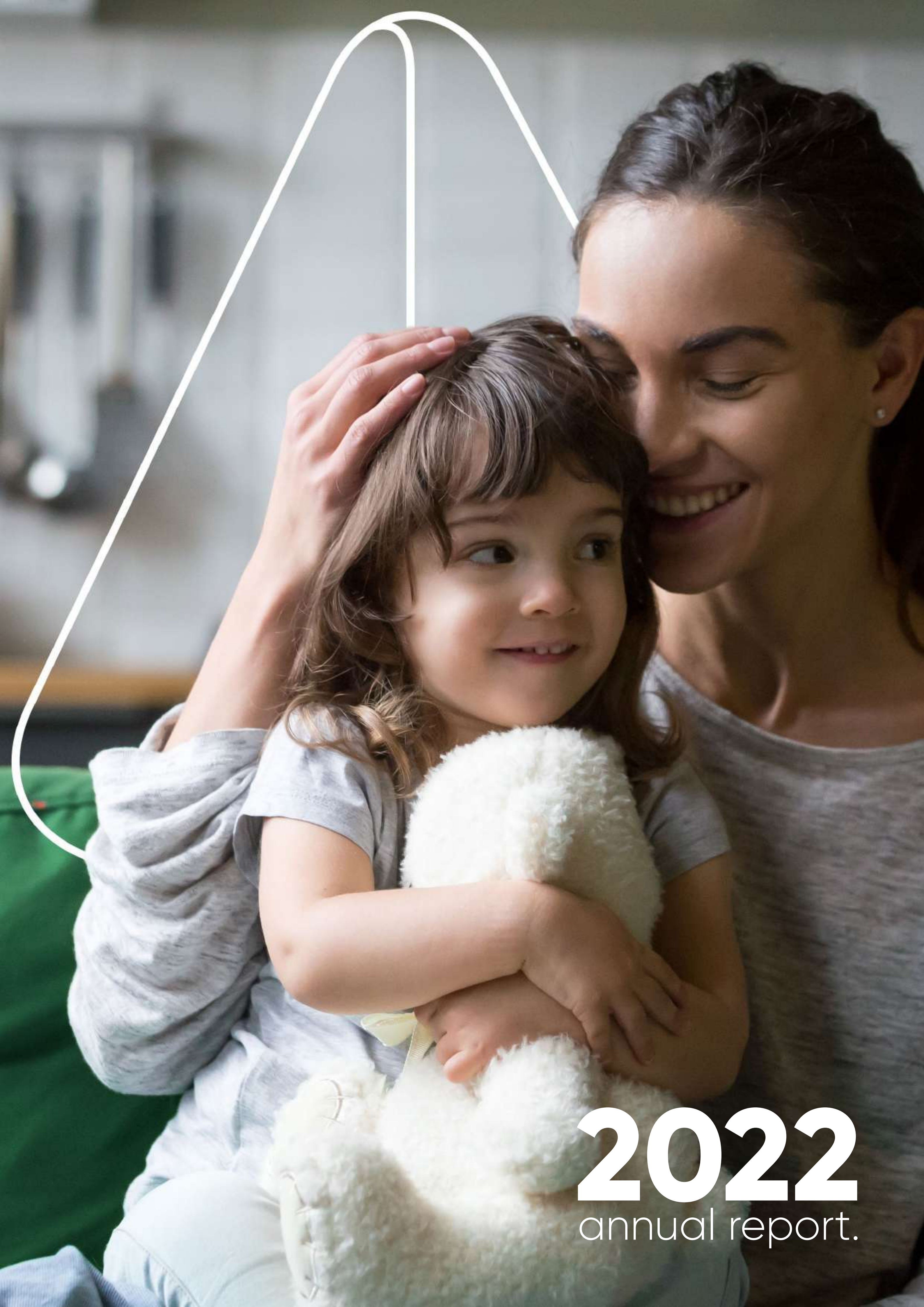


2022
annual report.

contents.

2022 highlights.

Here at the Illawarra Credit Union we believe in doing all we can to help create a better future for our customers. 2021/22 challenged our staff and customers, but through it all we were able to achieve a lot for th Crefit Union and our customers!

our purpose.

To create a better future for our customers.

our vision.

Help people make better banking decisions for their financial future.

our values.

- Be real.
- Be better.
- Be there.

financial highlights.

Gross profit

$2.75m

▲ 10%

Total assets

$1.055b

▲ 38%

Deposit funding

$744m

▲ 21%

Loan funding

$869m

▲ 41%

customers.

87%

Customer satisfaction score

1,380

New customers

▲ 5%

99%

Transactions completed using digital services

60%

New customers who live outside the Illawarra region

community.

$59,000

Donated to community groups or charities

654

Customers using Your Financial Wellness

31+

Existing partnerships within the community and brokers

13

Supported staff members undertaking a cadet ship, traineeships or GoLead interns

achievements.

March 2022

Launched new moneyteee app

March 2022

Reached $1b in total assets

April 2022

Awarded Money Magazine's 2022 Non-Bank Home Lender of the Year.

June 2022

Accepted into NHFIC Scheme to assist First Home Buyers & Single Parents.

Message from the Chair.

Celebrating 50 years of helping people and our community.

I am honoured to present the Chair's report as we head into our 50-year milestone. Over the last 50 years, we have been helping local people within the Illawarra and across Australia realise their dreams. From buying their first home, launching a business, and everything in between. Throughout these years, we've weathered various challenges and continue to look for opportunities to be better for our customers, our community, and our Credit Union.

As we look back on the last 12 months, there is much to celebrate. Our financial performance and the feedback we have received from customers highlights our commitment to providing a better banking alternative for our customers and the community.

This period has not been without adjustment for both our staff and our customers. Navigating the ongoing pandemic and the changing economic landscape continues to prove challenging. However, your Board and Management team are well placed to address these concerns and position the Credit Union well for the future.

our people.

To all our employees across the business, particularly those assisting our customers with their banking needs, I thank you for your support and dedication. Our front-line Customer Services staff are still interacting with customers and seeing to their needs, and for this, we are grateful.

We are heartened by the deep sense of shared purpose amongst our people, further validated by our high staff engagement score of 81%, an increase of 12% from the prior year. They've taken the pandemic resurgence in their stride by staying motivated while working from home or at the branch.

The Management team has been working hard to address engagement through strong internal communication, as well as the timely establishment of new organisational structures to provide our staff with greater clarity.

our strong position.

Your Credit Union is in a sound financial position as we head into FY22/23. Our strong capital position and continued growth across our deposit and loan book have us well placed to manage the economic challenges ahead.

We were also delighted by our appointment to the First Home Buyer Guarantee Scheme (HGS), administered by the National Housing Finance and Investment Corporation (NHFIC) on behalf of the Australian Government. This appointment allows your Credit Union to provide eligible first home buyers who desire to purchase a modest home with a deposit of as little as 5 percent, staying true to our vision of helping customers achieve their financial future.

our digital direction.

Over the last 12-18 months, like many, we have had to adapt by moving the Credit Union and our customers online while also responding to heightened competition across the financial services industry.

Our customers have embraced digital-enabled sales interactions and have met with our Customer Services team through new channels such as zoom to discuss their banking needs.

In the last 12 months, we have altered our distribution strategy, refocusing investments into our digital channels, which our customers have come to rely on and utilise daily.

Our customers embraced our branch transformation strategy, moving with agility to digitalise their everyday banking.

We have stayed absolutely disciplined and focused on delivering what we said we would and are on track to deliver our strategic objectives in the year ahead. This includes maximising our capital position so that our customers can continue to take advantage of our best-in-class products.

We remain focused on delivering value to our customers, and it's pleasing to get recognition from Money Magazine, being named Non-Bank Lender of the year. This gives us great confidence that products are providing new and existing customers with great value.

our customers.

For over 50 years, customers have been at the heart of everything we do, and this has not changed. We remain focused on assisting our customers and continue to look at new ways to innovate.

As we celebrate our 50-year milestone, I would like to thank our many customers across Australia for your ongoing support, as ultimately, without you, there would be no Credit Union.

our board.

I want to thank Peter Kell, our previous Chair, for his vision as one of the founding customers of the Credit Union. After nine years of service, Peter recently stepped down and retired from the Board. I have valued his support throughout this time, particularly as I transitioned into the role of Chair. The Board and I are grateful for Peter's contribution to the Credit Union throughout the past 50 years.

