



42nd Annual Report 2013

friendly, helpful & supportive



MACARTHUR CREDIT UNION LTD

ABN: 83 087 650 244

42nd ANNUAL REPORT 2013

MACARTHUR CREDIT UNION LTD
42ND ANNUAL REPORT 2013

DIRECTORS

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

ASSOCIATE DIRECTORS

Emma Neate (appointed 23 January 2013, resigned 12 July 2013)
Deborah Vardy (appointed 23 January 2013)

GENERAL MANAGER

David Cadden

REGISTERED OFFICE

52 Argyle Street
CAMDEN NSW 2570
(02) 4640 9999

BRANCHES

52 Argyle St	109-111 Argyle St	1/8-10 Somerset Ave	125 Remembrance Dr
CAMDEN 2570	PICTON 2571	NARELLAN 2567	TAHMOOR 2573

Credit Union phone number: 1300 622 278

SOLICITOR

Daniels Bengsston
Level 4, 171 Clarence St
SYDNEY NSW 2000

BANKERS

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

AUDITOR

KPMG
Level 3, 63 Market Street
WOLLONGONG NSW 2500

CONTENTS

Corporate Governance Statement	4
Chairman's Report	7
General Manager's Report	9
Directors' Report	11
Lead Auditors' Independence Declaration	17
Statement of Profit or Loss and other Comprehensive Income	18
Statement of Financial Position	19
Statement of Cash Flows	20
Statement of Changes in Equity	21
Notes to the Financial Statements	22
Directors' Declaration	67
Independent Auditor's Report	68

CORPORATE GOVERNANCE STATEMENT

OVERVIEW

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

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

COMPOSITION OF THE BOARD

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

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

COMMITTEE STRUCTURE

The following Committees support the work of the Board:

Executive Committee

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

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

Executive Committee (continued)

would be inappropriate because of reasons such as conflict of interest. The Members of the Executive Committee as at 30 June 2013 are Greg Wright (Chairman), Neville Hoskin and Phillip Rankin.

The role of the Executive Committee is to:

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

Audit and Risk Committee

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

The Audit and Risk Committee consists of five nominated Directors. The Members of the Audit and Risk Committee as at 30 June 2013 are Phillip Rankin (Chairman), Jill Martin, Lloyd Pollard, Robert Rofo and William Rooney.

The Board invites the General Manager or his nominee(s) to attend all Audit and Risk 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 and Risk Committee is to:

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

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

Governance Committee

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

- Establishment and review of procedures to assess Board, Committee and Director performance;
- Development and review of appropriate corporate governance principles, policies and practices; and
- Development, implementation and monitoring of Director development policies and practices.

The members of the Governance Committee as at 30 June 2013 are Neville Hoskin (Chairman), Geoffrey Ellis, Kylie Powell and Ronald Streater.

THE REVIEW OF CREDIT UNION POLICY

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

BOARD REMUNERATION

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

MONITORING THE BOARD'S PERFORMANCE

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

CHAIRMAN'S REPORT

I'm sure that the vast majority of our members know only too well that the Camden and Wollondilly areas are both facing substantial population growth over the next two decades. The current population of around 100,000 people will grow to more than 300,000 over the next 20 years or so. The challenge for the two communities is to accommodate that growth while protecting and maintaining the very character that makes our area the desirable place that it is.

In many ways, this is exactly the challenge for Macarthur Credit Union, too. In order to remain relevant to our membership and existing population and be able to provide our valued customer service to the new population we must also try and protect our values and character in the face of significant growth. And we have chosen to do that by presenting a fresh new face to our members and our community – The Mac.

By freshening up our look and our name we hope to be just as relevant to new local residents as we are to our loyal members now. We also want to be visible and accessible in our rapidly growing areas. So the new look for The Mac is bright and bubbly – just like the staff we take such pride in and who are highly valued by our members.

Even though our look and our name may have changed, some things haven't and we are still your trusted neighbour - friendly, helpful and supportive.

So at the close of the 2012/2013 financial year we were on the verge of unveiling our new image. As I write this – and as you read it – it has been successfully delivered to a very positive response. I look forward to being able to deliver the same great value and friendly service to the newcomers to our district. After all, isn't that what good neighbours do?

Despite the necessary expense of the rebranding exercise, we have still managed to deliver a strong result for the year under difficult circumstances in the financial services industry. With interest rates at the lowest levels for decades there is good news for our borrowers however our saving members must struggle. Regrettably that is the way of the economy in action. Balancing the needs of borrowers and savers is something that The Mac's management struggles with every single day. After all, their mandate is to deliver benefit to members, not deliver fat profits. However, with more than \$200 million in members' assets under management we continue to deliver safe and responsible results for our member owners.

Speaking of the management team, none of this success happens without a great deal of effort and expertise. My thanks, on your behalf, go to David Cadden, his management team and all of the staff of the Credit Union for their efforts. The way in which the staff has enthusiastically embraced The Mac is a pleasure to

MACARTHUR CREDIT UNION LTD
42ND ANNUAL REPORT 2013

see. I also appreciate the work of my fellow directors on the board for their careful and strategic guidance and support for the Credit Union. I would particularly like to thank Philip Rankin, Deputy Chair, for his support during my absence away working for some months during the year.

The new look is bright. The future is bright. Our job is to continue delivering good service, great rates, safety and security to you – our members. We've had 42 years experience at doing just that and I look forward to many, many more.

A handwritten signature in black ink, appearing to read 'Greg Wright', with a stylized, cursive script.

Greg Wright
Chairman

GENERAL MANAGER'S REPORT

Clearly the most obvious change for members this year has been our new look – The Mac. The result of much reflection on our history, our culture and the regions future the new look provides the best possible brand to promote your credit union in one of the fastest growing regions of Australia.

The Mac embodies our very essence of being helpful, friendly and supportive. We have been a good neighbour for the past 42 years and intend to continue to deliver our traditional values via the improved and new channels of today's contemporary world.

A brand is one thing but it is the actual service experience that will shape how that brand is viewed by members. To that end I am very proud of the staff of The Mac as they prove daily their genuine passion for doing what's right by our members. That is not so surprising given they work and live locally and understand what a special place the Macarthur region is in which to raise a family or to operate a business.

From a business perspective this year has been challenging as matters outside our control impacted on operations. This can be best evidenced by the RBA Cash Rate that stood at a low 3.50% on 1 July 2012 to finish at 2.75% on 30 June 2013. We are now operating in the lowest interest rate environment seen for some decades and that has a direct influence on the local economy and our results.

Borrowers are extremely happy with low interest rates and we commend those borrowers who have taken advantage of the low rates to pay additional payments off their loans. Conversely we work very closely with new borrowers to ensure they have budgeted for the increase in interest rates which will ultimately happen.

We continue to engage with our depositors, especially, those self funded retirees who have experienced substantial reductions in cash flow as their investment yields reduced during the year. Our goal is to help them ride out this low rate environment while maintaining investment security.

An absolute positive during the year has been the growth in our Member Service Centre (MSC). While our competitors shift their Call Centres to off shore locations The Mac has grown its Camden based facility from 3-5 staff during the year. The MSC culture is just the same as our member facing branches i.e. to be friendly, helpful and supportive. There is no hard sell approach, nor the language or time delay difficulties that many competitor customers experience.

