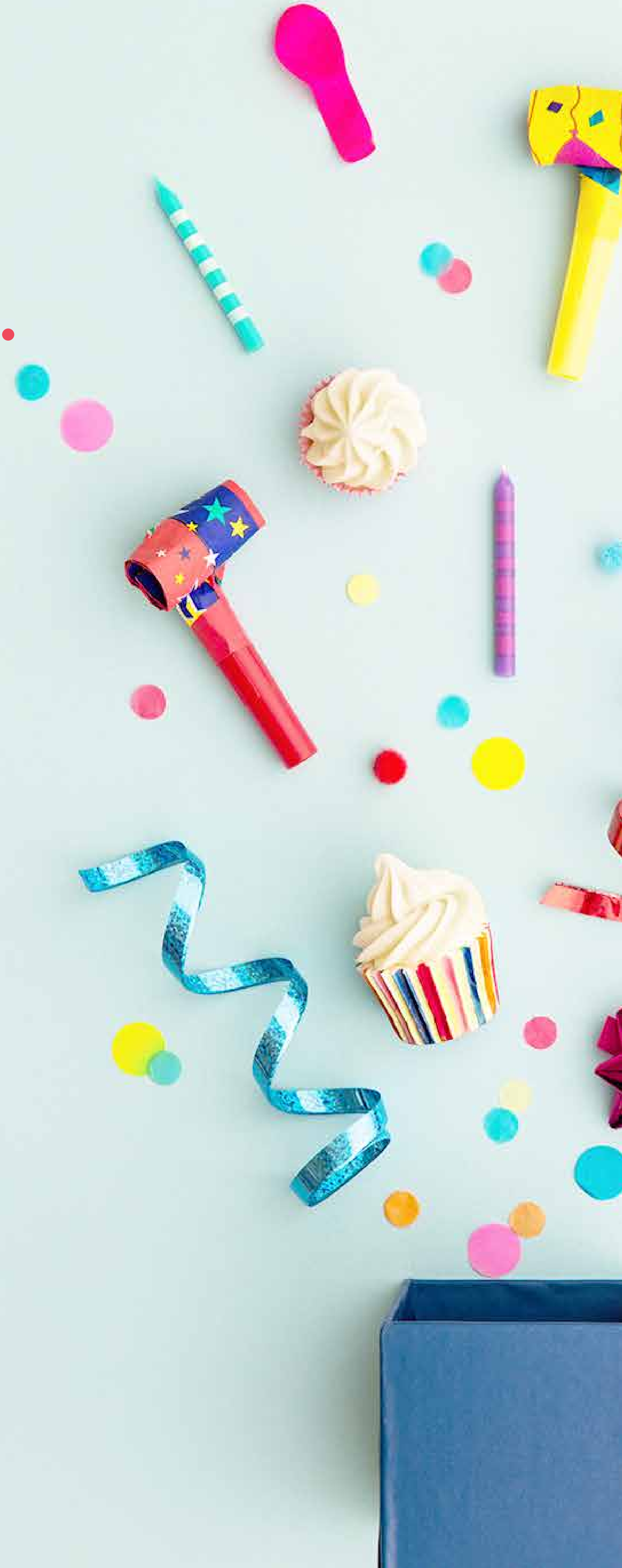
illawarra credit union

annual report.
2019.



award-winning.

Awarded to Online Personal Loan Package and Secured Personal loan.

Awarded to Online Personal Loan Package.

Awarded to Online Personal Loan Package.

contents.

message from the chair.

I present to you the Illawarra Credit Union Limited 2019 Annual Report.

The Banking Royal Commission (Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry) final report was released in February 2019. It is pleasing to note that the customer owned banking sector was spared the scathing comments by the Royal Commission regarding the conduct of the major banks.

While that is a pleasing commendation of the culture and structure of customer owned financial institutions such as your Credit Union, the banking industry remains extremely competitive. Regulatory requirements, which often favour the major banks, place small to medium customer owned banks at a relative disadvantage.

Your Credit Union has worked hard in establishing leading edge technology to ensure the long-term sustainability of your Credit Union and the continued provision of the range of products and exceptional personal service that you are entitled to and have come to expect.

The new banking platform installed in the prior financial year is performing well and the year under report has seen the development and implementation of a range of additional modules to ensure that we can better understand the banking needs and habits of you, our owners and customers, to ensure we continue to support you in your financial journey.