To my fellow Board members, I extend my greatest appreciation for your ongoing commitment to our Credit Union. I am appreciative of your support, the individual expertise you bring to the conversation, and your commitment to improving the lives of our customers.

I would also like to acknowledge the commitment from Management to our customers and the Credit Union. Management continues to work alongside the Board, meeting regularly to assess business outcomes and ensure we continue to find opportunities to provide better services to our customers. We continue to adapt to the changing landscape to ensure we meet our customers' needs.

On behalf of the Board, I would like to pass on our thanks to our CEO, Anthony Perkiss, his Management team, and staff.

Yours sincerely,
Deborrah Lambourne,

Message from the CEO

Achieving $1 billion in assets in our 50th year, is a key milestone worth celebrating.

The Illawarra Credit Union has long been known in the community as a financial institution that cares; for our people, community, environment, and most importantly, our customers. In what is now our 50th year, I have been taking some time to reflect on how far we've come as an organisation, and it fills me with great pride knowing what we've achieved.

our people.

Over the last 12 months, we have continued to invest in the development of our team, all while improving the employee experience. We have launched various initiatives to enable our teams to connect while working remotely and managing the pandemic. The resilience and perseverance shown by our team has been commendable. I would personally like to thank the entire team for the ongoing support they show to the Credit Union and our customers.

During this time, we also launched our trainee program to complement our existing cadetship program. We welcomed seven trainees during this period across various departments in the business. The program aims to support individuals looking to enter the financial services sector and is another way your Credit Union is helping people achieve their dreams.

our customers.

With a 50-year history of serving our customers, we have always focused on championing our customers' financial goals, just as if they were our own. Over the last 12 months, we have strived to enhance our products and services to enable our customers to achieve their goals. We have continued to progress with our digital strategy as more customers choose to bank online. Currently, 99% of transactions are completed through digital channels or the use of a Visa debit card. This demand led to changes across our digital services, notably, the launch of our new moneytree app, which provides greater flexibility to customers looking to monitor their accounts online.

We also launched two innovative green personal loan products, receiving award recognition from Mozo for our Green Eco Loan. Customers can now borrow for an energy-efficient car and an expanded range of Eco items, including solar panels or rainwater tanks.

The last 12 months saw the closure of three branches as we continued with our branch transformation strategy. Our focus during the closures was on ensuring we continued to educate our customers on the various channels available to them, which ensured a smooth transition. The changes will enable further investment into our digital channels, i.e., online banking, moneytree app, contact centre, and other new initiatives like chatbots. This will ensure your Credit Union continues to evolve to meet our customers' needs today and in the future. I would like to thank all our customers for their response during this transition and for continuing to support and recommend the Credit Union.

our community and strategic partners.

Supporting the local community and local organisations has and always will be part of our strategy. Throughout the year, we have continued our partnership with the University of Wollongong's GoLead Program, with the Credit Union supporting three new GoLead students. We continue to support the Salvation Army, The Illawarra Academy of Sports, and other community groups focused on helping real people succeed.

The Credit Union has also partnered with the Australian Government, having been selected to join the non-bank lender panel for the NHFIC Home Guarantee Scheme (HGS). This comprises the First Home Guarantee (FHBG), previously known as the First Home Loan Deposit Scheme, and the Family Home Guarantee (FHG). This is a significant achievement and presents a great opportunity to help even more first-home buyers and single parents enter or potentially re-enter the housing market.

Award-winning

We strongly believe in the products and services we offer to our customers. To get recognised for our products is a testament to our team. I am thrilled that Illawarra Credit Union has been named Money Magazine's Non-Bank Home Lender Of The Year for 2022. Money Magazine's annual Consumer Finance Awards empower Australians to choose the best financial and insurance product providers across the country. The "Non-Bank" sector encompasses a lot of fierce competition, and to be acknowledged as the best is something the team can be extremely proud of. We always strive to find ways to add value to our customers through our products and services. This independent assessment conducted by Money Magazine acknowledges the ongoing efforts of our team to push the boundaries and deliver market-leading products for our customers across Australia.

our financial results.

We delivered a gross profit of $2.75 million, higher than the previous year of $2.51 million, a pleasing result, which positions us well for our future growth, and the ability to manage the changing landscape.

Underlying this great result was a record year of lending where we saw the Credit Union grow from $615m to $869m representing total loan growth of 41%. This growth also contributed to a significant milestone that saw your Credit Union achieve $1bn in total assets in March 2022 while managing the highly competitive interest-rate environment and changes to consumer sentiment and spending.

There are several other highlights over the last 12 months which I would like to mention, including underlying performance in our core businesses with positive growth in our consumer home lending (+41%) and deposit (+21%) portfolios; improvements in customer satisfaction (87%), and Net Promoter Score strong at +43.3 points.

The strength of our balance sheet was a key highlight as it underpins our ability to serve our customers, drive core business outcomes and deliver returns for customers.

As I close out the financial year, I would like to extend my sincere thanks to Peter Kell, who recently stepped down as Chair. His contribution throughout his tenure as a Director and his efforts over the past 50 years, particularly as a founding customer of the Credit Union, are appreciated. I would also like to thank our new Chair, Deborrah Lambourne, and the Credit Union Board for their support throughout the year. Finally, I would like to thank my colleagues and acknowledge the hard work and ongoing commitment of our people to be better for our customers.

Once again, thank you for your support. We look forward to continuing to support you and your families in creating a better future.

All the best,
Anthony Perkiss

50 years of helping people and communities

banking with a conscience.

With a rich customer-owned history and staying invested in helping communities thrive, we've been putting people first for 50 years. We continue to be there for our customers when they need us and continually strive to be better. Over the last 12 months, we've aimed to do just that.

Community support.

With customer all across the country we're always looking for ways to get involved and help give back to the communities in which our customers call home.

While we continue to navigate the ongoing pandemic, we were honoured to part-take in various community initiatives in the last 12 months.

> $59,000 was given back to our community over the past year.

Every dollar donated has gone to an orgnaisation that's focused on helping their local community, or people be better.

We're proud to be supporting organisations such as the Salvation Army, who are helping support underprivilidged families within the community. Or the Illawarra Academy of Sport, a not-for-profit sporting organisation that exists to provide localised training and education opportunities for talented young athletes, coaches and administrators across the Illawarra region.

These funds make a difference to people within our community, and it's all possible due to the ongoing support of our customers.

Customer feedback.

Our reason for being is simple, it's all about creating a better future for our customers. We have a long history of helping our customers create a brighter future for themselves and their family. We understand that lives can't always be full of sunshine, but our customers always rely on us to see them through.

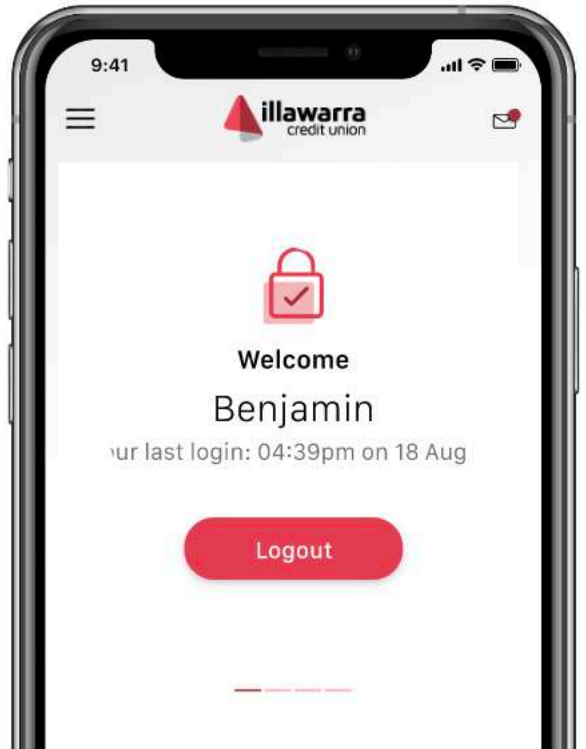
The past 12 month we have continued to focus on ways to improve our customers lives, supporting them through various challenges and key milestones.

What sets us apart is the service we've been able to deliver, and our customer agree, with customer satisfaction scores increasing over this period.

> Customer satisfaction is at an all time high of 87%

The feedback we receive from all our customers is carefully considered, and regularly leads to changes in the way we operate, and the products and services we offer. Our customer feedback over the last 12 months led to upgrades to our mobile banking app, providing greater flexibility for customers to manage their money anytime, anywhere. We've also expanded our product offering, launching award-winning green personal loan products, to provide alternative options for customers who are more mindful of their impact on the environment.