MACARTHUR CREDIT UNION LTD
42ND ANNUAL REPORT 2013

Technologies continue to shift an increasing number of member transactions away from branches to digital channels. We continue to invest in growing those digital channels however we will also continue to invest in our branches as they are a key connection point for many members who highly value the personal service they receive at our branches.

To the Board of Directors, chaired by Mr Greg Wright, thank you for another year of wise counsel, direction and for the courage to approve our new look.

To the staff of The Mac – thank you for another terrific year of passion, commitment and honesty as we seek to be the best we can be for our members. You truly are a wonderful bunch of people who do extraordinary things every day for our members.

A handwritten signature in black ink, appearing to read 'Dave Cadden', with a stylized flourish at the end.

Dave Cadden
General Manager

MACARTHUR CREDIT UNION LTD
42ND ANNUAL REPORT 2013

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 2013 and the auditor's report thereon.

DIRECTORS

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

Name, qualifications, and special responsibilities

Greg Wright B.Bus, MBA, MLGMA, AFAIM, MAICD, FAMI	Chairman of Directors Chairman Executive Committee Board Member since 1994
Phillip Rankin B Bus, CPA, AFAMI, JP	Vice Chairman of Directors Chairman Audit and Risk Committee Executive Committee Member Board Member since 1995
Neville Hoskin MAMI	Chairman Governance Committee Executive Committee Member Board Member since 2002
Geoffrey Ellis (appointed 19 December 2012) B Bus, M Bus, FCPA, FAIM, CPBB, MIMC, MAIBB, JP, MAMI	Board Member since 2012 Governance Committee Member
Jill Martin MAMI (appointed 19 December 2012)	Board Member since 2012 Audit and Risk Committee Member
Lloyd Pollard B Com, JP, MAMI	Audit and Risk Committee Member Board Member since 2008
Kylie Powell MAMI	Governance Committee Member Board Member since 2007
Robert Rofo MAMI	Audit and Risk Committee Member Board Member since 2007
William Rooney MAMI	Audit and Risk Committee Member Board Member since 2007
Ronald Streater MAMI	Governance Committee Member Board Member since 2003

MACARTHUR CREDIT UNION LTD
42ND ANNUAL REPORT 2013

DIRECTORS' REPORT (CONTINUED)

Associate Directors

Deborah Vardy
(appointed 20 March 2013)

Emma Neate
(appointed 20 March 2013, resigned 12 July 2013)

COMPANY SECRETARY

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

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

DIRECTORS' REPORT (CONTINUED)

DIRECTORS' MEETINGS

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

	Directors meetings		Audit and Risk committee meetings		Executive Committee meetings		Governance Committee meetings	
	E	A	E	A	E	A	E	A
Number of meetings held:	12		8		1		5	
Number of meetings attended:								
Greg Wright	12	8			1	1	5	2
Phillip Rankin	12	10	8	7	1	1		
Neville Hoskin	12	11			1	1	5	5
Geoffrey Ellis	5	5					1	1
Jill Martin	5	4	4	4				
Lloyd Pollard	12	10	8	5				
Kylie Powell	12	12					5	4
Robert Rofo	12	11	8	5				
William Rooney	12	9	8	8				
Ronald Streater	12	10					5	4
Emma Neate	4	4						
Deborah Vardy	4	4						

E = Eligible to attend

A = Attended

Deborah Vardy and Emma Neate (appointed on 20 March 2013) were in attendance at meetings as associate directors.

DIRECTORS' INTERESTS AND BENEFITS

During or since the financial year ended 30 June 2013, 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 28, by reason of a contract entered into by the Credit Union with:

- A director; or
- A firm of which a director is a member; or
- An entity in which a director has a substantial financial interest

DIRECTORS' REPORT (CONTINUED)

DIRECTORS' INTERESTS AND BENEFITS (CONTINUED)

except for loans disbursed to directors which are also disclosed at Note 28.

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

INDEMNIFICATION AND INSURANCE OF OFFICERS AND AUDITORS

Indemnification

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

Insurance

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

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

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

PRINCIPAL ACTIVITIES

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

There has been no significant change in the nature of these activities during the year ended 30 June 2013.

DIRECTORS' REPORT (CONTINUED)

OPERATING AND FINANCIAL REVIEW

The amount of profit for the Credit Union for the financial year after providing for income tax, was \$479,074 (2012 \$556,084).

The profit for the year is down on 2011/12 and previous years. However, the Directors are satisfied with this result. It has been achieved against a backdrop of:

- A record low interest rate environment
- Intense competition in both the loan & deposit market
- The commencement of a number of significant strategic projects within the Credit Union, including the recent rebranding

With the recent rebranding and the pending release of a significant number of new products and services, the Credit Union is well placed to capitalise on the opportunities that will present in the growth corridor that we operate in.

The year saw continued asset growth, in an environment where many of our competitors saw reduced growth levels. This growth is testament to the value provided to our members. Evidence of this value is illustrated by:

- Members with home loans do not pay transaction fees
- Members do not pay monthly account keeping fees
- Members earn interest on their e-Saver accounts from the very first dollar
- Member service delivery options include mobile and internet applications as well as having resources available to meet members at a time and place of their choosing

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

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

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

DIRECTORS' REPORT (CONTINUED)

EVENTS SUBSEQUENT TO REPORTING DATE

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

LIKELY DEVELOPMENTS

The Credit Union's main strategy will be to continue to encourage members to use the Credit Union as their main financial institution. This will be done by both deepening existing relationships and encouraging new ones. This will largely reflect the growth in the region's population in the coming years. The Credit Union will support the growing membership over the coming years by establishing additional service delivery channels where appropriate.

Other than disclosed in this report, there are no matters which would have a likely effect on the operations of the Credit Union or the expected results of its operations in future years.

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

The lead auditor's independence declaration is set out on page 16 and forms part of the directors' report for the financial year ended 30 June 2013.

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



Phillip Rankin
Vice Chairman of Board of Directors



Neville Hoskin
Chairman Governance Committee

Dated at Camden this 18th day of September 2013



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

To: the directors of Macarthur Credit Union Ltd

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2013 there have been:

- no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and
- no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

KPMG

Warwick Shanks
Partner

Signed at Sydney this 18th day of September 2013.

**STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE
INCOME
FOR THE YEAR ENDED 30 JUNE 2013**

		2013	2012
		\$	\$
	Note		
Interest revenue	4	11,450,010	12,257,261
Interest expense	4	(5,307,987)	(5,872,441)
Net interest income		<u>6,142,023</u>	<u>6,384,820</u>
Fee and commission income	5	1,450,991	1,609,474
Fee and commission expenses	7	(679,045)	(836,563)
Net fee and commission income		<u>771,946</u>	<u>772,911</u>
Other income	6	170,690	239,432
Operating income		<u>7,084,659</u>	<u>7,397,163</u>
Net impairment loss on loans and receivables	12	(10,711)	(89,117)
Loss on disposal of assets		(37,943)	-
Non Lending Losses		(34,879)	(130,235)
Personnel expenses	7	(3,296,570)	(3,382,446)
ATM expenses		(242,030)	(212,835)
General administration expenses		(461,183)	(493,736)
Other operating expenses		(1,127,970)	(1,034,235)
Depreciation and amortisation expenses	7	(356,228)	(388,823)
Information technology expenses		(631,931)	(660,807)
Office occupancy expense		(239,820)	(256,836)
Profit before income tax		<u>645,394</u>	<u>748,093</u>
Income tax expense	9	(166,320)	(192,009)
Profit for the year		<u>479,074</u>	<u>556,084</u>
Other comprehensive income			
Items that will not be reclassified to profit or loss		-	-
Items that may be reclassified subsequently to profit or loss		-	-
Total other comprehensive income for the period		-	-
Total comprehensive income for the year		<u>479,074</u>	<u>556,084</u>

The statement of comprehensive income is to be read in conjunction with the notes to the financial statements as set out on pages 22 to 66.

STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2013

	Note	2013 \$	2012 \$
Assets			
Cash and cash equivalents	10	819,090	921,549
Loans and receivables	11	193,090,032	187,465,886
Other financial assets	13	575,174	575,182
Property, plant and equipment	15	3,524,917	3,535,459
Investment property	16	216,267	221,719
Intangibles	17	123,021	215,620
Deferred tax assets	14	371,379	306,619
Other assets	18	1,386,275	1,547,044
Total assets		200,106,155	194,789,078
Liabilities			
Deposits	19	176,767,329	171,964,210
Trade and other payables	20	956,039	1,021,346
Current tax payable	14	26,831	14,378
Provisions	21	613,703	525,965
Total liabilities		178,363,902	173,525,899
Net assets		21,742,253	21,263,179
Equity			
Reserves	22(b)	478,237	496,288
Retained earnings	22(a)	21,264,016	20,766,891
Total equity		21,742,253	21,263,179

The statement of financial position is to be read in conjunction with the notes to the financial statements set out on pages 22 to 66.

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2013

	Note	2013 \$	2012 \$
Cash flows from operating activities			
Interest received		11,570,747	12,423,957
Dividends received		110,000	130,598
Other cash receipts in the course of operations		1,593,133	2,174,385
Interest paid		(5,892,326)	(5,800,712)
Income taxes paid		(218,627)	(347,588)
Net loans funded		240,319	(9,443,972)
Net increase in deposits		5,387,458	18,307,370
Other cash payments in the course of operations		<u>(6,788,729)</u>	<u>(6,566,750)</u>
Net cash flows from operating activities	26 a)	6,001,975	10,877,288
Cash flows from investing activities			
Net (increase)/decrease in deposits with other ADI's		(5,875,176)	(11,489,815)
Proceeds on sale of equity securities		-	-
Proceeds on sale of investment properties		-	-
Proceeds on sale of property, plant and equipment		51,322	-
Rental income from investment properties		18,369	43,977
Acquisitions of property, plant and equipment		(252,331)	(61,266)
Acquisition of intangible assets		<u>(46,618)</u>	<u>(57,630)</u>
Net cash flows from investing activities		<u>(6,104,434)</u>	<u>(11,564,734)</u>
Net (decrease) in cash held		(102,459)	(687,446)
Cash at the beginning of the financial year		<u>921,549</u>	<u>1,608,995</u>
Cash at the end of the financial year	26 b)	<u>819,090</u>	<u>921,549</u>

The statement of cash flows is to be read in conjunction with the notes to the financial statements set out on pages 22 to 66.

STATEMENT OF CHANGES IN EQUITY

	Redeemed share capital reserve	General reserve for credit losses	Retained earnings	Total equity
	\$	\$	\$	\$
Balance at 1 July 2011	76,080	449,762	20,181,253	20,707,095
Total comprehensive income for the year				
Profit after tax	-	-	556,084	556,084
Other comprehensive income				
Total other comprehensive income for the year	-	-	-	-
Total comprehensive income for the year	-	-	-	-
Transfer from retained profits	1,980	(31,534)	29,554	-
Balance at 30 June 2012	78,060	418,228	20,766,891	21,263,179
Balance at 1 July 2012	78,060	418,228	20,766,891	21,263,179
Total comprehensive income for the year				
Profit after tax	-	-	479,074	479,074
Other comprehensive income				
Total other comprehensive income for the year	-	-	-	-
Total comprehensive income for the year	-	-	-	-
Transfer from/(to) retained profits	6,840	(24,891)	18,051	-
Balance at 30 June 2013	84,900	393,337	21,264,016	21,742,253

The statement of changes in equity is to be read in conjunction with the notes to the financial statements set out on pages 22 to 66.

NOTES TO THE FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS

1. Reporting entity

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

2. Basis of preparation

a) Statement of compliance

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

The financial report was approved for issue by the directors on 18 September 2013.

b) Basis of measurement

The financial statements have been prepared on the historical cost basis except for available for sale equity securities which are measured at fair value.

c) Functional and presentation currency

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

d) Use of estimates and judgements

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

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

NOTES TO THE FINANCIAL STATEMENTS

2. Basis of preparation (continued)

d) Use of estimates and judgements (continued)

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in the following notes:

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

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

3. Significant accounting policies

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

a) Property, plant and equipment

(i) Recognition and measurement

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

3. Significant accounting policies (continued)

(ii) Subsequent costs

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

(iii) Depreciation

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

The estimated useful life in the current and comparative periods are as follows:

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

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

b) Investment property

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

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

c) Intangibles

i) Computer software

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

NOTES TO THE FINANCIAL STATEMENTS

3. Significant accounting policies (continued)

c) Intangibles (continued)

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

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

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

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

d) Other financial assets

i) Available-for-sale financial assets

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

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

Unlisted equity securities without a "readily tradeable market" are initially measured at fair value plus any directly attributable transaction costs. Subsequent to initial recognition the financial instruments are measured at amortised cost less any impairment losses.

NOTES TO THE FINANCIAL STATEMENTS

3. Significant accounting policies (continued)

e) Loans and receivables

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

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

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

f) Assets classified as held for sale

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

g) Trade and other receivables

Trade and other receivables are stated at amortised cost.

h) Other assets

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

i) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, cash balances in the Credit Union's bank accounts and at call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Credit Union's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows. Cash and cash equivalents are measured at amortised cost using the effective interest method.

NOTES TO THE FINANCIAL STATEMENTS

3. Significant accounting policies (continued)

j) Impairment

(i) Financial assets

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

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

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

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

(ii) Loan impairment

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

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

NOTES TO THE FINANCIAL STATEMENTS

3. Significant accounting policies (continued)

j) Impairment (continued)

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

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

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

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

(iii) Non-financial assets

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

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

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

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to

NOTES TO THE FINANCIAL STATEMENTS

3. Significant accounting policies (continued)

j) Impairment (continued)

the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

k) Employee benefits

(i) Wages, salaries and annual leave

Liabilities for employee benefits for wages, salaries and annual leave that are expected to be settled within 12 months of the reporting date represent present obligations resulting from employees' services provided up to the reporting date, calculated at undiscounted amounts based on wage and salary rates that the Credit Union expects to pay as at reporting date including related on-costs, such as workers' compensation insurance, superannuation contributions and payroll tax.

(ii) Long service leave

The Credit Union's net obligation in respect of long-term service benefits is the amount of future benefits that employees have earned in return for their service in the current and prior periods. The obligation is calculated using expected future increases in wage and salary rates including related on-costs and expected settlement dates, and is discounted using the rates attached to government bonds at the balance sheet date that have maturity dates approximating the terms of the Credit Union's obligations.

