illawarra credit union

2020.

annual report.

our purpose.

To understand what "Financial Success" means for each of our customers and help them achieve it.

contents.

our vision.

To build strong communities through exceptional financial service.

Message from the chairman.

I present to you the Illawarra Credit Union Ltd 2020 annual report.

Year under review. It has been a pleasing result for the credit union in an extremely competitive low-interest-rate environment. The more significant financial indicators are referred to in the CEO's report.

Your Credit Union continued throughout the year to build on the strong digital platform and deliver new products (such as our credit card) while continuing to refine and expand our online services and products to meet the increasing demand and expectations of our customers for 24/7 access to funds and services.

Currently, more than 99% of transactions undertaken by customers of the Credit Union occur electronically (MoneyTree app, internet banking, ATMs, and telephone banking). Fee-free ATM access continues to be available from ATMs operated by most banks.

For those rare occasions when cash deposits are required, we offer a very extensive level of access via the Bank@Post arrangements with many post offices, which means deposit and withdrawal access is as near as your local post office.

COVID-19

In recent times the term "unprecedented "has become rather overused but is certainly appropriate when referring to the dramatic change in wider society as well as within your Credit Union caused by the outbreak of COVID-19.

With admirable foresight, your Credit Union was well prepared with the separation of our pandemic plan from our business continuity plan in April 2019 to operate as a standalone plan. The plan has been updated in March 2020 to recognise our response to COVID-19.

A strong technology platform and the exceptional work of our IT staff and all of our staff, enabled the entire back-office operations of the Credit Union, including the call centre, to move to working from home within one week with no reduction in the overall security of our systems or level of service.

Another consequence of COVID-19 has been the acceleration of the already existing move towards a cashless society. Again, your Credit Union has been well prepared for the rise in merchants requiring or preferring contactless payment.

For some years now, our customers have been able to pay by smartphone or wearable devices as well as the more traditional credit or debit card. Another aspect of the move to cashless is a dramatic reduction in the level of branch transactions and even ATM usage.

Staff

This year saw the continued implementation of our staff development program with a concentration on training and career development for all staff.

Several external training programs have been instituted to improve and deepen our customer relationship with all our customers. Our staff are well supported by new technology innovations that assist them in ensuring that we deliver the services you want in the most efficient and accessible way.

I acknowledge the great work done by the senior management team and all staff in delivering on our purpose. All customers can be assured they can receive 24/7 access to most services and personal service from focused staff when needed.

The future

The Board has adopted the Credit Union Strategic Plan 2021–2023, which builds on the substantial implementation of our previous transformational Strategic Plan. The Credit Union Vision – 'To build strong communities through exceptional financial services' leads to the continued development of strong relationships with customers to ensure we deliver on our purpose – 'To understand what financial success means for each of our customers and help them achieve that success.'

Governance

I extend my grateful thanks to an exceptional group of directors for their support in delivering the overall governance of your Credit Union.

Your Board undertakes an annual review of the performance of the Board and individual directors, and I am pleased the 2020 external review is a positive confirmation that the diversity of directors (in gender, location, professional qualifications, and commercial experience) and regular refreshing of the Board has ensured the appropriate skills and commitment are available to continue delivery on your Credit Union's Vision and Purpose.

In conclusion

Finally, thank you to you, our customers. It is your Credit Union and exists solely to provide you with the products and services you expect. Your continuing loyalty to the Credit Union that you own encourages us to continue the growth and success of your Credit Union to develop even stronger ties with you.

– Roger Downs, Chair

Message from the ceo.

Illawarra Credit Union's commitment to simplification, technology investment, culture and exceptional financial service has laid the groundwork for a solid performance in FY19/20. As I present this year's accounts, I am thrilled to share with you the achievements we have made over the last 12 months, which have been focused on achieving our purpose.

As I reflect on my second year as CEO, I would like to extend my deepest gratitude to all of our customers for your continued support. I would also like to welcome all of our new customers, who have joined us during this time.

No doubt, you would agree that the last 12 months has certainly been unprecedented. The cash rate has decreased from 1.25% to 0.25% impacting a large number of our depositors and add to that the impacts the current global pandemic has had on our economy in particular the confidence of first home buyers and small business. As an industry we have seen a number of customers experience financial hardship as a result of the global pandemic and the devastating bush fire season.

As a customer-owned credit union, we are committed to assisting our customers, not only through the good times but also these difficult times and we will continue to do this well into the future. Through the course of the year, we have expanded our already existing hardship program to offer relief to our customers. We have also reviewed our product offering to ensure we are providing our customers with great value and competitive pricing across both our loan and deposit products.

As we reflect on the numbers from the last year, we note that industry changes and the current low rate environment have seen a decrease in our outstanding loans due to faster repayment speeds which is great news for our customers with loans. However, I am pleased to advise our balance sheet continues to grow with total assets increasing by 1.2% to $652m. We also have a strong capital position up 1.4% to $46m, and total retail deposits rising by 2.2% to $587m. Our credit quality remains very strong, and we are well placed to meet the changing environment and lending standards as they continue to evolve.

Beyond this, we have continued to invest in our digital solutions, aimed at enhancing the customer experience, some of which are as follows:

- Implementing Comprehensive Credit Reporting (CCR), to ensure we continue to practice responsible lending, and provide customers with responses to their credit enquiries sooner;
- Launching Credit Sense to enhance the loan application process for loan products, to improve the customer experience, simplify the collection of loan documents and reducing the time it takes for our customers to be approved for their loan;
- Investing in our mobile banking app, moneytree, to improve the customer experience and allow iOS users to add their card to the apple wallet from within the app;
- Improving fraud monitoring practices via alerts to ensure our customers are kept up to date and aware of all transactions. This is another way the credit union is helping our customers stay informed and keep their money safe and secure.
- Leveraging our social media channels to connect with our customers.
- Leveraging our communication platform, which has enabled the credit union to simplify our communication process with customers and keep our customer up to date in real time. This is especially important has our postal environment changes.

We also launched our new low rate "no bull" credit card, and The Works home loan package. Both of these products were designed based on the feedback we gathered from our customer surveys. I would personally like to thank all of our customers who participated in these surveys. Your opinions and comments have helped shape our product offering, which we hope you are now enjoying.

Thank you.
Our results and achievements over the past 12 months are a credit to the entire team at Illawarra Credit Union. I would personally like to extend my thanks to my Directors, my colleagues in management, and most of all, to our dedicated staff for their ongoing contribution and commitment to helping shape a strong, community-focused credit union.

As we look forward to the next 12 months, we will continue to stream line the business and invest in our customer service, digital capability and product offerings for the benefit of our new and existing customers. I look forward to sharing all of our achievements with you throughout the year, and once again I thank you for allowing us to provide you with your financial services.

– Anthony Perkiss, CEO

review.

For the year 30 June 2020.

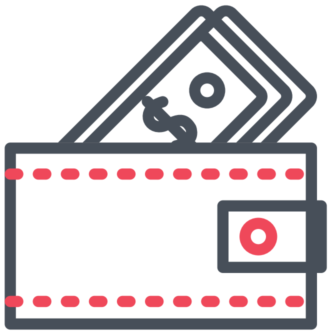
This report provides information about our performance over the past 12 months. We've provided information on our:

- financial performance;
- support for our customers;
- support for our staff and dedication to customer service; and
- community programs and initiatives.

We're pleased to present this year in review and welcome any questions from our customers.

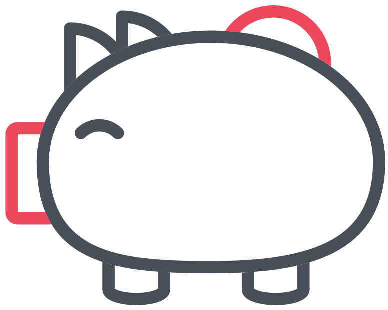
highlights.

we welcomed new customers from all around Australia - making up 4.6% of our customer base!



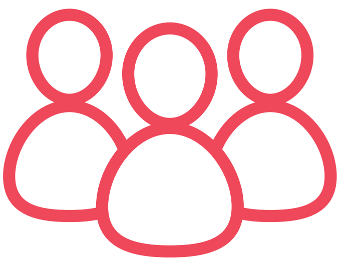
22,956 customers choose to bank with Illawarra Credit Union.

1,612 home loans.
1,125 personal loans.
27,773 deposit accounts.



Customer deposits increased by 6.15% to $586.8 million.

Total assets grew by 1.16% to $651.9 million.



Customer equity increased by 1.55% to $46 million.

Over $86,000 donated to our communities.

rebuild.

As a customer-owned credit union, we are committed to standing alongside our customers during difficult times. 2020 has presented many challenges for our customers, starting with those impacted by the bushfires and the global pandemic. However, we remain committed to rebuilding together.

Throughout 2020, we have offered customer relief packages for anyone experiencing hardship during these times. Our relief packages are customised to suit our customers' circumstances, so they have the best opportunity to rebuild and succeed in the future.

The global pandemic has undoubtedly shifted how we operate as a business. We want to thank all of our customers who have adopted our digital channels to conduct their day-to-day banking. While we miss seeing many of your faces, we're thrilled to know that you're making use of the various other channels we've made available.

While there is still some uncertainty surrounding the global pandemic, we would like to reassure our customers that we're here to help, now and into the future.

staff.

Focus on customer service.
We continuously strive to provide our customers with the service they expect. Our staff are a crucial component of this. Over the year, we have implemented various sales and service training programs to ensure we empower our teams to provide exceptional customer service.

The results of our recent customer survey by independent research company, IRIS, noted that our customers are delighted with our service, scoring Illawarra Credit Union 4.3/5 when referring to customer satisfaction.

We intend to improve these numbers year-on-year, which is why we have continued to invest in staff capability and training. Of our existing staff, 34.7% have completed a degree or a postgraduate degree. A further 49% have completed a Cert III, Cert IV, or Diploma. 28.6% of staff are currently engaged in studying for a postgraduate or bachelor's degree, Diploma, or Cert IV.

Our future leaders.
Our unique cadetship program has expanded over the last 12 months, with four new cadets joining the program increasing the total cohort to nine. Cadets have the opportunity to work across various departments in the organisation and have been involved in key customer-facing initiatives, to help provide a fresh perspective on ongoing challenges. Upon completing the cadetship and their studies at UOW, many cadets have been offered permanent positions, and have risen to management roles over the years.

Wellness at work.
2020 has also seen the introduction of various wellness programs for our staff. With 67% of our workforce transitioning to working from home, our staff's health and well-being have been paramount. We continue to support our staff and their families and have provided various tools and resources to ensure our staff continue to be well while at work and home.

We will continue to invest in our staff's capability and encourage them to be inquisitive and innovative in their thinking. For it is our staff who will continue to enhance our customer experience, and introduce new products and services, all for the benefit of our customers.

key initiatives.

August 2019

✓Redesigned the Illawarra Credit Union website to enhance the user experience and make it easier for new and existing customers to access.

✓Introduced The works home loan for all of our customers who were after all the bells and whistles.

September 2019

✓Introduced Comprehensive Credit Reporting (CCR) to enhance the loan process for our customers by utilising information that is available via third parties, allowing us to make more informed decisions more quickly.

From October 2019

✓Launched various special offers, including our Wildlife saver offer, Everyday transaction cashback, and Taronga zoo campaign, our first homeowners' cashback offer, our $4,000 online home loan offer, and of course, our Spin and Win offer – giving one customer a chance to win up to $500K off their home loan.

✓Conducted surveys with our existing and prospective customer base to understand what our customers want and need from their financial institution, and learn how to improve.

December 2019

✓Launched our Low Rate "no bull" credit card for all of our customers who would like a simple credit card with a low rate.

February 2020

✓Introduced Credit Sense to enhance the online application process for our customers applying for a credit product.

March 2020

✓Introduced alert functionality via internet banking and moneytree to allow customers to monitor their accounts.

✓Launched a new phone solution, allowing our staff to work from home and service our customers' needs during the global pandemic.

May 2020

✓Introduced an SME Overdraft and SME lending support package to help support businesses during these challenging times.

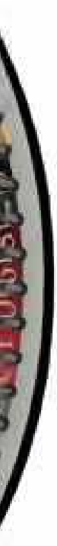
June 2020

✓Enhanced our mobile banking app to allow iOS users to add their Illawarra Credit Union Visa card to the Apple wallet from their moneytree app.

community.

We were thrilled to participate in a number of community events this year in support of local organisations and partnerships. Some of these partnerships are existing relationships we have fostered over the years. Others are new relationships that we have developed during the last 12 months, in support of local organisations and people – including our most recent, with the Illawarra Academy of Sport.

In the last 12 months, our staff were involved with a number of initiatives, including our participation in the first-ever Santafest Outdoor Cinema event, of which the Illawarra Credit Union was a major sponsor. Our team also assisted in the Salvation Army Red Shield Appeal and enjoyed attending O-Week at the University of Wollongong.



The past 12 months haven't been without their challenges. Our community spirit came out in full force at the beginning of the year, after the devastating effects of the Australian bushfires. Illawarra Credit Union was proud to support WIRES and The Salvation Army in their efforts to support the wildlife and local communities affected. Many of our customers also contributed to fundraising efforts to support those in need, both with the bushfires and the Salvation Army Christmas appeal. We wanted to extend our deepest gratitude for your continued support of the community. Without you, we would not have been able to assist in the ways we have.

