

Macquarie Credit Union Limited

ABN 85 087 650 253

Annual Report - 30 June 2023

**Macquarie Credit Union
Directors' report
30 June 2023**

The Directors present their report, together with the financial statements, on the Credit Union (the Credit Union) for the year ended 30 June 2023.

Directors

The following persons were Directors of the Credit Union during the whole of the financial year and up to the date of this report, unless otherwise stated:

DAJ Rootes
RK Mills
A Field
CJ Shepherd
JR Moss
PA Woodward

Directors have been in office since the start of the financial year to the date of this report unless otherwise stated.

Company secretary

The following person held the position of company secretary at the end of the financial year:

Mr Matthew Bow (Diploma of Financial Services, ASIC Tier 2) – Mr Bow was appointed company secretary on 19 November 2007.

Principal activities

The principal activities of the Credit Union during the year were the provision of financial services to members in the form of taking deposits and giving financial accommodation as prescribed by the constitution. There were no significant changes in the nature of the Credit Union's activities during the year.

Operating results

The profit for the Credit Union after providing for income tax amounted to \$704,000 (30 June 2022: \$541,000).

Review of Operations

The Credit Union recorded a profit (after tax) of \$ 704,000 compared to \$ 541,000 in the 2022 year. The Directors are satisfied with the result given the challenging economic conditions that prevailed during the year, consisting of rising interest rates and cost of living pressures. Throughout the financial year the cash rate was increased by the Reserve Bank of Australia ten times from 0.85% to 4.10%. These increases had a positive impact on interest margins resulting in an increase in the operating result to 30 June 2023. Rising interest rates provide a benefit for depositors but have a negative impact on borrowers. To ease the financial pressure on members in this high inflationary period, the Credit Union took the decision to absorb 0.30% of increases to the cash rate during the year.

The Credit Union's total assets increased by \$ 1,129,000 (0.82%) during the year, compared with a 11.4% increase in the previous financial year. The primary drivers for this result were due to a 0.03% reduction in total member deposits and a decrease in loans to members by 3.26%.

Interest revenue has increased by \$ 2,280,000 (66%) to \$ 5,728,000 due to increases in the cash rate during the year. Interest expense increased by \$ 1,011,000 (249%) to \$ 1,417,000.

Other revenue decreased by \$ 383,000 (47%) to \$ 417,000 due to participation in the Selective Share Buy-Back of shares in Cuscal Limited in the 2022 year. Employee benefits expense increased by \$ 392,000 (32%) to \$ 1,615,000 due to the employment of additional resources and other expenses have increased by \$ 175,000 to \$ 1,736,000.

Environmental issues

The Credit Union is not subject to any significant environmental regulation under Australian Commonwealth or State law.

Significant changes in the state of affairs

There were no significant changes in the state of affairs of the Credit Union during the financial year.

Dividends

The Credit Union does not have permanent share capital and has therefore not paid or declared any dividends for the financial year.

Events after the reporting period

Other than entering into a Memorandum of Understanding with Regional Australia Bank (RAB) to explore the possibility of merger in July 2023, no matter or circumstance has arisen since 30 June 2023 that has significantly affected, or may significantly affect the Credit Union's operations, the results of those operations, or the Credit Union's state of affairs in future financial years.

Future developments, prospects and business strategies

In April 2021, the Credit Union entered into a Memorandum of Understanding with Orange Credit Union (OCU) to explore the possibility of merger. Both the Credit Union and OCU completed due diligence and as a result the Directors of both Credit Unions agreed not to pursue further merger discussions.

In July 2023, The Credit Union entered into a Memorandum of Understanding with Regional Australia Bank (RAB) to explore the possibility of a merger. Both the Credit Union and RAB have now completed due diligence, and are continuing to work through the potential merger process. The proposed merger is conditional on a number of matters, including receipts of member approval and regulatory approvals. If these conditions are satisfied, the merger is expected to be completed in the second half of the 2024 financial year. Refer to Note 1 for further potential merger details.

Other than the potential merger with RAB, during the next financial year the Directors do not expect any significant changes in the operations or services of the Credit Union which will affect the results of the Credit Union.

Further information as to future developments, prospects and business strategies of the Credit Union have not been included in this report as the Directors believe, on reasonable grounds, that to include such information would be likely to result in unreasonable prejudice to the interests of the Credit Union.

Directors' benefits

Since the end of the previous financial year, no Director has received or become entitled to receive a benefit (other than a benefit included in the aggregate amount of emoluments) by reason of a contract made by the Credit Union or a related corporation with a Director or with a firm of which he or she is a member, or with an entity in which he or she has a substantial financial interest.

Indemnifying officers and auditors

The Credit Union has a Directors' and Officers' liability insurance policy covering all Directors. The premium paid in respect of this policy in force at the date of this report was \$13,537 (2022: \$13,525).

No indemnities have been given or agreed to be given or insurance premiums paid or agreed to be paid, during or since the end of the financial year, for the auditor of the Credit Union.

Macquarie Credit Union
Directors' report
30 June 2023

Information on Directors

Mr D A J Rootes

Experience:

Interest in Shares:

- Chairman since 27/11/20
- Board Member since 30/08/06
- One ordinary share in the Credit Union

Mr R K Mills

Experience:

Interest in Shares:

- Deputy Chairman since 27/11/20
- Board Member since 22/05/06
- One ordinary share in the Credit Union

Mrs A Field

Experience:

Interest in Shares:

- Director
- Board Member since 25/01/17
- One ordinary share in the Credit Union

Mr J R Moss

Experience:

Interest in Shares:

- Director
- Board Member since 24/02/09
- One ordinary share in the Credit Union

Mr C J Shepherd

Experience:

Interest in Shares:

- Director
- Board Member since 19/04/71
- One ordinary share in the Credit Union

Mr P A Woodward

Experience:

Interest in Shares:

- Director
- Board Member since 30/10/19
- One ordinary share in the Credit Union

Meetings of Directors

During the financial year the following meetings of Directors were held. Attendances were:

	Board Meetings		Audit Committee Meetings	
	Eligible to Attend	Attended	Eligible to Attend	Attended
DAJ Rootes	13	13	6	6
RK Mills	13	11	6	6
A Field	13	8	3	2
JR Moss	13	13	6	5
CJ Shepherd	13	12	-	-
P A Woodward	13	10	6	6

	Risk Committee Meetings		Remuneration Committee	
	Eligible to Attend	Attended	Eligible to Attend	Attended
DAJ Rootes	6	6	2	-
RK Mills	6	6	2	2
A Field	2	1	2	2
JR Moss	6	5	2	2
CJ Shepherd	-	-	2	2
P A Woodward	6	6	2	-

Proceedings on behalf of the Credit Union

No person has applied to the Court for leave to bring proceedings on behalf of the Credit Union, or to intervene in any proceedings to which the Credit Union is a party for the purpose of taking responsibility on behalf of the Credit Union for all or part of those proceedings.

The Credit Union was not a party to any such proceedings during the year.

Auditor's independence declaration

A copy of the auditor's independence declaration is set out immediately after this Directors' report.

Rounding

The Credit Union is of a kind referred to in Corporations Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to 'rounding-off'. Amounts in this report have been rounded off in accordance with that Corporations Instrument to the nearest thousand dollars, or in certain cases, the nearest dollar.

Non-audit services

The Board of Directors, in accordance with advice from the audit and risk committee, is satisfied that the provision of non-audit services during the year is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The Directors are satisfied that the services disclosed below did not compromise the external auditor's independence for the following reasons:

- all non-audit services are reviewed and approved by the audit committee prior to commencement to ensure they do not adversely affect the integrity and objectivity of the audit; and
- the nature of the services provided do not compromise the general principles relating to auditor independence in accordance with APES 110: Code of Ethics for Professional Accountants (including Independence Standards) set by the Accounting Professional and Ethics Standards Board.

The fees for non-audit services that were paid/payable to the external auditors during the year ended 30 June 2023 is disclosed in note 27 of the financial statements.

This report is made in accordance with a resolution of Directors, pursuant to section 298(2)(a) of the Corporations Act 2001.

On behalf of the Directors



David Rootes
Chairman



Ray Mills
Deputy Chairman

18 October 2023



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Auditor Independence Declaration Under S307C of the *Corporations Act 2001* to the Directors of Macquarie Credit Union Limited

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

- 1) The auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and
- 2) Any applicable code of professional conduct in relation to the audit.

CROWE AUDIT AUSTRALIA

BRADLEY D BOHUN
Partner

18 October 2023
Albury

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The title 'Partner' conveys that the person is a senior member within their respective division and is among the group of persons who hold an equity interest (shareholder) in its parent entity, Findex Group Limited. The only professional service offering which is conducted by a partnership is the Crowe Australasia external audit division. All other professional services offered by Findex Group Limited are conducted by a privately owned organisation and/or its subsidiaries.

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Macquarie Credit Union
Directors' declaration
30 June 2023

In the Directors' opinion:

- the attached financial statements and notes comply with the Corporations Act 2001, the Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached financial statements and notes comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in note 1 to the financial statements;
- the attached financial statements and notes give a true and fair view of the Credit Union's financial position as at 30 June 2023 and of its performance for the financial year ended on that date; and
- 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.

Signed in accordance with a resolution of Directors made pursuant to section 295(5)(a) of the Corporations Act 2001.

On behalf of the Directors



David Rootes
Chairman



Ray Mills
Deputy Chairman

18 October 2023

Macquarie Credit Union
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General information

The financial statements cover Macquarie Credit Union Limited as an individual entity. The financial statements are presented in Australian dollars, which is Macquarie Credit Union Limited's functional and presentation currency.

Macquarie Credit Union Limited is a financial institution, incorporated and domiciled in Australia. Its registered office and principal place of business is:

Macquarie Credit Union Limited
165 Brisbane Street
Dubbo NSW 2830

A description of the nature of the Credit Union's operations and its principal activities are included in the Directors' report, which is not part of the financial statements.

The financial statements were authorised for issue, in accordance with a resolution of Directors, on 18 October 2023. The Directors have the power to amend and reissue the financial statements.

Macquarie Credit Union
Statement of profit or loss and other comprehensive income
For the year ended 30 June 2023

	Note	2023 \$'000	2022 \$'000
Interest revenue	3	5,728	3,448
Interest expense	4	(1,417)	(406)
Net interest revenue		<u>4,311</u>	<u>3,042</u>
Other revenue	5	417	800
Depreciation and amortisation	6	(328)	(351)
Employee benefits expense	7	(1,615)	(1,223)
Other expenses	8	(1,736)	(1,561)
Occupancy expenses	9	(91)	(114)
Impairment losses on loans and advances		<u>(19)</u>	<u>(34)</u>
Profit before income tax expense		939	559
Income tax expense	10	<u>(235)</u>	<u>(18)</u>
Profit after income tax expense for the year		704	541
Other comprehensive income for the year, net of tax		<u>-</u>	<u>-</u>
Total comprehensive income for the year		<u><u>704</u></u>	<u><u>541</u></u>

The above statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes

Macquarie Credit Union
Statement of financial position
As at 30 June 2023

	Note	2023 \$'000	2022 \$'000
Assets			
Cash and cash equivalents	11	40,265	35,928
Loans and advances	12	96,761	100,055
Other investments	13	7	7
Current tax receivable	10	-	9
Accrued receivables	14	433	258
Other assets	15	42	39
Property, plant and equipment	16	197	186
Right-of-use assets	17	367	570
Intangibles	18	186	94
Deferred tax	10	130	113
Total assets		138,388	137,259
Liabilities			
Deposits	23	121,742	121,790
Payables and other liabilities	19	798	254
Current tax payable	10	86	-
Lease liabilities	20	496	707
Provisions	22	366	312
Total liabilities		123,488	123,063
Net assets		14,900	14,196
Equity			
Retained profits	24	14,900	14,196
Total equity		14,900	14,196

The above statement of financial position should be read in conjunction with the accompanying notes

Macquarie Credit Union
Statement of changes in equity
For the year ended 30 June 2023

	Credit losses Reserve \$'000	Retained profits \$'000	Total equity \$'000
Balance at 1 July 2021	589	13,066	13,655
Profit after income tax expense for the year	-	541	541
Other comprehensive income for the year, net of tax	-	-	-
Total comprehensive income for the year	-	541	541
Transfer from reserves for credit loss for the year	(589)	589	-
Balance at 30 June 2022	-	14,196	14,196
	Credit losses Reserve \$'000	Retained profits \$'000	Total equity \$'000
Balance at 1 July 2022	-	14,196	14,196
Profit after income tax expense for the year	-	704	704
Other comprehensive income for the year, net of tax	-	-	-
Total comprehensive income for the year	-	704	704
Balance at 30 June 2023	-	14,900	14,900

The above statement of changes in equity should be read in conjunction with the accompanying notes

Macquarie Credit Union
Statement of cash flows
For the year ended 30 June 2023

	Note	2023 \$'000	2022 \$'000
Cash flows from operating activities			
Interest on loans		4,570	3,274
Interest on investments		992	142
Other non-interest income		408	746
Interest paid		(939)	(408)
Payments to suppliers and employees		(3,325)	(2,785)
Income tax paid		(157)	(120)
		<hr/>	<hr/>
		1,549	849
Net decrease/(increase) in loans and advances		3,275	(5,310)
Net (decrease)/increase in deposits		(48)	13,753
		<hr/>	<hr/>
Net cash provided by (used in) operating activities	32	4,776	9,292
Cash flows from investing activities			
Proceeds from disposal of other investments		-	177
Purchase of property, plant and equipment	16	(96)	(23)
Purchase of intangibles	17	(132)	(10)
		<hr/>	<hr/>
Net cash (used in)/from investing activities		(228)	144
Cash flows from financing activities			
Repayment of lease liabilities		(211)	(187)
		<hr/>	<hr/>
Net cash provided (used in) financing activities		(211)	(187)
Net increase in cash and cash equivalents		4,337	9,249
Cash and cash equivalents at the beginning of the financial year		35,928	26,679
		<hr/>	<hr/>
Cash at the end of the year	11	40,265	35,928
		<hr/> <hr/>	<hr/> <hr/>

The above statement of cash flows should be read in conjunction with the accompanying notes

Note 1. Significant accounting policies

Summary of significant accounting policies

The financial statements are general purpose financial statements that have been prepared in accordance with Australian Accounting Standards, including Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001.