(iii) Superannuation

Obligations for contributions to defined contribution superannuation funds are recognised as a personnel expense in the profit or loss as incurred. The Credit Union contributes to a number of superannuation plans for the purpose of superannuation guarantee payments and payment of other superannuation benefits on behalf of employees. Corporate trustees separately administer these plans. The Credit Union has no interest in these superannuation plans (other than as a contributor) and is not liable for the performance or obligations of the plans.

l) Trade and other payables

Trade and other payables are stated at fair value and are recognised for goods or services received, whether or not billed to the Credit Union. Trade payables are non-interest bearing and are normally settled on 30 day terms.

NOTES TO THE FINANCIAL STATEMENTS

3. Significant accounting policies (continued)

m) Member deposits

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

The Credit Union derecognises the financial liability when its contractual obligations are discharged or cancelled. Interest payable is recognised in profit or loss using the effective interest rate method. Interest on savings and term deposits is calculated on the daily balance and is posted to the members' accounts monthly or at maturity.

Such interest is accrued on the basis of the interest rate, the terms and the conditions applicable to each savings and term deposit account as varied from time to time.

n) Revenue from financial assets

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

Interest income is recognised in the income statement as it accrues, using the effective interest method.

Dividend income is recognised in the income statement on the date the Credit Union's right to receive income is established.

o) Fees and commissions

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

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

NOTES TO THE FINANCIAL STATEMENTS

3. Significant accounting policies (continued)

p) Rental income

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

q) Operating leases

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

r) Income tax

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

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

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

s) Goods and services tax

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

NOTES TO THE FINANCIAL STATEMENTS

3. Significant accounting policies (continued)

s) Goods and services tax (continued)

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

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

t) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 July 2013, and have not been applied in preparing these financial statements. Those standards with the most significant potential impact on the financial statements are outlined below:

AASB 9 Financial Instruments includes requirements for the classification and measurement of financial assets resulting from the first part of Phase 1 of the project to replace *AASB 139 Financial Instruments: Recognition and Measurement*. *AASB 9* will become mandatory for the Company's 30 June 2014 financial statements and retrospective application is generally required. The Company has not yet determined the potential effect of the standard.

AASB 2009-11 Amendments to Australian Accounting Standards arising from AASB 9, retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets; amortised and fair value. The guidance in *AASB 139* on impairment of financial assets and on hedge accounting continues to apply. The amendments become mandatory for the Company's 30 June 2016 financial statements and could change the classification and measurement of financial assets. The Company does not plan to adopt this standard early and the extent of the impact has not been determined.

AASB 2011-4 Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements, removes the requirements to include individual key management personnel disclosures in

NOTES TO THE FINANCIAL STATEMENTS

3. Significant accounting policies (continued)

t) New standards and interpretations not yet adopted (continued)

the notes to the financial statements. Key management personnel disclosures will still be provided in the Remuneration Report under s.300A of the Corporations Act 2001. The amendments, which will become mandatory for the Company's 30 June 2014 financial statements, are not expected to have any significant impact on the financial statements.

AASB 2011-10 Amendments to Australian Accounting Standards arising from AASB 119, AASB 119 Employee Benefits is amended focusing on but not

limited to the accounting for defined benefit plans. In addition, it changes the definition of short-term and other long-term employee benefits and some disclosure requirements. The potential impacts include the removal of the corridor method and will require immediate recognition of all actuarial gains and losses in the income statement. The Company has not yet quantified the impact of the amendments, which will become mandatory for the Company's 30 June 2014 financial statements.

NOTES TO THE FINANCIAL STATEMENTS

	2013	2012
	\$	\$
4. Interest revenue and expense		
Interest revenue		
Deposits with other ADI's	2,529,522	2,600,813
Loans to members	8,920,488	9,656,448
	<u>11,450,010</u>	<u>12,257,261</u>
Interest expense		
Deposits	5,305,175	5,870,042
Interest bearing liabilities	2,812	2,399
	<u>5,307,987</u>	<u>5,872,441</u>
Net interest income	<u><u>6,142,023</u></u>	<u><u>6,384,820</u></u>
5. Fee and commission income		
ATM fees	580,904	767,060
Direct debit fees	342,260	339,919
Loan fees	43,850	40,700
Direct entry reference fees	113,385	118,560
Insurance commission	72,030	43,809
Cheque book issue fees	25,288	25,944
BPAY transaction commission	84,571	81,872
Other fee and commission income	188,703	191,610
	<u>1,450,991</u>	<u>1,609,474</u>
6. Other income		
Dividends from available for sale equity securities	110,000	130,598
Rental income from investment properties	18,369	43,977
Bad debts recovered	37,258	59,086
Other revenue	5,063	5,771
	<u>170,690</u>	<u>239,432</u>

NOTES TO THE FINANCIAL STATEMENTS

	2013	2012
	\$	\$
7. Other expenses		
Fee and commission expenses		
ATM fees	343,161	460,621
Card issue fees	76,081	104,405
Dishonour fee expenses	4,105	50,983
Other fee and commission expenses	255,698	220,554
	<u>679,045</u>	<u>836,563</u>
Personnel expenses		
Wages and salaries	2,850,281	2,981,275
Superannuation contributions	228,734	230,099
Payroll tax	129,817	130,991
Provision for employee entitlements	87,738	40,081
	<u>3,296,570</u>	<u>3,382,446</u>
Depreciation & amortisation expenses		
Plant and equipment	78,954	121,021
Buildings	129,770	129,301
Leasehold improvements	2,836	2,895
Investment properties	5,451	5,451
Intangible assets	139,217	130,155
	<u>356,228</u>	<u>388,823</u>

NOTES TO THE FINANCIAL STATEMENTS

	2013	2012
	\$	\$
8. Auditors' remuneration		
Audit and review services		
Auditors of the Company		
KPMG		
Audit and review of financial statements	56,175	52,985
Other regulatory services	21,705	18,745
	<u>77,880</u>	<u>71,730</u>
Other services		
KPMG		
In relation to other assurance and taxation services	7,520	19,160
Internal audit	47,912	48,165
	<u>55,432</u>	<u>67,325</u>
	<u>133,312</u>	<u>139,055</u>
9. Income tax expense		
a) Recognised in the income statement		
Current tax expense		
Current year	210,174	189,527
Adjustments for prior years	-	2,977
	<u>210,174</u>	<u>192,504</u>
Deferred tax expense		
Origination and reversal of temporary differences	(43,854)	(495)
	<u>(43,854)</u>	<u>(495)</u>
Total income tax expense in income statement	<u>166,320</u>	<u>192,009</u>

NOTES TO THE FINANCIAL STATEMENTS

	2013	2012
	\$	\$
9. Income tax expense (continued)		
b) Reconciliation between income tax expense and profit before tax		
Profit before tax	645,394	748,093
Income tax using the domestic corporation tax rate of 30%	193,618	224,428
Increase in income tax expense due to:		
Imputation gross-up on dividends received	13,478	16,791
Non-deductible expenses	32,289	3,635
Decrease in income tax expense due to:		
Non assessable income	(28,140)	-
Franking credits on dividends received	(44,925)	(55,971)
Over provided in prior periods	-	3,126
	<u>166,320</u>	<u>192,009</u>
Income tax expense	<u>166,320</u>	<u>192,009</u>
10. Cash and cash equivalents		
Cash on hand	524,672	374,833
Cash at bank	294,418	546,716
	<u>819,090</u>	<u>921,549</u>
11. Loans and receivables		
Deposits with other ADI's	57,253,841	51,378,665
Loans to members:		
Overdrafts	47,020	75,793
Term loans	131,734,012	133,223,692
Loans to related parties	28 4,140,506	2,883,262
Provision for impairment	12 (85,347)	(95,526)
Total loans to members	<u>135,836,191</u>	<u>136,087,221</u>
Total loans and receivables	<u>193,090,032</u>	<u>187,465,886</u>

