



**MCU Ltd
and Subsidiaries
ABN: 52 087 650 995**

Annual Report for the year ended 30 June 2020

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1. CHAIRS REPORT



Membership and Financial Performance

2020 has been a challenging year for everybody and MCU has found it to be especially so.

While your credit union's total assets have grown by 7% over the prior year, our loan book has contracted by nearly 13%, thereby reducing the credit union's income. Deposits continued to flow in strongly in the second half of the year reflecting the increased liquidity of the financial system. Unfortunately, investment returns have significantly reduced leaving the credit union unable to generate an economic return from its highly liquid state. While your credit union has reported a profit of \$15,364 the above developments have significantly negatively impacted on our underlying profitability.

Members would be well aware of the frustrations we experienced during the year with the proposed transfer of the business to Firstmac being stalled for a considerable period of time and then ultimately refused by Treasury in March 2020. That refusal related to Firstmac's desire to be a 100% owner of MCU, as legislation prevents any individual or company from owning more than 20% without approval.

The Board then sought to find a purchaser for the business who could satisfy the requirements of the legislation and entered into an agreement with Ezi Financial Services Pty Ltd (Ezifin). Unfortunately, that transaction also came to an end as Ezifin was not able to perform its obligations under the agreement in the timeframes required by MCU to meet its prudential requirements.

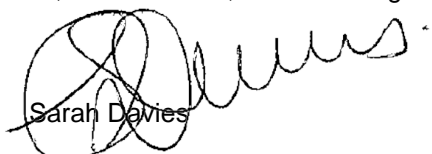
At the same time, our local community and the rest of the world have faced extraordinary times due to COVID-19. We are proud of the way our staff adapted to the new requirements of social distancing and in many cases working remotely, whilst still providing a high level of service to our members.

It is reassuring to note that at this stage of the pandemic, that our borrowing members have not been significantly impacted by the financial effects of COVID-19. We have worked closely with members suffering financial hardship to make appropriate arrangements. Reflective of our membership and resilient community, the number of loan payment pauses remains below the financial institution average.

LOOKING FORWARD

The Board continues to look at ways to restructure the business so that MCU can continue to provide support to our members and the wider community. This is time-consuming and challenging work that requires consultation and negotiation with many stakeholders.

I would like to thank my fellow Board members for their ongoing support of MCU during these challenging times, the credit union staff for their significant efforts particularly during the COVID-19 disruptions, but above all, our members, for continuing to support MCU in its journey.


Sarah Davies
Chair

2. GOVERNANCE & MANAGEMENT

Board of Directors Information

MCU Directors are democratically elected by the members on a one member – one vote basis. The MCU Directors in office at the end of the year are:

Sarah Davies (Chair)



Sarah is a director of Sarah Davies Legal Pty Ltd, and specializes in commercial litigation for clients involved in agribusiness, financial services, property development and building & construction matters. She is an accredited specialist in commercial litigation, having received the highest achievement award when she completed her accreditation in 2010. She has experience with disputes involving commercial contracts, property transactions, joint ventures, corporations, trusts and managed investment schemes, public offer documents and issues relating to the provision of financial services.

For the past 15 years, her legal advice has involved providing strategic direction to Boards, particularly those active in the funds management and financial services sectors. Sarah and her family live in Maleny.

David Wright



David is a leader in the field of project management and business transformation. He is Board Director and Secretary of a global NFP, past chair and fellow of the Project Management Institute Queensland, Managing Director of consulting firm QVC Solutions and Deputy Chair of the Maleny Credit Union. He was educated in London and Harvard Business School, is a graduate of the Australian Institute of Company Directors and holds several project, program and portfolio management credentials as well as a diploma in IT. David has worked across many industry sectors including Banking and Finance, Energy, Water, ICT, Government, Construction, Engineering, Travel and Retail. David speaks around the world on various strategic topics.

A passion for the outdoors, wildlife, sustainability and humanitarian issues keeps David busy along with his interests in photography and football.

Matthew Green



Matthew is a Chartered Accountant and Registered Company Auditor with the Brisbane based firm, Mazar's. Matthew's public accounting experience has included commercial experience with ASX listed multinational companies.

Matthew's practice areas include financial services, agribusiness and information technology. Matthew lives in Brisbane with his wife and four children and maintains an interest in the continued development of member based financial services.

Darryl Ebenezer



Darryl brings to the Credit Union his extensive experience in the non-Government and environment sectors. In his early working life, he worked for the Bank of New South Wales and then the Westpac Bank. With his partner and two children he has lived on the Sunshine Coast for more than 14 years. Participation in the life of the community has been many and varied with roles in groups such as the Maleny Community Centre, Maleny Neighbourhood Centre, Maleny Credit Union Charitable Trust and Maleny Unwired.

He is currently in the role of Executive Officer with Queensland Water and Land Carers, a State peak body with more than 300 member groups. He has also been the manager of Barung Landcare based in the Sunshine Coast Hinterland. Two main areas have occupied Darryl's attention over the long-term – activating and mobilising people to become involved in worthwhile projects and seeking long-term sustainable outcomes to assist people to achieve those aims.

Darryl is actively involved in his local community, enjoys a good coffee and likes to hear about, and be inspired by ideas. Darryl is a holder of Member Investment Shares.

Heather Cameron



Heather is a semi-retired professional who moved to the Maleny area in mid-2014. Currently undertaking occasional consultancy projects related to workplace investigations, strategic planning, conflict diagnoses and mediations related to workplace dysfunctions Heather has held a variety of roles in public sector and Higher Education organisations over the past decades. She was awarded Diversity Leader for the Advancement of Women in the EOWA Business Achievement Awards of 2007 and held the role of Principal Adviser for Equity, Diversity and Policy Implementation at Griffith University in Brisbane for fifteen years. In 2010 Heather led Griffith's successful submission to be awarded EOWA's Business Achievement Award for Leading Organisation for the Advancement of Women. Prior to moving to Queensland in 1997 Heather worked for several public sector organisations in South Australia in strategic planning and advisory roles. Heather currently volunteers as a Customer Relations Volunteer at Australia Zoo, where she was awarded Volunteer of the Year in 2015, is an appointed Ambassador for the Zoo, and is a member of Maleny's IDAHO Committee.

Rob Swales



Rob recently resigned as a Partner/Director of Project Brainstorm Energy Solutions Pty Ltd, a Maleny/Nambour based Renewable Energy Solutions business with a focus on the Commercial Sector. He has had thirty years' experience in Banking & Finance including twenty-four years with the ANZ Bank where he held Retail and Commercial Lending Manager positions in Toowoomba and the Wide Bay Areas. In 1996 he moved to Maleny and purchased a retail business. He also has held director's position on the MCU board from 1996 -1999.

Since this time, he has creatively explored many career opportunities including real estate sales, facilitating creative writing programs in Woodford and Wacol Correctional Centres, finance brokering, producing and performing anti-bullying shows for The Queensland Arts Council, coaching

and supporting students with disabilities with Education Qld and self-publishing books about some of his very unique work experiences.

In 2010 he had the opportunity to work in an asylum seeker centre in Lausanne Switzerland for two years and has recently completed writing the manuscript of this experience. He has a passion for poetry and writing, working with marginalised communities, Tesla cars and 'off the grid' ideas and creative solutions. In his spare time, he plays guitar, surfs and walks the perfect beaches that line up end to end along the Sunshine Coast.

Rob is currently engaged as a creative consultant with Holistic Justice and Community Services Pty Ltd which is looking at empowering and enabling First nation enterprises to deliver on-country cultural healing and rehabilitation programs.

Kylie Warner



Kylie and her family have had the privilege of living in Maleny since the end of 2008. During this time, Kylie has been active in the community, volunteering for a number of local organisations, such as The Suncoast Community Legal Service, Maleny Bushrangers and the MCU Social Accounting Committee.

Kylie has experience with the Boards of various private companies, as well as School Boards and International based organisations. Kylie is the co-founder of an agribusiness research company which has recently listed on the ASX and NASDAQ. She is also a registered teacher and is passionate about education, inclusive communities and raising social consciousness.

2.2 Governance Policy

The MCU Governance Policies are comprehensive and cover the Board Charter and the Role of the Chief Executive Officer. The MCU Governance Policies direct the operation of MCU and are reviewed regularly by the board.

A full copy of the MCU Governance Policies can be found on the MCU website at <https://www.mcu.com.au/about-us/governance/>

MCU LTD AND SUBSIDIARIES

ANNUAL REPORT AND FINANCIAL STATEMENTS

3. DIRECTOR'S REPORT

Your directors present their report on the affairs of the Group for the financial year ended 30 June 2020. The Parent Entity is a company registered under the Corporations Act 2001.

DIRECTORS

The names of the directors in office at any time during or since the end of the year are:

Sarah Davies (Chair)
 David Wright (Deputy Chair)
 Matthew Green (retired 28 November 2019, appointed 21 February 2020)
 Darryl Ebenezer
 Heather Cameron
 Robert Swales
 Kylie Warner (appointed 20 July 2020)
 Wendy McTainsh (retired 28 November 2019)
 David Gration (resigned 13 March 2020)
 Antony Ziemek (resigned 28 May 2020)

Information on Directors

(Refer to Section 2.1 Board of Directors Information.)

The Company Secretary in office at the end of the year is:

Name	Qualifications	Experience
Antony Ziemek (resigned 28 May 2020)	BA, Finsia Diploma of Applied Finance, GAICD	Over 35 years of commercial, treasury and banking experience
Matthew Green (appointed 2 June 2020)	B Bus, M Com, FCA, MAICD	Fellow of Chartered Accountants ANZ.

Directors' Meeting Attendance:

Director Name	Board		Risk		Audit		Nominations and Remuneration	
	E	A	E	A	E	A	E	A
Sarah Davies	20	20	-	-	-	-	3	3
David Wright	20	20	3	3	1	1	-	-
Darryl Ebenezer	20	19	-	-	-	-	3	3
Heather Cameron	20	20	-	-	-	-	3	3
Matthew Green	20	19	4	4	2	2	-	-
Kylie Warner	-	-	-	-	-	-	-	-
Robert Swales	20	17	2	2	1	1	-	-
Anthony Ziemek	17	17	2	2	1	1	-	-
Wendy McTainsh	6	5	1	1	1	1	-	-
David Gration	10	6	1	-	1	-	-	-

E = Eligible to Attend
 A = Attended

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Principal Activities

The principal activities of the Group during the year were the provision of financial services to members in the form of taking deposits and making loans as prescribed by the Constitution. No significant change in the nature of these activities occurred during the year.

Dividends

The Board did not declare a dividend in the current financial year. (2019 dividend paid \$NIL). No dividends have been declared or paid since the end of the financial year to the date of this report.

Options

No options over unissued shares or interests in the Parent Entity or a subsidiary were granted during or since the end of the financial year and there were no options outstanding at the date of this report.

No shares have been issued as a result of the exercise of an option.

Significant Changes in the State of Affairs

Apart from disclosures elsewhere in this report, there were no other significant changes in the Group's state of affairs that occurred during the financial year.

Operating Results and Review of Operations

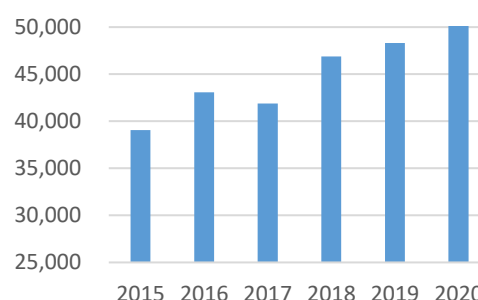
MCU operates a credit union in the Maleny region of Queensland. As identified in the Principal Activities, the main operations of MCU are involved in the taking of deposits and the making of loans. Operations are predominantly conducted through MCU Ltd, an Authorised Deposit-taking Institution (ADI), regulated by the Australian Prudential Regulation Authority (APRA). Activities are also conducted through MCF Financial Services Pty Ltd (MCUFS), who act as a broker for certain loans not processed through the MCU Ltd loan book.

Deposits (Note 17)

During FY20, deposits from members increased to \$52.2 million at reporting date, a \$3.7 million increase. The increase in member deposits provides MCU with the liquidity necessary to enable MCU to make loans to members.

Interest on deposits that is paid to members is one of the larger costs of the organisation.

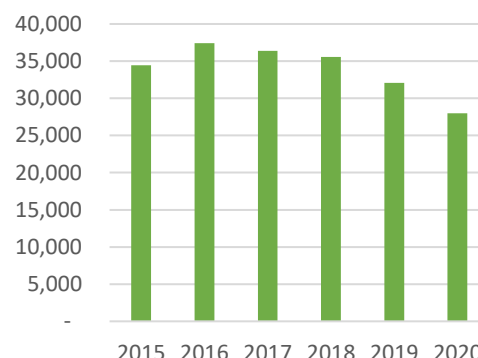
Member Deposits \$'000



Loans (Note 11 and 12)

Loans to members fell 12.8% during FY20, being down \$4.1 million to \$27.9 million at reporting date. Interest paid by members on outstanding loans is the largest component of income for MCU.

Member Loans \$'000



MCU LTD AND SUBSIDIARIES

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DIRECTORS' REPORT

Operating Results and Review of Operations (cont.)

Net Interest Margin (p.12)

Net Interest Margin (NIM) represents a key performance indicator for MCU. The NIM represents the net margin earned by MCU between what MCU pays to depositors and what MCU receives from borrowers, as assessed against the average assets.

Operating Costs (p.12)

Operating the MCU branch in Maleny forms the majority of the remainder of the costs to MCU. One way of considering costs for MCU is to consider costs in two categories, being operating and non-operating costs. Operating costs can be considered to be the costs associated with the normal and ongoing operations of the credit union. Non-operating costs can be considered to include costs unrelated to normal recurring operations.

During FY20, non-operating costs of \$189,590 (2019: \$168,271) were incurred by MCU. These costs have been included in the Statement of Profit or Loss and Other Comprehensive Income under the categories for "Project alliance costs" and "Professional and consulting expenses". During FY20, operating costs saw a significant increase in computer and IT expenses.

During the year, the profitability of the Group was impacted by the following:

- Interest revenue decreased by 14.85% (\$314,925) from the prior year and interest expense decreased by 9.85% (\$78,115) from the prior year. This resulted in the net interest income decreasing by \$236,810 (17.84%).

The reported net profit of \$15,364 is an improvement of \$182,369 on reported results for the same period as last year. A significant portion of this increase in profitability relates to the revenue received for potential buyouts and the subsequent required deposits.

There was a decrease of loans of \$4,091,609 and member deposits increased by \$3,740,716. Loans growth was impacted by the requirement to obtain APRA approval on loans that are considered to be large exposures. This limit is relatively low compared to the market for housing loans in the community. Additionally, our interest rates have been higher than our competitors throughout the year. The significant increase in deposits was as a result of the community supporting the credit union and choosing to deposit large term deposits.

The following table shows the gross revenue, profits and dividends for the last five years for the Group.

	2016	2017	2018	2019	2020
	\$	\$	\$	\$	\$
Revenue and other income	2,363,757	2,458,984	2,348,602	2,296,119	2,660,233
Profit/(loss) before income tax	6,643	78,305	(351,173)	(110,759)	255,121
Dividends paid	27,268	-	10,907	-	-

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Events Subsequent to the Reporting Date

On 11 March 2020, the World Health Organisation ("WHO") declared a pandemic in respect of increasing cases of Coronavirus being recorded on a global basis. Since the WHO declaration, the Australian Commonwealth and State governments have been implementing various policy measures to respond to the pandemic, including quarantine measures and economic stimulus packages. Further information regarding the impact of the pandemic is included in this financial report. The Directors do not expect that COVID-19 will have a significant impact on credit quality and member loans. The Directors continue to monitor the impact of the pandemic but are unable to determine the extent of the future impact of the pandemic.

On 13 March 2020, the Firstmac application to the Treasurer, Hon. J. Frydenberg MP, was rejected on the basis of the Treasurer's assessment that the transaction was not in the national interest, noting prudential risks were considered to outweigh community and competition benefits. As a result, the board of directors have pursued other options for a merger or transfer of business and received a number of expressions of interest.

A preferred bidder, being Ezi Financial Services Pty Ltd (ACN 628 254 455) ("EziFin") had been identified but unfortunately that transaction proved unsuccessful and, on 2 September 2020, MCU issued a notice of termination to EziFin. EziFin have subsequently commenced proceedings in the Supreme Court of Queensland (Matter No. BS9853/20). EziFin continue to pursue the matter and MCU intends to defend the matter to the fullest extent possible.

Subsequent to termination of the agreement with EziFin, in September 2020, MCU issued an information memorandum to several potential merger partners that operate under APRA regulation. MCU is currently progressing merger discussions with a preferred merger partner.

Other than the above, no matters or circumstances have arisen since the reporting date which have significantly affected or may significantly affect the operations, or state of affairs of the Group in subsequent financial years.

Regulatory Disclosures

The qualitative and quantitative disclosures on capital and remuneration as required by APS 330 Public Disclosures are included in section 5 of the Annual Report.

Proceedings

No person has applied for leave of Court to bring proceedings on behalf of the Group or to intervene in any proceedings to which the Group is a party for the purpose of taking responsibility on behalf of the Group for all or any part of these proceedings. The Group was not subject to any such proceedings during the year.

Environmental Regulation

The Group's operations are not regulated by any significant environmental regulation under a law of the Commonwealth or of a State or Territory.

Insurance and Indemnifying Officer or Auditor

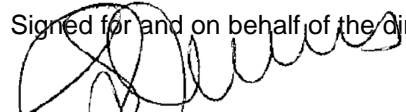
Insurance premiums have been paid to insure each of the Directors and officers of the Group, against any costs and expenses incurred by them in defending any legal proceeding arising out of their conduct while acting in their capacity as an officer of the Group. In accordance with normal commercial practice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

No insurance cover has been provided for the benefit of the auditor of the Group. No indemnities have been given to the auditor.