With COVID continuing to change many of our plans for the upcoming year, we are determined to find innovative ways of supporting our local community. We want to thank our ongoing Partner Benefit Program customers, and extend a warm welcome to our new ones. We are proud of our community and look forward to growing it.

financial report.

2020 financials - 30 June 2020

ABN 14 087 650 771

The Directors of Illawarra Credit Union Limited ("the Credit Union") present their report together with the Financial Statements of the Consolidated Entity, being Illawarra Credit Union Limited (the Company) and its controlled entities (the Group) for the financial year ended 30 June 2020.

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

Information on Directors

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

Mr Roger Downs B Comm, LLB, Dip Mgmt, MAMI — Chairman

Mr Downs joined the Board in 2010 and became the Chairman of the Board in 2014. He was a member of the Governance Committee until 2015, and was a member of the Board Audit Committee and Board Risk Committee from 2015 to 2017. Roger is currently Chairman of the Remuneration Committee and Fit and Proper Committee, and a member of the Governance Committee.

Mr Peter Kell AM, Dip Law, MAMI — Director

Mr Kell joined the Board in 2013 and is Chairman of the Governance Committee and a member of the Remuneration Committee.

Ms Deborah De Santis BA (Mgmt/Psych), MA (Journ), GAICD, MAMI — Director

Ms De Santis joined the Board in 2014 and was a member of the Remuneration Committee until 2017. She is currently a member of the Board Audit Committee, the Board Risk Committee, and the Governance Committee.

Mr Michael Halloran MBus (Mgmt), GAICD, FAMI — Director

Mr Halloran joined the Board in 2014. He is a member of the Board Audit Committee and has been Chairman of the Board Risk Committee since 2017.

Mr Colin Bloomfield BEng (Hons), GradCert Mgmt — Director

Mr Bloomfield joined the Board in 2017. He was a member of the Board Risk Committee and was Chairman of the Board Audit Committee until his resignation in November 2019.

Professor Alex Frino BCom, MCom(Hons), MPhil, PhD, CA — Director

Mr Frino joined the Board in April 2018. He is a member of the Board Audit Committee and the Board Risk Committee.

Ms Deborrah Lambourne MAppFin (Macq)**,** FCA — Director

Ms Lambourne joined the Board in February 2019. She is a member of the Governance Committee, Remuneration Committee, and the Board Risk Committee, and has been Chairman of the Board Audit Committee since November 2019.

Information on Company Secretary

Mr Anthony Perkiss, Chief Executive Officer (MBA, BCom, CPA, GAICD) was appointed to the position of Company Secretary in March 2019.

Information on Board Meetings

The number of Directors' meetings (including meetings of committees of Directors) and number of meetings attended by each of the Directors of the Credit Union during the financial year were:

Director	Board		Board Risk Committee		Board Audit Committee		Governance Committee		Fit & Proper Committee *		Remuneration Committee	
	E	A	E	A	E	A	E	A	E	A	E	A
R Downs	7	7		3**		2**	5	5	1	1	2	2
P Kell	7	7				1**	5	5	1	1	2	2
D De Santis	7	7	4	3	4	3	1	1				
M Halloran	7	7	4	4	4	4						
C Bloomfield	3	3	1	1	1	1					1	1
A Frino	7	5	4	4	4	4						
D Lambourne	7	7	3	2	3	2	5	5			2	2

*Fit & Proper Committee meeting was conducted with one Director and two independents

** Attended as an Ex Officio member

E – Eligible to attend

A - Attended

Board Remuneration

Directors are remunerated by fees determined by the Board within the aggregate amount approved by members at the Annual General Meeting. The aggregate amount of Directors' fees (including superannuation) for the year ended 30 June 2020 was $231,329 (2019: $243,323). The amount of Directors' fees excluding superannuation paid in 2020 was $211,041 (2019: $222,213) which is in accordance with the resolution made at the 2018 Annual General Meeting.

Director's Benefits

No Directors have received or become entitled to receive, during or since the end of the financial year, a benefit because of a contract made by the Credit Union with a Director, a firm of which a Director is a member, or an entity in which a Director has a substantial financial interest, other than that disclosed in Note 7.3 of the financial report.

Indemnifying Directors, Officers or Auditors

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

Principal Activities

The principal activities of the Credit Union during the year were the provision of retail financial services to members in the form of taking deposits and giving financial accommodation as prescribed by the Constitution.

Operating Results for the Year

The net profit of the Credit Union for the year after income tax is $619,000 (2019: $1,181,000) representing a decrease of 48% from the previous year.

The results for the financial year were underpinned by:

- An increase in Net Income of 7% to $16,129,000 from $15,095,000 in the previous year; and
- An increase in Operating Expenses of 14% to $15,302,000 from $13,458,000 in the previous year, largely due to reassessing the useful life of major banking infrastructure, adjusted in the current financial year as additional amortisation.

The impact of the Coronavirus (COVID-19) pandemic up to 30 June 2020 has been relatively financially neutral, with the only impact being on the expected credit loss provision.

All prudential capital requirements have been satisfied throughout the year. A reconciliation of the Credit Union's regulatory capital and other prudential disclosures are published at https://www.illawarracu.com.au/about-us/corporate-governance/.

Significant Changes In State of Affairs

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

Significant Events After the Balance Date

There have been no significant events occurring after the balance date which may affect the Credit Union's operations or the results of those operations, except for noting the ongoing COVID-19 pandemic and its associated impact on estimations fundamental to the preparation of the 2020 financial statements.

Likely Developments and Expected Results

No matters, circumstances or likely developments in the operations, has arisen since the end of the financial year that has significantly affected or may significantly affect:

i. The operations of the Credit Union;
ii. The results of those operations; or
iii. The state of affairs of the Credit Union;

in the financial years subsequent to this financial year.

Rounding

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

Auditor's Independence Declaration

A copy of the auditor's independence declaration as required under section *307C of the Corporations Act 2001* is set out following the Director's Report on page 20.

Signed in accordance with a resolution of the Directors:

R. Downs
Chairman of the Board

D. Lambourne
Chairman of the Board Audit Committee

Signed at Wollongong 26th August 2020

The Board and Management of the Credit Union are committed to acting responsibly, ethically and with the highest standards of integrity to ensure the activities of the Credit Union are continually structured and delivered in a manner that allows the needs of customers to be met.

To achieve these sound corporate governance principles, appropriate business practices and policies have been adopted by the Board and embedded throughout the Credit Union.

The Board is continually working to maintain governance policies and practices both at Board level and throughout the organisation. While our mutual values remain constant, we must adapt our business practices to ensure we meet our obligations as a responsible financial institution in a rapidly changing world.

The Board has carefully considered and implemented a ‘fit and proper’ framework in accordance with relevant legislation that endeavours to ensure the Directors and Senior Managers are appropriate persons to lead the Credit Union. The ‘fit and proper’ framework deals with matters such as minimum competencies, professional development, independence and performance.

Minimum Competencies

Board Policy sets out the minimum competencies regarding personal attributes, character, skills and knowledge that each responsible person must bring to the Credit Union. The Board undertakes an annual director skills gap analysis to ensure the Board has the right mix of skills.

Director Development

Board Policy outlines the knowledge requirements for Directors and provides the high-level guidelines for new Director induction as well as the standards for ongoing Director development. Each Director is expected to achieve a minimum of 60 hours of skills development per three-year cycle.

Independence

Board Policy requires Directors to be independent in both judgement and action. Each Director is required to be independent in their thinking which must be maintained over time such that the Director makes their own judgement based on what is in the best interests of the Entity. It is each Director’s responsibility to maintain and demonstrate their independence. The Board assesses each Director’s independence by reference to the requirements contained within APRA Prudential Standard CPS 510 and the guidelines set out in the ASX Corporate Governance Committees Principles of Good Corporate Governance and Best Practice Recommendations. The Board has adopted a charter that addresses issues relating to conflicts of interest and the manner in which they are required to be reported, managed and disclosed. Other than approved Director remuneration, the Directors do not offer, seek or accept benefits in the performance of their duties.

In the event that a potential conflict of interest arises, the Director in question must withdraw from all debate and decisions concerning the matter unless the Board resolves that the relevant interest or conflict should not disqualify the Director from being present and/or voting.

Performance

Board Policy requires an annual review of the performance of the Board. The Board undertakes an annual assessment of its collective performance, and a biennial assessment of its committees and individual directors.

Structure of the Board

The size and composition of the Board is determined by the Board subject to the limits set out in the Credit Union's Constitution and Board Policy.

As at 30 June 2020, the Board comprised six Non-Executive Directors. All Directors are shareholding members of the Credit Union. Board members are elected by the members or appointed in accordance with the Credit Union's Constitution. All elected Directors hold a three-year term, and Directors appointed to the Board may hold a term of no longer than three years. The Chairman of the Board is a member-elected Non-Executive Director.

It is also important to ensure that the Board is able to operate independently of Senior Management. Each of the Directors are independent of management. This means that they are free from any relationship (for example, a business interest in a supplier or competitor of the Entity), which could materially interfere with the exercise of their independent judgement and their ability to act in the best interests of the Credit Union.

Refer to page 13 of this report for the names of Directors who held office at any time during or since the end of the financial year.

Role of the Board

The roles, powers and responsibilities of the Board are formalised in the Board Charter, which defines which matters are reserved for the Board and Committees, and which matters are the responsibility of the Chief Executive Officer (CEO) and Senior Management. The Board is responsible for:

- Strategy
  - Providing strategic direction including contributing to the development of and approving the corporate strategy;
  - Appointing and evaluating the performance of the CEO; and
  - Reviewing succession planning for the CEO and approving the remuneration of the CEO and Senior Management.
- Governance
  - Monitoring the effectiveness of the corporate governance framework;
  - Ensuring the Credit Union's business is conducted ethically and transparently; and
  - Evaluating performance of the Board and determining its size and composition.
- Oversight
  - Overseeing financial performance and monitoring business performance against the approved Strategic Plan;
  - Overseeing internal controls and processes for identifying areas of significant business risk; and
  - Monitoring compliance with regulatory and statutory requirements and the implementation of related policies.

Committees of the Board

The Board has established five standing committees as described below. These committees consider various matters and make recommendations to the Board. Each committee's authority and responsibilities are set out in their individual committee charters, as approved by the Board. Other special purpose committees may be established from time to time to consider matters of particular importance. Committee members are chosen for the skills, experience and other pertinent qualities they bring to each particular committee role.

The Board Audit Committee, Board Risk Committee and the Governance Committee meet at least four times a year or more frequently as required. The Remuneration Committee meets as required, but at least annually, to consider and make recommendations or decisions on matters within its terms of reference. The Fit and Proper Committee meets annually or more often if required.

Committee Chairmans give verbal reports to the Board at the next Board meeting and the Board reviews and notes the minutes of all committee meetings. All information prepared for the consideration of committees is also available to the Board.

Standing committees in operation at any time during or since the end of the financial year were:

Board Audit Committee

The Board Audit Committee was established to oversee the financial reporting and audit frameworks of the Credit Union. Its role includes:

- Monitoring audit reports received from internal and external auditors and management's responses thereto;
- Determining with the auditors (internal and external) the scope of their work and experience in conducting an effective audit; and
- Ensuring the external auditors remain independent in the areas of work conducted.

Board Risk Committee

The Board Risk Committee was established in line with Prudential Standard CPS 220 to oversee the risk framework of the Credit Union. Its role includes:

- Ensuring a sound risk culture exists in the organisation from the top down;
- Monitoring matters of risk management and prudential and other reporting obligations; and
- Monitoring compliance with applicable laws.

Governance Committee

The Governance Committee was established to assist the Board in adopting and implementing good corporate governance practices. Its role includes:

- Making recommendations as to the size and composition of the Board;
- Ensuring an appropriate and effective Board and committee structure is in place;
- Considering the skills, knowledge and experience of the Board, and assessing whether those current skills meet the skill requirements identified; and
- Developing and monitoring Board, Chief Executive Officer and Senior Management succession plans.

Remuneration Committee

The Remuneration Committee was established in line with Prudential Standard CPS510 to oversee remuneration practices. Its role includes:

- Reviewing and making recommendations to the Board on the Credit Union's remuneration policy; and
- Making recommendations to the Board on the remuneration of the Chief Executive Officer and Senior Management team.

Fit and Proper Committee

The Fit and Proper Committee was established in line with Prudential Standard CPS520 to assist the Board in the selection, review and assessment of the fitness and propriety of the following:

- A Director standing for election or Director nominee; and
- An Associate Director nominee or appointed member of a Board Committee nominee.

The Committee consists of the Chairman of the Board, except where he/she is a candidate for election in that year, and two suitably qualified independent external nominees. All current Directors were assessed in accordance with the Credit Union's Fit & Proper Policy.

Governance Standards

The Board acknowledges the need for, and continued maintenance of, the highest standards of corporate governance, and therefore adopts practices including:

- An annual review of Board performance;
- Active participation by all Directors at all meetings and open access to information;
- Regular Senior Management reporting to the Board;
- The Chief Executive Officer and Head of Finance providing assurance on the accuracy and completeness of financial information and the adequacy of risk management processes;
- The Senior Managers providing assurance to the Board that the business of the Credit Union has been conducted ethically and that all dealings have been conducted transparently with the Board;
- The transparency of information to members through publication of regular notices on the Credit Union's website – www.illawarracu.com.au; and
- The gearing of Board policies towards risk management to safeguard the assets and interests of the Credit Union.

