MACARTHUR CREDIT UNION LTD

ABN: 83 087 650 244

47th ANNUAL REPORT
2018

DIRECTORS

Lloyd Pollard (Chairman)
Geoffrey Ellis (Deputy Chairman)
Greg Wright
Deborah Vardy
Glenn Becker
Katie Palmer
Alistair McLean (Appointed 8 November 2017)

ASSOCIATE DIRECTOR
Doug Ferris (Appointed 21 February 2018)

CEO
David Cadden

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

BRANCHES

		Shop 308,	Shop 7,
52 Argyle St	109-111 Argyle St	326 Camden Valley Way	117 Remembrance Dr
CAMDEN 2570	PICTON 2571	NARELLAN 2567	TAHMOOR 2573

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

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

AUDITOR
KPMG
Level 7, 77 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 bi-monthly and follow meeting guidelines that ensure all Directors are made aware of, and have all necessary information to participate in an informed discussion of all agenda items.
- As part of its renewal process, the Board can appoint Associate Directors. These Associate Directors are engaged with the intention of replacing retiring Directors at a future time, but after gaining experience in proper Board/Governance practice. While the Associate Directors are encouraged to contribute to Board discussion, they do not have voting rights. It is envisaged that a successful Associate Director would be appointed in the future as a Director by the Credit Union Membership via the usual election process.
- All Directors are members of the Australian Mutuals Institute.

COMMITTEE STRUCTURE

The following Committees support the work of the Board:

Executive Committee

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

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 2018 were Lloyd Pollard (Chairman), Deborah Vardy, Geoffrey Ellis and Glenn Becker.

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 2018 were Geoffrey Ellis (Chairman), Alistair McLean, Greg Wright and Katie Palmer.

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 2018 were Deborah Vardy (Chairman), Greg Wright, Glenn Becker and Katie Palmer.

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 2018 were Glenn Becker (Chairman), Geoffrey Ellis, Alistair McLean and Deborah Vardy.

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 Risk and Compliance Manager; and
- Oversight of the appointment and removal of the Risk and Compliance Manager.

Director Nominations Committee

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

The specific functions of the Committee include:

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

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

Directors Nomination Committee (continued)

The Members of the Director Nominations Committee as at 30 June 2018 were Lloyd Pollard, Geoffrey Ellis and Deborah Vardy. In accordance with the Committee Charter an independent, external Chair (Geraldine Dean) has been appointed.

THE REVIEW OF CREDIT UNION POLICY

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

BOARD REMUNERATION

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

MONITORING THE BOARD'S PERFORMANCE

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

CHAIRMAN'S REPORT

At a time where there are a number of external factors at play in the financial services industry, your Credit Union The Mac proudly continues to be a trusted advisor for our members. While the conduct of much larger institutions continues to be called into question in recent times, The Mac has continued to deliver a suite of competitive loan & deposit products comfortably within our core values of being "Friendly, Helpful and Supportive". These products have been provided in an ethical fashion. We exercise caution in the way that we apply our lending criteria and we always ensure we have our members interests at the forefront. We also do not pay any of our staff performance bonuses or incentives to "sell" to our members.

We have continued to invest heavily in products & services over the year. This investment culminated in the release of the "New Payments Platform" to our members in early 2018. Beyond all of the jargon & acronyms this enables our members to transfer funds to another financial institution within 15 seconds- instead of 3 days. Your Credit Union was one of the first in the industry to offer this service.

We saw continued growth in both our home loan portfolio & our membership base over the year. Our members are using more of our services than ever before. This growth and depth in our member relationship is happening at a time where many similar sized institutions are challenged in remaining relevant and competitive.

The profit results for the 2017/18 year are below those of previous years. While this partly reflects the intense competition in both the loan & deposit markets, it also reflects our continued commitment to offering modern & relevant delivery channels. These all come at a cost and your Board exercise careful and considered judgment in all investment decisions with a view to the future of The Mac.

Our current financial projections indicate that the 2018/19 & future years will see increased levels of profitability. They will also see continued change as evidenced by the removal of the Automatic Teller Machines (ATMs) from our 4 Branches and the exit of The Mac from the RediATM Scheme. This & other similar decisions have not been taken lightly. However were deemed necessary given the continued increased cost & declining usage of these channels. The Board also considered the considerable changes in the overall ATM market and the improved fee free ATM options available to our members across other ATM networks.

I would like to thank your dedicated Board of Directors for their stewardship of your funds & your Credit Union. The Directors take their duties & obligations very

CHAIRMAN'S REPORT (Continued)

seriously. While this can result in lengthy and robust discussion at the Board table, the Board's primary focus is safeguarding the assets of our members and ensuring the future remains strong and stable for The Mac.

This year marks the departure from the Board of a trusted colleague & friend. Greg Wright retires from the Board after 24 years of service, including some 15 as Chairman. Greg's wise counsel will be missed by his fellow Directors but his legacy of sound judgement and member advocacy will be long lasting. I feel privileged to have followed Greg into the role of Chairman and I am also acutely aware that I have very "big shoes" to fill. Greg leaves the organization in excellent shape with both opportunity and challenge ahead. Greg's leadership of The Mac over these many years has us well positioned on both fronts. We wish Greg all the very best for his future.

It is with pride that I make mention of our amazing staff. They continue, on a daily basis, to go "above & beyond" in providing "Friendly, Helpful & Supportive" solutions to our members to meet their financial needs. Sometimes this may be advice that the member doesn't wish to hear. It can be difficult to say "no" and difficult to hear no, but there can be times where this decision is in the members' best interests and it is always through this prism that our staff operate The Mac on a daily basis.

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

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

Lloyd Pollard
Chairman

CEO'S REPORT

I spoke in my report for 2016/17 about a significant number of projects & initiatives that were brought to life. This effort has continued into the 2017/18 year-the projects are smaller in number but were no less significant. These continue to embody our core values of being "Friendly, Helpful & Supportive".

The most significant of these was the New Payments Platform (NPP) project. This project (which went "live" in February 2018) enables our members to send electronic payments in "Real Time". These electronic payments will happen in 15 seconds rather than taking up to 3 days. On the surface this may have seemed to be a seamless project. However, that would be understating the work done by our Project Team in bringing this to life. It is worthwhile noting that a number of our much larger competitors have introduced their NPP product offerings without the full functionality we offer. We are already scheduling further enhancements for our NPP service in the coming years.

During the year we also relocated our Loans Administration department to our Picton Office. This not only helps support our Branch & Member Service Centre staff located at Picton but also represents our vote of confidence in the Picton & Wollondilly communities. It is encouraging to see the Picton township return to life after the devastating storm event of 2016.