Auditor's Independence Declaration

The lead auditor's independence declaration for the year ended 30 June 2020 forms part of this report and a copy of this declaration is on page 11 of this report.

Signed for and on behalf of the Directors in accordance with a resolution of the Board:



Director
Sarah Davies

Dated: 12 November 2020

MCU LTD AND SUBSIDIARIES

ANNUAL REPORT AND FINANCIAL STATEMENTS



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3.1 Auditor's Independence Declaration

DECLARATION OF INDEPENDENCE BY M CUTRI TO THE DIRECTORS OF MCU LTD

As lead auditor of MCU Ltd and its controlled entities for the year ended 30 June 2020, I declare that, to the best of my knowledge and belief, there have been:

1. No contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
2. No contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of MCU Ltd and the entities it controlled during the period.

A handwritten signature in black ink, appearing to read 'M Cutri', is written over a light blue horizontal line.

M Cutri
Director

BDO Audit Pty Ltd

Brisbane, 12 November 2020

MCU LTD AND SUBSIDIARIES

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Statements of Profit or Loss and Other Comprehensive Income for the year ending 30 June 2020

	Note	2020 \$	Group 2019 \$	Parent Entity 2020 \$	2019 \$
Interest income	2(a)	1,805,382	2,120,307	1,805,382	2,120,307
Interest expense	2(b)	(714,561)	(792,676)	(714,561)	(792,676)
Net interest income		1,090,821	1,327,631	1,090,821	1,327,631
Other revenue and income	3	554,851	175,812	541,691	159,579
Employee benefits expenses	4	(679,522)	(686,236)	(679,522)	(686,236)
Member transaction expenses		(169,137)	(159,792)	(163,653)	(153,652)
Computer and information technology expenses		(236,357)	(75,131)	(236,357)	(75,131)
Office expenses		(172,988)	(192,889)	(171,088)	(190,123)
Depreciation and amortisation expenses	4	(35,500)	(69,004)	(35,500)	(69,004)
Net impairment loss on loans & advances to members		(30,638)	(1,589)	(30,638)	(1,589)
Occupancy expense		(23,187)	(25,485)	(23,187)	(25,485)
Net loss on disposal of fixed assets	4	-	(3,571)	-	(3,571)
Professional and consulting expenses		(188,510)	(141,184)	(188,510)	(141,184)
Project alliance costs		(1,080)	(168,271)	(1,080)	(168,271)
Other expenses		(91,656)	(91,050)	(91,656)	(91,050)
Profit before income tax		17,097	(110,759)	11,321	(118,086)
Income tax benefit / (expense)	5	(1,733)	(56,246)	-	(54,140)
Profit for the year		15,364	(167,005)	11,321	(172,226)
Other comprehensive income					
<i>Items that will not be reclassified to profit or loss</i>					
Revaluation of land and buildings	14(b)	-	-	-	-
Income tax relating to these items	15	-	-	-	-
Other comprehensive income for the year net of income tax		-	-	-	-
Total comprehensive income for the year net of income tax		15,364	(167,005)	11,321	(172,226)

The accompanying notes should be read in conjunction with these financial statements.

MCU LTD AND SUBSIDIARIES

ANNUAL REPORT AND FINANCIAL STATEMENTS

Statements of Financial Position as at 30 June 2020

		Group		Parent Entity	
	Note	2020	2019	2020	2019
		\$	\$	\$	\$
ASSETS					
Cash and cash equivalents	8	7,633,884	2,575,540	7,633,884	2,575,766
Other receivables	9	32,031	54,613	32,031	54,613
Financial assets at amortised cost	10	19,804,350	17,037,589	19,804,350	17,037,363
Loans and advances	11	27,886,271	31,977,880	27,886,271	31,977,880
Investments in subsidiaries	13	-	-	20	20
Income tax receivable		-	23,026	14	23,796
Property, plant and equipment	14	1,069,188	1,083,669	1,069,188	1,083,669
Intangible assets	16	12,471	10,189	12,471	10,189
Other assets		3,789	1,626	3,789	1,626
TOTAL ASSETS		56,441,984	52,764,132	56,442,018	52,764,922
LIABILITIES					
Deposits from members	17	52,224,084	48,483,368	52,269,534	48,525,152
Other payables and accruals		313,140	379,680	312,943	379,425
Current tax payable		437	-	-	-
Provisions	18	96,551	108,676	96,551	108,676
TOTAL LIABILITIES		52,634,212	48,971,724	52,679,028	49,013,253
NET ASSETS		3,807,772	3,792,408	3,762,990	3,751,669
EQUITY					
Member investment shares	19	1,054,367	1,054,367	1,054,367	1,054,367
Reserves		2,753,405	2,738,041	2,708,623	2,697,302
TOTAL EQUITY		3,807,772	3,792,408	3,762,990	3,751,669

The accompanying notes should be read in conjunction with these financial statements.

MCU LTD AND SUBSIDIARIES

ANNUAL REPORT AND FINANCIAL STATEMENTS

Statements of Changes in Equity for the year ending 30 June 2020

Group	Member Investment Shares	Redeemed Preference Shares Reserve	General Reserve	Asset Revaluation Reserve	General Reserve for Credit Losses	Retained Earnings	Total
	\$	\$	\$	\$	\$	\$	\$
Balance at 1 July 2019	1,054,367	62,024	2,119,166	439,312	117,539	-	3,792,408
Profit for the year	-	-	-	-	-	15,364	15,364
Other comprehensive income	-	-	-	-	-	-	-
<i>Total comprehensive income for the year</i>	-	-	-	-	-	15,364	15,364
Transfers							
Transfers to/(from) general reserve	-	-	15,364	-	-	(15,364)	-
Redeemed preference share capital	-	-	-	-	-	-	-
<i>Total transfers</i>	-	-	15,364	-	-	(15,364)	-
Transactions with owners in their capacity as owners							
Dividends paid	-	-	-	-	-	-	-
<i>Total transactions with owners in their capacity as owners</i>	-	-	-	-	-	-	-
Balance at 30 June 2020	1,054,367	62,024	2,134,530	439,312	117,539	-	3,807,772
Balance at 1 July 2018	1,054,367	61,634	2,286,561	439,312	117,539	-	3,959,413
Profit for the year	-	-	-	-	-	(167,005)	(167,005)
Other comprehensive income		-	-	-	-	-	-
<i>Total comprehensive income for the year</i>	-	-	-	-	-	(167,005)	(167,005)
Transfers							
Transfers to/(from) general reserve	-	-	(167,395)	-	-	167,395	-
Redeemed preference share capital	-	390	-	-	-	(390)	-
<i>Total transfers</i>	-	390	(167,395)	-	-	167,005	-
Transactions with owners in their capacity as owners							
Dividends paid	-	-	-	-	-	-	-
<i>Total transactions with owners in their capacity as owners</i>	-	-	-	-	-	-	-
Balance at 30 June 2019	1,054,367	62,024	2,119,166	439,312	117,539	-	3,792,408

The accompanying notes should be read in conjunction with these financial statements.

MCU LTD AND SUBSIDIARIES

ANNUAL REPORT AND FINANCIAL STATEMENTS

Parent Entity	Member Investment Shares	Redeemed Preference Shares	General Reserve	Asset Revaluation Reserve	General Reserve for Credit Losses	Retained Earnings	Total
	\$	\$	\$	\$	\$	\$	\$
Balance at 1 July 2019	1,054,367	62,024	2,078,427	439,312	117,539	-	3,751,669
Profit for the year	-	-	-	-	-	11,321	11,321
Other comprehensive income	-	-	-	-	-	-	-
<i>Total comprehensive income for the year</i>	-	-	-	-	-	11,321	11,321
Transfers							
Transfers to/(from) general reserve	-	-	11,321	-	-	(11,321)	-
Redeemed preference share capital	-	-	-	-	-	-	-
<i>Total transfers</i>	-	-	11,321	-	-	(11,321)	-
Transactions with owners in their capacity as owners							
Dividends paid	-	-	-	-	-	-	-
<i>Total transactions with owners in their capacity as owners</i>	-	-	-	-	-	-	-
Balance at 30 June 2020	1,054,367	62,024	2,089,748	439,312	117,539	-	3,762,990
Balance at 1 July 2018	1,054,367	61,634	2,251,043	439,312	117,539	-	3,923,895
Profit for the year	-	-	-	-	-	(172,226)	(172,226)
Other comprehensive income	-	-	-	-	-	-	-
<i>Total comprehensive income for the year</i>	-	-	-	-	-	-	-
Transfers							
Transfers to/(from) general reserve	-	-	(172,616)	-	-	172,616	-
Redeemed preference share capital	-	390	-	-	-	(390)	-
<i>Total transfers</i>	-	390	(172,616)	-	-	172,226	-
Transactions with owners in their capacity as owners							
Dividends paid	-	-	-	-	-	-	-
<i>Total transactions with owners in their capacity as owners</i>	-	-	-	-	-	-	-
Balance at 30 June 2019	1,054,367	62,024	2,078,427	439,312	117,539	-	3,751,669

The accompanying notes should be read in conjunction with these financial statements.

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Statements of Cash Flows for the year ending 30 June 2020

	Note	Group		Parent Entity	
		2020	2019	2020	2019
		\$	\$	\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES					
Interest received		1,829,484	2,119,590	1,829,484	2,119,590
Fees and commissions received		572,419	195,391	559,613	178,507
Interest paid		(690,551)	(804,157)	(690,551)	(804,157)
Payments to suppliers and employees		(1,668,839)	(1,556,363)	(1,661,753)	(1,546,803)
Income taxes paid		21,730	(26,417)	23,782	(22,707)
Net movement in financial assets at amortised cost		(2,766,762)	(6,775,250)	(2,766,987)	(6,775,024)
Net movement in member loans and advances		4,067,459	3,411,213	4,067,459	3,411,213
Net movement in member deposits		3,716,705	1,451,076	3,720,372	1,454,690
Net cash from operating activities	33(b)	5,081,645	(1,984,917)	5,081,419	(1,984,691)
CASH FLOWS FROM INVESTING ACTIVITIES					
Payments for property, plant and equipment		(16,481)	(1,249)	(16,481)	(1,249)
Payments for intangible assets		(6,820)	-	(6,820)	-
Deposit on sale of MCU Ltd		-	300,000	-	300,000
Net cash from investing activities		(23,301)	298,751	(23,301)	298,751
CASH FLOWS FROM FINANCING ACTIVITIES					
Dividends paid		-	-	-	-
Net cash from financing activities		-	-	-	-
Net increase/decrease in cash held		5,058,344	(1,686,166)	5,058,118	(1,685,940)
Cash at the beginning of the financial year		2,575,540	4,261,706	2,575,766	4,261,706
Cash at the end of the financial year	8	7,633,884	2,575,540	7,633,884	2,575,766

The accompanying notes should be read in conjunction with these financial statements.

MCU LTD AND SUBSIDIARIES

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Notes to the Financial Statements for the year ending 30 June 2020

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

The financial statements are general purpose financial statements which have been prepared in accordance with Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board, the Corporations Act 2001 and the Prudential Standards set down by the Australian Prudential Regulation Authority (APRA).

The financial statements were authorised for issue in accordance with a resolution of the directors on 8 November 2020.

The financial statements cover MCU Ltd trading as Maleny Credit Union as an individual entity and Maleny Credit Union and its controlled entities as a Group. Maleny Credit Union is an unlisted public company limited by shares, incorporated and domiciled in Australia. For the purposes of preparing the financial statements, Maleny Credit Union is a for-profit entity.

The financial statements of Maleny Credit Union as an individual entity and the consolidated financial statements of the Group comply with all International Financial Reporting Standards (IFRS) in their entirety.

The financial statements have been prepared on an accruals basis and are based on historical costs except for land and buildings, that have been measured at fair value. The presentation currency of the financial statements is Australian Dollars.

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

Going Concern

The financial statements have been prepared on a going concern basis, which contemplates the continuity of normal business activities and the realisation of assets and discharge of liabilities in the ordinary course of business.

For the year ended 30 June 2020, the Group generated a consolidated profit after tax of \$15,364 (2019 Loss after tax: \$167,005) and incurred operating inflows of \$5,081,645 (2019: cash outflows \$1,984,917). At the 30 June 2020, the Group had \$7,633,884 (2019: \$2,575,540) in cash and cash equivalents and net assets of \$3,807,772 (2019: \$3,792,408).

On 11 March 2020, the World Health Organisation ("WHO") declared a pandemic in respect of increasing cases of Coronavirus being recorded on a global basis. Since the WHO declaration, the Australian Commonwealth and State governments have been implementing various policy measures to respond to the pandemic, including quarantine measures and economic stimulus packages. Further information regarding the impact of the pandemic is included in this financial report. The Directors do not expect that COVID-19 will have a significant impact on credit quality and member loans. The Directors continue to monitor the impact of the pandemic but are unable to determine the extent of the future impact of the pandemic.

On 13 March 2020, the Firstmac application to the Treasurer, Hon. J. Frydenberg MP, was rejected on the basis of the Treasurer's assessment that the transaction was not in the national interest, noting prudential risks were considered to outweigh community and competition benefits. As a result, the board of directors have pursued other options for a merger or transfer of business and received a number of expressions of interest.

A preferred bidder, being Ezi Financial Services Pty Ltd (ACN 628 254 455) ("EziFin") had been identified but unfortunately that transaction proved unsuccessful and, on 2 September 2020, MCU issued a notice of termination to EziFin. EziFin have subsequently commenced proceedings in the Supreme Court of Queensland (Matter No. BS9853/20). EziFin continue to pursue the matter and MCU intends to defend the matter to the fullest extent possible.

Subsequent to termination of the agreement with EziFin, in September 2020, MCU issued an information to memorandum to several potential merger partners that operate under APRA regulation. MCU is currently progressing merger discussions with a preferred merger partner.

The ability of MCU group to continue as a going concern is principally dependent upon one or more of the following:

- The ability of the group to complete its planned merger;
- The ability of the group to continue to meet APRA obligations; and
- Continued access to appropriate banking software.

MCU LTD AND SUBSIDIARIES

ANNUAL REPORT AND FINANCIAL STATEMENTS

Notes to the Financial Statements for the year ending 30 June 2020 (Cont.)

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

These conditions give rise to material uncertainty which may cast significant doubt over the Group's ability to continue as a going concern.

In the event that the Company is unable to complete the matters outlined above, there is inherent uncertainty whether the Company will be able to continue as a going concern and therefore, whether it will continue its normal business activities and realize its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial statements.

These financial statements do not include adjustments relating to the recoverability and classification of recorded assets amounts or to the amounts and classification of liabilities that might be necessary should the company not continue as a going concern.

(a) Consolidated financial statements

Basis of consolidation

The consolidated financial statements incorporate the assets, liabilities, income and expenses of all subsidiaries of Maleny Credit Union ('the Company' or 'Parent Entity' or 'the ADI') as at 30 June 2020 and the results of all subsidiaries for the year then ended. The ADI and its subsidiaries together are referred to in these financial statements as the Group.

Subsidiaries

Subsidiaries are all entities, including special purpose entities, over which the Group has control. The Group has control over an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity, and has the ability to use its power to affect these returns. A reporting entity has power when it has rights that give it the current ability to direct the activities that significantly affect the investee's returns. The Group not only has to consider its holdings and rights but also the holdings and rights of other shareholders in order to determine whether it has the necessary power for consolidation purposes. Generally, there is a presumption that a majority of voting rights results in control. To support this presumption, and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an entity. The Group re-assesses whether or not it controls an entity if facts and circumstances indicate that there are changes to one or more of the elements of control.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

The names of the subsidiaries are contained in Note 24. All subsidiaries have a 30 June financial year-end and are accounted for at cost in the separate financial statements of MCU Ltd less any impairment charges. Dividends received from subsidiaries are recorded as a component of other revenue in profit or loss of the Parent Entity, and do not impact the recorded cost of the investment. Upon receipt of dividend payments from subsidiaries, the Parent entity will assess whether any indicators of impairment of the carrying value of the investment in the subsidiary exist. Where such indicators exist, to the extent that the carrying value of the investment exceeds its recoverable amount, an impairment loss is recognised.

Loss of control

When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related non-controlling interests and other components of equity. Any resulting gain or loss is recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset available for sale. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

MCU LTD AND SUBSIDIARIES

ANNUAL REPORT AND FINANCIAL STATEMENTS

Notes to the Financial Statements for the year ending 30 June 2020 (Cont.)

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

Transactions eliminated on consolidation

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with those policies applied by the Group.

Non-controlling interests

Non-controlling interests in the results and equity of subsidiaries are shown separately in the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of financial position respectively.

Changes in ownership interests

The Group treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the Group. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received is recognised in a separate reserve within equity attributable to owners of MCU Ltd.

If the ownership interest in a joint venture or an associate is reduced but joint control or significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

(b) Income tax

Income tax expense comprises current and deferred tax. Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

The income tax expense for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and deferred tax liabilities attributable to temporary differences between the tax base of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses.

Current tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Deferred tax

Deferred tax assets and deferred tax liabilities are recognised for all temporary differences between carrying amounts of assets and liabilities in the financial statements and their respective tax bases. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised, or the deferred income tax liability is settled.

The deferred tax liabilities in relation to investment property that is measured at fair value is determined assuming the property will be recovered entirely through sale.

Deferred tax assets are only recognised for deductible temporary differences and unused tax losses if it is probable that future taxable amounts will be available to utilise those temporary differences and losses. The amount of deductible temporary differences brought to account as deferred tax assets is based on the assumption that no adverse change will

MCU LTD AND SUBSIDIARIES

ANNUAL REPORT AND FINANCIAL STATEMENTS

Notes to the Financial Statements for the year ending 30 June 2020 (Cont.)

