the mac
macarthur credit union

friendly, helpful & supportive

52ND ANNUAL REPORT 2023

CONTENTS

YEAR IN REVIEW

11,118 members are currently banking with The Mac

478 personal loans
1233 home loans
19 business loans
873 term deposits
42,924 deposit accounts

Donated $46,965 to our community groups

Sponsored 28 schools and sporting groups

AFL Women's Program

the mac macarthur credit union friendly, helpful & supportive

SOUTH WEST SYDNEY ACADEMY OF SPORT SWSAS Youth • Sport • Excellence • Community

Aceit active

The AFL Women's program, supported by The Mac and Aceit Active, is a development and high-performance program for talent identified athletes from South Western Sydney region.

This program is targeted for athletes who are participating in the Junior AFLW competition within the South West Sydney region, who are looking to gain skill development and sports performance education required to be successful in trialling for future representative development programs, including the GWS Giants Academy, and older age-group club and representative teams.

OBJECTIVES

Create an environment where athletes can develop the necessary tactical, technical, physiological and psychological skill competencies to aid progression through their sports Athlete high Performance Pathway.

Provide fundamental individual and squad skill development sessions for athletes during representative off-season programs, in parallel to AFL Academy Pathway programs.

Compliment athletes local Representative team training, encourage and develop athletes to be leaders within those teams.

ELIGIBILITY

Athletes must be aged between 14 and 18 years of age, in the year of nomination, and reside in the local Government Area's of Campbelltown, Camden, Liverpool or Wollondilly.

Athletes must participate and be a registered and financial member of AFL NSW/ACT.

SELECTION PROCESS

Athletes must complete a South West Sydney Academy of Sport Athlete Nomination Form and attend one or more trial/s as listed.

Athletes who have nominated and been selected into various phase programs of the GWS Giants Academy are eligible to nominate.

CHAIRMAN'S REPORT

12 months ago, our previous Chairman Geoff Ellis spoke of the relevance of The Mac's core values of being "Friendly Helpful and Supportive" in dealing with the extraordinary social, public health and economic circumstances of the last few years. These core values remain as relevant as ever for our organisation. While the Pandemic is largely behind us, the pressures of rising interest rates and cost of living increases are present and will continue to be felt in our community and to the members we serve. I am very proud that our core values remain at the centre of our responses.

The Mac continued its support of the community and community organisations through the Pandemic period, albeit at a less "visible" level. I am pleased to say that the 2022/23 year saw a return to a greater level of community involvement. We look forward to continuing this involvement in coming years.

The results for the 2022/23 year are very pleasing and allow The Mac to confidently move forward in coming years with strong financial stewardship for our members. We acknowledge that the improved financial performance in the previous financial year is due partly to the increase in market interest rates. However, the improvement can also be attributed to difficult structural and strategic decisions taken in previous years.

After an extended period of design and development, our new Head Office Building in Camden is starting to take shape. We look forward to bringing our Administration and Back Office staff back together in the coming months. I would like to publicly thank these staff for their commitment and flexibility in working at various locations over the last 2 years.

The construction of the Head Office Building is the last stage of a project that began in 2020. The redevelopment of the Building at 52 Argyle St has provided a valuable additional revenue source while bringing economic and employment benefits to the Camden community.

The role of a Director of a financial institution is not one for the faint hearted. This has been reinforced over the Pandemic period and continues with increased scams and cyber threats-to name just a couple of relevant issues that we navigate on a regular basis. While our financial position has improved significantly over the last 12 months, our Board and Management teams are mindful of the impact of rising interest rates and cost of living pressures. The dual impact of these on both our members and The Mac is being carefully monitored. The performance expectations of Directors and Management continue to grow-through both legislative changes and more onerous operational requirements. However, I am confident that your Board and Management Team have the required skills, courage and commitment to continue to operate in such an environment, and once again I would like to publicly acknowledge and thank the board of The Mac for their continued service.

Our CEO Dave Cadden and his team, notably Rebecca Brookes, Paul Brooks and Craig Oliver, do an incredible job each and every day working with the Board and Staff to improve The Mac for our members. On behalf of the membership, I thank them all for their efforts.

I would also like to pay tribute to my predecessor Geoff Ellis for his leadership and wise counsel in his time as both a Director and Chairman. His heart and mind were always with The Mac and his legacy is felt across the organisation, particularly leading the board through the Camden branch and Head Office redevelopment.

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.

Peter Buckley
Chairman

CEO's REPORT

I have spoken in my reports in recent years of "never before seen" economic indicators. This has continued into the 2022/23 year-to the degree that we are of the belief that the current economic environment is a real life "case study" that will be studied at Schools & Universities in future years.

I am very pleased to report that the dramatic improvement in our financial results has continued into 2022/23. It has to be acknowledged this improvement has to be partly attributed to the rising interest rate environment. However it is also due to prudent management of our operations and Balance Sheet.

We have continued to see strong growth in our Loan portfolio. This has been done with a view to the current and future environment and ensuring that members are well equipped to deal with higher interest rates. We will not knowingly put our members into a position where they cannot afford to service their loan commitments. These disciplines have also been applied in cases where members have transitioned from historically low fixed interest rates.

Our Deposit portfolio has contracted in the 2022/23 year. This has been partly due to the outflow of funds that had built up over the Pandemic period. We have had to make some difficult decisions in terms of deposit pricing over this period-these decisions have been taken to ensure the longer term sustainability of The Mac. Having said that our deposit pricing has moved back towards "market rates" in more recent times.

Pleasingly the operating result has been generated purely from our loan, deposit & transaction processing operations and has not been underpinned by "one-off" gains that we saw in prior years.

We have continued to maintain the prescribed key ratios (Capital Adequacy & Liquidity) at levels well above the minimum required Standards-though both of these metrics have been under pressure at different times during the year. However, the recent strong profit result has enabled us to rebuild the "buffers" that we relied upon during the Pandemic period. There is sufficient available Capital to maintain growth for the medium term.

Our forecasting indicates that the financial results in coming years while still very healthy will not be of the magnitude seen in 2022/23. We envisage that these results will keep The Mac on a responsible and sustainable footing. There is also sufficient capacity to enable future investment in:

- *The ongoing safety and security of member information*
- *Further enhancement of digital delivery channels*
- *The construction of a new Head Office building in Camden*

To the staff of The Mac-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 they can for our members in an ethical and transparent manner. To do so as we enter the fourth year of a global pandemic is true testament to the quality of every staff member at The Mac. We continue to deliver products and services that compare favourably with our competitors-with a very small fraction of their resources and budgets.

Finally, I would like to thank your Board of Directors, led by Chairman Geoff Ellis through to November 2022 and since by Chairman Peter Buckley for another year of wise counsel, direction & encouragement. Your Board continues to show courage and support by investing for the future of The Mac.

Dave Cadden
Chief Executive Officer

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*
- *Staff and Management acting as Directors/Committee members on a number of Boards*

This support amounts to a figure in the order of $46,965 for the 2022/23 year. Given our core values of being friendly, helpful and supportive, The Mac does not expect a financial return from this support.

The following groups have benefited from our support during 2022/23:

- *South West Sydney Academy of Sport*
- *Douglas Park Wilton Football Club*
- *Macarthur Skylarks Hockey Club*
- *The Old Crows Touch Football Team*
- *The Oaks Netball Club*
- *Wollondilly Netball Association*
- *Douglas Park Wilton Little Athletics Club*
- *Camden Tennis Club*
- *Narellan Netball Club*
- *NSW Reining Horse Association*
- *Hockey NSW-Individual Player Sponsorships*
- *NSW Indoor Cricket-Individual Player Sponsorship*
- *The Stunners Football Club*
- *Elderslie High School*
- *Camden High School*
- *Mount Annan High School*
- *Elizabeth Macarthur High School*
- *Mater Dei*
- *Camden South Public School*
- *Mawarra Public School*
- *St Anthony's Catholic Primary School*
- *Wollondilly Local Business Awards*
- *Camden Men's Shed*
- *Picton Chamber of Commerce*
- *Festival of Steam 2023*
- *Salvos Red Shield Appeal*
- *Illuminate Wollondilly*
- *Turning Point*

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

DIRECTORS' REPORT

The directors present their report together with the financial report of Macarthur Credit Union Ltd ("the Credit Union") for the financial year ended 30 June 2023 and the auditor's report thereon.

The Credit Union is a public company registered under the Corporations Act 2001.

