MACARTHUR CREDIT UNION LTD

ABN: 83 087 650 244

48th ANNUAL REPORT
2019

DIRECTORS

Lloyd Pollard (Chairman)
Geoffrey Ellis (Deputy Chairman)
Greg Wright (Resigned 13 November 2018)
Deborah Vardy
Glenn Becker
Katie Palmer
Alistair McLean (Resigned 21 November 2018)
Doug Ferris (Appointed 13 November 2018)
Peter Buckley (Appointed 21 November 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

CONTENTS

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 2019 were Lloyd Pollard (Chairman), Deborah Vardy, Geoffrey Ellis and Glenn Becker. There were no Executive Committee meetings held during 2019.

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 2019 were Geoffrey Ellis (Chairman), Katie Palmer, Doug Ferris and Peter Buckley.

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 2019 were Deborah Vardy (Chairman), Glenn Becker, Katie Palmer and Doug Ferris.

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 2019 were Glenn Becker (Chairman), Geoffrey Ellis, Deborah Vardy and Peter Buckley.

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 2019 were Lloyd Pollard, Glenn Becker 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

The core values of The Mac of being "Friendly Helpful and Supportive" are not just hollow words that are taken lightly. They speak to the ethical and transparent provision of all of our products and services, in particular our loan and deposit products. This is something that would appear to be at odds with the behaviour of some of our much larger competitors- as highlighted by the recent Banking Royal Commission.

The ethical provision of loans and deposits is clearly something that resonates with our member base-as evidenced by the substantial growth in our loan portfolio over the 2018/19 year. At the heart of this is our lending criteria and remuneration structures. We do not pay incentives or performance bonuses to our staff. There is not pressure to "sell" products and services to members. Similarly, our lending criteria is applied with the members' best interests at heart.

A significant number of our members have deepened their relationship with us and are using more of our products and services than ever before and this is fantastic. This is a reflection of the standard of service that we offer as well as the competitiveness of our products and services. This is at a time where there is significant change in the banking sector-some of our peers are struggling to remain relevant while there are also a number of new market entrants and disrupters.

The 2018/19 year has seen a heavy focus on our core business. As part of this core focus we have made (and will continue to make) some difficult decisions that impact on the provision of products and service to members. These decisions however (the removal of ATMs from our Branch locations is a prime example) are always made with the long term interests of The Mac at heart.

The profit results for 2018/19 are down on previous years. This has come about as a combination of a number of different factors:

- Intense competition in both the loan and deposit markets
- Continued investment in product delivery channels
- The ongoing burden of regulation
- The costs associated with an intense focus on the core business to deliver future improvements

The Board acknowledges the need for continued improvements in profitability from the 2018/19 results and has committed a significant amount of time at a strategic level to bring about this change. Pleasingly our results for the second half of 2018/19 are much improved and we are well placed for the 2019/20 year and beyond.

CHAIRMAN'S REPORT (Continued)

Our budgets and forecasts indicate a return to improved levels of profitability for the 2019/20 year and beyond. As mentioned previously this may involve some difficult decisions-however these will be taken with a long term view. Your Board will always exercise careful and considered judgment in all investment decisions with a view to the future of The Mac.

The role of a Director of a financial institution is one that is not for the faint hearted. The performance expectations of Directors and Management continue to increase-as evidenced by the recent introduction of the BEAR (Banking Executive Accountability Regime) by the banking regulator. However, your Board has the required skills, courage and commitment to continue to operate in such an environment.

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

The term "the only constant is change" is an overused one. However it is a term that accurately describes the economic and business environment we have seen over the last 12 months.

The Banking Royal Commission has brought into focus some questionable behaviour by some of our major competitors. This behaviour appears to have been driven by the quest for maximising profit and remuneration and not necessarily the best customer outcomes. It is more than likely that increased regulation will be the tool used to address this behaviour. The impact of this is yet to be felt-but ultimately, increased regulation results in the need for increased resourcing and increased costs.

At the same time we are operating in an extremely uncertain economic environment. Over the last 12 months we have seen the rise and fall of property prices, mixed signals in terms of retail spending, and a declining vehicle sales market. These indicators run contrary to healthy unemployment figures and a continued decline in market interest rates.

In simple terms these factors place pressure on financial institutions (and all businesses) to generate profits. The Mac is no exception to this. Our profit result is down on previous years. The last 12 months have been dedicated to researching and making (sometimes difficult) decisions that reflect our changing world but also impact the service we provide to members. The rationalisation of the Automated Teller Machine (ATM) market is a prime example of that. Our decision to exit the RediATM scheme and remove machines from our Branch locations was not taken lightly. However it is a reflection of broader technological change.

This, and other similar changes will result in benefits in terms of a reduction of our cost structures. We are starting to feel the benefits of this-with improved profit levels in recent months. It is anticipated that this trend will continue into the 2019/20 year.

Our focus on core business has resulted in significant growth of our loan portfolio over the last 12 months. At a time where undesirable corporate behaviour has been "called out", a greater proportion of our members have chosen The Mac as their primary financial institution. This is a responsibility that is not taken lightly. We take great care and pride in ensuring that our borrowing members are not placed into a financial position that they cannot afford.

Similarly we are acutely aware of the financial pressures facing self-funded retirees in recent times. The impact of a low (and reducing) interest rate market continues to impact a significant proportion of our membership. This impact is

CEO'S REPORT (Continued)

always considered as part of our decision making process on deposit interest rates.

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 a year of wise counsel, direction & encouragement. The Board continues to show courage and support in investing for the future of The Mac.

Dave Cadden
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 2019 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, RBV, 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 Resigned 13 November 2018
Deborah Vardy Dip Law, MAMI, MAICD	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, GAICD	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 Resigned 21 November 2018
Doug Ferris B.Bus, MAICD	Audit Committee Member Governance Committee Member Appointed 13 November 2018
Peter Buckley MBA, B. Com, GAICD	Audit Committee Member Risk Committee Member Appointed 21 November 2018

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		2		2		-		1	
Number of meetings attended:												
Lloyd Pollard	7	6	-	5	-	2	-	1	-	-	1	1
Geoffrey Ellis	7	6	5	5	2	2	-	-	-	-	1	1
Greg Wright	3	2	2	2	-	-	1	-	-	-	-	-
Deborah Vardy	7	5	-	-	2	1	2	2	-	-	1	1
Glenn Becker	7	6	-	-	2	2	2	1	-	-	1	1
Katie Palmer	7	6	5	5	-	-	2	2	-	-	-	-
Alistair McLean	3	3	2	2	1	1	-	-	-	-	-	-
Doug Ferris	7	6	3	3	-	-	2	2	-	-	-	-
Peter Buckley	4	4	3	2	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 2019, 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 2019.