We continue to engage our customers and listen to their feedback, so ensure we help them realise their dreams.



health and wellbeing.

The wellbeing of our customer and our people remains top of mind. Our customers and staff have continued to benefit from our partnership with Your Financial Wellness, to ensure they have the tools available to ensure they are financially fit.

Staff across the credit union have continued to enjoy the various wellbeing programs, which have been rolled out, including mindfulness sessions, and various key initiatives aimed at building connections, even when we're separated.

Our Employee Assistance Program (EAP), remains an important component of our employee wellness program, providing support to staff and loved ones during the good and more difficult times of their lives.

Staff members at the launch of the Salvation Army Red Shield Appeal.

talent development.

Our people across the business are our number one asset. Our commitment to helping kick start people's careers and investing in the development of our staff, has not wavered. We believe that continuing this investment in our team will in turn, have a positive impact for our customers.

Our leadership program is focused on building human leadership that embraces a more authentic and genuine leadership approach to driving the employee value proposition that ultimately engages and retains staff.

Developing emerging leaders is very important to us, particularly given our commitment and investment in supporting trainees, cadets and new entrants into the financial services industry. Our partnerships with TAFE NSW and University Of Wollongong (UOW) illustrates the commitment and the emphasis, investment, and commitment we have to developing our people.

Congratulations to the entire team, and their achievement's over the past 12 months.

financial report.

2022 financials - 30 June 2022
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 2022.

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:

Ms Deborrah Lambourne MAppFin**,** FCA — **Chair**

Ms Lambourne joined the Board in February 2019 and became Chair of the Board in July 2022. She was a member of the Remuneration Committee and the Board Risk Committee, and Chair of the Board Audit Committee from November 2019 to July 2022. From July 2022, she is the Chair of the Remuneration Committee, and a member of the Board Audit Committee and Board Risk Committee.

Mr Peter Kell AM, Dip Law, MAMI — **Former Chair**

Mr Kell joined the Board in 2013 and was Chair of the Board from 2020. He was also the Chair of the Remuneration Committee and a member of the Board Audit Committee and Board Risk Committee until his resignation in July 2022.

Mr Roger Downs B Comm, LLB, Dip Mgmt, MAMI — **Director**

Mr Downs joined the Board in 2010 and was the Chair of the Board from 2014 to 2020. 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 a member of the Governance 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 Governance Committee and Remuneration Committee until 2017, and was a member of the Board Audit Committee and Board Risk Committee from 2017 to 2020. She is currently Chair of the Governance Committee and a member of the Remuneration Committee.

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

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

Ms Omaya Robinson MMgmt, AssocDipAcct, GAICD — **Director**

Ms Robinson joined the Board in October 2020. She is a member of the Governance Committee and Remuneration Committee.

Mr John Brannon BCom (Econ), MBA, GAICD — **Director**

Mr Brannon joined the Board in November 2020. He is a member of the Board Risk Committee and Board Audit Committee, and became the Chair of the Board Audit Committee in July 2022.

Ms Amy Harper BCom, LLB, MBA — Director

Ms Harper joined the Board in August 2022 as a Board appointed Director to fill a casual vacancy effective 3rd August 2022.

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 and continues to act in this capacity.

Ms Jessica Zondag, Chief Financial Officer (BCom, CA, GAICD, PMIIA) was appointed to the position of joint Company Secretary in August 2021 and continues to act in this capacity.

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
D Lambourne	8	8	4	4	4	4					3	3
P Kell	8	7	4	2	4	3			1	1	3	3
R Downs	8	8				1**	4	4				
D De Santis	8	8				1**	4	4			3	3
A Frino	8	7	4	4	4	3						
O Robinson	8	8					4	4			3	3
J Brannon	8	8	4	4	4	4						

*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 2022 was $257,312 (2021: $245,782). The amount of Directors' fees excluding superannuation paid in 2022 was $233,920 (2021: $224,458) which is in accordance with the resolution made at the 2021 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 $2,055,000 (2021: $1,897,000) representing an increase of 8% from the previous year.

The results for the financial year were underpinned by:

- An increase in Net Income of 8% to $17,155,000 from $15,843,000 in the previous year;
- An increase in Operating Expenses of 8% to $14,403,000 from $13,334,000 in the previous year; and
- A reduction in the Credit Union's branch network from four branches to one.

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

Apart from disclosures elsewhere in this report, 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.

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 8.

Signed in accordance with a resolution of the Directors:

DocuSigned by: Deborrah Lambourne E0BCCD0E9D6F41E...	DocuSigned by: J. Brannon 114AA9DDC6BF4F7...
D. Lambourne	J. Brannon
Chair of the Board	Chair of the Board Audit Committee

Signed at Wollongong 26th August 2022

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 appropriate 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 2022, the Board comprised seven 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 Chair 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 Chairs 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 Chair 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 70-72.

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 Section 307C 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 2022 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.

This declaration is in respect of Illawarra Credit Union Limited and the entities it controlled during the financial year ended 30 June 2022.

Crowe

CROWE AUDIT AUSTRALIA

BRADLEY D BOHUN
Partner

26 August 2022
Albury

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 30 June 2022

	Note	2022 $'000	2021 $'000
Assets			
Cash and cash equivalents	4.1	**52,814**	37,441
Loans & advances	3.1	**870,214**	615,596
Placements with other financial institutions	3.2	**121,798**	101,173
Property, plant and equipment	5.1	**9,109**	6,976
Right-of-use assets	5.6	**-**	123
Income tax receivable	2.4	**-**	50
Intangible assets	5.2	**793**	836
Other assets	5.3	**797**	750
Total Assets		**1,055,525**	762,945
Liabilities			
Deposits	4.2	**903,538**	702,187
Payables	5.4	**2,281**	2,131
Income tax payable	2.4	**24**	-
Net deferred tax liabilities	2.4	**1,022**	397
Provisions	5.5	**702**	662
Lease liabilities	5.6	**11**	125
Borrowings	5.7	**96,298**	9,595
Total Liabilities		**1,003,876**	715,097
Net Assets		**51,649**	47,848
Equity			
Reserves	5.8	**4,238**	3,565
Retained profits		**47,411**	44,283
Total equity attributable to members of the Credit Union		**51,649**	47,848

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 2022

	Note	2022 $'000	2021 $'000
Interest revenue	2.1	**18,251**	16,389
Interest expense	2.1	**(3,479)**	(2,653)
Net interest income		**14,772**	13,736
Other income	2.2	**2,383**	2,107
Net income		**17,155**	15,843
Net impairment loss on financial assets		**(25)**	-
Personnel expenses	2.3	**(5,286)**	(4,716)
Depreciation and amortisation expenses	2.3	**(924)**	(995)
Data and transaction processing expenses		**(1,102)**	(1,130)
Information technology expenses		**(2,336)**	(2,344)
Other expenses	2.3	**(4,730)**	(4,149)
Total operating expenses		**(14,403)**	(13,334)
Profit before income tax		**2,752**	2,509
Income tax (expense)/benefit	2.4	**(697)**	(612)
Profit after tax		**2,055**	1,897
Items that will not be reclassified subsequently to profit or loss			
Gain on the revaluation of land and buildings, net of tax		**1,746**	**-**
Other comprehensive income for the year, net of income tax		**1,746**	-
Total comprehensive income		**3,801**	1,897

The accompanying notes form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 30 June 2022

	Note	General reserve for credit losses $'000	Redeemed share capital reserve $'000	Revaluation reserve $'000	Retained earnings $'000	Total $'000
Balance at 1 July 2020		1,317	254	2,233	42,147	45,951
Total comprehensive income for the year						
Profit after tax		-	-	-	1,897	1,897
Total other comprehensive income		-	-	-	-	-
Total comprehensive income for the year		-	-	-	1,897	1,897
Transfers to/from reserves		(241)	2	-	239	-
Balance as at 30 June 2021	5.8	1,076	256	2,233	44,283	47,848
Balance at 1 July 2021		**1,076**	**256**	**2,233**	**44,283**	**47,848**
Total comprehensive income for the year						
Profit after tax		**-**	**-**	**-**	**2,055**	**2,055**
Total other comprehensive income		**-**	**-**	**1,746**	**-**	**1,746**
Total comprehensive income for the year		**-**	**-**	**1,746**	**2,055**	**3,801**
Transfers to/from reserves		**(1,076)**	**3**	**-**	**1,073**	**-**
Balance as at 30 June 2022	5.8	**-**	**259**	**3,979**	**47,411**	**51,649**