Information on Directors

The names of the Directors of the Credit Union in office at any time during or since the end of the financial year are:

Name	Qualifications	Responsibilities
Peter Buckley	*MBA, B. Com, GAICD*	*Chairman of Directors Executive Committee member Director Nominations Committee member Board member since November 2018*
Ashley Jennings	*Adv Dip Accounting, Adv Dip Mngmt, JP*	*Chairman Governance Committee Executive Committee member Audit Committee member Board member since January 2020*
Emma Macfarlane	*LLB, B.Bus (Mgt).*	*Risk Committee member Governance Committee member Director Nominations Committee member Board member since May 2021*
Shayley McCracken	*B.Bus & Com (Acc), CA*	*Audit Committee member Governance Committee member Board member since November 2022*
Lloyd Pollard	*B Com, JP, MAMI*	*Audit Committee member Risk Committee member Director Nominations Committee member Board member since November 2021*
Phillip Rankin	*B.Bus (Accounting), CPA, ATI, JP*	*Chairman of Audit Committee Executive Committee member Risk Committee Member Board member since November 2020*
Antony Schesser	*MBA*	*Chairman Risk Committee Governance Committee Member Board member since November 2020*
Geoffrey Ellis	*FCPA, FIML, FAIBB, MAICD, MAMI, CBV, RBV, CPBB, M.Bus, B.Bus, JP*	*Former Chairman of Directors Former Chairman of Executive Committee Board member December 2012 to November 2022*

Information on Company Secretaries

David Cadden	*Dip.HR, Dip. Fin Serv., Dip. F&MBM, GAICD, JP*	*Chief Executive Officer Since 2007*
Paul Brooks	*B.Com, FCPA, GAICD*	*Chief Financial Officer Since 2007*

Information on Board Meetings

The number of meetings of directors (including meetings of committees of directors) and number of meetings attended by each of the directors of the Credit Union during the financial year are:

	Directors meetings		Audit Committee meetings		Risk Committee meetings		Governance Committee meetings		Director Nominations Committee meetings	
	E	A	E	A	E	A	E	A	E	A
Number of meetings held:	8		6		4		3		1	
Number of meetings attended:										
Peter Buckley	8	7	2	2	3	3	1	1	1	-
Ashley Jennings	8	8	6	6	-	-	3	3	-	-
Emma Macfarlane	8	7	2	2	2	2	3	3	1	1
Shayley McCracken	5	5	4	4	-	-	2	2	-	-
Lloyd Pollard	8	8	5	5	4	4	1	1	1	1
Phillip Rankin	8	8	6	6	4	4	-	-	-	-
Antony Schesser	8	8	1	1	4	4	3	3	-	-
Geoffrey Ellis	3	3	1	1	-	-	1	1	-	-

E = Eligible to attend

A = Attended

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

Note that there were no Executive Committee meetings held in the 2022/23 year.

Board Remuneration and Directors' Benefits

During or since the financial year ended 30 June 2023, no director of the Credit Union has received or become entitled to receive a benefit, other than a benefit included in the aggregate amount of remuneration paid or payable to the directors disclosed in the accounts at Note 27, 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 27.*

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

Indemnifying Directors, Officers and Auditors

Insurance premiums have been paid to insure each of the directors and officers of the Credit Union, against any costs and expenses incurred by them in defending any legal proceeding arising out of their conduct while acting in their capacity as an officer of the Credit Union. In accordance with normal commercial practice, disclosure of the premium amount and the nature of the insured liabilities is prohibited by a confidentiality clause in the contract.

No insurance cover has been provided for the benefit of the auditors of the Credit Union.

Principal Activities

The principal activity of the Credit Union during the course of the financial year was the provision of a range of financial services and associated activities to members.

Operating and Financial Review

The operating result for the year was a profit after tax of $2,293,000. This compares to the profit result for 2021/22 of $585,000.

The results for the financial year were underpinned by:

- *An increase in Net Interest Income to $10,607,000 from $6,900,000*
- *An increase in Operating Expenses to $8,105,000 from $6,860,000*

All prudential requirements have been met during the year.

Significant Changes in State Of Affairs

In the opinion of the Directors there were no significant changes in the state of affairs of the Credit Union that occurred during the financial year.

Events subsequent to Balance Date

There have been no significant events occurring after balance date which may affect the Credit Union's operations or the results of those operations.

Likely Developments and Results

The Camden Administration building is likely to be largely completed at or near the end of the 2023/24 financial year. Other than that there are no other matters, circumstances or likely developments have arisen since the end of the financial year that have significantly affected or may significantly affect:

- *The operations of the Credit Union*
- *The results of those operations; or*
- *The state of affairs of the Credit Union in the financial years subsequent to this financial year.*

Rounding

The financial report is presented in Australian Dollars. The Credit Union is of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 and in accordance with that instrument, amounts in the financial report and Directors' Report have been rounded off to the nearest thousand dollars unless otherwise stated.

Auditor's Independence Declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out following the Director's Report on page 14.

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

Peter Buckley	*Phillip Rankin*
Chairman of Board of Directors	*Chairman of Audit Committee*

Signed at Camden 20th September 2023

CORPORATE GOVERNANCE STATEMENT

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

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

COMPOSITION OF THE BOARD

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

- *In accordance with the Constitution of the Credit Union, the Board comprises a minimum of seven (7) Members elected at the Annual General Meeting by the Credit Union Membership. The Chairman is elected by the Board of Directors.*
- *Casual Board vacancies are filled by the Board having regard to appropriate qualifications and expertise.*
- *The Board is required to meet at least bi-monthly and follow meeting guidelines that ensure all Directors are made aware of, and have all necessary information to participate in an informed discussion of all agenda items.*
- *As part of its renewal process, the Board can appoint Associate Directors. These Associate Directors are engaged with the intention of replacing retiring Directors at a future time, but after gaining experience in proper Board/Governance practice. While the Associate Directors are encouraged to contribute to Board discussion, they do not have voting rights. It is envisaged that a successful Associate Director would be appointed in the future as a Director by the Credit Union Membership via the usual election process.*

COMMITTEE STRUCTURE

The following Committees support the work of the Board:

Executive Committee

The Executive Committee's powers are limited to those delegated to it by the Board from time to time. The Board invites the CEO to attend all Executive Committee Meetings in an advisory capacity, unless his attendance would be inappropriate because of reasons such as conflict of interest. The Members of the Executive Committee as at 30 June 2023 were, Peter Buckley (Chairman), Phillip Rankin, Ashley Jennings and Antony Schesser.

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 2023 were Phillip Rankin (Chairman), Ashley Jennings, Shayley McCracken and Lloyd Pollard.

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:

- *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; and*
- *Review relevant Policies and Procedures*

Governance Committee

The primary objective of the Governance Committee is to assist the Board in implementing good corporate governance practices.

The specific functions of the Committee include the:

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

- *Development and review of appropriate corporate governance principles, policies and practices; and*
- *Development, implementation and monitoring of Director training and development.*

The Members of the Governance Committee as at 30 June 2023 were Ashley Jennings (Chairman), Emma Macfarlane, Shayley McCracken and Antony Schesser.

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 2023 were Antony Schesser (Chairman), Emma Macfarlane, Lloyd Pollard and Phillip Rankin.

The role of the Risk Committee is to:

- *Advise the Board on the Credit Union's risk appetite and risk management strategy;*
- *Oversee senior management's implementation of the risk management strategy;*
- *Review the performance and setting the objectives of the Credit Union's Chief Risk Officer; and*
- *Oversee the appointment and removal of the Chief Risk Officer.*

Director Nominations Committee

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

The specific functions of the Committee include:

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

The Members of the Director Nominations Committee as at 30 June 2023 were Peter Buckley, Lloyd Pollard and Emma MacFarlane. In accordance with the Committee Charter an independent external Chair (Doug Ferris) has been appointed.

BOARD REMUNERATION

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

MONITORING THE BOARD'S PERFORMANCE

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

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Auditor Independence Declaration Under S307C of the *Corporations Act 2001* to the Directors of Macarthur Credit Union Ltd

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2023 there have been no contraventions of:

1) The auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and

2) Any applicable code of professional conduct in relation to the audit.