DIRECTORS' REPORT (CONTINUED)

OPERATING AND FINANCIAL REVIEW

The amount of profit for the financial year after providing for income tax, was $154,111 (2018 $294,934). This result is down on previous financial years. It is reflective of the following factors:

- An extremely competitive loan and deposit marketplace
- Our ongoing commitment to offering our members contemporary & relevant products & services
- Costs associated with a number of strategic decisions taken as a result of changes in the broader financial services market place. The most visible example of this was The Mac's exit from the RediATM network & the consequent removal of ATMs from our Branch sites. There will be longer term benefits from these decisions as a result of changes to our cost base
- Costs and resources associated with our renewed focus on our core Loan & Deposit products and the "unwinding" of previous strategies not related to member Loans & Deposits.

This result was below Director expectations. As a result we have spent considerable time this year developing and implementing a range of strategies to improve our profitability over the coming years. Pleasingly there has been significant improvement in our results in the latter part of the 2018/19 year as these strategies have begun to deliver on their desired outcomes. It is forecast therefore that this improvement will continue into the 2019/20 year & beyond. In spite of the disappointing profit result for 2018/19 there was a number of pleasing results/indicators:

- Strong loan growth-which was well above both previous years & industry trend
- Strong & increasing Capital Adequacy levels-the cornerstone of a Financial Institutions' financial strength
- Our members using a greater number of our products & services-a trend which has continued on for the last few years

As mentioned previously our forecasts indicate that profit levels will improve in coming years. As well as a continuation of the recent loan growth levels, The Mac's cost base has been the subject of very close scrutiny by the Board & Management team. This has & will result in some difficult decisions being taken. However, these decisions are necessary in terms of reducing & reallocating our cost base.

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:

DIRECTORS' REPORT (CONTINUED)

OPERATING AND FINANCIAL REVIEW (CONTINUED)

- The lowest interest rate environment in Australia's history. There has been further downward movement in the early part of the 2019/20 year.
- 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

We are very proud of the record loan growth we have seen in the 2018/19 year. This has been achieved without compromising any of our prudent lending practices. Similarly, our lending teams do not lend "to a target" nor do they receive performance bonuses based on volume. We will not put a member into a financial position that they cannot afford.

Unfortunately, ongoing cost pressures and an extremely competitive market place means that some of our loyal long-term members continue to be impacted- particularly deposit holders amidst the lower interest rate environment.

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

In addition to the financial metrics discussed above The Mac has and will continue to maintain a clear focus on its values as a mutual organisation. We continue to deliver strong performance in the areas of trust and maintaining the confidence of our members.

COMMUNITY SUPPORT

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

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

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

DIRECTORS' REPORT (CONTINUED)

OPERATING AND FINANCIAL REVIEW (CONTINUED)

This support amounts to a figure in the order of $78,119 for the 2018/19 year (2018 $52,071). 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 2018/19:

- Camden Art Prize
- Camden Council – Jacaranda Festival
- Camden High School
- Camden Men's Bowling Club
- Caring for Wollondilly
- Douglas Park Public School
- Elderslie High School
- Elderslie Public School
- Elizabeth Macarthur High School
- Lions Club of Camden
- Macarthur Annual Breast Cancer Gala
- Macarthur District Temporary Family Care
- Macarthur Skylarks Hockey Club
- Meals on Wheels Camden – Trivia Night
- Mount Annan High School
- Narellan Chamber of Commerce – Christmas in Narellan
- Oakdale Public School
- Picton Chamber of Commerce
- Picton High School
- Picton Swimming Club
- Rotary Club of Narellan
- Rural Fire Service
- South West Sydney Academy of Sport
- St Anthony's Netball
- St Pauls Primary School
- Tahmoor Public School
- The Camden Show Society
- Turning Point Camden
- Wollondilly Little Athletics
- Wollondilly Redbacks Junior AFL Club
- Wollondilly Council – Christmas Light Display
- Wollondilly Council – Illuminate
- Wollondilly Council – Mayoral Scavenger Hunt

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

DIRECTORS' REPORT (CONTINUED)

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 20 and forms part of the directors' report for the financial year ended 30 June 2019.

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

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

Dated at Camden this 18th September 2019.

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 2019 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

Warwick Shanks

Partner

Wollongong

18 September 2019

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2019

	Note	2019 (1) $	2018 $
Interest revenue calculated using the effective interest rate method	4	9,690,597	9,417,414
Interest expense	4	(2,653,515)	(2,647,415)
Net interest income		7,037,082	6,769,999
Fee and commission income	5	1,090,351	1,257,395
Fee and commission expenses	7	(536,468)	(617,000)
Net fee and commission income		553,883	640,395
Other income	6	152,313	233,094
(Loss) on disposal of assets		(12,863)	(907)
Operating income		7,730,415	7,642,581
Net impairment (loss)/gain on loans and receivables	12	(167,376)	(100,892)
Non Lending Losses		(80,363)	(35,057)
Personnel expenses	7	(3,448,907)	(3,443,728)
ATM expenses		(370,276)	(350,460)
General administration expenses		(366,135)	(346,855)
Marketing expenses		(324,938)	(314,647)
Other operating expenses		(800,951)	(773,783)
Depreciation and amortisation expenses	7	(502,475)	(481,694)
Information technology expenses		(942,223)	(894,831)
Office occupancy expense		(531,761)	(467,650)
Profit before income tax		**195,010**	**432,984**
Income tax expense	9	(40,899)	(138,050)
Profit for the year		**154,111**	**294,934**
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		**154,111**	**294,934**

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 25 to 82.

(1) The June 2019 financial statements reflect the adoption of AASB 9 Financial Instruments (AASB 9) on 1 July 2018. As permitted by AASB 9, the Credit Union has not restated the comparative financial reporting period. Refer to Note 2(g) for the impact from the initial adoption of AASB 9.

STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2019

	Note	2019 (1) $	2018 $
Assets			
Cash and cash equivalents	10	8,714,772	1,601,921
Current tax assets	14	-	46,463
Loans and advances to members	11(a)	185,035,183	165,425,074
Loans and advances to ADIs	11(b)	55,073,928	81,404,407
Other financial assets	13	1,136,917	557,812
Property, plant and equipment	15	2,329,990	2,661,473
Investment property	16	129,464	141,204
Intangibles	17	270,767	354,291
Deferred tax assets	14	156,779	273,250
Other assets	18	996,138	1,267,560
Total assets		**253,843,938**	**253,733,455**
Liabilities			
Deposits	19	225,869,016	227,110,695
Trade and other payables	20	1,724,150	995,748
Current tax payable	14	14,132	-
Provisions	21	919,872	882,756
Total liabilities		**228,527,170**	**228,989,199**
Net assets		**25,316,768**	**24,744,256**
Equity			
Reserves	22(b)	950,807	472,200
Retained earnings	22(a)	24,365,961	24,272,056
Total equity		**25,316,768**	**24,744,256**

The statement of financial position is to be read in conjunction with the notes to the financial statements set out on pages 25 to 82.

(1) The June 2019 financial statements reflect the adoption of AASB 9 Financial Instruments (AASB 9) on 1 July 2018. As permitted by AASB 9, the Credit Union has not restated the comparative financial reporting period. Refer to Note 2(g) for the impact from the initial adoption of AASB 9.

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2019

	Note	2019 (1) $	2018 $
Cash flows from operating activities			
Interest received		9,912,576	9,430,656
Dividends received		32,336	54,698
Other cash receipts in the course of operations		1,151,841	1,810,185
Interest paid		(2,604,460)	(2,613,463)
Income taxes paid		(22,537)	(160,870)
Net loans funded		(19,817,358)	(7,952,472)
Net (decrease)/increase in deposits		(1,290,734)	4,043,688
Other cash payments in the course of operations		(6,563,770)	(7,082,803)
Net cash flows (used in) operating activities	**26 a)**	**(19,202,106)**	**(2,470,381)**
Cash flows from investing activities			
Net decrease in investments with ADI's		26,330,478	2,852,928
Proceeds on sale of property, plant and equipment & assets held for sale		2,644	11,505
Rental income from investment properties		75,068	78,192
Acquisition of shares		(2,000)	-
Acquisitions of property, plant and equipment		(48,139)	(49,095)
Acquisition of intangible assets		(43,094)	(198,918)
Net cash flows from investing activities		**26,314,957**	**2,694,612**
Net increase in cash held		**7,112,851**	**224,231**
Cash at the beginning of the financial year		1,601,921	1,377,690
Cash at the end of the financial year	**26 b)**	**8,714,772**	**1,601,921**

The statement of cash flows is to be read in conjunction with the notes to the financial statements set out on pages 25 to 82.

(1) The June 2019 financial statements reflect the adoption of AASB 9 Financial Instruments (AASB 9) on 1 July 2018. As permitted by AASB 9, the Credit Union has not restated the comparative financial reporting period. Refer to Note 2(g) for the impact from the initial adoption of AASB 9.

STATEMENT OF CHANGES IN EQUITY

	Redeemed share capital reserve	General reserve for credit losses	Retained earnings	Fair Value Reserve	Total equity
	$	$	$	$	$
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
Balance at 1 July 2018	113,505	358,695	24,272,056	-	24,744,256
Changes on initial adoption of AASB 9 (Note 2)	-	-	-	418,401	418,401
Total comprehensive income for the year					
Profit after tax	-	-	154,111	-	154,111
Other comprehensive income					
Total other comprehensive income for the year	-	-	-	-	-
Total comprehensive income for the year	-	-	-	-	-
Transfer from/(to) retained profits	2,540	57,666	(60,206)	-	-
Balance at 30 June 2019	116,045	416,361	24,365,961	418,401	25,316,768

The statement of changes in equity is to be read in conjunction with the notes to the financial statements set out on pages 25 to 82.

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).

This is the first set of the annual financial statements in which *AASB 9 Financial Instruments* has been applied. Changes to significant accounting policies are described in Note 2(g).

The financial report was approved for issue by the directors on 18 September 2019.

b) Basis of measurement

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

c) Functional and presentation currency

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

d) Use of estimates and judgements

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

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods.

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 note:

- note 3(i) – 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.

e) Measurement of fair values

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

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

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

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

If the inputs used to measure the fair value of an asset or liability might be categorised in different levels of the fair value hierarchy, then the fair value

NOTES TO THE FINANCIAL STATEMENTS

2. Basis of preparation (continued)

e) Measurement of fair values (continued)

measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. The Credit Union recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

f) Presentation changes

(i) Statement of financial position

Following the adoption of AASB 9 Financial Instruments, and in order to present items on the basis of the nature of the underlying item as opposed to its measurement basis, the Credit Union has made changes to the presentation of certain items in its statement of financial position. The effect of these presentation changes has been disclosed in the 'Change in Accounting Policies' section of this note and as footnotes to the other relevant notes to the financial statements.

(ii) Income statement

The Credit Union has made certain presentation changes in its income statements, in order to align the presentation of items of income and expense with the categories of financial instruments presented in the statements of financial position.

This has had no effect on the measurement of these items and therefore on retained earnings or profit for any period. Comparative information has been represented, for all these presentation changes in the statements of financial position and income statements.

g) Changes in accounting policies

The Credit Union has initially adopted AASB 9 and AASB 15 from 1 July 2018.

A number of other new standards are also effective from 1 July 2018 but they do not have a material effect on the Credit Union's financial statements.

NOTES TO THE FINANCIAL STATEMENTS

2. Basis of preparation (continued)

g) Changes in accounting policies (continued)

Due to the transition method chosen by the Credit Union in applying AASB 9, comparative information throughout these financial statements has not been restated to reflect its requirements.

Except for the changes below, the Credit Union has consistently applied the accounting policies set out within this note, to all periods presented in these financial statements.

AASB 9 Financial Instruments

AASB 9 sets out requirements for recognising and measuring financial assets. This standard replaces AASB 139 Financial Instruments: Recognition and Measurement. The requirements of AASB 9 represent a significant change from AASB 139 and brings fundamental changes to the accounting for financial assets.

AASB 9 also contains new requirements on the application of hedge accounting. As at the 30th June 2019 the Credit Union did not use hedge accounting.

The Credit Union has adopted consequential amendments to AASB 7 Financial Instrument Disclosures that are applied to disclosures, but have not been applied to the comparative information.

The key changes to the Credit Union's accounting policies from its adoption of AASB 9 are summarised below.

Classification of financial assets and financial liabilities
AASB 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). AASB 9 classification is

NOTES TO THE FINANCIAL STATEMENTS

2. Basis of preparation (continued)

g) Changes in accounting policies (continued)

generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. The standard eliminates the previous AASB 139 categories of held-to-maturity, loans and receivables and available-for-sale. For an explanation of how the Credit Union's classifies financial assets under AASB 9, see Note 3 (d). AASB 9 largely retains existing requirements in AASB 139 for the classification of financial liabilities. For an explanation of how the Credit Union classifies financial liabilities under AASB 9 see Note 3 (d).