The accompanying notes form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended 30 June 2022

	Note	2022 $'000	2021 $'000
Cash flows from operating activities			
Interest received		**18,470**	16,510
Other cash receipts in the course of operations		**2,378**	2,143
Interest paid		**(3,238)**	(3,223)
Cash paid to suppliers and employees		**(13,756)**	(11,815)
Net income tax paid		**(580)**	(479)
Net loans (disbursed)/repaid		**(254,641)**	(134,679)
Net increase/(decrease) in deposits		**201,351**	114,104
Net cash used in operating activities	4.3	**(50,016)**	(17,439)
Cash flows from investing activities			
Net movement in placements with other financial institutions		**(20,625)**	26,127
Proceeds from sale of property, plant and equipment		**54**	56
Payments for property, plant and equipment, and intangibles		**(620)**	(518)
Net cash from/(used in) investing activities		**(21,191)**	25,665
Cash flows from financing activities			
Repayment of the lease liabilities		**(113)**	(136)
Proceeds from long term borrowings		**107,000**	9,592
Repayment of long term borrowings		**(20,307)**	(14,785)
Net cash from/(used in) financing activities		**86,580**	(5,329)
Net increase in cash held		**15,373**	2,897
Cash and cash equivalents at the beginning of the year		**37,441**	34,544
Cash and cash equivalents at the end of the year	4.1	**52,814**	37,441

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 2022. 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 2022.

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:

Judgements:

- Notes 1.3 and 3.1 – accounting treatment of loans assigned to a Special Purpose Vehicle ("SPV") used for securitisation purposes
- Note 2.2 – recognition and measurement of revenue from contracts with customers

1.2 Basis of preparation (continued)

Use of estimates and judgements (continued)

Estimates:

- Notes 3.3 and 6.1 – impairment of financial assets
- Notes 5.1 – fair value of land and buildings
- Note 5.2 – estimation of useful life and assessment of future economic benefit of intangible assets

1.3 Basis of consolidation

The consolidated general purpose financial statements incorporate the assets, liabilities, income and expenses of all controlled entities of the Credit Union as at 30 June and the results of all controlled entities for the year then ended. The Credit Union and its controlled entities are referred to in these financial statements as ('the Group'). The Credit Union controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its powers over the entity.

The consolidated financial statements include the information and results of each controlled entity from the date on which the Credit Union obtains control and until such time as the control ceases. A list of controlled entities appears below. Consistent accounting policies are employed in the preparation and presentation of the consolidated financial statements.

All transactions and balances between controlled entities are eliminated upon consolidation, including unrealised gains and losses on transactions between controlled entities.

MTG ICU Repo Series No.1 Trust

The Credit Union 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.

MTG ICU Trust Series 2021-1

The Credit has assigned the rights and benefits of a parcel of mortgage secured loans to a Special Purpose Vehicle (SPV), MTG ICU Trust Series 2021-1. The Credit Union acts as a loan manager and servicer for the SPV in respect to the day to day operation of the individual mortgaged loans and receives a servicer fee based on a percentage of the average balances outstanding. The Credit Union also receives an excess distribution which is the surplus income from the SPV after deducting funding and operating costs. The excess spread will vary depending on the performance of the SPV. Therefore the Credit Union retains substantially all the risks and rewards of ownership of the relevant loans and advances as it has retained credit risk and interest rate risk. Due to the retention of substantially all the risk and rewards of ownership, the assignment of loans does not satisfy the de-recognition criteria prescribed in AASB 9, and accordingly the Credit Union continues to recognise the transferred assets within loans and advances and the transfer is accounted for as a secured financing transaction.

Financial Statement Presentation

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, with the only difference arising from the consolidation of restricted cash and cash equivalents, which increases the securitised borrowing by the same amount. Refer to Note 4.1 which details the restricted cash balances relating to the securitisation trusts which

1.3 Basis of consolidation (continued)

have been included in the consolidated financial statements, as well as Note 5.7 Borrowings. There is no consolidation impact to the profit and loss as residual income is distributed to the parent entity.

2. Financial Performance

2.1. Net interest income

	2022 $'000	2021 $'000
Interest revenue		
Loans to members	**17,774**	15,345
Placements with other financial institutions	**426**	946
Cash and cash equivalents	**51**	98
Total interest revenue	**18,251**	16,389
Interest expense		
Deposits – members	**(1,734)**	(2,570)
Deposits – other ADIs	**(983)**	(64)
Borrowings	**(758)**	(14)
Lease liabilities	**(4)**	(5)
Total interest expense	**(3,479)**	(2,653)
Net interest revenue	**14,772**	13,736

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 Financial Position 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 Financial Position as an increase in the value of loans outstanding.

2.1. Net interest income (continued)

Borrowing expenses

Borrowing expenses are recognised in profit or loss using the effective interest method. The calculation of the effective interest rate includes transaction costs which include incremental costs that are directly attributable to the borrowing.

2.2. Other income

	2022	2021
	$'000	$'000
Revenue from contracts with customers		
Transaction and exception fees	**847**	858
Loan fees & charges	**619**	396
Insurance commissions	**200**	165
Financial planning commissions	**-**	56
International payments commissions	**19**	15
BPAY commissions	**44**	53
Total revenue from contracts with customers	**1,729**	1,543
Other sources of income		
Bad debts recovered	**15**	23
Income from property	**419**	347
Gain on sale of investment security	**220**	169
Government grants (cash flow boost)	**-**	25
Total other sources of income	**654**	564
Total other income	**2,383**	2,107

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.

2.2 Other income (continued)

	Nature and timing of satisfaction of performance obligations	Revenue recognition under AASB 15
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.

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

Government grants are recognised by the Credit Union where there is reasonable assurance that:

a. the Credit Union will comply with the conditions attaching to them; and
b. the grants will be received.

The Credit Union presents Government grants received in the profit or loss, within 'other income'.

2.3. Expenses

	Note	2022	2021
		$'000	$'000
Personnel expenses			
Salaries and associated expenses		**(4,832)**	(4,281)
Superannuation		**(396)**	(330)
Redundancy costs		**(58)**	(105)
Total personnel expenses		**(5,286)**	(4,716)

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*.

	Note	2022	2021
Depreciation and amortisation expenses			
Buildings	5.1	**(144)**	(138)
Plant and equipment	5.1	**(309)**	(314)
Leasehold improvements	5.1	**-**	(53)
Intangible software	5.2	**(347)**	(343)
Depreciation of right-of-use assets	5.6	**(124)**	(147)
Total depreciation and amortisation expenses		**(924)**	(995)

2.3. Expenses (continued)

	Note	2022 $'000	2021 $'000
Other expenses			
Property expenses		**(440)**	(450)
Marketing expenses		**(459)**	(451)
Office expenses		**(406)**	(410)
Legal, insurance and audit expenses		**(588)**	(543)
Consulting expenses		**(1,070)**	(998)
Loss on disposal of assets		**(3)**	(4)
Other corporate expenses		**(1,764)**	(1,292)
Total other expenses		**(4,730)**	(4,149)

2.4. Taxation

	2022 $'000	2021 $'000
(a) Income tax expense		
Current tax expense		
- current year	**(655)**	(419)
- adjustments for prior periods	**1**	8
	(654)	(411)
Deferred tax expense		
- origination and reversal of temporary differences	**(43)**	(201)
Total income tax expense in the statement of profit or loss and other comprehensive income	**(697)**	(612)

(b) Current tax assets

The current tax liability for the Credit Union of $24,000 (2021: tax receivable of $50,000) represents the amount of income tax payable remaining after the payment of income tax instalments throughout the year.