CROWE AUDIT AUSTRALIA

BRADLEY D BOHUN
Partner

20 September 2023
Albury

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the Year Ended 30 June 2023

	Note	2023 $ '000	2022 $ '000
Interest revenue calculated using the effective interest rate method	3	12,723	7,225
Interest expense	3	(2,116)	(325)
Net interest income		10,607	6,900
Fee and commission income	4	854	839
Fee and commission expenses	6	(586)	(510)
Net fee and commission income		268	329
Other income	5	275	311
Operating income		11,150	7,540
Net impairment gain/(loss) on loans and		(38)	(30)
Non Lending Losses		(27)	-
Personnel expenses	6	(3,629)	(3,265)
ATM expenses		(509)	(442)
General administration expenses		(397)	(360)
Marketing expenses		(219)	(204)
Other operating expenses		(1,170)	(767)
Depreciation and amortisation expenses	6	(556)	(503)
Information technology expenses		(1,367)	(1,101)
Office occupancy expense		(213)	(187)
Gain/(Loss) on disposal of assets		20	(1)
Profit before income tax		**3,045**	**681**
Income tax expense	8	(752)	(95)
Profit for the year		**2,293**	**585**
Other comprehensive income			
Items that will not be reclassified to profit or loss			
(Loss)/gain on the revaluation of equity instruments at fair value through other comprehensive income		68	110
Income tax attributable to revaluation		(17)	(28)
Total other comprehensive income for the year		51	82
Total comprehensive income for the year		**2,344**	**667**

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 19 to 58.

STATEMENT OF FINANCIAL POSITION

As at 30 June 2023

	Note	2023 $ '000	2022 $ '000
Assets			
Cash and cash equivalents	9(a)	567	10,166
Loans and advances	10(a)	235,910	212,166
Placements with ADI's	10(b)	87,100	138,728
Current tax receivable		-	18
Other financial assets	12	1,687	1,569
Property, plant and equipment	14	2,076	2,094
Right of use assets	23(a)	129	229
Investment property	15	2,697	2,692
Intangibles	16	601	550
Deferred tax assets	13	-	26
Other assets	17	1,722	1,917
Total assets		**332,489**	**370,155**
Liabilities			
Deposits	18	298,722	341,283
Bank overdraft	9(b)	2,332	-
Trade and other payables	19	804	1,425
Current tax payable		668	-
Lease liabilities	23(a)	157	264
Provisions	20	1,136	912
Deferred tax liabilities	13	55	-
Total liabilities		**303,874**	**343,884**
Net assets		**28,615**	**26,271**
Equity			
Reserves	21(b)	978	1,276
Retained earnings	21(a)	27,637	24,995
Total equity		**28,615**	**26,271**

The statement of financial position is to be read in conjunction with the notes to the financial statements as set out on pages 19 to 58.

STATEMENT OF CASH FLOWS

For the Year Ended 30 June 2023

	Note	2023 $ '000	2022 $ '000
Cash flows from operating activities			
Interest received		12,490	7,090
Dividends received		58	253
Other cash receipts in the course of operations		1,070	897
Interest paid		(1,841)	(389)
Income taxes refunded/(paid)		-	22
Net (increase)/decrease in loans funded		(23,782)	(22,921)
Net (decrease)/increase in deposits		(42,836)	51,660
Other cash payments in the course of operations		(8,086)	(6,644)
Net cash flows from/(used in) operating activities	**25 a)**	**(62,927)**	**29,968**
Cash flows from investing activities			
Net redemption in investments with ADI's		51,628	(25,236)
Proceeds on sale of equity securities		-	37
Purchase of equity securities		-	(17)
Proceeds on sale of property, plant and equipment		24	-
Purchase of other investments		(50)	-
Acquisitions of property, plant and equipment and investment properties		(264)	(2,451)
Acquisition of intangible assets		(235)	(173)
Net cash flows from/(used in) investing activities		**51,103**	**(27,840)**
Cash flows from financing activities			
Repayment of the lease liabilities		(106)	(135)
Net cash flows from/(used in) financing activities		**(106)**	**(135)**
Net increase/(decrease) in cash held		**(11,931)**	**1,993**
Cash and cash equivalents at the beginning of the financial year		10,166	8,173
Cash and cash equivalents at the end of the financial year	**25 b)**	**(1,765)**	**10,166**

The statement of cash flows is to be read in conjunction with the notes to the financial statements as set out on pages 19 to 58.

STATEMENT OF CHANGES IN EQUITY

For the Year Ended 30 June 2023

	Redeemed share capital reserve	General reserve for credit losses	Retained earnings	Fair Value Reserve	Total equity
	$ '000	$ '000	$ '000	$ '000	$ '000
Balance at 1 July 2021	148	354	24,412	690	25,604
Total comprehensive income for the year					
Profit after tax	-	-	585	-	585
Other comprehensive income					
Total other comprehensive income for the year	-	-	-	82	82
Total comprehensive income for the year	-	-	585	82	667
Transfer from/(to) retained profits	5	-	(2)	(3)	-
Balance at 30 June 2022	153	354	24,995	769	26,271
Balance at 1 July 2022	153	354	24,995	769	26,271
Total comprehensive income for the year					
Profit after tax	-	-	2,293	-	2,293
Other comprehensive income					
Total other comprehensive income for the year	-	-	-	51	51
Total comprehensive income for the year	-	-	2,293	51	2,344
Transfer from/(to) retained profits	5	(354)	349	-	-
Balance at 30 June 2023	158	-	27,637	820	28,615

The statement of changes in equity is to be read in conjunction with the notes to the financial statements as set out on pages 19 to 58.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2023

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 52B Argyle St, Camden. The Credit Union is a for-profit company.

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.

2. Basis of preparation

a) Statement of compliance

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

The financial report was approved for issue by the directors on 20 September 2023.

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. The Credit Union is of a kind referred to in ASIC Corporations (Rounding in Financial Directors' Reports) Instrument 2016/191 and in accordance with that instrument, amounts in the financial report and Directors' report have been rounded off to the nearest thousand dollars unless otherwise stated.

d) Use of estimates and judgements

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

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods. In particular, information about key areas of estimation uncertainty and critical judgements in applying accounting policies that have a material effect on the amount recognised in the financial statements are described in the following notes:

- *Note 12 – Fair value assumptions used for other financial assets*
- *Note 11 – Impairment of financial assets – expected credit loss*

Land and Buildings (within Property, Plant and Equipment) and Investment Properties are held at cost. The Fair Value of both of these is disclosed in Note 14 of the financial statements.

e) Goods and services tax

Revenue, expenses and assets are recognised net of the amount of goods and services tax ("GST") except where the amount of GST incurred is not recoverable from the Australian Taxation Office ("ATO"). In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

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

As a financial institution, the Credit Union is input taxed on all income except for income from commissions and some fees. An input taxed supply is not subject to GST collection, and similarly the GST paid on related or apportioned purchases cannot be recovered. As some income is charged GST, the GST on purchases is generally recovered on a proportionate basis, using the safe harbour apportionment rate of 18% adopted per Practical Compliance Guide 2018/15 from 1 July 2018. In addition, certain prescribed purchases are subject to reduced input tax credits (RITC), of which 75% of the GST paid is recoverable.

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.

f) New or amended accounting standards adopted

The Credit Union has adopted all Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period.

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

g) New or amended accounting standards not yet mandatory

There are no new accounting standards or interpretations expected to have any significant impact on the Credit Union's financial report that are issued and not yet applicable.

3. Net Interest Income

	2023 $ '000	2022 $ '000
Interest revenue		
Financial assets measured at amortised cost:		
Placements with ADIs	3,654	866
Loans and advances	9,069	6,359
	12,723	7,225
Interest expense		
Deposits	2,090	305
Interest bearing liabilities	13	1
Lease liabilities	13	19
	2,116	325
Net interest income	10,607	6,900

Interest income and expense is recognised under the effective interest rate method in accordance with AASB 9 Financial Instruments

4. Fee and commission income

ATM fees	118	96
Direct debit fees	50	48
Loan fees	114	135
Direct entry reference fees	89	73
Insurance commission	15	13
BPAY transaction commission	36	37
VISA card fees	187	195
VISA card commission	194	186
Other fee and commission income	51	56
	854	839

Fee and commission income relating to deposit or loan accounts is transaction based and therefore recognised when the transaction takes place, or recognised over time as services are provided. The revenue relating to transactions is recognised at the point in time when the transaction takes place.

Transaction fees and provision of services are defined within product terms and conditions. Commission income is recognised when the performance obligation is satisfied.