The following table explains the original measurement categories under AASB 139 and the new measurement categories under AASB 9 for the Credit Union's financial assets and financial liabilities as at 1 July 2018, as well as the impact of classification and measurement changes.

Reconciliation of financial instruments on adoption of AASB 9

	Original classification under AASB 139	New classification under AASB 9	AASB 139 Carrying amount at 30 June 2018	Re-measurement (pre tax)	Re-classification	AASB 9 carrying amount at 1 July 2018
Financial Assets						
Cash and cash equivalents	Cash and cash equivalents	Amortised cost	1,601,921	-	-	1,601,921
Loans and receivables	Loans and receivables	Amortised cost	206,329,481	-	(206,329,481)	-
Loans and advances to members	-	Amortised cost	-	-	165,425,074	165,425,074
Held to maturity	Held to maturity	Amortised cost	40,500,000	-	(40,500,000)	-
Investment securities	-	Amortised cost	-	-	81,404,407	81,404,407
Other financial assets (1)	Available for sale	FVOCI - equity	557,812	577,105	-	1,134,917
Total Financial Assets			**248,989,214**	**577,105**	**-**	**249,566,319**
Financial Liabilities						
Deposits	Other financial liabilities	Other financial liabilities	227,110,695	-	-	227,110,695
Trade and other payables	Other financial liabilities	Other financial liabilities	995,748	-	-	995,748
Total Financial Liabilities			**228,106,443**	**-**	**-**	**228,106,443**

NOTES TO THE FINANCIAL STATEMENTS

2. Basis of preparation (continued)

g) Changes in accounting policies (continued)

(1) 'Other financial assets' that were recognised in previous financial years at amortised cost under AASB 139, were re-measured at FVOCI - equity on adoption of AASB 9 in 2019.

Impairment of financial assets
AASB 9 replaces the 'incurred loss' model in AASB 139 with an 'expected credit loss' (ECL) model. The new impairment model also applies to certain loan commitments and financial guarantee contracts but not equity investments.

Under AASB 9, credit losses are recognised earlier than under AASB 139. For an explanation of how the Credit Union applies the impairment requirements of AASB 9, see Note 3(i).

Transition
As permitted by AASB 9, the Credit Union has not restated its comparative financial statements and has recorded a transition adjustment to its opening balance sheet, retained earnings and OCI at 1 July 2018 for the impact of the adoption of AASB 9's classification, measurement, and impairment.

On adoption of AASB 9 the Credit Union revalued its shares in Cuscal Limited. This revaluation is reflected in the creation of a Fair value reserve.

The revaluation caused the creation of a Deferred Tax Liability to the amount of 27.5% of the increment. There was no other impact on the Financial Statements for the current year.

NOTES TO THE FINANCIAL STATEMENTS

2. Basis of preparation (continued)

g) Changes in accounting policies (continued)

AASB 15 Revenue from Contracts with Customers

AASB 15 Revenue from Contracts with Customers is effective from 1 July 2018 and replaces all previous guidance on revenue recognition from contracts with customers. It requires the identification of discrete performance obligations within a customer contract and an associated transaction price that is allocated to these obligations. Revenue is recognised upon satisfaction of these performance obligations, which occur when control of the goods or services is transferred to the customer. No material adjustment to opening retained earnings was recognised as the amendments to accounting policies did not result in significant changes to the timing or amount of revenue recognised as at 30 June 2018.

3. Significant accounting policies

Except for the changes explained in note 2 (g), the Credit Union has consistently applied the following accounting policies 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.

NOTES TO THE FINANCIAL STATEMENTS

3 Significant accounting policies (continued)

a) Property, plant and equipment (continued)

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.

(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) Financial assets and liabilities

(i) Financial liabilities

As the accounting for financial liabilities remains largely unchanged from AASB 139, the Credit Union's financial liabilities were not impacted by the adoption of AASB 9. The Credit Union's financial liabilities include member deposits and other payables.

The Credit Union classifies its financial liabilities, other than financial guarantees and loan commitments, as measured at amortised cost or FVTPL.

NOTES TO THE FINANCIAL STATEMENTS

3 Significant accounting policies (continued)

d) Financial assets and liabilities (continued)

(ii) Financial Assets

Classification and measurement

On initial recognition, a financial asset is classified as measured at: amortised cost, FVOCI or FVTPL.

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

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

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

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

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

Financial assets measured at FVOCI include equity investments.

All other financial assets are classified as measured at FVTPL.

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

NOTES TO THE FINANCIAL STATEMENTS

3 Significant accounting policies (continued)

d) Financial assets and liabilities (continued)

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

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

Business Model Assessment

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

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

NOTES TO THE FINANCIAL STATEMENTS

3 Significant accounting policies (continued)

d) Financial assets and liabilities (continued)

Derecognition of financial assets

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

Financial assets – policy applicable before 1 July 2018

The Credit Union classified its financial assets into one of the following categories:

- available-for-sale;
- held-to-maturity; and
- loans and receivables.

See note 3(d)(iii), note 3(d)(iv) and note 3(e).

(iii) Available-for-sale financial assets

Policy applicable before 1 July 2018

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) Financial assets and liabilities (continued)

Subsequent to initial recognition the financial instruments are measured at amortised cost less any impairment losses. The Credit Union has unlisted equity investments. Shares in CUSCAL Limited, Shared Services Partners Limited and TransAction Solutions Limited. These shares are held for operational reasons and are not held for capital gain 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.

(iv) Held to maturity financial assets

Policy applicable before 1 July 2018

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

Policy applicable before 1 July 2018

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(i).

NOTES TO THE FINANCIAL STATEMENTS

3 Significant accounting policies (continued)

e) Loans and receivables (continued)

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.

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.

i) Impairment

Policy applicable from 1 July 2018

Financial assets within the scope of AASB 9 expected credit loss (ECL) requirements comprise all financial instruments measured at either amortised cost or FVOCI. These include cash, loans and advances to ADIs and loans and advances to members.

Financial assets are divided into homogeneous portfolios based on shared risk characteristics. These include mortgage loans, commercial loans, personal loans and revolving credit.

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

NOTES TO THE FINANCIAL STATEMENTS

3 Significant accounting policies (continued)

i) Impairment (continued)

The ECL represents the present value of expected cash shortfalls following the default of a financial instrument. A cash shortfall is the difference between the cash flows that are due in accordance with the contractual terms of the instrument and the cash flows that the Credit Union expects to receive.