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

NOTES TO THE FINANCIAL STATEMENTS

	2013	2012
	\$	\$
12. Loans and receivables-provision for impairment		
The provision for impairment comprises:		
<i>Specific provision</i>		
Opening balance	82,556	44,847
Addition to provision	46,177	72,690
Loans written off , previously provided	(11,647)	(11,982)
Reversal of provision	(47,885)	(22,999)
Closing balance	<u>69,201</u>	<u>82,556</u>
<i>Collective provision</i>		
Opening balance	12,970	32,677
Addition to provision	3,176	12,752
Loans written off , previously provided	-	(11,329)
Reversal of provision	-	(21,130)
Closing balance	<u>16,146</u>	<u>12,970</u>
Total provision for impairment	<u><u>85,347</u></u>	<u><u>95,526</u></u>
Analysis of net impairment loss on loans and receivables:		
Movement in specific provision	(1,708)	49,691
Movement in collective provision	3,176	(8,378)
Loans written off directly against profit or loss	9,243	47,804
	<u><u>10,711</u></u>	<u><u>89,117</u></u>

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

13. Other financial assets

Available for sale equity securities

Unlisted shares-at cost	<u>575,174</u>	<u>575,182</u>
	<u><u>575,174</u></u>	<u><u>575,182</u></u>

NOTES TO THE FINANCIAL STATEMENTS

	2013	2012
	\$	\$
14. Tax assets and liabilities		
Deferred tax assets and liabilities		
Deferred tax assets and liabilities are attributable to the following:		
Deferred tax assets		
Property, plant & equipment	102,109	81,131
Provisions	209,715	186,448
Accruals	42,909	17,640
Intangibles	14,245	20,948
Other	2,401	452
Total deferred tax assets	<u>371,379</u>	<u>306,619</u>
Deferred tax liabilities		
Other	-	-
Total deferred tax liabilities	<u>-</u>	<u>-</u>
Net deferred tax assets	<u><u>371,379</u></u>	<u><u>306,619</u></u>

Deferred tax assets have not been recognised in respect of the following items:

Capital losses	<u><u>21,014</u></u>	<u><u>21,014</u></u>
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The capital losses do not expire under current tax legislation. Deferred tax assets with respect to capital losses have not been recognised because it is not probable that future taxable capital gains will be available against which the Credit Union can utilise the benefits.

Current tax assets and liabilities

The current tax liability for the Credit Union of \$26,831 (2012: \$14,378) represents the amount of income tax payable in respect of the current and prior periods due to the relevant tax authority.

NOTES TO THE FINANCIAL STATEMENTS

	2013	2012
	\$	\$
15. Property, plant and equipment		
<i>Freehold land and buildings</i>		
Freehold land-at cost	357,107	357,107
Buildings on freehold land-at cost	4,615,887	4,636,471
Provision for depreciation	(1,857,163)	(1,741,257)
	<u>3,115,831</u>	<u>3,252,321</u>
<i>Leasehold improvements</i>		
At cost	16,117	22,708
Provision for depreciation	(6,684)	(5,840)
	<u>9,433</u>	<u>16,868</u>
<i>Plant and equipment</i>		
At cost	2,409,894	2,255,127
Provision for depreciation	(2,010,241)	(1,988,857)
	<u>399,653</u>	<u>266,270</u>
<i>Total property, plant and equipment</i>		
At cost	7,399,005	7,271,413
Provision for depreciation	(3,874,088)	(3,735,954)
	<u>3,524,917</u>	<u>3,535,459</u>

NOTES TO THE FINANCIAL STATEMENTS

15. Property, plant and equipment (continued)

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

2013	Freehold land and buildings \$	Leasehold improvement s \$	Plant and equipment \$	Total \$
Carrying amount at the beginning of the year	3,252,321	16,868	266,270	3,535,459
Additions	7,691	-	244,640	252,331
Transfer (Out)/In	-	-	-	-
Disposals	(14,411)	(4,599)	(32,303)	(51,313)
Depreciation	(129,770)	(2,836)	(78,954)	(211,560)
Carrying amount at the end of the year	<u>3,115,831</u>	<u>9,433</u>	<u>399,653</u>	<u>3,524,917</u>

During the year obsolete plant and equipment with a carrying value of \$34,535 (original cost \$123,707) was written off.

2012	Freehold land and buildings \$	Leasehold improvement s \$	Plant and equipment \$	Total \$
Carrying amount at the beginning of the year	3,368,801	19,763	338,846	3,727,410
Additions	12,821	-	48,445	61,266
Transfer (Out)/In	-	-	-	-
Disposals	-	-	-	-
Depreciation	(129,301)	(2,895)	(121,021)	(253,217)
Carrying amount at the end of the year	<u>3,252,321</u>	<u>16,868</u>	<u>266,270</u>	<u>3,535,459</u>

Independent valuations were carried out as at 30 June 2009 by Mr W McManus LREA AAVI AAPI on the market value of properties. The independent valuation valued freehold land and buildings at \$6,955,000.

The Credit Union's policy is to obtain an independent valuation every 5 years. As freehold land and buildings are carried at cost, the valuation has not been brought to account.

NOTES TO THE FINANCIAL STATEMENTS

	2013	2012
	\$	\$
16. Investment property		
Investment property-at cost	288,057	288,057
Provision for depreciation	(71,790)	(66,338)
	<u>216,267</u>	<u>221,719</u>

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

Carrying amount at the beginning of the year	904,823	910,274
Depreciation	(5,451)	(5,451)
Carrying amount at the end of the year	<u>899,372</u>	<u>904,823</u>

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

17. Intangibles

Computer software-at cost	638,834	614,664
Provision for amortisation	(515,813)	(399,044)
	<u>123,021</u>	<u>215,620</u>

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

Carrying amount at the beginning of the year	200,470	272,995
Additions	46,618	57,672
Disposals	-	(42)
Amortisation	(139,217)	(130,155)
Carrying amount at year end	<u>107,871</u>	<u>200,470</u>

NOTES TO THE FINANCIAL STATEMENTS

	\$	\$
18. Other assets		
Interest & fees receivable	602,231	722,968
Prepayments	144,986	85,197
Other	639,058	738,879
	<u>1,386,275</u>	<u>1,547,044</u>

19. Deposits		
Call deposits	97,388,988	93,384,080
Term deposits	78,764,043	77,381,493
Accrued interest payable	614,298	1,198,637
	<u>176,767,329</u>	<u>171,964,210</u>

20. Trade and other payables		
Trade creditors	257,507	221,140
Sundry creditors	698,532	800,206
	<u>956,039</u>	<u>1,021,346</u>

21. Provisions		
<i>Employee benefits</i>		
Annual leave	252,706	240,859
Long service leave-current	283,772	225,541
Long service leave-non current	77,225	59,565
	<u>613,703</u>	<u>525,965</u>

NOTES TO THE FINANCIAL STATEMENTS

	Note	2013	2012
		\$	\$
22. Equity			
a) Retained earnings			
Balance at the beginning of the year		20,766,891	20,181,253
Profit for the year		479,074	556,084
Transfer to redeemed share capital account	22(b)(i)	(6,840)	(1,980)
Transfer from/(to) general reserve for credit losses	22(b)(ii)	24,891	31,534
Balance at the end of the year		<u>21,264,016</u>	<u>20,766,891</u>
b) Reserves			
Redeemed share capital account	22(b)(i)	84,900	78,060
General reserve for credit losses	22(b)(ii)	393,337	418,228
		<u>478,237</u>	<u>496,288</u>
i) Redeemed share capital account			
Balance at the beginning of the year		78,060	76,080
Member shares redeemed during year		6,840	1,980
Balance at the end of the year		<u>84,900</u>	<u>78,060</u>
ii) General reserve for credit losses			
Balance at the beginning and end of the year		418,228	449,762
Transfer (to)/from retained profits		(24,891)	(31,534)
Balance at the end of the year		<u>393,337</u>	<u>418,228</u>

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.