5. Other Income

	2023 $ '000	2022 $ '000
Dividend income	58	253
Rental income from investment properties	168	18
Bad debts recovered	9	7
Other revenue	40	33
	275	311

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

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

6. Other expenses

Fee and commission expenses

Dishonour fee expenses	6	6
VISA card fees	382	338
Other fee and commission expenses	198	166
	586	510

Personnel expenses

Wages and salaries	2,991	2,831
Superannuation contributions	299	265
Payroll tax	116	94
Provision for employee entitlements	223	75
	3,629	3,265

Personnel expenses are recognised in the period the employee has rendered service to the Credit Union, in accordance with AASB 119 Employee Benefits.

Depreciation & amortisation expenses

Plant and equipment	75	63
Buildings	61	107
Right of use assets	100	129
Leasehold improvements	23	22
Investment properties	113	5
Intangible assets	184	177
	556	503

7. Auditor's remuneration

Audit and review services	2023 $ '000	2022 $ '000
Crowe		
Audit of financial statements	51	48
Other regulatory assurance services	28	24
Other assurance services	15	-
	94	72
Other services		
Crowe		
Taxation services	7	7
Other Regulatory reviews	-	17
	7	24
	101	96

The above amounts are on an excluding GST basis, but include any out of pocket costs recovered.

8. Income tax expense

a) Recognised in the income statement

	2023	2022
Current tax expense		
Current year	688	-
Adjustments for prior years	-	1
	688	1
Deferred tax expense		
Origination and reversal of temporary differences	54	90
Adjustments for prior years	10	4
	64	94
Total income tax expense/(benefit) in income statement	752	95

b) Reconciliation between income tax expense and profit before tax

	2023	2022
Profit before tax	3,045	681
Income tax using the domestic corporation tax rate (2023: 25%, 2022: 25%)	761	170
Increase/(decrease) in income tax expense due to:		
Imputation gross-up on dividends received	6	27
Non-deductible expenses	-	-
Other differences in tax treatment	(1)	-
Non assessable income	-	-
Franking credits on dividends received	(24)	(107)
(Over)/under provided in prior periods	10	5
	752	95
Income tax expense/(benefit)	752	95

Income tax on the profit or loss and other comprehensive income for the year comprises current and deferred tax. Income tax is recognised in the statement of profit or loss and other comprehensive income except to the extent that it relates to items recognised directly in equity, or in other comprehensive income. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted at the statement of financial position date, and any adjustment to tax payable in respect of previous years.

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

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

		2023 $ '000	2022 $ '000
9.	**Cash and cash equivalents**		
a)	Cash on hand	547	483
	Cash at bank	20	9,683
		567	10,166
b)	Bank overdraft	(2,332)	-

Cash and cash equivalents comprise cash on hand, at call deposits and short term deposits with original maturities of one month or less. 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.

10.	**Financial assets**			
a)	**Loans and advances**			
	Overdrafts		53	16
	Term loans		231,513	207,362
	Loans to related parties	27	4,437	4,844
	Provision for impairment	11	(93)	(56)
	Total loans and advances		235,910	212,166
b)	**Placements with ADIs**			
	Investments placed with other ADIs		87,100	138,728
			87,100	138,728

Loans and advances and Placements with ADIs' are financial assets held at amortised cost.

Further details of the risks associated with financial assets and the management of those risks are contained in Note 26. Details of loans to related parties are included at Note 27.

11. Provision for Impairment - ECL

Loans and advances to members	**Stage 1 12 month ECL**	**Stage 2 not credit impaired**	**Stage 3 credit impaired**	**Total**
2023	**$ '000**	**$ '000**	**$ '000**	**$ '000**
Carrying amount at the beginning of the year	6	4	46	56
Transfers due to change in credit risk	-	-	-	-
Net remeasurement of loss allowance	54	(3)	(13)	38
Write Offs	-	-	(2)	(2)
Balance as at 30 June 2023	**60**	**1**	**31**	**93**
2022	**$ '000**	**$ '000**	**$ '000**	**$ '000**
Carrying amount at the beginning of the year	7	4	26	37
Transfers due to change in credit risk	-	3	(3)	-
Net remeasurement of loss allowance	(1)	(3)	33	29
Write Offs	-	-	(10)	(10)
Balance as at 30 June 2022	**6**	**4**	**46**	**56**

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

Financial assets within the scope of AASB 9 expected credit loss (ECL) requirements comprise all financial instruments measured at either amortised cost or FVOCI. These include cash, placements with ADIs and loans and advances to members. Financial assets are divided into homogeneous portfolios based on shared risk characteristics. These include mortgage loans, small business loans, personal loans and revolving credit.

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

The ECL represents the present value of expected cash shortfalls following the default of a financial instrument. A cash shortfall is the difference between the cash flows that are due in accordance with the contractual terms of the instrument and the cash flows that the Credit Union expects to receive. The allowance for ECLs is based on an assessment of the probability of default, exposure at default and loss given default, discounted at the effective interest rate to give a net present value. The estimation of ECLs is unbiased and probability weighted, taking into account all reasonable and supportable information, including forward looking economic assumptions and a range of possible outcomes. ECLs are calculated from initial recognition of the financial asset for the behavioural life of the loan.

For financial assets recognised in the statement of financial position at amortised cost, the allowance for ECLs is offset against the gross carrying value so that the amount presented in the statement of financial position is net of impairment provisions. For financial assets classified as FVOCI, any credit losses are recognised in the fair value reserve.

Sensitivity analysis and forward looking approach

The Credit Union has prepared a sensitivity analysis of the ECL, taking into consideration the following scenarios. These have been developed using a combination of publicly available data, internal forecasting and third party information.

Base Case – prepared using reasonable and supportable information that is available without undue cost or effort. This information includes any current Hardship loans, current loan to valuation ratio, capacity to repay and expected default ratios. There have been significant changes in a number of economic factors such as rising inflation and interest rates. However, other factors such as high levels of household savings and employment have been instrumental in ensuring that borrowers' ability to repay have not materially changed.

Worse than Base Case – considers a deterioration of the borrower's position. I.e. increased unemployment and/or a decline in the property market.

Better than Base Case – considers an improvement in the metrics highlighted above.

The Credit Union has elected to use the base case to measure its ECL allowance at 30 June 2023. This was based on an assessment of the probability of each scenario occurring.

Given current economic uncertainty and judgement applied to assumptions, the expected credit losses reported should be considered as a best estimate within a range of possibilities.

The Mac uses the APRA Prudential Standard APS 220 ("Credit Quality") as a basis for calculating the Specific Statutory component of the Provision. An additional specific component is also applied based on the risk profile of the loan. In the case that these Prescribed Provisions are in excess of the ECL allowance, the total Provision held will be equivalent to the Prescribed Provision.

Credit risk categorisation

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

<u>Stage 1: no significant increase in credit risk since initial recognition</u>

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. The ECL for these stage 1 assets continue to be recognised on this basis unless there is a significant increase in the credit risk of the asset. This is based on past history and adjusted for future expectations.

<u>Stage 2: significant increase in credit risk</u>

Financial assets are categorised as being within stage 2 where an instrument has experienced a significant increase in credit risk since initial recognition. For these assets, provision is made for losses from credit default events expected to occur over the lifetime of the instrument. In determining whether the risk of default has increased significantly since recognition, the Credit Union considers both quantitative and qualitative factors. These include:

- *When a loan reaches 30 days past due;*
- *Loans with approved hardship or modified terms.*
- *Loans with high loan to valuation ratios (LVR) not supported by Lenders' Mortgage Insurance*

Stage 3: credit impaired (or defaulted) loans

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

- *there is evidence of significant financial difficulty of the borrower or issuer;*
- *a breach of contract such as a default occurs or when a loan reaches 90 days past due;*
- *the restructuring of a loan or advance by the Credit Union on terms that the Credit Union would not consider otherwise;*
- *it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or*
- *there is a disappearance of an active market for a security because of financial difficulties.*

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

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

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

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

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

Write-offs

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

	2023	2022
12. Other financial assets	**$ '000**	**$ '000**
Other equity investments - at FVOCI	1,687	1,569
	1,687	1,569

Accounting policy and valuation techniques for other equity investments are discussed further in Note 26(d).