We also undertook further work during the year in deepening our relationship with a number of "Peer to Peer" (P2P) lenders. These investments are significant in that they provide an important source of diversified income to The Mac. These lenders operate in a different "competitive space" & will ultimately enable us to pass on benefits to our members in ensuring that our products & services remain competitive & relevant.

You may be aware that we surveyed our members in February this year. The overriding feedback from members was that we are a respected & trusted financial institution. The survey also provided us with encouragement to "stretch" the brand, culture & core values of The Mac into other areas of business. We plan to work through potential opportunities in this space in a structured & disciplined fashion over the next 12 months.

The financial results for 2017/18 are down compared to both our forecasted position & prior years. These results reflect both the extremely competitive nature of the market we operate in, as well as the cost of delivering new & improved products & services. Our forecasts for 2018 & beyond indicate improved profitability levels as the strategic projects we are working on take effect.

There are signs that the very low interest rate environment we have operated in for the last 10 years is finally beginning to trend upwards. This will undoubtedly place pressure on homeowners & mortgage holders. Our borrowing members will

CEO'S REPORT (Continued)

be well placed to absorb any rate increases-given our prudent lending & assessment criteria. We are also acutely aware of the impact that the low interest rate environment has had on our depositors-many of whom are self funded retirees.

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

Finally, I would like to thank your Board of Directors, led by Chairman Lloyd Pollard for his wise counsel, direction & encouragement. I would also like to acknowledge and thank Greg Wright for his exceptional leadership and wise counsel as Chair of the Board 2002-2017. Your Board continues to show courage and support in investing for the future of The Mac in what will be an exciting time ahead for members, staff and our many other stakeholders.

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 2018 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	
Lloyd Pollard B Com, JP, MAMI	Chairman of Directors Chairman of Executive Committee Director Nominations Committee Member Board Member since 2008
Geoffrey Ellis FCPA, FAIM, MAICD, MIMC, MAIBB, CPBB, M.Bus, B.Bus, JP	Deputy Chairman of Directors Chairman Audit Committee Executive Committee Member Risk Committee Member Director Nominations Committee Member Board Member since 2012
Greg Wright B Bus, Dip Finance, MBA, FAMI	Governance Committee Member Audit Committee Member Board Member since 1994
Deborah Vardy Dip Law, MAMI	Chairman Governance Committee Executive Committee Member Director Nominations Committee Member Risk Committee Member Board Member since 2014
Glenn Becker MBA, GDip App Corp Gov, GCert Risk Mngmt, FFINSIA, FGIA, FCIS	Chairman Risk Committee Governance Committee Member Executive Committee Member Board Member since 2015
Katie Palmer CA, B.Bus, Adv Dip. Accounting	Governance Committee Member Audit Committee Member Board Member since 2016
Alistair McLean BA, ACMA, CGMA, FCT, FFTP, GAICD, MAMI	Audit Committee Member Risk Committee Member Board Member since 2016
Doug Ferris (Appointed 21st February 2018) B.Bus, MAICD Associate Director	

DIRECTORS' REPORT (CONTINUED)

COMPANY SECRETARY

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

Mr Paul Brooks has been the CFO 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**		**Executive Committee meetings**		**Director Nominations Committee meetings**	
	E	**A**	**E**	**A**	**E**	**A**	**E**	**A**	**E**	**A**	**E**	**A**
Number of meetings held:	7		5		3		3		2		1	
Number of meetings attended:												
Lloyd Pollard	4	4	-	1	-	-	-	1	2	2	-	-
Geoffrey Ellis	7	6	5	5	3	3	-	-	2	2	1	1
Greg Wright	6	5	2	2	-	-	1	2	-	-	1	1
Deborah Vardy	7	6	-	-	3	3	3	3	2	2	-	-
Glenn Becker	7	7	-	-	3	3	3	3	1	1	-	-
Katie Palmer	7	7	5	4	-	-	1	2	-	-	-	-
Alistair McLean	7	6	2	2	2	2	-	2	-	-	-	-
Neville Hoskin	4	3	3	3	-	1	2	2	-	-	1	1
Doug Ferris (Associate)	3	3	-	-	-	-	-	-	-	-	1	1

E = Eligible to attend
A = Attended

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

DIRECTORS' REPORT (CONTINUED)

DIRECTORS' INTERESTS AND BENEFITS

During or since the financial year ended 30 June 2018, 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 28, by reason of a contract entered into by the Credit Union with:

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

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

INDEMNIFICATION AND INSURANCE OF OFFICERS AND AUDITOR

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 2018.

DIRECTORS' REPORT (CONTINUED)

OPERATING AND FINANCIAL REVIEW

The amount of profit for the financial year after providing for income tax, was $294,934 (2017 $554,567).

This result is down on the 2 previous financial years. It is reflective of both the extremely competitive marketplace that we operate in & also the strategic decisions that we have taken to continually upgrade our Branch & electronic channels. While these decisions have an impact in the early stages of their implementation, they are deemed necessary to ensure that The Mac continues to offer its members contemporary & relevant products & services.

These investments have begun to "bear fruit" in the form of:

- Loan & Deposit growth
- Our members using a greater number of our products & services
- The Mac enjoying a reputation as an "early adopter" within the Mutual sector

Our forecasts indicate that profit levels will improve over the coming years. These will be underpinned by the investments discussed above (in terms of product/delivery channels) & also a number of other strategic investments that are in their early stages.

We have also had to take a number of difficult strategic decisions in recent times- chief among these being the decision to exit from the "RediATM" network & remove the Automatic Teller Machines (ATMs) from our Branches. While this does not significantly impact member service, it represents the start of the transition from the "physical" into the "digital" world. We will be continually reviewing those delivery channels that are in decline over the coming years.

While the operating profit result for the year is satisfactory, the Board & Management of The Mac are working actively to ensure that they are improved in coming years. In saying that, The Mac continues to maintain exceptionally strong prudential standards. These prescribed standards are the same as those applied to the major banks.

The Directors are also cognisant of the external pressures at play which also impact on profitability levels:

- The lowest interest rate environment in Australia's history. There are no signs of any significant change in the short/medium term.
- Ongoing economic uncertainty, with mixed signals coming from the various economic indicators
- Record Real Estate prices within our catchment area & the consequent impact on the dynamics of mortgage lending
- Intense competition (locally and nationally) in both the loan and deposit market

DIRECTORS' REPORT (CONTINUED)

OPERATING AND FINANCIAL REVIEW (CONTINUED)

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

- Many of our members have taken advantage of our extremely competitive Car & Home loans
- Members with a mortgage loan do not pay transaction fees
- The continued upgrading of our Branch Offices
- Our service team is available to meet members at a time and place of their choosing
- The introduction of "Real Time" payment functionality-at a time where many of our much larger competitors chose only to introduce it to selected customers

Unfortunately, ongoing cost pressures and an extremely competitive market place meaning that some of our loyal long-term members continue to be impacted- particularly deposit holders.