The financial statements are for Macquarie Credit Union Limited ('the Credit Union') as an individual entity. Macquarie Credit Union Limited is a financial institution, incorporated and domiciled in Australia. The Credit Union is a for-profit company for accounting purposes.

These financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards ('IASB'). The financial statements are presented in Australian Dollars. Unless otherwise indicated, amounts in the financial statements have been rounded off to the nearest thousand dollars.

The financial statements were authorised for issue on 18 October 2023 in accordance with a resolution of the Board of Directors.

The following is a summary of the material accounting policies adopted by the Credit Union in the preparation of the financial statements. The accounting policies have been consistently applied unless otherwise stated.

Note 1. Significant accounting policies (continued)

Basis of preparation

The financial statements have been prepared on an accruals basis and are based on historical costs modified by the revaluation of selected non-current assets, financial assets and financial liabilities for which the fair value basis of accounting has been applied.

Going concern

These financial statements have been prepared on a going concern basis. The Directors have formed the view that the Credit Union continues to be a going concern based on the potential merger details below.

Potential Merger

In July 2023, the Credit Union entered into a Memorandum of Understanding with Regional Australia Bank (RAB) to explore the possibility of a merger. Both the Credit Union and RAB have now completed due diligence, and are continuing to work through the potential merger process.

The proposed merger is conditional on a number of matters, including receipts of member approval and regulatory approvals. If these conditions are satisfied, the merger is expected to be completed in the second half of the 2024 financial year.

If members vote in favour of the merger, then, subject to regulatory approvals the proposed merger approach is for Macquarie Credit Union, as the transferring entity, to transfer under Financial Sector (Transfer and Restructure) Act 1999 (Cth) all of its assets, liabilities and members to Regional Australia Bank, as receiving entity, on the date of legal completion of merger.

Income tax

The charge for current income tax expense is based on the profit for the year adjusted for any non-assessable or disallowed items. It is calculated using tax rates that have been enacted or are substantively enacted by the reporting date.

Deferred tax is accounted for using the statement of financial position liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss. Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or liability is settled. Deferred tax is credited in the statement of profit or loss and other comprehensive income except where it relates to items that may be credited directly to equity, in which case the deferred tax is adjusted directly against equity.

Deferred income tax assets are recognised to the extent that it is probable that future tax profits will be available against which deductible temporary differences can be utilised.

The amount of benefits brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income taxation legislation and the anticipation that the Credit Union will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

Property, plant and equipment

Each class of property, plant and equipment is carried at cost or fair value less, where applicable, any accumulated depreciation and impairment losses.

Plant and Equipment

Plant and equipment are stated at cost less accumulated depreciation and impairment. Cost includes expenditure that is directly attributable to the acquisition of the item.

Depreciation

The depreciable amount of all fixed assets is depreciated on a straight line basis over their useful lives to the Credit Union commencing from the time the asset is held ready for use. The depreciation rates used for each class of depreciable assets are:

Note 1. Significant accounting policies (continued)

<i>Class of fixed asset</i>	<i>Depreciation rate</i>
Office equipment	10% - 50%
EDP equipment	33.3%
Office furniture and fittings	33.3%
Motor vehicles	22%

Assets with a cost less than \$1,000 are not capitalised.

Intangible assets

Items of computer software which are not integral to the computer hardware owned by the Credit Union are classified as intangible assets, not as part of property, plant and equipment. Computer software is amortised over the expected useful life of the software at 22% to 33.3% per year.

Amortisation has been included within depreciation, amortisation and impairment of non-financial assets.

Subsequent expenditures on the maintenance of computer software and brand names are expensed as incurred.

When an intangible asset is disposed of, the gain or loss on disposal is determined as the difference between the proceeds and the carrying amount of the asset, and is recognised in profit or loss within other income or other expenses.

Loans to members

(i) Basis of inclusion

All loans are initially recognised at fair value, net of transaction costs incurred and inclusive of loan origination fees. Loans are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the statement of profit or loss and other comprehensive income over the period of the loans using the effective interest method.

Loans to members are reported at their recoverable amount representing the aggregate amount of principal and unpaid interest owing to the Credit Union at reporting date, less any allowance or provision against debts considered doubtful. A loan is classified as impaired where the recovery of the debt is considered unlikely as determined by the Board of Directors.

(ii) Interest earned

Term loans - The loan interest is calculated on the basis of the daily balance outstanding and is charged in arrears to a member's account on the last day of each month.

Overdraft – The loan interest is calculated initially on the basis of the daily balance outstanding and is charged in arrears to a member's account on the last day of the month.

Non-accrual loan interest – while still legally recoverable, interest is not brought to account as income where the Credit Union is informed that the member has deceased, or, where a loan is impaired. A loan is classified as impaired where recovery of the debt is considered unlikely as determined by the Board of Directors. Australian Prudential Regulation Authority (APRA) has made it mandatory that interest is not recognised as revenue after the irregularity exceeds 90 days for a loan facility, or 90 days for an over limit overdraft facility.

(iii) Loan origination fees and discounts

Loan establishment fees and discounts are initially deferred as part of the loan balance, and are brought to account as income over the expected life of the loan. The amounts brought to account are included as part of interest revenue.

Note 1. Significant accounting policies (continued)

Loan impairment

AASB 9's impairment requirements use more forward looking information to recognise expected credit losses - the 'expected credit loss model' (ECL). Instruments within the scope of the new requirements include loans and advances and other debt-type financial assets measured at amortised cost and fair value through other comprehensive income (FVOCI), trade receivables and loan commitments and some financial guarantee contracts (for the issuer) that are not measured at fair value through profit or loss.

The Credit Union considers a broader range of information when assessing credit risk and measuring expected credit losses, including past events, current conditions, reasonable and supportable forecasts that affect the expected collectability of the future cash flows of the instrument.

In applying this forward-looking approach, a distinction is made between:

- financial instruments that have not deteriorated significantly in credit quality since initial recognition or that have low credit risk (performing loans) ('Stage 1');
- financial instruments that have deteriorated significantly in credit quality since initial recognition and whose credit risk is not low (underperforming loans) ('Stage 2'); and
- 'Stage 3' would cover financial assets that have objective evidence of impairment (loans in default/non-performing) at the reporting date.

Measurement of ECL

'12-month expected credit losses' are recognised for the first category while 'lifetime expected credit losses' are recognised for the second category. Measurement of the expected credit losses is determined by a probability weighted estimate of credit losses over the expected life of the financial instrument. They are measured as follows:

- financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the Credit Union in accordance with the contract and the cash flows that the Credit Union expects to receive);
- financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows;
- undrawn loan commitments: as the present value of the difference between the contractual cash flows that are due to the Credit Union if the commitment is drawn down and the cash flows that the Credit Union expects to receive; and
- financial guarantee contracts: the expected payments to reimburse the holder less any amounts that the Credit Union expects to recover.

Restructured financial assets

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

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

Note 1. Significant accounting policies (continued)

Credit-impaired financial assets

At each reporting date, the Credit Union assesses whether financial assets carried at amortised cost are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

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

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

Presentation of allowance for ECL in the statement of financial position

Loss allowances for ECL are presented in the statement of financial position as follows:

- financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;
- loan commitments and financial guarantee contracts: generally, as a provision; and
- where a financial instrument includes both a drawn and an undrawn component, and the Credit Union cannot identify the ECL on the loan commitment component separately from those on the drawn component: The Credit Union presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision.

Bad debts written off

Loans and debt securities are written off (either partially or in full) when there is no realistic prospect of recovery. This is generally the case when the Credit Union determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Credit Union's procedures for recovery of amounts due.

Other investments

The Credit Union's equity investments in other investments are held at fair value. The Credit Union has elected for these to be held at fair value through other comprehensive income (FVOCI).

Subsequent movements in fair value are recognised in other comprehensive income and never reclassified to profit or loss. Dividends from these investments continue to be recorded as other income within the profit or loss, unless the dividend clearly represents return of capital.

Note 1. Significant accounting policies (continued)

Members' deposits

(i) Basis for measurement

Member savings and term investments are quoted at the aggregate amount of money owing to depositors.

(ii) Interest payable

Interest on savings is calculated on the daily balance and posted to the accounts periodically, or on maturity of the term deposit. Interest on savings is brought to account on an accrual basis in accordance with the interest rate terms and conditions of each savings and term deposit account as varied from time to time. The amount of the accrual is shown as part of amounts payable.

Provision for employee benefits

Provision is made for benefits accruing to employees in respect of wages and salaries, annual leave and long service leave when it is probable that settlement will be required and they are capable of being measured reliably.

Provisions made in respect of employee benefits expected to be settled within twelve months, are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

Provisions made in respect of employee benefits which are not expected to be settled within twelve months are measured at the present value of the estimated future cash outflows to be made by the Credit Union in respect of services provided by employees up to the reporting date.

The provision for annual leave was reviewed with entitlements not expected to be used within twelve months being measured at the present value of the estimated future cash outflows.

Contributions are made by the Credit Union to an employee's superannuation fund and are charged as expenses when incurred. The Credit Union has no legal obligation to cover any shortfall in the fund's obligation to provide benefits to employees on retirement.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances, deposits at call and other short-term deposits with Approved Deposit-taking Institutions that can be readily converted into cash. This includes term deposits, negotiable certificates of deposit and floating rate note securities.

Negotiable certificates of deposit and floating rate note securities are held via the Austraclear system with the Reserve Bank of Australia, to enable conversion to cash. Cash and cash equivalents are recognised at the gross value of the outstanding balance.

Impairment of non-financial assets

At each reporting date the Credit Union assesses whether there is any indication that individual non-financial assets are impaired. Where impairment indicators exist, recoverable amount is determined, and impairment losses are recognised in profit or loss where the asset's carrying value exceeds its recoverable amount.

Provisions

Provisions are recognised when the Credit Union has a present obligation, the future sacrifice of economic benefits is probable, and the amount of the provision can be measured reliably.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation.

Note 1. Significant accounting policies (continued)

Leases

Credit Union as a lessee

At inception of a contract, the Credit Union assesses whether a lease exists – i.e. whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Credit Union has elected to separate non-lease components from lease components and has accounted for payments separately, rather than as a single component.

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

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

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

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

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

The Credit Union has elected to apply the exceptions to lease accounting for both short-term leases (i.e. leases with a term of less than or equal to 12 months) and leases of low-value assets (defined by the Credit Union as \$10,000). The Credit Union recognises the payments associated with these leases as an expense on a straight-line basis over the lease term.

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

Credit Union as a lessor

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

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

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

Note 1. Significant accounting policies (continued)

Fair value of assets and liabilities

The Credit Union measures some of its assets and liabilities at fair value on either a recurring or non-recurring basis, depending on the requirements of the applicable Accounting Standard.

Fair value is the price the Credit Union would receive to sell an asset or would have to pay to transfer a liability in an orderly transaction between independent, knowledgeable and willing market participants at the measurement date.

As fair value is a market based measure, the closest equivalent observable market pricing information is used to determine fair value. Adjustments to market values may be made having regard to the characteristics of the specific asset or liability. The fair value of assets and liabilities that are not traded in an active market are determined using one or more valuation techniques. These valuation techniques maximise, to the extent possible, the use of observable market data.

