Annual report 2024

Worth banking on.

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

Contents

2024 highlights

We have much to celebrate over the last 12 months. Here are some of our many highlights for the year.

Financial highlights

$1.05m
Net profit

$929.04m
Total assets

$115.64m
New deposit account funds

$120.28m
Loan fundings

Customers

30
Customer Net Promoter Score (NPS)

705
New customer

99.1%
Transactions completed using digital services

47.77%
New customers who live outside the Illawarra region

Community

$108,000
Donated to community groups or charities

25
Existing partnerships within the community and brokers

79%
Staff with a certificate IV or above

20
Supported staff members undertaking further studies, a cadetship, traineeships or GoLead interns

Achievements

September 2023
Completed major banking system upgrade as a platform for future enhancements.

November 2023
Delivered phase two enhancements to the call centre solution.

May 2024
Our fixed home loans, credit cards and personal loans were recognised by WeMoney

June 2024
Launched Digital Card

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 there. Be better.

Message from the Chair

A year shaped by change, collaboration and community.

Deborrah Lambourne
Chair

It is my privilege to present the Chair's Report for the fiscal year 2023/24. Looking back, the past 12 months have certainly been a period of challenge and change. But it's also been a time of real opportunity for the future of our Credit Union and the communities we so proudly serve.

Building upon a strategic journey that began in 2022/23, the leadership team has been steadfastly united by the desire to ensure Illawarra Credit Union remains relevant and competitive today, and also tomorrow. Evolving to meet the shifting needs of our customers and the community has continued to be a strategic priority. This has rightly seen significant energy dedicated towards the improvement of key service and operational areas such as:

- Enhancing our digital platforms
- Upgrading our core banking system with minimal disruption for customers
- Assisting our customers in times of hardship through openness and transparency
- Actively ensuring our customers feel safe and confident with their primary banker
- Meeting the market in pricing for deposits, while continuing to offer highly competitive lending rates.

These are ongoing and unwavering commitments, as we continue to navigate the changing economic conditions with a steady hand, giving our customers access to market-leading products and services that are worth banking on now, and for generations to come.

A changing sector

This is a dynamic year for Credit Unions in Australia, with the sands of the mutual sector continuing to shrink and shift through consolidations. It is with this knowledge, the Board of Directors has explored a potential merger opportunity with what we believe is a highly complementary and like-minded community partner, where both organisations hold their customers' needs at the forefront. Having performed considerable due diligence, we feel very positive about the unique opportunity this presents. The coming months – and ultimately the wishes of our members – will determine the outcome and, as a Board, we stand ready to embrace and act upon those wishes.

A solid position

Through prudent stewardship and an unwavering commitment to our customers, I am pleased to report our Credit Union remains in a robust financial position. Despite an often volatile economic landscape, it has been a year of relative stability, complemented by modest growth. We have adapted to the changing conditions while seizing strategic opportunities to strengthen our market standing wherever possible. We have also received numerous industry awards for excellence, service and value for money, confirming the value we continue to offer to our customers across Australia despite the ongoing pressures within the wider sector.

A passionate team

As always, the foundation of our successes in 2023/24 can be traced to the dedication, talent and passion of our people – something we have again sought to foster through a program of career and personal development initiatives throughout the year. I would particularly like to acknowledge the willingness of our staff to work together in these difficult economic times, collaborating as one to consistently elevate our services and enhance customer relationships. I'd equally like to recognise the many University graduates and cadets who have gained valuable experience within the banking sector as part of our team over the past year. They have worked hard and learned much. But so too have we, as they have brought new energy and ideas into the organisation from their academic learnings; small seeds that will no doubt blossom into larger benefits in the years ahead.

A united leadership

I have been honoured to work with the Board of Directors as they continue to play a key role in shaping our Credit Union's future, whilst keeping our customers' interests at the centre of all decisions. I extend my heartfelt appreciation for their collective dedication, wisdom and leadership. Particular mention must also go to our CEO, Anthony Perkiss, for his tireless efforts with the Executive in championing new service initiatives and technologies to make financial management and access easier for our customers, coupled with his skilled management of stakeholder relationships including across our regulatory authorities and colleagues across the mutual sector.

A customer-driven future

In closing, I extend our deepest of gratitude to you, our valued customers. As a Board, your loyalty and trust is something we never take for granted. As we look ahead, our continued energy and determination to drive the Credit Union forward is fuelled by finding new and better ways to serve you—all while staying grounded in the community values that have defined us for more than half a century. Thank you.

Yours sincerely,

Deborrah Lambourne

Message from the CEO

A year of challenge, opportunity and transformation.

Anthony Perkiss
CEO

The fiscal year 2023/24 has been shaped by economic uncertainty and challenging operating conditions across most corners of the Banking sector. Closer to home, the ongoing digital transformation of the Credit Union and working towards a potential merger transition have also been strategic focuses for the leadership team, as robust foundations continue to be laid for the long-term future of the business.

Performance

Tough market conditions influenced performance for much of FY23/24, compounded by the increasing cost of wholesale funding and intense levels of competition and increased merger activity within the sector. Financial results have been impacted by the additional, but very necessary, costs of the rigorous due diligence. This commitment is reflected in the S&P (Standard and Poor's) Ratings Agency upgrading Illawarra Credit Union from BBB- to BBB, a significant and positive step forward. The Credit Union upgraded and invested in its core banking system and digital cards to enable a more seamless experience for our customers.

People Powered

Just as it's been since we first opened our doors in 1972, our long-term success continues to be directly underpinned by our dedicated and talented team. Accordingly, we have actively sought to support their personal and professional growth with significant investments in best practice training and development. We want every member of our team to feel challenged, informed, inspired and valued.

Customers at Heart

This year, we've been honoured to serve more than 25,000 customers across the Illawarra, regional NSW and, increasingly, other corners of Australia. As the sector evolves, we remain acutely aware of the need to meet the changing financial needs of our customer base by offering relevant solutions that empower them to achieve their goals. This focus saw the launch of two significant product offerings in FY23/24: our first-ever Digital Card and FastRefi, a quicker and more efficient loan refinancing service. Once again, customer satisfaction levels and our Net Promoter Score (NPS) were consistently high, reflecting the trust our customers continue to place in us.

Caring for the Community

Illawarra Credit Union remains deeply committed to giving back to the communities we serve. FY23/24 saw our strategic partnerships positively impact individuals, businesses and communities across the Illawarra and beyond. Highlights included our continued our support of local organisations such as the Illawarra Academy of Sports and charitable organisations such as the Salvation Army. We were also delighted to partner with the Wollongong Running Festival, raising vital funds for Illawarra LifeLine.

Award Winning

Our loans and credit cards have once again been recognised for excellence with multiple awards during the past 12 months. Particularly pleasing is the wide spread of categories, ranging from our award-winning rates, fees and value to being the 2024 Customer Owned Bank Lender of the Year – Personal Loans (WeMoney).

Financial Results

Despite numerous challenges, FY23/24 results remained solid with modest levels of growth across the business. As of June 2024, we managed almost $1 billion in assets with 59% of loans and 46% of deposits now held by members living outside the Illawarra, both significant numbers. Our balance sheet remains strong with healthy asset quality and capital reserves. We delivered a gross profit of $1.32 million, a satisfactory result in difficult conditions which positions us well for the next phase of growth.