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

occur in income tax legislation and the anticipation that the Group will derive sufficient future assessable income to enable the deferred tax asset to be realised and comply with the conditions of deductibility imposed by the law.

Unrecognised deferred tax assets are reassessed at each reporting date and recognised to the extent that it has become probable that future taxable profits will be available against which they can be used.

Deferred tax assets and deferred tax liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority.

Tax consolidation

MCU Ltd and its wholly owned Australian subsidiaries have implemented the tax consolidation legislation. As a consequence, these entities are taxed as a single entity and the deferred tax assets and deferred tax liabilities of these entities are set off in the consolidated financial statements, where applicable.

MCU Ltd is the head entity in the tax consolidated group. The separate taxpayer within a group approach has been used to allocate current income tax expense and deferred tax balances to wholly owned subsidiaries that form part of the tax consolidated group. MCU Limited has assumed all the current tax liabilities and the deferred tax assets arising from unused tax losses for the tax consolidated group via intercompany receivables and payables because a tax funding arrangement has been in place for the whole financial year.

(c) Financial assets and financial liabilities

(i) Initial recognition and measurement

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the financial instruments. A financial asset or financial liability is measured initially at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in the profit or loss.

(ii) Classification and subsequent recognition and measurement

Financial assets

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

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

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

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by-investment basis.

All other financial assets are classified as measured at FVTPL.

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

MCU LTD AND SUBSIDIARIES

ANNUAL REPORT AND FINANCIAL STATEMENTS

Notes to the Financial Statements for the year ending 30 June 2020 (Cont.)

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

(c) Financial assets and financial liabilities (Cont.)

Business model assessment

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

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

Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

(ii) Classification and subsequent recognition and measurement (cont.)

The Group has established specific criteria for financial assets that are originated or acquired for the purpose of securitization in a subsequent period. If, at origination or acquisition, based on these established criteria the financial asset is expected to be securitized as part of a portfolio that:

- qualifies for derecognition as detailed in (iii) below, the business objective of holding the financial asset to collect contractual cash flows is not met. Such financial assets are measured at FVTPL; or
- does not qualify for derecognition, the Group has elected, as its accounting policy, to determine the business model based on the accounting result of the securitization. As such, the held-to-collect business model is considered to be met.

Assessment whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Group considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Group's claim to cash flows from specified assets (e.g. non-recourse asset arrangements); and
- features that modify consideration of the time value of money – e.g. periodical reset of interest rates.

MCU LTD AND SUBSIDIARIES

ANNUAL REPORT AND FINANCIAL STATEMENTS

Notes to the Financial Statements for the year ending 30 June 2020 (Cont.)

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

(c) Financial assets and financial liabilities (Cont.)

Reclassifications

- Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Group changes its business model for managing financial assets. There were no changes to any of the Group business models during the current year.

Financial liabilities

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

(iii) De-recognition

Financial assets

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in OCI is recognised in profit or loss.

Any cumulative gain/loss recognised in OCI in respect of equity investment securities designated as at FVOCI is not recognised in profit or loss on derecognition of such securities. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Group is recognised as a separate asset or liability.

In transactions in which the Group neither retains nor transfers substantially all of the risks and rewards of ownership of a financial asset and it retains control over the asset, the Group continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

In certain transactions, the Group retains the obligation to service the transferred financial asset for a fee. The transferred asset is derecognised if it meets the derecognition criteria. An asset or liability is recognised for the servicing contract if the servicing fee is more than adequate (asset) or is less than adequate (liability) for performing the servicing.

(iii) De-recognition (cont.)

Financial liabilities

The Group de-recognises a financial liability when its contractual obligations are discharged or cancelled or when they expire.

(iv) Modifications of financial assets and financial liabilities

Financial assets

If the terms of a financial asset are modified, the Group evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognized (see (iii)) and a new financial asset is recognized at fair value.

If the cash flows of the modified asset carried at amortized cost are not substantially different, then the modification does not result in derecognition of the financial asset. In this case, the Group recalculates the gross carrying amount of the financial asset and recognizes the amount arising from adjusting the gross carrying amount as a modification gain or loss in profit or loss. If such a modification is carried out because of financial difficulties of the borrower (see part (vii)), then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income.

MCU LTD AND SUBSIDIARIES

ANNUAL REPORT AND FINANCIAL STATEMENTS

Notes to the Financial Statements for the year ending 30 June 2020 (Cont.)

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

(c) Financial assets and financial liabilities (Cont.)

(v) Offsetting

Financial assets and financial liabilities are set off and the net amount presented in the Statements of Financial Position when, and only when, the Group has a legal right to set off the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously. Income and expenses are presented on a net basis only when permitted by the accounting standards, or for gains and losses arising from a group of similar transactions.

(vi) Fair value measurement

Refer to Note 1(e) for details.

(vii) Impairment

Under AASB9, the Group applies a three-stage approach to measuring expected credit losses (ECLs) for the following categories of financial assets that are not measured at fair value through profit or loss (FVTPL):

- financial assets that are debt instruments carried at amortised cost (loans and advances to members); and
- loan commitments issued;

Exposures are assessed on a collective basis in each stage unless there is sufficient evidence that one or more events associated with an exposure could have a detrimental impact on estimated future cash flows. Where such evidence exists, the exposure is assessed on an individual basis.

Stage	Measurement basis
12-months ECL - (Stage 1)	The portion of lifetime ECL associated with the probability of default events occurring within the next 12 months.
Lifetime ECL – not credit impaired - (Stage 2)	ECL associated with the probability of default events occurring throughout the life of an instrument.
Lifetime ECL – credit impaired (Stage 3)	Lifetime ECL, but interest revenue is measured based on the carrying amount of the instrument net of the associated ECL.

At each reporting date, the Group assesses the credit risk of exposures in comparison to the risk at initial recognition, to determine the stage that applies to the associated ECL measurement. If the credit risk of an exposure has increased significantly since initial recognition, the asset will migrate to Stage 2. If no significant increase in credit risk is observed, the asset will remain in Stage 1. Should an asset become impaired it will be transferred to Stage 3.

The Group considers reasonable and supportable information that is relevant and available without undue cost or effort, for this purpose. This includes quantitative and qualitative information and also forward-looking analysis. Refer to Note 28B Credit risk management.

The Group measures loss allowances at an amount equal to lifetime ECL, except for the following, for which they are measured as 12-month ECL.

- Other financial assets measured as amortised cost that are determined to have low credit risk at the reporting date.
- Other financial instruments (other than lease receivables) on which credit risk has not increased significantly since their initial recognition.

The Group considers “due from other financial institutions”, classified as financial assets at amortised cost, to have low credit risk when their credit risk rating is equivalent to globally understood definition of ‘investment grade’.

MCU LTD AND SUBSIDIARIES

ANNUAL REPORT AND FINANCIAL STATEMENTS

Notes to the Financial Statements for the year ending 30 June 2020 (Cont.)

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

(c) Financial assets and financial liabilities (Cont.)

Credit Quality of financial assets

The Group's internally developed credit rating system utilises historical default data drawn from a number of sources to assess the potential default risk of lending, or other financial services products, provided to counterparties or customers. The Group has defined counterparty probabilities of default across retail and non-retail loans and advances. For non-retail, these can be broadly mapped to external credit rating agencies and comprise performing (pre-default) and non-performing (post-default) rating grades.

Refer to Note 28B Credit risk management for details.

Inputs, assumptions and techniques used for estimating impairment

In the course of the preparation of the financial statements, the Group has determined the likely impairment loss on loans and overdrafts which have not maintained loan repayments in accordance with the loan contract, or where other indicators exist.

For the determination of the 12-month ECLs, the Group has averaged the historical losses on unprovisioned loans over the last two years.

In identifying the collective provisions - Stage 2 and 3 ECLs - the Group has estimated the potential impairment, using the length of time the loan is in arrears. Given the relatively small number of impaired loans, the circumstances may vary for each loan over time resulting in higher or lower impairment losses.

The Stage 2 and Stage 3 lifetime collective provisions reflects the risk of future impairment based on past experience. The Group has determined that the likely impairment loss from the current loan portfolio will be an average of the past 10 years of write off history, equating to 0.15% of loans and advances. The Group also takes into account evidence of potential impairment such as bankruptcy, industrial restructuring, job losses or economic circumstances when determining the adequacy of provisioning at each period end.

Assessment of significant increase in credit risk

- When determining whether the risk of default has increased significantly since initial recognition, the Group considers both quantitative and qualitative information, including expert credit risk assessment, forward looking information and analysis based on the Group's historical experience.
- Retail facilities use the number of days past due (DPD) or the relative change in probability of default at account level, to determine significant increase in credit risk.
- In addition, as a backstop, the Group considers that significant increase in credit risk occurs when an asset is more than 30 days past due (DPD).

Calculation of expected credit losses

ECL are a probability-weighted estimate of credit losses. 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 Group in accordance with the contract and the cash flows that the Group 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; and
- undrawn loan commitments: as the present value of the difference between the contractual cash flows that are due to the Group if the commitment is drawn down and the cash flows that the Group expects to receive.

MCU LTD AND SUBSIDIARIES

ANNUAL REPORT AND FINANCIAL STATEMENTS

Notes to the Financial Statements for the year ending 30 June 2020 (Cont.)

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

(c) Financial assets and financial liabilities (Cont.)

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.

Credit-impaired financial assets

At each reporting date, the Group assesses whether financial assets carried at amortised cost and financial assets carried at FVOCI 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 Group on terms that the Group would not consider otherwise;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganization; 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 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;
- where a financial instrument includes both a drawn and an undrawn component and the Group cannot identify the ECL on the loan commitment component separately from those on the drawn component: The Group 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.

Write off

Loans and advances are written off (either partially or in full) when there is no realistic prospect of recovery. This is generally the case when the Group 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 Group's procedures for recovery of amounts due.

MCU LTD AND SUBSIDIARIES

ANNUAL REPORT AND FINANCIAL STATEMENTS

Notes to the Financial Statements for the year ending 30 June 2020 (Cont.)

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

(c) Financial assets and financial liabilities (Cont.)

Cash and cash equivalents

Cash and cash equivalents include cash on hand, unrestricted balances held in banks and highly liquid financial assets with original maturities of less than three months, which are subject to insignificant risks of changes in their value and are used by the Group in the management of its short-term commitments. Cash and cash equivalents are carried at amortised cost in the Statement of Financial Position.

Deposits from members

Deposits are initially measured at fair value plus transaction costs, and subsequently measured at their amortised cost using the effective interest method. Interest on deposits is recognised on an accrual basis. Interest accrued at the end of the reporting date is shown as a part of deposits.

Impairment - loans and advances

A general reserve for credit losses is maintained in equity to cover risks inherent in the loan portfolio. Movements in the general reserve for credit losses are recognised as an appropriation of retained earnings in compliance with APRA requirements.

(d) Revenue

Revenue generated from financial instruments (under AASB 9 Financial Instruments)

Loan interest is calculated on the daily loan balance outstanding and is charged in arrears to the borrower loan account on the last day of each month. Loan interest revenue is recognised as interest accrues using the effective interest method.

The effective interest method calculates the amortised costs of a financial instrument by discounting the financial instruments estimated future receipts or payments to their present value and allocates the interest income or interest expense, including any fees, costs, premiums or discounts integral to the financial instrument over its expected life.

Loan origination fee and loan transaction costs that are direct and incremental to the establishment of loans are deferred and amortised as a component of the calculation of the effective interest rate in relation to the originated loans.

Fees charged on loans after origination of the loan are recognised in profit or loss when the service is provided.

In calculating interest income and expenses, the effective interest rate is applied to the gross carrying amount of the loan except for loans that are not purchased or originated credit-impaired loans but subsequently have become credit-impaired loans. For those loans, the Group applies the effective interest rate to the amortised cost of the loan in subsequent reporting periods.

In subsequent reporting periods, the Group calculates the interest revenue by applying the effective interest rate to the gross carrying amount if the credit risk on the loan improves so that the loan is no longer credit-impaired and the improvement can be related objectively to an event occurring such as an improvement in the borrower's credit rating.

Revenue recognised from contracts with customers (under AASB 15 Revenue from Contracts with Customers)

Interest income and interest expense

Interest income and expense are recognised in profit or loss using the effective interest method. The 'effective interest rate' is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:

- the gross carrying amount of the financial asset; or
- the amortised cost of the financial liability.

MCU LTD AND SUBSIDIARIES

ANNUAL REPORT AND FINANCIAL STATEMENTS

Notes to the Financial Statements for the year ending 30 June 2020 (Cont.)

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

(d) Revenue (Cont.)

When calculating the effective interest rate for financial instruments other than credit-impaired assets, the Group estimates future cash flows considering all contractual terms of the financial instrument, but not expected credit losses. For credit-impaired financial assets, a credit-adjusted effective interest rate is calculated using estimated future cash flows including expected credit losses.

The calculation of the effective interest rate includes transaction costs and fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

Amortised cost and gross carrying amount

The 'amortised cost' of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit loss allowance (or impairment allowance before 1 July 2018). The 'gross carrying amount of a financial asset' is the amortised cost of a financial asset before adjusting for any expected credit loss allowance.

In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortised cost of the liability.

However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying the credit-adjusted effective interest rate to the amortised cost of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

For information on when financial assets are credit-impaired, see Note 3.2 and Note 5.3(B)

Presentation

Interest income and expense presented in the statement of profit or loss and OCI include:

interest on financial assets and financial liabilities measured at amortised cost calculated on an effective interest basis;

the effective portion of fair value changes in qualifying hedging derivatives designated in cash flow hedges of variability in interest cash flows, in the same period as the hedged cash flows affect interest income/expense; and

the effective portion of fair value changes in qualifying hedging derivatives designated in fair value hedges of interest rate risk.

Interest income and expense on other financial assets and financial liabilities at FVTPL are presented in net income from other financial instruments at FVTPL.

Classes of other income are measured as follows:

Fees and commissions income and expense

Fee and commission income and expense that are integral to the effective interest rate on a financial asset or financial liability are included in the effective interest rate. Loan fees that are recognised using the effective interest method are included with loan balances in the consolidated statement of financial position.

Other fee and commission income – including account servicing fees, loan discharge and administration fees, and syndication fees – is recognised as the related services are performed. If a loan commitment is not expected to result in the draw-down of a loan, then the related loan commitment fee is recognized on a straight-line basis over the commitment period. Other fee and commission expenses relate mainly to transaction and service fees, which are expensed as the services are received.

MCU LTD AND SUBSIDIARIES

ANNUAL REPORT AND FINANCIAL STATEMENTS

Notes to the Financial Statements for the year ending 30 June 2020 (Cont.)

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

(d) Revenue (Cont.)

Dividend income

Dividend income is recognised on an accruals basis when the Group's right to receive the dividend is established. Dividends are presented in net income from other financial instruments at FVTPL or other revenue based on the underlying classification of the equity investment. From 1 July 2018, dividends on equity instruments designated as at FVOCI that clearly represent a recovery of part of the cost of the investment are presented in OCI.

(e) Fair value measurement

Fair values may be used for financial and non-financial asset and liability measurement as well as sundry disclosures. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It is based on the presumption that the transaction takes place either in the principal market for the asset or liability or, in the absence of a principal market, in the most advantageous market. The principal or most advantageous market must be accessible to, or by, the Group.

Fair value is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their best economic interest.

The fair value measurement of a non-financial asset takes into account the market participant's ability to generate economic benefits by using the asset at its highest and best use or by selling it to another market participant that would use the asset at its highest and best use.

In measuring fair value, the Group uses valuation techniques that maximise the use of observable inputs and minimise the use of unobservable inputs.

Assets and liabilities measured at fair value are classified, into three levels, using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. Classifications are reviewed each reporting date and transfers between levels are determined based on a reassessment of the lowest level input that is significant to the fair value measurement.

For recurring and non-recurring fair value measurements, external valuers may be used when internal expertise is either not available or when the valuation is deemed to be significant. External valuers are selected based on market knowledge and reputation. Where there is a significant change in fair value of an asset or liability from one period to another, an analysis is undertaken, which includes a verification of the major inputs applied in the latest valuation and a comparison, where applicable, with external sources of data.

(f) 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.

Property

Freehold land and buildings are measured at their fair value, less subsequent depreciation. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset.

A revaluation increase is credited to other comprehensive income unless it reverses a revaluation decrease on the same asset previously recognised in profit or loss. A revaluation decrease is recognised in profit or loss unless it directly offsets a previous revaluation increase on the same asset in the asset revaluation reserve. On disposal, any revaluation surplus relating to sold assets is transferred to retained earnings.

It is the policy of the Group to have an independent valuation every three years, with annual appraisals being made by the directors.

Plant and equipment

Plant and equipment are measured on the cost basis less depreciation and impairment losses, if any.

MCU LTD AND SUBSIDIARIES

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Notes to the Financial Statements for the year ending 30 June 2020 (Cont.)

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

Depreciation

The depreciable amount of all property, plant and equipment, including buildings and capitalised leased assets but excluding freehold land, is depreciated over their useful lives to the Group commencing from the time the asset is held ready for use. Leasehold improvements are depreciated over the shorter of either the unexpired term of the lease or the estimated useful life of the improvements.

Property, plant and equipment is depreciated on a straight-line basis.

A summary of the rates used is:

Buildings	2.50%
Plant and equipment	5.00 – 25.00%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each year end date.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are included in profit or loss.

(g) Impairment of assets (excluding financial assets)

At each reporting date, the Group reviews the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed in profit or loss (except for items carried at revalued amount).

Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

(h) Intangible assets

Computer software

Items of computer software which are not integral to the computer hardware owned by the Group are classified as an intangible asset. Computer software acquired by the Group is measured at cost less accumulated amortisation and accumulated impairment losses, if any.