To the extent possible, market information is extracted from the principal market for the asset or liability (that is, the market with the greatest volume and level of activity for the asset or liability). In the absence of such a market, information is extracted from the most advantageous market available to the Credit Union at reporting date (that is, the market that maximises the receipts from the sale of the asset or minimises the payment made to transfer the liability, after taking into account transaction costs and transport costs).

For non financial assets, the fair value measurement also takes into account a market participant's ability to use the asset in its highest and best use or to sell it to another market participant that would use the asset in its highest and best use.

The fair value of liabilities may be valued, where there is no observable market price in relation to the transfer of an identical or similar financial instrument, by reference to observable market information where identical or similar assets are held as assets. Where this information is not available, other valuation techniques are adopted and, where significant, are detailed in the respective notes to the financial statements.

Financial instruments

Classification and measurement of financial liabilities

The Credit Union's financial liabilities include borrowings, members' deposits and other payables.

Financial liabilities are initially measured at fair value, and, where applicable, adjusted for transaction costs unless the Credit Union's designated a financial liability at fair value through profit or loss.

Subsequently, financial liabilities are measured at amortised cost using the effective interest method except financial liabilities designated at fair through profit or loss (FVPL), which are carried subsequently at fair value with gains or losses recognised in profit or loss.

All interest-related charges and, if applicable, changes in an instrument's fair value that are reported in profit or loss are included within interest expense, or non-interest expenses.

Classification of financial assets

Except for those trade receivables that do not contain a significant financing component and are measured at the transaction price, all financial assets are initially measured at fair value adjusted for transaction costs (where applicable).

For the purpose of subsequent measurement, financial assets other than those designated and effective as hedging instruments are classified into the following categories upon initial recognition:

- amortised cost;
- fair value through profit or loss (FVPL); or
- fair value through other comprehensive income (FVOCI)

Note 1. Significant accounting policies (continued)

Financial instruments (continued)

All income and expenses relating to financial assets that are recognised in profit or loss are presented within net interest income, fees commissions and other income or noninterest expenses.

Classifications are determined by both:

- the Credit Union's business model for managing the financial asset; and
- the contractual cash flow characteristics of the financial assets.

Subsequent measurement of financial assets

Financial assets at amortised costs

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

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

After initial recognition, these are measured at amortised cost using the effective interest method. Discounting is omitted where the effect of discounting is immaterial.

Fair Value through Other Comprehensive Income (FVOCI)

Investments in equity instruments that are not held for trading are eligible for an irrevocable election at inception to be measured at FVOCI. Subsequent movements in fair value are recognised in other comprehensive income and are never reclassified to profit or loss. Dividends from these investments continue to be recorded as other income within the profit or loss unless the dividend clearly represents return of capital.

Goods and services tax

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

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

Cashflows are included on the Statement of Cashflows on a gross basis. The GST components of cashflows from investing and financing activities that are recoverable from, or payable to, the ATO are classified as operating cash flows.

As a financial institution, the Credit Union is input taxed on all income except for income from commissions and some fees. An input taxed supply is not subject to GST collection, and similarly the GST paid on related or apportioned purchases cannot be recovered. As some income is charged GST, the GST on purchases is generally recovered on a proportionate basis, using the safe harbour apportionment rate of 18% adopted per Practical Compliance Guide 2018/15 from 1 July 2019. In addition, certain prescribed purchases are subject to reduced input tax credits (RITC), of which 75% of the GST paid is recoverable.

Note 1. Significant accounting policies (continued)

Revenue recognition

Interest revenue

Interest income arising from financial assets held at amortised cost is recognised using the effective interest rate method. Fees and transaction costs that are integral to the lending arrangement are recognised in the profit and loss over the expected life of the instrument in accordance with the effective interest rate method.

The calculation of effective interest rate does not include expected credit loss. Interest income that is classified as impaired is recognised by applying the effective interest rate to the amortised cost carrying value, being the gross carrying amount after deducting the impairment loss.

Fee income

Loan, account and transaction fee income relate to fees that are not deemed to be an integral part of the effective interest rate.

Fee income relating to deposit or loan accounts is either:

- Transaction based and therefore recognised when the performance obligation related to the transaction is fulfilled; or
- Related to performance obligations carried out over a period of time, therefore recognised on a systemic basis over the life of the agreement as the services are provided.

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

Insurance commission

Upfront commission – revenue in the form of a commission generated on successful placement of an insurance application is recognised at a point in time on inception of the policy.

Renewal commission – commission income for renewals is recognised on receipt as there is insufficient detail readily available to estimate the most likely amount of income without a high probability of a significant reversal in a subsequent period. The receipt of renewal commission income is outside the control of the Credit Union, and is a key judgement area.

Dividend income

Dividend income is recognised when the right to receive income is established.

Rental income

Rental income from leases is recognised on a straight-line basis over the term of the lease.

Comparative amounts

When the presentation or classification of items in the financial statements is amended, comparative amounts shall be reclassified unless the reclassification is impracticable.

Note 2. Accounting estimates and judgements

Management has been involved in the development, selection and disclosure of the Credit Union's critical accounting policies and estimates and the application of these policies and estimates. In particular, information about 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 1 and Note 12- impairment of loans and advances with regards to the expected credit loss modelling and judgements, including:
 - (i) Determining criteria for significant increase in credit risk: An asset moves to Stage 2 when its credit risk has increased significantly since initial recognition. In assessing whether the credit risk of an asset has significantly increased the Credit Union takes into account qualitative and quantitative reasonable and supportable forward-looking information;
 - (ii) Choosing appropriate models and assumptions for the measurement of expected credit loss; and
 - (iii) Establishing groups of similar financial assets for the purposes of measuring expected credit loss: When expected credit loss is measured on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics.

Note 2. Accounting estimates and judgements (continued)

- Note 1 and Note 13 - fair value assumptions used for other investments; and
- Note 1 and Note 20 - estimation of the lease term and determination of the appropriate rate to discount the lease payments.

Note 3. Interest revenue

	2023 \$'000	2022 \$'000
Deposits with financial institutions	1,158	173
Loans and advances	4,570	3,275
	<u>5,728</u>	<u>3,448</u>

Note 4. Interest expense

	2023 \$'000	2022 \$'000
Deposits	1,382	357
Lease interest	35	49
	<u>1,417</u>	<u>406</u>

Note 5. Other revenue

	2023 \$'000	2022 \$'000
Revenue from contracts with customers		
- Fees and charges	203	233
- Commissions	102	96
Other sources of income		
Dividends received	1	377
Rental income	55	25
Bad debts recovered	1	3
Other revenue	55	66
	<u>417</u>	<u>800</u>

Note 6. Depreciation and amortisation

	2023 \$'000	2022 \$'000
Office furniture and fittings	47	47
Office equipment	8	1
Right-of-use assets	203	200
Motor vehicles	17	14
Electronic data processing equipment	13	17
Intangible assets	40	72
	<u>328</u>	<u>351</u>

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Note 7. Employee benefits expense

	2023 \$'000	2022 \$'000
Salaries	1,254	972
Superannuation contributions	127	100
Annual leave	44	31
Long service leave	9	3
Directors allowance	41	36
Other	140	81
	<u>1,615</u>	<u>1,223</u>

Note 8. Other expenses

	2023 \$'000	2022 \$'000
Fees and commissions	250	238
Loans administration	202	179
Data processing	602	589
Marketing	115	66
General administration	567	489
	<u>1,736</u>	<u>1,561</u>

Note 9. Occupancy expenses

	2023 \$'000	2022 \$'000
Insurance	80	72
Right-of-use asset impairment	-	39
Other	11	3
	<u>91</u>	<u>114</u>

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Note 10. Income tax

	2023 \$'000	2022 \$'000
<i>Income tax expense</i>		
Current tax	252	50
Deferred tax - origination and reversal of temporary differences	(17)	(4)
Adjustment recognised for prior periods	-	(28)
	<hr/>	<hr/>
Aggregate income tax expense	235	18
	<hr/>	<hr/>
Deferred tax included in income tax expense comprises:		
Increase in deferred tax assets	(17)	(4)
	<hr/>	<hr/>
<i>Numerical reconciliation of income tax expense and tax at the statutory rate</i>		
Profit before income tax expense	939	559
	<hr/>	<hr/>
Tax at the statutory tax rate of 25%	235	140
	<hr/>	<hr/>
Tax effect amounts which are not deductible/(taxable) in calculating taxable income:		
Rebatable fully franked dividends	-	(120)
Other	-	26
	<hr/>	<hr/>
	235	46
Adjustments recognised for prior periods	-	(28)
	<hr/>	<hr/>
Income tax expense	235	18
	<hr/>	<hr/>
	2023 \$'000	2022 \$'000
<i>Deferred tax asset</i>		
Deferred tax asset comprises temporary differences attributable to:		
Amounts recognised in profit or loss:		
Employee benefits	92	78
Leases	32	34
Accrued expenses	7	13
Loans and advances	24	20
Property, plant and equipment	(17)	(21)
Prepayments	(8)	(11)
	<hr/>	<hr/>
Deferred tax asset	130	113
	<hr/>	<hr/>
Movements:		
Opening balance	113	109
Credited to profit or loss	17	4
	<hr/>	<hr/>
Closing balance	130	113
	<hr/>	<hr/>
	2023 \$'000	2022 \$'000
Income tax refund due	-	9
	<hr/>	<hr/>

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Note 10. Income tax (continued)

	2023 \$'000	2022 \$'000
Provision for income tax	86	-

Note 11. Cash and cash equivalents

	2023 \$'000	2022 \$'000
Cash on hand	78	126
Deposits at call	7,977	4,524
Interest earning deposits	19,613	18,161
Floating rate note	12,597	13,117
	<u>40,265</u>	<u>35,928</u>

Note 12. Loans and advances

	2023 \$'000	2022 \$'000
Overdrafts	216	627
Visa credit cards	458	503
Term loans	96,185	99,004
	<u>96,859</u>	<u>100,134</u>
Provision for impaired loans	(98)	(79)
	<u>96,761</u>	<u>100,055</u>

Maturity analysis

	2023 \$'000	2022 \$'000
Overdrafts	216	627
Visa credit cards	458	503
Not longer than 3 months	986	1,183
Longer than 3 months but less than 12 months	2,799	3,333
Longer than 1 year but less than 5 years	14,283	16,695
Longer than 5 years	78,117	77,793
	<u>96,859</u>	<u>100,134</u>

Security dissection

	2023 \$'000	2022 \$'000
Secured by mortgage over real estate	92,594	94,914
Partly secured by goods mortgage	2,844	3,621
Wholly unsecured	1,421	1,599
	<u>96,859</u>	<u>100,134</u>

Note 12. Loans and advances (continued)

It is impractical to provide a valuation of the security held against loans due to the large number of assets to be valued to arrive at the amount. A breakdown of the quality of the security on a portfolio basis is as follows:

Security held as mortgages against real estate is on the basis of

	2023 \$'000	2022 \$'000
- loan to valuation ratio of less than 80%	87,794	89,616
- loan to valuation ratio of greater than 80% and mortgage insured	4,800	5,298
	<u>92,594</u>	<u>94,914</u>

Concentration of risk

The Credit Union has an exposure to groupings of individual loans which concentrate risk and create exposure to particular segments as follows:

	2023 \$'000	2022 \$'000
i) Geographical area		
New South Wales	91,810	96,430
Other States and Territories	5,049	3,704
	<u>96,859</u>	<u>100,134</u>

ii) Loans to members who individually have a loan and overdraft facility, which represents in total 10% or more of capital in aggregate value - one member for \$1,527,020 (2022: two members for \$3,821,912).

Amount arising from expected credit loss

The loss allowance as of the year end by class of exposure/asset are summarised in the table below.

	2023 Carrying value \$'000	2023 ECL allowance \$'000	2023 Carrying value \$'000
Loans to members			
- Residential	92,534	59	92,475
- Commercial	60	-	60
- Personal	3,591	38	3,553
- Overdrafts/Visa credit cards	674	1	673
Total	<u>96,859</u>	<u>98</u>	<u>96,761</u>
	2022 Carrying value \$'000	2022 ECL allowance \$'000	2022 Carrying value \$'000
Loans to members			
- Residential	94,914	14	94,900
- Commercial	155	-	155
- Personal	3,936	50	3,886
- Overdrafts/Visa credit cards	1,129	15	1,114
Total	<u>100,134</u>	<u>79</u>	<u>100,055</u>

Note 12. Loans and advances (continued)

An analysis of the Credit Union's credit risk exposure per class of financial asset and "stage" without reflecting the effects of any collateral or other credit enhancements is demonstrated in the following tables. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts.