Planning for Merger

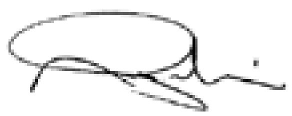
Illawarra Credit Union has been part of several successful mergers in its 52-year history. Each time it has allowed the business to expand and grow; something that gives the leadership team great confidence when reviewing the current merger plans involving Community First Bank. United by many shared values, both organisations see the merger as a tremendous opportunity to strengthen our position within Australia's increasingly competitive Banking sector. The proposed merger would serve over 80,000 members, manage combined assets of approximately $2.5 billion and create an enviable distribution network extending from the Illawarra and Greater Sydney to the Newcastle and Hunter regions. Critically, management and staff would remain based in the Illawarra with no job losses. The merger is currently awaiting formal approval from the Australian Prudential Regulatory Authority (APRA). Following APRA's approval, members of both credit unions will vote on the merger at their respective annual general meetings in late 2024.

Looking ahead

FY24/25 shapes as a significant moment in the history of Illawarra Credit Union. The proposed merger with Community First Bank presents a compelling and strategic platform for future success. Our commitment to our people, customers and community remains unwavering. We will also continue to prioritise innovation across the business and, backed by loyal customers and robust financials, we are well placed to seize future opportunities.

In closing, I would like to extend my sincere thanks to our Chair, Deborrah Lambourne, and the Board for its ongoing support. I would also like to express my gratitude to our customers, partners, stakeholders and, above all, the Illawarra Credit Union team. Your passion and commitment is a daily source of inspiration, and ensures we continue to thrive for the benefit of every customer and community we serve.

Yours sincerely,



Anthony Perkiss

$929.04m
Total assets

$115.64m
New deposit account funds

$120.28m
Loan fundings

Worth banking on.

For more than 50 years, we've been banking on those who bank on us. Over the past 12 months this philosophy has again guided our proud involvement in events and initiatives that directly support our communities, customers and employees.

Actively Supporting Local Communities.

Our community commitment goes far beyond banking. It's in our DNA as a Credit Union to create a better future for all. In 2023/24 we once again dedicated significant resources to support local not-for-profit organisations, large and small, and provide greater opportunities for the individuals they serve. Highlights include coming together with our customers to support the annual **Salvation Army Christmas Appeal**, helping vulnerable families across the Illawarra enjoy the festive season. Now in its fifth year, we continued our partnership with the **Illawarra Academy of Sport**, supporting local training and education opportunities for young athletes, coaches and administrators. Whilst on the subject of sport, we were thrilled to sponsor the **Wollongong Running Festival** for the first time in 2024, raising vital funds for the life-saving work of LifeLine. Illawarra Credit Union also partnered with **WaveFM's 'Pay Your Bills' promotion**, providing more than $50,000 in bill relief for local households.

Industry-Leading Customer Satisfaction

As a service organisation, we understand our continued success is directly contingent on the continued satisfaction of our customers. In 2023/24 our business-wide focus on service excellence translated to a **Net Promoter Score (NPS)** of 30. This rating is significantly higher than Australia's 'big four' banks and once again maintains our place in the upper tier of financial services organisations. Our consistently above-average NPS is testament to the trust our customers continue to have in us and reflects our ability to deliver services, products and value that exceed their expectations. The result is a loyal community of customer advocates who are happy to recommend our services to others.

Always Listening. Constantly Improving

Australia's financial landscape continues to evolve. Accordingly, we've continued to listen to our customers in the past 12 months, using their feedback to directly tailor our offerings to meet their changing requirements. We've introduced a range of innovative new products and services, each underpinned by the quest to deliver even better and value. Several of our loans and credit cards have once again been recognised for excellence, including four winners and two finalists at the recent 2024 WeMoney Banking Awards.

2024 WeMoney Banking Awards

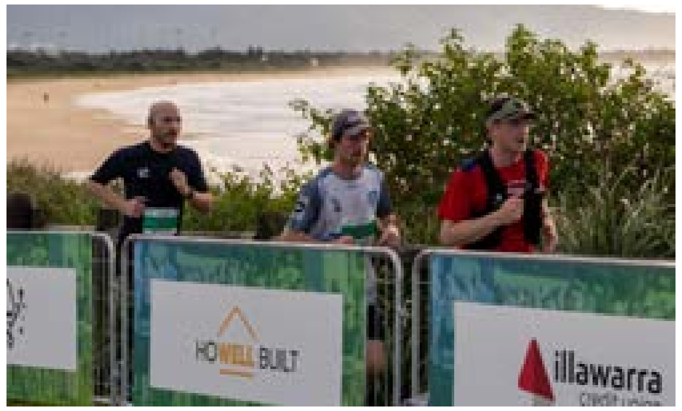
Winner	Excellent Rates & Fees (Fixed) – Home Loans
Winner	Best for Value – Credit Cards
Winner	Lender of the Year (Customer Owned Bank – Personal Loans)
Winner	Excellent Rates & Fees – Car Loans
Finalist	Excellent Rates & Fees – Credit Cards
Finalist	Best Low Rate Credit Card

Health, wellbeing and connection

Throughout 2023/24 our Employee Assistance Program has continued to play a vital role within our employee wellness framework. Featuring group and individual based initiatives designed to help foster stronger connections, mindfulness and a more holistic approach to wellness, assistance is also readily available for team members and families who are experiencing challenges in their professional or personal lives.

Nurturing talent and leadership

Strong businesses are built upon the talent and passion of their people. This is reflected in our ongoing commitment towards personal development and ensuring every team member has the tools to excel in their role, advance their career and contribute meaningfully to our overall purpose. Leadership continues to be cultivated from within with a range of programs and workshops in 2023/24 helping to identify, nurture and elevate emerging leaders, whilst fostering a culture of leadership at all levels of the business. Professional collaborations also been actively encouraged including strategic partnerships with external organisations such as NSW TAFE and the University of Wollongong providing access to specialised courses, certifications and degree programs. Looking ahead, our focus is to continue helping team members enhance and align their skills with latest industry best practice, ensuring they remain informed, inspired and at the forefront of their chosen professions.



$108,000

Was given back to our community over the past year.

30

Consistantly above average Customer Net Promoter score

79%

of staff have a certificate IV or above

Director's report

30 June 2024

Illawarra Credit Union Limited.
ABN 14 087 650 771.
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Docusign Envelope ID: 22E719D5-F251-488D-BE01-2951E95295B7

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 2024.

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, GAICD **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.

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, CPA **Director**

Mr Frino joined the Board in April 2018. He is the Chair of the Board Audit Committee and is a member of the Board Risk Committee. He was Chair of the Board Risk Committee between December 2022 and November 2023.

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.

Ms Amy Harper BCom, LLB, MBA **Director**

Ms Harper joined the Board in August 2022. She is a member of the Board Audit Committee, and Board Risk Committee. She was previously a member of the Governance Committee.

Mr Peter Bourke BA (Econ/Computing), FCA, MAICD **Director**

Mr Bourke joined the Board in June 2023 and is a member of the Governance Committee and Remuneration Committee.