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

	2022 $'000	2021 $'000
Profit before tax	**2,752**	2,509
Income tax using the Credit Union's current tax rate of 25% (2021: 26%)	**(688)**	(652)
Increase in income tax expense due to:		
- non-deductible expenses	**(10)**	(2)
Decrease in income tax expense due to:		
Non assessable income	**-**	7
Under provided in prior years	**1**	8
Impact on deferred tax from reduction in future tax rate (from 2021: 26% level to 2022: 25%)	**-**	27
Income tax expense on pre-tax net profit	**(697)**	(612)

	2022 $'000	2021 $'000
(d) Deferred tax recognised directly in equity and other comprehensive income		
- Revaluation of freehold property - equity component	**582**	-
Total income tax recognised directly in equity	**582**	-

2.4. Taxation (continued)

	2022 $'000	2021 $'000
(e) Deferred tax assets/(liabilities)		
Provisions and accrued employee entitlements	**223**	211
Property, plant and equipment	**-**	13
Accrued expenses	**28**	37
Income in advance	**-**	9
Sundry items	**47**	93
Total deferred tax assets	**298**	363
Property, plant and equipment	**(1,317)**	(726)
Sundry items	**(3)**	(34)
Total deferred tax (liability)	**(1,320)**	(760)
Net deferred tax (liability)/assets	**(1,022)**	(397)

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	2022 $'000	2021 $'000
Loans and advances to:			
- members		**867,870**	614,111
- key management personnel and their related entities		**821**	958
	6.1	**868,691**	615,069
Provision for impairment	3.3, 6.1	**(188)**	(182)
Net deferred loan income and expenses		**1,711**	709
Net loans and advances		**870,214**	615,596

3.1. Loans and advances (continued)

(a) Externally securitised loans – MTG ICU Trust Series 2021-1

The Credit Union has assigned the rights and benefits of a parcel of mortgage secured loans to an SPV, MTG ICU Trust Series 2021-1, and received funds equal to the aggregated outstanding balances on all loans which the SPV purchased. The SPV subsequently issued notes for investors to invest in. The Credit Union acts as a loan manager and servicer for the SPV in respect to the day to day operation of the individual mortgaged loans and received a servicer fee based on a percentage of the average balances outstanding. The Credit Union also receives an excess distribution which is the surplus income from the SPV after deducting funding and operating costs. The excess spread will vary depending on the performance of the SPV. Therefore the Credit Union retains substantially all the risks and rewards of ownership of the relevant loans and advances as it has retained credit risk and interest rate risk. Due to the retention of substantially all the risk and rewards of ownership, the assignment of loans does not satisfy the de-recognition criteria prescribed in AASB 9, and accordingly the Credit Union continues to recognise the transferred assets within loans and advances and the transfer is accounted for as a secured financing transaction. The balance at year end is separately disclosed below with a liability to the SPV being presented under note 5.7 – Borrowings.

	Note	**2022**	2021
		$'000	$'000
On-Balance sheet securitised loans (MTG ICU Trust Series – 2021-1)		84,157	-
Balance of associated funding received from notes issued	5.7	(86,693)	-
Net position		**(2,536)**	**-**

The fair value of securitised loans and the associated liabilities are the same as the carrying amount.

The net position is the result of consolidating restricted cash and cash equivalents relating to the securitisation trusts as well as transaction costs which have been included in the securitised borrowings at Note 5.7.

Recognition and measurement

Loans and advances 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 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.

The Group enters into transactions whereby it transfers assets recognised on its statement of financial position, but retains substantially all of the risks and rewards of ownership of the transferred assets. If substantially all of the risks and rewards are retained, then the transferred assets are not derecognised. Transfers of assets with retention of substantially all the risks and rewards include, for example, certain loan securitisation and repurchase transactions.

3.2. Placements with other financial institutions

	Note	**2022**	2021
		$'000	$'000
Deposits with banks and other financial institutions		**-**	3,500
Government and semi-government securities		**82,232**	33,206
Floating rate notes (FRN's)		**20,622**	48,058
Negotiable certificates of deposit (NCD's)		**18,944**	16,409
		121,798	101,173

3.2. Placements with other financial institutions (continued)

Recognition and measurement

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 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	2022 $'000	2021 $'000
Total provision comprises of:			
Expected credit loss allowance		**188**	182
Total provision	3.1, 6.1	**188**	182

2022	Stage 1 12 month ECL 2022 $'000	Stage 2 Lifetime ECL 2022 $'000	Stage 3 Lifetime ECL 2022 $'000	Total 2022 $'000
Movement category				
Balance at 1 July 2021	**41**	**37**	**104**	**182**
Movement due to increase in loans & advances	18	-	-	18
Movement due to change in credit risk	(15)	(27)	47	5
Bad debts written off from provision	-	-	(15)	(15)
Changes in model/risk parameters	(1)	(1)	-	(2)
Balance at 30 June 2022	**43**	**9**	**136**	**188**

2021	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 2020	**54**	**108**	**48**	**210**
Movement due to increase in loans & advances	13	4	-	17
Movement due to change in credit risk	(26)	(75)	74	(27)
Bad debts written off from provision	-	-	(18)	(18)
Changes in model/risk parameters	-	-	-	-
Balance at 30 June 2021	**41**	**37**	**104**	**182**

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 expected credit losses, including past events, current conditions, and reasonable and supportable forecasts that affect the

3.3 Provision for impairment of financial assets (continued)

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.

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, a 5% weighting has been applied to the upside scenario. The base case incorporates a low level of portfolio stress driven by the forecast unemployment rate (unemployment continuing to decline until 2023). This scenario is weighted at 55%. The downside scenario assumes a downturn (unemployment rising throughout 2022 and 2023) and collateral values being discounted by 25% for the calculation of the EAD. This scenario has been given a 40% weighting.

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. In 2021, these assumptions were reassessed based on the improved economic outlook and decreased unemployment rates. However, due to the change in economic forecasts driven by the 2021 lockdowns, the PD remained at the heightened 2020 levels. In 2022, these assumptions were again reassessed

3.3 Provision for impairment of financial assets (continued)

based on the improved economic outlook and decreased unemployment rates which resulted in the PD being adjusted down. Rising interest rates and housing market movements were considered, however due to low unemployment and various other mitigating factors, the Credit Union believes current PD and LGD values are sufficient.

Up until 30 June 2022, the Credit Union held a general reserve for credit losses as an additional allowance for bad debts to comply with prudential requirements. From the 1st of January 2022, the prudential requirement to hold a general reserve for credit losses was replaced with the requirement to hold adequate provisions in accordance with Australian Accounting Standards. Therefore the general reserve for credit losses was released. Refer to Note 5.8 for details on this reserve.

4. Deposits and Liquidity

4.1 Cash and cash equivalents

	Note	**2022**	2021
		$'000	$'000
Cash at bank and on hand		**38,039**	35,303
Deposits at call		**14,775**	2,138
Total cash and cash equivalents	6.1	**52,814**	37,441

Cash and cash equivalents include restricted balances of $17.2 million (2021: $14.7 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 one month or less. Bank overdrafts that are repayable on demand and form an integral part of the Credit Union's cash management are included as a component of cash and cash equivalents for the purpose of the Statement of Cash Flows.

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

4.2. Deposits

	Note	**2022**	2021
		$'000	$'000
Withdrawable shares		**44**	46
Call deposits		**458,636**	415,364
Retail term deposits		**285,008**	197,527
Wholesale term deposits		**159,850**	89,250
	6.1	**903,538**	702,187

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:

4.3 Reconciliation of cash flows from operating activities (continued)

	Note	2022 $'000	2021 $'000
Cash and cash equivalents	4.1	**52,814**	37,441
Reconciliation of cash flows from operating activities			
Profit for the year attributable to members of the Group		**2,055**	1,897
Charge for bad and doubtful debts and impairment losses		**25**	-
Depreciation and amortisation		**924**	995
Net loss on disposal of plant and equipment		**3**	4
Operating profit before changes in assets and liabilities		**3,007**	2,896
Changes in assets and liabilities			
Net loans repaid/(funded)		**(254,642)**	(134,679)
Net movement in deposits		**201,351**	114,104
Movement in interest receivable		**(4)**	69
Movement in other receivables		**(5)**	36
Movement in deferred tax asset		**81**	275
Movement in prepayments		**(37)**	(19)
Movement in interest payable		**456**	(528)
Movement in sundry creditors and accruals		**(297)**	600
Movement in provision for employee entitlements		**14**	(46)
Movement in current tax liabilities		**74**	(69)
Movement in make good provision		**25**	(2)
Movement in Right-of-use Asset		**(1)**	(3)
Movement in deferred tax liability		**(38)**	(73)
Net cash flows (used in)/from operating activities		**(50,016)**	(17,439)