Subsequent expenditure on computer software is capitalised only when it increases the future economic benefits of the computer software. All other expenditure is expensed as incurred.

Amortisation is calculated using the straight-line method to write down the cost of the computer software to the residual value over the estimated useful life of the computer software. The estimated useful life ranges from 2 – 4 years. The computer software's residual value and useful life are reviewed, and adjusted if appropriate, at each year end date.

(i) Employee benefits

Provision is made for the liability for employee benefits arising from services rendered by employees to the end of the reporting period.

Short-term employee benefits

Liabilities for wages and salaries, profit-sharing and bonuses and the value of fringe benefits received (including non-monetary benefits) and accumulating sick leave which are expected to be settled within 12 months of the reporting date are recognised in respect of employees' services up to the reporting date. They are measured at the amounts expected to be paid when the liabilities are settled, plus related on-costs. Expenses for non-accumulating sick leave are recognised when the leave is taken and are measured at the rates paid or payable.

Long-term employee benefits

Liabilities for long service leave and annual leave which are not expected to be settled within twelve months of the end

MCU LTD AND SUBSIDIARIES

ANNUAL REPORT AND FINANCIAL STATEMENTS

Notes to the Financial Statements for the year ending 30 June 2020 (Cont.)

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

of the reporting period are recognised as provisions for employee benefits and are measured at the present value of the expected future payments to be made in respect of services provided to the end of the reporting period using the projected unit credit method. Consideration is given to expected future salary and wage increases, experience of employee departures and periods of service. Expected future payments are discounted using Australian corporate bond rates at the end of the reporting period with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

Contributions are made by the Group to employee superannuation funds and are recognised in profit or loss when incurred.

(j) Member Investment Shares

Member Investment shares are classified as equity. Costs directly attributable to the issue of new shares or options are shown as a deduction from the equity proceeds, net of any income tax benefit.

(k) Goods and services tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Tax Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the Statement of Financial Position are shown inclusive of GST.

(l) Accounting estimates and judgements

In preparing the financial statements, management has made judgements, estimates and assumptions that affect the application of the Group's accounting policies and the reported amounts of assets and liabilities, revenues, expenses, and the accompanying disclosures. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

Estimates and assumptions

Management have made critical accounting estimates when applying the Group's accounting policies with respect to:

- (i) Impairment of loans and advances- refer to Note 12
- (ii) Fair value measurements of financial instruments- refer to Note 32
- (iii) Valuation of the land and buildings held by the Group – refer to Note 14

MCU LTD AND SUBSIDIARIES

ANNUAL REPORT AND FINANCIAL STATEMENTS

Notes to the Financial Statements for the year ending 30 June 2020 (Cont.)

	Group		Parent Entity	
	2020	2019	2020	2019
	\$	\$	\$	\$
NOTE 2: INTEREST INCOME AND INTEREST EXPENSE				
(a) Interest income				
<i>Assets at amortised cost</i>				
Cash and cash equivalents	41,824	55,895	41,824	55,895
Financial assets at amortised cost	336,462	307,878	336,462	307,878
Loans and advances to members	1,427,096	1,756,534	1,427,096	1,756,534
Total interest income	1,805,382	2,120,307	1,805,382	2,120,307

(b) Interest expense				
<i>Liabilities at amortised cost</i>				
Deposits from members	714,561	792,676	714,561	792,676
Overdrafts	-	-	-	-
Total interest expense	714,561	792,676	714,561	792,676

NOTE 3: OTHER REVENUE AND INCOME				
Fees and commissions (member deposits)	154,640	172,913	141,480	156,681
Bad debts recovered	101	2,678	101	2,678
Other	400,110	221	400,110	220
Total other revenue and income	554,851	175,812	541,691	159,579

NOTE 4: PROFIT BEFORE INCOME TAX

Profit before income tax has been determined after the following items:

Expenses				
Fees and commissions	125,683	119,803	120,199	113,663
Depreciation of property, plant and equipment				
- Buildings	11,500	11,500	11,500	11,500
- Plant and equipment	19,462	20,568	19,462	20,425
Amortisation of intangibles	4,538	37,079	4,538	37,079
Net loss on disposal of property, plant and equipment	-	3,571	-	3,571
Net impairment loss on loans and advances to members	30,638	1,589	30,638	1,589
Employee benefit expenses *	679,522	686,236	679,522	686,236
* Includes defined contribution superannuation expense	55,437	55,146	55,437	55,146

MCU LTD AND SUBSIDIARIES

ANNUAL REPORT AND FINANCIAL STATEMENTS

Notes to the Financial Statements for the year ending 30 June 2020 (Cont.)

	Group		Parent Entity	
	2020	2019	2020	2019
	\$	\$	\$	\$
NOTE 5: INCOME TAX				
(a) Numerical reconciliation of income tax expense to prima facie tax payable:				
Tax at the Australian tax rate of 27.5% (2019:27.5%)	3,113	(32,474)	3,113	(32,474)
Tax at the Australian tax rate of 30% (2019: 30%)	1,733	1,567	-	-
Tax effect of:				
Non-deductible expenses	2,130	1,558	2,130	1,019
Deferred tax asset not recognised on current year loss	22,257	34,269	22,257	34,269
De-recognition of opening net deferred tax asset	-	54,140	-	54,140
Tax building depreciation	-	(2,814)	-	(2,814)
Tax cash flow boost	(27,500)	-	(27,500)	-
Income tax expense / (benefit)	1,733	56,246	-	54,140
b) Major components of tax expense/(income):				
Current tax	1,733	2,106	-	-
Deferred tax relating to the origination and reversal of temporary differences	-	54,140	-	54,140
Income tax expense / (benefit)	1,733	56,246	-	54,140
(c) Franking account				
Balance of franking account at year-end adjusted for franking credits or debits arising from payment of the provision for income tax or receipt of dividends receivable at the end of the reporting date based on a tax rate of 30% (2019: 30%)	948,817	948,817	948,817	948,817
NOTE 6: REMUNERATION OF AUDITORS				
Remuneration of the auditor of the parent entity for:				
- Auditing or reviewing the financial statements of any entity in the group	36,000	39,500	36,000	39,500
- Other services in relation to any entity in the group				
- Audit and review of prudential returns	18,000	17,350	18,000	17,350
- Taxation services	2,000	15,774	2,000	15,774
	56,000	72,624	56,000	72,624

MCU LTD AND SUBSIDIARIES

ANNUAL REPORT AND FINANCIAL STATEMENTS

Notes to the Financial Statements for the year ending 30 June 2020 (Cont.)

	Group		Parent Entity	
	2020	2019	2020	2019
	\$	\$	\$	\$
NOTE 7: KEY MANAGEMENT PERSONNEL				
(a) Remuneration of key management personnel (KMP's)				
Compensation of KMPs in total and for each of the following was as follows:				
(a) short-term employee benefits	234,256	193,775	234,256	193,775
(b) post-employment benefits – Superannuation contributions	18,400	25,336	18,400	25,336
(c) Other long-term benefits – long service leave	-	6,165	-	6,165
Total	252,656	225,276	252,656	225,276

Remuneration shown as short-term benefits means (where applicable) wages, salaries, and sick leave, profit-sharing and bonuses and value of fringe benefits received, but excludes out of pocket expense reimbursements.

Total costs of governance including remuneration of Directors were approved by the members at the previous Annual General Meeting.

(b) Loans to KMPs and their close family members

The Group's policy for lending to KMPs is that all loans are approved, and deposits accepted on the same terms and conditions that applied to members during the year for each class of loan or deposit.

There are no benefits or concessional terms and conditions applicable to close family members of the KMPs. There are no loans that are impaired in relation to the loan balances with KMPs and their close family members.

Details regarding the aggregate of loans made, guaranteed, and secured to KMPs and their related parties, and the number of individuals for the Group and Parent Entity are as follows:

	Opening Balance	Closing Balance	Interest Charged	Individuals in group at 30 June
	\$	\$	\$	(No.)
(i) Loans				
Aggregate value – 2020	413,886	392,023	17,150	1
Aggregate value – 2019	432,526	413,886	20,073	1
(ii) Revolving credit				
Aggregate value – 2020	-	-	-	-
Aggregate value – 2019	-	-	-	-

MCU LTD AND SUBSIDIARIES

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Notes to the Financial Statements for the year ending 30 June 2020 (Cont.)

	Group		Parent Entity	
	2020	2019	2020	2019
	\$	\$	\$	\$

NOTE 7: KEY MANAGEMENT PERSONNEL (Cont.)

(c) Other transactions with KMPs and their close family members

KMPs have received interest on deposits with the Group during the financial year. Interest has been paid on terms and conditions no more favourable than those available on similar transactions to other members of the Group.

Total value Term and Savings Deposits at year end	37,072	34,705	37,072	34,705
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Total interest paid on these deposits during the year	65	240	65	240
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The Group'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 that apply to members for each type of deposit. There are no other benefits paid or payable to the close family members of the KMPs. There are no other service contracts to which KMPs, or their close family members are an interested party.

NOTE 8: CASH AND CASH EQUIVALENTS

Cash on hand	153,361	129,537	153,361	129,537
Deposits with ADIs	7,480,522	2,446,003	7,480,522	2,446,229
	7,633,883	2,575,540	7,633,883	2,575,766

The effective interest rate on short- term bank deposits was 0.26% (2019: 0.47%); these deposits have an average maturity of 30 days. For an analysis of the movements in cash refer to the Statements of Cash Flows.

NOTE 9: OTHER RECEIVABLES

Accrued interest	29,021	53,123	29,021	53,123
Sundry debtors	3,010	1,490	3,010	1,490
	32,031	54,613	32,031	54,613

NOTE 10: FINANCIAL ASSETS AT AMORTISED COST

Deposits with ADI's	19,804,350	17,039,589	19,804,350	17,037,363
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NOTE 11: LOANS AND ADVANCES

Overdrafts	448,550	570,069	448,550	570,069
Term loans	27,560,202	31,517,177	27,560,202	31,517,177
Gross Loans and Advances	28,008,752	32,087,246	28,008,752	32,087,246
Unamortised loan fees	(23,701)	(30,189)	(23,701)	(30,189)
Provision for expected credit loss	(98,780)	(79,177)	(98,780)	(79,177)
Net Loans and Advances	27,886,271	31,977,880	27,886,271	31,977,880

Amount of loans and advances expected to be recovered more than 12 months after the reporting date	26,016,373	31,827,951	26,016,373	31,827,951
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MCU LTD AND SUBSIDIARIES

ANNUAL REPORT AND FINANCIAL STATEMENTS

Notes to the Financial Statements for the year ending 30 June 2020 (Cont.)

	Group		Parent Entity	
	2020	2019	2020	2019
	\$	\$	\$	\$
NOTE 12: IMPAIRMENT OF LOANS AND ADVANCES				
(a) Provision for expected credit loss				
Specific Provision – Lifetime Expected Credit Losses (ECL)	56,767	31,046	56,767	31,046
Collective Provision – Lifetime ECL	12,341	8,938	12,341	8,938
Collective Provision – 12-months ECL	29,672	39,193	29,672	39,193
Total collective provision for impairment	42,013	48,131	42,013	48,131
Total provision for impairment	98,780	79,177	98,780	79,177

Key judgements in determining the provision for expected credit loss

In the course of the preparation of the financial statements, the Group has determined the likely impairment loss on loans and overdrafts which have not maintained loan repayments in accordance with the loan contract, or where other indicators exist.

For the 12-month ECLs, the Group has averaged the historical loss on unprovisioned loans over the last two years and modified for any deterioration in existing credit conditions / macro-economic factors at balance date. No adjustments relating to these factors were made in the current or prior year.

In identifying the Stage 2 and 3 ECLs the Group has estimated the potential impairment, using the length of time the loan is in arrears. Given the relatively small number of impaired loans, the circumstances may vary for each loan over time resulting in higher or lower impairment losses.

The Stage 2 and Stage 3 lifetime collective provisions reflects the risk of future impairment based on past experience. The Group has determined that the likely impairment loss from the current loan portfolio will be an average of the past 10 years of write off history, equating to 0.15% of loans and advances. The Group also takes into account evidence of potential impairment such as bankruptcy, industrial restructuring, job losses or economic circumstances when determining the adequacy of provisioning at each period end.

An estimate is based on the period of impairment as follows:

Period of impairment	Overdrafts % of Balance	Unsecured Loans % of balance	Secured Loans % of balance
14 to 89 days – Stage 2 lifetime ECL	40	-	-
90 days to 181 days – Stage 2 lifetime ECL	75	40	5
182 days to 272 days – Stage 2 lifetime ECL	100	60	10
273 days to 364 days – Stage 2 lifetime ECL	100	80	15
Over 365 days – Stage 3 lifetime ECL	100	100	20

The Stage 2 and Stage 3 lifetime collective provisions reflects the risk of future impairment based on past experience. The Group has determined that the likely impairment loss from the current loan portfolio will be an average of the past 10 years of write off history, equating to 0.15% of loans and advances. The Group also takes into account evidence of potential impairment such as bankruptcy, industrial restructuring, job losses or economic circumstances when determining the adequacy of provisioning at each period end.

MCU LTD AND SUBSIDIARIES

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Notes to the Financial Statements for the year ending 30 June 2020 (Cont.)

(b) Allowance for impairment

Group and Parent

	2020				2019			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL not credit impaired	Stage 3 12-month ECL - credit impaired	Total	Stage 1 12-month ECL	Stage 2 Lifetime ECL not credit impaired	Stage 3 12-month ECL - credit impaired	Total
Balance at 1 July per AASB 139	39,193	8,938	31,046	79,177	19,160	34,161	73,024	126,345
Adjustment on initial application of AASB 9 ¹	-	-	-	-	-	-	-	-
Balance at 1 July per AASB 9	39,193	8,938	31,046	79,177	19,160	34,161	73,024	126,345
Transfer to 12-month ECL	-	-	-	-	-	-	-	-
Transfer to lifetime ECL not credit-impaired	-	-	-	-	-	-	-	-
Transfer to lifetime ECL credit-impaired	-	-	-	-	-	-	-	-
Net remeasurement of loss allowance	9,521	3,403	25,721	19,603	20,033	25,223	6,779	1,589
Bad debts written off	-	-	-	-	-	-	48,757	48,757
Bad debts recovered	-	-	-	-	-	-	-	-
Changes in model assumptions and methodologies	-	-	-	-	-	-	-	-
Other movements	-	-	-	-	-	-	-	-
Balance at 30 June	29,672	12,341	56,767	98,780	39,193	8,938	31,046	79,177

The opening balance for the collectively impaired provision for impairment measured under AASB 139 is now presented as 12-months and lifetime expected credit losses following the adoption of AASB 9, with no restatement to prior period comparatives. Refer to Note 2 (o) for information on the adoption of AASB 9.

Significant changes in the gross carrying amount of financial assets that contributed to changes in the loss allowance were as follows:

There was a decrease of loans of \$4,091,609 and member deposits increased by \$3,740,716. Loans growth was impacted by the requirement to obtain APRA approval on loans that are considered to be large exposures. This limit is relatively low compared to the market for housing loans in the community. Additionally, our interest rates have been higher than our competitors throughout the year. The significant increase in deposits was as a result of the community supporting the credit union and choosing to deposit large term deposits.

The following table further explains how significant changes in the gross carrying amount of financial instruments during the period contributed to changes in loss allowance.

	2020			Total
	Stage 1 12-month ECL	Stage 2 Lifetime ECL not credit- impaired	Stage 3 Lifetime ECL credit- impaired	
<i>Loans and advances to members at amortised cost</i>				
Balance at beginning of year	-	-	57,548	57,548
Restated for adoption of new standards	-	-	-	-
Changes due to financial assets recognised in the opening balance that have:				
Transfer from Lifetime ECL not credit impaired	-	-	24,215	24,215
Balance at end of year	-	-	81,763	81,763

MCU LTD AND SUBSIDIARIES

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Notes to the Financial Statements for the year ending 30 June 2020 (Cont.)

	Group		Parent Entity	
	2020	2019	2020	2019
	\$	\$	\$	\$
NOTE 13: INVESTMENTS IN SUBSIDIARIES				
Shares in subsidiaries, at cost	-	-	20	20
	-	-	20	20

NOTE 14: PROPERTY, PLANT AND EQUIPMENT

(a) Carrying values

Land

At independent valuation – 1 July 2017	600,000	600,000	600,000	600,000
	600,000	600,000	600,000	600,000

Buildings

At independent valuation – 1 July 2017	460,000	460,000	460,000	460,000
Accumulated depreciation	(34,500)	(23,000)	(34,500)	(23,000)
	425,500	437,000	425,500	437,000

Plant & Equipment

At cost	294,511	278,029	294,511	278,029
Accumulated depreciation	(250,823)	(231,360)	(250,823)	(231,360)
	43,688	46,669	43,688	46,669
Total Property, Plant & Equipment	1,069,188	1,083,669	1,069,188	1,083,669

(b) Movements in carrying amounts

Reconciliations of the carrying amounts of each class of property, plant and equipment between the beginning and end of the current financial year are set out below.

	Land	Buildings	Plant and Equipment	Total
	\$	\$	\$	\$
Group and Parent Entity				
Balance at 1 July 2018	600,000	448,500	67,147	1,115,647
Revaluation	-	-	-	-
Additions	-	-	1,250	1,250
Disposals	-	-	(1,303)	(1,303)
Depreciation expense	-	(11,500)	(20,425)	(31,925)
Balance at 30 June 2019	600,000	437,000	46,669	1,083,669
Revaluation	-	-	-	-
Additions	-	-	16,482	16,482
Disposals	-	-	-	-
Depreciation expense	-	(11,500)	(19,463)	(30,963)
Balance at 30 June 2020	600,000	425,500	43,688	1,069,188

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Notes to the Financial Statements for the year ending 30 June 2020 (Cont.)