The general reserve for credit losses contains an additional allowance for impairment, above that calculated in accordance with Note 12. The general reserve for credit losses together with the amounts calculated in accordance with Note 12 are held to comply with prudential requirements.

NOTES TO THE FINANCIAL STATEMENTS

23. Contingencies

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

	2013	2012
	\$	\$
Guarantees	437,896	331,041

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

24. Operating leases

a) Leases as lessee

Operating lease rentals are payable as follows:

Within one year	-	9,532
Between one and two years	-	-
Between two and five years	-	-
	-	9,532

The Credit Union leases its Oran Park premises under an operating lease. The initial terms of this lease expired on 1/4/2013, and reverted to a "month by month" basis. The lease was terminated as at 31/8/2013.

Lease payments are increased every year to reflect increases in the consumer price index (CPI).

During the financial year ended 30 June 2013, \$14,234 was recognised as an expense in the income statement in respect of operating leases (2012: \$13,337).

b) Leases as lessor

The Credit Union leases out the Argyle Street Camden property to the Kids of Macarthur Health Foundation under an operating lease. The initial terms of this lease expired on 27 April 2012 with a 3 year option exercised until 27 April 2015.

NOTES TO THE FINANCIAL STATEMENTS

24. Operating Leases (continued)

b) Leases as lessor (continued)

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

	2013	2012
	\$	\$
Operating lessor rentals are receivable as follows:		
Within one year	13,900	15,334
Between one and two years	13,900	13,900
Between two and five years	27,800	41,700
	<u>55,600</u>	<u>70,934</u>

During the financial year ended 30 June 2013, \$18,369 was recognised as rental income in the income statement (2012: \$43,977) and \$609 in respect of repairs and maintenance was recognised as an expense in the income statement relating to investment properties (2012: \$Nil).

25. Commitments

a) Outstanding loan commitments

Loans approved but not yet funded	<u>1,363,332</u>	<u>2,579,617</u>
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b) Loan redraw facilities

Undrawn value of redraw facilities	<u>13,917,809</u>	<u>10,544,883</u>
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Redraw facilities are contingent on members maintaining credit standards and ongoing repayment terms on amounts drawn.

NOTES TO THE FINANCIAL STATEMENTS

25. Commitments (continued)

c) Industry support contract

The Credit Union is a member of the Credit Union Financial Support System ("CUFSS"), a company limited by guarantee to provide member Credit Unions with financial support in the event of any of them experiencing liquidity or capital adequacy difficulties. The significant conditions of participation are:

- The Credit Union has executed an equitable charge in favour of CUSCAL; and
- The Credit Union has deposited 3.2% of its total assets as deposits with CUSCAL.

There is a cap on the amount a member Credit Union would be required to contribute to the provision of a loan facility in the event of a Credit Union requiring assistance. The cap is equal to 3.2% of the contributing Credit Union's total assets.

NOTES TO THE FINANCIAL STATEMENTS

	2013	2012 \$
26. Statement of cash flows		
a) Reconciliation of cash flows from operating activities		
Profit after tax	479,074	556,084
<i>Adjustments for:</i>		
(Gain) on sale of property, plant & equipment		-
Depreciation and amortisation	356,228	388,823
Impairment loss on loans and receivables	10,711	89,117
Impairment loss on investment properties	-	-
Rental income	(18,369)	(43,977)
Net cash from operating activities before changes in assets and liabilities	827,644	990,047
Net loans funded	240,319	(9,443,972)
Movement in interest receivable	120,737	166,696
Movement in other receivables	99,821	500,054
Movement in prepayments	(59,789)	25,397
Movement in current tax assets	12,453	(155,084)
Movement in net deferred tax assets	(64,760)	(495)
Net increase in deposits	5,387,458	18,307,370
Movement in accrued interest payable	(584,339)	71,729
Movement in trade creditors	36,367	34,169
Movement in sundry creditors	(101,674)	341,296
Movement in employee benefits	87,738	40,081
Net cash from/(used in) operating activities	6,001,975	10,877,288
b) Reconciliation of cash and cash equivalents		
<i>Cash and cash equivalents comprises:</i>		
Cash on hand and at bank	819,090	921,549

NOTES TO THE FINANCIAL STATEMENTS

27. Financial risk management

Introduction and overview

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

- credit risk
- liquidity risk
- market risk

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

Risk management framework

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

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

The Credit Union's Audit and 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 and Risk, and Governance committees are assisted in these functions by the Compliance and Policy Manager and outsourced internal audit. Internal audit undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Audit and Risk Committee.

NOTES TO THE FINANCIAL STATEMENTS

27. Financial risk management (continued)

a) Credit risk

Credit risk is the risk of financial loss to the Credit Union if a member or counterparty to the financial instrument fails to meet its contractual obligations, and arises principally from the Credit Union's loans and 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 General Manager. The Lending Manager, reporting to the Deputy General Manager, is responsible for oversight of the Credit Union's credit risk, including:

- Formulation of credit policies covering collateral requirements, credit assessment risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements.
- Establishing delegation structures for the approval of loans. Delegation limits are allocated to Branch Managers and Branch Administrators. Larger loans require the approval of the General Manager or the Board of Directors as appropriate.
- Reviewing and assessing credit risk a member's character and capacity to service the loan commitment is assessed.
- Compliance reviews are undertaken by the Lending Manager in conjunction with the Credit Union's Compliance and Policy Manager. The reviews centre on compliance with the Credit Union's policies and procedures, specifically the assessment of loan serviceability.

NOTES TO THE FINANCIAL STATEMENTS

27. Financial risk management (continued)

a) Credit risk (continued)

Exposure to credit risk

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

	Loans & receivables to members		Deposits with other ADI's		Cash and cash equivalents	
	2013	2012	2013	2012	2013	2012
	\$	\$	\$	\$	\$	\$
Carrying Amount	135,836,191	136,087,221	57,253,841	51,378,665	819,090	921,549
Individually impaired						
Gross amount	69,201	82,556	-	-	-	-
Provision for impairment	(69,201)	(82,556)	-	-	-	-
Carrying amount	-	-	-	-	-	-
Collectively impaired						
Days in arrears:						
Less than 30 days	-	-	-	-	-	-
Greater than 30 days and less than 90 days	676,300	226,860	-	-	-	-
Greater than 90 days and less than 182 days	6,058	9,803	-	-	-	-
Greater than 182 days and less than 273 days	-	-	-	-	-	-
Greater than 273 days and less than 365 days	-	-	-	-	-	-
Greater 365 days	-	-	-	-	-	-
Provision for impairment	(16,146)	(12,970)	-	-	-	-
Carrying amount	666,212	223,693	-	-	819,090	921,549