Notwithstanding this, we will continue to strive to offer market competitive rates, as well as our renowned levels of service.

Community Support and Mutual Industry Support

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

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

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

This support amounts to a figure in the order of $52,071 for the 2017/18 year. Given our core values of being friendly, helpful and supportive, The Mac does not expect a financial return from this support.

The following groups have benefited from our support during 2017/18:

- Camden Art Prize
- Camden High School
- Camden Men's Bowling Club
- Camden Public School
- Caring for Wollondilly
- Country Valley Milk
- Dilly Drought Drive

DIRECTORS' REPORT (CONTINUED)

OPERATING AND FINANCIAL REVIEW (CONTINUED)

Community Support and Mutual Industry Support (Continued)

- Disability Macarthur
- Douglas Park Wilton Football Club
- Elderslie High School
- Elizabeth Macarthur High School
- Kids of Macarthur Health Foundation
- Lions Club of Camden
- Macarthur Skylarks Hockey Club
- Meals on Wheels
- Mount Annan High School
- Narellan Chamber of Commerce
- Narellan Vale Public School
- Oakdale Public School
- Picton High School
- South West Community Transport
- St Anthony's Netball
- St Pauls Primary School
- The Oaks Public School and The Oaks P&C Association
- Thirlmere Tahmoor Rugby League Club

In addition, The Mac supports the Customer Owned Banking Sector 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 is set out on page 19 and forms part of the directors' report for the financial year ended 30 June 2018.

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

Lloyd Pollard Chairman of Board of Directors	Geoffrey Ellis Deputy Chairman of Board of Directors

Dated at Camden this 19th September 2018.

Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

To the Directors of Macarthur Credit Union Limited

I declare that, to the best of my knowledge and belief, in relation to the audit of Macarthur Credit Union Limited for the financial year ended 30 June 2018 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

Wollongong

19 September 2018

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2018

	Note	2018 $	2017 $
Interest revenue	4	9,417,414	9,435,156
Interest expense	4	(2,647,415)	(2,656,817)
Net interest income		6,769,999	6,778,339
Fee and commission income	5	1,257,395	1,367,982
Fee and commission expenses	7	(617,000)	(627,444)
Net fee and commission income		640,395	740,538
Other income	6	233,094	253,993
(Loss) on disposal of assets		(907)	(3,158)
Operating income		7,642,581	7,769,712
Net impairment (loss)/gain on loans and receivables	12	(100,892)	8,138
Non Lending Losses		(35,057)	(29,858)
Personnel expenses	7	(3,443,728)	(3,432,885)
ATM expenses		(350,460)	(322,704)
General administration expenses		(346,855)	(376,140)
Marketing expenses		(314,647)	(380,284)
Other operating expenses		(773,783)	(750,837)
Depreciation and amortisation expenses	7	(481,694)	(408,878)
Information technology expenses		(894,831)	(842,331)
Office occupancy expense		(467,650)	(510,679)
Profit before income tax		**432,984**	**723,254**
Income tax expense	9	(138,050)	(168,687)
Profit for the year		**294,934**	**554,567**
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		**294,934**	**554,567**

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 24 to 70.

STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2018

	Note	2018 $	2017 $
Assets			
Cash and cash equivalents	10	1,601,921	1,377,690
Current tax assets	14	46,463	-
Loans and receivables	11(a)	206,329,481	200,830,829
Held to maturity investments	11(b)	40,500,000	41,000,000
Other financial assets	13	557,812	557,812
Property, plant and equipment	15	2,661,473	2,949,548
Investment property	16	141,204	152,944
Intangibles	17	354,291	300,570
Deferred tax assets	14	273,250	327,597
Other assets	18	1,267,560	1,781,771
Total assets		**253,733,455**	**249,278,761**
Liabilities			
Deposits	19	227,110,695	223,033,055
Trade and other payables	20	995,748	906,308
Current tax payable	14	-	30,704
Provisions	21	882,756	859,372
Total liabilities		**228,989,199**	**224,829,439**
Net assets		**24,744,256**	**24,449,322**
Equity			
Reserves	22(b)	472,200	488,204
Retained earnings	22(a)	24,272,056	23,961,118
Total equity		**24,744,256**	**24,449,322**

The statement of financial position is to be read in conjunction with the notes to the financial statements set out on pages 24 to 70.

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2018

	Note	2018 $	2017 $
Cash flows from operating activities			
Interest received		9,430,656	9,493,733
Dividends received		54,698	87,123
Other cash receipts in the course of operations		1,810,185	1,415,813
Interest paid		(2,613,463)	(2,766,951)
Income taxes paid		(160,870)	(346,245)
Net loans funded		(7,952,472)	(6,721,746)
Net increase in deposits		4,043,688	6,758,042
Other cash payments in the course of operations		(7,082,803)	(7,441,180)
Net cash flows (used in)/from operating activities	**26 a)**	**(2,470,381)**	**478,589**
Cash flows from investing activities			
Net decrease/(increase) in investments with ADI's		2,852,928	(1,751,912)
Proceeds on sale of property, plant and equipment & assets held for sale		11,505	-
Rental income from investment properties		78,192	85,467
Acquisitions of property, plant and equipment		(49,095)	(1,001,034)
Acquisition of intangible assets		(198,918)	(220,329)
Net cash flows from investing activities		**2,694,612**	**(2,887,808)**
Net increase/(decrease) in cash held		**224,231**	**(2,409,219)**
Cash at the beginning of the financial year		1,377,690	3,786,909
Cash at the end of the financial year	**26 b)**	**1,601,921**	**1,377,690**

The statement of cash flows is to be read in conjunction with the notes to the financial statements set out on pages 24 to 70.

STATEMENT OF CHANGES IN EQUITY

	Redeemed share capital reserve $	General reserve for credit losses $	Retained earnings $	Total equity $
Balance at 1 July 2016	110,315	390,369	23,394,071	23,894,755
Total comprehensive income for the year				
Profit after tax	-	-	554,567	554,567
Other comprehensive income				
Total other comprehensive income for the year	-	-	-	-
Total comprehensive income for the year	-	-	-	-
Transfer from/(to) retained profits	1,740	(14,220)	12,480	-
Balance at 30 June 2017	112,055	376,149	23,961,118	24,449,322
Balance at 1 July 2017	112,055	376,149	23,961,118	24,449,322
Total comprehensive income for the year				
Profit after tax	-	-	294,934	294,934
Other comprehensive income				
Total other comprehensive income for the year	-	-	-	-
Total comprehensive income for the year	-	-	-	-
Transfer from/(to) retained profits	1,450	(17,454)	16,004	-
Balance at 30 June 2018	113,505	358,695	24,272,056	24,744,256

The statement of changes in equity is to be read in conjunction with the notes to the financial statements set out on pages 24 to 70.