Year under review.
Among the significant events during the year were:

- The appointment of a new CEO.
- The adoption of Illawarra Credit Union Limited as the Credit Union's legal entity name and sole trading name.

The Board was delighted to appoint Anthony Perkiss as your new CEO.

The Board thanks the outgoing CEO Bob Kotic for the exceptional service he has provided to the Credit Union during his time with us, overseeing very substantial technology improvements and substantial movement on our cultural transformation to become a sustainable, nimble banking service provider.

Anthony, as former deputy CEO and now CEO provides a seamless transition to the CEO position and brings to the role his existing knowledge of the organisation and his more than 25 years' experience in the finance industry both in Australia and overseas, with both for-profit as well as customer owned banking organisations.

The Board is confident that Anthony will continue with the cultural transformation and will ensure a sustainable organisation that delivers the high-quality personal service and products that you, its owners and customers, want and deserve.

While most will recognise the Illawarra Credit Union name, this year we transitioned the last of the other trading names to the single brand. At the 2018 AGM the Credit Union adopted Illawarra Credit Union as the legal entity name and sole trading name.

This single brand assists greatly in the efficient roll out of technology and overall conduct of the Credit Union.

I thank the owners who have transitioned from the brands you have been familiar with to the new name and assure you that you will continue to receive the level of service and personal attention that you have always received under earlier brand names.

Your Board.
Continued development and supervision of the implementation of the strategic plan that drives your Credit Union is a singular responsibility of your Board.

To ensure that you are well served by a skilled, experienced and diverse group of Directors, we regularly review the Board's skill set against the capabilities needed to deliver the strategic plan. We undertake an annual independent external review of the Board's committees and individual Directors, with senior management also involved in that process. We regularly refresh the directors constituting the Board by maintaining a policy of maximum Board terms.

I extend my grateful thanks to my fellow Directors for their diligence and support.

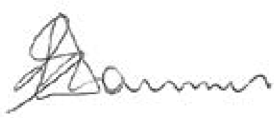
Acknowledgements.
The staff are at the heart of your Credit Union. The senior management team and all employees of the Credit Union are regularly dealing with constant changes in the industry as well as internal changes to align your Credit Union's capabilities with your needs as customers and owners.

I thank the CEO and all staff for their continued efforts in undertaking further education both externally and internally to ensure that we have the skills and tools to develop deeper relationships with our customers and deliver the personal service and attention that goes beyond mere transacting and ensures that we are an valued part of your financial journey.

Finally, I extend my warm thanks to you, the owners of the Credit Union, who support each other by continuing to undertake your banking needs with the Credit Union, where any surplus is reinvested in the business to deliver services to you.

The continued growth and success of the Credit Union is dependent upon your continued loyalty.

I encourage you to use the Credit Union for all your banking services and to recommend your Credit Union to friends and family as a trusted provider of all the banking services they may need and with the addition of a personal relationship that values them.



Roger Downs, Chair

message from the ceo.

As this is my first CEO report, I would firstly like to thank our customers for their continued support over the years. To our customers who have joined us in the last year, I'd like to welcome you to a new and positive banking experience. I'd also like to thank the Board for giving me the opportunity to continue our mission to help our customers achieve financial success.

I look forward to leading the Credit Union into the future and will continue to focus our efforts on enhancing our customer experience, digital transformation, growth, and operational excellence.

Looking back.
The past year has been a busy one that has seen the organisation undergo significant change, including the move to a single brand. The transition to Illawarra Credit Union has simplified operations, allowing us to improve the way we service the needs of our customers. The speed at which we can launch new products, services and technologies has also been improved due to the change, benefiting customers in the process.

The last year also saw a large number of customers adopt our digital banking services and transition to digital communication. This, in part, was due to the rollout of our Go Digital campaign, which encouraged customers to make the switch to online services.

In addition to these changes, we have also made significant headway into our digital capability, including:

- Enabling customers to open a membership and accounts online.
- Launching an online loan application process to make it easier for new and existing customers.
- Evolving our branch network by rolling out new touch screen terminals for self-service banking.
- Launching a brand new Internet banking platform and enhancing our mobile banking app, moneytree, which now offers our customers greater security and more self-service features, particularly around card management.
- Utilising our Facebook channel to connect with our customers and support customer enquiries.