Mr David Rowe BCom (Econ/Finance), GDipAcc, MBA, GAICD **Director**

Mr Rowe joined the Board in June 2023 and is the Chair of the Board Risk Committee and a member of the Board Audit Committee.

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 acted in this capacity until 3 November 2023.

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	9	9	4	4	4	4		4**	1	1	2	2
D De Santis	9	9					4	4			2	2
A Frino	9	8	4	3	4	3						
O Robinson	9	9					4	3			2	2
A Harper	9	9	4	4	4	4	2	2				
P Bourke	9	9					4	4			2	2
D Rowe	9	7	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 2024 was $273,160 (2023: $228,626). The amount of Directors' fees excluding superannuation paid in 2024 was $246,063 (2023: $206,901) which is in accordance with the resolution made at the 2023 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.

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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 $1,050,000 (2023: $3,058,000) representing a decrease of 66% from the previous year.

The results for the financial year were underpinned by:

- A decrease in Net Interest Income of 11% to $15,450,000 from $17,285,000 in the previous year, predominantly as a result of interest rate increases, particularly deposit products above the increased cash rate (56%) ; and
- An increase in Operating Expenses of 5.0% to $16,104,000 from $15,345,000 in the previous year which included one off merger costs incurred to date of $357,000. The Credit Union entered into a Memorandum of Understanding with Community First Bank (CFB) to explore the possibility of merger in November 2023.

All prudential capital requirements have been satisfied throughout the year.

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

No matter or circumstance has arisen since 30 June 2024, and 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

In November 2023, the Credit Union entered into a Memorandum of Understanding with Community First Bank (CFB) to explore the possibility of a merger. Both the Credit Union and CFB have completed due diligence, and are continuing to work through the potential merger process. The proposed merger is conditional on a number of matters, including receipts of member approval and regulatory approvals. If these conditions are satisfied, the merger is expected to be completed in the first half of the 2025 financial year. Refer to Note 1 for further potential merger details.

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

No other 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.

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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 21.

Signed in accordance with a resolution of the Directors:

DocuSigned by: Deborrah Lambourne A0A1D6C16BE7433...	Signed by: 730365A5854347D...
Deborrah Lambourne	Alex Frino
Chair of the Board	Chair of the Board Audit Committee

Signed at Wollongong 28th August 2024

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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.

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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 2024, 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.

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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 Risk Management 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 Governance 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 Fit and Proper 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.

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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 Chief Financial Officer 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 21 and the Audit Opinion at pages 73 to 75.

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
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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 2024 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 2024.

Crowe

CROWE AUDIT AUSTRALIA

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28 August 2024
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CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 30 June 2024

	Note	2024 $'000	2023 $'000
Assets			
Cash and cash equivalents	4.1	**17,343**	34,840
Loans & advances	3.1	**775,140**	798,498
Placements with other financial institutions	3.2	**122,850**	121,519
Property, plant and equipment	5.1	**10,537**	10,458
Income tax receivable	2.4	**1,219**	171
Intangible assets	5.2	**483**	517
Other assets	5.3	**1,469**	1,434
Total Assets		**929,041**	967,437
Liabilities			
Deposits	4.2	**786,662**	827,557
Payables	5.4	**8,641**	6,073
Net deferred tax liabilities	2.4	**1,283**	1,264
Provisions	5.5	**622**	661
Borrowings	5.7	**75,151**	76,250
Total Liabilities		**872,359**	911,805
Net Assets		**56,682**	55,632
Equity			
Reserves	5.8	**5,167**	5,165
Retained profits		**51,515**	50,467
Total equity attributable to members of the Credit Union		**56,682**	55,632

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 2024

	Note	2024 $'000	2023 $'000
Interest revenue	2.1	**42,401**	34,563
Interest expense	2.1	**(26,951)**	(17,278)
Net interest income		**15,450**	17,285
Other income	2.2	**1,972**	2,120
Net income		**17,422**	19,405
Net impairment (loss)/gain on financial assets		**42**	(19)
Personnel expenses	2.3	**(5,599)**	(5,449)
Depreciation and amortisation expenses	2.3	**(698)**	(741)
Data and transaction processing expenses		**(1,434)**	(1,256)
Information technology expenses		**(3,198)**	(2,725)
Other expenses	2.3	**(5,217)**	(5,155)
Total operating expenses		**(16,104)**	(15,345)
Profit before income tax		**1,318**	4,060
Income tax expense	2.4	**(268)**	(1,002)
Profit after tax		**1,050**	3,058
Items that will not be reclassified subsequently to profit or loss			
Gain on the revaluation of land and buildings, net of tax		**-**	925
Other comprehensive income for the year, net of income tax		**-**	925
Total comprehensive income		**1,050**	3,983

The accompanying notes form part of these consolidated financial statements.

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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 30 June 2024

	Note	Redeemed share capital reserve	Revaluation reserve	Retained earnings	Total
		$'000	$'000	$'000	$'000
Balance at 1 July 2022		259	3,979	47,411	51,649
Total comprehensive income for the year					
Profit after tax		-	-	3,058	3,058
Total other comprehensive income		-	925	-	925
Total comprehensive income for the year		-	925	3,058	3,983
Transfers to/from reserves		2	-	(2)	-
Balance as at 30 June 2023	5.8	261	4,904	50,467	55,632
Balance at 1 July 2023					
Total comprehensive income for the year					
Profit after tax		**-**	**-**	**1,050**	**1,050**
Total other comprehensive income		**-**	**-**	**-**	**-**
Total comprehensive income for the year		**-**	**-**	**1,050**	**1,050**
Transfers to/from reserves		**2**	**-**	**(2)**	**-**
Balance as at 30 June 2024	5.8	**263**	**4,904**	**51,515**	**56,682**

The accompanying notes form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended 30 June 2024

	Note	2024 $'000	2023 $'000
Cash flows from operating activities			
Interest received		**42,365**	34,295
Receipts from other income		**1,961**	2,131
Interest paid		**(25,554)**	(14,240)
Payments to employees and suppliers		**(14,302)**	(14,070)
Net income tax paid		**(1,469)**	(1,264)
Net loans repaid/(disbursed)		**23,400**	71,695
Net (decrease)/increase in deposits		**(40,895)**	(75,980)
Net cash from/(used in) operating activities	4.3	**(14,494)**	2,567
Cash flows from investing activities			
Net movement in placements with other financial institutions		**(1,331)**	279
Proceeds from sale of property, plant and equipment		**-**	22
Payments for property, plant and equipment, and intangibles		**(573)**	(774)
Net cash from/(used in) investing activities		**(1,904)**	(473)
Cash flows from financing activities			
Repayment of the lease liabilities		**-**	(11)
Proceeds from long term borrowings		**30,725**	17,774
Repayment of long term borrowings		**(31,824)**	(37,831)
Net cash from/(used in) financing activities		**(1,099)**	(20,068)
Net (decrease)/increase in cash held		**(17,497)**	(17,974)
Cash and cash equivalents at the beginning of the year		**34,840**	52,814
Cash and cash equivalents at the end of the year	4.1	**17,343**	34,840

The accompanying notes form part of these consolidated financial statements.

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NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2024

Docusign Envelope ID: 22E719D5-F251-488D-BE01-2951E95295B7

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 2024. 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 28th August 2024.