External Audit

The external audit is performed by Crowe Audit Australia. Refer to the Independence Declaration at page 20 and the Audit Opinion at pages 69-71.

Crowe Audit Australia
ABN 13 969 921 386

491 Smollett Street
Albury NSW 2640 Australia

PO Box 500
Albury NSW 2640 Australia

Main 02 6021 1111
Fax 02 6041 1892
www.crowe.com.au

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

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2020 there have been no contraventions of:

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

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

CROWE AUDIT AUSTRALIA

BRADLEY D BOHUN
Partner

26th August 2020
Albury

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 30 June 2020

	Note	2020 $'000	2019 ** $'000
Assets			
Cash and cash equivalents	4.1	**34,544**	22,395
Loans & advances	3.1	**480,918**	507,206
Placements with other financial institutions	3.2	**127,300**	103,178
Property, plant and equipment	5.1	**7,272**	7,677
Right-of-use assets	5.6	**84**	-
Income tax receivable	2.4	**-**	3
Intangible assets	5.2	**930**	2,943
Other assets	5.3	**836**	1,010
Total Assets		**651,884**	644,412
Liabilities			
Deposits	4.2	**588,083**	593,043
Payables	5.4	**2,054**	4,601
Income tax payable	2.4	**19**	-
Net deferred tax liabilities	2.4	**195**	565
Provisions	5.5	**710**	871
Lease liabilities	5.6	**78**	-
Long term borrowings	5.7	**14,794**	-
Total Liabilities		**605,933**	599,080
Net Assets		**45,951**	45,332
Equity			
Reserves	5.8	**3,804**	3,902
Retained profits		**42,147**	41,430
Total equity attributable to members of the Credit Union		**45,951**	45,332

*** The Credit Union has not restated comparatives when initially applying AASB 16 Leases. The comparative information has been prepared under AASB 117 Leases.*

The accompanying notes form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS & OTHER COMPREHENSIVE INCOME
For the year ended 30 June 2020

	Note	2020 $'000	2019 ** $'000
Interest revenue	2.1	**20,591**	23,357
Interest expense	2.1	**(6,553)**	(10,256)
Net interest income		**14,038**	13,101
Other income	2.2	**2,091**	1,995
Net income		**16,129**	15,096
Net impairment loss on financial assets		**(51)**	(44)
Personnel expenses	2.3	**(5,116)**	(5,376)
Depreciation and amortisation expenses	2.3	**(3,084)**	(1,267)
Data and transaction processing expenses		**(986)**	(1,120)
Information technology expenses		**(1,946)**	(2,011)
Property expenses		**(282)**	(525)
Marketing expenses		**(675)**	(483)
Office expenses		**(468)**	(563)
Legal and insurance expenses		**(284)**	(264)
Consulting expenses		**(811)**	(371)
Loss on disposal of assets		**(1)**	(46)
Other corporate expenses		**(1,598)**	(1,388)
Total operating expenses		**(15,302)**	(13,458)
Profit before income tax		**827**	1,638
Income tax (expense)/benefit	2.4	**(208)**	(457)
Profit after tax		**619**	1,181
Other comprehensive income, net of income tax		**-**	-
Total comprehensive income		**619**	1,181

*** The Credit Union has not restated comparatives when initially applying AASB 16 Leases. The comparative information has been prepared under AASB 117 Leases.*

The accompanying notes form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 30 June 2020

	Note	General reserve for credit losses $'000	Redeemed share capital reserve $'000	Revaluation reserve $'000	Retained earnings $'000	Total $'000
Balance as at 1 July 2018 **		1,504	245	2,233	40,211	44,193
Adjustment for change in accounting policy (AASB 9)		-	-	-	(42)	(42)
Balance at 1 July 2018 - restated		1,504	245	2,233	40,169	44,151
Total comprehensive income for the year						
Profit after tax		-	-	-	1,181	1,181
Total other comprehensive income		-	-	-	-	-
Total comprehensive income for the year		-	-	-	1,181	1,181
Transfers to/from reserves		(87)	7	-	80	-
Balance as at 30 June 2019	5.8	1,417	252	2,233	41,430	45,332
Balance at 1 July 2019		**1,417**	**252**	**2,233**	**41,430**	**45,332**
Total comprehensive income for the year						
Profit after tax		**-**	**-**	**-**	**619**	**619**
Total other comprehensive income		**-**	**-**	**-**	**-**	**-**
Total comprehensive income for the year		**-**	**-**	**-**	**619**	**619**
Transfers to/from reserves		**(100)**	**2**	**-**	**98**	**-**
Balance as at 30 June 2020	5.8	**1,317**	**254**	**2,233**	**42,147**	**45,951**

Amounts are stated net of tax

*** The Credit Union has not restated comparatives when initially applying AASB 16 Leases. The comparative information has been prepared under AASB 117 Leases.*

The accompanying notes form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended 30 June 2020

	Note	2020	2019 **
		$'000	$'000
Cash flows from operating activities			
Interest received		**20,680**	23,334
Other cash receipts in the course of operations		**2,075**	1,996
Interest paid		**(7,284)**	(10,053)
Cash paid to suppliers and employees		**(14,060)**	(11,380)
Net income tax paid		**(556)**	(838)
Net loans repaid/(disbursed)		**26,237**	7,455
Net (decrease)/increase in deposits		**(4,959)**	22,875
Net cash (used in)/from operating activities	4.3	**22,133**	33,389
Cash flows from investing activities			
Net movement in placements with other financial institutions		**(24,122)**	(18,313)
Proceeds from sale of property, plant and equipment		**-**	45
Payments for property, plant and equipment, and intangibles		**(518)**	(759)
Net cash used in investing activities		**(24,640)**	(19,027)
Cash flows from financing activities			
Repayment of the lease liabilities		**(128)**	-
Proceeds from long term borrowings		**14,784**	-
Net cash (used in)/from financing activities		**14,656**	-
Net (decrease)/increase in cash held		**12,149**	14,362
Cash and cash equivalents at the beginning of the year		**22,395**	8,033
Cash and cash equivalents at the end of the year	4.1	**34,544**	22,395

*** The Credit Union has not restated comparatives when initially applying AASB 16 Leases. The comparative information has been prepared under AASB 117 Leases.*

The accompanying notes form part of these consolidated financial statements.

1. Corporate Information

1.1 Reporting entity

Illawarra Credit Union Limited ("the Credit Union") is a company limited by shares, incorporated and domiciled in Australia.

The address of the Credit Union's registered office is 38-40 Young Street, Wollongong, NSW. The Credit Union operates predominantly in retail banking within NSW.

The Credit Union is a for-profit entity and is primarily involved in the provision of financial products, services and associated activities to members.

1.2 Basis of preparation

Statement of compliance

This financial report is prepared for Illawarra Credit Union Limited and controlled entities ('the Group') for the year ended 30 June 2020. The consolidated general purpose financial statements of the Group have been prepared in accordance with Australian Accounting Standards adopted by the Australian Accounting Standards Board (AASB) and the *Corporations Act 2001*. The financial statements comply with International Financial Reporting Standards (IFRS) adopted by the International Accounting Standards Board (IASB).

The financial statements were authorised for issue by the Directors on 26th August 2020.

Basis of measurement

The financial statements have been prepared on the historical cost basis except for freehold land and buildings in the statement of financial position which are measured at fair value and financial instruments for which the fair value basis of accounting has been applied.

The methods used to measure fair values are discussed further in Notes 5.1 and 6.1.

Functional and presentation currency

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

Use of estimates and judgements

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

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

- Notes 3.3, 6.1 and 8.1 – impairment of financial assets
- Notes 5.1 and 8.1 – fair value of land and buildings
- Note 2.2 – recognition and measurement of revenue from contracts with customers
- Note 5.6 – estimation of the lease term and determination of the appropriate rate to discount the lease payments.
- Note 5.2 – estimation of useful life and assessment of future economic benefit of intangible assets.

1.2 Basis of preparation (continued)

Judgement has been exercised in considering the impacts that the Coronavirus (COVID-19) pandemic has had, or may have, on the Credit Union based on known information. The consideration extends to the nature of the products and service offered, customers, staffing and geographic regions in which the Credit Union operates. The key estimates and judgements associated with COVID-19 are detailed in Note 5.1 (regarding fair value of land and buildings) and Note 3.3 (regarding expected credit loss on loans to members).

Going concern

The impact of the Coronavirus (COVID-19) pandemic and its impact on the Credit Union's operations has been subject to close consideration in preparing these financial statements. There has been a significant amount of scenario testing and forecasting undertaken to provide comfort that there is no material uncertainty in terms of the Credit Union as a "going concern". The scenario testing undertaken indicates that key metrics such as Capital Adequacy and Liquidity are able to be maintained at levels above both statutory requirements and internal benchmarks for the forecasting period.

1.3 Basis of consolidation

Illawarra Credit Union Limited is the beneficiary of a trust which holds rights to a portfolio of residential mortgage secured loans to enable the Credit Union to secure funds from the Reserve Bank of Australia, if required, to meet emergency liquidity requirements. The Credit Union continues to manage these loans and receives all residual benefits from the trust and bears all losses should they arise. Accordingly:

- The trust meets the definition of a controlled entity; and
- As prescribed under the accounting standards, since the Credit Union has not transferred all the risks and rewards to the trust, the assigned loans are retained on the books of the Credit Union and are not de-recognised.

The Group has elected to present one set of financial statements to represent both the Credit Union as an individual entity and the consolidated entity on the basis that the impact of the consolidation is not material to the entity.

The subsidiary member of the Group is known as the MTG ICU Repo Series No.1 Trust.

2. Financial Performance

2.1. Net interest income

	2020 $'000	2019 $'000
Interest revenue		
Loans to members	**18,735**	20,282
Placements with other financial institutions	**1,668**	2,832
Cash and cash equivalents	**188**	243
Total interest revenue	**20,591**	23,357
Interest expense		
Deposits – members	**(6,262)**	(8,957)
Deposits – other ADIs	**(263)**	(1,288)
Borrowings	**(8)**	(11)
Lease liabilities	**(11)**	-
Long term borrowings	**(9)**	-
Total interest expense	**(6,553)**	(10,256)
Net interest revenue	**14,038**	13,101

2.1 Net interest income (continued)

Recognition and measurement

Interest revenue

Interest income arising from financial assets held at amortised cost is recognised using the effective interest rate method in accordance with AASB 9 *Financial Instruments*.

Interest expense

Interest expense arising from member deposits, interest bearing liabilities and the unwinding of discounts on make good or other provisions, is recognised in the profit or loss using the effective interest rate method under AASB 9.

Loan origination income

Income received in relation to the origination of loans is deferred and recognised as an increase in loan interest income using the effective interest rate method over the expected life of the loan. The balance outstanding of the deferred origination income is recognised in the Statement of Profit or Loss as a decrease in the value of loans outstanding.

Where revenue is received in relation to valuation and legal expenses incurred by the Credit Union as a result of the origination of mortgage loans, the revenue is recognised when the loan is originated.

Loan origination expenses

Expenses incurred directly in the origination of loans are deferred and recognised as a reduction to loan interest income using the effective interest rate method over the expected life of the relevant loans.

The balance outstanding of the deferred origination expenses is recognised in the Statement of Profit or Loss as an increase in the value of loans outstanding.

2.2. Other income

	2020	2019
	$'000	$'000
Revenue from contracts with customers		
Transaction and exception fees	**869**	966
Loan fees & charges	**401**	258
Insurance commissions	**182**	224
Financial planning commissions	**162**	208
International payments commissions	**10**	15
BPAY commissions	**57**	58
Total revenue from contracts with customers	**1,681**	1,729
Other sources of income		
Bad debts recovered	**28**	50
Income from property	**293**	216
Gain on sale of investment security	**14**	-
Government grants	**75**	-
Total other sources of income	**410**	266
Total other income	**2,091**	1,995

2.2 Other income (continued)

Recognition and measurement

Fee and commission income

Fee and commission income is recognised in accordance with AASB 15 *Revenue from Contracts with Customers*. Under AASB 15, revenue is recognised to depict the transfer of promised goods or services ('performance obligations') to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

	Nature and timing of satisfaction of performance obligations	Revenue recognition under AASB 15
Fee income		
Transaction and exception fees	The Credit Union provides financial services to members. Fees for ongoing account management are charged to the customer's account on a monthly basis. Transaction-based fees are charged to the customer's account when the transaction takes place.	Revenue from account service and servicing fees is recognised over time as the services are provided. Revenue related to transactions is recognised at the point in time when the transaction takes place.
Loan fees and charges	Loan fees and charges includes fees for ongoing loan account management, as well as late repayment fees and other penalty charges. These fees and charges are charged to the customer's account as incurred.	Loan fees and charges are recognised at the point in time when the transaction takes place.
Commission income		
Insurance	Commission income is generated via the issuing of QBE insurance policies to members. A financial contribution is also available to help cover the direct costs of projects and/or campaigns.	Commission income is recognised when the insurance policy is issued. Commission income for renewals is recognised on receipt as there is insufficient detail readily available to estimate the most likely amount of income without a high probability of a significant reversal in a subsequent period. The receipt of renewal commission income is outside the control of the Credit Union, and is a key judgement area. Financial contributions are recognised in the year the campaign occurs.
Financial planning	An upfront fee is generated on referral of a Credit Union member to Bridges. An ongoing (trail) fee is paid to the Credit Union dependent on the amount of client fees charged to members. A productivity payment is made dependent on new investment monies into approved platforms.	The upfront fee is recognised when the member is referred to Bridges. Ongoing trail and productivity payments are recognised on receipt as there is insufficient detail readily available to estimate the most likely amount of income without a high probability of a significant reversal in a subsequent period. The receipt of ongoing commission income is outside the control of the Credit Union, and is a key judgement area.
International Payments	Commission income is generated via the sale of Western Union products to Credit Union members.	Commission income is recognised at the point in time when the transaction takes place.
BPAY	Commission is paid daily based on the volume of member generated BPAY transactions.	Revenue is recognised at the point in time when it is received as that is when the service has occurred.