Over the past 12 months, we've also noticed a shift in consumer behaviour, with many customers utilising digital payments solutions (Osko, PayID, Google Pay, Apple Pay, Fitbit Pay etc.) as they become more mainstream in the marketplace. We are well placed to continue to support these innovative solutions for the benefit of our customers.

Our industry and numbers.
Operating in the financial services industry this year has been challenging as regulatory headwinds like the tightening of credit policies, mandated by the Australian Regulation Authority (APRA), took effect. The housing market was impacted by these changes, which included limits being placed on investor and interest-only lending, causing lower confidence in the market and affecting loan growth.

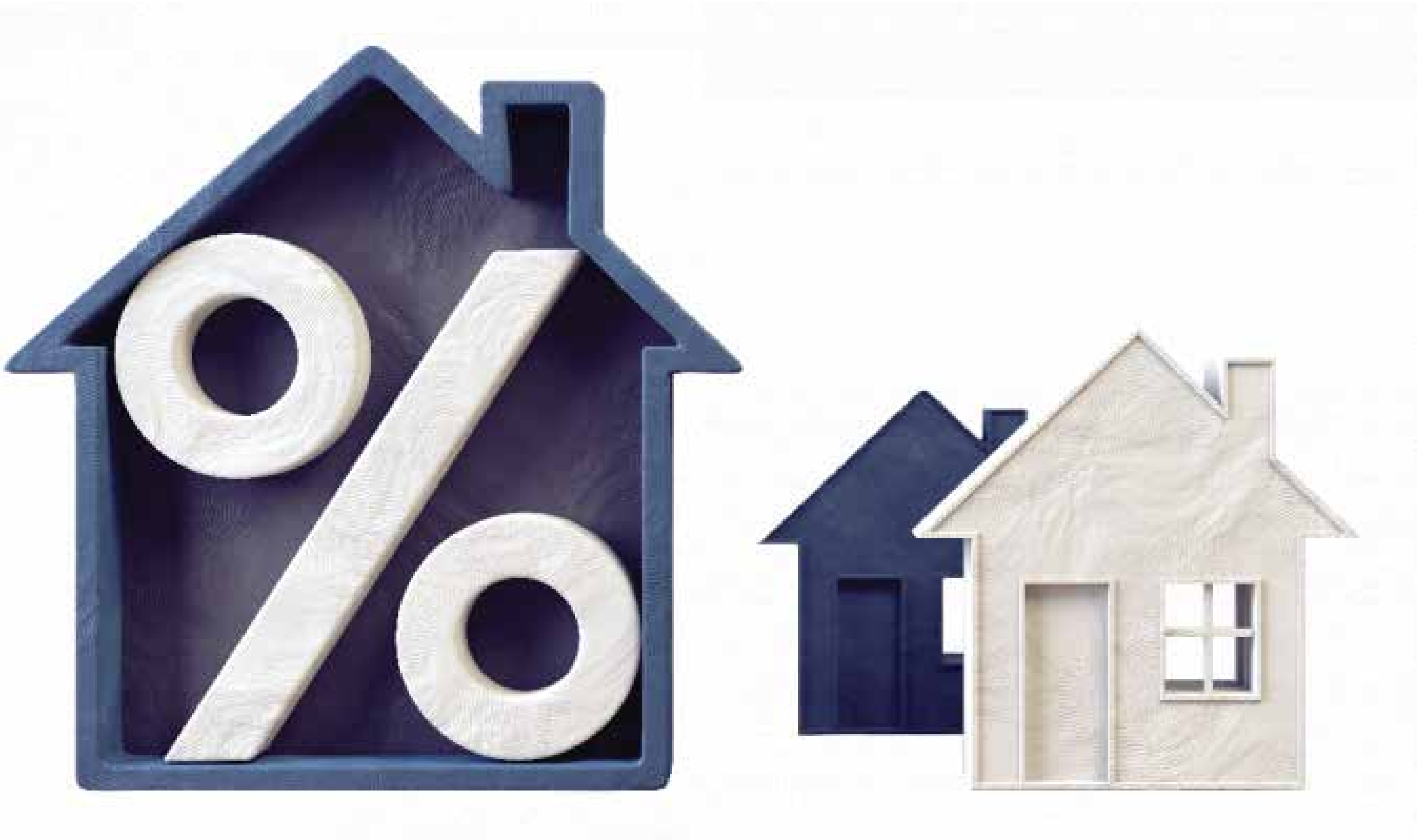
As we reflect on the numbers from the last year, we note that our balance sheet continued to grow with total assets increasing by 3.8% to $644m, our capital growing by 2.5% to $45m, and total retail deposits rising by 8.2% to $553m.