(c) Revaluations

The revalued land and buildings consist of office properties in Australia. Management determined that these constitute one class of asset under AASB 13, *Fair Value Measurement*, based on the nature, characteristics and risks of the properties.

Fair value of the properties was determined using the income approach based on estimated rental value of the properties. Market rentals, outgoings and capitalisation rates are estimated by the independent valuer based on comparable transactions and industry data. As at the date of revaluation on 1 July 2017, the properties' fair value is based on valuations performed by CB Richard Ellis, an accredited independent valuer who has valuation experience for similar office properties in Australia.

If revalued land and buildings were stated at historical cost, amounts would be as follows:

	Group		Parent Entity	
	2020	2019	2020	2019
	\$	\$	\$	\$
Cost	566,550	566,550	566,550	566,550
Accumulated depreciation	(148,833)	(138,578)	(148,833)	(138,578)
Net book value	417,717	427,972	417,717	427,972

Fair value hierarchy

The fair value measurement for the properties has been categorised as a level 3 fair value based on the inputs to the valuation technique used. Details of the significant unobservable inputs used and relationship between unobservable inputs and fair value follow:

Unobservable inputs	Range of inputs	Relationship between unobservable inputs and fair value
Market gross rent (\$/sqm)	\$3,800 to \$4,000	The higher the gross rent, the higher the fair value
Outgoings (\$/sqm)	\$48.28	The higher the outgoings and capitalisation rate, the lower the fair value
Capitalisation rate	6.5% to 7.0% (weighted average 6.75%)	

It is the credit union's policy to obtain valuations every 3 years. A valuation was obtained in the 2018 financial year. There have been no macro-economic or other changes to the Queensland commercial property market that would have materially altered the fair value since the latest valuation was performed. The building therefore is therefore considered to be reflected at its fair value.

NOTE 15: DEFERRED TAXES

There are no deferred taxes reported on the balance sheet.

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Notes to the Financial Statements for the year ending 30 June 2020 (Cont.)

	Group		Parent Entity	
	2020	2019	2020	2019
	\$	\$	\$	\$

NOTE 16: INTANGIBLE ASSETS

(a) Carrying values

Computer software at cost	384,573	377,753	384,573	377,753
Accumulated amortisation	(372,102)	(367,564)	(372,102)	(367,564)
	12,471	10,189	12,471	10,189

Movements in carrying amounts

Reconciliations of the carrying amounts of each class of intangible asset between the beginning and end of the current financial year are set out below.

Group and Parent Entity

	Computer Software	Total
	\$	\$
Balance at 1 July 2018	49,536	49,536
Disposals	(2,268)	(2,268)
Amortisation expense	(37,079)	(37,079)
Balance at 30 June 2019	10,189	10,189
Additions	6,820	6,820
Amortisation expense	(4,538)	(4,538)
Balance at 30 June 2020	12,471	12,471

	Group		Parent Entity	
	2020	2019	2020	2019
	\$	\$	\$	\$

NOTE 17: DEPOSITS FROM MEMBERS

Member call deposits (including withdrawable shares)	29,095,988	25,353,033	29,141,438	25,394,817
Member term deposits	23,128,096	23,130,335	23,128,096	23,130,335
	52,224,084	48,483,368	52,269,534	48,525,152

Amount of deposits from members expected to be settled more than 12 months after the reporting date

	1,926,769	1,069,777	1,926,769	1,069,777
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NOTE 18: PROVISIONS

Annual Leave	59,376	74,762	59,376	74,762
Long service leave	37,175	33,914	37,175	33,914
	96,551	108,676	96,551	108,676

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Notes to the Financial Statements for the year ending 30 June 2020 (Cont.)

	Group		Parent Entity	
	2020	2019	2020	2019
	\$	\$	\$	\$
NOTE 19: MEMBER INVESTMENT SHARES				
Member investment shares (MIS)	1,054,367	1,054,367	1,054,367	1,054,367

There has been no movement in Member Investment Shares (MIS) during the year.

The MIS are transferable but are not listed on the Australian Securities Exchange or any other public stock exchange. MIS have no maturity date and investment shareholders have no right or option to demand their repayment. MIS are issued at a fully paid value of \$1.00 per share. At 30 June 2020, there were 1,054,367 MIS (2019: 1,054,367).

Holders of MIS can vote at a meeting of the class of holders of MIS and cannot vote at a general meeting of Members of Maleny Credit Union. MIS holders will receive a dividend if there are sufficient profits to pay a dividend up to the maximum annual dividend; this decision is by a resolution of the Board. Ordinary shares have no par value and the parent entity does not have a limited amount of authorised capital.

NOTE 20: RESERVES

(a) General reserve

The general reserve records funds set aside for future expansion of the Group.

(b) Asset revaluation reserve

The asset revaluation reserve records revaluations of non-current assets.

(c) Reserve for credit losses

The reserve for credit losses records amounts previously set aside as a General provision and is maintained to comply with the Prudential Standards as set down by APRA.

(d) Redeemed preference share reserve

The redeemed preference share reserve records the transfer of profits appropriated for the redeemable preference shares that have been redeemed.

NOTE 21: COMMITMENTS

Outstanding loan commitments

Loans and credit facilities approved but not funded or drawn at the end of the financial year:

	Group		Parent Entity	
	2020	2019	2020	2019
	\$	\$	\$	\$
Loans approved but not funded	331,071	144,408	331,071	144,408
Undrawn overdraft	834,265	731,067	834,265	731,067
	1,165,336	875,475	1,165,336	875,475

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Notes to the Financial Statements for the year ending 30 June 2020 (Cont.)

NOTE 22: CONTINGENT LIABILITIES

On 2 September 2020, MCU issued a notice of termination to EziFin, in respect of the proposed agreement between the entities, being a scheme of arrangement. EziFin have subsequently commenced proceedings in the Supreme Court of Queensland (Matter No. BS9853/20). EziFin continue to pursue the matter and MCU intends to defend the matter to the fullest extent possible. At this time, the Directors are of the opinion that MCU will be successful in defending against this claim and accordingly, no provision is made for this matter.

Other than the above, the credit union had no contingent liabilities at 30 June 2020 (2019: nil)

NOTE 23: BORROWING FACILITIES

Group and Parent Entity	Approved Facility \$	Current Borrowings \$	Net Available \$
2020			
Bridges short-term loan	5,500,000	-	5,500,000
Indue overdraft facility	180,000	-	180,000
	<u>180,000</u>	<u>-</u>	<u>180,000</u>
2019			
Bridges short-term loan	5,500,000	-	5,500,000
Indue overdraft facility	180,000	-	180,000
	<u>5,680,000</u>	<u>-</u>	<u>5,680,000</u>

(a) Indue overdraft facility

Borrowings, standby lines, and credit facilities with Indue Limited are secured by deposits.

(b) Bridges short-term loan

Bridges Limited, hosted by Fiig Ltd, offer an unsecured, wholesale borrowing facility, which is currently subject to an on-hold status as a result of the Federal Government early access to superannuation scheme.

NOTE 24: SUBSIDIARIES

The Parent Entity is MCU Ltd. Particulars in relation to subsidiaries:

(a) Subsidiaries consolidated

Name	Country of Incorporation	Percentage Owned	
		2020	2019
		%	%
MCU Financial Services Pty Ltd	Australia	100	100
MCU Community Pty Ltd (*)	Australia	100	100

*MCU Community Pty Ltd does not trade and is the corporate trustee for the Maleny and District Community Credit Union Charitable Trust.

MCU LTD AND SUBSIDIARIES

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Notes to the Financial Statements for the year ending 30 June 2020 (Cont.)

NOTE 25: EVENTS SUBSEQUENT TO REPORTING DATE

On 11 March 2020, the World Health Organisation ("WHO") declared a pandemic in respect of increasing cases of Coronavirus being recorded on a global basis. Since the WHO declaration, the Australian Commonwealth and State governments have been implementing various policy measures to respond to the pandemic, including quarantine measures and economic stimulus packages. Further information regarding the impact of the pandemic is included in this financial report. The Directors do not expect that COVID-19 will have a significant impact on credit quality and member loans. The Directors continue to monitor the impact of the pandemic but are unable to determine the extent of the future impact of the pandemic.

On 13 March 2020, the Firstmac application to the Treasurer, Hon. J. Frydenberg MP, was rejected on the basis of the Treasurer's assessment that the transaction was not in the national interest, noting prudential risks were considered to outweigh community and competition benefits. As a result, the board of directors have pursued other options for a merger or transfer of business and received a number of expressions of interest.

A preferred bidder, being Ezi Financial Services Pty Ltd (ACN 628 254 455) ("EziFin") had been identified but unfortunately that transaction proved unsuccessful and, on 2 September 2020, MCU issued a notice of termination to EziFin. EziFin have subsequently commenced proceedings in the Supreme Court of Queensland (Matter No. BS9853/20). EziFin continue to pursue the matter and MCU intends to defend the matter to the fullest extent possible.

Subsequent to termination of the agreement with EziFin, in September 2020, MCU issued an information memorandum to several potential merger partners that operate under APRA regulation. MCU is currently progressing merger discussions with a preferred merger partner.

Other than the above, no matters or circumstances have arisen since the reporting date which have significantly affected or may significantly affect the operations, or state of affairs of the Group in subsequent financial years.

	Group		Parent Entity	
	2020	2019	2020	2019
	\$	\$	\$	\$

NOTE 26: CLASSES OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The following is a summary of financial instruments by class.

(a) Financial Assets

(i) Measured at amortised cost

Cash and cash equivalents	7,633,833	2,575,540	7,633,883	2,575,540
Other receivables	32,031	54,613	32,031	54,613
Loans and advances to members	27,886,271	31,977,880	27,886,271	31,977,880
Financial assets at amortised cost	19,804,350	17,037,589	19,804,350	17,037,589
Total	55,356,535	51,645,622	55,356,535	51,645,622

(b) Financial Liabilities

(i) Measured at amortised cost

Deposits from members	52,224,084	48,483,368	52,269,534	48,525,152
Other payables	313,140	379,680	312,943	379,425
Total	52,537,224	48,863,048	52,582,477	48,904,577

NOTE 27: DIVIDENDS

No dividends have been declared or paid since the end of the financial year to the date of this report. No dividends were paid in 2019.

MCU LTD AND SUBSIDIARIES

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Notes to the Financial Statements for the year ending 30 June 2020 (Cont.)

NOTE 28: RISK MANAGEMENT POLICY AND OBJECTIVES

Introduction

The Board of Directors (the Board) has endorsed a policy of compliance and risk management to suit the risk profile of the Group.

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

- Market risk (including interest rate risk)
- Liquidity management
- Credit risk management
- Operations risk management including data risk management.

The main elements of risk governance are as follows:

- Board:** This is the primary governing body and approves the level of risk to which the Group is exposed and the framework for reporting and mitigating those risks.
- Audit & Risk Management Committees:** These are key Committees of the Board in the control of risk. The Committees are comprised of representatives from the Board and are attended by executive staff of the Company. The role of the Committees are to assist the Board in the identification, assessment, reporting and monitoring of risks. These roles are undertaken in accordance with the Committees respective Charters, as determined by the Board.
- Credit Control:** The Chief Executive Officer and the Credit Control Officer meet weekly and have responsibility for managing and reporting credit risk exposure. They scrutinise operational reports and monitor exposures against limits determined by the Board. They also determine the credit risk of the loans in the portfolio, ensuring provisioning is accurate and determining controls that need to be put in place regarding the authorisation of new loans.

The Chief Executive Officer and the Finance Manager have the responsibility for implementing policies to ensure that all large credit exposures are correctly pre-approved, measured and controlled. Details concerning a prospective borrower are subject to a criteria-based decision-making process. Criteria used for this assessment include credit references, loan-to-value ratio on security and borrower's capacity to repay which vary according to the value of the loan or facility

All large credit exposure facilities above policy limits are approved by the Chief Executive Officer or the Board.

All loans are managed weekly through the monitoring of the scheduled repayments.

Provisioning is performed where the loans are classified as non-performing, in three stages

Stage	Measurement Basis
12-months ECL – (Stage 1)	The portion of lifetime ECL associated with the probability of default events occurring within the next 12 months.
Lifetime ECL – not credit impaired – (Stage 2)	ECL associated with the probability of default events occurring throughout the life of an instrument.
Lifetime ECL – Credit impaired (Stage 3)	Lifetime ECL, but interest revenue is measured based on the carrying amount of the instrument net of the associated ECL.

Refer to Note 1 (c) (vii) for further details on how the loan impairments are calculated.

MCU LTD AND SUBSIDIARIES

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Notes to the Financial Statements for the year ending 30 June 2020 (Cont.)

NOTE 28: RISK MANAGEMENT POLICY AND OBJECTIVES (cont.)

- iv) Executive staff: Executive staff are engaged by the Company to monitor compliance with the policy frameworks established by the Board. A key role of the executive staff is the preparation of reports to the Board regarding actual conditions, which are measured against pre-set targets and limits prescribed by the Board.
- v) Internal Audit: Internal Audit has responsibility for implementing the controls testing and assessment as required by the Audit Committee.

A. Market Risk

The Group has undertaken the following strategies to minimise the risks arising from financial instruments.

The objective of the Group's risk management strategy is to manage and control market exposures in order to optimise returns within the Board risk appetite.

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

The management of market risk is the responsibility of the Management which reports directly to the Board through the Chief Executive Officer.

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 ADIs are exposed to interest rate risk within their Treasury operations. There has been no change to the Credit Union's exposure to market risk or the way the Credit Union manages and measures interest rate risk in the reporting period.

Based on calculations as at 30 June 2020, the net profit and equity impact for a 1% (2019: 1%) movement in interest rates would be \$30,695 (2019: \$32,170) 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 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 deposits with similar terms and rates applicable;
- savings deposits would not reprice in the event of a rate change;
- fixed rate loans would all reprice to the new interest rate at the contracted date;
- mortgage loans would all reprice to the new interest rate within 28 days;
- personal loans would reprice after a 3-month delay;
- 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 Group's exposure to market risk or the way the Group manages and measures interest rate risk in the reporting period.

MCU LTD AND SUBSIDIARIES

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Notes to the Financial Statements for the year ending 30 June 2020 (Cont.)

NOTE 28: RISK MANAGEMENT POLICY AND OBJECTIVES (cont.)

B. Credit Risk

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

Credit Risk – Loans and advances

The maximum credit risk exposure in relation to loans is outlined in Note 30(a).

All loans and facilities are within Australia. The geographic distribution is not analysed into significant areas within Australia as the exposure classes are not considered material. Concentrations are outlined below and in Note 30(b).

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 lending policy has been endorsed by the Board to ensure that loans are only made to members that are credit-worthy (capable of meeting loan repayments).

The Group has established policies/procedures over the:

- Credit assessment and approval of loans and facilities covering acceptable risk assessment and security requirements;
- Limits of acceptable exposure to individual borrowers, non-mortgage secured loans and commercial lending;
- 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; and
- Review of compliance with the above policies.

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

(i) Past Due and Impaired Loans

A loan is past due when the counterparty has failed to make payment when contractually 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.

Daily reports monitor loan repayments to detect delays in repayments and recovery action is undertaken after 7 days. For loans where repayments are doubtful, external consultants may be engaged to conduct recovery action once the loans are over 90 days in arrears. The exposure to losses arises predominantly 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 profit or loss. 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 financial assets the Group makes collective assessments for each financial asset portfolio segment by similar risk characteristics.

Provisions are maintained at a level that management deems sufficient to absorb probable incurred losses in the Group's loan portfolio of assets and individually identified loans.

A provision for impairment is established on all past due loans after a specified period of repayment default where it is probable that some of the asset will not be repaid or recovered. Specific loans and portfolios of assets are provided against depending on a number of factors including deterioration in location risk, changes in personal circumstances, as well as identified weaknesses or deterioration in cash flows.

Details of past due and impaired balances and provisions for impairment of loans and advances to members are outlined in Note 12.

Refer Note 1(c) (vii) for details of the Group's policies in regard to bad debt write-offs.

MCU LTD AND SUBSIDIARIES

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Notes to the Financial Statements for the year ending 30 June 2020 (Cont.)

NOTE 28: RISK MANAGEMENT POLICY AND OBJECTIVES (cont.)

B. Credit Risk (cont.)

(ii) Credit Quality analysis

The following table sets out information about the credit quality of financial assets measured at amortised cost and investment securities at FVOCI. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts. For loan commitments, the amounts in the table represent the amounts committed.

Explanation of the terms: 12-month ECL, lifetime ECL and credit-impaired are included in Note 1 (c)(vii).

Group and Parent	2020			2020 Total	2019
	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired		Total
	\$'000	\$'000	\$'000	\$'000	\$'000
Loans and advances to members at amortised cost					
Default	-	-	254	254	1,141
Housing Loans	25,552,744	331,224	-	25,883,968	29,406,201
Personal Loans	-	1,428,325	57,286	1,485,611	1,736,471
Commercial Loans	-	190,369	-	190,369	373,364
Overdrafts	-	448,416	134	448,550	570,069
Total	25,552,744	2,398,334	57,674	28,008,752	32,087,246
Allowance for impairment	(29,673)	(12,341)	(56,767)	(98,780)	(79,177)
Carrying amount	25,523,071	2,385,993	907	27,909,972	32,008,069

All investments in equity instruments are solely for the benefit of service to the Credit Union. The Credit Union invests in entities set up for the provision of services such as IT solutions, treasury services, etc where specialisation demands quality staff. This is best secured by one entity. As such, credit risk arising from equity investments is immaterial. Further details of the investments are set out in Note 10.