Going concern

The financial statements have been prepared on a going concern basis.

Potential merger

In November 2023, the Credit Union entered into a Memorandum of Understanding with Community First Bank (CFB), a mutual bank, to explore the possibility of a merger. Both the Credit Union and CFB have completed due diligence, and are continuing to work through the potential merger process. The proposed merger is conditional on a number of matters, including receipts of member approval and regulatory approvals. If these conditions are satisfied, the merger is expected to be completed in the first half of the 2025 financial year.

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

If members do not vote in favour of the merger, ICU will continue to operate as a stand along entity, and grow in an increasingly competitive environment and identify opportunities for the benefit of members, as and when they arise.

1.2 Basis of preparation (continued)

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 3.1 – accounting treatment of loans assigned to the Receivables Acquisition and Servicing Agreement (RASA) with Bendigo and Adelaide Bank Limited ("BEN")

Estimates:

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

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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 Union 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 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

	2024 $'000	2023 $'000
Interest revenue		
Loans to members	**35,193**	30,312
Placements with other financial institutions	**6,615**	2,918
Cash and cash equivalents	**593**	1,333
Total interest revenue	**42,401**	34,563
Interest expense		
Deposits – members	**(16,482)**	(9,066)
Deposits – other ADIs	**(6,234)**	(4,994)
Borrowings	**(4,235)**	(3,218)
Total interest expense	**(26,951)**	(17,278)
Net interest revenue	**15,450**	17,285

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.

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

	2024	2023
	$'000	$'000
Revenue from contracts with customers		
Transaction and exception fees	**791**	846
Loan fees & charges	**583**	573
Insurance commissions	**100**	102
International payments commissions	**11**	9
BPAY commissions	**40**	42
Total revenue from contracts with customers	**1,525**	1,572
Other sources of income		
Bad debts recovered	**18**	14
Income from property	**421**	414
Gain on sale of investment security	**-**	30
Government grants from traineeships	**8**	90
Total other sources of income	**447**	548
Total other income	**1,972**	2,120

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.

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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 CGU insurance policies to members	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.

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.

2.3. Expenses

	Note	2024 $'000	2023 $'000
Personnel expenses			
Salaries and associated expenses		**(5,122)**	(4,930)
Superannuation		**(468)**	(414)
Redundancy costs		**(9)**	(105)
Total personnel expenses		**(5,599)**	(5,449)

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	2024 $'000	2023 $'000
Depreciation and amortisation expenses			
Buildings	5.1	**(154)**	(152)
Plant and equipment	5.1	**(240)**	(195)
Intangible software	5.2	**(304)**	(394)
Total depreciation and amortisation expenses		**(698)**	(741)

	Note	2024 $'000	2023 $'000
Other expenses			
Property expenses		**(498)**	(374)
Marketing expenses		**(528)**	(473)
Office expenses		**(367)**	(324)
Legal, insurance and audit expenses		**(766)**	(816)
Consulting expenses		**(1,041)**	(1,118)
Loss on disposal of assets		**-**	(171)
Other corporate expenses		**(2,017)**	(1,879)
Total other expenses		**(5,217)**	(5,155)

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2.4. Taxation

	2024 $'000	2023 $'000
(a) Income tax expense		
Current tax expense		
- current year	**(262)**	(1,069)
- adjustments for prior periods	**118**	-
	(144)	(1,069)
Deferred tax expense		
- origination and reversal of temporary differences	**(80)**	67
- correction from prior year unrecognised temporary difference movement	**(44)**	
Total income tax expense in the statement of profit or loss and other comprehensive income	**(268)**	(1,002)

(b) Current tax assets

The current tax receivable for the Credit Union of $1,219,000 (2023: tax liability of $171,000) represents the amount of income tax receivable after the payment of income tax instalments throughout the year.

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

	2024 $'000	2023 $'000
Profit before tax	**1,319**	4,060
Income tax using the Credit Union's current tax rate of 25% (2023: 25%)	**(329)**	(1,014)
Increase in income tax expense due to:		
- non-deductible expenses	**(59)**	(10)
Decrease in income tax expense due to:		
Non assessable income	**2**	22
Under provided in prior years	**118**	-
Income tax expense on pre-tax net profit	**(268)**	(1,002)
(d) Deferred tax recognised directly in equity and other comprehensive income		
- Revaluation of freehold property - equity component	**-**	308
Total income tax recognised directly in equity	**-**	308
(e) Deferred tax assets/(liabilities)		
Provisions and accrued employee entitlements	**190**	213
Property, plant and equipment	**20**	42
Accrued expenses	**36**	48
Sundry items	**68**	52
Total deferred tax assets	**334**	355
Property, plant and equipment	**(1,608)**	(1,616)
Sundry items	**11**	(3)
Total deferred tax (liability)	**(1,597)**	(1,619)
Net deferred tax (liability)/assets	**(1,283)**	(1,264)

2.4. Taxation (continued)

Recognition and measurement

Income tax

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

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

Deferred tax is 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.

3. Financial Assets

3.1. Loans and advances

	Note	2024 $'000	2023 $'000
Loans and advances to:			
- members		**775,040**	798,185
- key management personnel and their related entities		**-**	1
	6.1	**775,040**	798,186
Provision for impairment	3.3, 6.1	**(139)**	(193)
Net deferred loan income and expenses		**239**	505
Net loans and advances		**775,140**	798,498

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 a Special Purpose Vehicle (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	2024	2023
		$'000	$'000
On-Balance sheet securitised loans (MTG ICU Trust Series – 2021-1)		**34,008**	48,500
Balance of associated funding received from notes issued	5.7	**(34,357)**	(51,786)
Net position		**(349)**	(3,286)

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.

(b) Receivables and Acquisition Servicing Agreement – RASA

The Credit Union has a Receivables and Acquisition Servicing Agreement (RASA) with Bendigo and Adelaide Bank Limited ("BEN") whereby the Credit Union is able to assign the rights and benefits of loan receivables to BEN to a maximum of $50m.

On 31 March 2023, the Credit Union executed a $17.8m assignment of its on-balance sheet loans to BEN via the RASA facility, and received notional funds equal to the aggregated outstanding balances on all the loans which BEN was assigned. On 24 May 2024, the Credit Union executed an additional $10.7m assignment of its on-balance sheet loans to BEN via the RASA facility, and received notional funds equal to the aggregated outstanding balances on all the loans which BEN was assigned. The Credit Union acts as a loan manager and servicer for BEN in respect of the day-to-day operation of the individual mortgaged loans and receives a servicer fee based on a percentage of the average balance outstanding. The Credit Union also receives a residual income fee which is the surplus income from the total available income after deducting funding and operating costs. The residual income will vary according to the monthly performance of the loan pool, which the Credit Union continues to have control over through the setting and negotiating of interest rates. The Credit Union is also responsible of managing the operational aspects of these loans, including issuing statements as well as performing arrears and collections management. Therefore the Credit Union has retained a significant portion of operational risk.

It has therefore been determined that the Credit Union substantially retains the risks and rewards of ownership and the loans do not satisfy the de-recognition criteria prescribed in AASB 9. 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 BEN being presented under note 5.7 – Borrowings.