The allowance for ECLs is based on an assessment of the probability of default, exposure at default and loss given default, discounted at the effective interest rate to give a net present value. The estimation of ECLs is unbiased and probability weighted, taking into account all reasonable and supportable information, including forward looking economic assumptions and a range of possible outcomes. ECLs are calculated from initial recognition of the financial asset for the behavioural life of the loan.

For financial assets recognised in the balance sheet at amortised cost, the allowance for ECLs is offset against the gross carrying value so that the amount presented in the statement of financial position is net of impairment provisions.

For financial assets classified as FVOCI, any credit losses are recognised in the fair value reserve.

Forward looking approach
The approach to determining the ECL includes forward-looking information. The Credit Union has performed historical analysis and identified the key economic variables impacting credit risk and expected credit losses for each portfolio segment. Given the lack of loss experience by the Credit Union and across the wider industry, more emphasis has been applied to the historical data available as opposed to forward looking information. Consideration has also been given to the level of undue cost and effort involved in utilising complex statistical models, which is not considered appropriate for the size and complexity of the portfolio.

The Credit Union has considered other forward-looking considerations such as the impact of future unemployment rates, property prices, regulatory change and external market risk factors, which are not deemed to have a material impact and therefore no adjustment has been made to the ECL for such factors. The Credit Union considers the ECL to represent its best estimate of

NOTES TO THE FINANCIAL STATEMENTS

3 Significant accounting policies (continued)

i) Impairment (continued)

the possible outcomes and is aligned with information used by the Credit Union for other purposes such as strategic planning and budgeting. Periodically the Credit Union carries out stress testing of more extreme shocks to calibrate its determination of other potential scenarios.

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

Stage 1: no significant increase in credit risk since initial recognition
On initial recognition, and for financial assets where there has not been a significant increase in credit risk since the date of advance, provision is made for losses from credit default events expected to occur within the next 12 months. Expected credit losses for these stage 1 assets continue to be recognised on this basis unless there is a significant increase in the credit risk of the asset.

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

3 Significant accounting policies (continued)

i) Impairment (continued)

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

3 Significant accounting policies (continued)

i) Impairment (continued)

Write-off

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

(i) Financial assets

Policy applicable before 1 July 2018

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

NOTES TO THE FINANCIAL STATEMENTS

3 Significant accounting policies (continued)

i) Impairment (continued)

recognised. For financial assets measured at amortised cost and available-for-sale financial assets that are debt securities, the reversal is recognised in profit or loss. For available for sale financial assets that are equity securities, the reversal is recognised directly in equity.

(ii) Loan impairment

Policy applicable before 1 July 2018

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.

NOTES TO THE FINANCIAL STATEMENTS

3. Significant accounting policies (continued)

i) Impairment (continued)

(iii) Non-financial assets

The carrying amount of the Credit Union's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

The recoverable amount of an asset is the greater of its fair value less costs to sell and its value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

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

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

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

j) 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.

NOTES TO THE FINANCIAL STATEMENTS

3. Significant accounting policies (continued)

j) Provisions (continued)

(ii) Defined contribution plans

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

(iii) Other long-term employee benefits

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

k) Trade and other payables

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

l) Member deposits

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

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

NOTES TO THE FINANCIAL STATEMENTS

3. Significant accounting policies (continued)

m) Revenue and expense recognition

(i) Net Interest Income

Interest income and expense is recognised using the effective interest rate (EIR) method for financial assets and financial liabilities carried at amortised cost. The EIR method calculates the amortised cost of a financial instrument at a rate that discounts estimated future cash receipts or payments through the expected life of the financial instrument, or where appropropriate, a shorter period, to the net carrying amount of the financial asset or liability. Fees and transaction costs that are integral to the lending arrangement are recognised in the income statement over the expected life of the instrument in accordance with the EIR method.

When the estimates of payments or receipts of a financial instrument are subsequently revised, the carrying amount is adjusted to reflect the actual or revised cash flows with the re-measurement recognised as part of interest income (financial assets) or interest expense (financial liabilities).

The calculation of EIR does not include ECL. Interest income that is classified as credit impaired is recognised by applying the EIR to the amortised cost carrying value (being the gross carrying amount after deducting the impairment loss).

Policy applicable before 1 July 2018

Prior to the adoption of AASB 9, interest income on financial assets that were measured at amortised cost (being loans and receivables) or classified as available-for-sale, was recognised in accordance with the EIR method.

(ii) Fees and commissions

Fees and commission income include fees other than those that are an integral part of EIR.

Fee income relating to deposit or loan accounts is either:

- transaction based and therefore recognised when the performance obligation related to the transaction is fulfilled, or

NOTES TO THE FINANCIAL STATEMENTS

3. Significant accounting policies (continued)

m) Revenue and expense recognition (continued)

- related to performance obligations carried out over a period of time therefore recognised on a systematic basis over the life of the agreement as the services are provided.

Transaction fees and provision of services are defined within product terms and conditions.

Commission income which includes insurance, protection products and financial planning advice is recognised when the performance obligation is satisfied.

Policy Applicable before 1 July 2018

Prior to the adoption of AASB 15, fee and commission income was recognised when the fees and income could be reliably measured, and its receipt became highly probable.

(iii) Dividend income

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

n) Rental income

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

o) 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.

p) 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

NOTES TO THE FINANCIAL STATEMENTS

3. Significant accounting policies (continued)

p) Income tax (continued)

expected tax payable on the taxable income for the year, using tax rates enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities 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.

q) Goods and services tax

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

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

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

r) 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 January 2019, and have not been applied in preparing these financial statements. The standard with the most significant potential impact on the financial statements is outlined below:

AASB 16 Leases

AASB 16 Leases replaces the current AASB 117 Leases standard. AASB 16 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 the balance sheet. Lessor accounting will remain similar to current practice. AASB 16 is effective for annual reporting periods beginning on or after 1 January 2019 with early adoption permitted.

Transition

Alternative methods for calculating the right-of-use asset are permitted under AASB 16 which impacts the size of the transition adjustment. The Credit Union will apply the modified retrospective transition approach, as a result prior period comparative financial statements are not restated.

Based on the elected transition method, the Credit Union will recognise right-of-use assets and lease liabilities for operating leases of approximately $800,000 as at 1 July 2019.