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	Leasehold Improvements at cost	Plant and Equipment at cost	Work in Progress	Total
		$'000	$'000	$'000	$'000	$'000
Gross carrying amount						
Balance as at 30 June 2020		6,265	554	3,645	-	10,464
Additions		155	-	113	-	268
Disposals		-	-	(218)	-	(218)
Balance as at 30 June 2021		6,420	554	3,540	-	10,514
Additions		**157**	**-**	**152**	**5**	**314**
Revaluations		**2,083**	**-**	**-**	**-**	**2,083**
Disposals		**-**	**-**	**(187)**	**-**	**(187)**
Balance as at 30 June 2022		**8,660**	**554**	**3,505**	**5**	**12,724**
Accumulated Depreciation						
Balance as at 30 June 2020		(405)	(501)	(2,285)	-	(3,191)
Disposals		-	-	158	-	158
Depreciation Expenses	2.3	(138)	(53)	(314)	-	(505)
Balance as at 30 June 2021		(543)	(554)	(2,441)	-	(3,538)
Disposals		**-**	**-**	**130**	**-**	**130**
Depreciation Expenses	2.3	**(144)**	**-**	**(309)**	**-**	**(453)**
Revaluations		**246**	**-**	**-**	**-**	**246**
Balance as at 30 June 2022		**(441)**	**(554)**	**(2,620)**	**-**	**(3,615)**
Net Book Value						
Balance as at 30 June 2021		5,877	-	1,099	-	6,976
Balance as at 30 June 2022		**8,219**	**-**	**885**	5	**9,109**

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 previous independent 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 at the time was uncertain, and may depend on the length of the Covid-19 pandemic. While the 2020 valuation report did not indicate impairment of land and buildings, it did present estimation uncertainty regarding the valuation of the land and buildings. The Credit Union determined that the carrying amount of land and buildings and the fair value were not materially different, and decided not to revalue the land and buildings based on the June 2020 valuation.

A subsequent valuation was carried out by Opteon in October 2021 which resulted in a market value of $8,175,000, subject to existing leases. This valuation noted an average rental rate for the property of $366 /sqm, an increase of $66 /sqm from the $300 /sqm used in the June 2020 valuation. Looking at the rental rate and market yield assumptions used in the 2020 and 2021 valuations, the Credit Union has determined the carrying amount of land and buildings and the fair value are materially different, and has decided during the 2022 financial year to revalue the land and buildings based on the October 2021 valuation. The Credit Union assessed the fair value as at 30 June 2022 and determined that it had not materially changed from October 2021.

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 observable input and is currently 7.00% based on the October 2021 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.

5.1. Property, plant and equipment (continued)

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 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	2022 $'000	2021 $'000
At cost		**2,347**	2,024
Provision for amortisation		**(1,638)**	(1,291)
Intangible assets		**709**	733
Work in progress		**84**	103
Total intangible assets		**793**	836
Reconciliation of carrying amounts			
Carrying amount at the beginning of the year		**836**	930
Additions		**304**	249
Amortisation	2.3	**(347)**	(343)
Carrying amount at the end of the year		**793**	836

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

5.3. Other assets

	2022 $'000	2021 $'000
Prepayments	**516**	479
Interest receivable	**255**	250
Other	**26**	21
Total other assets	**797**	750

5.4. Payables

	Note	2022 $'000	2021 $'000
Sundry creditors		**677**	1,069
Accrued interest payable		**851**	404
Accrued expenses		**753**	658
Total other payables	6.1	**2,281**	2,131

Recognition and measurement

These amounts represent liabilities for goods and services provided to the Credit Union prior to the end of 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

	2022 $'000	2021 $'000
Employee benefits		
-Liability for annual leave	**334**	313
-Liability for long service leave	**280**	286
Make good costs	**88**	63
Total Provisions	**702**	662

Included in employee benefits is a non-current amount of $125,000 (2021: $98,000).

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.

5.5. Provisions (continued)

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. 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

(a) Credit Union as a lessee

Nature of the leasing activities
The Credit Union leased properties at Corrimal, Dapto and Helensburgh in the state of New South Wales, which were used as member service centres throughout the 2022 financial year. At the end of 30 June 2022, these branches are closed and are no longer used by the Credit Union as member service centres.

Terms and conditions of leases
Only one lease agreement remains in effect related to the Corrimal branch, which is due to expire on 30 September 2022. The Corrimal lease will not be renewed past the expiry date.

Right-of-use assets	**2022 $'000**	2021 $'000
At cost	**124**	270
Accumulated depreciation	**(124)**	(147)
Balance at the end of the year	**-**	123

5.6. Leases (continued)

	Land and buildings $'000	Total $'000
Balance at 1 July 2020	84	84
Additions to right-of-use assets	186	186
Depreciation charge	(147)	(147)
Balance at 30 June 2021	123	123
Additions to right-of-use assets	**1**	**1**
Depreciation charge	**(124)**	**(124)**
Balance at 30 June 2022	**-**	**-**

Lease liabilities

	2022 $'000	2021 $'000
Current		
Not later than 1 year	**11**	115
Non current		
Later than 1 year	**-**	10
Total	**11**	125

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

	2022 $'000	2021 $'000
Not later than 1 year	**11**	117
Later than 1 year and not later than 5 years	**-**	11
Total	**11**	128

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.

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:

	2022 $'000	2021 $'000
Interest expense on lease liabilities	**(4)**	(5)

5.6. Leases (continued)

Statement of cash flows

	2022	2021
	$'000	$'000
Total cash outflow for leases – including interest	(117)	(141)

Exemptions applied

The Credit Union has applied the exemptions relating to short-term leases and leases of low-value assets.

As at 30 June 2022, the Credit Union is not committed to any short-term leases (2021: nil).

(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.

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:

	2022	2021
	$'000	$'000
Lease/rental income (excluding variable lease payments not dependent on an index or rate)	419	347
Total lease/rental income	**419**	347
Direct operating expenses (including repairs & maintenance) arising from investment property that generated rental income during the period	(81)	(81)
Total direct operating expenses	**(81)**	(81)

5.6. Leases (continued)

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

	2022	2021
	$'000	$'000
< 1 year	**308**	366
1 - 2 years	**269**	133
2 - 3 years	**239**	62
3 - 4 years	**245**	-
4 - 5 years	**90**	-
Total undiscounted lease payments receivable	**1,151**	561

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

Credit Union as a lessee

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

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

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

The right-of-use asset using the cost model where cost on initial recognition comprises: the lease liability, initial direct costs, prepaid lease payments, estimated cost of removal and restoration, less any lease incentives. The right-of-use 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.

5.6. Leases (continued)

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.

5.7. Borrowings

	2022 $'000	2021 $'000
Term Funding Facility (TFF)	**9,605**	9,595
Notes payable	**86,693**	-
Total borrowings	**96,298**	9,595

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 provided three-year funding via repurchase transactions at the cash rate (0.25% when the facility was announced) and was available to be drawn through to the end of March 2021.

The Credit Union's Supplementary Allowance of $9,591,908 was drawn on 24 February 2021 (purchase date) with a pricing rate of 0.10%. The collateral used to access the facility is $11,470,000 Class A notes from the MTG ICU Trust Repo Series No 1. The Credit Union has nil additional or supplementary allowances 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 $9,620,710 and the repurchase date is 26 February 2024.

5.7. Borrowings (continued)

Notes payable

Securitised borrowings is provided through Perpetual Corporate Trust Limited ("Perpetual") in its capacity as Trustee for the MTG ICU Trust Series 2021-1 SPV. Under the transaction document for this facility, the SPV acquired residential mortgages originated by the Credit Union. The acquisition of these residential mortgages by the SPV is funded by notes issued from the SPV that have been rated by Standard & Poor's and structured into five classes: Class A (AAA), Class AB (AAA), Class B (AA), Class C (A+) and Class D (NR). Therefore on a consolidated basis, the securitised borrowings are classified as notes payable as the liability is to the end note holders. The maturity profile of the issued notes are effectively tied to the maturity profile of the associated securitised loans and has been disclosed accordingly at Note 6.1. The notes payable carries interest rates based on the Bank Bill Swap Rate (BBSW) plus 0.8%, 2%, 3%, 4.15% and 6.5% margin in the case of Class A, AB, B, C and D notes respectively. Payments of interest are made at monthly intervals. The payments in a given period are made out of funds received from the mortgage pool during the most recently ended month and are prioritised based on the note class (i.e. Class A first, Class AB second, etc.).

The notes payable are initially measured at fair value plus transaction costs, and subsequently measured at amortised cost using the effective interest method.

5.8. Reserves

	2022 $'000	2021 $'000
General reserve for credit losses	**-**	1,076
Redeemed share capital reserve	**259**	256
Asset revaluation reserve	**3,979**	2,233
Total Reserves	**4,238**	3,565

Recognition and measurement

General reserve for credit losses

The general reserve for credit losses contained an additional allowance for impairment losses. From the 1st January 2022, the prudential requirement for the general reserve for credit losses was replaced with the need to hold adequate provisions in accordance with Australian Accounting Standards and it was determined that the expected credit loss (ECL) amount was sufficient. Therefore the general reserve for credit losses was released.