	2023 Stage 1 \$'000	2023 Stage 2 \$'000	2023 Stage 3 \$'000	2023 Total \$'000
Loans to members				
- Residential	32	-	28	60
- Commercial	-	-	-	-
- Personal	26	1	10	37
- Overdrafts/Visa credit cards	-	-	1	1
Total	58	1	39	98

	2022 Stage 1 \$'000	2022 Stage 2 \$'000	2022 Stage 3 \$'000	2022 Total \$'000
Loans to members				
- Residential	14	-	-	14
- Commercial	-	-	-	-
- Personal	35	-	15	50
- Overdrafts/Visa credit cards	-	-	15	15
	49	-	30	79

	2023 \$'000	2022 \$'000
Movement in the provision		
Opening balance	79	51
Bad debts written off against provision	-	(6)
Loans provided during the year	19	34
	98	79

Measurement of expected credit loss (ECL)

The key inputs into the measurement of ECL include the following variables:

- probability of default (PD);
- loss given default (LGD); and
- exposure at default (EAD).

Note 12. Loans and advances (continued)

Category	Stages	Company definition of category	Basis for recognition of expected credit loss provision
Performing	Stage 1	On initial recognition, and for financial assets where there has not been a significant increase in credit risk since the date of advance. Customers have a low risk of default and a strong capacity to meet contractual cash flows.	12 month expected losses. Where the expected lifetime of an asset is less than 12 months, expected credit losses are measured as its expected lifetime. Expected credit losses for Stage 1 assets continue to be recognised on this basis unless there is a significant increase in the credit risk of the asset.
Underperforming	Stage 2	Financial assets for which there is a significant increase in credit risk; a significant increase in credit risk is presumed if interest and/ or principal repayments are 30 days past due, with approved hardship or modified terms.	For these assets, provision is made for losses from credit default events expected to occur over the lifetime of the instrument.
Non-performing	Stage 3	Financial assets are transferred into Stage 3 when there is objective evidence that an instrument is credit impaired. Interest and/or principal repayments are 90 days past due.	Provisions for Stage 3 assets are made on the basis of credit default events expected to occur over the lifetime of the instrument.
Write-off		Interest and/or principal repayments are 180 days past due and there is no reasonable expectation of recovery.	Asset is written off.

These parameters are generally derived from internal analysis, management judgements and other historical data. They are adjusted to reflect forward-looking information as described below.

Probability of default estimates are calculated based on arrears over 90 days and other loans and facilities where the likelihood of future payments is low. The definition of default is consistent with the definition of default used for internal credit risk management and regulatory reporting purposes. Instruments which are 90 days past due are generally considered to be in default.

Loss given default is the magnitude of the likely loss if there is a default. The Credit Union estimates loss given default parameters based on the history of recovery rates of claims against defaulted counterparties. The loss given default percentage applied considers the structure of the loan, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset. For loans secured by retail property, Loan to Value Ratios are a key parameter in determining loss given default. Loss given default estimates are recalibrated for different economic scenarios and, for real estate lending, to reflect possible changes in property prices.

Exposure at default represents the expected exposure in the event of a default. The Credit Union derives the exposure at default from the current exposure to the counterparty and potential changes to the current amount allowed under the contract including amortisation. The exposure at default of a financial asset is its gross carrying amount. For lending commitments and financial guarantees, the exposure at default includes the amount drawn, as well as potential future amounts that may be drawn under the contract, which are estimated based on historical observations and future expectations.

The Credit Union has elected to use the following segments when assessing credit risk for Stages 1 of the impairment model:

- Mortgage loans
- Personal loans
- Other - overdrafts and Visa credit cards.

Stage 2 and Stage 3 of the impairment model will be assessed on an individual basis.

With regards to Mortgage loans, the Credit Union uses the following sub segments for Stage 1:

- Those under 80% loan to valuation ratio;
- Those over 80% loan to valuation ratio – with Lenders Mortgage Insurance; and
- Those over 80% loan to valuation ratio – without Lenders Mortgage Insurance.

Note 12. Loans and advances (continued)

Significant increase in credit risk

The Credit Union is not required to develop an extensive list of factors in defining a 'significant increase in credit risk'. In assessing significant increases in credit risk where a loan or group of loans must move to Stage 2 the following factors have been considered in the Credit Union's current model:

- Loans more than 30 days past due (that do not have lenders mortgage insurance); and
- Loans with approved hardship or modified terms that are currently in arrears (that do not have lenders mortgage insurance).

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Credit Union considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Credit Union's historical experience and expert judgement, relevant external factors and including forward-looking information.

The Credit Union presumes that the credit risk on a financial asset has increased significantly since initial recognition when the exposure is more than 30 days past due unless the Credit Union has reasonable and supportable information that demonstrates otherwise.

Sensitivity analysis and forward-looking information

The approach to determining the ECL includes forward-looking information. The Credit Union has performed historical analysis and identified the key economic variables impacting credit risk and expected credit losses for each portfolio segment. Given the lack of loss experienced by the Credit Union and across the wider industry, more emphasis has been applied to the historical data available as opposed to forward looking information.

Consideration has also been given to the level of undue cost and effort involved in utilising complex statistical models, which is not considered appropriate for the size and complexity of the portfolio. The Credit Union incorporates forward-looking information into its ECL methodology.

Based on known factors and consideration of a variety of external actual and forecast information, the Credit Union formulates a 'base case' view of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios. The external information used includes economic data and forecasts published by the Reserve Bank of Australia and the Australian Bureau of Statistics.

Analysis of loans that are impaired or potential impaired by class

	2023	2023	2023
	Carrying value	Impaired loans	Expected credit loss
	\$'000	\$'000	(excluding Stage 1)
			\$'000
Loans to members			
- Residential	92,534	377	27
- Commercial	60	-	-
- Personal	3,591	11	11
- Overdrafts/Visa credit cards	674	1	1
Total	<u>96,859</u>	<u>389</u>	<u>39</u>

Note: The value of \$377,000 impaired loans for residential relates to two residential properties, that are well secured, therefore, minimal ECL is required.

Note 12. Loans and advances (continued)

	2022	2022	2022
	Carrying value \$'000	Impaired loans \$'000	Expected credit loss (excluding Stage 1) \$'000
Loans to members			
- Residential	94,914	-	-
- Commercial	155	-	-
- Personal	3,936	15	15
- Overdrafts/Visa credit cards	1,129	15	15
Total	100,134	30	30

It is not practicable to determine the fair value of all collateral as at reporting date due to the variety of asset conditions.

Analysis of loans that are impaired or potentially impaired based on age of repayments outstanding

Days in arrears	2023 Carrying value \$'000	2023 Provision \$'000	2022 Carrying value \$'000	2022 Provision \$'000
91-182 days	193	9	-	-
183-273 days	184	18	1	1
274-365 days	1	1	4	4
Over 365 days	10	10	10	10
Over limit facilities	1	1	15	15
	388	39	30	30

Assets acquired via enforcement of security

At reporting date there was no assets acquired via enforcement of security (2022: Nil).

Loans with repayments past due but not regarded as impaired

There are no loans past due by 90 days or more which are not considered to be impaired (2022: Nil).

Loans restructured

There were no loans restructured during the year (2022: Nil).

Note 13. Other investments

	2023 \$'000	2022 \$'000
Other shares - fair value	7	7

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Note 14. Accrued receivables

	2023 \$'000	2022 \$'000
Members clearing accounts	215	206
Interest receivable	218	52
	<u>433</u>	<u>258</u>

Note 15. Other assets

	2023 \$'000	2022 \$'000
Prepayments	42	39

Note 16. Property, plant and equipment

	2023 \$'000	2022 \$'000
Motor vehicles - at cost	155	100
Less: Accumulated depreciation	(109)	(92)
	<u>46</u>	<u>8</u>
Office furniture - at cost	470	470
Less: Accumulated depreciation	(366)	(319)
	<u>104</u>	<u>151</u>
EDP equipment - at cost	88	64
Less: Accumulated depreciation	(60)	(47)
	<u>28</u>	<u>17</u>
Office equipment - at cost	52	35
Less: Accumulated depreciation	(33)	(25)
	<u>19</u>	<u>10</u>
	<u>197</u>	<u>186</u>

Reconciliations

Reconciliations of the written down values at the beginning and end of the current and previous financial year are set out below:

	Motor vehicles \$'000	Office furniture \$'000	EDP equipment \$'000	Office equipment \$'000	Total \$'000
Balance at 1 July 2021	22	198	22	-	242
Additions	-	-	12	11	23
Depreciation expense	(14)	(47)	(17)	(1)	(79)
Balance at 30 June 2022	8	151	17	10	186
Additions	55	-	24	17	96
Depreciation expense	(17)	(47)	(13)	(8)	(85)
Balance at 30 June 2023	<u>46</u>	<u>104</u>	<u>28</u>	<u>19</u>	<u>197</u>

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Note 17. Right-of-use assets

	2023 \$'000	2022 \$'000
Land and buildings - right-of-use - at cost	1,209	1,209
Less: Accumulated depreciation	(803)	(600)
Less: Accumulated impairment	(39)	(39)
	<u>367</u>	<u>570</u>

Reconciliations

Reconciliations of the written down values at the beginning and end of the current and previous financial year are set out below:

	Land and buildings \$'000	Total \$'000
Balance at 1 July 2021	799	799
Adjustment to lease liability	10	10
Impairment of sub-lease component	(39)	(39)
Depreciation expense	(200)	(200)
Balance at 30 June 2022	<u>570</u>	<u>570</u>
Depreciation expense	(203)	(203)
Balance at 30 June 2023	<u>367</u>	<u>367</u>

Note 18. Intangibles

	2023 \$'000	2022 \$'000
EDP Software - at cost	533	399
Less: Accumulated amortisation	(347)	(305)
	<u>186</u>	<u>94</u>

Reconciliations

Reconciliations of the written down values at the beginning and end of the current and previous financial year are set out below:

	EDP Software \$'000	Total \$'000
Balance at 1 July 2021	205	205
Additions	10	10
Disposals	(49)	(49)
Amortisation expense	(72)	(72)
Balance at 30 June 2022	<u>94</u>	<u>94</u>
Additions	132	132
Amortisation expense	(40)	(40)
Balance at 30 June 2023	<u>186</u>	<u>186</u>

Note 19. Payables and other liabilities

	2023 \$'000	2022 \$'000
Payables and accrued expenses	268	162
Accrued interest payable	537	59
Members' clearing accounts	(7)	33
	<u>798</u>	<u>254</u>

Note 20. Lease liabilities

	2023 \$'000	2022 \$'000
Lease liabilities - Current - Not later than 1 year	210	211
Lease liabilities - Non-current - Later than 1 year	286	496
	<u>496</u>	<u>707</u>

(a) Credit Union as a lessee

Nature of the leasing activities

The Credit Union leases a building in Dubbo, which is used as a member service centre and head office. The Credit Union also sub-leases a component of this building – refer to Note 20(b).

Terms and conditions of leases

The lease had an initial lease term of 10 years, and has two 5 year extension options - as detailed in a below section. The lease contains an annual pricing mechanism, which is the higher of 3% and the CPI movement.

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

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

	2023 \$'000	2022 \$'000
Not later than 1 year	262	246
Later than 1 year and not later than 5 years	270	514
Total	<u>532</u>	<u>760</u>

The Credit Union does not face a significant liquidity risk with regards to its lease liabilities. Lease liabilities are monitored within the Credit Union's finance function.

Extension options

As noted above, the building lease contains two extension options (both five years) which allow the Credit Union to extend the lease term by beyond the non-cancellable period.

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

At commencement date and reporting date, the Credit Union has assessed that it is not reasonably certain that the extension options will be exercised. As such, there is \$3.22m of potential future lease payments not included in the lease liabilities at 30 June 2023 (2022: \$3.11m).

Note 20. Lease liabilities (continued)

Income statement

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

	2023	2022
	\$'000	\$'000
Interest expense on lease liabilities	(35)	(49)
Income from sub-leasing right-of-use assets	55	25

Statement of cash flows

	2023	2022
	\$'000	\$'000
Total cash outflow for leases (including interest)	(246)	(235)

Exemptions applied

The Credit Union has not been required to apply the exemptions relating to short-term leases and leases of low-value assets, as described at Note 1. As at 30 June 2023, the Credit Union is not committed to any short-term leases (2022: \$Nil).

Key assumptions used in calculations

The calculation of the lease liabilities are dependent on the following critical accounting judgements:

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

(b) Credit Union as a lessor

OPERATING LEASES

Nature of the leasing activities

The Credit Union receives rental income from subletting a component of the leased building referred to above at Note 20(a). This sub-lease has been classified as an operating lease for financial reporting purposes.

Terms and conditions of leases

During the 2022 financial year, a new sub-lease commenced on 1 October 2021 and will terminate on 29 June 2025. The sub-lease contains an annual pricing mechanism, which is the higher of 3% and the CPI movement.