NOTES TO THE FINANCIAL STATEMENTS

	2019 $	2018 $
4. Interest revenue and expense		
Interest revenue calculated using the effective interest rate method		
Financial assets measured at amortised cost:		
Loans and advances to ADIs	2,088,144	2,352,307
Loans and advances to members	7,602,453	7,065,107
	9,690,597	9,417,414
Interest expense		
Deposits	2,646,845	2,644,817
Interest bearing liabilities	6,670	2,598
	2,653,515	2,647,415
Net interest income	7,037,082	6,769,999
5. Fee and commission income		
ATM fees	283,973	356,805
Direct debit fees	40,958	39,590
Loan fees	86,250	112,820
Direct entry reference fees	125,280	139,920
Insurance commission	20,912	38,325
Cheque book issue fees	7,444	9,756
BPAY transaction commission	48,117	57,472
VISA card fees	211,788	219,206
VISA card commission	192,473	198,708
Other fee and commission income	73,156	84,793
	1,090,351	1,257,395
6. Other income		
Dividend income	32,336	54,698
Rental income from investment properties	75,068	78,192
Bad debts recovered	8,100	35,055
Other revenue	36,809	65,149
	152,313	233,094

NOTES TO THE FINANCIAL STATEMENTS

	2019 $	2018 $
7. Other expenses		
Fee and commission expenses		
ATM fees	78,144	203,900
Dishonour fee expenses	5,564	6,047
VISA card fees	308,876	263,924
Other fee and commission expenses	143,884	143,129
	536,468	617,000
Personnel expenses		
Wages and salaries	3,023,781	3,033,540
Superannuation contributions	271,145	268,540
Payroll tax	136,965	140,165
Provision for employee entitlements	17,016	1,483
	3,448,907	3,443,728
Depreciation & amortisation expenses		
Plant and equipment	98,631	99,421
Buildings	102,123	103,129
Leasehold improvements	119,964	122,208
Investment properties	11,740	11,739
Intangible assets	170,017	145,197
	502,475	481,694

NOTES TO THE FINANCIAL STATEMENTS

	2019 $	2018 $
8. Auditor's remuneration		
Audit and review services		
Auditor of the Company		
KPMG		
Audit of financial statements	58,935	57,500
Other regulatory assurance services	29,215	28,500
	88,150	86,000
Other services		
KPMG		
Taxation services	10,500	18,864
	10,500	18,864
	98,650	104,864
9. Income tax expense		
a) Recognised in the income statement		
Current tax expense		
Current year	83,129	93,966
	83,129	93,966
Deferred tax expense		
Origination and reversal of temporary differences	(44,927)	8,781
Adjustments for prior years	2,697	8,205
Impact of change in corporate tax rate	-	27,098
	(42,230)	44,084
Total income tax expense in income statement	40,899	138,050

NOTES TO THE FINANCIAL STATEMENTS

	Note	2019 $	2018 $
9. Income tax expense (continued)			
b) Reconciliation between income tax expense and profit before tax			
Profit before tax		195,010	432,984
Income tax using the domestic corporation tax rate		53,628	119,071
Increase in income tax expense due to:			
Imputation gross-up on dividends received		3,811	6,447
Non-deductible expenses		15,848	305
Decrease in income tax expense due to:			
Other deductible expenses		(15,266)	(15,266)
Franking credits on dividends received		(13,858)	(23,442)
(Over)/under provided in prior periods		(3,264)	23,837
Impact of change in corporate tax rate		-	27,098
Income tax expense		40,899	138,050
10. Cash and cash equivalents			
Cash on hand		537,023	639,447
Cash at bank		8,177,749	962,474
		8,714,772	1,601,921
11. Financial assets			
a) Loans and advances to members			
Overdrafts		47,765	48,433
Term loans		181,995,820	162,705,603
Loans to related parties	28	3,168,478	2,774,687
Provision for impairment	12	(176,880)	(103,649)
Total loans and advances to members		185,035,183	165,425,074
b) Loans and advances to ADIs			
Investments placed with other ADIs		55,073,928	81,404,407
		55,073,928	81,404,407

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

NOTES TO THE FINANCIAL STATEMENTS

12. Provision for Impairment – ECL

The table below represents the reconciliation of opening balance to closing balance of ECL allowance:

	Loans and advances to members	Loans and advances to ADIs	Total
	$	$	$
Balance as at 30 June 2018	103,649	-	103,649
Change on initial applications of AASB 9	-	-	-
Balance as at 1 July 2018	**103,649**	**-**	**103,649**
Impairment charge/reversal	167,376	-	167,376
Amounts written off, previously provided for	(94,145)	-	(94,145)
Balance as at 30 June 2019	**176,880**	**-**	**176,880**

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

a) Loans and advances to members	**Stage 1 12 month ECL 2019 $**	**Stage 2 not credit impaired 2019 $**	**Stage 3 credit impaired 2019 $**	**Total 2019 $**
Balance as at 30 June 2018	-	17,363	86,286	103,649
Change on initial applications of AASB 9	-	-	-	-
Balance as at 1 July 2018	**-**	**17,363**	**86,286**	**103,649**
Transfers during the period to:				
12 month ECL	-	-	-	-
Lifetime ECL - not credit impaired	-	-	-	-
Lifetime ECL - credit impaired	-	-	-	-
Net remeasurement of loss allowance	-	20,826	74,201	95,027
New financial assets originated	-	45,137	27,212	72,349
New financial assets that have been derecognised	-	-	-	-
Write Offs	-	(26,040)	(68,105)	(94,145)
Balance as at 30 June 2019	**-**	**57,286**	**119,594**	**176,880**

NOTES TO THE FINANCIAL STATEMENTS

12. Provision for Impairment – ECL (continued)

The table below represents the comparative information prior to the adoption of AASB 9 of the movement in provision for impairment for the year ended 30 June 2018.

The provision for impairment comprises:	**2018**
Specific provision	**$**
Opening balance	65,727
Addition to provision	33,565
Loans written off , previously provided	(9,249)
Reversal of provision	(36,039)
Closing balance	54,004
Collective provision	
Opening balance	13,164
Addition to provision	38,422
Loans written off , previously provided	-
Reversal of provision	(1,941)
Closing balance	49,645
Total provision for impairment	103,649
Analysis of net impairment loss on loans and receivables:	
Movement in specific provision	(11,723)
Movement in collective provision	36,481
Loans written off directly against profit or loss	76,134
	100,892

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	**$**	**$**
Unlisted shares-at amortised cost	-	557,812
Other equity investments - at FVOCI	1,136,917	-
	1,136,917	557,812

'Other financial assets' that were recognised in 2018 at amortised cost under AASB 139, were re-measured at FVOCI - equity on adoption of AASB 9 in 2019.