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3.1. Loans and advances (continued)

	Note	2024	2023
		$'000	$'000
On-Balance sheet loans transferred to BEN		21,002	14,614
Balance of associated funding received from BEN	5.7	(20,763)	(14,850)
Net position		239	(236)

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

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	2024	2023
		$'000	$'000
Deposits with banks and other financial institutions		8,000	20,000
Government and semi-government securities		29,930	79,445
Floating rate notes (FRN's)		30,693	18,614
Negotiable certificates of deposit (NCD's)		54,227	3,460
		122,850	121,519

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	2024 $'000	2023 $'000
Total provision comprises of:			
Expected credit loss allowance		139	193
Total provision	3.1, 6.1	139	193

2024	**Stage 1 12 month ECL 2024 $'000**	**Stage 2 Lifetime ECL 2024 $'000**	**Stage 3 Lifetime ECL 2024 $'000**	**Total 2024 $'000**
Movement category				
Balance at 1 July 2023	60	20	113	193
Movement due to change in credit risk, model parameters, and loan balances	6	28	(77)	(43)
Bad debts written off from provision	-	-	(11)	(11)
Balance at 30 June 2024	**66**	**48**	**25**	**139**

2023	Stage 1 12 month ECL 2023 $'000	Stage 2 Lifetime ECL 2023 $'000	Stage 3 Lifetime ECL 2023 $'000	Total 2023 $'000
Movement category				
Balance at 1 July 2022	43	9	136	188
Movement due to change in credit risk, model parameters, and loan balances	17	11	(5)	23
Bad debts written off from provision	-	-	(18)	(18)
Balance at 30 June 2023	60	20	113	193

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 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.

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3.3 Provision for impairment of financial assets (continued)

- 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.

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 unless performing hardship agreement.

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

3.3 Provision for impairment of financial assets (continued)

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 15% 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 remaining at current levels throughout 2025) and the RBA cash rate (cash rate increasing during the first half of 2025 and decreasing slightly in the second half) . This scenario is weighted at 55%. The downside scenario assumes a downturn (unemployment rising throughout 2025 and 2026) and collateral values being discounted by 25% for the calculation of the EAD. This scenario has been given a 30% 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 the cash rate. 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 2023, due to the minimal movement in forecasted unemployment and significant movement in the cash rate, the cash rate was elected to be incorporated into the model. The incorporation of the cash rate led to the PD being adjusted up. In 2024, no significant changes to the model were made.

4. Deposits and Liquidity

4.1 Cash and cash equivalents

	Note	2024	2023
		$'000	$'000
Cash at bank and on hand		**14,056**	31,093
Deposits at call		**3,287**	3,747
Total cash and cash equivalents	6.1	**17,343**	34,840

Cash and cash equivalents include restricted balances of $12.99 million (2023: $19.1 million) in the Credit Union which represents deposits held in securitisation trust collection and liquidity reserve accounts which are not available to the Group.

4.1 Cash and cash equivalents (continued)

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	2024 $'000	2023 $'000
Withdrawable shares		**41**	42
Call deposits		**381,419**	403,464
Retail term deposits		**285,328**	309,635
Wholesale term deposits		**68,000**	61,500
Wholesale negotiable certificates of deposit		**51,874**	52,916
	6.1	**786,662**	827,557

Recognition and measurement

In October 2022 the Credit Union obtained a credit rating of BBB- from ratings agency S&P Global. Following this rating, the Credit Union began issuing repo-eligible negotiable certificates of deposit (NCDs) in February 2023 to provide an additional source of wholesale funding. In April 2024, the credit rating was upgraded to BBB based on continued strengthening of regulatory and governance standards in the Australian banking sector which has reduced industrywide risks.

Deposits, being retail savings, retail term deposits, wholesale term deposits and wholesale NCDs 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 using the effective interest method.

4.3 Reconciliation of cash flows from operating activities

Reconciliation of cash

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

	Note	2024 $'000	2023 $'000
Cash and cash equivalents	4.1	**17,343**	34,840
Reconciliation of cash flows from operating activities			
Profit for the year attributable to members of the Group		**1,050**	3,059
Charge for bad and doubtful debts and impairment losses		**(42)**	19
Depreciation and amortisation		**698**	741
Net loss on disposal of plant and equipment		**-**	171
Operating profit before changes in assets and liabilities		**1,706**	3,990
Changes in assets and liabilities			
Net loans repaid/(funded)		**23,400**	71,695
Net movement in deposits		**(40,895)**	(75,980)
Movement in interest receivable		**(36)**	(514)
Movement in other receivables		**(9)**	11
Movement in deferred tax asset		**21**	(74)
Movement in prepayments		**12**	(135)
Movement in current tax receivable		**(1,219)**	(195)
Movement in interest payable		**1,397**	3,275
Movement in sundry creditors and accruals		**1,171**	527
Movement in provision for employee entitlements		**(39)**	48
Movement in make good provision		**-**	(88)
Movement in deferred tax liability		**(3)**	7
Net cash flows (used in)/from operating activities		**(14,494)**	2,567

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 2022		8,660	554	3,505	5	12,724
Additions		215	-	272	4	491
Revaluations		1,144	-	-	-	1,144
Disposals		-	(554)	(59)	-	(613)
Transfers		-	-	-	(5)	(5)
Balance as at 30 June 2023		10,019	-	3,718	4	13,741
Additions		**150**	-	**327**	-	**477**
Disposals		-	-	-	-	-
Transfers		-	-	-	**(4)**	**(4)**
Balance as at 30 June 2024		**10,169**	-	**4,045**	-	**14,214**
Accumulated Depreciation						
Balance as at 30 June 2022		(441)	(554)	(2,620)	-	(3,615)
Disposals		-	554	36	-	590
Depreciation Expenses	2.3	(152)	-	(195)	-	(347)
Revaluations		89	-	-	-	89
Balance as at 30 June 2023		(504)	-	(2,779)	-	(3,283)
Disposals		-	-	-	-	-
Depreciation Expenses	2.3	**(154)**	-	**(240)**	-	**(394)**
Revaluations		-	-	-	-	-
Balance as at 30 June 2024		**(658)**	-	**(3,019)**	-	**(3,677)**
Net Book Value						
Balance as at 30 June 2023		9,515	-	939	4	10,458
Balance as at 30 June 2024		**9,511**	-	**1,026**	-	**10,537**

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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 2023 which resulted in a market value of $9,475,000 subject to existing leases. The valuation noted an average market rent rate for the property of $396 /sqm. The Credit Union assessed the fair value as at 30 June 2024 and determined that it had not materially changed from June 2023.

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.

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. 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 6.50% based on the June 2023 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.

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.

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

- Plant and equipment 2 - 10 years
- Buildings 40 years

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

5.2. Intangible assets

	Note	2024 $'000	2023 $'000
At cost		**2,445**	2,239
Provision for amortisation		**(2,027)**	(1,722)
Intangible assets		**418**	517
Work in progress		**65**	-
Total intangible assets		**483**	517
Reconciliation of carrying amounts			
Carrying amount at the beginning of the year		**517**	793
Additions		**270**	289
Amortisation	2.3	**(304)**	(394)
Disposals		**-**	(171)
Carrying amount at the end of the year		**483**	517

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.