Income statement

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

	2023	2022
	\$'000	\$'000
Lease/rental income from operating leases	55	25

Note 20. Lease liabilities (continued)

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

	2023 \$'000	2022 \$'000
Less than 1 year	58	55
1 - 2 years	60	57
2 - 3 years	-	59
	<hr/>	<hr/>
Total undiscounted lease payments receivable	118	171
	<hr/>	<hr/>

FINANCE LEASES

Nature of leasing activities

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

Note 21. Reserves

This reserve recorded amounts previously set aside as a General provision on loans and advances and is maintained to comply with the Prudential Standards set down by APRA. This requirement was removed by APRA from 1 January 2022.

Movements in reserves

Movements in each class of reserve during the current and previous financial year are set out below:

	\$'000	Total \$'000
Balance at 1 July 2021	589	589
Transfer (to)/from retained profits	(589)	(589)
	<hr/>	<hr/>
Balance at 30 June 2022	-	-
	<hr/>	<hr/>
Balance at 30 June 2023	-	-
	<hr/>	<hr/>

Note 22. Provisions

	2023 \$'000	2022 \$'000
Employee leave entitlements	366	312
	<hr/>	<hr/>

Note 23. Deposits

	2023 \$'000	2022 \$'000
Term deposits	41,963	31,442
Call deposits	79,731	90,299
Withdrawable shares	48	49
	<hr/>	<hr/>
	121,742	121,790
	<hr/>	<hr/>

Note 23. Deposits (continued)

Maturity analysis

	2023 \$'000	2022 \$'000
On call	79,779	90,349
Not longer than 3 months	17,951	15,925
Longer than 3 and not longer than 12 months	24,012	15,516
	121,742	121,790

Concentration of deposits

- i) There are no members who individually have deposits, which represent 10% or more of total liabilities (2022: Nil).
ii) Details of the geographic concentration of the deposits are set out below.

	2023 \$'000	2022 \$'000
Geographical area		
New South Wales	116,306	116,048
Other States and Territories	5,436	5,742
	121,742	121,790

Note 24. Retained profits

	2023 \$'000	2022 \$'000
Retained profits at the beginning of the financial year	14,196	13,066
Net profit attributable to members	704	541
Transfer from reserves	-	589
	14,900	14,196

The retained profits balance includes amounts allocated for the purpose of a shareholder share redemption balance per Compliance Note 2001.084. This balance represents the amount of redeemable preference shares redeemed by the Credit Union since 1 July 1999. The law requires that the redemption of the shares be made out of profits. Since the value of the shares has been paid to members in accordance with the terms and conditions of the share issue, the account represents the amount of profits appropriated to the account.

Note 25. Segmental reporting

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

Note 26. Directors and key management personnel disclosures

Names of directors and other key management personnel

During the course of the financial year the following were the key management personnel of the Credit Union:

Directors

DAJ Rootes
RK Mills
A Field
JR Moss
CJ Shepherd
PA Woodward

Executive

J Bice (Started 5 October 2022 and resigned 28 July 2023)
T Brown (Started 7 December 2022)
C Bice (Started 24 April 2023)
M Bow
P Jenkins (Resigned 11 November 2022)

Note 26. Directors and key management personnel disclosures (continued)

Key management personnel compensation

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Credit Union, directly or indirectly, including any director (whether executive or otherwise) of the Credit Union. Control is the power to govern the financial and operating policies of the Credit Union so as to obtain benefits from its activities.

Key management personnel (KMP) have been taken to comprise the Directors and the members of the executive management team during the financial year, responsible for the day to day financial and operational management of the Credit Union.

The aggregate compensation of key management personnel during the year comprising amounts paid or payable or provided for was as follows:

	2023 \$'000	2022 \$'000
Short-term employee benefits	524	399
Post-employment benefits	58	43
Long-term employee benefits	5	3
	<hr/> 587	<hr/> 445

Compensation includes all employee benefits (as defined in AASB 119 *Employee Benefits*). Employee benefits are all forms of consideration paid, payable or provided by the Credit Union, or on behalf of the Credit Union, in exchange for services rendered to the Credit Union.

Compensation includes:

- (i) short-term employee benefits, such as wages, salaries and social security contributions, paid annual leave and paid sick leave, profit-sharing and bonuses (if payable within twelve months of the end of the period) and non-monetary benefits (such as medical care, housing, cars and free or subsidised goods or services) for current employees;
- (ii) post-employment benefits such as pensions, other retirement benefits, postemployment life insurance and post-employment medical care;
- (iii) other long-term employee benefits, including long-service leave or sabbatical leave, jubilee or other long-service benefits, long-term disability benefits and, if they are not payable wholly within twelve months after the end of the period, profit-sharing, bonuses and deferred compensation; and
- (iv) termination benefits.

Note 26. Directors and key management personnel disclosures (continued)

Loans to key management personnel

Loans provided to key management personnel are on conditions no more favourable than those extended to members. Security has been obtained for these loans in accordance with the Credit Union's lending policy.

There is no provision for impairment in relation to any loan extended to key management personnel. No loan impairment expense in relation to these loans has been recognised during the year.

There are no benefits on concessional terms and conditions applicable to the close family members of the key management personnel. There are no loans which are impaired in relation to the loan balances with close family relatives of Directors and management.

	2023 \$'000	2022 \$'000
Aggregate value of loans and overdrafts to Directors and other key management personnel at reporting date	376	379
Aggregate value of loans disbursed to Directors and key management personnel during the year	-	-
Aggregate value of revolving credit facilities limits granted or increased to Directors and key management personnel during the year	-	-
Interest earned on loans and revolving credit facilities to Directors and key management personnel during the year	16	10

Savings of key management personnel

	2023 \$'000	2022 \$'000
Total value of term and savings deposits from Directors and key management personnel at reporting date	1,948	1,080
Total interest paid on deposits to Directors and key management personnel during the year	25	4

Directors and key management personnel have received interest on deposits with the Credit Union during the financial year. Interest has been paid on terms and conditions no more favourable to those available on similar transactions to members of the Credit Union.

Other transactions with related parties

Other transactions between related parties include deposits from Directors and their Directors related entities, which are received on the same terms and conditions as applicable to members.

There were no benefits paid or payable to the close family members of the key management personnel.

There are no service contracts to which key management personnel or their close family members are an interested party.

The Credit Union's policy for receiving deposits from other related parties and, in respect of other related party transactions, is that all transactions are approved and deposits accepted on the same terms and conditions which applied to members for each type of deposit.

Note 27. Remuneration of auditors

During the financial year the following fees were paid or payable for services provided by Crowe, the auditor of the Credit Union:

	2023	2022
	\$	\$
<i>Audit services - Crowe</i>		
Audit or review of the financial statements	46	43
<i>Other services - Crowe</i>		
Regulatory audit services	13	10
Other services, including taxation	4	2
	17	12
	63	55

The fees disclosed above include any out of pocket cost reimbursements, and are exclusive of GST.

Note 28. Outsourcing arrangements

The Credit Union has an arrangement with other organisations to facilitate the supply of services to members.

CUSCAL Limited

This entity supplies financial banking services to the Credit Union and is an approved Special Service Provider for the provision of financial intermediation services. The Credit Union has invested all of its high quality liquid assets and operating liquid assets with the entity to maximise return on funds and to comply with the Emergency Liquidity Support requirements under the Prudential Standards.

This entity also supplies the Credit Union rights to members' cheques and Visa cards in Australia and provides services in the form of settlement with bankers for members' cheques and Visa card transactions and the production of Visa cards for use by members.

Ultradata Australia Pty Limited

This company provides and maintains the application software utilised by the Credit Union.

Experteq (TransAction Solutions Limited trading as)

This entity provides computing services to the Credit Union.

Note 29. Contingent liabilities

Credit Union Financial Support System

The Credit Union is a party to the Credit Union Financial Support Scheme (CUFSS) and has executed an Industry Support Contract (ISC) with CUFSS. The purpose of the CUFSS scheme is to provide members with emergency liquidity support in accordance with the terms of the ISC, a contract which has been certified by APRA under the Banking Act.

As a member of CUFSS, the Credit Union may be called upon by CUFSS to contribute to emergency liquidity loans for one or more other CUFSS members. Should the Credit Union be required to contribute funding, any such liquidity loans would be structured and priced in accordance with normal commercial terms, as determined by CUFSS. The total amount of funding that the Credit Union could be required to provide to other members cannot exceed, in aggregate, 3% of the Credit Union's assets capped at \$100million.

There are no other contingent liabilities at reporting date or the date of this report.

Note 30. Capital and credit commitments

Capital commitments

At 30 June 2023 the Credit Union has no future capital commitments (2022: \$Nil).

Outstanding loan commitments

Loans approved by the Board but not funded as at 30 June 2023 amounted to \$1,544,890 (2022: \$6,234,563).

The withdrawal of these funds is at the discretion of the Board subject to available liquid funds. It is anticipated that all of the commitment will be paid within 12 months.

Unfunded loan facilities

Loan facilities to members for overdrafts and VISA credit cards approved but unfunded at 30 June 2023 amounted to \$2,661,768 (2022: \$2,263,502). There are no restrictions to withdrawal of the funds provided normal payments are maintained.

Loan redraw facilities

Loan redraw facilities available to members at 30 June 2023 amounted to \$9,420,597 (2022: \$8,669,889).

Other

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 the members. The Credit Union applies the same credit policies and assessment criteria in making commitments and conditional obligations for off-balance sheet risks as it does for on-balance sheet loan assets. The Credit Union holds collateral supporting these commitments where it is deemed necessary.

Note 31. Standby borrowing facilities

	2023 \$'000	2022 \$'000
CUSCAL Overdraft facility		
Gross	1,000	1,000
Current borrowing	-	-
	<hr/>	<hr/>
Net available	1,000	1,000
	<hr/> <hr/>	<hr/> <hr/>

The borrowing facilities with CUSCAL are secured by a security deposit.

Note 32. Reconciliation of profit after income tax to net cash provided by (used in) operating activities

	2023 \$'000	2022 \$'000
Profit after income tax expense for the year	704	541
<i>Non cash flow items:</i>		
Provisions	54	34
Net loss on non-current assets	-	49
Gain on disposal of other investments	-	(21)
Depreciation and amortisation	328	351
Loan impairment expense	19	34
Impairment of right of use asset	-	39
<i>Change in assets and liabilities:</i>		
Decrease/(Increase) in accrued receivables	(175)	(85)
Increase/(Decrease) in other assets	(3)	10
Increase/(Decrease) in deferred tax assets	(17)	(4)
Decrease/(Increase) in payables and other liabilities	544	(2)
(Decrease)/Increase in tax liabilities	95	(97)
<i>Non-revenue operations</i>		
Net increase/(decrease) in loans and advances	3,275	(5,310)
Net (increase)/decrease in deposits	(48)	13,753
Net cash provided by (used in) operating activities	<u>4,776</u>	<u>9,292</u>

Cash flows presented on a net basis

Cash arising from the following activities are presented on a net basis in the statement of cash flows:

- (i) member deposits to and withdrawals from deposit accounts and short-term borrowings;
- (ii) borrowings and repayments on loans, advances and other receivables; and
- (iii) movements in investment securities.

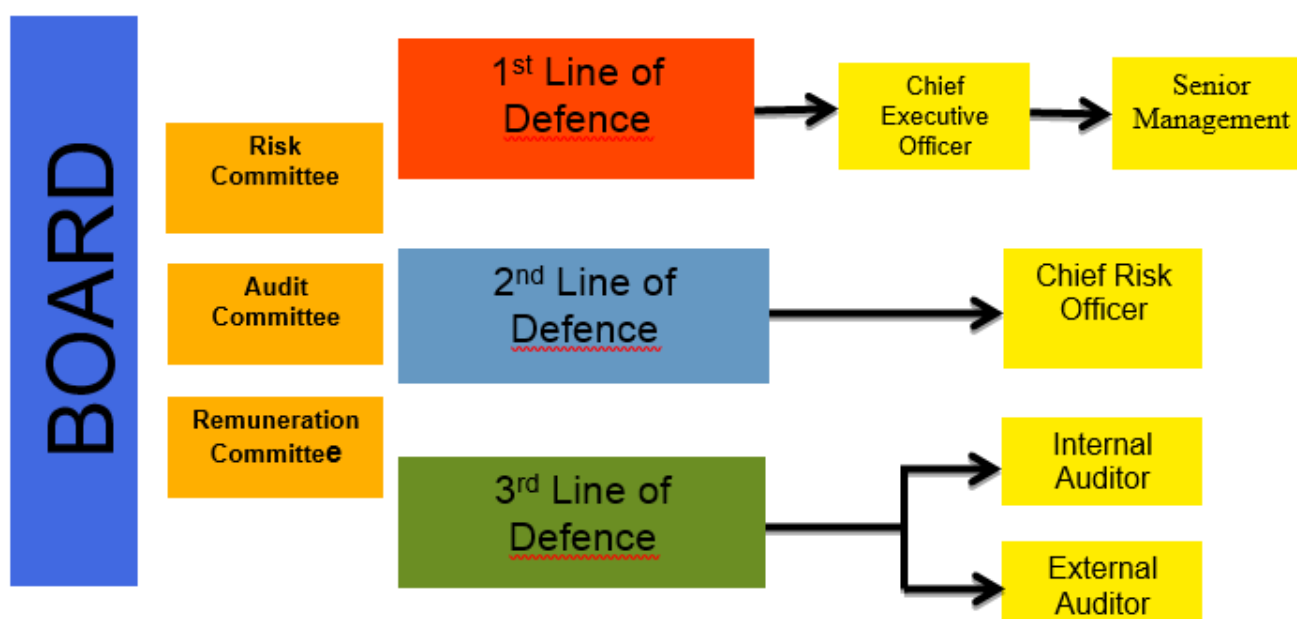
Note 33. Financial risk management objectives and policies

Introduction

The Credit Union has a risk management framework that is appropriate to its size, business mix, and complexity and views effective risk management as key to achieving and maintaining its operational and strategic objectives. The Credit Union has policies in place that identify, measure, evaluate, monitor, report, and control all internal and external sources of risk.