13. Tax assets and liabilities

Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

Deferred tax assets		
Provisions	307	242
Accruals	13	16
Right of use asset (net of lease liability)	7	8
Carried forward tax losses	-	120
Other	14	14
Total deferred tax assets	341	400
Deferred tax liabilities		
Property, plant & equipment	(127)	(51)
Other financial assets - shares	(261)	(257)
Other	(8)	(66)
Total deferred tax liabilities	(396)	(374)
Net deferred tax assets/(liabilities)	(55)	26

14. Property, plant and equipment	**2023 $ '000**	**2022 $ '000**
Freehold land and buildings		
Freehold land-at cost	427	427
Buildings on freehold land-at cost	1,478	1,471
Provision for depreciation	(379)	(318)
	1,526	1,580
Leasehold improvements		
At cost	244	241
Provision for depreciation	(207)	(184)
	37	57
Plant and equipment		
At cost	686	655
Provision for depreciation	(462)	(513)
	224	142
Capital work in progress at cost	289	314
Total property, plant and equipment		
At cost	3,124	3,109
Provision for depreciation	(1,048)	(1,015)
	2,076	2,094

Recognition and Measurement

Items of property, plant and equipment (PPE) are measured at cost less accumulated depreciation and any accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment. When parts of an item of PPE have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Gains and losses on disposal of an item of PPE are determined by comparing the proceeds from disposal with the carrying amount of PPE and recognised through profit or loss.

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

Depreciation

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful life of each part of an item of PPE. Land is not depreciated. The estimated useful lives in the current and comparative periods are as follows:

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

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

Impairment of non-financial assets

The carrying amount of the Credit Union's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. The recoverable amount of an asset is the greater of its fair value less costs to sell and its value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

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

Fair Value Assessment

The Board has assessed the methodology for assessing the value of its Land and Buildings. While appropriate Fair Value methodologies have been taken into consideration it has been determined that historical cost is the most appropriate measure for determining appropriate values.

The Credit Union's Picton property was valued as at 30 June 2023 by an independent Valuer in accordance with the Accounting Policy. The property was valued at $1.425m, which is in excess of the written down value.

The Camden properties were last valued by an independent Valuer as at 30 June 2022. These values (an aggregate value of $5.9m) are deemed as an accurate reflection of Fair Value of the Buildings and are in excess of the written down values.

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

2023	Freehold land and buildings $ '000	Leasehold improvements $ '000	Plant and equipment $ '000	Capital work in progress $	Total $
Carrying amount at the beginning of the year	1,580	58	142	314	2,094
Additions	7	2	161	76	246
Transfer in/(out)	-	-	-	(101)	(101)
Disposals	-	-	(4)	-	(4)
Depreciation/Amortisation	(61)	(23)	(75)	-	(159)
Carrying amount at the end of the year	1,526	37	224	289	2,076

2022	Freehold land and buildings $ '000	Leasehold improvements $ '000	Plant and equipment $ '000	Capital work in progress $ '000	Total $
Carrying amount at the beginning of the year	1,180	80	184	1,004	2,448
Additions	21	-	19	2,411	2,451
Transfer in/(out)	486	-	3	(3,101)	(2,612)
Disposals	-	-	(1)	-	(1)
Depreciation/Amortisation	(107)	(22)	(63)	-	(192)
Carrying amount at the end of the year	1,580	58	142	314	2,094

Redevelopment of Camden Premises- *The proposed construction of a building to house Administration Staff is still in progress, and is currently classified as Capital work in progress. A review of the costs relating to this has been undertaken, both at balance date and subsequently. This review focussed on the appropriate classification (being capitalised or expensed) of these costs. There are no capital commitments at 30 June.*

15. Investment property	**2023 $ '000**	**2022 $ '000**
Investment property-at cost	4,352	4,234
Provision for depreciation	(1,655)	(1,542)
	2,697	2,692
A reconciliation of the carrying amount is set out below:		
Carrying amount at the beginning of the year	2,692	85
Additions	17	-
Transfer in/(out)	101	2,612
Disposals	-	-
Depreciation	(113)	(5)
Carrying amount at the end of the year	2,697	2,692

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. The estimated useful life for investment property in the current and comparative periods is 40 years.

Refer to Note 23(b) for further details of leasing activities for these investment properties and Note 14 for further details of the fair value of investment property.

	2023 $ '000	2022 $ '000
16. Intangibles		
Computer software-at cost	1,880	1,687
Provision for amortisation	(1,463)	(1,293)
Intangible Assets	417	394
Work in progress	184	156
Total Intangible Assets	601	550
Reconciliation of the carrying amount of intangible assets:		
Carrying amount at the beginning of the year	550	554
Additions	235	173
Amortisation	(184)	(177)
Carrying amount at year end	601	550

Where computer software costs are not integral to the associated hardware, they are recognized as an Intangible Asset. The criteria for recognition are that the asset can be clearly identified, reliably measured and probable that future economic benefits will be generated.

The capitalised costs of computer software comprises all costs directly attributable to developing the software, including costs for computer software paid to third parties. Intangible Assets are carried at capitalised cost less amortisation and any accumulated impairment losses.

Amortisation is recognized 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 between 3 and 5 years.

	$ '000	$ '000
17. Other assets		
Interest & fees receivable	527	293
Investment premiums	151	313
Prepayments	318	301
Other (including member clearing accounts)	726	1,010
	1,722	1,917
18. Deposits		
Call deposits	220,994	257,497
Term deposits	77,422	83,754
Accrued interest payable	306	32
	298,722	341,283

Deposits, being member savings and term deposits are measured at amortised cost and are recognised as the aggregate amount of money owing to depositors.

	Note	2023 $ '000	2022 $ '000
19. Trade and other payables			
Trade creditors		432	311
Sundry creditors (including member clearing accounts)		372	1,114
Trade and other payables are stated at amortised cost		804	1,425
20. Provisions			
Employee benefits			
Annual leave		308	275
Long service leave (1)		690	464
Long service leave (2)		102	138
		1,100	877
Other Provisions			
Provision for Make Good			
Carrying amount at the beginning of the year		35	70
Provisions made/(reversed) during the year		1	(8)
Provisions used during the year		-	(27)
Carrying amount at year end		36	35
Total Provisions		1,136	912

(1) Expected to be settled within 12 months

(2) Expected to be settled outside of 12 months

Short-term employee benefits

Short-term employee benefits are expensed as the related service is provided. A liability is recognised for the amount expected to be paid if the Credit Union has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

Long-term employee benefits

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

	Note	2023 $ '000	2022 $ '000
21. Equity			
a) Retained earnings			
Balance at the beginning of the year		24,995	24,411
Profit for the year		2,293	585
Transfer to redeemed share capital account	21b(i)	(5)	(4)
Transfer (to)/from general reserve for credit losses	21b(ii)	354	-
Transfer (to)/from equity		-	3
Balance at the end of the year		27,637	24,995
b) Reserves			
Redeemed share capital account	21b(i)	158	153
General reserve for credit losses	21b(ii)	-	354
Fair value reserve	21b(iii)	820	769
		978	1,276
(i) Redeemed share capital account			
Balance at the beginning of the year		153	149
Member shares redeemed during year		5	4
Balance at the end of the year		158	153

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.

	2023	2022
(ii) General reserve for credit losses		
Balance at the beginning and end of the year	354	354
Transfer from/(to) retained profits	(354)	-
Balance at the end of the year	-	354

The general reserve for credit losses contained an additional allowance for impairment losses. The prudential requirement (effective 1st January 2022) for the reserve was replaced with the need to hold adequate provisions in accordance with Australian Accounting Standards. It was determined that the expected credit loss (ECL) amount was sufficient. As a result the balance of the Reserve has been transferred to retained profits during the 2023 financial year.

	2023	2022
(iii) Fair value reserve		
Balance at the beginning of the year	769	690
Add: increase on revaluation of investment (Shares)	68	155
Less: Cuscal share buyback	-	(37)
Less: deferred tax thereon	(17)	(39)
Balance at the end of the year	820	769

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

22. 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.

	2023 $ '000	2022 $ '000
Guarantees	434	526

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.

23. Leases

(a) Credit Union as a lessee

Nature of the leasing activities

The Credit Union leases a property in Tahmoor, which is used as a member service centre, and photocopiers (which have applied the low value asset exemption).

At inception of a contract, the Credit Union assesses whether a lease exists – i.e. whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The Credit Union has elected to not separate non-lease components from lease components and has accounted for payments as a single component.

At the lease commencement, the Credit Union recognises a right-of-use asset and associated lease liability for the lease term. The lease term includes extension periods where the Credit Union believes it is reasonably certain that the option will be exercised.

The right-of-use asset using the cost model where cost on initial recognition comprises: the lease liability, initial direct costs, prepaid lease payments, estimated cost of removal and restoration, less any lease incentives. The right-of-use is depreciated over the lease term on a straight-line basis and assessed for impairment in accordance with the impairment of asset accounting policy.

