	-	-	82,505,422	83,494,859	3,786,909	2,234,111
Carrying amount	148,482,390	138,305,267	82,505,422	83,494,859	3,786,909	2,234,111
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.

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:

	2016 $	2015 $
Against Individually impaired:		
Property value	-	-
Against past due but not impaired:	-	-
Property value	3,529,000	3,671,000
Other	-	-
Total	3,529,000	3,671,000

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 (2015: $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:

	2016	2015
As at 30 June	24.34%	19.98%
Average liquidity for the year	21.64%	19.64%
Minimum liquidity during the year	20.07%	17.59%
Maximum liquidity during the year	24.34%	20.90%

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:

2016	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	216,385,147	(217,733,936)	(159,611,740)	(31,973,974)	(23,761,400)	(2,386,822)
Trade and other payables	932,922	(932,922)	(932,922)	-	-	-
	217,318,069	(218,666,858)	(160,544,662)	(31,973,974)	(23,761,400)	(2,386,822)
Unrecognised loan commitments	2,592,279	(2,592,279)	(2,592,279)	-	-	-
Total financial liabilities	219,910,348	(221,259,137)	(163,136,941)	(31,973,974)	(23,761,400)	(2,386,822)

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)

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.

2016	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	3,786,909	3,786,909	-	-	-	-
Loans and Receivables	198,849,033	140,861,655	17,813,697	18,773,378	12,686,989	8,713,314
Held to Maturity	34,500,000	34,500,000	-	-	-	-
Total financial assets	237,135,942	179,148,564	17,813,697	18,773,378	12,686,989	8,713,314
Financial liabilities						
At Call Deposits	129,674,662	129,674,662	-	-	-	-
Term Deposits	75,257,328	49,717,055	16,511,216	6,697,470	2,331,587	-
Total financial liabilities	204,931,990	179,391,717	16,511,216	6,697,470	2,331,587	-
Gap	32,203,952	(243,153)	1,302,481	12,075,908	10,355,402	8,713,314
Cumulative gap		(243,153)	1,059,328	13,135,236	23,490,638	32,203,952

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)

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 2016, the exposure was $180,137 (2015 $36,331). 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 2016:

	2016	**2015**
As at 30 June	0.79%	0.16%

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 2016	Note	Carrying Amount	Level 1 $	Level 2 $	Level 3 $
Financial assets not measured at fair value					
Loans to members	11(a)	150,843,611	-	150,907,070	-
		150,843,611	**-**	**150,907,070**	**-**
Financial liabilities not measured at fair value					
Deposits	20	216,385,147	-	216,317,047	-
		216,385,147	**-**	**216,317,047**	**-**

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**	**-**

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:

	2016	**2015**
Loans to members	4.29% - 4.74%	4.54% - 4.99%
Deposits	1.85% - 2.15%	2.2% - 2.5%

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:

	2016 $	2015 $
Common Equity Tier 1 capital		
Retained earnings	23,504,386	22,854,264
Regulatory adjustments to Common Equity Tier 1 Capital	(1,090,299)	(745,390)
Total Common Equity Tier 1 Capital	22,414,087	22,108,874
Tier 2 capital		
General reserve for credit losses	390,369	421,737
Regulatory adjustments to Tier 2 Capital	-	(278,906)
Total Tier 2 capital	390,369	142,831
Total capital base	22,804,456	22,251,705
Risk weighted assets	117,164,947	124,838,688
of which:		
Credit Risk	102,375,208	111,919,248
Operational Risk	14,789,739	12,919,440
Capital ratios		
Capital Adequacy Ratio	19.46%	17.82%

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
- Geoffrey Ellis
- Deborah Vardy
- Glenn Becker (Appointed 11 November 2015)
- Kylie Powell (Resigned 11 November 2015)
- Robert Rofe (Resigned 11 November 2015)
- William Rooney (Resigned 11 November 2015)
- Jill Martin (Resigned 16 March 2016)

Associate Directors

- Katie Palmer (Appointed 16 March 2016)

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:

	2016 $	2015 $
Short term employee benefits	990,354	1,036,091
Post employment benefits- Superannuation contributions	89,103	89,852
Other long term benefits	16,199	54,156
Total	1,095,656	1,180,099

NOTES TO THE FINANCIAL STATEMENTS

29. Related parties (continued)

Remuneration of key management personnel ("KMP")(Continued)

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.

Loans to key management personnel

	2016 $	2015 $
The aggregate value of loans to KMP at balance date amounted to:	3,104,024	4,246,403
Add: KMP loan balance at date of appoinment	-	292,629
The aggregate value of loans disbursed to KMP during the year amounted to:	441,275	867,230
Interest and fees earned on loans to KMP	166,333	233,378
Less: KMP loan balance at date of resignation	625,644	-
Repayments during the year	1,124,343	919,317

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 18 to 67 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 2016 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:

Greg Wright	Lloyd Pollard
Chairman of Board of Directors	Chairman Audit Committee

Dated at Camden this 21st day of September 2016.

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

Report on the financial report

We have audited the accompanying financial report of Macarthur Credit Union Limited (the Company), which comprises the statement of financial position as at 30 June 2016, 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 2 (a), the directors also state, in accordance with Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial 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 of the financial report that gives a true and fair view 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 Limited 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 2016 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 2 (a).

KPMG

KPMG

Richard Drinnan
Partner

Signed at Camden this the 21st day of September 2016