The Board is responsible for the overall management of risk. It approves the level of risk which the Credit Union is exposed to and the framework for reporting and mitigating those risks. Authority flows from the Board of Directors to the Audit Committee and Risk Committee which is integral to the management of risk.

All matters pertaining to risk are developed and maintained with direct alignment to the Risk Management Framework with consideration to the Three Lines of Defence. The diagram below gives an overview of the Credit Union's Lines of Defence Organisational Structure.



1st Line of defence

The first line-of-defence comprises the business management who assume ownership of risks. They are responsible for day-to-day risk management decision-making involving risk identification, assessment, mitigation, monitoring and management. The roles and responsibilities of risk owners are clearly defined and incorporated into performance reviews.

2nd Line of defence

The second line-of-defence comprises the specialist risk management function(s) that are functionally independent from the first line-of-defence. The second line-of-defence supports the Board of Directors (the Board) and its committees by:

- Developing risk management policies, systems and processes to facilitate a consistent approach to the identification, assessment and management of risks;
- Providing specialist advice and training to the Board and first line-of-defence on risk related matters;
- Objective review and challenge of the consistent and effective implementation of the Risk Management Framework, and the data and information captured as part of the Risk Management Framework which are used in the decision-making processes within the business, in particular the completeness and appropriateness of the risk identification and analysis, ongoing effectiveness of risk controls, and prioritisation and management of action plans; and
- Oversight of the risk profile and its reporting and escalation to the Board.

Note 33. Financial risk management objectives and policies (continued)

3rd Line of defence

The third line-of-defence comprises the independent assurance function, each of whom provides independent assurance to the Board and its committees that:

- (a) The Risk Management Framework is appropriate, consistently implemented and operating effectively. This includes an assessment of the overall framework and the effectiveness of risk management practices, including its influence on decision-making; and
- (b) The policies, procedures and systems are appropriately designed and consistently implemented to operate effectively.

The main elements of risk governance are as follows:

Board: This is the primary governing body. It approves the level of risk which the Credit Union is exposed to and the framework for reporting and mitigating those risks.

Audit Committee: Its key role in risk management is the assessment of the controls that are in place to mitigate risks. The Audit Committee considers and confirms that the significant risks and controls are to be assessed within the internal audit plans. The Audit Committee receives the internal audit reports on assessment and compliance with the controls, and provides feedback to the Board and Risk Committee.

The Audit Committee is responsible for overseeing and monitoring the Credit Union's compliance systems in place by which management discharges its legal obligations in respect of the Credit Union's business.

Risk Committee: The role of the Risk Committee is to oversee the adequacy of the Credit Union's risk management framework. This includes the formulation of the Credit Union's risk strategies, the formulation of policies pertaining to the risk strategies and the monitoring of adherence to those policies.

Chief Risk Officer: The Chief Risk Officer is the key component of the Second Line of Defence and reports directly to the Risk Committee in relation to the Risk Management Framework and to the Chief Executive Officer in relation to operational matters.

The Chief Risk Officer's purpose is the review and challenge with respect to the organisation's risk and compliance functions. The Chief Risk Officer will provide independent oversight of the risk profile and Risk Management Framework, including:

- (a) effective challenge to activities and decisions that materially affect the Credit Union's risk profile;
- (b) assistance in developing and maintaining the Risk Management Framework; and
- (c) independent reporting lines to appropriately escalate issues.

The Chief Risk Officer oversees the compliance function independently of business lines, report's findings to the Risk Committee and works with management to enhance compliance outcomes.

Remuneration Committee: Its key role is to ensure that the Credit Union's remuneration arrangements align with its circumstances and advance the Credit Union's mission of serving its members. The Remuneration Committee is to also ensure that the Credit Union's Remuneration Policy and practices appropriately aligns remuneration and risk management in compliance with CPS 510: Governance and PPG 511: Remuneration.

Chief Executive Officer: This person has responsibility for both liaising with the operational function to ensure timely production of information for the Audit Committee and Risk Committee and ensuring that instructions passed down from the Board via the Audit Committee and Risk Committee are implemented.

Internal Audit: Internal audit has responsibility for implementing the controls testing and assessment as required by the Audit Committee.

Key risk management policies encompassed in the overall risk management framework include:

- Interest rate risk;
- Liquidity management;
- Credit risk management; and
- Operations risk management including data risk management.

Note 33. Financial risk management objectives and policies (continued)

A. Market risk

The objective of the Credit Union's market risk management is to manage and control market risk exposures in order to optimise risk and return.

Market risk is the risk that changes in interest rates, foreign exchange rates or other prices and volatilities will have an adverse effect on the Credit Union's financial condition or results. The Credit Union is not exposed to currency risk, and other significant price risk. The Credit Union does not trade in the financial instruments it holds on its books. The Credit Union is exposed only to interest rate risk arising from changes in market interest rates.

Interest rate risk

Interest rate risk is the risk of variability of the fair value or future cash flows arising from financial instruments due to the changes in interest rates.

Most banks are exposed to interest rate risk within its Treasury operations. This Credit Union does not have a treasury operation and does not trade in financial instruments.

Interest rate risk in the banking book

The Credit Union is exposed to interest rate risk in its banking book due to mismatches between the repricing dates of assets and liabilities.

The interest rate risk on the banking book is measured monthly, and reported to the Board by the Chief Executive Officer.

In the banking book the most common risk the Credit Union faces arises from fixed rate assets and liabilities. This exposes the Credit Union to risk of sensitivity should interest rates change.

The level of mismatch on the banking book is set out in Note 35 below. The table set out in Note 35 displays the period that each asset and liability will reprice as at reporting date. The risk is not considered significant to warrant the use of derivatives to mitigate this risk.

Method of managing risk

The Credit Union manages its interest rate risk by the use of interest rate sensitivity analysis, the detail and assumptions used are set out below.

Interest rate sensitivity

The Credit Union's exposure to market risk is measured and monitored using interest rate sensitivity models.

The policy of the Credit Union to manage the risk is to maintain a balanced 'on book' strategy by ensuring the net interest rate gaps between assets and liabilities are not excessive.

Note 33. Financial risk management objectives and policies (continued)

The gap is measured monthly to identify any large exposures to the interest rate movements and to rectify the excess through targeted fixed rate interest products available through investment assets, and term deposits to rectify the imbalance to within acceptable levels. The policy of the Credit Union is not to undertake derivatives to match the interest rate risks. The Credit Union's exposure to interest rate risk is set out in note 35 which details the contractual interest change profile.

Based on calculations as at 30 June 2023, the net profit impact for a 1% movement in interest rates would be \$117,659 (2022: \$77,411).

The Credit Union performs a sensitivity analysis to measure market risk exposures.

The method used in determining the sensitivity was to evaluate the profit based on the timing of the interest repricing on the banking book of the Credit Union for the next 12 months. In doing the calculation the assumptions applied were that:

- the interest rate change would be applied equally over to the loan products and term deposits;
- the rate change would be as at the beginning of the 12 month period and no other rate changes would be effective during the period;
- the term deposits would all reprice to the new interest rate at the term maturity, or be replaced by a deposit with similar terms and rates applicable;
- savings deposits would not reprice in the event of a rate change;
- mortgage loans and personal loans would all reprice to the new interest rate within 28 days;
- all loans would be repaid in accordance with the current average repayment rate (or contractual repayment terms);
- the value and mix of call savings to term deposits will be unchanged; and
- the value and mix of personal loans to mortgage loans will be unchanged.

There has been no change to the Credit Union's exposure to market risk or the way the Credit Union manages and measures market risk in the reporting period.

Price risk – Equity investments

The Credit Union is not exposed to material price risk on the value of shares.

B. Liquidity risk

Liquidity risk is the risk that the Credit Union may encounter difficulties raising funds to meet commitments associated with financial instruments, eg. borrowing repayments or member withdrawal demands. It is the policy of the Board of Directors that treasury maintains adequate cash reserves and committed credit facilities so as to meet the member withdrawal demands when requested.

The Credit Union manages liquidity risk by:

- Continuously monitoring actual daily cash flows and longer term forecasted cash flows;
- Monitoring the maturity profiles of financial assets and liabilities;
- Maintaining adequate reserves, liquidity support facilities and reserve borrowing facilities; and
- Monitoring the prudential liquidity ratio daily.

Note 33. Financial risk management objectives and policies (continued)

The Credit Union is a party to the Credit Union Financial Support Scheme (CUFSS) and has executed an Industry Support Contract (ISC) with CUFSS. The purpose of the CUFSS scheme is to provide members with emergency liquidity support in accordance with the terms of the ISC, a contract which has been certified by APRA under the Banking Act.

As a member of CUFSS, the Credit Union can access emergency liquidity funding via CUFSS drawing upon its available member-contributed funding pool (currently totalling in excess of \$900million), plus additional voluntary liquidity support from members via funds from the Reserve Bank of Australia in accordance with the terms of a "Special Loan Facility", as defined in the ISC.

The Credit Union is required to maintain at least 12% of total adjusted liabilities as liquid assets capable of being converted to cash within 24 hours under the APRA Prudential Standards. The Credit Union policy is to apply 14% of funds as liquid assets to maintain adequate funds for meeting member withdrawal requests. The ratio is checked daily. Should the liquidity ratio fall below this level, the management and Board are to address the matter and ensure that the liquid funds are obtained from new deposits, or borrowing facilities available. Note 31 describes the borrowing facilities as at reporting date. These facilities are in addition to the support from CUFSS.

The maturity profile of the financial liabilities, based on the contractual repayment terms are set out in Note 35. The ratio of liquid funds over the past year is set out below:

	2023 %	2022 %
To total adjusted liabilities		
As at 30 June	20.53	18.07
Minimum during the year	16.65	17.32
To total members deposits		
As at 30 June	23.22	20.86

C. Credit risk

Credit risk is the risk that members, financial institutions and other counterparties will be unable to meet their obligations to the Credit Union which may result in financial losses. Credit risk arises principally from the Credit Union's loan book and investment assets.

Credit risk - Loans

Loans to	2023 Carrying value \$'000	2023 Off balance sheet \$'000	2023 Max exposure \$'000	2022 Carrying value \$'000	2022 Off balance sheet \$'000	2022 Max exposure \$'000
Residential and commercial	92,593	10,643	103,236	95,069	14,400	109,469
Personal	3,590	323	3,913	3,936	504	4,440
Overdraft/Visa credit cards	676	2,662	3,338	1,129	2,263	3,392
Total	96,859	13,628	110,487	100,134	17,167	117,301

Note 33. Financial risk management objectives and policies (continued)

Carrying value is the value on the statement of financial position. Maximum exposure is the value on the statement of financial position plus the undrawn facilities (Loans approved not advanced, redraw facilities, lines of credit facilities, overdraft facilities, credit card limits).

All loans and facilities are within Australia. Concentrations are described in Note 12.

The method of managing credit risk is by way of strict adherence to the credit assessment policies before the loan is approved and close monitoring of defaults in the repayment of loans thereafter on a weekly basis. The credit policy has been endorsed by the Board to ensure that loans are only made to members that are creditworthy (capable of meeting loan repayments).

The Credit Union has established policies over the:

- Credit assessment and approval of loans and facilities covering acceptable risk assessment and security requirements;
- Limits of acceptable exposure over the value to individual borrowers, non-mortgage secured loans, commercial lending and concentrations to geographic and industry Credit Unions considered at high risk of default;
- Reassessing and review of the credit exposures on loans and facilities;
- Establishing appropriate provisions to recognise the impairment of loans and facilities;
- Debt recovery procedures;
- Review of compliance with the above policies.