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

	Note	2024 $'000	2023 $'000
Prepayments		**638**	650
Interest receivable		**805**	769
Other		**26**	15
Total other assets		**1,469**	1,434

5.4. Payables

	Note	2024 $'000	2023 $'000
Sundry creditors		**2,150**	1,397
Accrued interest payable		**5,513**	4,116
Accrued expenses		**978**	560
Total other payables	6.1	**8,641**	6,073

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

	2024	2023
	$'000	$'000
Employee benefits		
-Liability for annual leave	**354**	322
-Liability for long service leave	**268**	339
Total Provisions	**622**	661

Included in employee benefits is a non-current amount of $150,000 (2023: $149,000).

Recognition and measurement

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.

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.

5.6. Leases

(a) 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.

5.6. Leases (continued)

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:

	2024	2023
	$'000	$'000
Lease/rental income (excluding variable lease payments not dependent on an index or rate)	**421**	414
Total lease/rental income	**421**	414
Direct operating expenses (including repairs & maintenance) arising from investment property that generated rental income during the period	**(76)**	(77)
Total direct operating expenses	**(76)**	(77)

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

< 1 year	**404**	428
1 - 2 years	**298**	404
2 - 3 years	**90**	298
3 - 4 years	**-**	90
Total undiscounted lease payments receivable	**792**	1,220

Finance leases

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

(b) Accounting policy for leases

Credit Union as a lessee

As at 30 June 2024 the credit union did not have any leasing contracts in place where the Credit Union was lessee.

Credit Union as a lessor

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

5.7. Borrowings

	2024 $'000	2023 $'000
Term Funding Facility (TFF)	-	9,614
Floating Rate Notes (FRNs)	20,031	-
Notes payable	34,357	51,786
Borrowings due to BEN	20,763	14,850
Total borrowings	75,151	76,250

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 was 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 repurchase occurred on 26 February 2024 at the scheduled repurchase price of $9,620,710.

Floating Rate Notes (FRNs)

The Credit Union has an established $250m Debt Issuance Programme (dated 15 August 2023) under which longer term notes may, from time to time, be issued up to the programme limit. During the current financial year, the Bank executed one new FRN transaction, a $20m 3-year floating-rate note issuance, with a maturity date of 20 September 2026. The Floating Rate Notes are initially measured at fair value plus transaction costs, and subsequently measured at amortised cost using the effective interest method.

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.

5.7. Borrowings (continued)

Borrowings due to Bendigo Adelaide Bank (BEN)

Under the transaction document for this facility, BEN was assigned residential mortgages originated by the Credit Union. The assignment of these residential mortgages by BEN is funded by BEN notionally transferring funds to the Credit Union equal to the aggregated outstanding balances on all the loans which BEN was assigned. 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 allocation criteria as set out in the transaction document.

The borrowings are initially measured at fair value, and subsequently measured at amortised cost using the effective interest method.

5.8. Reserves

	2024 $'000	2023 $'000
Redeemed share capital reserve	**263**	261
Asset revaluation reserve	**4,904**	4,904
Total Reserves	**5,167**	5,165

Recognition and measurement

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.

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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 in 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.

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6.1. Risk management framework (continued)

a) Credit risk (continued)

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

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

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

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

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

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

	Note	30 June 2024 $'000 Loans and advances	Placements with other financial institutions	Cash and cash equivalents
Carrying amount		**775,140**	**122,850**	**17,343**
Stage 3: Lifetime ECL				
> 90 days in arrears		25	-	-
ECL provision	3.3	(25)	-	-
Carrying amount		-	-	-
Stage 2: Lifetime ECL				
> 30 days in arrears		396	-	-
> 1 day in arrears on two or more occasions during the year		9,935	-	-
Declared hardship / restructured^		5,008	-	-
ECL provision	3.3	(48)	-	-
Carrying amount		15,291	-	-
Stage 1: 12 month ECL				
Secured by mortgage		752,053	-	-
Investment grade		-	122,850	17,166
Unrated		-	-	-
Other		7,623	-	177
ECL provision	3.3	(66)	-	-
Carrying amount		759,610	122,850	17,343
Net loan deferred income and expense	3.1	239	-	-
Total adjusted carrying amount	3.1, 3.2, 4.1	775,140	122,850	17,343
Loans approved not advanced				
Secured by mortgage		14,590	-	-
Other		95	-	-
ECL provision		-	-	-
Carrying amount		14,685	-	-

^In assessing the impairment of financial assets under the expected credit loss model, the Credit Union defines stage 3 loans as occurring when a loan obligation is 90 days past due unless performing hardship agreement. These loans were included in stage 3 in prior years.

As at the balance date, there were no individual members that have loans that represent more than 10% of the Credit Union's assets (2023: nil).

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6.1. Risk management framework (continued)

a) Credit risk (continued)

	Note	30 June 2023 $'000 Loans and advances	Placements with other financial institutions	Cash and cash equivalents
Carrying amount		798,498	121,519	34,840
Stage 3: Lifetime ECL				
> 90 days in arrears		7,032		-
ECL provision	3.3	(113)		-
Carrying amount		6,919	-	-
			-	
Stage 2: Lifetime ECL			-	
> 30 days in arrears		2,575		-
> 1 day in arrears on two or more occasions during the year		9,518		-
Declared hardship / restructured		2,548	-	-
ECL provision	3.3	(20)	-	-
Carrying amount		14,621	-	-
		-	-	
Stage 1: 12 month ECL		-	-	
Secured by mortgage		762,594		-
Investment grade		-	121,519	34,728
Unrated		-	-	-
Other		13,919	-	112
ECL provision	3.3	(60)	-	-
Carrying amount		776,453	121,519	34,840
Net loan deferred income and expense	3.1	505	-	-
Total adjusted carrying amount	3.1, 3.2, 4.1	798,498	121,519	34,840
Loans approved not advanced				
Secured by mortgage		9,386	-	-
Other		-	-	-
ECL provision		-	-	-
Carrying amount		9,386	-	-

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6.1. Risk management framework (continued)

a) Credit risk (continued)

Loans restructured

During the year loans totalling $3,297,000 (2023: $15,222,000) have been restructured by the Credit Union and at the end of 30 June 2024, the Credit Union had a total of $6,006,000 (2023: $11,864,000) 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	2024 $'000	2023 $'000
Illawarra NSW		**341,272**	356,927
Sydney NSW		**303,550**	310,114
Far South Coast NSW		**5,916**	9,401
Other NSW/ACT		**77,364**	77,160
Victoria		**9,178**	10,866
QLD		**27,333**	22,490
WA		**6,342**	6,669
Other		**3,985**	4,274
	3.1	**775,140**	798,498

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

Loans and advances

	2024 $'000		2023 $'000
Stage 3: Lifetime ECL		***Stage 3: Lifetime ECL***	
- Property	**-**	- Property	11,618
- Other	**-**	- Other	1,671
Stage 2: Lifetime ECL		***Stage 2: Lifetime ECL***	
- Property	**33,083**	- Property	33,715
- Other	**122**	- Other	3,875
Stage 1: 12 month ECL		***Stage 1: 12 month ECL***	
- Property	**1,550,111**	- Property	1,693,392
- Other	**11,777**	- Other	17,870
Total value of collateral held	**1,595,093**	**Total value of collateral held**	2,421,851
Average Loan to Valuation ratio	**48.60%**	Average Loan to Valuation ratio	48.59%

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.