Our 2018-19 result was impacted by a decrease in net interest margin, due to an increase in retail and wholesale funding costs. Operating expenses fell by 2%, which was driven by lower personnel costs and operational efficiencies. Our credit quality remains very strong, and we are well placed to meet lending standards as they continue to evolve.

Thank you.
I would like to extend my thanks to my Directors, my colleagues in management, and most of all, to our dedicated staff for their commitment and contribution throughout a most demanding year. Without everyone's support and contribution, we could not have achieved the results of 2018-19.

We pride ourselves on being a strong and viable banking alternative for all Australians, and will continue to offer a quality experience for new and existing customers. I would once again like to thank our customers for choosing Illawarra Credit Union and trusting us to provide their financial services.

Anthony Perkiss, CEO



review.

For the year end 30 June 2019.

This report provides information about our performance over the past 12 months. Looking back at the last 12 months we've provided information on our:

- financial performance;
- community programs and initiatives;
- support for our staff; and
- dedication to customer experience and convenient banking.

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

numbers.

22,763 members choose to bank with Illawarra Credit Union.

1,892 home loans.
1,223 personal loans.
29,727 deposit accounts.

Customer deposits increased by 8.2% to $552.8 million.

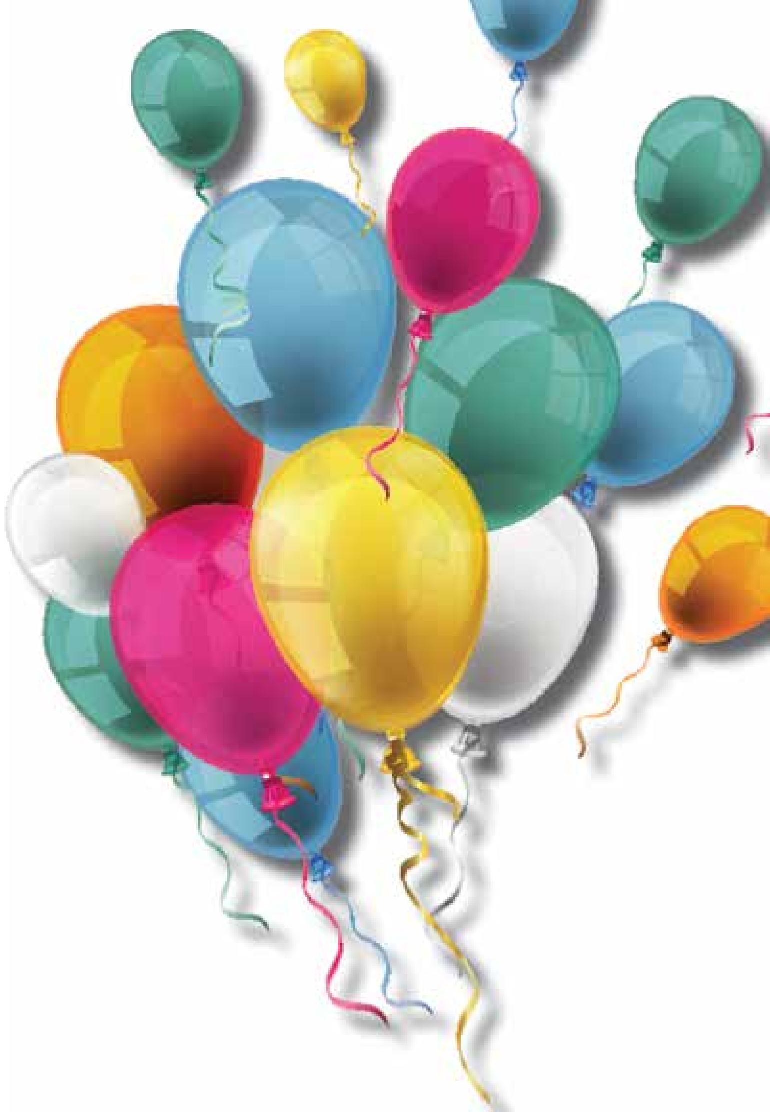
Total assets grew by 3.8% to $644.4 million.