The lease liability is initially recognised at the present value of the remaining lease payments at the commencement of the lease. The discount rate is the rate implicit in the lease, however where this cannot be readily determined then the Credit Union's incremental borrowing rate is used. Typically the Credit Union uses its incremental borrowing rate as the discount rate.

Subsequent to initial recognition, the lease liability is measured at amortised cost using the effective interest rate method. The lease liability is re-measured whether there is a *lease modification, or change in estimate of the lease term or index upon which the lease payments are based (e.g. CPI).*

Where the lease liability is re-measured, the right-of-use asset is adjusted to reflect the re-measurement.

The Credit Union has elected to apply the exceptions to lease accounting for leases of low-value assets (defined by the Credit Union as $10,000). The Credit Union recognises the payments associated with these leases as an expense on a straight-line basis over the lease term.

Intangible assets such as software licences continue to be accounted for under AASB 138 Intangible Assets, regardless of whether the arrangement would otherwise meet the AASB 16 Leases definition.

Terms and conditions of leases

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

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

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

Right-of-use assets

	2023 $ '000	**2022 $ '000**
At cost	528	528
Accumulated depreciation	(399)	(299)
Balance at end of the year	129	229

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

Land and Buildings		
Balance at 1 July	229	358
Depreciation charge	(100)	(129)
Balance at 30 June	129	229

Lease liabilities

Current		
Not later than 1 year	116	106
Non-current		
Later than 1 year	41	157
Total	157	263

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

Not later than 1 year	123	119
Later than 1 year and not later than 5 years	41	164
Total	164	283

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

Extension options

The lease for the Tahmoor branch premises contained an extension option, which allowed the Credit Union to extend the lease term beyond the original period.

The Credit Union includes options in the leases to provide flexibility and certainty to the Credit Union operations and reduce costs of moving premises. The extension options are at the Credit Union's discretion.

At commencement date and each subsequent reporting date, the Credit Union assesses where it is reasonably certain that the extension options will be exercised.

There are no potential future lease payments not included in the lease liabilities, as the Credit Union has no unexercised option periods remaining on leases at 30 June 2023 (2022: nil).

Income statement

The amounts recognised in the Statement of Profit or Loss and Other Comprehensive Income relating to leases where the Credit Union is a lessee are shown below:

	2023 $ '000	2022 $ '000
Interest expense on lease liabilities	13	20
Rental expense relating to low value assets	16	15
	29	35

Statement of cash flows

Total cash outflow for leases (including interest)	119	155

Exemptions applied

The Credit Union has applied the exemptions relating to short-term leases and leases of low-value assets. As at 30 June 2023, the Credit Union has no commitment for short-term leases (2022: nil).

Key assumptions used in calculations

The calculation of the right-of-use assets and lease liabilities are dependent on the following critical accounting judgements:

Assessment of lease term – as discussed above, this considers consideration of extension options on a lease by lease basis.

Determination of the appropriate rate to discount the lease payments – The Credit Union has used its incremental borrowing rate, as the rate implicit in the leases is not known. The Credit Union's assessed incremental borrowing rate was determined based on consideration of reference rates for commercial lending, lease term and a lease specific adjustment considering the 'secured borrowing' element of the leases.

(b) Credit Union as a lessor

Leases are classified as either an operating or finance lease at inception date, based on whether substantially all of the risks and rewards incidental to ownership of the asset have been transferred to the lessee. If the risks and rewards have been transferred then the lease is classified as a finance lease, otherwise it is an operating lease.

When the Credit Union has a sub-lease over an asset and is the intermediate lessor then the head lease and sub-lease are accounted for separately. The classification of the sub-lease is based on the right-of-use asset which arises from the head lease rather than the useful life of the underlying asset.

If the lease contains lease and non-lease components then the non-lease components are accounted for in accordance with AASB 15 Revenue from Contracts with Customers. The lease income is recognised on a straight-line basis over the lease term.

OPERATING LEASES

Nature of the leasing activities

The Credit Union receives rental income from tenants who lease a portion of the land and buildings owned by the Credit Union in Camden. These leases are classified as operating lease for financial reporting purposes and the assets are included as investment properties in the Statement of Financial Position (refer Note 15).

Terms and conditions of leases

These operating lease contracts contain extension options at the right of the lessee. All contracts contain market review clauses in the event that the lessee exercises its options to renew. The lessee does not have an option to purchase the property at the expiry of the lease period.

The Credit Union manages the risk associated with the underlying investment property via appropriate insurance coverage and use of real estate agents where appropriate.

Income statement

The amounts recognised in the Statement of Profit or Loss and Other Comprehensive Income relating to operating leases where the Credit Union is a lessor (i.e. investment properties) are shown below:

	2023 $ '000	**2022 $ '000**
Lease/rental income (excluding variable lease payments not dependent on an index or rate	168	18
Total lease/rental income relating to investment properties	168	18
Direct operating expenses (including repairs & maintenance) arising from investment property that generated rental income during the period	216	16
Total direct operating expenses relating to investment properties	216	16

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

< 1 year	161	42
1 - 2 years	83	48
2 - 3 years	18	48
3 - 4 years	4	4
4 - 5 years	-	-
> 5 years	-	-
Total undiscounted lease payments receivable	**266**	**142**

Finance Leases

Nature of the leasing activities

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

24. Commitments

	2023	2022
a) Outstanding loan commitments	**$ '000**	**$ '000**
Loans approved but not yet funded	8,112	9,022
b) Loan redraw facilities		
Undrawn value of redraw facilities	39,552	40,851

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 institutions 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 that would be required to contribute to the provision of a loan facility in the event of a CUFSS member requiring assistance. The cap is equal to 3% of the contributing member's total assets.

		2023	2022
25.	**Statement of cash flows**	**$ '000**	**$ '000**
a)	**Reconciliation of cash flows from operating activities**		
	Profit after tax	2,293	585
	Adjustments for:		
	(Gain)/Loss on disposal of property, plant & equipment	(20)	1
	Depreciation and amortisation	556	503
	Impairment loss on loans and receivables	38	30
	Net cash from operating activities before changes in assets and liabilities	2,867	1,118
	Net (increase)/decrease loans funded	(23,782)	(22,921)
	Movement in interest receivable	(234)	(135)
	Movement in other receivables	480	(471)
	Movement in prepayments	(55)	(31)
	Movement in current tax assets	670	23
	Movement in net deferred tax assets	81	94
	Net (decrease)/increase in deposits	(42,836)	51,660
	Movement in accrued interest payable	275	(64)
	Movement in trade creditors	87	34
	Movement in sundry creditors	(704)	586
	Movement in employee benefits	224	75
	Net cash (used in)/from operating activities	**(62,927)**	**29,968**
b)	**Reconciliation of cash and cash equivalents**		
	Cash and cash equivalents comprises:		
	Cash on hand and at bank	567	10,166
	Overdraft	(2,332)	-
	Total Cash and cash equivalents	**(1,765)**	**10,166**

Bank overdraft facility

The Credit Union has access to an overdraft facility provided by Cuscal Limited to the extent of $2,000,000 (2022: $2,000,000) and incurs an interest rate of 7.85% (2022: 4.6%). This overdraft facility is secured by a Cash Deposit. As at 30 June 2023, the facility was overdrawn by $2,383,289 (2022: facility was unused). The facility returned to normal parameters during July 2023.

26. Financial risk management

Introduction and overview

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

- *credit risk*
- *liquidity risk*
- *market risk*

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

Risk management framework

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

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

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

a) Credit risk

Credit risk is the risk of financial loss to the Credit Union if a member or counterparty to the financial instrument fails to meet its contractual obligations, and arises principally from the Credit Union's loans and other receivables to members and deposits with other authorised deposit-taking institutions.

The Credit Union has established a credit risk management system incorporating methodologies with respect to monitoring and grading credit quality, measuring asset impairment, valuing security and provisioning.