NOTES TO THE FINANCIAL STATEMENTS

1. Reporting entity

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

2. Basis of preparation

a) Statement of compliance

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

The financial report was approved for issue by the directors on 19 September 2018.

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

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) Trade and other receivables

Trade and other receivables are stated at amortised cost.

g) Other assets

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

h) 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.

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

NOTES TO THE FINANCIAL STATEMENTS

3. Significant accounting policies (continued)

j) Impairment (continued)

(i) Financial assets (continued)

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 CEO or 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.

(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.

NOTES TO THE FINANCIAL STATEMENTS

3. Significant accounting policies (continued)

j) Impairment (continued)

(iii) Non-financial assets

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 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.

(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.

NOTES TO THE FINANCIAL STATEMENTS

3. Significant accounting policies (continued)

k) Provisions (continued)

(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.

(iv) 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.

For the year ended 30 June 2018, the tax rate for Base Rate Entities has reduced to 27.5%. The Credit Union meets the requirements of a Base Rate Entity, therefore the lower rate of 27.5% has been applied when assessing temporary differences.

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 2018, and have not been applied in preparing these financial statements. Those standards with the most significant potential impact on the financial statements are outlined below:

AASB 9 Financial Instruments

AASB 9 Financial Instruments replaces the existing guidance in AASB 139 Financial Instruments: Recognition and Measurement. AASB 9 includes revised guidance on the classification of financial instruments, including a new expected credit loss model for calculating impairment of financial assets and the new general hedge accounting requirements. AASB 9 carries forward the guidance on recognition and de-recognition of financial instruments from AASB 139. AASB 9 is effective for annual periods beginning on or after 1 January 2018 with early adoption permitted. The Credit Union will apply AASB 9 from 1 July 2018.

AASB 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics. Three principal classification categories for financial assets are stipulated: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL).

Based on a preliminary assessment of possible changes to the classification and measurement of financial assets as at 30 June 2018, the Credit Union's current expectation is that:

- Financial assets currently classified as available for sale under AASB 139 would generally be measured at FVOCI under AASB 9.
- The treatment of all other financial assets will remain largely unchanged and continue to be measured at amortised cost.

AASB 9 replaces the 'incurred loss' model applied in AASB 139 with an expected credit loss (ECL) model. This will require considerable judgement in how changes in economic factors affect ECLs. The Credit Union has commenced work on the design of an Expected Credit Loss (ECL) impairment model for the calculation of ECL for its retail exposures.

NOTES TO THE FINANCIAL STATEMENTS

3. Significant accounting policies (continued)

t) New standards and interpretations not yet adopted

Until the model has been developed and fully tested, the actual impact of adopting AASB 9 on the Credit Union's financial statements on the application date has not yet been finalised and the estimated adjustment from the adoption of AASB 9 on the opening balances of the Credit Union's equity at 1 July is not disclosed.

AASB 15 Revenue from contracts with customers

AASB 15 Revenue from contracts with customers, establishes a comprehensive framework for determining whether, how much, and when revenue is recognised. AASB 15 supersedes AASB 118 Revenue, and AASB 111 Construction Contracts along with a number of interpretations. AASB 15 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted. The Credit Union will apply AASB 15 from 1 July 2018. The Credit Union does not anticipate the application of this standard will have any significant impact on its financial statements.

AASB 16 Leases

AASB 16 Leases removes the classification of leases as either operating or finance leases (for the lessee) effectively treating all leases as finance leases and, subject to limited exceptions, requires all leases to be capitalised on balance sheet. Lessor accounting would remain similar to current practice. AASB 16 is effective for annual reporting periods beginning on or after 1 January 2019 with early adoption permitted. The Credit Union has not yet determined the impact on the new requirements on its financial statements.

NOTES TO THE FINANCIAL STATEMENTS

	2018 $	2017 $
4. Interest revenue and expense		
Interest revenue		
Deposits with other ADI's	2,352,307	2,345,532
Loans to members	7,065,107	7,089,624
	9,417,414	9,435,156
Interest expense		
Deposits	2,644,817	2,655,177
Interest bearing liabilities	2,598	1,640
	2,647,415	2,656,817
Net interest income	6,769,999	6,778,339
5. Fee and commission income		
ATM fees	356,805	422,066
Direct debit fees	39,590	40,064
Loan fees	112,820	101,900
Direct entry reference fees	139,920	141,050
Insurance commission	38,325	53,270
Cheque book issue fees	9,756	13,521
BPAY transaction commission	57,472	65,841
VISA card fees	219,206	229,808
VISA card commission	198,708	208,201
Other fee and commission income	84,793	92,261
	1,257,395	1,367,982
6. Other income		
Dividends from available for sale equity securities	54,698	87,123
Rental income from investment properties	78,192	85,467
Bad debts recovered	35,055	5,479
Other revenue	65,149	75,924
	233,094	253,993

NOTES TO THE FINANCIAL STATEMENTS

	2018 $	2017 $
7. Other expenses		
Fee and commission expenses		
ATM fees	203,900	242,758
RediCard issue fees	-	49,608
Dishonour fee expenses	6,047	5,727
VISA card fees	263,924	191,761
Other fee and commission expenses	143,129	137,590
	617,000	627,444
Personnel expenses		
Wages and salaries	3,033,540	2,996,501
Superannuation contributions	268,540	266,230
Payroll tax	140,165	136,278
Provision for employee entitlements	1,483	33,876
	3,443,728	3,432,885
Depreciation & amortisation expenses		
Plant and equipment	99,421	105,570
Buildings	103,129	83,403
Leasehold improvements	122,208	90,050
Investment properties	11,739	11,573
Intangible assets	145,197	118,282
	481,694	408,878

NOTES TO THE FINANCIAL STATEMENTS

	2018 $	2017 $
8. Auditor's remuneration		
Audit and review services		
Auditor of the Company		
KPMG		
Audit of financial statements	57,500	61,080
Other regulatory assurance services	28,500	30,430
	86,000	91,510
Other services		
KPMG		
Taxation services	18,864	9,020
	18,864	9,020
	104,864	100,530