NOTES TO THE FINANCIAL STATEMENTS

	2019 $	2018 $
14. Tax assets and liabilities		

Deferred tax assets and liabilities
Deferred tax assets and liabilities are attributable to the following:

	2019 $	2018 $
Deferred tax assets		
Provisions	282,776	257,958
Accruals	46,871	34,500
Other	23,910	24,647
Total deferred tax assets	353,557	317,105
Deferred tax liabilities		
Property, plant & equipment	(34,750)	(41,006)
Other financial assets - shares	(158,704)	-
Other	(3,324)	(2,849)
Total deferred tax liabilities	(196,778)	(43,855)
Net deferred tax assets	156,779	273,250

Current tax assets and liabilities

The current tax liability for the Credit Union of $14,132 (2018: current tax asset of $46,463). 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

	2019 $	2018 $
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	(1,740,912)	(1,638,789)
	1,569,133	1,671,256
Leasehold improvements		
At cost	705,822	725,497
Provision for depreciation	(362,407)	(250,171)
	343,415	475,326
Plant and equipment		
At cost	1,371,038	1,387,157
Provision for depreciation	(953,596)	(872,266)
	417,442	514,891
Total property, plant and equipment		
At cost	5,386,905	5,422,699
Provision for depreciation	(3,056,915)	(2,761,226)
	2,329,990	2,661,473

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:

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

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	-	-	(12,412)	(12,412)
Depreciation	(103,129)	(122,208)	(99,421)	(324,758)
Carrying amount at the end of the year	1,671,256	475,326	514,891	2,661,473

During the year obsolete plant and equipment with a carrying value of $15,505 (original cost $40,372) was written off.

NOTES TO THE FINANCIAL STATEMENTS

	2019 $	2018 $
16. Investment property		
Investment property-at cost	201,112	201,112
Provision for depreciation	(71,648)	(59,908)
	129,464	141,204

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

Carrying amount at the beginning of the year	141,204	152,943
Depreciation	(11,740)	(11,739)
Carrying amount at the end of the year	129,464	141,204

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	1,316,953	1,232,939
Provision for amortisation	(1,046,186)	(878,648)
	270,767	354,291

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

Carrying amount at the beginning of the year	354,291	300,570
Additions	43,094	198,918
Transfer in/(out)	43,399	-
Amortisation	(170,017)	(145,197)
Carrying amount at year end	270,767	354,291

NOTES TO THE FINANCIAL STATEMENTS

	2019 $	2018 $
18. Other assets		
Interest & fees receivable	268,178	490,157
Prepayments	331,755	364,617
Other	396,205	412,786
	996,138	1,267,560
19. Deposits		
Call deposits	142,146,363	148,782,488
Term deposits	83,409,273	78,063,882
Accrued interest payable	313,380	264,325
	225,869,016	227,110,695
20. Trade and other payables		
Trade creditors	264,675	256,680
Sundry creditors	1,459,475	739,068
	1,724,150	995,748
21. Provisions		
Employee benefits		
Annual leave	230,837	227,086
Long service leave-current	535,682	509,509
Long service leave-non current	84,878	97,786
	851,397	834,381
Other Provisions		
Make Good Provision		
Carrying amount at the beginning of the year	48,375	26,475
Provisions made during the year	20,100	21,900
Provisions used during the year	-	-
Carrying amount at year end	68,475	48,375
Total Provisions	919,872	882,756

NOTES TO THE FINANCIAL STATEMENTS

	Note	2019 $	2018 $
22. Equity			
a) Retained earnings			
Balance at the beginning of the year		24,272,056	23,961,118
Profit for the year		154,111	294,934
Transfer to redeemed share capital account	22(b)(i)	(2,540)	(1,450)
Transfer (to)/from general reserve for credit losses	22(b)(ii)	(57,666)	17,454
Balance at the end of the year		24,365,961	24,272,056
b) Reserves			
Redeemed share capital account	22(b)(i)	116,045	113,505
General reserve for credit losses	22(b)(ii)	416,361	358,695
Fair value reserve	22(b)(iii)	418,401	-
		950,807	472,200
(i) Redeemed share capital account			
Balance at the beginning of the year		113,505	112,055
Member shares redeemed during year		2,540	1,450
Balance at the end of the year		116,045	113,505

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	358,695	376,149
Transfer from/(to) retained profits	57,666	(17,454)
Balance at the end of the year	416,361	358,695

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

	2019	**2018**
	$	**$**
22. Equity (continued)		
(iii) Fair value reserve		
Balance at the beginning of the year	-	-
Add: increase on revaluation of investment (Shares)	577,105	-
Less: deferred tax thereon	(158,704)	-
Balance at the end of the year	418,401	-

On adoption of AASB 9 the Credit Union revalued its shares in Cuscal Limited. This revaluation is reflected in the creation of a Fair Value through Other Comprehensive Income Reserve.

The revaluation caused the Credit Union to create a Deferred Tax Liability to the amount of 27.5% of the revaluation. There was no other impact on the Financial Statements for the current year.

23. Contingencies

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

Guarantees	538,536	608,949

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.

NOTES TO THE FINANCIAL STATEMENTS

24. Operating leases

a) Leases as lessee

	2019 $	2018 $
Operating lease rentals are payable as follows:		
Within one year	224,533	219,007
Between one and two years	230,066	226,723
Between two and five years	380,047	466,206
	834,646	911,936

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.

Lease payments are increased every year in line with the contracts. During the financial year ended 30 June 2019, $249,202 was recognised as an expense in the income statement in respect of operating leases (2018: $235,840).

b) Leases as lessor

The Credit Union leases premises in Argyle Street, Camden to LJ Hooker Camden. The initial term of the lease was 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.

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 by 30 September 2021.

	2019 $	2018 $
Operating lessor rentals are receivable as follows:		
Within one year	17,589	17,000
Between one and two years	17,637	17,000
Between two and five years	52,912	51,000
	88,138	85,000

During the financial year ended 30 June 2019, $75,068 was recognised as rental income in the income statement (2018: $79,192) and $NIL in respect of repairs and maintenance was recognised as an expense in the income statement relating to investment properties (2018: $2,794).