2.2 Other income (continued)

Income from property

Rental income from leases is recognised on a straight-line basis over the term of the lease in accordance with AASB 16 *Leases*. Refer to Note 5.6 for further details.

Government grants

As part of its response to COVID-19, the Australian Government, in March 2020, announced various stimulus measures to ease the burden experienced by businesses as a result of the economic fallout from the coronavirus lockdown and social distancing measures.

The 'Boosting Cash Flow for Employers' measure provided a tax-free 'payment' to eligible businesses with aggregated annual turnover of less than $50 million if they employed people between 1 January 2020 and 30 June 2020. The scheme works as follows:

- Initial cash flow boost – 100% of PAYG withheld for January to June 2020 (maximum of $50,000, minimum of $10,000); and
- Additional cash flow boost – equal to the initial cash flow boost, received over two instalments as part of the June 2020 Business Activity Statement (BAS) and the September 2020 BAS (i.e. 50% in each BAS).

As both the 'initial cash flow boost' and 'additional cash flow boost' are effectively a waiver of the whole, or part, of the PAYG liability, the amount of the 'payment' is recognised as a reduction in the PAYG liability and grant income under AASB 120 *Accounting for Government Grants and Disclosure of Government Assistance* because these cash flow boosts are being provided by the Government in return for compliance with conditions relating to the operating activities of the entity.

The Credit Union received an initial cash flow boost of $50,000 upon lodgement of its March 2020 BAS. The Credit Union is expected to receive an additional cash flow boost of $50,000 over two instalments, being the June 2020 and September 2020 BAS's. Therefore as at 30 June 2020, $25,000 was accrued representing the additional cash flow boost expected following lodgement of the June 2020 BAS.

2.3. Expenses

	Note	2020	2019
		$'000	$'000
Personnel expenses			
Salaries and associated expenses	5.5	**(4,672)**	(5,014)
Superannuation	5.5	**(361)**	(362)
Redundancy costs	5.5	**(83)**	-
Total personnel expenses		**(5,116)**	(5,376)

Recognition and measurement

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

Depreciation and amortisation expenses			
Buildings	5.1	**(134)**	(134)
Plant and equipment	5.1	**(339)**	(348)
Leasehold improvements	5.1	**(94)**	(108)
Intangible software	5.2	**(2,370)**	(667)
Depreciation of right-of-use assets		**(147)**	-

2.3. Expenses (continued)

	2020	2019
	$'000	$'000
Branch make good	-	(10)
Total depreciation and amortisation expenses	**(3,084)**	(1,267)

2.4. Taxation

	2020	2019
(a) Income tax expense		
Current tax expense		
- current year	**(604)**	(366)
- adjustments for prior periods	**26**	-
	(578)	(366)
Deferred tax expense		
- origination and reversal of temporary differences	**370**	(91)
Total income tax expense in the statement of profit or loss and other comprehensive income	**(208)**	(457)

(b) Current tax assets

The current tax liability for the Credit Union of $19,100 (2019: tax asset of $2,963) represents the amount of income tax receivable remaining after the payment of income tax instalments throughout the year.

(c) Reconciliation between tax expense and pre-tax net profit

	2020	2019
Profit before tax	**827**	1,638
Income tax using the company's tax rate of 27.5% (2019: 27.5%)	**(228)**	(450)
Increase in income tax expense due to:	**-**	-
- non-deductible expenses	**(6)**	(7)
Decrease in income tax expense due to:	**-**	-
Under provided in prior years	**26**	-
Income tax expense on pre-tax net profit	**(208)**	(457)

	2020	2019
(d) Deferred tax recognised directly in equity and other comprehensive income		
- Revaluation of freehold property - equity component	**-**	-
Total income tax recognised directly in equity	**-**	-

	2020	2019
(e) Deferred tax assets/(liabilities)		
Provisions and accrued employee entitlements	**253**	290
Property, plant and equipment	**226**	-
Accrued expenses	**54**	20
Income in advance	**14**	10
Sundry items	**90**	66
Total deferred tax assets	**637**	386
Property, plant and equipment	**(806)**	(948)
Sundry items	**(26)**	(3)
Total deferred tax (liability)	**(832)**	(951)
Net deferred tax (liability)/assets	**(195)**	(565)

2.4. Taxation (continued)

Recognition and measurement

Income tax

Income tax expense consists of current and deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, or in other comprehensive income.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised in respect of providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis, or their tax assets and liabilities are to be realised simultaneously.

A deferred tax asset is recognised to the extent that it is probable that future taxable income will be available against which temporary differences can be utilised. Deferred tax assets arising from carried forward tax losses are reviewed annually to ensure that the right to carry forward those losses still exists. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

3. Financial Assets

3.1. Loans and advances

	Note	2020 $'000	2019 $'000
Loans and advances to:			
- members		**479,538**	505,137
- key management personnel and their related entities		**1,647**	2,333
	6.1	**481,185**	507,470
Provision for impairment	3.3, 6.1	**(210)**	(185)
Net deferred loan income and expenses	6.1	**(57)**	(79)
Net loans and advances		**480,918**	507,206

3.2. Placements with other financial institutions

	2020	2019
Deposits with banks and other financial institutions	**37,750**	34,500
Floating rate notes (FRN's)	**66,142**	26,873
Negotiable certificates of deposit (NCD's)	**23,408**	41,805
	127,300	103,178

Recognition and measurement

Loans and advances and placements with other financial institutions are financial assets with fixed or determinable payments that are held within a business model whose objective is to hold assets to collect contractual cash flows that are solely payments of principal and interest on the principal amount outstanding. Such assets are recognised initially at cost

3.2. Placements with other financial institutions (continued)

plus any directly attributable transaction costs. Subsequent to initial recognition they are measured at amortised cost using the effective interest rate method, less any expected credit losses.

3.3 Provision for impairment of financial assets

	Note	2020 $'000	2019 $'000
Total provision comprises of:			
Expected credit loss allowance		**210**	185
Total provision	3.1, 6.1	**210**	185

2020	Stage 1 12 month ECL 2020 $'000	Stage 2 Lifetime ECL 2020 $'000	Stage 3 Lifetime ECL 2020 $'000	Total 2020 $'000
Movement category				
Balance at 1 July	**44**	**92**	**49**	**185**
Movement due to increase in loans & advances	21	9	6	36
Movement due to change in credit risk	(15)	(1)	3	(13)
Bad debts written off from provision	-	-	(10)	(10)
Changes in model/risk parameters	4	8	-	12
Balance at 30 June 2020	**54**	**108**	**48**	**210**

2019	Stage 1 12 month ECL 2019 $'000	Stage 2 Lifetime ECL 2019 $'000	Stage 3 Lifetime ECL 2019 $'000	Total 2019 $'000
Movement category				
Balance at 1 July per AASB 139	-	-	-	114
Adjustment on initial application of AASB 9	-	-	-	59
Balance at 1 July	**42**	**101**	**30**	**173**
Movement due to increase in loans & advances	(26)	44	-	18
Movement due to change in credit risk	28	(51)	19	(4)
Bad debts written off from provision	-	(2)	-	(2)
Changes in model/risk parameters	-	-	-	-
Balance at 30 June 2019	**44**	**92**	**49**	**185**

Recognition and measurement

AASB 9's impairment requirements use more forward looking information to recognise expected credit losses – the "expected credit loss model" (ECL). The Credit Union considers a broader range of information when assessing credit risk and measuring

3.3 Provision for impairment of financial assets (continued)

expected credit losses, including past events, current conditions, and reasonable and supportable forecasts that affect the expected collectability of the future cash flows of the financial asset. In applying this forward looking approach, a distinction is made between:

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

The Credit Union applies a three-stage approach to measuring expected credit losses (ECLs) for financial assets that are not measured at fair value through profit or loss.

- 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 impaired (Stage 2) - ECL associated with the probability of default events occurring throughout the life of an instrument.
- Lifetime ECL – impaired (Stage 3) - Lifetime ECL, but interest revenue is measured based on the carrying amount of the instrument net of the associated ECL.

Exposures are assessed on a collective basis in Stages 1 and 2, and on an individual basis in Stage 3. The Credit Union has determined that the following segments share similar risk characteristics and historical arrears and losses data, and are therefore used when assessing exposures on a collective basis:

- Home loans
- Business loans
- Secured personal loans
- Unsecured personal loans
- All-in-ones and overdrafts

At each reporting date, the Credit Union 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 Credit Union considers reasonable and supportable information that is relevant and available without undue cost or effort, for this purpose.

Assessment of significant increase in credit risk

In determining whether the risk of default has increased significantly since recognition, the Credit Union considers both quantitative and qualitative factors. These include when a loan has been past due more than 2 times within the last 12 months, when there has been a declaration of hardship and/or or the loan has been restructured, and when a loan is more than 30 days past due. Any declaration of hardship or restructure due to the COVID-19 pandemic has also been considered a significant increase in credit risk.

3.3 Provision for impairment of financial assets (continued)

Assumptions used for estimating impairment

In assessing the impairment of financial assets under the expected credit loss model, the Credit Union defines default as occurring when a loan obligation is 90 days past due.

Calculation of expected credit losses

- Expected credit losses (ECLs) are calculated using three main parameters i.e. a probability of default (PD), a loss given default (LGD) and an exposure at default (EAD). These parameters are derived from internally developed statistical models combined with industry standards and historical loss models. ECL is calculated by multiplying the EAD by the PD and LGD.

- For accounting purposes, the 12-months and lifetime PD represent the expected point-in-time probability of a default over the next 12 months and remaining lifetime of the financial instrument, respectively, based on conditions existing at the balance sheet date. The PD for stage 2 assets is based on the likelihood of a loan already greater than 30 days past due reaching the definition of default (90 days past due) over the lifetime of the loan. For stage 3, each asset is already 90 days past due and therefore meets the definition of default. The probability of default is therefore 100%. For stage 1 assets, the Credit Union simply multiples the collective exposure by the historical loss ratio, the LGD.
- The LGD represents expected loss conditional on default, taking into account the mitigating effect of collateral and its expected value when realised.
- The EAD represents the expected exposure at default. It represents the remaining outstanding loan balance less the applicable collateral value. The Credit Union has determined that only home loans with an LVR which is greater than 80% to have an exposure. Collateral has been taken into consideration when determining the ECL for home loans and business loans at all three stages. Collaterals for other segments has not been considered as historically, the likelihood of recovering a significant amount of value has been low. Collateral values have been reduced by 25% to reflect for securities being sold under poor market conditions and any transactions costs incurred through the sale of the security such as legal costs, court costs, and repairs and maintenance.
- The 12-months ECL is equal to the sum over the next 12-month PD multiplied by LGD and EAD. Lifetime ECL is calculated using the sum of PD over the full remaining life multiplied by LGD and EAD.

Sensitivity Analysis

A probability-weighted ECL has been prepared taking into consideration a base case, upside and downside scenario across each of the Credit Union’s loan portfolios. Given the forecast near-term outlook, including the anticipated COVID-19 pandemic impact, a 5% weighting has been applied to the upside scenario. The base case incorporates a reasonable level of portfolio stress driven by forecast unemployment rate (rising to 10% and slowly recovering until 2022). This scenario is weighted at 55%. The downside scenario assumes a more severe a prolonged downturn (unemployment rising to 10% and remaining elevated throughout 2021 and 2022) and collateral values being discounted by 30% for the calculation of the EAD. This scenario has been given a 45% weighting. As the effect of these weightings was minor, the Credit Union has elected to use the base case.

Incorporation of forward looking information

The Credit Union has taken into consideration several macro-economic factors including unemployment rate, gross domestic product, housing price index and interest rates. Through analysis it was determined that the unemployment rate showed a correlation with the Credit Union’s arrears history, therefore the PD will be reviewed and adjusted if a significant change in the unemployment rate is forecast or has occurred. Due to the anticipated near-term outlook, including potential impacts of

3.3 Provision for impairment of financial assets (continued)

the COVID-19 pandemic, the PD at each stage has been reviewed and adjusted based on a forecasted increase in the unemployment rate.

The Credit Union also holds a general reserve for credit losses as an additional allowance for bad debts to comply with prudential requirements. Refer to Note 5.8 for details on this reserve.

4. Deposits and Liquidity

4.1 Cash and cash equivalents	Note	2020 $'000	2019 $'000
Cash at bank and on hand		**23,393**	18,331
Deposits at call		**11,152**	4,064
Total cash and cash equivalents	6.1	**34,544**	22,395

Cash and cash equivalents include restricted balances of $16.4 million (2019: $9.7 million) in the Credit Union which represents deposits held in securitisation trust collection and liquidity reserve accounts which are not available to the Group.