9. Income tax expense

a) Recognised in the income statement

	2018 $	2017 $
Current tax expense		
Current year	93,966	145,462
Adjustments for prior years	-	-
	93,966	145,462
Deferred tax expense		
Origination and reversal of temporary differences	8,781	34,817
Adjustments for prior years	8,205	-
Impact of change in corporate tax rate	27,098	(11,592)
	44,084	23,225

NOTES TO THE FINANCIAL STATEMENTS

		2018 $	2017 $
9. Income tax expense (continued)			
b) Reconciliation between income tax expense and profit before tax			
Profit before tax		432,984	723,254
Income tax using the domestic corporation tax rate (FY18 27.50%; FY17 30%)		119,071	216,976
Increase in income tax expense due to: Imputation gross-up on dividends received		6,447	11,201
Non-deductible expenses		305	441
Decrease in income tax expense due to:			
Other deductible expenses		(15,266)	(11,001)
Franking credits on dividends received		(23,442)	(37,338)
Recognition of previously unrecognised capital loss		-	-
Under/(over) provided in prior periods		23,837	(11,592)
Impact of change in corporate tax rate		27,098	-
Income tax expense		138,050	168,687
10. Cash and cash equivalents			
Cash on hand		639,447	429,885
Cash at bank		962,474	947,805
		1,601,921	1,377,690
11. Financial assets			
a) Loans and receivables			
Investments placed with other ADI's classified as loans and receivables		40,904,406	43,257,334
Loans to members:			
Overdrafts		48,434	43,654
Term loans		162,705,603	155,441,976
Loans to related parties	28	2,774,687	2,166,756
Provision for impairment	12	(103,649)	(78,891)
		165,425,075	157,573,495
Total loans and receivables		206,329,481	200,830,829
b) Held to maturity			
Investments placed with other ADI's classified as held to maturity		40,500,000	41,000,000
		40,500,000	41,000,000

NOTES TO THE FINANCIAL STATEMENTS

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

	2018 $	2017 $
12. Loans and receivables-provision for impairment		
The provision for impairment comprises:		
Specific provision		
Opening balance	65,727	99,810
Addition to provision	33,565	21,201
Loans written off , previously provided	(9,249)	(7,732)
Reversal of provision	(36,039)	(47,552)
Closing balance	54,004	65,727
Collective provision		
Opening balance	13,164	10,259
Addition to provision	38,422	12,026
Loans written off , previously provided	-	-
Reversal of provision	(1,941)	(9,121)
Closing balance	49,645	13,164
Total provision for impairment	103,649	78,891
Analysis of net impairment loss on loans and receivables:		
Movement in specific provision	(11,723)	(34,083)
Movement in collective provision	36,481	2,905
Loans written off directly against profit or loss	76,134	23,040
	100,892	(8,138)

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

13. Other financial assets

Available for sale equity securities

	2018	2017
Unlisted shares-at cost	557,812	557,812
	557,812	557,812

NOTES TO THE FINANCIAL STATEMENTS

	2018 $	2017 $
14. Tax assets and liabilities		
Deferred tax assets and liabilities		
Deferred tax assets and liabilities are attributable to the following:		
Deferred tax assets		
Property, plant & equipment	-	-
Provisions	257,958	273,536
Accruals	34,500	31,890
Other	24,647	30,357
Total deferred tax assets	317,105	335,783
Deferred tax liabilities		
Property, plant & equipment	(41,006)	(5,142)
Other	(2,849)	(3,044)
Total deferred tax liabilities	(43,855)	(8,186)
Net deferred tax assets	273,250	327,597

Current tax assets and liabilities

The current tax asset for the Credit Union of $46,463 (2017: current tax liability of $30,704). Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to the tax payable or receivable in respect of previous years.

NOTES TO THE FINANCIAL STATEMENTS

	2018 $	2017 $
15. Property, plant and equipment		
Freehold land and buildings		
Freehold land-at cost	357,107	357,107
Buildings on freehold land-at cost	2,952,938	2,952,938
Provision for depreciation	(1,638,789)	(1,535,660)
	1,671,256	1,774,385
Leasehold improvements		
At cost	725,497	725,497
Provision for depreciation	(250,171)	(127,963)
	475,326	597,534
Plant and equipment		
At cost	1,387,157	1,426,820
Provision for depreciation	(872,266)	(849,191)
	514,891	577,629
Total property, plant and equipment		
At cost	5,422,699	5,462,362
Provision for depreciation	(2,761,226)	(2,512,814)
	2,661,473	2,949,548

NOTES TO THE FINANCIAL STATEMENTS

15. Property, plant and equipment (continued)

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

2018	Freehold land and buildings	Leasehold improvements	Plant and equipment	Total
	$	$	$	$
Carrying amount at the beginning of the year	1,774,385	597,534	577,629	2,949,548
Additions	-	-	49,095	49,095
Disposals	-	-	(12,416)	(12,416)
Depreciation	(103,129)	(122,208)	(99,421)	(324,758)
Carrying amount at the end of the year	1,671,256	475,326	514,887	2,661,469

2017	Freehold land and buildings	Leasehold improvements	Plant and equipment	Total
	$	$	$	$
Carrying amount at the beginning of the year	1,527,316	209,145	497,548	2,234,009
Additions	330,706	478,439	188,575	997,720
Disposals	(234)	-	(2,924)	(3,158)
Depreciation	(83,403)	(90,050)	(105,570)	(279,023)
Carrying amount at the end of the year	1,774,385	597,534	577,629	2,949,548

During the year obsolete plant and equipment with a carrying value of $145 (original cost $92,310) was written off.

NOTES TO THE FINANCIAL STATEMENTS

	2018 $	2017 $
16. Investment property		
Investment property-at cost	201,112	201,112
Provision for depreciation	(59,908)	(48,168)
	141,204	152,944

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

Carrying amount at the beginning of the year	152,943	161,203
Additions	-	3,314
Disposals	-	-
Depreciation	(11,739)	(11,573)
Carrying amount at the end of the year	141,204	152,944

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.