A regular review of compliance is conducted as part of the internal audit scope.

Past due and impaired

A financial asset is past due when the counterparty has failed to make a payment when contractually due. As an example, a member enters into a lending agreement with the Credit Union that requires interest and a portion of the principal to be paid every month. On the first day of the month, if the agreed repayment amount has not been paid, the loan is past due.

Past due does not mean that a counterparty will never pay, but it can trigger various actions such as renegotiation, enforcement of covenants, or legal proceedings. Once the past due exceeds 90 days the loan is regarded as impaired, unless other factors indicate the impairment should be recognised sooner.

Daily reports monitor the loan repayments to detect delays in repayments and recovery action is undertaken after 7 days.

For loans where repayments are doubtful, external consultants are engaged to conduct recovery action once the loan is over 90 days in arrears. The exposures to losses arise predominately in the personal loans and facilities not secured by registered mortgages over real estate.

If such evidence exists, the estimated recoverable amount of that asset is determined and any impairment loss, based on the net present value of future anticipated cash flows, is recognised in the statement of profit or loss and other comprehensive income. In estimating these cash flows, management makes judgements about a counterparty's financial situation and the net realisable value of any underlying collateral.

In addition to specific provisions against individually significant assets, the Credit Union makes collective assessments for each financial asset portfolio segmented by similar risk characteristics.

Statement of financial position provisions are maintained at an 'expected credit loss' level that management deems sufficient to absorb probable incurred losses in the Credit Union's portfolio from homogenous portfolios of assets and individually identified loans.

The provision for impaired and past due exposures relate to the loans to members.

Past due value is the 'on balance sheet' loan balances which are past due by 90 days or more.

Details are as set out in Note 12.

Note 33. Financial risk management objectives and policies (continued)

Bad debts

Amounts are written off when collection of the loan or advance is considered to be remote. All write offs are on a case by case basis, taking account of the exposure at the date of the write off.

On secure loans, the write off takes place on ultimate realisation of collateral value, or from claims on any lenders mortgage insurance.

A reconciliation in the movement of both past due and impaired exposure provisions is provided in Note 12.

Collateral securing loans

A sizeable portfolio of the loan book is secured on residential property in Australia. Therefore, the Credit Union is exposed to risks in the reduction of the Loan to Value (LVR) cover should the property market be subject to a decline.

The risk of losses from the loans undertaken is primarily reduced by the nature and quality of the security taken.

The Board policy is to maintain at least 70% of the loans in well secured residential mortgages which carry an 80% loan to valuation ratio or less. Note 12 describes the nature and extent of the security held against the loans held as at reporting date.

Concentration risk – Individuals

Concentration risk is a measurement of the Credit Union's exposure to an individual counterparty (or Credit Union of related parties). If prudential limits are exceeded as a proportion of the Credit Union's Tier 1 capital (10%) a large exposure is considered to exist. No capital is required to be held against these but the APRA must be informed. APRA may impose additional capital requirements if it considers the aggregate exposure to all loans over the 10% capital benchmark, to be higher than acceptable.

The aggregate value of large exposure loans are set out in Note 12. (The Credit Union holds no significant concentrations of exposures to members). Concentration exposures to counterparties are closely monitored with annual reviews being prepared for all exposures over 5% of Tier 1 capital.

The Credit Union's policy on exposures of this size is to insist on an initial Loan to Valuation ratio (LVR) of at least 80% and bi-annual reviews of compliance with this policy are conducted.

Concentration risk – Industry

There is no concentration of credit risk with respect to loans and receivables as the Credit Union has a large number of customers dispersed in areas of employment.

The Credit Union has a concentration in the retail lending for members who comprise employees and family in the electricity industry and all levels of government. This concentration is considered acceptable on the basis that the Credit Union was formed to service these members, and the employment concentration is not exclusive. Should members leave the industry the loans continue and other employment opportunities are available to the members to facilitate the repayment of the loans. The details of the geographical concentrations are set out in Note 12.

Note 33. Financial risk management objectives and policies (continued)

Credit Risk – Liquid investments

The Investment Policy of the Credit Union governs investments made by the Credit Union in Minimum Liquidity Holding assets (“MLH”, as defined by APRA in APS 210: Liquidity), and “non-MLH” assets which constitute loans and advances made to other Authorised Deposit Taking Institutions (“ADIs”) that are classified as MLH assets due to the rating of the institution, the type of product, or the structure of the product falling outside the definition of MLH.

Each MLH investment must be made with an APRA regulated ADI in accordance with the following MLH limits and Tier 1 Capital limits.

	Credit limit (% of total MLH)	Institution limit (% of Tier 1 Capital)
CUSCAL and Government	100.00%	200.00%
AA- Australian Major Bank	100.00%	50.00%
AA- and above (other)	50.00%	25.00%
A- to A+ ADIs	50.00%	25.00%
BBB- to BBB+ ADIs	25.00%	25.00%
Unrated ADIs	-	-

Each Non-MLH investment must be made with an Australian ADI in accordance with the following limits, with a maximum dollar value as follows:

	Institution limit max institution exposure (\$) or % of tier 1 capital	Non-MLH portfolio limit Max exposure (\$) or (%)
Australian Credit Unions (Assets greater than \$500M)	\$2 million	\$10 million
Other Australian Credit Unions (Assets less than \$500M)	\$1 million	\$5 million
Other Unrated ADI's	\$2 million	\$10 million
CUSCAL and Government	200%	100%
AA- Australian Major Bank	50%	100%
AA- and above (other)	25%	50%
A- to A+ ADI's	25%	50%
BBB- to BBB+ ADI's	25%	50%

The risk exposure parameters of this mix ensure that there is no undue concentration of liquid asset holdings in any one form or with any one counter-party.

Note 33. Financial risk management objectives and policies (continued)

External credit assessment for institution investments

The exposure values associated with each credit quality step are as follows:

	2023 Carrying value \$'000	2023 Past due value \$'000	2023 Provision \$'000	2022 Carrying value \$'000	2022 Past due value \$'000	2022 Provision \$'000
CUSCAL	11,647	-	-	8,194	-	-
Banks	22,564	-	-	24,607	-	-
Other ADI	5,977	-	-	3,000	-	-
Total	40,188	-	-	35,801	-	-

D. Operational risk

Operational risk is the risk of loss to the Credit Union resulting from deficiencies in process, personnel, technology, infrastructure, and from external factors other than credit, market and liquidity risks. Operational risks in the Credit Union relate mainly to those risks arising from a number of sources including legal compliance, business continuity, data infrastructure, outsourced services failures, fraud, and employee errors.

The Credit Union's objective is to manage operational risk so as to balance the avoidance of financial losses through the implementation of controls, whilst avoiding procedures which inhibit innovation and creativity. These risks are managed through the implementation of policies and systems to monitor the likelihood of the events and minimise the impact. Systems of internal control are enhanced through:

- the segregation of duties between employee duties and functions, including approval and processing duties;
- documentation of the policies and procedures, employee job descriptions and responsibilities, to reduce the incidence of error and inappropriate behaviour;
- implementation of the whistle blowing policies to promote a complaint cultures and awareness of the duty to report exceptions by staff;
- education of members to review their account statements and report exceptions to the Credit Union promptly;
- effective dispute resolution procedures to respond to member complaints;
- effective insurance arrangements to reduce the impact of losses; and
- contingency plans for dealing with the loss of functionality of systems or premises or staff.

Fraud

Fraud can arise from member card PINS, and internet passwords being compromised where not protected adequately by the member. It can also arise from other systems failures. The Credit Union has systems in place which are considered to be robust enough to prevent any material fraud. However, in common with all retail banks, fraud is potentially a real cost to the Credit Union.

IT Systems

The worst-case scenario would be the failure of the Credit Union's core banking system and IT network suppliers, to meet customer obligations and service requirements. The Credit Union has outsourced the IT systems management to an Independent Data Processing Centre (IDPC) which is owned by a collection of Credit Unions and Mutual Banks. This organisation has the experience in-house to manage any short-term problems and has a contingency plan to manage any related power or systems failures. Other network suppliers are engaged on behalf of the Credit Union by CUSCAL to service the settlements with other financial institutions for direct entry, ATM and Visa cards, and BPay etc.

A full disaster recovery plan is in place to cover medium to long-term problems which is considered to mitigate the risk to an extent such that there is no need for any further capital to be allocated.

Note 33. Financial risk management objectives and policies (continued)

E. Capital management

The capital levels are prescribed by Australian Prudential Regulation Authority (APRA). Under the APRA prudential standards capital is determined in three components:

- Credit risk;
- Market risk (trading book);
- Operations risk.

The market risk component is not required as the Credit Union is not engaged in a trading book for financial instruments.

Capital resources

Tier 1 Capital

The vast majority of Tier 1 capital comprises:

- Retained earnings;
- Realised reserves; and
- Regulatory adjustments (equity holdings, net DTA/DTL position and intangible assets).

At balance date, the Credit Union's capital comprises:

	June 2023	June 2022
	\$'000	\$'000
Tier 1 Capital		
Gross Tier 1 Capital	14,778	14,081
Deductions from Tier 1 Capital	(305)	(209)
Net Tier 1 Capital	<u>14,473</u>	<u>13,872</u>
Capital base	<u><u>14,473</u></u>	<u><u>13,872</u></u>

At balance date, the Credit Union's risk weighted assets reported to APRA were as follows:

	June 2023	June 2022
	\$'000	\$'000
Credit risk		
Standardised Approach On and Off Balance Sheet	51,055	65,027
Operational risk		
Standardised Approach	5,105	7,575
Total risk weighted assets	<u>56,160</u>	<u>72,602</u>
Capital adequacy ratio	25.77%	19.11%

To manage the Credit Union's capital the Credit Union reviews the ratio monthly and monitors major movements in the asset levels. If the capital adequacy ratio declines by more than 0.5% for 3 consecutive quarters or reaches 17%, management advises the Board. Management's advice will show how growth, profit levels, mix of loan products and the acquisition of other assets has affected the capital adequacy ratio.

The increase in the Capital Adequacy Ratio to 25.77% is due to APRA revising the capital framework which came into effect from 1 January 2023. The changes to the capital framework altered the capital calculations resulting in an increase in the Capital Adequacy Ratio from 19.11% (2022) to 25.77% (2023).

Note 33. Financial risk management objectives and policies (continued)

Pillar 2 Capital on operational risk

The Credit Union uses the Simplified Capital Requirements method under the revised Prudential Standard APS 110 Capital Adequacy to calculate the operational risk capital requirement. This is achieved by applying 10 percent of credit risk weighted assets.

Internal capital adequacy management

The Credit Union manages its internal capital levels for both current and future activities through the Audit Committee and Risk Committee. The output of the Audit Committee and Risk Committee is reviewed by the Board in its capacity as the primary governing body. The capital required for any change in the Credit Union's forecasts for asset growth, or unforeseen circumstances are assessed by the Board.

Note 34. Corporate governance disclosures

Board

The Credit Union Board has responsibility for the overall management and strategic direction of the Credit Union.

Board members are independent of management and are either Board appointed or elected by members on a rotation of every 3 years. Currently there is one Board appointed Director. Each Director must be eligible to act under the constitution as a member of the Credit Union and Corporations Act 2001 criteria. Directors need to also satisfy the fit and proper criteria as well as the newly implemented Banking Executive Accountability Regime (BEAR) set down by APRA.

The Board has established policies to govern conduct of the Board meetings, director conflicts of interest and training so as to maintain director awareness of emerging issues and to satisfy all governance requirements.

The Board is responsible for:

- (1) Setting the strategic direction of the Credit Union and monitors its implementation via the progress of the Strategic Plan;
- (2) Monitoring matters of operational risk management and APRA reporting obligations;
- (3) Monitoring compliance with applicable laws;
- (4) Chief Executive Officer remuneration and benefits;
- (5) Staff remuneration policies;
- (6) Financial budgets and performance criteria;
- (7) Approval of large loans or commercial loans; and
- (8) The acknowledgement of management approved interest rate changes.

Board remuneration

The Board receives remuneration from the Credit Union in the form of Director fees approved by members and reimbursement of out of pocket expenses. There are no other benefits received from the Credit Union by the Directors.

Audit committee

An Audit Committee has been formed to assist the Board in relevant matters of financial prudence. The Committee is comprised of a number of Directors and has senior management participation.

The Audit Committee oversees the financial reporting and audit process. Its role includes:

- (1) The oversight of all statutory reporting requirements;
- (2) Monitoring audit reports received from internal and external auditors and management's responses thereto;
- (3) Liaising with the auditors (internal and external) on the scope and results of their work;
- (4) Ensuring the external auditors remain independent in the areas of work conducted; and
- (5) The oversight of the Credit Union's compliance function.