Recognition and measurement

Cash and cash equivalents comprise cash balances, at call deposits, and short term deposits with original maturities of three months or less. Bank overdrafts that are repayable on demand and form an integral part of the Credit Union's cash management are included as a component of cash and cash equivalents for the purpose of the Statement of Cash Flows.

Cash and cash equivalents are carried at amortised cost, with interest brought to account using the effective interest rate method.

4.2. Deposits	Note	2020 $'000	2019 $'000
Withdrawable shares		**48**	50
Call deposits		**352,521**	335,926
Retail term deposits		**234,264**	216,817
Wholesale term deposits		**1,250**	40,250
	6.1	**588,083**	593,043

Recognition and measurement

Deposits, being member savings, term investments and wholesale deposits are measured at amortised cost and are recognised as the aggregate amount of money owing to depositors. The amount of interest accrued at balance date is shown as part of payables.

4.3 Reconciliation of cash flows from operating activities

Reconciliation of cash

For the purposes of the Statement of Cash Flows, cash includes cash on hand and at bank and short term deposits at call, net of outstanding overdrafts. Cash as at the end of the financial year as shown in the Statement of Cash Flows is reconciled to the related items in the balance sheets as follows:

	Note	2020 $'000	2019 $'000
Cash and cash equivalents	4.1	**34,544**	22,395
Reconciliation of cash flows from operating activities			
Profit for the year attributable to members of the Group		**619**	1,181
Charge for bad and doubtful debts and impairment losses		**51**	44
Depreciation and amortisation		**3,084**	1,267
Net loss on disposal of plant and equipment		**1**	46
Operating profit before changes in assets and liabilities		**3,755**	2,538
Changes in assets and liabilities			
Net loans repaid/(funded)		**26,237**	7,455
Net movement in deposits		**(4,959)**	22,875
Movement in interest receivable		**68**	(31)
Movement in other receivables		**(16)**	3
Movement in deferred tax asset		**(252)**	56
Movement in prepayments		**122**	(137)
Movement in interest payable		**(719)**	212
Movement in sundry creditors and accruals		**(1,844)**	876
Movement in provision for employee entitlements		**(163)**	(22)
Movement in current tax liabilities		**22**	(448)
Movement in make good provision		**2**	1
Movement in Right-of-use Asset		**(1)**	-
Movement in deferred tax liability		**(119)**	11
Net cash flows (used in)/from operating activities		**22,133**	33,389

Cash flows presented on a net basis

Cash flows arising from loan advances and repayments, member deposits and withdrawals and from sales and purchases of investment securities have been presented on a net basis in the Statement of Cash Flows.

5. Other Financial Position Notes

5.1. Property, plant and equipment

	Note	Land & Buildings at Fair Value $'000	Leasehold Improvements at cost $'000	Plant and Equipment at cost $'000	Work in Progress $'000	Total $'000
Gross carrying amount						
Balance as at 30 June 2018		6,250	558	3,577	-	10,385
Additions		15	-	205	-	220
Revaluations		-	-	-	-	-
Disposals		-	(5)	(272)	-	(277)
Transfers		-	-	-	-	-
Balance as at 30 June 2019		6,265	553	3,510	-	10,328
Additions		**-**	**-**	**162**	**-**	**162**
Revaluations		**-**	**-**	**-**	**-**	**-**
Disposals		**-**	**-**	**(27)**	**-**	**(27)**
Transfers		**-**	**-**	**-**	**-**	**-**
Balance as at 30 June 2020		**6,265**	**553**	**3,645**	**-**	**10,463**
Accumulated Depreciation						
Balance as at 30 June 2018		(137)	(304)	(1,839)	-	(2,280)
Disposals		-	5	214	-	219
Depreciation Expenses	2.3	(134)	(108)	(348)	-	(590)
Revaluations		-	-	-	-	-
Balance as at 30 June 2019		(271)	(407)	(1,973)	-	(2,651)
Disposals		**-**	**-**	**27**	**-**	**27**
Depreciation Expenses	2.3	**(134)**	**(94)**	**(339)**	**-**	**(567)**
Revaluations		**-**	**-**	-	-	-
Balance as at 30 June 2020		**(405)**	**(501)**	**(2,285)**	**-**	**(3,191)**
Net Book Value						
Balance as at 30 June 2019		5,994	146	1,537	-	7,677
Balance as at 30 June 2020		**5,860**	**52**	**1,360**	**-**	**7,272**

5.1. Property, plant and equipment (continued)

Recognition and measurement

Land and buildings

Land and buildings are measured at fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. The carrying amount of land and buildings as at balance date is $5,860,000.

An independent valuation was carried out by Opteon in June 2017 on the basis of the open market value of the property concerned in existing use, which resulted in a valuation of $6,250,000 for land and buildings. The valuation was performed on the basis of the Credit Union occupying the majority of the building, with leases in place for areas let to tenants. A subsequent valuation was carried out by Opteon in June 2020 on the basis of the open market value of the property concerned in existing use, which resulted in a valuation of $6,500,000. The valuation was performed during the Covid-19 pandemic, with limited market activity and low sales volumes. The valuation report acknowledged that past cycles indicate a lag for property markets to react to economic events, and that the extent of any decline in value is presently uncertain, and may depend on the length of the Covid-19 pandemic. While the valuation report does not indicate impairment of land and buildings, it does present estimation uncertainty regarding the increased valuation of the land and buildings. Due to this estimation uncertainty, the Credit Union has determined that the carrying amount of land and buildings, and the fair value are not materially different, and has decided not to revalue land and buildings based on the June 2020 valuation.

Revaluations are made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the reporting date. Any increase in fair value is recorded in other comprehensive income and accumulated in equity under the Asset Revaluation Reserve. Any decrease in fair value is recognised in other comprehensive income to the extent of any credit balance in the Asset Revaluation Reserve; otherwise, the decrease is recognised in profit or loss. When revalued assets are sold, the amounts included in the revaluation reserve are transferred to retained earnings.

The fair value measurement of freehold land and buildings has been categorised as a Level 2 fair value based on the inputs to the valuation technique used (see Note 6.1(d)). The fair value measurement is based on the Market Income Capitalisation valuation technique, which measures fair value by converting future cash flows to a current capital value. The expected market capitalisation rate is a significant unobservable input and is currently 8.50% based on the 2017 valuation. The estimated fair value would increase/(decrease) if the expected market capitalisation was lower/(higher).

Plant and equipment

Items of plant and equipment are measured at cost less accumulated depreciation and any impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset.

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

Gains and losses on disposal of an item of plant and equipment are determined by comparing the proceeds from disposal with the carrying amounts of plant and equipment and are recognised in profit or loss.

Depreciation

Depreciation is based on the cost of the asset less any estimated residual value and is recognised on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment, since this most closely reflects

5.1. Property, plant and equipment (continued)

the expected pattern of consumption of the future economic benefits embodied in the asset. Leased assets are depreciated over the shorter of the lease term and their useful lives.

The estimated useful lives for the current and comparative periods are as follows:

- Plant and equipment 2 - 10 years
- Leased plant and equipment 3 - 5 years
- Buildings 40 years

Depreciation methods, useful lives and residual values are reviewed at each reporting date.

5.2. Intangible assets

	Note	2020 $'000	2019 $'000
At cost		**1,878**	4,254
Provision for amortisation		**(948)**	(1,618)
Intangible assets		**930**	2,636
Work in progress		**-**	307
Total intangible assets		**930**	2,943
Reconciliation of carrying amounts			
Carrying amount at the beginning of the year		**2,943**	3,102
Additions		**357**	542
Amortisation	2.3	**(2,370)**	(667)
Disposals		**-**	(34)
Carrying amount at the end of the year		**930**	2,943

Recognition and measurement

Intangible assets include acquired or internally generated computer software with a finite useful life where they are clearly identifiable, can be reliably measured, and it is probable they will lead to future economic benefits that the Credit Union controls. The Credit Union carries capitalised computer software assets at cost basis less accumulated depreciation and any impairment losses.

Subsequent expenditure on capitalised software is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Amortisation

Software is amortised using the straight-line method over its expected useful life. The estimated useful lives are as follows;

- Major banking infrastructure 3-7 years
- Other computer software 3-4 years

In the current financial year core major banking infrastructure was reassessed as having a useful life of 3 years (previously 7 years). An amount of $1.7m was recognised in 2020 as additional amortisation in the Statement of Profit or Loss and Other Comprehensive Income as depreciation and amortisation expense.

5.3. Other assets

	2020 $'000	2019 $'000
Prepayments	**460**	425
Interest receivable	**320**	388
Set up costs ICU MTG Trust - net	**-**	156
Other	**56**	41
	836	1,010

5.4. Payables

	Note	2020 $'000	2019 $'000
Sundry creditors		**704**	2,420
Accrued interest payable		**927**	1,654
Accrued expenses		**423**	527
Total other payables	6.1	**2,054**	4,601

Recognition and measurement

These amounts represent liabilities for goods and services provided to the Credit Union prior to the end if the financial year which are unpaid. Due to their short-term nature they are measures at amortised cost and are not discounted. The amounts are unsecured and are usually paid within 30 days of recognition.

5.5. Provisions

	2020 $'000	2019 $'000
Employee benefits		
-Liability for annual leave	**358**	414
-Liability for long service leave	**286**	393
Make good costs	**66**	64
	710	871

Included in employee benefits is a non-current amount of $124,000 (2019: $126,000)

Recognition and measurement

A provision is recognised if, as a result of a past event, the Credit Union has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as a finance cost.

Short term employee benefits

Liabilities for employee benefits which represent present obligations resulting from employees' services provided to reporting date are calculated at amounts based on remuneration, wage and salary rates that the Credit Union expects to pay as at reporting date, including related on-costs such as workers compensation, superannuation and payroll tax. Non-accumulating non-monetary benefits, such as motor vehicles and subsidised goods and services, are expensed based on the net marginal cost to the Credit Union as the benefits are taken by the employees.

Long term employee benefits

The liability for employee benefits for long service leave represents the present value of the estimated future cash outflows to be made by the Credit Union resulting from employees' services provided in the current and prior financial reporting periods, as at balance date.

5.5 Provisions (continued)

The provision is calculated using expected future increases in wage and salary rates including related on-costs and expected settlement dates based on turnover history, and is discounted to determine its present value. The unwinding of the discount is treated as long service leave expense.

Redundancy benefits

Termination benefits are expensed at the earlier of when the Credit Union can no longer withdraw the offer of those benefits and when the Credit Union recognises costs for a restructuring. If benefits are not expected to be settled wholly within 12 months of the reporting date, then they are discounted.

Make good provision

A make good provision is recognised in respect of the branch properties that the Credit Union leases. It is the present value of the cash outflows the Credit Union expects to incur to make good the site upon finalisation of the lease.

5.6. Leases

The Credit Union has applied AASB 16 *Leases* using the modified retrospective (cumulative catch-up) method from 1 July 2019, and therefore the comparative information has not been restated and continues to be reported under AASB 117 *Leases* and related Interpretations.

(a) Credit Union as a lessee

Nature of the leasing activities

The Credit Union leases properties at Corrimal, Dapto and Helensburgh in the state of New South Wales, which are used as member service centres.

Terms and conditions of leases

The three leases have initial terms of between two and five years. Some of the leases include extension options – as detailed in a below section.

The leases contain an annual pricing mechanism based on CPI movements at each anniversary of the lease inception, or a fixed rate designed to estimate a CPI movement, or a combination of both. There are no non-index (i.e. CPI) related variable lease payments associated with these property leases.

The Credit Union committed to a new lease for the property at the existing Corrimal site in July 2020. This lease will commence in October 2020, for an initial term of 1 year, with an option to renew for a further 1 year.

Right-of-use assets	**2020 $'000**
At cost	**231**
Accumulated depreciation	**(147)**
Balance at the end of the year	**84**

5.6. Leases (continued)

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

	2020	2020
	Land and buildings $'000	Total $'000
Balance at 1 July 2019	231	231
Depreciation charge	(147)	(147)
Balance at 30 June 2020	84	84

Lease liabilities

	2020
	$'000
Current	
Not later than 1 year	78
Total	78

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

	2020
	$'000
Not later than 1 year	80
Total	80

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

Extension options

A number of the building leases contain extension options which allow the Credit Union to extend the lease term by beyond the non-cancellable period. These option periods range from one year to five years across these leases.

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

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

Under the Dapto and Helensburgh leases, there are $173,000 of undiscounted potential future lease payments not included in the lease liabilities, as the Credit Union has assessed that the exercise of each option is not reasonably certain as at balance date. The Credit Union committed to a new lease for the Corrimal property in July 2020, which will commence in October 2020.

5.6. Leases (continued)

The potential future lease payments due to the extension option in the current Corrimal lease are excluded from this calculation as the option will not be exercised.

Income statement

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

	2020
	$'000
Interest expense on lease liabilities	**(11)**

Statement of cash flows

Total cash outflow for leases – including interest	**(139)**

Exemptions applied

The Credit Union has applied the exemptions relating to short-term leases and leases of low-value assets, as described at Note 8.2.