Customer equity increased by 2.5% to $45.3 million.

Over $60,000 donated to our communities.

staff.

The last year saw further investments in our staff as well as the appointment of our new CEO, Anthony Perkiss. Anthony has been a key member of Illawarra Credit Union's executive team since 2012 and has taken up the role of CEO from 1 May 2019, taking over from Bob Kotic. Over the past seven years, Bob had led the organisation through an essential transformation, significantly enhancing Illawarra Credit Union's digital capability, with Anthony playing a key role as Deputy CEO.



Our future leaders

Our unique cadetship program aims to provide staff with experience across multiple departments while they are completing their undergraduate degrees at University.

We're investing in staff capability and training. Of our existing staff, 31.5% have completed a degree or a postgraduate degree. A further 43.5% have completed a Cert III, Cert IV or Diploma. 25.9% of staff are currently engaged in studying for a postgraduate or bachelor's degree, diploma or Cert IV.

one.

When we began the year, we had three brands: our parent brand – Community Alliance Credit Union, and our two subsidiary brands; Illawarra Credit Union and Catalyst Money.

Over the course of the year, we asked you, our customers, to approve the consolidation of our brands and, in turn, the change of our legal entity name.

Our members were overwhelmingly in favour of the changes, and in November of 2018, we consolidated our brands and changed our legal entity name to Illawarra Credit Union Limited.

While each of the brands had its own history, they all shared the same purpose, to help our customers achieve financial success.

The consolidation of the three brands has resulted in cost efficiencies, which have been reinvested into products and services for our customers.

Service channels including internet banking and our branch network have seen improvements since the change. We've also partnered with Your Financial Wellness to provide our customers with the tools and resources they need to improve their financial wellbeing.

We've made it easier than ever before to save with us, by enabling customers to open savings accounts online. We've also enabled customers to apply for a loan within minutes via our online channels.

All of this has been made possible due to the brand consolidation. And this is just the beginning.

We'll continue to invest in the Illawarra Credit Union brand, technology, products and services to ensure we're providing value to our customers – both current and future.

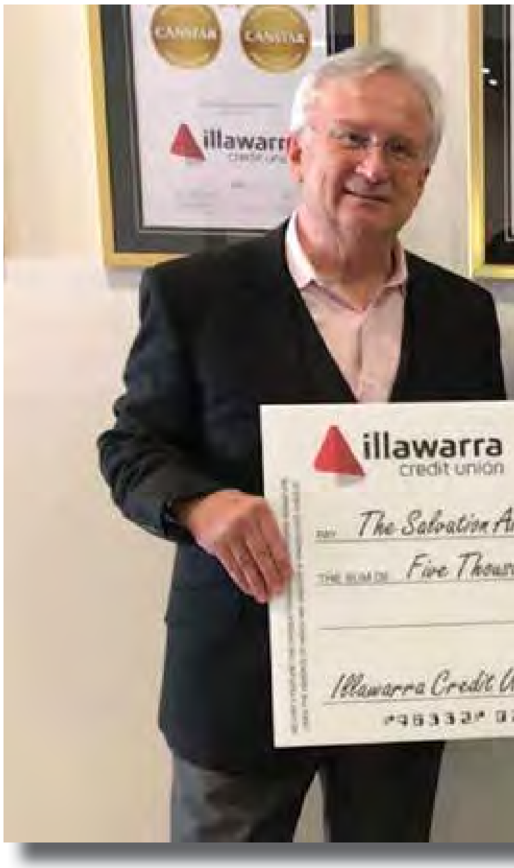
community.