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)

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 Poor's.

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

	Note	30 June 2022 $'000 Loans and advances	Placements with other financial institutions	Cash and cash equivalents
Carrying amount		**870,214**	**121,798**	**52,814**
Stage 3: Lifetime ECL				
> 90 days in arrears		**3,890**	-	-
ECL provision	3.3	**(136)**	-	-
Carrying amount		**3,754**	-	-
Stage 2: Lifetime ECL				
> 30 days in arrears		**2,693**	-	-
> 1 day in arrears on two or more occasions during the year		**2,385**	-	-
Declared hardship / restructured**		**2,904**	-	-
ECL provision	3.3	**(9)**	-	-
Carrying amount		**7,973**	-	-
Stage 1: 12 month ECL				
Secured by mortgage		**837,548**	-	-
Investment grade		-	**121,798**	**52,668**
Unrated		-	-	-
Other		**19,271**	-	**146**
ECL provision	3.3	**(43)**	-	-
Carrying amount		**856,776**	**121,798**	**52,814**
Net loan deferred income and expense	3.1	**1,711**	-	-
Total adjusted carrying amount	3.1, 3.2, 4.1	**870,214**	**121,798**	**52,814**
Loans approved not advanced				
Secured by mortgage		**11,822**	-	-
Other		-	-	-
ECL provision		-	-	-
Carrying amount		**11,822**	-	-

As at the balance date, there were no individual members that have loans that represent more than 10% of the Credit Union's assets (2021: nil).

6.1. Risk management framework (continued)

a) Credit risk (continued)

	Note	30 June 2021 $'000 Loans and advances	Placements with other financial institutions	Cash and cash equivalents
Carrying amount		**615,596**	**101,173**	**37,441**
Stage 3: Lifetime ECL				
> 90 days in arrears		844	-	-
ECL provision	3.3	(104)	-	-
Carrying amount		740	-	-
Stage 2: Lifetime ECL				
> 30 days in arrears		458	-	-
> 1 day in arrears on two or more occasions during the year		4,377	-	-
Declared hardship / restructured **		3,508	-	-
ECL provision	3.3	(37)	-	-
Carrying amount		8,306	-	-
Stage 1: 12 month ECL				
Secured by mortgage		584,253	-	-
Investment grade		-	100,673	37,055
Unrated		-	500	-
Other		21,629	-	386
ECL provision	3.3	(41)	-	-
Carrying amount		605,841	101,173	37,441
Net loan deferred income and expense	3.1	709	-	-
Total adjusted carrying amount	3.1, 3.2, 4.1	615,596	101,173	37,441
Loans approved not advanced				
Secured by mortgage		58,436	-	-
Other		-	-	-
ECL provision		-	-	-
Carrying amount		58,436	-	-

6.1. Risk management framework (continued)

a) Credit risk (continued)

Loans restructured

During the year loans totalling $4,731,000 (2021: $2,776,000) have been restructured by the Credit Union and at the end of 30 June 2022, the Credit Union had a total of $4,720,000 (2021: $2,854,000) 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.

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

	Note	2022 $'000	2021 $'000
Illawarra NSW		**409,140**	330,461
Sydney NSW		**325,066**	201,195
Far South Coast NSW		**10,730**	9,852
Other NSW/ACT		**78,418**	42,392
Victoria		**11,101**	7,678
QLD		**23,144**	14,842
WA		**7,957**	5,780
Other		**3,135**	2,869
	3.1	**868,691**	615,069

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

Loans and advances

	2022 $'000		2021 $'000
Stage 3: Lifetime ECL		***Stage 3: Lifetime ECL***	
- Property	**7,945**	- Property	1,496
- Other	**26**	- Other	25
Stage 2: Lifetime ECL		***Stage 2: Lifetime ECL***	
- Property	**16,018**	- Property	14,481
- Other	**44**	- Other	120
Stage 1: 12 month ECL		***Stage 1: 12 month ECL***	
- Property	**2,265,451**	- Property	1,520,152
- Other	**9,668**	- Other	13,087
Total value of collateral held	**2,299,152**	**Total value of collateral held**	1,549,361
Average Loan to Valuation ratio	**37.81%**	Average Loan to Valuation ratio	39.73%

6.1. Risk management framework (continued)

a) Credit risk (continued)

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.

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

	2022 $'000	2021 $'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 $19,000 (2021: $18,217) 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 minimum liquidity holdings (MLH) are always available for the Credit Union's cash flow and liquidity requirements. The Credit Union also has other liquid assets over and above MLH 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.

6.1. Risk management framework (continued)

b) Liquidity risk (continued)

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:

	2022	2021
	%	%
MLH at 30 June	**14.95**	14.47
MLH average for the period	**14.74**	17.74
MLH maximum for the period	**22.55**	23.16
MLH minimum for the period	**11.52**	12.94
Total liquidity at 30 June	**16.89**	16.10

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 with a limit of $4,000,000 for 2022 (2021: $4,000,000) 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 2022								
Non-derivative liabilities								
Deposits – retail	4.2	**743,688**	**(744,865)**	**(501,291)**	**(81,164)**	**(138,964)**	**(23,446)**	**-**
Deposits – wholesale	4.2	**159,850**	**(160,293)**	**(58,533)**	**(92,586)**	**(9,174)**	**-**	**-**
Payables	5.4	**2,281**	**(2,281)**	**(1,917)**	**(229)**	**(125)**	**(10)**	**-**
Term Funding Facility (TFF)	5.7	**9,605**	**(9,621)**	**-**	**-**	**-**	**(9,621)**	**-**
Notes payable	5.7	**86,693**	**(90,512)**	**(2,696)**	**(5,374)**	**(23,973)**	**(58,469)**	**-**
		1,002,117	**(1,007,572)**	**(564,437)**	**(179,353)**	**(172,236)**	**(91,546)**	**-**
Unrecognised finance commitments								
- *approved but undrawn loans*	7.1	**11,822**	**(11,822)**	**(8,394)**	**(349)**	**(3,079)**	**-**	**-**
		1,013,939	**(1,019,394)**	**(572,831)**	**(179,702)**	**(175,315)**	**(91,546)**	**-**
30 June 2021								
Non-derivative liabilities								
Deposits – retail	4.2	612,937	(612,935)	(456,992)	(70,861)	(84,098)	(983)	-
Deposits – wholesale	4.2	89,250	(89,355)	(13,003)	(48,284)	(28,068)	-	-
Payables	5.4	2,131	(2,131)	(2,004)	(64)	(62)	(1)	-
Term Funding Facility (TFF)	5.7	9,595	(9,621)	-	-	-	(9,621)	-
Notes payable	5.7	-	-	-	-	-	-	-
		713,913	(714,042)	(471,999)	(119,209)	(112,228)	(10,605)	-
Unrecognised finance commitments								
- *approved but undrawn loans*	7.1	58,436	(58,436)	(40,118)	(9,247)	(9,071)	-	-
		772,349	(772,478)	(512,117)	(128,456)	(121,299)	(10,605)	-

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 has been calculated assuming: (i) a 20-day holding period and 250-day observation period; and (ii) a 250-day holding period and 1500-day observation period. The VaR model used is based mainly on historical simulation, taking account of market data from the previous year(s). 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 holding period assumes it is possible to hedge or dispose of positions within that period. Both holding period assumptions are considered to be realistic 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:

	2022	2021
	$'000	$'000
Interest rate risk – Value at Risk (H = 25, O = 250)	**1,616**	322
Interest rate risk – Value at Risk (H = 250, O = 1500)	**2,692**	1,634

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

Fixed rate instruments		
Financial assets	**419,483**	233,009
Financial liabilities	**(454,463)**	(296,369)
	(34,980)	(63,360)
Variable rate instruments		
Financial assets	**623,819**	520,673
Financial liabilities	**(545,373)**	(415,410)
	78,446	105,263

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:

		30 June 2022						
	Note	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	870,214	-	870,214	-	853,899	-	853,899
Placements with other financial institutions	3.2	121,798	-	121,798	-	121,688	-	121,688
Cash and cash equivalents*	4.1	52,814	-	52,814	-	-	-	-
		1,044,826	-	1,044,826	-	975,587	-	975,587
Financial liabilities carried at amortised cost								
Deposits	4.2	-	(743,687)	(743,687)	-	(722,590)	-	(722,590)
Wholesale deposits	4.2	-	(159,850)	(159,850)	-	(159,720)	-	(159,720)
Payables*	5.4	-	(2,281)	(2,281)	-	-	-	-
Borrowings	5.7	-	(96,298)	(96,298)	-	(93,184)	-	(93,184)
		-	(1,002,116)	(1,002,116)	-	(975,494)	-	(975,494)

*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 2022 (2021: Nil).