As at 30 June 2020, the Credit Union is not committed to any short-term leases.

Key assumptions used in calculations

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

- **Assessment of lease term** – as discussed above, this includes consideration of extension options on a lease by lease basis.
- **Determination of the appropriate rate to discount the lease payments –** The Credit Union has used its incremental borrowing rate, as the rate implicit in the leases is not known. The Credit Union's assessed incremental borrowing rate as at 1 July 2019 on adoption was 7.56%. This was determined based on consideration of reference rates for commercial lending, lease term and a lease specific adjustment considering the 'secured borrowing' element of the leases.

(b) Credit Union as a lessor

OPERATING LEASES

Nature of the leasing activities

The Credit Union receives rental income from various tenants who lease a portion of the land and buildings owned by the Credit Union at 36-40 Young Street, Wollongong. These leases have been classified as operating leases for financial reporting purposes and the assets are included as property, plant and equipment in the Statement of Financial Position (refer Note 5.1).

Terms and conditions of leases

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

5.6. Leases (continued)

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

Income statement

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

	2020	2019
	$'000	**$'000**
Lease/rental income (excluding variable lease payments not dependent on an index or rate)	**293**	215
Total lease/rental income	**293**	215
Direct operating expenses (including repairs & maintenance) arising from investment property that generated rental income during the period	**(91)**	(77)
Total direct operating expenses	**(91)**	(77)

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

< 1 year	**300**	330
1 - 2 years	**298**	347
2 - 3 years	**60**	356
3 - 4 years	**39**	86
4 - 5 years	**-**	57
Total undiscounted lease payments receivable	**697**	**1,176**

FINANCE LEASES

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

(c) Accounting policy for leases

Policy applicable after 1 July 2019

Credit Union as a lessee

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

5.6. Leases (continued)

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

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

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

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

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

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

The Credit Union has elected to apply the exceptions to lease accounting for both short-term leases (i.e. leases with a term of less than or equal to 12 months) and leases of low-value assets (defined by the Credit Union as less than or equal to $5,000). The Credit Union recognises the payments associated with these leases as an expense on a straight-line basis over the lease term.

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

Credit Union as a lessor

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

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

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

Policy applicable before 1 July 2019

Leases in terms of which the Credit Union assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset. Other leases are operating leases, and the leased assets are not recognised in the Statement of Financial Position.

5.7. Long term borrowings

	2020 $'000	2019 $'000
Term Funding Facility (TFF)	14,794	-
Total long term borrowings	**14,794**	-

Recognition and measurement

Term Funding Facility (TFF)

On 19 March 2020, the RBA announced it was establishing a Term Funding Facility (TFF) for ADIs to reinforce the benefits to the economy of a lower RBA cash rate and encourage ADIs to support businesses. The facility provides three-year funding via repurchase transactions with the RBA at a cost of 0.25% and is available to be drawn through to the end of March 2021. On 30 March 2020, APRA announced that the benefit from the Initial Allowance of the TFF could be included in the reporting of Minimum Liquidity Holdings (MLH) from 31 March 2020 subject to having the necessary unencumbered collateral to access the facility. On 16 April 2020, APRA extended this treatment to include the Additional Allowance of the TFF.

The Credit Union's Initial Allowance was $14,789,480 was drawn on 6 April 2020 (purchase date). The collateral used to access the facility is $17,680,000 Class A notes from the MTG ICU Trust Repo Series No 1. The Credit Union has nil additional allowance available.

The TFF is measured at amortised cost and recognised as the aggregate amount of money owing to the Reserve Bank of Australia (RBA) as part of the reciprocal purchase transaction. The amount of interest accrued at balance date is shown as part of the TFF. The repurchase price is $14,895,973.85 and the repurchase date is 6 April 2023.

5.8. Reserves

	2020 $'000	2019 $'000
General reserve for credit losses	1,317	1,417
Redeemed share capital reserve	254	252
Asset revaluation reserve	2,233	2,233
Total Reserves	**3,804**	3,902

Recognition and measurement

General reserve for credit losses

The general reserve for credit losses contains an additional allowance for impairment losses. The general reserve for credit losses together with the expected credit loss (ECL) amount must be adequate to comply with prudential requirements.

Redeemed share capital reserve

The share capital reserve represents the value of member shares redeemed. As member shares are redeemable preference shares, the Corporations Act 2001 requires that any redemptions are to be made from retained profits.

Asset revaluation reserve

The revaluation reserve represents the cumulative net changes in fair value of the Young St (Wollongong) property in accordance with the revaluation method under AASB 116 Property, Plant and Equipment, net of tax.

6. Risk Management and Capital

6.1. Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the risk management framework. To assist in performing the role of overseeing risk management, the Board has established the Board Risk Committee (BRC) and Board Audit Committee (BAC).

The Credit Union applies the Three Lines of Defence model that articulates the key layers of risk management. The first line of defence originates or initiates risk, and is responsible for managing the risks and having place mechanisms to demonstrate controls are working effectively. The Second Line of Defence being the risk management function, headed by the Chief Risk Officer, which contributes toward the progressive development of the Credit Union's risk management framework. The function also provides management and the Board with risk reporting and maintains the regulatory compliance framework in line with regulatory expectations.

The BRC is responsible for developing and monitoring risk management policies and overseeing how management monitors compliance with the Credit Union's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Credit Union. The BRC reports regularly to the Board of Directors on its activities. Management has established the Risk Management Team that contributes to the oversight of risk management and regularly reports to the BRC on their activities.

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

The BAC is responsible for overseeing the financial reporting, audit and control framework of the Credit Union. The BAC is assisted in its oversight role by Internal Audit, which is the third line of defence along with external audit.

Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the BAC and the Board of Directors.

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

a) Credit risk

Credit risk is the risk of financial loss to the Credit Union if a member or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Credit Union's loans and receivables to members and other ADIs and investment securities. This risk is inherent in the Credit Union's lending activities.

Management of credit risk

The Board of Directors has delegated responsibility of the day-to-day management of credit risk to the Credit Team, Collections Team and Risk Management Team.

Credit risk is managed principally through embedded controls upon individual lending groups such as branches, call centres and business development. Lending is carried out within the parameters of lending policies (covering approvals, documentation and management), which have been developed having regard to statistical data and historical risk experience.

To maintain the quality of the lending portfolio, prudential standards have been followed and lending policies have been established.

6.1 Risk management framework (continued)

a) Credit risk (continued)

Credit processes are typically structured so that loan origination, approval, document preparation, settlement and account monitoring and control are segregated to different individuals or areas. Credit must be evaluated against established credit policies and be structured, particularly in terms of security, to be prudent for the risk incurred. The Credit Team assesses credit beyond the lending authorities of lending groups and/or outside normal policies and guidelines. The Collections Team also assesses specific provision requirements where loan default has occurred and manages impaired assets in arrears with the aim of achieving the optimum result from such assets. Impaired assets in arrears are also referred to a third party Collections Agency with the expertise to achieve optimum results from such assets. The Risk Management Team regularly reviews credit quality, arrears, and expected credit losses, and reports to the Board of Directors.

Risk and Internal Audit personnel regularly test internal controls and adherence to credit policies and procedures.

The Credit Union applies standard credit risk assessment criteria to all extensions of credit, from credit scoring systems for basic retail products to complete credit assessment for commercial and business loans.

The quantification of credit risk is performed by analytical tools and models, which provide estimates of expected credit losses (refer to note 3.3).

Management regularly reports to the Board of Directors on arrears, portfolio analysis and stress testing, all approvals with an exception to policy, and all staff loans.

Counterparty risk for investments in financial instruments is limited to Australian owned banks, APRA regulated foreign subsidiary banks and other APRA regulated ADIs. The Credit Union has invested in a number of unrated Building Societies, Credit Unions and Mutual Banks, as well as other APRA regulated entities rated by Standard and Poors.

Exposure to credit risk

The Credit Union's maximum exposure to credit risk at balance date, in relation to each class of recognised financial asset, is the carrying amount of those assets as stated in the Statement of Financial Position. The maximum credit risk exposure does not take into account the value of any collateral or other security held, in the event other entities/parties fail to perform their obligations under the financial instruments in question. The Credit Union's maximum exposure to credit risk at the reporting date was:

6.1. Risk management framework (continued)

a) Credit risk (continued)

	Note	30 June 2020 $'000 Loans and advances	Placements with other financial institutions	Cash and cash equivalents
Carrying amount		480,918	127,318	34,544
Stage 3: Lifetime ECL				
Days in arrears				
> 90 days		**1,161**	-	-
ECL provision	3.3	**(48)**	-	-
Carrying amount		**1,113**		
Stage 2: Lifetime ECL				
> 30 days in arrears		**1,096**	-	-
> 1 day in arrears on two or more occasions during the year		**5,533**	-	-
Declared hardship / restructured**		**37,274**	-	-
ECL provision	3.3	**(108)**	-	-
Carrying amount		**43,795**	-	-
Stage 1: 12 month ECL				
Secured by mortgage		**402,471**	-	-
Investment grade		-	**105,568**	**34,091**
Unrated		-	**21,732**	-
Other		**33,651**	-	**452**
ECL provision	3.3	**(54)**	-	-
Carrying amount		**436,068**	**127,318**	**34,544**
Net loan deferred income and expense	3.1	**(57)**	-	-
Total adjusted carrying amount	3.1, 3.2, 4.1	**480,918**	**127,318**	**34,544**
Loans approved not advanced				
Secured by mortgage		**11,065**	-	-
Other		**24**	-	-
ECL provision		-	-	-
Carrying amount		**11,089**	-	-

As at balance date, there were no individual members that have loans that represent more than 10% of the Credit Union's assets.

***Hardships declarations/restructures resulting from the COVID-19 pandemic are included here.*

6.1. Risk management framework (continued)

a) Credit risk (continued)

	Note	30 June 2019 $'000		
		Loans and advances	Placements with other financial institutions	Cash and cash equivalents
Carrying amount		507,206	103,178	22,395
Stage 3: Lifetime ECL				
Days in arrears				
> 90 days		2,845	-	-
ECL provision	3.3	(49)	-	-
Carrying amount		2,796	-	-
Stage 2: Lifetime ECL				
> 30 days in arrears		2,594	-	-
> 1 day in arrears on two or more occasions during the year		11,010	-	-
Declared hardship / restructured		7,843	-	-
ECL provision	3.3	(92)	-	-
Carrying amount		21,355	-	-
Stage 1: 12 month ECL				
Secured by mortgage		476,017	-	-
Investment grade		-	82,678	21,884
Unrated		-	20,500	-
Other		7,161	-	511
ECL provision	3.3	(44)	-	-
Carrying amount		483,134	103,178	22,395
Net loan deferred income and expense	3.1	(79)	-	-
Total adjusted carrying amount	3.1, 3.2, 4.1	507,206	103,178	22,395
Loans approved not advanced				
Secured by mortgage		16,701	-	-
Other		-	-	-
ECL provision		-	-	-
Carrying amount		16,701	-	-

As at 30 June 2019, there were no individual members that have loans that represent more than 10% of the Credit Union's net assets.

Loans restructured - 2020

During the year loans totalling $4,076,000 (2019: $8,261,000) have been restructured by the Credit Union and at the end of 30 June 2020, the Credit Union had a total of $3,998,000 (2019: $7,189,000)restructured loans. The Credit Union has determined that restructured loans show significant increase in credit risk since initial recognition, hence are a trigger for movement into Stage 2 of the Expected Credit Loss impairment model. No restructured loans have moved into Stage 3 during the year.

6.1. Risk management framework (continued)

a) Credit risk (continued)

The Credit Union's maximum exposure to credit risk for loans to members at the reporting date by geographic regions was:

	Note	2020	2019
		$'000	$'000
Illawarra NSW		**291,727**	300,989
Sydney NSW		**133,836**	144,530
Far South Coast NSW		**8,052**	9,261
Other NSW/ACT		**21,357**	25,044
Victoria		**4,232**	6,392
QLD		**12,041**	10,108
WA		**6,437**	7,245
Other		**3,500**	3,901
	3.1	**481,184**	507,470

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

Loans and advances

	2020		2019
	$'000		$'000
Stage 3: Lifetime ECL		***Stage 3: Lifetime ECL***	
- Property	**3,042**	- Property	**6,771**
- Other	**-**	- Other	**-**
Stage 2: Lifetime ECL		***Stage 2: Lifetime ECL***	
- Property	**83,176**	- Property	**38,803**
- Other	**2,747**	- Other	**9,315**
Stage 1: 12 month ECL		***Stage 1: 12 month ECL***	
- Property	**1,111,685**	- Property	**1,273,414**
- Other	**7,927**	- Other	**3,411**
Total value of collateral held	**1,208,577**	**Total value of collateral held**	**1,331,714**
Average Loan to Valuation ratio	**39.79%**	Average Loan to Valuation ratio	**38.09%**

Collateral

The Credit Union holds collateral against loans and advances to members in the form of interests over property, other registered securities over assets and guarantees. Mortgage insurance contracts are entered into in order to manage the credit risk around the residential loan mortgage portfolio, where the loan to value ratio exceeds 85%. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally, are not updated except when a loan is individually assessed as impaired. Collateral is not held over placements with financial institutions and other financial assets held at amortised cost.

6.1. Risk management framework (continued)

a) Credit risk (continued)

The Credit Union obtained the following non-financial assets by taking possession of collateral held as security.