	2024 $'000	2023 $'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 $10,000 (2023: $15,000) 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.

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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:

	2024	2023
	%	%
MLH at 30 June	**14.26**	13.44
MLH average for the period	**14.44**	14.68
MLH maximum for the period	**18.45**	16.98
MLH minimum for the period	**12.23**	12.97
Total liquidity at 30 June	**15.32**	16.23

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 2024 (2023: $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.

	Note	Carrying amount $'000	Gross nominal inflow/ (outflow) $'000	Less than 1 month $'000	1-3 months $'000	3 months to 1 year $'000	1-5 years $'000
30 June 2024							
Non-derivative liabilities							
Deposits – retail	4.2	666,788	(672,093)	(419,629)	(69,687)	(181,837)	(940)
Deposits – wholesale	4.2	119,873	(121,289)	(25,923)	(67,972)	(27,394)	-
Payables	5.4	8,641	(8,641)	(6,232)	(947)	(1,455)	(7)
Floating Rate Note (FRN)	5.7	20,000	(22,720)	-	-	-	(22,720)
Notes payable	5.7	34,357	(52,278)	(8,296)	(16,483)	(8,900)	(18,599)
Borrowings due to BEN	5.7	20,763	(22,336)	(725)	(1,437)	(6,307)	(13,866)
		870,422	(899,357)	(460,805)	(156,526)	(225,893)	(56,132)
Unrecognised finance commitments *- approved but undrawn loans*	7.1	14,686	(14,686)	(11,176)	(3,071)	(439)	-
		885,108	(914,043)	(471,981)	(159,597)	(226,332)	(56,132)

	Note	Carrying amount $'000	Gross nominal inflow/ (outflow) $'000	Less than 1 month $'000	1-3 months $'000	3 months to 1 year $'000	1-5 years $'000
30 June 2023							
Non-derivative liabilities							
Deposits – retail	4.2	713,141	(718,010)	(427,901)	(61,342)	(224,792)	(3,975)
Deposits – wholesale	4.2	114,416	(115,292)	(22,439)	(82,092)	(10,761)	-
Payables	5.4	6,073	(6,073)	(4,078)	(870)	(1,107)	(18)
Term Funding Facility (TFF)	5.7	9,614	(9,621)	-	-	(9,621)	-
Notes payable	5.7	51,786	(53,006)	(2,242)	(4,452)	(19,615)	(26,697)
Borrowings due to BEN		14,850	(15,720)	(693)	(1,374)	(6,026)	(7,627)
		909,880	(917,722)	(457,353)	(150,130)	(271,922)	(38,317)
Unrecognised finance commitments *- approved but undrawn loans*	7.1	9,386	(9,386)	1,875	968	6,543	-
		919,266	(927,108)	(455,478)	(149,162)	(265,379)	(38,317)

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:

	2024	2023
	$'000	$'000
Interest rate risk – Value at Risk (H = 20, O = 250)	**1,649**	1,207
Interest rate risk – Value at Risk (H = 250, O = 1500)	**5,615**	2,479

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

Fixed rate instruments		
Financial assets	**412,724**	441,528
Financial liabilities	**(494,074)**	(433,665)
	(81,350)	7,863
Variable rate instruments		
Financial assets	**504,405**	513,016
Financial liabilities	**(374,071)**	(470,143)
	130,334	42,873

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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 2024	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	775,040	-	775,040	-	772,104	-	772,104
Placements with other financial institutions	3.2	122,850	-	122,850	-	178,542	-	178,542
Cash and cash equivalents*	4.1	17,343	-	17,343	-	-	-	-
		915,233	-	915,233	-	950,646	-	950,646
Financial liabilities carried at amortised cost								
Deposits	4.2	-	(666,788)	(666,788)	-	(653,234)		(653,234)
Wholesale deposits	4.2	-	(119,873)	(119,873)	-	(119,420)	-	(119,420)
Payables*	5.4	-	(8,641)	(8,641)	-	-	-	-
Borrowings	5.7	-	(75,121)	(75,121)	-	(73,155)	-	(73,155)
		-	(870,423)	(870,423)	-	(845,809)	-	(845,809)

*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 2024 (2023: Nil).

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6.1. Risk management framework (continued)

d) Fair Values (continued)

	Note	30 June 2023 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	798,498	-	798,498	-	790,016	-	790,016
Placements with other financial institutions	3.2	121,518	-	121,518	-	121,919	-	121,919
Cash and cash equivalents*	4.1	34,840	-	34,840	-	-	-	-
		954,856	-	954,856	-	911,935	-	911,935
Financial liabilities carried at amortised cost								
Deposits	4.2	-	(713,141)	(713,141)	-	(671,447)	-	(671,447)
Wholesale deposits	4.2	-	(114,416)	(114,416)	-	(114,289)	-	(114,289)
Payables*	5.4	-	(6,073)	(6,073)	-	-	-	-
Borrowings	5.7	-	(72,965)	(72,965)	-	(72,579)	-	(72,579)
		-	(906,595)	(906,595)	-	(858,315)	-	(858,315)

*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.

Placements with other financial institutions

The fair value of placements with other financial institutions where the security type is a negotiable certificate of deposit, term deposit or commercial paper, are estimated using the cost value at investment date adjusted for accrued interest up to the balance date. The fair value of placements with other financial institutions where the security type is a floating rate note or fixed rate bond, are estimated using current market trading margins by an independent third party Laminar Capital Pty Ltd, who provide treasury brokerage services to the Credit Union.

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).

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6.1. Risk management framework (continued)

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.

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.

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6.2. Capital management (continued)

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*. In April 2018 the Credit Union established a Receivables Acquisition and Servicing Agreement (RASA) with Bendigo and Adelaide Bank Limited ("BEN") to support ongoing liquidity and capital management, whereby the Credit Union is able to sell loan receivables to BEN to a maximum of $50m. The Credit Union made its first sale into the RASA in March 2023 to a total value of $17.8m. The RASA facility 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, noting the change in the capital framework from 1 January 2023:

	2024	2023
	$'000	$'000
Regulatory capital	**55,703**	54,238
Risk weighted assets	**324,399**	327,257
Regulatory capital expressed as a percentage of total risk weighted assets	**17.17%**	16.57%

7. Other Notes

7.1. Commitments

	2024	2023
	$'000	$'000
Capital expenditure commitments		
Capital expenditure commitments not taken up in the financial statements- payable less than one year	**-**	-
	-	-

Credit related commitments

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

Approved but undrawn loans	**14,686**	9,386

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.

	2024	2023
	$'000	$'000
Performance bonds	**447**	447

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 2023-24 period, key management personnel would consist of all Directors who served during the period, as well as the following senior managers.