NOTES TO THE FINANCIAL STATEMENTS

27. Financial risk management (continued)

a) Credit risk (continued)
Exposure to credit risk (continued)

	Loans & receivables to members		Deposits with other ADI's		Cash and cash equivalents	
	2013	2012	2013	2012	2013	2012
	\$	\$	\$	\$	\$	\$
Past due but not impaired						
Days in arrears:						
Less than 30 days	3,946,285	3,535,929	-	-	-	-
Greater than 30 days and less than 90 days	-	-	-	-	-	-
Greater than 90 days and less than 182 days	-	-	-	-	-	-
Greater than 182 days and less than 273 days	-	-	-	-	-	-
Greater than 273 days and less than 365 days	-	-	-	-	-	-
Greater 365 days	-	-	-	-	-	-
Carrying amount	3,946,285	3,535,929	-	-	-	-
Neither past due nor impaired						
Secured by mortgage	119,081,742	119,497,532	-	-	-	-
Secured by other	6,752,986	8,641,965	-	-	-	-
Unsecured	5,388,965	4,188,102	-	-	-	-
APRA regulated ADI	-	-	57,253,841	51,378,665	819,090	921,549
Carrying amount	131,223,693	132,327,599	57,253,841	51,378,665	819,090	921,549
Includes loans with renegotiated terms	-	-	-	-	-	-

NOTES TO THE FINANCIAL STATEMENTS

27. Financial risk management (continued)

a) Credit risk (continued)

Impaired loans

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

Past due loans but not impaired loans

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

Loans with renegotiated terms

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

Provision for impairment

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

When a loan is classified as impaired, the Credit Union has become aware of a specific event that gives rise to potential impairment. Generally, this event would be one such as a declaration of bankruptcy or other notification from a member confirming financial difficulty. It is considered that all loans with arrears greater than 30 days demonstrate evidence of potential impairment. On this basis, a percentage of the outstanding balance is provided for as the collective provision for impairment. All loans with arrears of greater than 180 days are fully provided for.

NOTES TO THE FINANCIAL STATEMENTS

27. Financial risk management (continued)

a) Credit risk (continued)

Write off policy

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

Collateral and other credit enhancements

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

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

	2013	2012
	\$	\$
Against Individually impaired		
Property value	-	-
Against past due but not impaired	-	-
Property value	5,926,000	6,070,000
Other	-	-
Total	<u>5,926,000</u>	<u>6,070,000</u>

Reposessed 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 (2012: \$Nil).

NOTES TO THE FINANCIAL STATEMENTS

27. Financial risk management (continued)

a) Credit risk (continued)

Concentration of loans and receivables

The Credit Union does not currently have an exposure to groupings of individual loans and receivables to members to any one particular industry and does not include any loan which represents 10% or more of the Credit Union's capital.

Within the Credit Union's investment portfolio, the maximum single exposure to any one Bank or rated Authorised Deposit-taking Institution is to be not more than \$10.38m. Exposure to any one unrated Credit Union and Building Society is limited to not more than \$3.03m. The Credit Union operates predominately in the finance industry within the Macarthur region of New South Wales.

b) Liquidity risk

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

Management of liquidity risk

Liquidity risk is managed by regular monitoring of the volatility and maturity structure of the deposits and loans portfolios and identifying other risks, such as concentration within the deposits and loans portfolios, and maintaining a forward commitments register. The Credit Union reviews on a daily basis the liquidity profile of its financial assets and liabilities 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 High Quality Liquid Assets (HQLA) ratio as prescribed by the Credit Union's prudential regulator, the Australian Prudential Regulation Authority (APRA). This ratio measures the total of liquid assets as a percentage of the Credit Union's liability base. The Credit Union is to maintain a minimum 9% of total adjusted liabilities as liquid assets capable of being converted to cash within two business days.

NOTES TO THE FINANCIAL STATEMENTS

27. Financial risk management (continued)

b) Liquidity risk (continued)

Exposure to liquidity risk (continued)

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

	2013	2012
As at 30 June	15.46%	17.44%
Average liquidity for the year	16.70%	18.07%
Minimum liquidity during the year	15.36%	16.48%
Maximum liquidity during the year	17.96%	19.76%

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

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

2013	Carrying amount	Gross nominal (outflow)/ inflow	Less than 1 month	1 to 3 months	3 months to 1 year
	\$	\$	\$	\$	\$
Financial Liabilities					
Deposits	176,767,329	(179,047,145)	(115,265,639)	(26,190,129)	(37,591,377)
Trade and other payables	956,039	(956,039)	(956,039)	-	-
Total financial liabilities	177,723,368	(180,003,184)	(116,221,678)	(26,190,129)	(37,591,377)
2012	Carrying amount	Gross nominal (outflow)/ inflow	Less than 1 month	1 to 3 months	3 months to 1 year
	\$	\$	\$	\$	\$
Financial Liabilities					
Deposits	171,964,210	(174,814,142)	(108,918,311)	(26,021,985)	(39,873,846)
Trade and other payables	1,021,346	(1,021,346)	(1,021,346)	-	-
Total financial liabilities	172,985,556	(175,835,488)	(109,939,657)	(26,021,985)	(39,873,846)

NOTES TO THE FINANCIAL STATEMENTS

27. Financial risk management (continued)

b) Liquidity risk (continued)

The previous table shows the undiscounted cash flows on the Credit Union's financial liabilities and unrecognised loan commitments 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 or commitment.

c) Market risk

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

Management of market risk

The Credit Union has exposure to non traded interest rate risk generated by banking products such as loans and deposits. The Credit Union does not operate a trading book.

Overall authority for market risk is vested in the Audit and Risk Committee. The Audit and Risk Committee is responsible for the development of detailed risk management policies and for the day to day review of their implementation.

Exposure to interest rate risk

The principal risk to which the Credit Union is exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instruments because of a change in market interest rates. Interest rate risk is managed principally through monitoring gaps in the maturity profiles of interest rate sensitive assets and liabilities. This is illustrated in the following table, where the assets and liabilities are allocated according to their maturity/repricing time buckets. Where possible, the maturity profiles of assets and liabilities are matched in these time buckets.

NOTES TO THE FINANCIAL STATEMENTS

27. Financial risk management (continued)

c) Market risk (continued)

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

2013

Carrying
amount

Less than 3
months

3 to 6
months

6 months
to 1 year

1 to 2
years

2 to 3
years

Financial instruments

Financial assets

Cash and Cash Equivalents	819,090	-	-	-	-
Loans and Receivables	193,090,032	134,954,629	19,103,913	19,409,942	19,621,548
Total financial assets	193,909,122	135,773,719	19,103,913	19,409,942	19,621,548

Financial liabilities

At Call Deposits	97,388,988	97,388,988	-	-	-
Term Deposits	79,378,341	43,931,922	25,370,186	9,975,259	100,974
Total financial liabilities	176,767,329	141,320,910	25,370,186	9,975,259	100,974

Gap	17,141,793	(5,547,191)	(6,266,273)	9,434,683	19,520,574
Cumulative gap		(5,547,191)	(11,813,464)	(2,378,781)	17,141,793

NOTES TO THE FINANCIAL STATEMENTS

27. Financial risk management (continued)

c) Market risk (continued)