	2020 $'000	2019 $'000
Nature of non-financial assets – Property		-
Nature of non-financial assets – Motor vehicle	-	-
	-	-

Write-off policy

The Credit Union writes-off a loan balance when the Collections Team determines that the loan is uncollectable. This determination is reached after considering information such as the occurrence of significant changes in the borrower's financial position such that the borrower can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire balance. These debts can be referred to a third party agency for further recovery action. During the year $11,393 of debts were written off, but are still subject to enforcement activities.

Settlement Risk

Settlement risk is the risk of loss due to the failure of any counterparty to honour its contractual obligations. The Credit Union's operations may give rise to this risk at the time of settlement of transactions, but this risk is mitigated for certain types of transactions by conducting settlements through a settlement/clearing agent to ensure that a transaction is settled only when both parties have fulfilled their contractual settlement obligations.

b) Liquidity risk

Exposure to liquidity risk

Liquidity risk can arise from excessive withdrawals, excessive demand for loan funding, concentration of large deposits held by a small number of members as well as maturity disparities between assets and liabilities.

The Credit Union has a liquidity management strategy that ensures that enough high-quality liquid assets (HQLA) are always available for the Credit Union's cash flow and liquidity requirements. The Credit Union also has other liquid assets over and above HQLA prudential requirements, and these are included in total liquidity calculations. Liquidity standards which are set and approved by the Board ensure that at a minimum the APRA standards are sufficiently met. Liquidity management is monitored on a daily basis.

Details of the Credit Union's ratio of net liquid assets to deposits at the reporting date and during the reporting period were as follows:

	2020 %	2019 %
HQLA at 30 June	**15.98**	13.16
HQLA average for the period	**13.80**	13.31
HQLA maximum for the period	**17.28**	17.00
HQLA minimum for the period	**11.73**	12.11
Total liquidity at 30 June	**23.55**	19.00

6.1. Risk management framework (continued)

b) Liquidity risk (continued)

Management of liquidity risk

The Credit Union's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its obligations when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Credit Union's reputation. The Credit Union has an overdraft facility and a self-securitisation programme with which it can access emergency liquidity through an RBA repo facility (refer to note 7.6) in place to assist in adequately managing liquidity.

The Credit Union's Risk Management Team assists with the oversight of asset and liability management – including liquidity risk management. The Credit Union's liquidity policies are approved by the Board of Directors, after endorsement by the Risk Management Team and the BRC. Liquidity policies address liquidity management including the observance of trigger levels, stress testing and cash flow forecasting. Stress testing is performed over at least the next 12 months and involves various scenarios including ones that are significantly worse than those that have been observed in the past.

6.1. Risk management framework (continued)

b) Liquidity risk (continued)

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements:

	Note	Carrying amount	Gross nominal inflow/ (outflow)	Less than 1 month	1-3 months	3 months to 1 year	1-5 years	More than 5 years
		$'000	$'000	$'000	$'000	$'000	$'000	$'000
30 June 2020								
Non-derivative liabilities								
Deposits – retail	4.2	**586,833**	**(587,893)**	**(399,131)**	**(57,937)**	**(129,461)**	**(1,364)**	**-**
Deposits – wholesale	4.2	**1,250**	**(1,251)**	**(1,000)**	**(251)**	**-**	**-**	**-**
Payables	5.4	**2,054**	**(2,054)**	**(1,757)**	**(92)**	**(203)**	**(2)**	**-**
Long term borrowings	5.7	**14,794**	**(14,896)**	**-**	**-**	**(14,896)**	**-**	**-**
		604,931	**(606,094)**	**(401,888)**	**(58,280)**	**(144,560)**	**(1,366)**	**-**
Unrecognised finance commitments								
- *approved but undrawn loans*	7.2	**11,089**	**(11,089)**	**(5,412)**	**(3,469)**	**(2,208)**	**-**	**-**
		616,020	**(617,183)**	**(407,300)**	**(61,749)**	**(146,768)**	**(1,366)**	**-**
30 June 2019								
Non-derivative liabilities								
Deposits – retail	4.2	552,793	(554,508)	(375,877)	(48,883)	(128,683)	(1,065)	-
Deposits – wholesale	4.2	40,250	(40,382)	(15,511)	(18,567)	(6,304)	-	-
Payables	5.4	4,601	(4,601)	(3,973)	(219)	(402)	(8)	-
		597,644	(599,491)	(395,361)	(67,669)	(135,389)	(1,073)	-
Unrecognised finance commitments								
- *approved but undrawn loans*	7.2	16,701	(16,701)	(9,089)	(5,275)	(2,337)	-	-
		614,345	(616,192)	(404,450)	(72,944)	(137,726)	(1,073)	-

6.1. Risk management framework (continued)

c) Market risk

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

Interest rate risk

The principal tool to measure and control interest rate risk exposure within the Credit Union's interest earning assets and liabilities is Value at Risk (VaR). The VaR is the estimated loss that will arise over a specified period of time (holding period) from an adverse market movement with a specified probability (confidence level). The VaR model used is based upon a 99 percent confidence level and assumes a 20-day holding period. The VaR model used is based mainly on historical simulation, taking account of market data from the previous year. The Credit Union positions some of its low rate call savings deposits from the one month repricing point to various repricing points to more accurately match the cash outflow of the product. The Credit Union is of the view that these assumptions more realistically reflect the true nature of low rate on-call savings deposits.

Although VaR is an important tool for measuring market risk, the assumptions on which the model is based do give rise to some limitations, including the following:

- A 20-day holding period assumes it is possible to hedge or dispose of positions within that period. This is considered to be a realistic assumption in almost all cases but may not be the case in situations in which there is severe market illiquidity for a prolonged period;
- A 99 percent confidence level does not reflect losses that may occur beyond this level. Even within the model used there is a one percent probability that losses could exceed the VaR;
- The use of historical data as a basis for determining the possible range of future outcomes may not always cover all possible scenarios, especially those of an exceptional nature; and
- The VaR measure is dependent upon the Credit Union's position and the volatility of market interest rates. The VaR of an unchanged position reduces if the market interest rate volatility declines and vice versa.

A summary of the VaR position of the Credit Union at 30 June is as follows:

	2020	2019
	$'000	$'000
Interest rate risk – Value at Risk	**91**	359

At the reporting date the interest rate profile of the Credit Union's interest bearing financial instruments was:

Fixed rate instruments		
Financial assets	**252,718**	347,776
Financial liabilities	**(250,299)**	(257,067)
	2,419	90,709
Variable rate instruments		
Financial assets	**390,311**	285,266
Financial liabilities	**(352,569)**	(335,975)
	37,743	(50,709)

6.1. Risk management framework (continued)

d) Fair Values

Fair values versus carrying amounts

The fair values of financial assets and liabilities, together with the carrying amounts shown in the Statement of Financial Position, are as follows:

	Note	30 June 2020						
		Carrying amount $'000			Fair value $'000			
		Financial assets measured at amortised cost	Financial liabilities measured at amortised cost	Total	Level 1	Level 2	Level 3	Total
Financial assets carried at amortised cost								
Loans and advances	3.1	480,918	-	480,918	-	480,248	-	480,248
Placements with other financial institutions	3.2	127,300	-	127,300	-	124,045	-	124,045
Cash and cash equivalents*	4.1	34,544	-	34,544	-	-	-	-
		642,762	-	642,762	-	604,293	-	604,293
Financial liabilities carried at amortised cost								
Deposits	4.2	-	(586,833)	(586,833)	-	(587,814)	-	(587,814)
Wholesale deposits	4.2	-	(1,250)	(1,250)	-	(1,257)	-	(1,257)
Payables*	5.4	-	(2,054)	(2,054)	-	-	-	-
Long term borrowings	5.7	-	(14,794)	(14,794)	-	(14,700)	-	(14,700)
		-	(604,931)	(604,931)	-	(617,308)	-	(617,308)

*The Credit Union has not disclosed the fair values for financial instruments such as cash and cash equivalents, short-term trade receivables and payables, because their carrying amounts are a reasonable approximation of fair values. There have been no transfers between the valuation levels during 2020 (2019: Nil).

6.1. Risk management framework (continued)

d) Fair Values (continued)

	Note	30 June 2019 Carrying amount $'000			Fair value $'000			
		Financial assets measured at amortised cost	Financial liabilities measured at amortised cost	Total	Level 1	Level 2	Level 3	Total
Assets carried at amortised cost								
Loans and advances	3.1	**507,206**	**-**	**507,206**	**-**	**507,533**	**-**	**507,533**
Placements with other financial institutions	3.2	**103,178**	**-**	**103,178**	**-**	**103,633**	**-**	**103,633**
Cash and cash equivalents*	4.1	**22,395**	**-**	**22,395**	**-**	**-**	**-**	**-**
		632,779	**-**	**632,779**	**-**	**611,166**	**-**	**611,166**
Liabilities carried at amortised cost								
Deposits	4.2	**-**	**(552,793)**	**(552,793)**	**-**	**(553,650)**	**-**	**(553,650)**
Wholesale deposits	4.2	**-**	**(40,250)**	**(40,250)**	**-**	**(40,334)**	**-**	**(40,334)**
Payables*	5.4	**-**	**(4,601)**	**(4,601)**	**-**	**-**	**-**	**-**
		-	**(597,644)**	**(597,644)**	**-**	**(593,984)**	**-**	**(593,984)**

*The Credit Union has not disclosed the fair values for financial instruments such as cash and cash equivalents, short-term trade receivables and payables, because their carrying amounts are a reasonable approximation of fair values. There have been no transfers between the valuation levels during 2020 (2019: Nil).

6.1. Risk management framework (continued)

d) Fair Values (continued)

A number of the Credit Union's accounting policies and disclosures require the determination of fair values. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. Where applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

Cash and cash equivalents

The carrying amount approximates fair value because of their short term to maturity or the fact that they are receivable on demand.

Payables

The carrying amount approximates fair value as they are short term in nature.

Loans and receivables

The fair value of loans and receivables, excluding impaired loans, are estimated using discounted cash flow analysis, based on current incremental lending rates for similar types of lending arrangements. The nominal interest rates used have been applied to all interest payments received for loans repricing in a given period. The methodology used to determine the net fair value of the known future cash flows is in accordance with generally accepted discounted cash flow analysis. The net fair value of impaired loans was calculated by discounting expected cash flows using a rate which includes a premium for the uncertainty of the cash flows.

Deposits

The carrying amount of at call deposits approximates fair value as they are short term in nature or are payable on demand.

The fair value of term deposits carried at amortised cost is estimated using discounted cash flow analysis, based on current incremental deposit rates for similar deposit products. The nominal interest rates used have been applied to all interest payments made for deposits repricing in a given period. The methodology used to determine the net fair value of the known future cash flows is in accordance with generally accepted discounted cash flow analysis.

Interest bearing liabilities

This includes interest payable for which the carrying amount is considered to be a reasonable estimate of the net fair value. For liabilities which are long term, net fair values have been estimated using the rates currently offered for similar liabilities with remaining maturities.

Fair value hierarchy

The different levels have been defined as follows:

- **Level 1:** Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- **Level 2:** Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as process) or indirectly (i.e. derived from process).
- **Level 3:** Inputs for the asset or liability that are not based on an observable market data (unobservable inputs).

e) Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Credit Union's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks, such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Credit Union's operations.

6.1. Risk management framework (continued)

e) Operational Risk (continued)

The Credit Union's objective is to manage the operational risk so as to balance the avoidance of financial losses and damage to the Credit Union's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to Senior Management within each business unit. This responsibility is supported by the development of overall Credit Union standards for the management of operational risk in the following areas:

- Requirements for appropriate segregation of duties, including the independent authorisation of transactions;
- Requirements for the reconciliation and monitoring of transactions;
- Compliance with regulatory and other legal requirements;
- Requirements for the reporting of operational losses and proposed remedial action;
- Training and professional development;
- Ethical and business standards; and
- Risk mitigation, including insurance where this is effective.

Compliance with the Credit Union's standards is supported by a programme of periodic reviews undertaken by Compliance and Internal Audit. The results of Compliance and Internal Audit reviews are discussed with the management of the business unit to which they relate, with summaries submitted to the BAC and Senior Management of the Credit Union.

6.2. Capital management

Regulatory capital

APRA sets a prudential capital requirement (PCR) for each ADI that sets capital requirements in excess of the minimum capital requirement of 8%. A key input into the PCR setting process is the Credit Union's Internal Capital Adequacy Assessment Process (ICAAP). The PCR remains confidential between each ADI and APRA in accordance with accepted practice. The Credit Union calculates capital requirements by analysing various major risks faced by the Credit Union and ensuring appropriate levels of capital are maintained to cover those risks. Major risks considered include credit risk, interest rate risk, liquidity risk, operational risk, reputational risk and economic risk.

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

- Tier 1 capital, which includes retained profits and the property revaluation reserve after deductions for certain capitalised expenses, intangible assets, and net deferred tax assets; and
- Tier 2 capital, which includes collective impairment allowances.

The Credit Union's policy is to maintain adequate capital to protect the interests of members, cover risk and support future growth. The Credit Union has complied with all externally imposed capital requirements throughout the period.