6.1. Risk management framework (continued)

d) Fair Values (continued)

		30 June 2021						
	Note	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	615,596	-	615,596	-	610,060	-	610,060
Placements with other financial institutions	3.2	101,173	-	101,173	-	101,812	-	101,812
Cash and cash equivalents*	4.1	37,441	-	37,441	-	-	-	-
		754,210	-	754,210	-	711,872	-	711,872
Liabilities carried at amortised cost								
Deposits	4.2	-	(612,937)	(612,937)	-	(612,950)	-	(612,950)
Wholesale deposits	4.2	-	(89,250)	(89,250)	-	(9,595)	-	(9,595)
Payables*	5.4	-	(2,131)	(2,131)	-	-	-	-
Long term borrowings	5.7	-	(9,595)	(9,595)	-	(9,537)	-	(9,537)
		-	(713,913)	(713,913)	-	(632,082)	-	(632,082)

*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.

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.

Borrowings

The carrying value of borrowings approximate their fair value as they have floating interest rates.

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.

In December 2021 the Credit Union established MTG ICU Trust Series 2021-1 to support ongoing liquidity and capital management. This securitisation facility of $107m complies with the operational requirements for regulatory relief under Prudential Standard 120 *Securitisation*. Refer to note 7.6 for further details.

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:

6.2. Capital management (continued)

	2022	2021
	$'000	$'000
Regulatory capital	**48,448**	46,080
Risk weighted assets	**354,573**	323,441
Regulatory capital expressed as a percentage of total risk weighted assets	**13.66%**	14.25%

7. Other Notes

7.1. Commitments

	2022	2021
	$'000	$'000
Capital expenditure commitments		
Capital expenditure commitments not taken up in the financial statements- payable less than one year	**175**	177
	175	177

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.

	2022	2021
Approved but undrawn loans	**11,822**	58,436

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.

	2022	2021
	$'000	$'000
Performance bonds	**447**	147

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 2021-22 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
Ms D Lambourne	Mr A Perkiss (Chief Executive Officer / Company Secretary)
Mr P Kell (resigned 5 July 2022)	Ms J Zondag (Chief Financial Officer / Company Secretary)
Mr R Downs	Mr R Coldwell (Chief Information Officer)
Ms D De Santis	Ms L Ali (Head of Risk)
Mr A Frino	Ms S Petkovski (Head of Digital)
Ms O Robinson	Ms M Reynolds (General Manager – Consultant)
Mr J Brannon	

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:

	2022	2021
	$	$
Short term employee benefits	**1,371,576**	1,330,153
Other long-term benefits	**36,500**	17,554
Post-employment benefits	**118,585**	110,744
Termination benefits	**17,604**	21,679
	1,544,265	1,480,130

The Credit Union has engaged Omera Partners, an executive and leadership advisory firm for the services of the General Manager - Consultant. In the 2022 financial year, the Credit Union paid Omera Partners a total of $516,000 for these services. 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:

	2022	2021
	$	$
Aggregate of loans as at balance date	**2,355**	958,168
Total undrawn revolving credit facilities available at balance date	**58,466**	60,000
Interest charged on loans and overdraft facilities	**125**	13,273

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

	2022	2021
	$	$
Aggregate of term and savings deposits as at balance date	**771,964**	605,975
Interest paid on deposits	**1,690**	3,073

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 $26,378 (2021: $19,429). 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 (2021: $6,226).

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.

7.5. Auditor's remuneration

	2022	2021
	$	$
Audit services		
Audit of the financial report	**97,380**	91,645
Other regulatory audit services	**36,247**	17,853
	133,627	109,498
Other services		
Taxation services	**12,984**	12,984
	12,984	12,984
	146,611	122,482

The external audit is performed by Crowe Audit Australia. The remuneration for audit services includes the non-recoverable amount of GST.

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 and capital requirements. These arrangements are with:

a) 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 (self-securitisation facility).
b) MTG ICU Trust Series 2021-1 which supports the independent financing of the loans – these loans are not derecognised as the Credit Union retains the benefits of excess distribution which is the surplus income from the SPV after deducting funding and operating costs (term securitisation facility).

Only residential mortgage-backed securities (RMBS) that meet specified criteria are eligible to be transferred in each of the above situations.

When the Credit Union transfers assets as part of the securitisation transaction it does not have the ability to use the assets during the term of the arrangement.

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.

	2022	2021
	$'000	$'000
Balance sheet values		
MTG ICU Repo Series No.1 Trust		
Loans	**153,518**	126,474
Fair value of associated liabilities	**(153,518)**	(126,474)
Net	**-**	-
MTG ICU Trust Series 2021-1		
Loans	**84,157**	-
Fair value of associated liabilities	**(86,693)**	-
Net position (refer to Note 3.1)	**(2,536)**	-

7.6. Transfer of financial assets (continued)

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.

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) and 25th October 2021 (effective 30th September 2021) the Credit Union transferred additional loan contractual benefits to increase the size of these liquidity facilities. During the period the Credit Union substituted loans into the trust as follows:

- 16 July 2021 - $12,777,103
- 18 October 2021 - $12,972,932
- 25 October 2021 (as above) - $24,490,170
- 29 April 2022 - $18,036,336

MTG ICU Trust Series 2021-1

The MTG ICU Trust Series 2021-1 Trust is a trust established by the Credit Union to facilitate liquidity and capital management requirements of APRA's prudential standards. The Trust has an independent Manager and Trustee. In the case of the MTG ICU Trust Series 2021-1 Trust, the Trust issued notes for investors to invest in. The notes are secured over residential mortgage-backed securities (RMBS). The Credit Union receives an excess distribution which is the surplus income after deducting funding and operating costs. The Credit Union has an obligation to manage the portfolio of loans and receives a servicer fee which is a commission based on the value of the loans managed.

The Trust was created on 17th December 2021 with a total note issuance of $107m. The Credit Union received cash for the amount of loans transferred to the Trust, with an equivalent amount being recognised under securitised borrowings. This is a closed pool, which means that it will amortise in line with the repayment of the underlying loans and is not topped up.

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. Refer to Note 1.3 for details on restricted cash balances relating to the trust

7.7. Parent entity disclosures (continued)

Results of the parent entity	**2022**	2021
	$'000	$'000
Profit for the year	**2,055**	1,897
Other comprehensive income for the year	**1,746**	-
Total comprehensive income for the year	**3,801**	1,897

Financial position of the parent entity	**2022**	2021
	$'000	$'000
Total assets	**1,055,525**	762,945
Total liabilities	**(1,003,876)**	(715,097)
Net assets	**51,649**	47,848
Retained earnings	**47,411**	44,283
Reserves	**4,238**	3,565
Total Equity	**51,649**	47,848

Contingent liabilities and commitments of the parent entity are disclosed at notes 7.1 and 7.2 respectively.

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.

8.1. Other significant accounting policies (continued)

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.

None of the adopted Accounting Standards and Interpretations had a material impact on the financial statements of the Credit Union.

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

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.

DIRECTORS' DECLARATION
For the Year ended 30 June 2022

illawarra credit union

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 68 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 2022 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:

DocuSigned by:
Deborrah Lambourne
E0BCCD0E9D6F41E...
D. Lambourne
Chair of the Board

DocuSigned by:
JBrannon
114AA9DDC6BF4F7...
J. Brannon
Chair of the Board Audit Committee

Wollongong, 26th August 2022

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

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 2022, 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 2022 and of its financial performance for the year then ended; and

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

Basis for Opinion

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

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

Other Information

The directors are responsible for the other information. The other information comprises the directors' report information contained in the Group's annual report for the year ended 30 June 2022, 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

CROWE AUDIT AUSTRALIA

BRADLEY D BOHUN
Partner

26 August 2022
Albury

online.

illawarracu.com.au

head office.

38-40 Young Street,
Wollongong NSW 2500
Phone 13 22 49

Illawarra Credit Union Limited ABN 14 087 650 771.
FSL/Australian credit licence 245576