NOTES TO THE FINANCIAL STATEMENTS

	2019 $	2018 $
25. Commitments		
a) Outstanding loan commitments		
Loans approved but not yet funded	4,402,405	2,004,588
b) Loan redraw facilities		
Undrawn value of redraw facilities	22,973,677	21,782,123

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

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

	2019	2018
26. Statement of cash flows		
a) Reconciliation of cash flows from operating activities		
Profit after tax	154,111	294,934
Adjustments for:		
Loss on sale of property, plant & equipment	12,863	907
Depreciation and amortisation	502,475	481,694
Impairment loss on loans and receivables	207,250	100,892
Rental income	(75,068)	(78,192)
Net cash from operating activities before changes in assets and liabilities	**801,631**	**800,235**
Net loans funded	(19,817,358)	(7,952,472)
Movement in interest receivable	221,979	13,242
Movement in other receivables	16,580	452,586
Movement in prepayments	32,861	48,384
Movement in current tax assets/(liabilities)	14,132	(77,168)
Movement in net deferred tax assets	4,230	54,347
Net (decrease)/increase in deposits	(1,290,734)	4,043,688
Movement in accrued interest payable	49,055	33,952
Movement in trade creditors	28,095	3,578
Movement in sundry creditors	720,407	107,763
Movement in employee benefits	17,016	1,484
Net cash (used in) operating activities	**(19,202,106)**	**(2,470,381)**
b) Reconciliation of cash and cash equivalents		
Cash and cash equivalents comprises:		
Cash on hand and at bank	8,714,772	1,601,921

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 following table summarises the exposure to credit risk under AASB 9 at 30 June 2019:

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

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

NOTES TO THE FINANCIAL STATEMENTS

27. Financial risk management (continued)

a) Credit risk (continued)

Exposure to credit risk (continued)

The carrying amount of the Credit Unions financial assets represents the maximum credit exposure. The following table summarises the exposure to credit risk prior to the adoption of AASB 9:

	Loans and advances to members 2018 $	Investment securities 2018 $	Cash and cash equivalents 2018 $
Carrying Amount	165,425,074	81,404,407	1,601,921
Individually impaired			
Gross amount	66,581	-	-
Provision for impairment	(54,004)	-	-
Carrying amount	12,577	-	-
Collectively impaired			
Days in arrears:			
Less than 30 days	-	-	-
Greater than 30 days and less than 90 days	69,066	-	-
Greater than 90 days and less than 182 days	34,715	-	-
Greater than 182 days and less than 273 days	-	-	-
Greater than 273 days and less than 365 days	-	-	-
Greater than 365 days	-	-	-
Provision for impairment	(49,645)	-	-
Carrying amount	54,136	-	-
Past due but not impaired			
Days in arrears:			
Less than 30 days	1,402,673	-	-
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 than 365 days	-	-	-
Carrying amount	1,535,108	-	-
Neither past due nor impaired			
Secured by mortgage	151,887,584	-	-
Secured by other	7,401,285	-	-
Unsecured	4,534,385	-	-
Other - Cash on hand	-	-	639,447
APRA regulated ADI's	-	81,404,407	962,474
Carrying amount	163,823,254	81,404,407	1,601,921
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:

	2019 $	2018 $
Against Individually impaired:		
Property value	-	-
Against past due but not impaired:	-	-
Property value	7,082,387	3,380,304
Other	-	-
Total	7,082,387	3,380,304

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 (2018: $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:

	2019	2018
As at 30 June	17.60%	22.08%
Average liquidity for the year	20.61%	23.88%
Minimum liquidity during the year	17.47%	22.08%
Maximum liquidity during the year	23.38%	25.76%

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:

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

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)

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.

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.

NOTES TO THE FINANCIAL STATEMENTS

27. Financial risk management (continued)

c) Market risk (continued)

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 2019, the exposure was $137,337 (2018 $109,896). 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 2019:

	2019	2018
As at 30 June	0.58%	0.47%

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

d) Fair value

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

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

Financial instruments carried at fair value

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

NOTES TO THE FINANCIAL STATEMENTS

27. Financial risk management (continued)

d) Fair value (continued)

Financial instruments carried at amortised cost

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

Fair value hierarchy

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

NOTES TO THE FINANCIAL STATEMENTS

27. Financial risk management (continued)

d) Fair value (continued)

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

The following table shows the carrying amount and the fair values of financial assets and financial liabilities under AASB 139 as at 30 June 2018.

30 June 2018	Note	Carrying Amount	Level 1 $	Level 2 $	Level 3 $
Financial assets not measured at fair value					
Loans to members	11(a)	165,425,074	-	165,501,312	-
		165,425,074	**-**	**165,501,312**	**-**
Financial liabilities not measured at fair value					
Deposits	19	227,110,695	-	227,092,612	-
		227,110,695	**-**	**227,092,612**	**-**

Valuation techniques

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

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

NOTES TO THE FINANCIAL STATEMENTS

27. Financial risk management (continued)

d) Fair value (continued)

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:

	2019	2018
Loans to members	3.64% - 4.94%	3.99% - 4.69%
Deposits	1.85% - 2.20%	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.

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.

NOTES TO THE FINANCIAL STATEMENTS

27. Financial risk management (continued)

e) Capital management - regulatory capital (continued)

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

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

	2019 $	2018 $
Common Equity Tier 1 capital		
Retained earnings	24,900,407	24,385,561
Regulatory adjustments to Common Equity Tier 1 Capital	(1,521,818)	(1,185,770)
Total Common Equity Tier 1 Capital	23,378,589	23,199,791
Tier 2 capital		
General reserve for credit losses	416,361	358,695
Regulatory adjustments to Tier 2 Capital	-	-
Total Tier 2 capital	416,361	358,695
Total capital base	23,794,950	23,558,486
Risk weighted assets	118,825,053	119,982,881
of which:		
Credit Risk	103,649,917	104,825,932
Operational Risk	15,175,136	15,156,949
Capital ratios		
Capital Adequacy Ratio	20.03%	19.63%
Tier 1 capital ratio	19.67%	19.34%

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 (Resigned 13 November 2018)
- Deborah Vardy
- Glenn Becker
- Katie Palmer
- Alistair McLean (Resigned 21 November 2018)
- Doug Ferris (Appointed 13 November 2018)
- Peter Buckley (Appointed 21 November 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:

	2019 $	2018 $
Short term employee benefits	732,938	708,815
Post employment benefits-		
Superannuation contributions	67,785	66,353
Other long term benefits	(2,900)	15,244
Total	797,823	790,412

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

	2019 $	2018 $
The aggregate value of loans to KMP at balance date amounted to:	3,168,478	2,774,687
The aggregate value of loans disbursed to KMP during the year amounted to:	2,178,867	1,061,500
Interest and fees earned on loans to KMP	139,204	93,250
Less: KMP loan balance at date of resignation or restructure ^	356,525	98,594
Repayments during the year	1,567,755	448,225

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

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

^ Movement is due to a director(s) retiring at the end of 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 21 to 82 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 2019 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 18th September 2019.

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 2019 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 2019
- *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.

KPMG

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

Warwick Shanks

Partner

Wollongong

18 September 2019