Note 34. Corporate governance disclosures (continued)

Risk committee

A Risk Committee has been formed to assist the Board in managing the risk framework of the Credit Union. The Committee is comprised of a number of Directors and has senior management participation. Its role includes:

- The oversight of management's responsibilities to assess and manage the Credit Union's credit risk, market risk, liquidity risk, insurance risk, operational risk, capital risk and strategic and business risk; and
- Reviewing issues raised by the Internal and External Auditors that impact the Credit Union's risk management framework.

Compliance

The Credit Union's Compliance Function is an internal staffing resource which has been established to assist with the provision of structure, co-ordination of compliance functions and systems, and the performance of regular internal 'compliance checking' procedures.

The Credit Union's Compliance Function has the combined role of establishing, developing and increasing the culture of compliance within the Credit Union.

External audit

Audit is performed by the Crowe Audit Australia. Through their prior history Crowe has been auditing credit unions and mutual banks for many years.

The work performed by the external auditors is examined by the Audit Committee to ensure that it is consistent with the current external audit reporting role and does not impair their independence.

Internal audit

An internal audit function has been established using the services of DBP Consulting Pty Ltd (Glenn Pannam) to deal with the areas of internal control compliance and regulatory compliance.

Regulation

The Credit Union is regulated by:

- Australian Prudential Regulation Authority (APRA) for the prudential risk management of the Credit Union.
- Australian Securities and Investments Commission (ASIC) for adherence to Corporations Act 2001, Accounting Standards disclosures in the financial statements and Financial Service Reform (FSR) requirements and for compliance with the National Consumer Credit Protection Act. The FSR legislation requires the Credit Union to disclose details of products and services, maintain training for all staff that deal with the members and provide an effective and independent complaints handling process. Under the FSR licensing arrangements all staff which deal with the public are required to be trained and certified to a level of skill commensurate with the services provided.

Both ASIC and APRA conduct periodic inspections and the auditors report to both regulators annually on compliance with respective requirements. The external auditors also report to both ASIC on the FSR compliance and APRA on the prudential policy compliance.

Note 34. Corporate governance disclosures (continued)

Work Health & Safety (WHS)

The nature of the finance industry is such that the risk of injury to staff and the public are less apparent than in other high risk industries. Nevertheless the Credit Union's two most valuable assets are staff and members and steps need to be taken to maintain their security and safety when circumstances warrant.

WHS policies have been established for the protection of both members and staff and are reviewed at least annually for relevance and effectiveness.

Staff are trained in robbery procedures and offices are designed to detract from such acts by:

- Little or no cash being held in accessible areas; and
- Cameras and monitoring equipment visible throughout the office.

Office premises are examined regularly to ensure that the electrical safety and physical safety measures are appropriate to the needs to the public and staff. Independent security consultants report regularly on the areas of improvement which may be considered.

The Credit Union has established a WHS checklist that is completed quarterly by staff. Any concerns raised are actioned in a prompt manner. Secure cash handling policies are in place and injury from lifting heavy weights and Repetitive Strain Injury (RSI) are managed by proper techniques to minimise the risk of damage.

All staff have access to trauma counsellors where required following an incident which may impair their feeling of safety in the work place.

Note 35. Financial instruments

Net fair values

Net fair value has been determined on the basis of the present value of expected future cash flows under the terms and conditions of each financial asset and financial liability.

Significant assumptions used in the determining the cash flows are that the cash flows will be consistent with the contracted cash flows under the respective contracts.

The information is only relevant to circumstances at reporting date and will vary depending on the contractual rates applied to each asset and liability, relative to market rates and conditions at the time. No assets held are regularly traded by the Credit Union, and there is no active market to assess the value of the financial assets and liabilities.

Note 35. Financial instruments (continued)

	Total carrying amount in the statement of financial position 2023 \$'000	Total carrying amount in the statement of financial position 2022 \$'000	Aggregate net fair value 2023 \$'000	Aggregate net fair value 2022 \$'000
Financial assets				
<i>Financial assets at amortised cost</i>				
Cash and liquid assets	40,266	35,928	40,266	35,928
Accrued receivables	433	258	433	258
Loans and advances	96,761	100,055	96,761	100,055
<i>Financial assets at fair value through other comprehensive income</i>				
Other investments	7	7	7	7
Total financial assets	137,467	136,248	137,467	136,248
Financial liabilities				
<i>Financial liabilities at amortised cost</i>				
Deposits	121,742	121,790	121,742	121,790
Payables and other liabilities	797	254	797	254
Total financial liabilities	122,539	122,044	122,539	122,044

The net fair value estimates were determined by the following methodologies and assumptions:

Cash and liquid assets

The carrying values of cash and liquid assets approximate their net fair value as they are short term in nature or are receivable on demand.

Accrued receivables

The carrying amounts approximate fair value because they are short term in nature.

Loan and other advances

The majority of the Credit Union's loans are variable rate loans. The carrying amount of these loans is considered to approximate fair value. The net fair values of any non-variable rate loans are estimated using discounted cash flow analysis, based on current incremental lending rates for similar types of lending arrangements. The net fair value of impaired loans was calculated by discounting expected cash flows using a rate which includes a premium for the uncertainty of the flows.

Payables and other liabilities

The carrying amounts approximate fair value because they are short term in nature.

Members deposits

This includes interest and unrealised expenses payable for which the carrying amount is considered to be reasonable estimate of net fair value. For liabilities, which are long term, net fair values have been estimated using the rates currently offered for similar liabilities with remaining maturities. The fair value of deposits at call is the amount payable on demand at the reporting date.

Macquarie Credit Union
Notes to the financial statements
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Note 35. Financial instruments (continued)

Interest rate risk

The Credit Union's exposure to interest rate risks which is the risk that a financial instruments value will fluctuate as a result of changes in market rates and the effective interest rates of financial assets and financial liabilities, both recognised and unrecognised at reporting date, are as follows:

Financial instruments	Floating	Floating	1 year or less	1 year or less	1 to 5 years	1 to 5 years	Non-interest bearing	Non-interest bearing	Total carrying amount as per the statement of financial position	Total carrying amount as per the statement of financial position
	interest rate	interest rate								
	2023	2022							2023	2022
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
(i) Financial assets										
Cash and liquid assets	7,977	4,524	32,211	31,278	-	-	78	126	40,266	35,928
Accrued receivables	-	-	-	-	-	-	433	258	433	258
Other investments	-	-	-	-	-	-	7	7	7	7
Loans and advances	63,370	81,550	10,310	5,461	23,081	13,044	-	-	96,761	100,055
Total financial assets	71,347	86,074	42,521	36,739	23,081	13,044	518	391	137,467	136,248
(ii) Financial liabilities										
Deposits	79,731	90,298	41,963	31,442	-	-	48	50	121,742	121,790
Payables and other liabilities	-	-	-	-	-	-	797	254	797	254
Total financial liabilities	79,731	90,298	41,963	31,442	-	-	845	304	122,539	122,044

Maturity profile of financial instruments

Monetary liabilities have differing maturity profiles depending on the contractual term. The table below shows the period in which different financial instruments will mature and be eligible for renegotiation or withdrawal. In the case of loans, the table shows the period over which the principal outstanding and interest will be repaid based on the remaining period to the repayment date assuming contractual repayments are maintained, and is subject to change in the event that current repayment conditions are varied. Financial assets and liabilities are at the undiscounted values including future interest expected to be earned or paid. Accordingly these values will not agree to the statement of financial position.

Financial instruments	Within 3 months	Within 3 months	3-12 months	3-12 months	1-5 years	1-5 years	> 5 year	> 5 year	At Call	At Call	Total	Total
	2023	2022									2023	2022
	\$'000	\$'000									\$'000	\$'000
(i) Financial assets												
Cash and liquid assets	19,196	18,206	2,113	1,005	11,059	12,696	-	-	7,977	4,524	40,345	36,431
Accrued receivables	-	-	-	-	-	-	-	-	215	205	215	205
Loans to members	2,422	2,105	7,021	5,955	34,499	28,824	126,629	101,172	-	-	170,571	138,056
Other investments	-	-	-	-	-	-	-	-	7	7	7	7
Total financial assets	21,618	20,311	9,134	6,960	45,558	41,520	126,629	101,172	8,199	4,736	211,138	174,699
(ii) Financial liabilities												
Deposits	17,995	15,704	25,049	15,856	-	-	-	-	79,235	90,298	122,279	121,858
Payables and other liabilities	-	-	-	-	-	-	-	-	260	195	260	195
Total financial liabilities	17,995	15,704	25,049	15,856	-	-	-	-	79,495	90,493	122,539	122,053

Note 36. Fair value measurements

The Credit Union measures and recognises the following assets and liabilities at fair value on a recurring basis after initial recognition:

- Other (equity) investments - Financial assets at fair value through other comprehensive income.

Note 36. Fair value measurements (continued)

The Credit Union does not subsequently measure any liabilities at fair value on a recurring basis, or any assets or liabilities at fair value on a non-recurring basis.

a) Fair value hierarchy

AASB 13: Fair Value Measurement requires the disclosure of fair value information by level of the fair value hierarchy, which categorises fair value measurements into one of three possible levels based on the lowest level that an input that is significant to the measurement can be categorised into as follows:

Level 1	Level 2	Level 3
Measurements based on quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.	Measurements based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly.	Measurements based on unobservable inputs for the asset or liability.

b) Valuation techniques

The fair values of assets and liabilities that are not traded in an active market are determined by using one or more valuation techniques. These valuation techniques maximise, to the extent possible, the use of observable market data. If all significant inputs required to measure fair value are observable, the asset or liability is included in Level 2. If one or more significant inputs are not based on observable market data, the asset or liability is included in Level 3.

The Credit Union selects a valuation technique that is appropriate in the circumstances and for which sufficient data is available to measure fair value. The availability of sufficient and relevant data primarily depends on the specific characteristics of the asset or liability being measured. The valuation techniques selected by the Credit Union are consistent with one or more of the following valuation approaches.

- Market approach: valuation techniques that use prices and other relevant information generated by market transactions for identical or similar assets or liabilities.
- Income approach: valuation techniques that convert estimated future cash flows or income and expenses into a single discounted present value.
- Cost approach: valuation techniques that reflect the current replacement cost of an asset at its current service capacity.

Each valuation technique requires inputs that reflect the assumptions that buyers and sellers would use when pricing the asset or liability, including assumptions about risks. When selecting a valuation technique, the Credit Union gives priority to those techniques that maximise the use of observable inputs and minimise the use of unobservable inputs. Inputs that are developed using market data (such as publicly available information on actual transactions) and reflect the assumptions that buyers and sellers would generally use when pricing the asset or liability are considered observable, whereas inputs for which market data is not available and therefore are developed using the best information available about such assumptions are considered unobservable.

The following tables provide the fair values of the Credit Union's assets and liabilities measured and recognised on a recurring basis after initial recognition and their categorisation within the fair value hierarchy.

2023	Note	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Recurring fair value measurements					
<i>Financial assets</i>					
Other investments	13	-	7	-	7

Note 36. Fair value measurements (continued)

2022	Note	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Recurring fair value measurements					
Financial assets					
Other investments	13	-	7	-	7

There were no transfers between Level 1 and Level 2 for assets measured at fair value on a recurring basis during the reporting period (2022: no transfers).

Note 37. Subsequent events

The subsequent event with regards to the potential merger activity with Regional Australia Bank has been disclosed at Note 1. Other than this item, no matter or circumstance has arisen since 30 June 2023 that has significantly affected, or may significantly affect the Credit Union's operations, the results of those operations, or the Credit Union's state of affairs in future financial years.

Note 38. New Accounting Standards adopted

The Credit Union has adopted all of the new or amended Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period. None of the adopted Accounting Standards and Interpretations had a material impact on the financial statements of the Credit Union.

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

Note 39. New Accounting Standards for application in future periods

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

Macquarie Credit Union Limited

Independent Auditor's Report to the Members of Macquarie Credit Union Limited

Opinion

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

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

- (a) giving a true and fair view of the Credit Union's financial position as at 30 June 2023 and of its financial performance for the year then ended; and
- (b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

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

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

Emphasis of matter – proposed merger

We draw attention to the 'basis of preparation' section of Note 1, which describes the proposed merger with Regional Australia Bank. Our opinion is not modified in respect of this matter.

Other Information

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

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



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

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

Responsibilities of the Directors for the Financial Report

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

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

Auditor's Responsibilities for the Audit of the Financial Report

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

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

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



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

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

A handwritten signature in blue ink, appearing to read "Bradley D Bohun".

CROWE AUDIT AUSTRALIA

A handwritten signature in blue ink, appearing to read "Bradley D Bohun".

BRADLEY D BOHUN

Partner

18 October 2023

Albury

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