Directors	Key Management Personnel
Ms D Lambourne	Mr A Perkiss (Chief Executive Officer / Company Secretary)
Ms D De Santis	Ms L Ali (Chief Financial Officer, was Chief Risk Officer from 1 July 2023 to 3 November 2023)
Mr A Frino	Mr K Saeed (Chief Risk Officer, appointed 1 April 2024)
Ms O Robinson	Ms S Petkovski (Head of Digital, resigned 2 February 2024)
Ms A Harper	Ms M Reynolds (General Manager – Consultant, resigned 5 November 2023)
Mr P Bourke	Ms J Zondag (Chief Financial Officer / Company Secretary, resigned 3 November 2023)
Mr D Rowe	

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:

	2024	2023
	$	$
Short term employee benefits	**1,564**	1,440
Other long-term benefits	**(50)**	39
Post-employment benefits	**125**	126
Termination benefits	**88**	31
	1,727	1,636

The Credit Union had engaged Star Ideas (a related party) for the services of the General Manager – Consultant in the 2024 financial year. In the 2024 financial year, the Credit Union paid Star Ideas a total of $113,536 (2023: $409,000) 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.

7.3. Related parties (continued)

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:

	2024	2023
	$	$
Aggregate of loans as at balance date	-	1
Total undrawn revolving credit facilities available at balance date	50	59
Interest charged on loans and overdraft facilities	-	-

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

	2024	2023
	$	$
Aggregate of term and savings deposits as at balance date	417	1,110
Interest paid on deposits	14	8

Key management personnel related parties

Ms Amy Harper, a Director of the Credit Union, is a partner at 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 $nil (2023: $39,672). 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 (2023: $nil).

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

	2024 $	2023 $
Audit services		
Audit of the financial report	**125**	110
Other regulatory audit services	**26**	22
Other assurance services	**-**	-
	151	132
Other services		
Taxation services	**16**	15
	16	15
	167	147

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).

c) Bendigo and Adelaide Bank Limited ("BEN"), whereby the Credit Union is able to assign loan receivables to BEN to a maximum of $50m to meet funding and capital adequacy relief requirements. These loans are not derecognised as the Credit Union retains the benefits of excess distribution which is the surplus income after deducting funding and operating costs.

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 or RASA transaction it does not have the ability to use the assets during the term of the arrangement.

Securitised and transferred loans retained on the balance sheet (not derecognised)

The values of securitised and transferred 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.

7.6. Transfer of financial assets (continued)

	2024 $'000	2023 $'000
Balance sheet values		
MTG ICU Repo Series No.1 Trust		
Loans	**155,891**	153,834
Fair value of associated liabilities	**(155,891)**	(153,834)
Net	**-**	-
MTG ICU Trust Series 2021-1		
Loans	**34,008**	48,500
Fair value of associated liabilities	**(34,357)**	(51,786)
Net position (refer to Note 3.1)	**(349)**	(3,286)
BEN RASA		
Loans	**21,002**	14,614
Fair value of associated liabilities	**(20,763)**	(14,850)
Net position (refer to Note 3.1)	**239**	(236)

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.

During the 2024 financial year the Credit Union substituted loans into the trust as follows:

- 28 December 2023 - $36,489,359
- 16 May 2024 - $14,170,179

7.6. Transfer of financial assets (continued)

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.

BEN RASA

In 2018, the Credit Union set up a Receivables Acquisition and Servicing Agreement ("RASA") with Bendigo and Adelaide Bank Limited ("BEN"), whereby the Credit Union is able to assign loan receivables to BEN to a maximum of $50m.

The Credit Union established the facility for funding and capital relief requirements, with the facility forming part of the Credit Union's capital management program. As part of this facility, the Credit Union assigns the rights to future cash flows of eligible residential home loans to BEN, and receives notional funds equal to the aggregated outstanding balances of all loans which BEN was assigned. Whilst the cash flows have been transferred, the Credit Union has been appointed to service and manage the loans.

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 Credit Union made its first sale into the RASA in March 2023 (settlement date 31st March 2023) to a total value of $17.8m. The Credit Union received cash for the amount of loans transferred to BEN, with an equivalent amounts being recognised under borrowings. The Credit Union made an additional sale into the RASA in May 2024 (settlement date 30th May 2024) to a total value of $10.7m. The Credit Union received cash for the amount of loans transferred to BEN, with an equivalent amounts being recognised under borrowings.

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	**2024**	2023
	$'000	$'000
Profit for the year	**1,050**	3,058
Other comprehensive income for the year	**-**	925
Total comprehensive income for the year	**1,050**	3,983

Financial position of the parent entity	**2024**	2023
	$'000	$'000
Total assets	**929,039**	967,437
Total liabilities	**(872,359)**	(911,805)
Net assets	**56,680**	55,632
Retained earnings	**51,513**	50,467
Reserves	**5,167**	5,165
Total Equity	**56,680**	55,632

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 material 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.

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8.2 Changes in material accounting policies

The Credit Union has adopted all standards which became effective for the first time at 30 June 2024, the adoption of these standards has not caused any material adjustments to the reported financial position, performance or cash flow of the Credit Union.

The Credit Union has adopted the amendments to AASB 101 Presentation of Financial Statements which require only the disclosure of material accounting policy information rather than significant accounting policies and therefore policy information which does not satisfy one of the following requirements has been removed from these financial statements:

- Relates to change in accounting policy
- Policy has been developed in the absence of an explicit accounting standard requirement
- Documents an accounting policy choice
- Relates to an area of significant judgement or estimation
- Relates to a complex transaction and is required to explain the treatment to the user.

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.

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Consolidated entity disclosure statement

	Illawarra Credit Union	MTG ICU Repo Series No.1 Trust	MTG ICU Trust Series 2021-1
Type of entity	Company	Trust	Trust
Share capital held (%)	N/A	100%	100%
Country of incorporation	Australia	Australia	Australia
Country of tax residency	Australia	Australia	Australia
Trustee, partner or participant in joint venture	No	No	No

Basis of preparation

This consolidated entity disclosure statement (CEDS) has been prepared in accordance with the Corporations Act 2001 and includes information for each entity that was part of the consolidated entity as at the end of the financial year in accordance with AASB 10 Consolidated Financial Statements.

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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 22 to 70 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 2024 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.

   c) The consolidated entity disclosure statement on page 71 is true and correct.

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

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Deborrah Lambourne
Chair of the Board

Signed by:

730365A5854347D...

Alex Frino
Chair of the Board Audit Committee

Wollongong, 28th August 2024

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Illawarra Credit Union Limited and its subsidiaries

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

Opinion

We have audited the financial report of Illawarra Credit Union Limited (the Company and its subsidiaries, 'the Group'), which comprises the consolidated statement of financial position as at 30 June 2024, 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 the material accounting policy information, the consolidated entity disclosure statement 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 2024 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.

Emphasis of matter – potential merger

We draw attention to the 'basis of preparation' section of Note 1.2, which describes the potential merger with Community First Bank. Our opinion is not modified in respect of this matter.

Other Information

The directors are responsible for the other information. The other information comprises the directors' report information contained in the Group's annual report for the year ended 30 June 2024, 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*
- the consolidated entity disclosure statement that is true and correct in accordance with the *Corporations Act 2001;* and

for such internal control as the directors determine is necessary to enable the preparation of:

- the financial report (other than the consolidated entity disclosure statement) that gives a true and fair view and is free from material misstatement, whether due to fraud or error; and
- the consolidated entity disclosure statement that is true and correct and is free of 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

Jason Gilbert

JASON GILBERT
Partner

28 August 2024
Albury

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illawarra credit union

Worth banking on.

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