17. Intangibles

Computer software-at cost	1,232,939	1,064,512
Provision for amortisation	(878,648)	(763,942)
	354,291	300,570

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

Carrying amount at the beginning of the year	300,570	198,523
Additions	198,918	220,329
Disposals	-	-
Amortisation	(145,197)	(118,282)
Carrying amount at year end	354,291	300,570

NOTES TO THE FINANCIAL STATEMENTS

	2018 $	2017 $
18. Other assets		
Interest & fees receivable	490,157	503,399
Prepayments	364,617	413,000
Other	412,786	865,372
	1,267,560	1,781,771
19. Deposits		
Call deposits	148,782,488	151,697,289
Term deposits	78,063,882	71,105,393
Accrued interest payable	264,325	230,373
	227,110,695	223,033,055
20. Trade and other payables		
Trade creditors	256,680	275,002
Sundry creditors	739,068	631,306
	995,748	906,308
21. Provisions		
Employee benefits		
Annual leave	227,086	255,278
Long service leave-current	509,509	396,686
Long service leave-non current	97,786	180,933
	834,381	832,897
Other Provisions		
Onerous Contracts		
Carrying amount at the beginning of the year	-	101,190
Provisions made during the year	-	-
Provisions used during the year	-	101,190
Carrying amount at year end	-	-
Make Good Provision		
Carrying amount at the beginning of the year	26,475	20,100
Provisions made during the year	21,900	19,960
Provisions used during the year	-	13,585
Carrying amount at year end	48,375	26,475
Total Provisions	882,756	859,372

NOTES TO THE FINANCIAL STATEMENTS

	Note	2018 $	2017 $
22. Equity			
a) Retained earnings			
Balance at the beginning of the year		23,961,118	23,394,071
Profit for the year		294,934	554,567
Transfer to redeemed share capital account	22(b)(i)	(1,450)	(1,740)
Transfer from general reserve for credit losses	22(b)(ii)	17,454	14,220
Balance at the end of the year		24,272,056	23,961,118
b) Reserves			
Redeemed share capital account	22(b)(i)	113,505	112,055
General reserve for credit losses	22(b)(ii)	358,695	376,149
		472,200	488,204
(i) Redeemed share capital account			
Balance at the beginning of the year		112,055	110,315
Member shares redeemed during year		1,450	1,740
Balance at the end of the year		113,505	112,055

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	376,149	390,369
Transfer (to) retained profits	(17,454)	(14,220)
Balance at the end of the year	358,695	376,149

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

23. Contingencies

In the normal course of business the Credit Union enters into various types of contracts that give rise to contingent or future obligations. These contracts generally relate to the financing needs of Members. The Credit Union uses the same credit policies and assessment criteria in making commitments and conditional obligations for these risks as it does for ordinary loans and advances.

	2018	**2017**
	$	**$**
Guarantees	608,949	576,910

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

24. Operating leases

a) Leases as lessee

Operating lease rentals are payable as follows:

Within one year	219,007	211,558
Between one and two years	226,723	219,007
Between two and five years	466,206	575,475
	911,936	1,006,040

The Credit Union has operating leases for the Narellan and Tahmoor branches. The 5 year term of the Narellan 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. The Somerset Ave Narellan lease terminated on 1 July 2017.

Lease payments are increased every year in line with the contracts. During the financial year ended 30 June 2018, $235,840 was recognised as an expense in the income statement in respect of operating leases (2017: $275,938).

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 an option for 2 additional 3 year terms. The option to renew was not exercised and a private agreement is in place on a month by month basis.

NOTES TO THE FINANCIAL STATEMENTS

24. Operating Leases (continued)

b) Leases as lessor (continued)

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 was for 5 years from 30 September 2011 with options for 2 additional 5 year terms. The 1st option was exercised and is due for review 30 September 2021.

	2018 $	2017 $
Operating lessor rentals are receivable as follows:		
Within one year	17,000	66,820
Between one and two years	17,000	69,466
Between two and five years	51,000	225,630
	85,000	361,916

During the financial year ended 30 June 2018, $79,192 was recognised as rental income in the income statement (2017: $85,467) and $2,794 in respect of repairs and maintenance was recognised as an expense in the income statement relating to investment properties (2017: $1,009).

25. Commitments

	2018 $	2017 $
a) Outstanding loan commitments		
Loans approved but not yet funded	2,004,588	1,858,451
b) Loan redraw facilities		
Undrawn value of redraw facilities	21,782,123	21,038,944

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

NOTES TO THE FINANCIAL STATEMENTS

25. 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% of its total assets as deposits with CUSCAL.

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

NOTES TO THE FINANCIAL STATEMENTS

	2018	2017
26. Statement of cash flows		
a) Reconciliation of cash flows from operating activities		
Profit after tax	294,934	554,567
Adjustments for:		
Loss on sale of property, plant & equipment	907	3,158
Onerous contracts	-	(101,190)
Depreciation and amortisation	481,694	408,878
Impairment loss on loans and receivables	100,892	(8,138)
Rental income	(78,192)	(85,467)
Net cash from operating activities before changes in assets and liabilities	**800,235**	**771,808**
Net loans funded	(7,952,472)	(6,721,746)
Movement in interest receivable	13,242	58,577
Movement in other receivables	452,586	(33,572)
Movement in prepayments	48,384	(100,564)
Movement in current tax liabilities	(77,168)	(212,374)
Movement in net deferred tax assets	54,347	34,816
Net increase in deposits	4,043,688	6,758,042
Movement in accrued interest payable	33,952	(110,134)
Movement in trade creditors	3,578	62,454
Movement in sundry creditors	107,763	(62,593)
Movement in employee benefits	1,484	33,875
Net cash (used in)/from operating activities	**(2,470,381)**	**478,589**
b) Reconciliation of cash and cash equivalents		
Cash and cash equivalents comprises:		
Cash on hand and at bank	1,601,921	1,377,690

NOTES TO THE FINANCIAL STATEMENTS

27. Financial risk management

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

- credit risk
- liquidity risk
- market risk

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

27. 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 Regional Lending Manager, reporting to the Chief Operating Officer (COO), is responsible for oversight of the Credit Union's credit risk, including:

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

27. 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 and receivables to members		Loans and receivable with other ADI's		Held to maturity investments		Cash and cash equivalents	
	2018	2017	2018	2017	2018	2017	2018	2017
	$	$	$	$	$	$	$	$
Carrying Amount	165,425,075	157,573,495	40,904,406	43,257,334	40,500,000	41,000,000	1,601,921	1,377,690
Individually impaired								
Gross amount	66,581	65,727	-	-	-	-	-	-
Provision for impairment	(54,004)	(65,727)	-	-	-	-	-	-
Carrying amount	12,577	-	-	-	-	-	-	-
Collectively impaired								
Days in arrears:								
Less than 30 days	-	-	-	-	-	-	-	-
Greater than 30 days and less than 90 days	69,066	550,966	-	-	-	-	-	-
Greater than 90 days and less than 182 days	34,715	31,968	-	-	-	-	-	-
Greater than 182 days and less than 273 days	-	0	-	-	-	-	-	-
Greater than 273 days and less than 365 days	-	12,736	-	-	-	-	-	-
Greater 365 days	-	9,250	-	-	-	-	-	-
Provision for impairment	(49,645)	(13,164)	-	-	-	-	-	-
Carrying amount	54,136	591,756	-	-	-	-	-	-