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

2012	Carrying amount	Less than 3 months	3 to 6 months	6 months to 1 year	1 to 2 years	2 to 3 years
Financial instruments						
Financial assets						
Cash and Cash Equivalents	921,549	921,549	-	-	-	-
Loans and Receivables	187,465,886	146,678,884	17,314,052	15,317,706	8,155,244	-
Total financial assets	<u>188,387,435</u>	<u>147,600,433</u>	<u>17,314,052</u>	<u>15,317,706</u>	<u>8,155,244</u>	<u>-</u>
Financial liabilities						
At Call Deposits	93,384,080	93,384,080	-	-	-	-
Term Deposits	78,580,130	39,403,146	23,883,960	15,057,710	235,314	-
Total financial liabilities	<u>171,964,210</u>	<u>132,787,226</u>	<u>23,883,960</u>	<u>15,057,710</u>	<u>235,314</u>	<u>-</u>
Gap	16,423,225	14,813,207	(6,569,908)	259,996	7,919,930	-
Cumulative gap		14,813,207	8,243,299	8,503,295	16,423,225	16,423,225

NOTES TO THE FINANCIAL STATEMENTS

27. Financial risk management (continued)

c) Market risk (continued)

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

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

The Credit Union's potential exposure to movements in interest rates is measured as the cumulative gap in maturity time brackets as a percentage of pre-tax profit. This measures the impact of a 2% movement (either upwards or downwards) in market interest rates. At 30 June 2013, the exposure was \$ 636,986 (2012 \$945,394). This exposure reflects the potential impact on the Credit Union's annual profit.

A summary of the gap position of the Credit Union's banking book, expressed as a percentage of regulatory capital, as at 30 June 2013 and during the period is as follows:

	2013	2012
	\$	\$
As at 30 June	3.08%	4.68%
Average gap for the period	3.31%	5.17%
Minimum gap for the period	2.52%	4.57%
Maximum gap for the period	4.42%	5.94%

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.

NOTES TO THE FINANCIAL STATEMENTS

27. Financial risk management (continued)

d) Fair value

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

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

Financial instruments carried at fair value

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

Financial instruments carried at amortised cost

- The fair values of liquid assets and other assets maturing within 12 months approximate their carrying amounts. This assumption is applied to liquid assets and the short-term elements of all other financial assets and financial liabilities.
- The fair value of at call deposits with no specific maturity is approximately their carrying amount as they are short term in nature or are payable on demand.
- The fair value of term deposits at amortised cost is estimated by reference to current market rates offered on similar deposits. At 30 June 2013 the term deposit portfolio carrying amount was \$78,764,043. Using a recognised valuation technique, the impact of interest rate movements on the term deposit portfolio estimates the fair value at a figure which very closely approximates the carrying value.
- 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.

NOTES TO THE FINANCIAL STATEMENTS

27. Financial risk management (continued)

d) Fair value (continued)

- The fair value of fixed rate loans at amortised cost is estimated by reference to current market rates offered on similar loans. At 30 June 2013 the fixed rate loan portfolio carrying amount was that of \$43,285,572 using a recognised valuation technique, the impact of interest rate movements on the fixed loan portfolio estimate the fair value at a figure which very closely approximates the carrying value. The majority of the fixed rate loan portfolio has a duration of less than 20 months.

e) Capital management - regulatory capital

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

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

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

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

Various limits are applied to elements of the capital base. The amount of fundamental Tier 1 capital must constitute at least 75 percent of net Tier 1 capital. Residual Tier 1 capital is limited to 25 percent of net Tier 1 capital and innovative Tier 1 securities cannot exceed 15 percent of net Tier 1 capital. Net Tier 1 capital must constitute at least 50 percent of capital. Total Tier 2 capital is limited to 100 percent of net Tier 1 capital and total Tier 2 capital net of deductions and amortisation is limited to 50 percent of Tier 1 capital.

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

NOTES TO THE FINANCIAL STATEMENTS

27. Financial risk management (continued)

e) Capital management - regulatory capital (continued)

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

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

	2013	2012
	\$	\$
Common Equity Tier 1 capital		
Retained earnings	21,348,916	20,844,950
Regulatory adjustments to Common Equity Tier 1 Capital	(765,066)	(792,905)
Total Common Equity Tier 1 Capital	<u>20,583,850</u>	<u>20,052,045</u>
Tier 2 capital		
General reserve for credit losses	393,337	418,228
Regulatory adjustments to Tier 2 Capital	(270,665)	(270,665)
Total Tier 2 capital	<u>122,672</u>	<u>147,563</u>
Total capital base	<u><u>20,706,522</u></u>	<u><u>20,199,608</u></u>
Risk weighted assets	101,221,437	94,675,220
<i>of which:</i>		
Credit Risk	90,486,749	84,182,515
Operational Risk	10,734,688	10,492,705

NOTES TO THE FINANCIAL STATEMENTS

28. Related parties

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

Non-executive directors

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

Associate directors

- Emma Neate
- Deborah Vardy

Executives

- David Cadden (General Manager)
- Paul Brooks (Deputy General Manager)
- Graham Portors (Manager, Lending)
- Rebecca Brookes (Manager, Strategy and Services)
- Craig Oliver (Manager, Compliance and Policy)

NOTES TO THE FINANCIAL STATEMENTS

28. Related parties (continued)

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:

	2013	2012
	\$	\$
Short term employee benefits	873,424	849,331
Post employment benefits- Superannuation contributions	71,559	66,965
Other long term benefits	32,667	1,985
Total	<u>977,650</u>	<u>918,281</u>

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

Loans to key management personnel

	2013	2012
	\$	\$
The aggregate value of loans to KMP at balance date amounted to:	<u>4,140,506</u>	<u>2,883,262</u>
The aggregate value of loans disbursed to KMP during the year amounted to:	2,380,006	798,709
Interest and fees earned on loans to KMP:	219,172	208,434
Repayments during the year	1,341,935	1,123,395

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

NOTES TO THE FINANCIAL STATEMENTS

28. Related parties (continued)

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.

Other transactions with directors and key management personnel

There are no service contracts to which KMP or their related parties are an interested party.

29. Economic dependency

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

Credit Union Services Corporation (Australia) Limited ("CUSCAL")

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

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

TransAction Solutions Pty Limited ("TAS")

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

Service Contracts

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

30. Subsequent events

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

DIRECTORS' DECLARATION

In the opinion of the directors of Macarthur Credit Union Ltd:

- a) the financial statements and notes set out on pages 22 to 66 are in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the Credit Unions' financial position as at 30 June 2013 and of its performance for the financial year ended on that date; and
 - (ii) complying with the Australian Accounting Standards and the Corporations Regulations;
- b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 2(a); and:
- c) 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.

Dated at Camden this 18th day of September 2013.

Signed in accordance with a resolution of the directors:



Phillip Rankin
Vice Chairman of Board of Directors



Neville Hoskin
Chairman Governance Committee



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

Report on the financial report

We have audited the accompanying financial report of Macarthur Credit Union Limited (the Company), which comprises the statement of financial position as at 30 June 2013, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, notes 1 to 30 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration.

Directors' responsibility for the financial report

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

Auditor's responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

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

Independence

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

Auditor's opinion

In our opinion:

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

(i) giving a true and fair view of the Company's financial position as at 30 June 2013 and of its performance for the year ended on that date; and

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

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

KPMG

KPMG



Warwick Shanks
Partner

Sydney

18 September 2013



www.themaccu.com.au
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