Management of credit risk

The Board of Directors has delegated responsibility for the management of credit risk to the CEO. The Regional Lending Manager, reporting to the Chief Operating Officer (COO), is responsible for oversight of the Credit Union's credit risk, including:

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

Exposure to credit risk

The carrying amount of the Credit Union's financial assets represents the maximum credit exposure. The following table summarises the exposure to credit risk at 30 June 2023:

	Loans and advances to members 2023 $ '000	Placements with ADI's 2023 $ '000	Cash and cash equivalents 2023 $ '000
Carrying Amount	**235,910**	**87,100**	**567**
Stage 1: no significant increase in credit risk since initial recognition			
Secured by mortgage - current	225,977	-	-
Secured by mortgage - less than or equal to 30 days in arrears	-	-	-
Investment grade	-	83,047	567
Unrated	-	4,053	-
Other	9,883	-	-
Carrying amount	235,860	87,100	567
Stage 2: significant increase in credit risk			
Secured by mortgage	-	-	-
Other	101	-	-
Carrying Amount	101	-	-
Stage 3: credit impaired (or defaulted) loans			
Secured by mortgage	-	-	-
Other	42	-	-
Carrying Amount	42	-	-
Expected credit loss	(93)	-	-
Total carrying amount	**235,910**	**87,100**	**567**

For a definition of Stage 1, 2 & 3 refer to Note 11

Exposure to credit risk (continued)

The carrying amount of the Credit Union's financial assets represents the maximum credit exposure. The following table summarises the exposure to credit risk at 30 June 2022:

	Loans and advances to members 2022 $ '000	Placements with ADI's 2022 $ '000	Cash and cash equivalents 2022 $ '000
Carrying Amount	**212,166**	**138,728**	**10,166**
Stage 1: no significant increase in credit risk since initial recognition			
Secured by mortgage - current	202,226	-	-
Secured by mortgage - less than or equal to 30 days in arrears	-	-	-
Investment grade	-	115,190	10,166
Unrated	-	23,538	-
Other	9,924	-	-
Carrying amount	212,150	138,728	10,166
Stage 2: significant increase in credit risk			
Secured by mortgage	-	-	-
Other	30	-	-
Carrying Amount	30	-	-
Stage 3: credit impaired (or defaulted) loans			
Secured by mortgage	-	-	-
Other	42	-	-
Carrying Amount	42	-	-
Expected credit loss	(56)	-	-
Total carrying amount	**212,166**	**138,728**	**10,166**

Impaired loans

Impaired loans are loans for which the Credit Union determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan agreement.

Past due loans but not impaired loans

Loans where contractual interest or principal payments are past due but the Credit Union believes that impairment is not appropriate on the basis of the level of security/collateral available and/or the stage of collection of amounts owed to the Credit Union.

Loans with renegotiated terms

Restructured loans have renegotiated terms due to deterioration in the borrower's financial position and where the Credit Union has made concessions outside of its normal policies and procedures. Once the loan has been restructured it remains in this category independent of satisfactory performance after restructuring.

Provision for impairment

The Credit Union establishes a provision for impairment losses that represents its estimate of incurred losses in its loan portfolio. The main components of this provision are a specific provision that relates to individually significant exposures subject to individual assessment for impairment, and a collective provision established for groups of homogeneous assets in respect of losses that have been incurred but have not been identified on loans that are not subject to individual assessment for impairment.

When a loan is classified as impaired, the Credit Union has become aware of a specific event that gives rise to potential impairment. Generally, this event would be one such as a declaration of bankruptcy or other notification from a member confirming financial difficulty. It is considered that all loans with arrears greater than 30 days demonstrate evidence of potential impairment. On this basis, a percentage of the outstanding balance is provided for as the collective provision for impairment.

Write off policy

The Credit Union writes off a loan balance (and any related allowances for impairment losses) when the loans are determined to be uncollectible. This determination is reached after consideration of information such as the occurrence of significant changes in the borrowers' financial position such that the borrower can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure.

Collateral and other credit enhancements

The Credit Union holds collateral against loans and advances to members in the form of mortgage interests over property, other registered securities over assets, and guarantees. Mortgage insurance contracts are entered into in order to manage the credit risk around the residential loan mortgage portfolio. Estimates of fair value are based on the value of *collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired.*

An estimate of the fair value of collateral and other security enhancements held against financial assets is shown below:

	2023 $ '000	**2022 $ '000**
Against Individually impaired:		
Property value	-	-
Against past due but not impaired:		
Property value	650	360
Other	-	-
Total	650	360

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 (2022: $Nil).

Concentration of loans and other receivables

The Credit Union's maximum single exposure to an individual or groupings of individual loans should be no more than 10% of capital. Within the Credit Union's investment portfolio, the maximum capital exposure to any one Bank, rated Authorised Deposit-taking Institution (ADI), unrated Mutual ADI, and their related counterparties, is based on the long term rating and/or APRA guidelines.

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

b) Liquidity risk

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

Management of liquidity risk

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

Exposure to liquidity risk

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

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

	2023	**2022**
As at 30 June	22.31%	26.42%
Average liquidity for the year	24.51%	24.84%
Minimum liquidity during the year	22.31%	22.47%
Maximum liquidity during the year	25.59%	26.85%

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

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

2023	Carrying amount $ '000	Gross nominal (outflow)/ inflow $ '000	Less than 1 month $ '000	1 to 3 months $ '000	3 months to 1 year $ '000	1 to 5 years $ '000
Financial Liabilities						
Deposits	298,722	(300,355)	(236,288)	(27,809)	(33,733)	(2,525)
Trade and other payables	804	(804)	(804)	-	-	-
	299,526	(301,159)	(237,092)	(27,809)	(33,733)	(2,525)
Unrecognised loan commitments	8,112	(8,112)	(8,112)	-	-	-
Total financial liabilities	307,638	(309,271)	(245,204)	(27,809)	(33,733)	(2,525)

2022	Carrying amount $ '000	Gross nominal (outflow)/ inflow $ '000	Less than 1 month $ '000	1 to 3 months $ '000	3 months to 1 year $ '000	1 to 5 years $ '000
Financial Liabilities						
Deposits	341,283	(341,405)	(279,568)	(35,842)	(24,353)	(1,642)
Trade and other payables	1,425	(1,425)	(1,425)	-	-	-
	342,708	(342,830)	(280,993)	(35,842)	(24,353)	(1,642)
Unrecognised loan commitments	9,021	(9,022)	(9,022)	-	-	-
Total financial liabilities	351,729	(351,852)	(290,015)	(35,842)	(24,353)	(1,642)

The Credit Union classifies its financial liabilities, other than financial guarantees and loan commitments, as measured at amortised cost or Fair Value through Profit or Loss (FVTPL).

The previous table shows the undiscounted cash flows on the Credit Union's financial liabilities on the basis of their earliest possible contractual maturity. The Credit Union's expected cash flows on these instruments vary significantly from this analysis. For example, at call deposits from members are expected to maintain a stable or increasing balance and unrecognised loan commitments are not expected to be drawn down immediately. The gross nominal inflow/(outflow) disclosed in the previous table is the contractual, undiscounted cash flow on the financial liability.

c) Market risk

Market risk is the risk that changes in market prices, such as interest rates and equity prices will affect the Credit Union's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

Management of market risk

The Credit Union has exposure to non traded interest rate risk generated by banking products such as loans and deposits. The Credit Union does not operate a trading book. Overall authority for the management of market risk is vested in the Audit Committee. The Audit Committee is responsible for the development of detailed risk management policies and for the review of their implementation.

Exposure to interest rate risk

The principal risk to which the Credit Union is exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instruments because of a change in market interest rates. Interest rate risk is managed principally through monitoring gaps in the maturity profiles of interest rate sensitive assets and liabilities.

In preparing and managing these maturity profiles, it is assumed that the contractual maturity period of assets and liabilities equates to their actual repricing.

The day to day monitoring of these gaps is undertaken by senior management, with the results of this monitoring reported to the Board of Directors on a monthly basis.