NOTES TO THE FINANCIAL STATEMENTS

27. Financial risk management (continued)

a) Credit risk (continued)

Exposure to credit risk (continued)

	Loans and receivables to members		Loans and receivable with other ADI's		Held to maturity investments		Cash and cash equivalents	
	2018	2017	2018	2017	2018	2017	2018	2017
	$	$	$	$	$	$	$	$
Past due but not impaired								
Days in arrears:								
Less than 30 days	1,402,673	1,556,154	-	-	-	-	-	-
Greater than 30 days and less than 90 days	-	-	-	-	-	-	-	-
Greater than 90 days and less than 182 days	132,435	-	-	-	-	-	-	-
Greater than 182 days and less than 273 days	-	-	-	-	-	-	-	-
Greater than 273 days and less than 365 days	-	-	-	-	-	-	-	-
Greater 365 days	-	-	-	-	-	-	-	-
Carrying amount	1,535,108	1,556,154	-	-	-	-	-	-
Neither past due nor impaired							`	`
Secured by mortgage	151,887,584	145,011,392	-	-	-	-	-	-
Secured by other	7,401,285	7,548,633	-	-	-	-	-	-
Unsecured	4,534,385	2,865,559	-	-	-	-	-	-
Other - Cash on hand	-	-	-	-	-	-	639,447	429,885
APRA regulated ADI's	-	-	40,904,406	43,257,334	40,500,000	41,000,000	962,474	947,805
Carrying amount	163,823,254	155,425,584	40,904,406	43,257,334	40,500,000	41,000,000	1,601,921	1,377,690
Includes loans with renegotiated terms	-	-	-	-	-	-	-	-

NOTES TO THE FINANCIAL STATEMENTS

27. 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

27. 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:

	2018 $	2017 $
Against Individually impaired:		
Property value	-	-
Against past due but not impaired:	-	-
Property value	3,380,304	3,594,000
Other	-	-
Total	3,380,304	3,594,000

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 (2017: $Nil).

NOTES TO THE FINANCIAL STATEMENTS

27. 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 capital exposure to any one Bank, rated Authorised Deposit-taking Institution (ADI), unrated Mutual ADI, and their related counterparties, is based on the long term rating published by the relevant ratings agency as follows:

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

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

b) Liquidity risk

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

Management of liquidity risk

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

Exposure to liquidity risk

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

NOTES TO THE FINANCIAL STATEMENTS

27. 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:

	2018	2017
As at 30 June	22.08%	23.10%
Average liquidity for the year	23.88%	25.08%
Minimum liquidity during the year	22.08%	23.10%
Maximum liquidity during the year	25.76%	26.38%

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

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

2018	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	227,110,695	(228,421,328)	(168,063,415)	(33,715,087)	(23,434,356)	(3,208,470)
Trade and other payables	995,748	(995,748)	(995,748)	-	-	-
	228,106,443	(229,417,076)	(169,059,163)	(33,715,087)	(23,434,356)	(3,208,470)
Unrecognised loan commitments	2,004,588	(2,004,588)	(2,004,588)	-	-	-
Total financial liabilities	230,111,031	(231,421,664)	(171,063,751)	(33,715,087)	(23,434,356)	(3,208,470)

2017	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	223,033,055	(224,229,144)	(169,089,454)	(31,030,164)	(21,876,395)	(2,233,131)
Trade and other payables	906,308	(932,783)	(932,783)	-	-	-
	223,939,363	(225,161,927)	(170,022,237)	(31,030,164)	(21,876,395)	(2,233,131)
Unrecognised loan commitments	1,858,451	(1,858,451)	(1,858,451)	-	-	-
Total financial liabilities	225,797,814	(227,020,378)	(171,880,688)	(31,030,164)	(21,876,395)	(2,233,131)

NOTES TO THE FINANCIAL STATEMENTS

27. 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 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

27. 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.

2018	Carrying amount	Less than 3 months	3 to 6 months	6 months to 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	5 to 6 years
Financial instruments									
Financial assets									
Cash and Cash Equivalents	1,601,921	1,601,921	-	-	-	-	-	-	-
Loans and Receivables	206,329,481	140,506,461	13,380,799	28,024,348	16,190,993	5,507,408	460,909	798,283	1,460,280
Held to Maturity	40,500,000	40,500,000	-	-	-	-	-	-	-
Total financial assets	248,431,402	182,608,382	13,380,799	28,024,348	16,190,993	5,507,408	460,909	798,283	1,460,280
Financial liabilities									
At Call Deposits	148,782,488	148,782,488	-	-	-	-	-	-	-
Term Deposits	78,328,207	52,225,949	17,650,228	5,312,473	3,139,557	-	-	-	-
Total financial liabilities	227,110,695	201,008,437	17,650,228	5,312,473	3,139,557	-	-	-	-
Gap	21,320,707	(18,400,055)	(4,269,429)	22,711,875	13,051,436	5,507,408	460,909	798,283	1,460,280
Cumulative gap		(18,400,055)	(22,669,484)	42,391	13,093,827	18,601,235	19,062,144	19,860,427	21,320,707

NOTES TO THE FINANCIAL STATEMENTS

27. 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.

2017	Carrying amount	Less than 3 months	3 to 6 months	6 months to 1 year	1 to 2 years	2 to 3 years
Financial instruments						
Financial assets						
Cash and Cash Equivalents	1,377,690	1,377,690	-	-	-	-
Loans and Receivables	200,830,829	133,307,414	12,884,415	19,786,822	20,845,028	13,775,447
Held to Maturity	41,000,000	41,000,000	-	-	-	-
Total financial assets	243,208,519	175,685,104	12,884,415	19,786,822	20,845,028	13,775,447
Financial liabilities						
At Call Deposits	151,697,289	151,697,289	-	-	-	-
Term Deposits	71,335,766	47,718,392	15,758,092	5,673,281	2,186,001	-
Total financial liabilities	223,033,055	199,415,681	15,758,092	5,673,281	2,186,001	-
Gap	20,175,464	(23,730,577)	(2,873,677)	14,113,541	18,659,027	13,775,447
Cumulative gap		(23,730,577)	(26,604,254)	(12,490,713)	6,168,314	19,943,761

NOTES TO THE FINANCIAL STATEMENTS

27. 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 2018, the exposure was $109,896 (2017 $67,731). 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 2018:

	2018	**2017**
As at 30 June	0.47%	0.29%

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

d) Fair value

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

NOTES TO THE FINANCIAL STATEMENTS

27. 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

27. Financial risk management (continued)

d) Fair value (continued)