(iii) Collateral Securing Loans

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

The Group holds collateral against loans and advances to members as detailed below:

	Group 2020	Parent Entity 2019	Group 2020	Parent Entity 2019
	\$	\$	\$	\$
Loans and advances with no collateral	1,098,316	1,323,638	1,098,316	1,323,638
Loans and advances with collateral	<u>26,910,436</u>	<u>30,763,608</u>	<u>26,910,436</u>	<u>30,763,608</u>
Gross Loans and advances	<u>28,008,752</u>	<u>32,087,246</u>	<u>28,008,752</u>	<u>32,087,246</u>

Where collateral is held, it is in the form of mortgage interests over property, other registered securities over assets, mortgage insurance and guarantees. The fair value of the collateral is measured at the time of providing the loan or advance and is required to be no less than 100% of the loan or advance. The fair value of the collateral is generally not updated except when a loan or advance is individually assessed as impaired. Collateral is usually not held over loans and advances to, or deposits with, other financial institutions. Collateral is usually not held against investment securities. 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 loans in well-secured residential mortgages which carry an 80% LVR or less; or 100% LVR or less when the loan is insured.

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Notes to the Financial Statements for the year ending 30 June 2020 (Cont.)

NOTE 28: RISK MANAGEMENT POLICY AND OBJECTIVES (cont.)

B. Credit Risk (cont.)

(iii) Collateral Securing Loans(cont.)

The split of the portfolio by LVR is reviewed by the Board monthly. It is the policy of the Board to allow members with a secured loan reasonable assistance and opportunity to rectify a breach prior to recoverability procedures being initiated.

Residential mortgage lending

The following tables stratify credit exposures from mortgage loans and advances to retail customers by ranges of loan-to-value ratio (LVR). LVR is calculated as the ratio of the gross amount of the loan – or the amount committed for loan commitments – to the value of the collateral. The valuation of the collateral excludes any adjustments for obtaining and selling the collateral. The value of the collateral for residential mortgage loans is based on the collateral value at origination updated based on changes in house price indices. For credit-impaired loans the value of collateral is based on the most recent appraisals.

	Group		Parent	
	2020	2019	2020	2019
	\$	\$	\$	\$
Loan-to-value ratio (LVR)				
Less than 60%	15,884,400	16,212,520	15,884,400	16,212,520
61-80%	10,073,391	13,341,003	10,073,391	13,341,003
81-90%	331,224	386,309	331,224	386,309
91-100%	-	-	-	-
More than 100%	-	-	-	-
Total	26,289,015	29,939,832	26,289,015	29,939,832
Credit-impaired loans				
Less than 60%	-	-	-	-
61-70%	311,214	308,241	311,214	308,241
81-90%	-	-	-	-
91-100%	-	-	-	-
More than 100%	-	-	-	-
Total	311,214	308,241	311,214	308,241

Commitments to advance residential mortgage loans

	Group		Parent	
	2020	2019	2020	2019
	\$	\$	\$	\$
Loan-to-value ratio (LVR)				
Less than 60%	297,174	54,341	297,174	54,341
61-80%	3,282	90,067	3,282	90,067
81-90%	-	-	-	-
91-100%	-	-	-	-
More than 100%	-	-	-	-
Total	300,456	144,408	300,456	144,408

The Group has minimal commercial customers with the total outstanding loans balance at 30 June 2020 being \$190,369 (2019: \$373,364).

Assets obtained by taking possession of collateral

There were no assets acquired by the Group during the current or prior financial year. The policy of the Group is to sell the assets via auction at the earliest opportunity, after the measures to assist the members to repay the debts have been exhausted.

MCU LTD AND SUBSIDIARIES

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Notes to the Financial Statements for the year ending 30 June 2020 (Cont.)

NOTE 28: RISK MANAGEMENT POLICY AND OBJECTIVES (cont.)

B. Credit Risk (cont.)

(iv). Amounts arising from ECL

Inputs, assumptions and techniques used for estimating impairment

See also accounting policy in Note 1 (c) (vii).

(a) Significant increase in credit risk

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Group 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 Group's historical experience and expert credit assessment and including forward-looking information.

The objective of the assessment is to identify whether a significant increase in credit risk has occurred for an exposure by comparing:

- the remaining lifetime probability of default (PD) as at the reporting date; with
- the remaining lifetime PD for this point in time that was estimated at the time of initial recognition of the exposure (adjusted where relevant for changes in prepayment expectations).

Credit risk classifications

The Group allocates each exposure to a classification based on its loan type. Additionally, a variety of data is obtained at origination that is determined to be predictive of the risk of default and applying experienced credit judgement.

Credit risk classifications are defined and calibrated such that the risk of default occurring increases exponentially as the credit risk deteriorates so, for example, the difference in risk of default between a residential mortgage loan and commercial loan differs based on LVR and security provided and the ability to repay.

Each exposure is allocated to a credit risk classification at initial recognition based on the loan type and security provided. Exposures are subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk classification. The monitoring typically involves use of the following data.

Retail and all other exposures

- Internally collected data on customer behaviour – e.g. utilisation of credit card facilities
- Affordability metrics – i.e. capacity to repay
- External data from credit reference agencies including industry-standard credit scores (e.g. beacon scores)
- Payment record – this includes overdue status as well as a range of variables about payment ratios
- Utilisation of the granted limit
- Requests for and granting of forbearance

Existing and forecast changes in business, financial and economic conditions

The table below provides an indicative mapping of how the Group's internal credit risk grades relate to PD.

Classifications based on loan balances	Risk assessment	ECL Classification
Default	Exposures which have been 100% provided for	Lifetime ECL – Credit Impaired
Housing loans	Lower risk due to security being held	Split between 12-month ECL and lifetime ECL not credit impaired based on LVR
Personal loans	Higher risk as generally unsecured	Lifetime ECL not credit impaired
Commercial loans	Higher risk due to uncertainty of capacity to repay	Lifetime ECL not credit impaired
Overdrafts	Higher risk as generally unsecured	Lifetime ECL not credit impaired

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Notes to the Financial Statements for the year ending 30 June 2020 (Cont.)

NOTE 28: RISK MANAGEMENT POLICY AND OBJECTIVES (cont.)

B. Credit Risk (cont.)

(iv). Amounts arising from ECL (cont.)

Generating the term structure of PD

Credit risk grades are a primary input into the determination of the term structure of PD for exposures. The Group collects performance and default information about its credit risk exposures analysed by region and by type of product and borrower as well as by credit risk assessment. For all portfolios, information purchased from external credit reference agencies is also used.

The Group employs statistical models to analyse the data collected and generate estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time.

This analysis includes the identification and calibration of relationships between changes in default rates and changes in key macro-economic factors as well as in-depth analysis of the impact of certain other factors (e.g. forbearance experience) on the risk of default. For most exposures, key macro-economic indicators include: GDP growth, benchmark interest rates and unemployment. For exposures to specific industries and/or regions, the analysis may extend to relevant commodity and/or real estate prices.

Based on advice from the Chief Executive Officer and the Chief Financial Officer and consideration of a variety of external actual and forecast information, the Group formulates a 'base case' view of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios (see discussion below on incorporation of forward-looking information). The Group then uses these forecasts to adjust its estimates of PDs.

Determining whether credit risk has increased significantly

The criteria for determining whether credit risk has increased significantly vary by portfolio and include quantitative changes in PDs and qualitative factors, including a backstop based on delinquency. The credit risk of a particular exposure is deemed to have increased significantly since initial recognition if, based on the Group's quantitative modelling, the remaining lifetime PD is determined to have increased by more than 10% - 20%.

Using its expert credit judgement and, where possible, relevant historical experience, the Group may determine that an exposure has undergone a significant increase in credit risk based on particular qualitative indicators that it considers are indicative of such and whose effect may not otherwise be fully reflected in its quantitative analysis on a timely basis. Residential mortgages and personal loans make up the majority of the Group's portfolio. Therefore, analysis is performed on the portfolio mix to ensure that personal loans do not increase dramatically.

As a backstop, the Group considers that a significant increase in credit risk occurs no later than when an asset is more than 14 days past due or, for unsecured exposures, more than 7 days past due. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received. Due dates are determined without considering any grace period that might be available to the borrower.

The Group monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews to confirm that:

- the criteria are capable of identifying significant increases in credit risk before an exposure is in default;
- the criteria do not align with the point in time when an asset becomes 30 days past due; and
- there is no unwarranted volatility in loss allowance from transfers between 12-month PD (stage 1) and lifetime PD (stage 2).

(b) Definition of default

The Group considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held);
- the borrower is past due more than 90 days on any material credit obligation to the Group.

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Notes to the Financial Statements for the year ending 30 June 2020 (Cont.)

NOTE 28: RISK MANAGEMENT POLICY AND OBJECTIVES (cont.)

B. Credit Risk (cont.)

(iv). Amounts arising from ECL (cont.)

Overdrafts are considered as being past due once the customer has breached an advised limit or been advised of a limit smaller than the current amount outstanding;

- the Group agrees to a distressed restructuring resulting in a material credit related diminished asset stemming from such actions as material forgiveness or postponement of payments or repayments of amount owing;
- the Group has filed for the borrower's bankruptcy in connection with the credit obligation; or
- the borrower has sought or been placed in bankruptcy resulting in the delay or avoidance of repayment of the amount owing.

In assessing whether a borrower is in default, the Group considers indicators that are:

- qualitative – e.g. breaches of covenant;
- quantitative – e.g. overdue status and non-payment on another obligation of the same issuer to the Group; and
- based on data developed internally and obtained from external sources.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

The definition of default largely aligns with that applied by the Group for regulatory capital purposes (see Note (28E))

(c) Incorporation of forward-looking information

The Group incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. Based on advice from the Chief Executive Officer and Chief Financial Officer and economic experts and consideration of a variety of external actual and forecast information, the Group formulates a 'base case' view of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios. This process involves developing two more additional economic scenarios and considering the relative probabilities of each outcome. External information includes economic data and forecasts published by governmental bodies and RBA, forecasts by larger Australian banks and financial institutions and other selected private-sector and academic forecasters.

The base case represents a most-likely outcome and is aligned with information used by the Group for other purposes such as strategic planning and budgeting. The other scenarios represent more optimistic and more pessimistic outcomes. Periodically, the Group carries out stress testing of more extreme shocks to calibrate its determination of these other representative scenarios.

The Group has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses.

The key drivers for credit risk for retail portfolios are: unemployment rates, house prices and interest rates. For exposures to specific industries and/or regions, the key drivers also include relevant commodity and/or real estate prices.

The economic scenarios used as at 30 June 2020 did not have a significant impact on the ECL calculation.

(d) Modified financial assets

The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. An existing loan whose terms have been modified may be derecognized and the renegotiated loan recognized as a new loan at fair value in accordance with the accounting policy set out in Note 1.3 (b)(iv).

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Notes to the Financial Statements for the year ending 30 June 2020 (Cont.)

NOTE 28: RISK MANAGEMENT POLICY AND OBJECTIVES (cont.)

B. Credit Risk (cont.)

(d) Modified financial assets (cont.)

When the terms of a financial asset are modified and the modification does not result in derecognition, the determination of whether the asset's credit risk has increased significantly reflects comparison of:

- its remaining lifetime PD at the reporting date based on the modified terms; with
- the remaining lifetime PD estimated based on data at initial recognition and the original contractual terms.

The Group renegotiates loans to customers in financial difficulties (referred to as 'forbearance activities') to maximize collection opportunities and minimize the risk of default. Under the Group's forbearance policy, loan forbearance is granted on a selective basis if the debtor is currently in default on its debt or if there is a high risk of default, there is evidence that the debtor made all reasonable efforts to pay under the original contractual terms and the debtor is expected to be able to meet the revised terms.

The revised terms usually include extending the maturity, changing the timing of interest payments and amending the terms of loan covenants. Both retail and commercial loans are subject to the forbearance policy. The Group's Chief Executive Officer and Chief Financial Officer regularly reviews reports on forbearance activities.

For financial assets modified as part of the Group's forbearance policy, the estimate of PD reflects whether the modification has improved or restored the Group's ability to collect interest and principal and the Group's previous experience of similar forbearance action. As part of this process, the Group evaluates the borrower's payment performance against the modified contractual terms and considers various behavioural indicators.

Generally, forbearance is a qualitative indicator of a significant increase in credit risk and an expectation of forbearance may constitute evidence that an exposure is credit-impaired (see Note 1 (c)(vii)). A customer needs to demonstrate consistently good payment behaviour over a period of time before the exposure is no longer considered to be credit-impaired/in default or the PD is considered to have decreased such that the loss allowance reverts to being measured at an amount equal to 12-month ECL.

(e) Measurement of ECL

The key inputs into the measurement of ECL are the term structure of the following variables:

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

These parameters are generally derived from internally developed statistical models and other historical data. They are adjusted to reflect forward-looking information as described above. PD estimates are estimates at a certain date, which are calculated based on statistical rating models, and assessed using rating tools tailored to the various categories of counterparties and exposures. These statistical models are based on internally compiled data comprising both quantitative and qualitative factors. Where it is available, market data may also be used to derive the PD for large commercial counterparties. If a counterparty or exposure migrates between rating classes, then this will lead to a change in the estimate of the associated PD. PDs are estimated considering the contractual maturities of exposures and estimated prepayment rates.

LGD is the magnitude of the likely loss if there is a default. The Group estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, 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, LTV ratios are a key parameter in determining LGD. LGD estimates are recalibrated for different economic scenarios and, for real estate lending, to reflect possible changes in property prices. They are calculated on a discounted cash flow basis using the effective interest rate as the discounting factor.

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Notes to the Financial Statements for the year ending 30 June 2020 (Cont.)

NOTE 28: RISK MANAGEMENT POLICY AND OBJECTIVES (cont.)

B. Credit Risk (cont.)

EAD represents the expected exposure in the event of a default. The Group derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract including amortization. The EAD of a financial asset is its gross carrying amount. For lending commitments and financial guarantees, the EAD 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. For some financial assets, EAD is determined by modelling the range of possible exposure outcomes at various points in time using scenario and statistical techniques.

As described above, and subject to using a maximum of a 12-month PD for financial assets for which credit risk has not significantly increased, the Group measures ECL considering the risk of default over the maximum contractual period (including any borrower's extension options) over which it is exposed to credit risk, even if, for risk management purposes, the Group considers a longer period. The maximum contractual period extends to the date at which the Group has the right to require repayment of an advance or terminate a loan commitment or guarantee.

However, for retail overdrafts facilities that include both a loan and an undrawn commitment component, the Group measures ECL over a period longer than the maximum contractual period when the Group's contractual ability to demand repayment and cancel the undrawn commitment does not limit the Group's exposure to credit losses to the contractual notice period. These facilities do not have a fixed term or repayment structure and are managed on a collective basis. The Group can cancel them with immediate effect but this contractual right is not enforced in the normal day-to-day management, but only when the Group becomes aware of an increase in credit risk at the facility level. This longer period is estimated taking into account the credit risk management actions that the Group expects to take and that serve to mitigate ECL. These include a reduction in limits, cancellation of the facility and/or turning the outstanding balance into a loan with fixed repayment terms.

(e) Measurement of ECL (cont.)

Where modelling of a parameter is carried out on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics that include:

- loan type;
- collateral type;
- LVR for retail mortgages;
- date of initial recognition (vintage);
- remaining term to maturity;
- industry; and
- geographic location of the borrower.

The groupings are subject to regular review by the Credit Risk team to ensure that exposures within a particular group remain appropriately homogeneous.

For portfolios in respect of which the Group has limited historical data, external benchmark information is used to supplement the internally available data. The portfolios for which external benchmark information represents a significant input into measurement of ECL are as follows:

	Exposure	External benchmarks used	
		PD	LGD
Residential Mortgage Loans	25,883,968	Moody's default study	S&P recovery studies
Personal Loans and overdrafts	1,934,415	Moody's default study	S&P recovery studies
Commercial Loans	190,369	Moody's default study	S&P recovery studies

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Notes to the Financial Statements for the year ending 30 June 2020 (Cont.)

NOTE 28: RISK MANAGEMENT POLICY AND OBJECTIVES (cont.)

B. Credit Risk (cont.)

(v) Concentration Risk – Individuals

Concentration risk is a measurement of the Group's exposure to and individual counterparty, or group of related parties.

The Group minimises concentrations of credit risk in relation to loans by undertaking transactions with a large number of members. Concentration risk is also managed in accordance with the APRA Prudential Standards. A large exposure is considered to exist if prudential limits are exceeded as a proportion of the Group's regulatory capital (10 per cent). No capital is required to be held against these, but APRA must be informed. APRA may impose additional capital requirements if it considers the aggregate exposure to all loans over the 10 per cent capital benchmark to be higher than acceptable.

The aggregate value of large exposure loans is set out in Note 30(b). Concentration exposures of counterparties are closely monitored with monthly reviews being prepared for all exposures over 5 per cent of the capital base.

The Group's policy on exposures of this size is to insist on an initial LVR of at least 80 per cent if uninsured or 95% if insured.

(iv) Concentration Risk – Industry

There is no concentration of credit risk by industry with respect to loans and receivables as the Group has a large number of members dispersed in areas of employment.

Credit Risk - Liquid Investments

Credit risk in relation to liquid investments is the risk that the other party to a financial instrument will fail to discharge their obligation resulting in the Group incurring a financial loss. This usually occurs when counterparties fail to settle their obligations owing to the Group.

(i) Concentration of Credit Risk

There is no concentration of credit risk with respect to investment receivables. The credit policy is that investments are only made to institutions that are credit worthy.

The risk of losses from the liquid investments undertaken is reduced by the nature and quality of the independent rating of the investment body and the limits to concentration on one entity.

The Board policy is that a portfolio of investments should be held with a range of financial institutions within the range of ratings as detailed within its Liquidity Policy and the Prudential Standards, as issued by APRA. This is other than deposits necessary to secure access to the payments system and cash supplies.