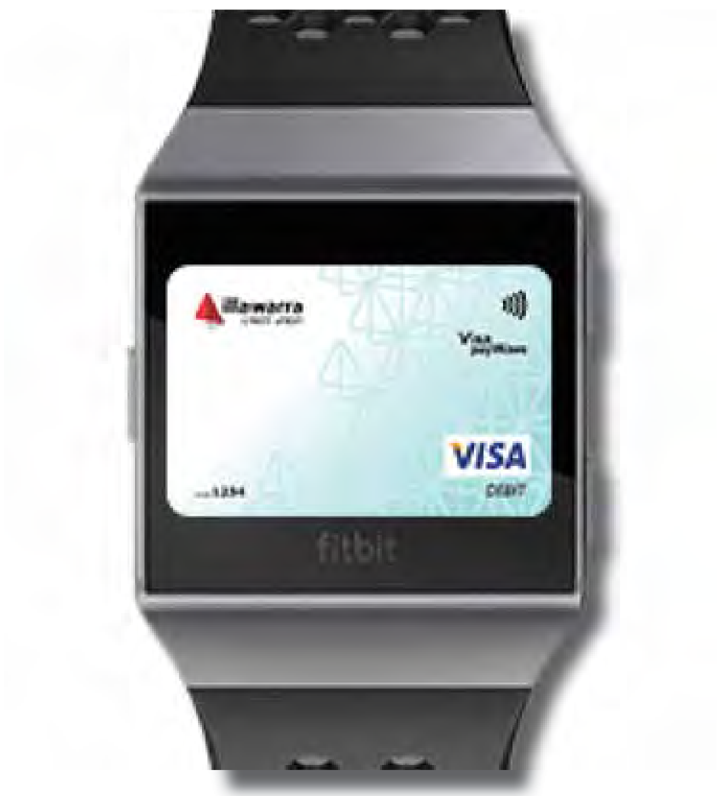
Over the past year, Illawarra Credit Union has supported a number of not-for-profit community groups and causes. We've also continued to run our Partner Benefits Program, which is a profit-sharing initiative.

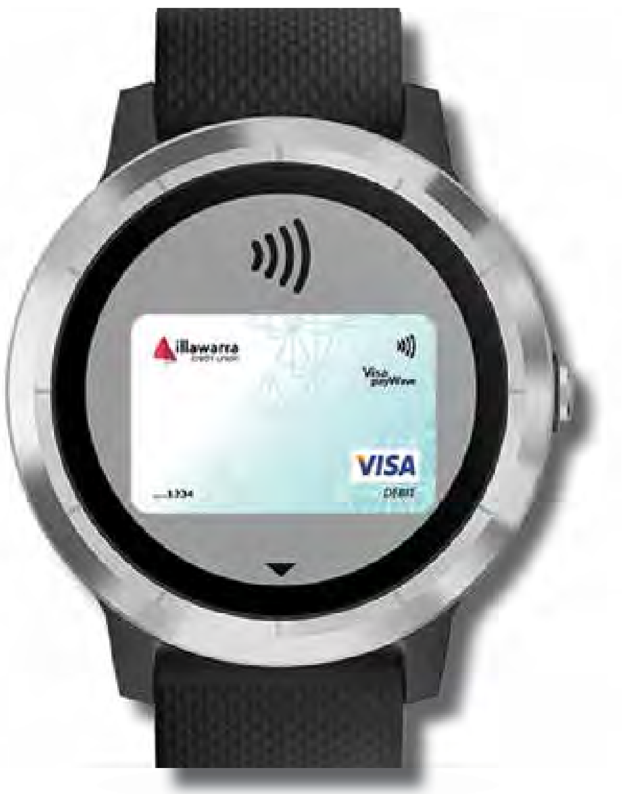
Since it launched in 2015, our Partner Benefits Program has supported many sporting and community groups. This year saw an increase in the number of sporting and community groups participating in the program.