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

	2020	2019
	$'000	$'000
Regulatory capital	**44,902**	42,117
Risk weighted assets	**281,283**	267,807
Regulatory capital expressed as a percentage of total risk weighted assets	**15.96%**	15.73%

7. Other Notes

7.1. Commitments

	2020 $'000	2019 $'000
Capital expenditure commitments		
Capital expenditure commitments not taken up in the financial statements		
- payable less than one year	-	-
	-	-

Credit related commitments

Binding commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements.

	2020	2019
Approved but undrawn loans	11,089	16,701

7.2. Contingent liabilities

In the normal course of business, the Credit Union enters into various types of contracts that give rise to contingent or future obligations. These contracts generally relate to the financing needs of members. The Credit Union uses the same credit policies and assessment criteria in making commitments and conditional obligations for off-balance sheet risks as it does for on-balance sheet loan assets. The Credit Union holds collateral supporting these commitments where it is deemed necessary.

Letters of credit and financial guarantees written are conditional commitments issued by the Credit Union to guarantee the performance of a member to a third party.

	2020 $'000	2019 $'000
Performance bonds	177	30

7.3. Related parties

Key management personnel are those persons having authority and responsibility for planning, directing, and controlling the activities of the entity, directly or indirectly, including any Directors (whether executive or otherwise) of the entity. During the 2019-20 period, key management personnel would consist of all Directors which served during the period, as well as the following senior managers.

7.3. Related parties (continued)

Directors	Key Management Personnel
Mr R Downs	Mr A Perkiss (Chief Executive Officer / Company Secretary)
Mr P Kell	Mr T Ellem (General Manager Member Services)
Mr M Halloran	Mr R Coldwell (Chief Information Officer)
Ms D De Santis	Ms J Zondag (Head of Finance and Banking Operations)
Mr C Bloomfield (resigned November 2019)	Ms L Ali (Head of Credit) and Banking Operations)
Mr A Frino	Mr S Robertson (Chief Risk Officer)
Ms D Lambourne	

Transactions with Key Management Personnel

In addition to their salaries, the Credit Union also provides non-cash benefits to key management personnel and contributes to superannuation funds on their behalf.

Key Management Personnel compensation

The aggregate key management personnel compensation related to Senior Managers and Directors is included in 'personnel expense' and is as follows:

	2020	2019
	$	$
Short term employee benefits	**1,332,397**	1,339,020
Other long-term benefits	**35,859**	74,330
Post-employment benefits	**122,024**	111,984
	1,490,280	1,525,334

Apart from the details disclosed in this note, no Director has entered into a material contract with the Credit Union since the end of the previous financial year, and there were no material contracts involving Directors' interests existing at year-end.

Loans to Key Management Personnel and their related parties

Details regarding the aggregate of loans made, guaranteed or secured by the Credit Union to key management personnel and their related parties are as follows:

	2020	2019
	$	$
Aggregate of loans as at balance date	**1,646,731**	1,671,790
Total undrawn revolving credit facilities available at balance date	**50,000**	50,000
Interest charged on loans and overdraft facilities	**66,016**	73,596

7.3. Related parties (continued)

All loans to key management personnel are made on an arm's length basis, on the same terms and conditions as generally available to members. All loans are secured by a residential mortgage or unsecured personal loans, and no amounts have been written down or recorded as allowances, as the balances are considered fully collectable.

Deposits from Key Management Personnel and their related parties

	2020	2019
	$	$
Aggregate of term and savings deposits as at balance date	**681,454**	1,746,905
Interest paid on deposits	**9,794**	22,147

Key management personnel related parties

Mr Roger Downs, a Director of the Credit Union, is a consultant to Kells the Lawyers. The Credit Union has used the legal services of Kells the Lawyers. The total dollar value of these services provided for the year was $8,038 (2019: $8,374). This arrangement is on terms that are no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to non-director related entities on an arm's length basis. There were no amounts owing to Kells the Lawyers at the end of the year.

7.4. Events subsequent to balance date

There has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the Directors of the Credit Union, to affect significantly the operations of the Credit Union, the results of those operations, or the state of affairs of the Credit Union, in future financial years, except for noting the ongoing COVID-19 pandemic and its associated impact on estimations fundamental to the preparation of the 2020 financial statements. Refer to Note 1.2.

7.5. Auditor's remuneration

Audit services	**2020**	2019
	$	$
Audit of the financial report	**88,843**	84,396
Other regulatory audit services	**16,555**	16,230
	105,398	100,626

The external audit is performed by Crowe Audit Australia.

7.6. Transfer of financial assets

The Credit Union has established arrangements for the transfer of loan contractual benefits of interest and repayments to support ongoing liquidity facilities. These arrangements are with the MTG ICU Repo Series No.1 Trust for securing the ability to obtain liquid funds from the Reserve Bank in the event of a liquidity crisis. These loans are not derecognised as the Credit Union retains the benefits of the Trust until such time as a drawing is required. Only residential mortgage-backed securities (RMBS) that meet specified criteria are eligible to be transferred into the Trust. The Trust was created on 13th December 2018 and was approved by the RBA on 23rd March 2019. On 16th April 2020 (effective 31st March 2020) the Credit Union transferred additional loan contractual benefits to increase the size of these liquidity facilities.

7.6. Transfer of financial assets (continued)

Securitised loans retained on the balance sheet (not derecognised)

The values of securitised loans which are not qualifying for de-recognition as the conditions do not match the criteria in the accounting standards are set out below. 100% of the loans are variable interest rate loans, hence the book value of the loans transferred equates to the fair value of these loans.

The associated liabilities are equivalent to the book value of the loans reported.

	2020 $'000	2019 $'000
Balance sheet values		
Loans	**124,726**	60,652
Fair value of associated liabilities	**(124,726)**	(60,652)
Net	**-**	-
Carrying amount of the loans as at the time of transfer	**149,043**	71,666

Repurchase obligations MTG ICU Repo Series No.1 Trust

The MTG ICU Repo Series No.1 Trust is a trust established by the Credit Union to facilitate liquidity requirements of APRA's prudential standards. The Trust has an independent Manager and Trustee. In the case of the MTG ICU Repo Series No.1 Trust, the Credit Union receives notes eligible to be sold to the Reserve Bank should the liquidity needs not be satisfied by normal operational liquidity. The notes are secured over residential mortgage-backed securities (RMBS). The Credit Union has financed the loans and receives the net gains or losses from the Trust after trustee, manager, and ratings expenses. The Credit Union has an obligation to manage the portfolio of loans in the trust and to maintain the pool of eligible secured loans at the value of the notes received. The Credit Union retains the credit risk of losses arising from loan default or security decline. If a portion of the value of the portfolio in the MTG ICU Repo Series No.1 Trust fails to meet the Trust's criteria, the Credit Union is obliged to repurchase those loans and may substitute equivalent qualifying loans into the Trust.

7.7. Parent entity disclosures

As at, and throughout the financial year, the parent of the Group was Illawarra Credit Union Limited.

On the basis that the securitised loans are not derecognised, there is no difference between the reported results on a consolidated basis and the results of the parent entity.

Results of the parent entity	**2020 $'000**	2019 $'000
Profit for the year	**619**	1,181
Other comprehensive income for the year	**-**	-
Total comprehensive income for the year	**619**	1,181

7.7. Parent entity disclosures (continued)

	2020 $'000	2019 $'000
Financial position of the parent entity		
Total assets	**651,884**	644,412
Total liabilities	**605,933**	599,080
Retained earnings	**3,804**	41,430
Reserves	**42,147**	3,902
	45,951	45,332

The parent entity prepares its statement of financial position on a liquidity basis and therefore current assets and liabilities are not identified.

8. Other Accounting Policies

8.1. Other significant accounting policies

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

(a) Goods and services tax

Revenues, expenses and assets are recognised net of the amount of GST, where the amount of GST incurred is not recoverable from the ATO. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

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

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

(b) Impairment of non-financial assets

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

The recoverable amount of an asset or cash-generating unit (CGU) is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets, the CGU.

An impairment loss is recognised if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation if no impairment loss has been recognised.

8.2 Changes in significant accounting policies

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

<u>AASB 16 Leases</u>

General impact of initial application

AASB 16 Leases replaced AASB 117 Leases from 1 July 2019.

AASB 16 introduces new or amended requirement with respect to lease accounting. It introduces significant changes to the lessee accounting by removing the distinction between operating and finance leases and requiring the recognition of a right-of-use account and a lease liability at the lease commencement for all leases, except for short-term leases and leases of low value assets.

In contrast to lessee accounting, the requirements for lessor accounting have remained largely unchanged.

Details of these new requirements are described in Note 5.6(c), including the recognition exemptions to lease accounting as a lessee for low-value assets and short-term leases.

The impact of the adoption of AASB 16 on the Credit Union's financial statements is described below.

Financial impact on initial application

When adopting AASB 16, the Credit Union has applied the modified retrospective (cumulative catch -up) method from 1 July 2019, and therefore the comparative information has not been restated and continues to be reported under AASB 117 Leases and related Interpretations.

The impact of adoption as at 1 July 2019 on assets and liabilities is detailed below:

	Note	Original 30 June 2019 balance (under AASB 117) $'000	Change	New 1 July 2019 balance (under AASB 16) $'000
Right-of-use assets	5.6	-	231	231
Lease liabilities	5.6	-	(206)	(206)
Other Assets		1010	(25)	985
Net impact		**1010**	**-**	**1010**

As at 1 July 2019, the Credit Union's right-of-use assets relate to leased properties used by the Credit Union as member service centres.

The Credit Union have presented right-of-use assets and the lease liabilities on the face of the statement of financial position. To support the additional disclosure requirements introduced by AASB 16, the financial statements have a new dedicated leasing note (refer to Note 5.6).

The application of AASB 16 has also had an impact on the statement of cash flows, as detailed below:

- Short-term lease payments and payments for leases of low-value assets are including as part of operating activities, under payments to suppliers and employees;

8.2 Changes in significant accounting policies (continued)

- Cash paid for the interest portion of lease liability is included as part of operating activities; and
- Cash payments for the principal portion for lease liabilities is included as part of financing activities.

Under AASB 117, all lease payments on operating leases were presented as part of cash flows from operating activities.

The adoption of AASB 16 did not have an impact on net cash flows.

The following transition methods and practical expedients within AASB 16 were applied in adopting the standard:

- The Credit Union measured the lease liability at the present value of remaining lease payments, discounted using the Credit Union's incremental borrowing rate at the date of initial application (1 July 2019). The incremental borrowing applied at 1 July 2019 was 7.56%;
- The Credit Union recognised the right-of-use asset at an amount equal to the lease liability;
- The Credit Union applied a single discount rate to the portfolio of property leases, as they were assessed as having reasonably similar characteristics;
- The Credit Union elected not to apply the requirements of AASB 16 to leases for which the assessed lease term is within 12 months of the date of initial application. These are accounted for the same way as short-term leases;
- The Credit Union excluded initial direct costs from the measurement of the right-of-use asset for existing leases at the date of initial application; and
- The Credit Union used hindsight in determining the lease term, when the contracts contained extension options.

In selecting which practical expedients to apply, the Credit Union has focused on reducing the complexity of implementation.

Reconciliation to previously reported operating lease commitments note

	$'000
Operating lease commitments note from 2019 financial statements (gross)	225
Less: CPI assumption used in commitments note from 2019 financial statements	(6)
Less: discounting impact using 1 July 2019 incremental borrowing rate of 7.56%	(13)
Operating lease commitments note from 2019 financial statements (discounted)	**206**
Lease liabilities as at 1 July 2019 (under AASB 16)	**206**

8.3. New accounting policies not yet adopted

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

1. In the opinion of the Directors of Illawarra Credit Union Limited ("the Credit Union"):

   a) The consolidated financial statements and notes of the Credit Union (and its controlled entities) that are set out on pages 21 to 67 are in accordance with the *Corporations Act 2001*, including:

      (i) Giving a true and fair view of the Credit Union's financial position as at 30 June 2020 and of its performance for the financial year ended on that date; and

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

   b) There are reasonable grounds to believe that the Credit Union will be able to pay its debts as and when they become due and payable.

2. The Directors draw attention to note 1.2 to the financial statements, which includes a statement of compliance with International Financial Reporting Standards.

Signed in accordance with a resolution of the Directors:

R. Downs
Chairman of the Board

D. Lambourne
Chairman of the Board Audit Committee

Wollongong, 26th August 2020

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Illawarra Credit Union Limited and its subsidiaries

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

Opinion

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

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

(a) giving a true and fair view of the Group's financial position as at 30 June 2020 and of its financial performance for the year then ended; and

(b) complying with Australian Accounting Standards report 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 auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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

Emphasis of Matter – uncertainties of COVID-19 impacts

We draw attention to Note 1.2 Basis of preparation under the heading 'Use of estimates and judgments' in the consolidated financial statements. This note describes the significant areas of estimation, uncertainty and critical judgments used within the financial statements, and the increased relevance in the ongoing COVID-19 pandemic environment. Our opinion is not modified in respect of this matter.

Other Information

The directors are responsible for the other information. The other information comprises the directors' report information contained in the Group's annual report for the year ended 30 June 2020, but does not include the financial report and our auditor's report thereon.

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

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

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

Responsibilities of the Directors for the Financial Report

The directors of the Group 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 have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

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

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

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

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

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

CROWE AUDIT AUSTRALIA

BRADLEY D BOHUN
Partner

26th August 2020
Albury

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

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