30 June 2018	Note	Carrying Amount	Level 1 $	Level 2 $	Level 3 $
Financial assets not measured at fair value					
Loans to members	11(a)	165,425,075	-	165,501,313	-
		165,425,075	**-**	**165,501,313**	**-**
Financial liabilities not measured at fair value					
Deposits	19	227,110,695	-	227,092,612	-
		227,110,695	**-**	**227,092,612**	**-**

30 June 2017	Note	Carrying Amount	Level 1 $	Level 2 $	Level 3 $
Financial assets not measured at fair value					
Loans to members	11(a)	157,573,495	-	157,516,201	-
		157,573,495	**-**	**157,516,201**	**-**
Financial liabilities not measured at fair value					
Deposits	19	223,033,055	-	223,018,875	-
		223,033,055	**-**	**223,018,875**	**-**

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:

	2018	**2017**
Loans to members	3.99% - 4.69%	3.89% - 4.09%
Deposits	1.85% - 2.15%	1.85% - 2.15%

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

27. 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

27. Financial risk management (continued)

e) Capital management - regulatory capital (continued)

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

	2018 $	2017 $
Common Equity Tier 1 capital		
Retained earnings	24,385,561	24,073,173
Regulatory adjustments to Common Equity Tier 1 Capital	(1,185,770)	(1,185,979)
Total Common Equity Tier 1 Capital	23,199,791	22,887,194
Tier 2 capital		
General reserve for credit losses	358,695	376,149
Regulatory adjustments to Tier 2 Capital	-	-
Total Tier 2 capital	358,695	376,149
Total capital base	23,558,486	23,263,343
Risk weighted assets	119,982,881	120,857,267
of which:		
Credit Risk	104,825,932	105,945,314
Operational Risk	15,156,949	14,911,953
Capital ratios		
Capital Adequacy Ratio	19.63%	19.25%
Tier 1 capital ratio	19.34%	18.94%

NOTES TO THE FINANCIAL STATEMENTS

28. Related parties

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

Non-executive directors

- Lloyd Pollard
- Geoffrey Ellis
- Greg Wright
- Deborah Vardy
- Glenn Becker
- Katie Palmer
- Alistair McLean (Appointed 8 November 2017)
- Neville Hoskin (Retired 8 November 2017)

Associate Directors

- Doug Ferris (Appointed 21 February 2018)

Executives

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

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:

	2018 $	2017 $
Short term employee benefits	708,815	653,223
Post employment benefits-		
Superannuation contributions	66,353	63,108
Other long term benefits	15,244	24,178
Total	790,412	740,509

NOTES TO THE FINANCIAL STATEMENTS

28. 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 and movements in annual leave provision. All remuneration to directors was approved by the members at the previous Annual General Meeting of the Credit Union.

Loans to key management personnel

	2018	**2017**
	$	**$**
The aggregate value of loans to KMP at balance date amounted to:	2,774,687	2,166,756
The aggregate value of loans disbursed to KMP during the year amounted to:	1,061,500	713,126
Interest and fees earned on loans to KMP	93,250	94,004
Less: KMP loan balance at date of resignation or restructure ^	98,594	746,667
Repayments during the year	448,225	997,731

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.

^ A restructure of the executive team took place as of 1 July 2016, therefore the loan balances of those KMP were removed. The 2018 financial year movement is due to a director retiring at the end of his elected term.

NOTES TO THE FINANCIAL STATEMENTS

29. Economic dependency

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

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

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

TransAction Solutions Pty Limited ("TAS")
TAS provides computing services to the Credit Union. The Credit Union has a management contract with the bureau to supply computer support staff and services to meet the day to day needs of the Credit Union and compliance with relevant prudential standards.

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

30. Subsequent events

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 20 to 70 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 2018 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:

Lloyd Pollard	Geoffrey Ellis
Chairman of Board of Directors	Deputy Chairman Board of Directors

Dated at Camden this 19th September 2018.

Independent Auditor's Report

To the *members* of Macarthur Credit Union Limited

Opinion

We have audited the ***Financial Report*** of Macarthur Credit Union Limited (the Company).

In our opinion, the accompanying Financial Report of the Company is in accordance with the *Corporations Act 2001*, including:

- giving a true and fair view of the ***Company's*** financial position as at 30 June 2018 and of its financial performance for the year ended on that date; and
- complying with *Australian Accounting Standards* and the *Corporations Regulations 2001*.

The Financial Report comprises:

- *Statement of financial position* as at 30 June 2018
- *Statement of profit or loss and other comprehensive income, Statement of changes in equity, and Statement of cash flows* for the year then ended
- Notes including a summary of significant accounting policies
- *Directors' Declaration.*

Basis for opinion

We conducted our audit in accordance with *Australian Auditing Standards*. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Financial Report* section of our report.

We are independent of the Company in accordance with *the Corporations Act 2001* and the ethical requirements of the *Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the Financial Report in Australia. We have fulfilled our other ethical responsibilities in accordance with the Code.

Other Information

Other Information is financial and non-financial information in Macarthur Credit Union Limited's annual reporting which is provided in addition to the Financial Report and the Auditor's Report. The Directors are responsible for the Other Information.

Our opinion on the Financial Report does not cover the Other Information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the Financial Report, our responsibility is to read the Other Information. In doing so, we consider whether the Other Information is materially inconsistent with the Financial Report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We are required to report if we conclude that there is a material misstatement of this Other Information, and based on the work we have performed on the Other Information that we obtained prior to the date of this Auditor's Report we have nothing to report.

Responsibilities of the Directors for the Financial Report

The Directors are responsible for:

- preparing the Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001*
- implementing necessary internal control to enable the preparation of a Financial Report that gives a true and fair view and is free from material misstatement, whether due to fraud or error
- assessing the Company's ability to continue as a going concern and whether the use of the going concern basis of accounting is appropriate. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Financial Report

Our objective is:

- to obtain reasonable assurance about whether the Financial Report as a whole is free from material misstatement, whether due to fraud or error; and
- to issue an Auditor's Report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with *Australian Auditing Standards* will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the Financial Report.

A further description of our responsibilities for the audit of the Financial Report is located at the *Auditing and Assurance Standards Board* website at: http://www.auasb.gov.au/auditors_responsibilities/ar4.pdf. This description forms part of our Auditor's Report.

KPMG

KPMG

Richard Drinnan

Partner

Wollongong

19 September 2018

the mac
macarthur credit union
friendly, helpful & supportive

www.themaccu.com.au
1300 622 278

Camden	52 Argyle Street
Narellan	Shop 308/326 Camden Valley Way
Picton	109-111 Argyle Street
Tahmoor	Shop 7/117 Remembrance Drive