The Credit Union's potential exposure to movements in interest rates is measured as the cumulative gap in maturity time brackets as a percentage of pre-tax profit. This measures the impact of a 2% movement (either upwards or downwards) in market interest rates. At 30 June 2023, the exposure was $149,957 (2022: $462,931). This exposure reflects the potential impact on the Credit Union's annual profit. The 2% movement in market interest rates has long been determined as an extreme but plausible stress test to determine exposure to interest rate risk movements. Movements of this scale have taken place over the 2022/23 year given the rapid increase in market interest rates. Similarly, *movements of this quantum occurred during the Global Financial Crisis (GFC) period of 2008/09.*

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 2023:

	2023	**2022**
As at 30 June	0.42%	1.92%

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

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

- *Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.*
- *Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices).*
- *Level 3: inputs for the asset or liability that are not observable. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are value based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.*

If the inputs used to measure the fair value of an asset or liability might be categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. The Credit Union recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

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.*
- *None of the Credit Union's 'equity investments' are traded in active markets. As such, the Credit Union is unable to base the fair value of its other investments on quoted market prices. Other valuation techniques have been applied.*
- *The Board has considered whether the latest available reported net assets of the underlying investments reflect the probable value of the investment as a whole. Should this not be the case the carrying fair value of the assets is adjusted accordingly. This is done in consultation with the management of the respective investment entity.*
- *Given the inherent uncertainty of valuing these underlying investments (arising from their illiquid nature) the values of these underlying investments may differ from the values that would have been used had a ready market for the investments existed.*

Interest rates used for determining fair value

The interest rates used to discount estimated cash flows, when applicable, are based on current market rates at the reporting date which incorporate an appropriate credit spread, and were as follows:

	2023	**2022**
Loans to members	5.42% - 8.12%	2.94% - 5.27%
Deposits	0.15% - 4.00%	0.15% - 0.30%

Financial instruments carried at amortised cost

- *The investment portfolio comprises of Floating Rate Notes, Security Deposits and a small portion of bonds. The material majority of these investments reprice quarterly, semi-annually or annually, and as such the fair value of these assets approximates their carrying amount.*
- *The fair values of all other liquid assets and other assets maturing within 12 months approximate their carrying amounts. This assumption is applied to liquid assets and the short-term elements of all other financial assets and financial liabilities.*
- *The fair value of at call deposits with no specific maturity is approximately their carrying amount as they are short term in nature or are payable on demand.*
- *The fair value of term deposits at amortised cost is estimated by reference to current market rates offered on similar deposits.*
- *The fair value of variable rate financial instruments, including loan assets and liabilities carried at amortised cost are approximated by their carrying value. In the case of loan assets held at amortised cost, changes in the fair value do not reflect changes in credit quality, as the impact of credit risk is largely recognised separately by deducting the amount of an allowance for credit losses.*
- *The fair value of fixed rate loans at amortised cost is estimated by reference to current market rates offered on similar loans.*

Fair value hierarchy

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

30 June 2023	Note	Carrying Amount ($'000)	Fair Value Level 1 $ '000	Level 2 $ '000	Level 3 $ '000
Financial assets measured at FVOCI					
Equity investments	12	1,687	-	-	1,687
		1,687	**-**	**-**	**1,687**
Financial assets measured at amortised cost					
Loans and advances to members	10(a)	235,910	-	-	232,018
		235,910	**-**	**-**	**232,018**
Financial liabilities measured at amortised cost					
Deposits	18	298,722	-	298,950	-
		298,722	**-**	**298,950**	**-**

30 June 2022	Note	Carrying Amount ($'000)	Fair Value Level 1 $ '000	Level 2 $ '000	Level 3 $ '000
Financial assets measured at FVOCI					
Equity investments	12	1,569	-	-	1,569
		1,569	**-**	**-**	**1,569**
Financial assets measured at amortised cost					
Loans and advances to members	10(a)	212,165	-	-	208,942
		212,165	**-**	**-**	**208,942**
Financial liabilities measured at amortised cost					
Deposits	18	341,282	-	341,278	-
		341,282	**-**	**341,278**	**-**

The following table summarises the movement of Level 3 assets measured at fair value during the year:

Movement category	Other financial assets (at FVOCI) Total 2023 $ '000	2022 $ '000
Opening balances at 1 July	1,569	1,479
Purchases on equity investments	50	16
Revaluation through other comprehensive income	68	110
Sale/Buyback of equity investments	-	(36)
Closing balance at 30 June	**1,687**	**1,569**

Classification and measurement

On initial recognition, a financial asset is classified as measured at: amortised cost, Fair Value through Other Comprehensive Income (FVOCI) or FVTPL.

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

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

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

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

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

Financial assets measured at FVOCI include equity investments.

All other financial assets are classified as measured at FVTPL.

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

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

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

De-recognition of financial assets

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

e) Capital management - regulatory capital

The Credit Union's regulator, the Australian Prudential Regulation Authority (APRA) sets and monitors capital requirements for the Credit Union. The Credit Union reports to APRA under Basel II capital requirements and has adopted the standardised approach for credit risk and operational risk.

In implementing current capital requirements APRA requires the Credit Union to maintain a prescribed ratio of total capital to total risk weighted assets.

The Credit Union's regulatory capital is analysed in two tiers:

- *Tier 1 capital, which includes ordinary share capital, general reserves and retained earnings, and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes.*
- *Tier 2 capital, which includes qualifying subordinated liabilities, collective impairment allowances and the element of the fair value reserve relating to unrealised gains on readily marketable securities classified as available for sale.*

Risk weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and off balance sheet exposures. The Credit Union's policy is to maintain a strong capital base so as to maintain member, creditor and market confidence and to sustain future development of the business. The Credit Union has complied with all externally imposed capital requirements throughout the period.

There have been no material changes in the Credit Union's management of capital during the period.

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

The Capital Adequacy ratio has been calculated on a different basis for the 2023 financial year-reflecting the revised requirements of the new APRA Capital Framework effective from 1st January 2023.

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

	2023	2022
Common Equity Tier 1 capital	**$ '000**	**$ '000**
Retained earnings	28,615	25,917
Regulatory adjustments to Common Equity Tier 1 Capital	(2,288)	(2,145)
Total Common Equity Tier 1 Capital	26,327	23,772
Tier 2 capital		
General reserve for credit losses	-	354
Regulatory adjustments to Tier 2 Capital	-	-
Total Tier 2 capital	-	354
Total capital base	26,327	24,126
Risk weighted assets	126,949	159,916
of which:		
Credit Risk	115,408	141,370
Operational Risk	11,541	18,546
Capital ratios		
Capital Adequacy Ratio	20.74%	15.09%
Tier 1 capital ratio	20.74%	14.87%

27. 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

- *Peter Buckley*
- *Ashley Jennings*
- *Emma Macfarlane*
- *Shayley McCracken (Appointed November 2022)*
- *Lloyd Pollard*
- *Phillip Rankin*
- *Antony Schesser*
- *Geoffrey Ellis (resigned November 2022)*

Executives

- *David Cadden (CEO)*
- *Paul Brooks (CFO)*
- *Rebecca Brookes (COO)*
- *Craig Oliver (CRO)*

Remuneration of key management personnel ("KMP")

The aggregate compensation of KMP comprises amounts paid, payable or provided for during the year. These amounts are as follows:

	2023 $ '000	**2022 $ '000**
Short term employee benefits	962	897
Post employment benefits- Superannuation contributions	98	87
Other long term benefits	34	24
Total	1,094	1,008

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

	$ '000	**$ '000**
The aggregate value of loans to KMP at balance date amounted to:	4,437	4,844
The aggregate value of loans disbursed to KMP during the year amounted to:	970	1,808
Interest and fees earned on loans to KMP	179	134
Repayments during the year	1,556	1,710

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.

Deposits to key management personnel

Other transactions between related parties include deposits from directors, and other KMPs are:

	$ '000	**$ '000**
Total value term and savings deposits	169	139
Total Interest paid on deposits	1	-

28. Subsequent Events

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

DIRECTORS' DECLARATION

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

(a) *The financial statements and notes that are set out on pages 15 to 58 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 2023 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:

Peter Buckley	Phillip Rankin
Chairman of Board of Directors	Chairman of Audit Committee

Signed at Camden 20th September 2023

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Macarthur Credit Union Ltd

Independent Auditor's Report to the Members of Macarthur Credit Union Ltd

Opinion

We have audited the financial report of Macarthur Credit Union Ltd ('the Credit Union'), which comprises the statement of financial position as at 30 June 2023, the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying financial report of Macarthur Credit Union Ltd is in accordance with the *Corporations Act 2001*, including:

(a) giving a true and fair view of the Credit Union's financial position as at 30 June 2023 and of its financial performance for the year then ended; and

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

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Credit Union in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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

Other Information

The directors are responsible for the other information. The other information comprises the directors' report information contained in the Credit Union's annual report for the year ended 30 June 2023, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Financial Report

The directors of the Credit Union are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the Credit Union to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Credit Union or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Credit Union's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Credit Union's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Credit Union to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during the audit.

Crowe

CROWE AUDIT AUSTRALIA

BRADLEY D BOHUN
Partner

20 September 2023
Albury

Branch Locations

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the mac
macarthur credit union

friendly, helpful & supportive