(ii) External Credit Assessment for Institutional Investments

The Group uses the ratings of Standard & Poor's, to assess the credit quality of all investment exposures, where applicable, using the credit quality assessment scale in APRA Prudential Standard 112. The credit quality assessment scale within this standard has been complied with.

The carrying values associated with each credit quality step for the Group are as follows:

	2020	2019
	\$	\$
ADIs – rated AA and above	199,779	-
ADIs – rated below AA	19,423,833	13,488,503
Unrated institutions – Credit Unions	7,814,620	6,124,626
Total	27,438,232	19,613,129

There are no past due or provisions applicable with the above institutional investments.

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Notes to the Financial Statements for the year ending 30 June 2020 (Cont.)

NOTE 28: RISK MANAGEMENT POLICY AND OBJECTIVES (cont.)

B. Credit Risk (cont.)

Credit Risk - Equity Investments

All investments in equity instruments are solely for the benefit of service to the Group. The Group invests in entities set up for the provision of services such as mortgage broking where separate licences are required. This is best secured by one entity. Further details of the investments are set out in Note 13.

C. Liquidity Risk

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

The Group manages liquidity risk by:

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

The Group is required under the APRA Prudential Standards to maintain at least 9% of total adjusted liabilities as liquid assets capable of being converted to cash within 24 hours.

The Group's policy is to apply 15% 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 and the borrowing facilities available. Note 23 outlines the borrowing facilities available as at the end of reporting period.

The maturity profile of the financial liabilities based on the contractual repayment terms is set out in Note 29. The ratio of liquid funds over the past year is set out below:

	2020	2019
Liquid funds to total adjusted liabilities:		
- As at 30 June	51.19%	40.08%
- Average for the year	48.00%	36.36%
- Minimum during the year	40.91%	32.13%

D. Operational Risk

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

The Group's objective is to manage operational risk so as to minimise financial loss 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 minimize the impact.

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Notes to the Financial Statements for the year ending 30 June 2020 (Cont.)

NOTE 28: RISK MANAGEMENT POLICY AND OBJECTIVES (cont.)

D. Operational Risk (Cont.)

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 errors and inappropriate behaviour;
- Implementation of whistle blowing policies to promote a compliance culture and awareness of duty to report exceptions by staff;
- Education of members to review their account statements and report exceptions to the Group 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 loss of functionality of system or premises or staff.

a) 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 system failures. The Group 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 Group.

(b) IT Systems

The worst-case scenario would be the failure of the Group's core banking and IT network suppliers to meet member obligations and service requirements. The Group entered into a Service Agreement with Core in a Box Pty Ltd (ACN 133 382 788), a fully owned subsidiary of Rubik Financial Limited (ACN 071 707 232) to provide the services of a Tier 1 Banking System and to manage any short-term problems and have a contingency plan to manage any related power or systems failures. Other network suppliers are engaged on behalf of the Group by the industry body Indue Ltd ABN 97 087 822 464 to service the settlements with other financial institutions for direct entry, ATM and Visa cards, chequing facilities and BPAY.

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.

E. Capital Management

The Australian Prudential Regulatory Authority (APRA) sets and monitors capital requirements for the Group under Australian Prudential Standard (APS) 110 Capital Adequacy. Under the Standard the Group must maintain minimum levels of Tier 1 capital and may also hold Tier 2 capital up to certain prescribed limits. Tier 1 capital comprises the highest quality components of capital that fully satisfy the following essential characteristics:

- Provide a permanent and unrestricted commitment of funds;
- Are freely available to absorb losses;
- Do not impose any unavoidable servicing charges against earnings;
- Rank behind claims of depositors and other creditors in the event of winding up.

APS 110 *Capital Adequacy* and APS 111 *Capital Adequacy: Measurement of Capital* were released in the year to 30 June 2013. These standards mandate that Tier 1 capital include retained profits and realised reserves including the value of any unrealised gains/losses on land & buildings (asset revaluation reserve). Previously qualifying preference share capital no longer complies with the new standard and is being amortised over 10 years in line with the standards transitional arrangements. The amortisation schedule has been approved by APRA

Tier 2 capital comprises capital instruments that, to varying degrees, fall short of the quality of Tier 1 capital but exhibit some of the features of equity and contribute to the overall strength of the Group as a going concern. The Group's Tier 2 capital includes collective impairment allowances where the standardised approach is used (general reserve for credit losses).

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Notes to the Financial Statements for the year ending 30 June 2020 (Cont.)

NOTE 28: RISK MANAGEMENT POLICY AND OBJECTIVES (cont.)

E. Capital Management (Cont.)

Capital in the Group is made up as follows:

	2020	2019
	\$	\$
Tier 1 Capital		
Member investment shares	148,487	222,730
General reserve	62,024	62,024
Asset Revaluation Reserve	439,312	439,312
Retained earnings	2,134,529	2,119,166
Tier 1 Capital	2,784,352	2,843,232
Less prescribed deductions	(12,471)	(10,189)
Net Tier 1 capital	2,771,881	2,833,043
	2020	2019
	\$	\$
Tier 2 Capital		
Transitional Tier 2 Capital as at reporting date	82,387	123,580
Reserve for credit losses	117,539	117,539
Tier 2 Capital	199,926	241,119
Less prescribed deductions	-	-
Net Tier 2 capital	199,926	241,119
Total capital	2,971,807	3,074,162

The Group is required to maintain a minimum capital level of 13% as compared to the risk weighted assets at any given time in accordance with APRA Prudential Standards. The Group has complied with all externally imposed capital requirements throughout the period.

The level of capital ratio can be affected by growth in assets relative to growth in reserves and by changes in the mix of assets. The capital ratios as at the end of each reporting period, for the past 5 years are as follows:

2020	2019	2018	2017	2016
14.40%	14.70%	13.83%	15.46%	15.40%

The Group's objective is to maintain sufficient capital resources to support business activities and operating requirements and to ensure continuous compliance with externally imposed capital ratios. To manage the Group's capital, the Group reviews the ratio monthly and monitors major movements in asset levels. Policies have been implemented which require reporting to the Board and the regulator if the capital ratio falls below 13%. Further, a 3-year capital budget projection of the capital levels is maintained annually to address how strategic decisions or trends may impact on the capital level.

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Notes to the Financial Statements for the year ending 30 June 2020 (Cont.)

NOTE 29: MATURITY PROFILE OF FINANCIAL LIABILITIES

The table below shows the periods in which the financial liabilities mature. Contractual cash flows shown in the table are at undiscounted values (including future interest expected to be paid). Accordingly, these values may not agree to the amount disclosed in the statement of financial position.

	Carrying amount \$	Total cashflows \$	Within 1 month \$	1-3 months \$	3-12 months \$	1-5 years \$	Over 5 years \$
Group 2020							
Deposits from members	52,224,084	52,380,017	33,031,684	5,516,625	11,383,065	1,993,644	-
Other payables	313,140	313,140	313,140	-	-	-	-
Undrawn loans and overdrafts	-	1,165,336	1,165,336	-	-	-	-
Group 2019							
Deposits from members	48,483,368	48,726,403	29,313,021	5,778,919	12,511,491	1,122,972	-
Other payables	379,680	379,680	97,835	281,845	-	-	-
Undrawn loans and overdrafts	-	875,475	875,475	-	-	-	-
Parent Entity 2020							
Deposits from members	52,269,534	52,380,017	33,031,684	5,516,625	11,383,065	1,993,644	-
Other payables	312,943	312,943	312,943	-	-	-	-
Undrawn loans and overdrafts	-	1,165,336	1,165,336	-	-	-	-
Parent Entity 2019							
Deposits from members	48,525,152	48,726,403	29,313,021	5,778,919	12,511,491	1,122,972	-
Other payables	379,425	379,425	97,580	281,845	-	-	-
Undrawn loans and overdrafts	-	875,475	875,475	-	-	-	-

To manage liquidity risk arising from financial liabilities, the Group holds liquid assets comprising cash and cash equivalents and investment securities. These assets can be readily redeemed or sold to meet liquidity requirements. Hence, the Group believes that it is not necessary to disclose a maturity analysis in respect of these assets to enable users to evaluate the nature and extent of liquidity risk.

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Notes to the Financial Statements for the year ending 30 June 2020 (Cont.)

NOTE 30: INTEREST RATE RISK

The Group's exposure to interest rate risk, which is the risk that a financial instrument's value or cash flows will fluctuate as a result of changes in market interest rates, and the effective weighted average interest rate on classes of financial assets and financial liabilities, is set out below.

		Fixed interest rate maturing					
	Floating interest rate	Within 1 year	1 – 5 years	Over 5 years	Non-interest sensitive	Total	Effective interest rate
	\$	\$	\$	\$	\$	\$	%
Group 2020							
Cash and cash equivalents	7,480,522	-	-	-	153,361	7,633,883	0.26
Other receivables	-	-	-	-	32,031	32,031	n/a
Financial assets at amortised cost	7,500,000	12,304,350	-	-	-	19,809,350	0.95
Loans and advances	27,886,271	-	-	-	-	27,886,271	4.74
Deposits from members	29,095,988	21,201,327	1,926,769	-	-	52,224,084	1.38
Other payables	-	-	-	-	313,140	313,140	n/a
Group 2019							
Cash and cash equivalents	2,446,003	-	-	-	129,537	2,575,540	0.47
Other receivables	-	-	-	-	54,613	54,613	n/a
Financial assets at amortised cost	-	17,037,589	-	-	-	17,037,589	2.40
Loans and advances	31,977,880	-	-	-	-	31,977,880	5.22
Deposits from members	25,353,033	22,060,558	1,069,777	-	-	48,483,368	1.75
Other payables	-	-	-	-	379,680	379,680	n/a

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Notes to the Financial Statements for the year ending 30 June 2020 (Cont.)

NOTE 30: INTEREST RATE RISK (cont.)

		Fixed interest rate maturing					
	Floating interest rate	Within 1 year	1 – 5 years	Over 5 years	Non-interest sensitive	Total	Effective interest rate
	\$	\$	\$	\$	\$	\$	%
Parent Entity 2020							
Cash and cash equivalents	7,480,522	-	-	-	153,361	7,633,883	0.26
Other receivables	-	-	-	-	32,031	32,031	n/a
Financial assets at amortised cost	7,500,000	12,304,350	-	-	-	19,804,350	.95
Loans and advances	27,886,271	-	-	-	-	27,886,271	4.74
Investments in subsidiaries	-	-	-	-	20	20	n/a
Deposits from members	29,141,438	21,201,327	1,926,769	-	-	52,269,534	1.38
Other payables	-	-	-	-	312,943	12,943	n/a
Parent Entity 2019							
Cash and cash equivalents	2,446,003	-	-	-	129,537	2,575,540	0.47
Other receivables	-	-	-	-	54,613	54,613	n/a
Financial assets at amortised cost	-	17,037,363	-	-	-	17,037,363	2.40
Loans and advances	31,977,880	-	-	-	-	31,977,880	5.22
Investments in subsidiaries	-	-	-	-	20	20	n/a
Deposits from members	25,394,817	22,060,558	1,069,777	-	-	48,525,152	1.75
Other payables	-	-	-	-	379,425	379,425	n/a

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Notes to the Financial Statements for the year ending 30 June 2020 (Cont.)

NOTE 31: CREDIT RISK

(a) Maximum Credit Risk Exposure

The Group's maximum credit risk exposure, without taking into account the value of any collateral or other security, in the event other parties fail to perform their obligations under financial instruments in relation to each class of recognised financial asset, is the carrying amount of those assets as indicated in the Statement of Financial Position. In addition, loans should also be considered where the maximum credit risk exposure is \$29,051,607 (2019: \$32,853,355).

In relation to loans, the maximum credit exposure is the value on the Statement of Financial Position plus the undrawn loan commitments. Details of undrawn loan commitments are shown in Note 21. Details of collateral held as security are disclosed in Note 12(j).

(b) Concentrations of Credit Risk

Concentrations of credit risk on loans greater than 10% of capital currently arise in the following categories:

	Maximum Credit Risk Exposure			
	% of Total Loans		\$	
	2020	2019	2020	2019
Geographical Area				
South East Queensland	15.92	28.66	4,458,159	9,196,055
Central Queensland	2.28	2.10	639,369	672,892
Tasmania	-	0.96	-	307,995
NSW	1.34	2.09	375,856	670,584
	19.54	33.81	5,473,384	10,847,526

Concentrations of credit risk on loans to individual members (including associated members) greater than 10% of capital are detailed as follows:

	2020	2019
Number of loans	16	33
Outstanding balance	5,473,384	10,847,526

The values outlined above include recognised and unrecognised undrawn facilities as outlined in Note 21.

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Notes to the Financial Statements for the year ending 30 June 2020 (Cont.)

NOTE 32: FAIR VALUE OF FINANCIAL INSTRUMENTS

(a) Fair value hierarchy

The Group measures fair values of financial instruments using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- Level 1: Quoted market price (unadjusted) in an active market for an identical instrument;
- Level 2: Valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using:
 - o quoted market prices in active markets for similar instruments
 - o quoted prices for identical or similar instruments in markets that are considered less than active; or
 - o other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

(a) Fair value hierarchy (cont.)

Fair values for financial instruments traded in active markets are based on quoted market prices at reporting date. The quoted market price for financial assets is the current bid price. The fair value of financial instruments that are not traded in an active market are determined using valuation techniques. To the extent possible assumptions used are based on observable market prices and rates at the end of the reporting date.

The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

(c) Fair value estimates

The following methods and assumptions are used to determine the fair values of financial assets and financial liabilities.

Cash and cash equivalents and other receivables

The carrying values approximate their fair value as they are short term in nature or are receivable on demand.

Investments in subsidiaries – at cost

Fair value is not reasonably determinable due to the unpredictable nature of cash flow and lack of suitable method of arriving at a reliable fair value.

Loans and advances

The carrying value of loans and advances is net of provisions for impairment. For variable rate loans, the carrying amount is a reasonable estimate of the net fair value.

Financial assets at amortised cost

The carrying values of financial assets at amortised cost approximate their net fair value due to short-term maturities of these securities.

Deposits from members

The fair value of at call and variable rate deposits, and fixed rate deposits repriced within twelve months, approximates the carrying value. Discounted cash flow models based upon deposit types and related maturities were used to calculate the fair value of other term deposits. The discount rates applied were based on the current benchmark rate offered for the actual remaining term of the portfolio as at 30 June.

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Notes to the Financial Statements for the year ending 30 June 2020 (Cont.)

NOTE 32: FAIR VALUE OF FINANCIAL INSTRUMENTS (cont.)

(c) Financial instruments not measured at fair value - Fair value hierarchy

	Level 1 \$	Level 2 \$	Level 3 \$	Total fair values \$	Total carrying amount \$
Group - 2020					
Financial liabilities					
Deposits	-	52,258,640	-	52,258,640	52,224,084
Group - 2019					
Financial liabilities					
Deposits	-	48,581,014	-	48,581,014	48,483,368
Parent Entity - 2020					
Financial liabilities					
Deposits	-	52,258,640	-	52,258,640	52,269,534
Parent Entity - 2019					
Financial liabilities					
Deposits	-	48,581,014	-	48,581,014	48,525,152

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Notes to the Financial Statements for the year ending 30 June 2020 (Cont.)

NOTE 33: STATEMENT OF CASH FLOWS

(a) Cash Flows Presented on a Net Basis

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

- (a) Member deposits in and withdrawals from savings, money market and other deposit accounts;
- (b) Sales and purchases of financial assets held-to-maturity;
- (c) Sales and purchases of maturing certificates of deposit;
- (d) Short-term borrowings; and
- (e) Provision of member loans and the repayment of such loans.

(b) Reconciliation of Cash Flow from Operations with Profit after Income Tax

	Group		Parent Entity	
	2020	2019	2020	2019
	\$	\$	\$	\$
Profit after income tax	15,364	(167,005)	11,321	(172,226)
<i>Non-cash flows in profit after income tax:</i>				
Depreciation and amortisation	35,500	69,004	35,501	69,004
Provision for loan impairment	30,638	1,589	30,638	1,589
Net loss on disposal of property, plant and equipment	-	3,571	-	3,571
Tax effect on revaluation of buildings	-	-	-	-
<i>Changes in assets and liabilities:</i>				
(Decrease)/Increase in member deposits	3,740,716	1,439,595	3,744,382	1,443,209
(Increase)/Decrease in loans and advances	4,060,971	3,401,653	4,060,971	3,401,653
(Increase)/Decrease in financial assets at amortised cost	(2,766,761)	(6,775,250)	(2,766,987)	(6,775,024)
(Increase)/Decrease in current tax receivable	23,463	(24,311)	23,782	(22,707)
(Increase)/Decrease in other receivables	22,582	1,842	22,582	1,842
(Increase)/Decrease in other assets	(2,163)	1,841	(2,163)	1,841
(Decrease)/Increase in provisions	(12,125)	16,756	(12,125)	16,756
(Decrease)/Increase in other payables	(66,540)	(8,342)	(66,482)	(8,339)
(Decrease)/Increase in deferred tax liabilities	-	54,140	-	54,140
Net cash from operating activities	(5,081,645)	(1,984,917)	(5,081,419)	(1,984,691)

NOTE 34: RELATED PARTY TRANSACTIONS

Subsidiaries

An overdraft facility of \$100,000 exists to a wholly owned subsidiaries with a 0% interest rate. This facility is used as a clearing account. The balance outstanding at year end was (\$64,483) (2019: nil).

No dividend was received by the parent company in the year from MCU Financial Services Pty Limited, a fully owned subsidiary of The Group (2019: \$nil).

Other related parties

There are no other related party transactions for the year ended 30 June 2020 nor 30 June 2019.

NOTE 35: COMPANY DETAILS

The registered office and principal place of business of the company is:

Maleny Credit Union (MCU Ltd trading as)
28 Maple Street
Maleny Qld 4552

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4.6 Directors Declaration

The directors of Maleny Credit Union declare that:

- (a) The financial statements, comprising the Statement of Profit or Loss and Other Comprehensive Income, Statement of Financial Position, Statement of Cash Flows and Statement of Changes in Equity, and accompanying notes are in accordance with the Corporations Act 2001, and:
 - (i) comply with Accounting Standards and the Corporations Regulations 2001; and
 - (ii) give a true and fair view of the financial position as at 30 June 2020 and of the performance for the year ended on that date of the Parent Entity and of the Group.
- (b) The Parent Entity and Group have included in the notes to the financial statements an explicit and unreserved statement of compliance with International Financial Reporting Standards.
- (c) In the directors' opinion, there are reasonable grounds to believe that MCU Ltd will be able to pay its debts as and when they become due and payable.

Signed for and on behalf of the directors in accordance with a resolution of the Board



Chair
Sarah Davies

Dated: 12 November 2020

INDEPENDENT AUDITOR'S REPORT

To the members of MCU Ltd

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of MCU Ltd (the Company) and its subsidiaries (the Group), which comprises the statements of financial position as at 30 June 2020, the statements of profit or loss and other comprehensive income, the statements of changes in equity and the statements of cash flows for the year then ended, and notes to the financial report, including a summary of significant accounting policies and the directors' declaration.

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

- (i) Giving a true and fair view of the Company and Group's financial position as at 30 June 2020 and their financial performance for the year ended on that date; and
- (ii) 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 Group in accordance with the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (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 confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's report.

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

Material uncertainty related to going concern

We draw attention to Note 1 in the financial report which describes the events and/or conditions which give rise to the existence of a material uncertainty that may cast significant doubt about the Group's ability to continue as a going concern and therefore the Group may be unable to realise its assets and discharge its liabilities in the normal course of business. Our opinion is not modified in respect of this matter.

Other information

The directors are responsible for the other information. The other information obtained at the date of this auditor's report is information included in the Annual Report, 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 on the other information obtained prior to the date of this auditor's report, 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 Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that 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 group 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 Group or to cease operations, or has 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.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website (<http://www.auasb.gov.au/Home.aspx>) at:

http://www.auasb.gov.au/auditors_responsibilities/ar3.pdf

This description forms part of our auditor's report.

BDO Audit Pty Ltd



M Cutri

Director

Brisbane, 12 November 2020

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5. PRUDENTIAL DISCLOSURES

5.1 Table 1: Capital Ratios and Buffers

Under Prudential Standard APS 330 Public Disclosures, the Group is required to disclose the following in regard to its regulatory capital as at 30 June 2020. This information does not form part of the financial statements in section 3 of this document and are therefore not subject to audit, however all financial information is consistent with that reported within the financial statements in Section 3 of this report.

The common disclosure template used is in compliance with the post January 2019 Basel III regulatory adjustments as implemented by APRA.

The Group has received approval from APRA to report these Public Disclosures as a consolidated entity. The Group includes:

Entity	Principle Activity	2020 Total Balance Sheet Assets \$m	Total balance Sheet liabilities \$m	2019 Total Balance Sheet Assets \$m	Total balance Sheet liabilities \$m
MCU Ltd	ADI – parent entity	56.44	(52.63)	52.76	(48.97)
MCU Financial Services Pty Ltd	Mortgage broker. 100% owned subsidiary	-	-	-	-

Common Equity Tier 1 capital: instruments and reserves	Relevant Balance sheet item	2020 \$m	2019 \$m
1 Directly issued qualifying ordinary shares (and equivalent for mutually owned entities) capital		-	-
2 Retained earnings	General Reserve	2.13	2.12
	Redeemed Preference Shares	0.06	0.06
	Asset Revaluation Reserve	0.44	0.44
3 Accumulated other comprehensive income (and other reserves)		-	-
4 Directly issued capital subject to phase out from CET1 (only applicable to mutually owned companies)		-	-
5 Ordinary share capital issued by subsidiaries and held by third parties (amount allowed in group CET1)		-	-
6 Common Equity Tier 1 capital before regulatory adjustments		2.63	2.62
Common Equity Tier 1 capital: regulatory adjustments			
7 Prudential valuation adjustments		-	-
8 Goodwill (net of related tax liability)		-	-
9 Other intangibles other than mortgage servicing rights (net of related tax liability)		-	-
10 Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)		-	-
11 Cash-flow hedge reserve		-	-
12 Shortfall of provisions to expected losses		-	-
13 Securitisation gain on sale (as set out in paragraph 562 of Basel II framework)		-	-
14 Gains and losses due to changes in own credit risk on fair valued liabilities		-	-
15 Defined benefit superannuation fund net assets		-	-
16 Investments in own shares (if not already netted off paid in capital on reported balance sheet)		-	-
17 Reciprocal crossholdings in common equity		-	-
18 Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the ADI does not own more than 10% of the issued share capital (amount above 10% threshold)		-	-

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		2020	2019
		\$m	\$m
19 Significant investments in the ordinary shares of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions (amount above 10% threshold)		-	-
20 Mortgage service rights (amount above 10% threshold)		-	-
21 Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)		-	-
22 Amount exceeding the 15% threshold		-	-
23 of which: significant investments in the ordinary shares of financial entities		-	-
24 of which: mortgage servicing rights		-	-
25 of which: deferred tax assets arising from temporary differences		-	-
26 National specific regulatory adjustments (sum of rows 26a, 26b, 26c, 26d, 26e, 26f, 26g, 26h, 26i and 26j)		(0.01)	(0.01)
26a of which: treasury shares		-	-
26b of which: offset to dividends declared under a dividend reinvestment plan (DRP), to the extent that the dividends are used to purchase new ordinary shares issued by the ADI		-	-
26c of which: deferred fee income		-	-
26d of which: equity investments in financial institutions not reported in rows 18, 19 and 23		-	-
26e of which: deferred tax assets not reported in rows 10, 21 and 25		-	-
26f of which: capitalised expenses		(0.01)	(0.01)
26g of which: investments in commercial (non-financial) entities that are deducted under APRA prudential requirements		-	-
26h of which: covered bonds in excess of asset cover in pools		-	-
26i of which: undercapitalisation of a non-consolidated subsidiary		-	-
26j of which: other national specific regulatory adjustments not reported in rows 26a to 26i		-	-
27 Regulatory adjustments applied to Common Equity Tier 1 due to insufficient Additional Tier 1 and Tier 2 to cover deductions		-	-
28 Total regulatory adjustments to Common Equity Tier 1		(0.01)	(0.01)
29 Common Equity Tier 1 Capital (CET1)		2.62	2.61
Additional Tier 1 Capital: instruments			
30 Directly issued qualifying Additional Tier 1 instruments		-	-
31 of which: classified as equity under applicable accounting standards		-	-
32 of which: classified as liabilities under applicable accounting standards		-	-
33 <i>Directly issued capital instruments subject to phase out from Additional Tier 1</i>	Member Investment Shares	0.22	0.22
34 Additional Tier 1 instruments (and CET1 instruments not included in row 5) issued by subsidiaries and held by third parties (amount allowed in group AT1)		-	-
35 <i>of which: instruments issued by subsidiaries subject to phase out</i>		-	-
36 Additional Tier 1 Capital before regulatory adjustments		0.22	0.22

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		2020	2019
		\$m	\$m
Additional Tier 1 Capital: regulatory adjustments			
37 Investments in own Additional Tier 1 instruments		-	-
38 Reciprocal crossholdings in Additional Tier 1 instruments		-	-
39 Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the ADI does not own more than 10% of the issued share capital (amount above 10% threshold)		-	-
40 Significant investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)		-	-
41 National specific regulatory adjustments (sum of rows 41a, 41b and 41c)		-	-
41a of which: holdings of capital instruments in group members by other group members on behalf of third parties		-	-
41b of which: investments in the capital of financial institutions that are outside the scope of regulatory consolidations not reported in rows 39 and 40		-	-
41c of which: other national specific regulatory adjustments not reported in rows 41a and 41b		-	-
42 Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover deductions		-	-
43 Total regulatory adjustments to Additional Tier 1 capital		-	-
44 Additional Tier 1 capital (AT1)		-	-
45 Tier 1 Capital (T1=CET1+AT1)		2.84	2.83
Tier 2 Capital: instruments and provisions			
46 Directly issued qualifying Tier 2 instruments		-	-
47 <i>Directly issued capital instruments subject to phase out from Tier 2</i>	Member Investment Shares	0.08	0.12
		-	-
48 Tier 2 instruments (and CET1 and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties (amount allowed in group T2)		-	-
49 <i>of which: instruments issued by subsidiaries subject to phase out</i>		-	-
50 Provisions	General Reserves for Credit Losses	0.12	0.12
51 Tier 2 Capital before regulatory adjustments		0.20	0.24
Tier 2 Capital: regulatory adjustments			
52 Investments in own Tier 2 instruments		-	-
53 Reciprocal crossholdings in Tier 2 instruments		-	-
54 Investments in the Tier 2 capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the ADI does not own more than 10% of the issued share capital (amount above 10% threshold)		-	-
55 Significant investments in the Tier 2 capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions		-	-
56 National specific regulatory adjustments (sum of rows 56a, 56b and 56c)		-	-
56a of which: holdings of capital instruments in group members by other group members on behalf of third parties		-	-
56b of which: investments in the capital of financial institutions that are outside the scope of regulatory consolidation not reported in rows 54 and 55		-	-
56c of which: other national specific regulatory adjustments not reported in rows 56a and 56b		-	-
57 Total regulatory adjustments to Tier 2 capital		-	-
58 Tier 2 capital (T2)		0.20	0.24
59 Total capital (TC=T1+T2)		3.04	3.07
60 Total risk-weighted assets based on APRA standards		21.12	20.91

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		2020	2019
		\$m	\$m
Capital ratios and buffers			
61 Common Equity Tier 1 (as a percentage of risk-weighted assets)		12.42%	12.49%
62 Tier 1 (as a percentage of risk-weighted assets)		13.48%	12.63%
63 Total capital (as a percentage of risk-weighted assets)		14.42%	13.83%
64 Buffer requirement (minimum CET1 requirement of 4.5% plus capital conservation buffer of 2.5% plus any countercyclical buffer requirements expressed as a percentage of risk-weighted assets)		7.00%	7.00%
65 of which: capital conservation buffer requirement		2.25%	2.25%
66 of which: ADI-specific countercyclical buffer requirements		-	-
67 of which: G-SIB buffer requirement (not applicable)		-	-
Common Equity Tier 1 available to meet buffers (as a percentage of risk-weighted assets)		7.00%	7.00%
National minima (if different from Basel III)			
69 National Common Equity Tier 1 minimum ratio (if different from Basel III minimum)		-	-
70 National Tier 1 minimum ratio (if different from Basel III minimum)		-	-
71 National total capital minimum ratio (if different from Basel III minimum)		-	-
Amount below thresholds for deductions (not risk-weighted)			
72 Non-significant investments in the capital of other financial entities		-	-
73 Significant investments in the ordinary shares of financial entities		-	-
74 Mortgage servicing rights (net of related tax liability)		-	-
75 Deferred tax assets arising from temporary differences (net of related tax liability)		-	-
Applicable caps on the inclusion of provisions in Tier 2			
76 Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardised approach (prior to application of cap)		-	-
77 Cap on inclusion of provisions in Tier 2 under standardised approach		-	-
78 Provisions eligible for inclusion in Tier 2 in respect of exposures subject to internal ratings-based approach (prior to application of cap)		-	-
79 Cap for inclusion of provisions in Tier 2 under internal ratings-based approach		-	-

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5.2 Regulatory Capital Reconciliation

(a) Risk Weighted Assets reconciliation		2020		2019	
		Reported balance sheet \$m	Risk Weighted assets \$m	Reported balance sheet \$m	Risk Weighted assets \$m
(i)	Credit Risk				
On balance sheet assets:					
ASSETS					
Cash and cash equivalents		7.43	1.11	2.57	0.39
Other receivables		-	-	-	-
Financial assets at amortised cost		20.01	4.43	17.04	3.15
Loans and advances		27.89	10.86	31.98	12.83
Property, plant and equipment		1.07	1.07	1.08	1.08
Deferred tax assets		-	-	-	-
Intangible assets		0.01	.01	0.01	-
Other assets		0.03	.03	0.56	0.56
TOTAL		56.44	17.51	53.24	18.01
Off balance sheet assets:					
ASSETS					
Loans approved but not funded – mortgage loans		0.12	0.12	0.14	0.05
Undrawn overdraft		-	-	-	-
Loans approved but not funded – personal loans		-	-	-	-
TOTAL		0.12	0.12	0.14	0.05
TOTAL ASSETS		56.56	17.63	53.38	18.06
(ii)	Operational risk		3.49		2.85
Total RWA based on APRA standards			21.12		20.91
(b) Equity reconciliation					
		2020 Reported balance sheet \$m	Regulatory capital \$m	2019 Reported balance sheet \$m	Regulatory capital \$m
EQUITY					
Member investment shares		1.05	0.34	1.05	0.34
Redeemed Preference Shares		0.06	0.06	0.06	0.06
General Reserve		2.38	2.38	2.12	2.12
Asset Revaluation Reserve		0.44	0.44	0.44	0.44
General Reserve for Credit Losses		0.12	0.12	0.12	0.12
LIABILITIES					
Subordinated debt		-	-	-	-
TOTAL CAPITAL before deductions		4.05	3.34	3.79	3.08

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5.3 Table 2: Main features of Capital Instruments

Member Investment Shares - 2020

Main features		Details
1	Issuer	MCU Ltd (formerly Maleny and District Community Credit Union Limited)
2	Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)	None
3	Governing law(s) of the instrument	Constitution of MCU Ltd (formerly Maleny and District Community Credit Union Limited)
<i>Regulatory treatment</i>		
4	Transitional Basel III rules	Additional Tier 1 and Tier 2
5	Post-transitional Basel III rules	Ineligible
6	Eligible at solo/group/group & solo	Solo
7	Instrument type (ordinary shares/preference shares/subordinated notes/other)	Preference Shares
8	Amount recognised in Regulatory Capital (Currency in mil, as of most recent reporting date)	Additional Tier 1 - \$0.22m Tier 2 - \$0.12m
9	Par value of instrument	\$1.00
10	Accounting classification	Shareholders' Equity
11	Original date of issuance	2 Jan 2006
12	Perpetual or dated	Perpetual
13	Original maturity date	No maturity
14	Issuer call subject to prior supervisory approval	Yes
15	Optional call date, contingent call dates and redemption amount	None specified
16	Subsequent call dates, if applicable	N/a
<i>Coupons/dividends</i>		
17	Fixed or floating dividend/coupon	Floating
18	Coupon rate and any related index	Target coupon rate = 12-month average of Reserve Bank Target cash rate plus 2.0% over the financial year.
19	Existence of a dividend stopper	No
20	Fully discretionary, partially discretionary or mandatory	Fully discretionary
21	Existence of step up or other incentive to redeem	No
22	Noncumulative or cumulative	Noncumulative
23	Convertible or non-convertible	Non-convertible
24	If convertible, conversion trigger (s)	
25	If convertible, fully or partially	
26	If convertible, conversion rate	
27	If convertible, mandatory or optional conversion	
28	If convertible, specify instrument type convertible into	
29	If convertible, specify issuer of instrument it converts into	
30	Write-down feature	None
31	If write-down, write-down trigger(s)	
32	If write-down, full or partial	
33	If write-down, permanent or temporary	
34	If temporary write-down, description of write-up mechanism	
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Subordinated debt
36	Non-compliant transitioned features	Yes
37	If yes, specify non-compliant features	Not compliant with the criteria of capital under APS 111.

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(b) Member Investment Shares - 2019

Main features		Details
1	Issuer	MCU Ltd (formerly Maleny and District Community Credit Union Limited)
2	Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)	None
3	Governing law(s) of the instrument	Constitution of MCU Ltd (formerly Maleny and District Community Credit Union Limited)
<i>Regulatory treatment</i>		
4	Transitional Basel III rules	Additional Tier 1 and Tier 2
5	Post-transitional Basel III rules	Ineligible
6	Eligible at solo/group/group & solo	Solo
7	Instrument type (ordinary shares/preference shares/subordinated notes/other)	Preference Shares
8	Amount recognised in Regulatory Capital (Currency in mil, as of most recent reporting date)	Additional Tier 1 - \$0.22m Tier 2 - \$0.12m
9	Par value of instrument	\$1.00
10	Accounting classification	Shareholders' Equity
11	Original date of issuance	2 Jan 2006
12	Perpetual or dated	Perpetual
13	Original maturity date	No maturity
14	Issuer call subject to prior supervisory approval	Yes
15	Optional call date, contingent call dates and redemption amount	None specified
16	Subsequent call dates, if applicable	N/a
<i>Coupons/dividends</i>		
17	Fixed or floating dividend/coupon	Floating
18	Coupon rate and any related index	Target coupon rate = 12-month average of Reserve Bank Target cash rate plus 2.0% over the financial year.
19	Existence of a dividend stopper	No
20	Fully discretionary, partially discretionary or mandatory	Fully discretionary
21	Existence of step up or other incentive to redeem	No
22	Noncumulative or cumulative	Noncumulative
23	Convertible or non-convertible	Non-convertible
24	If convertible, conversion trigger (s)	
25	If convertible, fully or partially	
26	If convertible, conversion rate	
27	If convertible, mandatory or optional conversion	
28	If convertible, specify instrument type convertible into	
29	If convertible, specify issuer of instrument it converts into	
30	Write-down feature	None
31	If write-down, write-down trigger(s)	
32	If write-down, full or partial	
33	If write-down, permanent or temporary	
34	If temporary write-down, description of write-up mechanism	
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Subordinated debt
36	Non-compliant transitioned features	Yes
37	If yes, specify non-compliant features	Not compliant with the criteria of capital under APS 111.