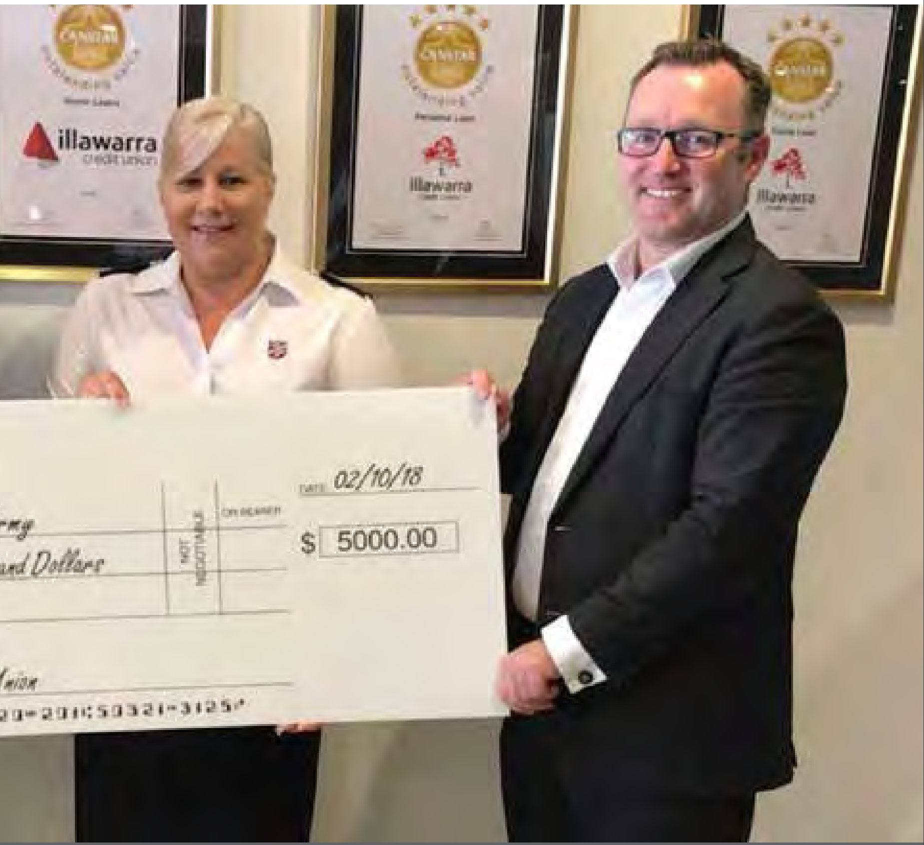
We'd like to welcome all of our partners and look forward to strengthening our relationship into the next financial year.

To find out more, visit:
illawarracu.com/about-us/our-community









new.

Throughout the past year, we've formed partnerships to deliver new digital services and ways to pay for our customers.

We've continued to invest in technology to ensure that no matter where our customers are, their banking with us remains easy. That's why this year saw further enhancements across our internet banking platform, which has enabled customers to open an account or apply for a loan online. We've also invested in Fitbit Pay and Garmin Pay, to make paying on the run hassle free.

Our branches also went digital this year, with new iPads being installed and free Wi-Fi being made available to all customers who walk through our doors.

We're proud of our achievements, some of which are highlighted to the right, and are dedicated to improving the way our customers bank with us.

here's some of what we've been up to over past 12 months.

august.

MYOB integration with internet banking.

september.

our bare essentials home loan launched.

october.

Fitbit Pay and Garmin Pay launched.

SmartPay EFTPOS devices made available to business members.

Launched online services to enable accounts and memberships to be opened online.

november.

brand consolidation.

december.

internet banking upgrade.

april.

online lending portal launched enabling members to apply for loans online.

Go digital campaign - our customers helped make the switch to digital communication.

may.

iPad terminals installed in branches and free Wi-Fi made available.

financial report.

2019 financials - 30 June 2019

ABN 14 087 650 771

The Directors of Illawarra Credit Union Limited ("the Credit Union") present their report together with the Financial Statements of the Consolidated Entity, being Illawarra Credit Union Limited (the Company) and its controlled entities (the Group) for the financial year ended 30 June 2019.

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

Information on Directors

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

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

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

Ms Nieves Murray BA (Psych), MSc (Commty Hlth), MBA, MAMI, FAIM — **Director**

Ms Murray joined the Board in 2013 and was a member of the Board Audit Committee and Board Risk Committee until 2015, and a member of the Governance Committee and the Remuneration Committee until her resignation in November 2018.

Mr Peter Kell AM, Dip Law, MAMI — **Director**

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

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

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

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

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

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

Mr Bloomfield joined the Board in 2017. He is a member of the Board Risk Committee and the Remuneration Committee and has been Chair of the Board Audit Committee since November 2017.

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

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

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

Ms Lambourne joined the Board in February 2019. She is a member of the Governance Committee and the Remuneration 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. Until this date this position was held by Ms Belinda Hogan, former Chief Financial Officer (BCom, BA, CPA, GAICD).

Information on Board Meetings

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

Director	Board		Board Risk Committee		Board Audit Committee		Governance Committee		Fit & Proper Committee *		Remuneration Committee	
	E	A	E	A	E	A	E	A	E	A	E	A
R Downs	8	7		4**		4**	4	3	1	1	3	2
N Murray	3	2					1	1			1	1
P Kell	8	8				1**	4	4	1	1	3	3
D De Santis	8	8	5	4	5	4						
M Halloran	8	7	5	5	5	5						
C Bloomfield	8	7	5	5	5	5					3	3
A Frino	8	7	5	5	5	4						
D Lambourne	3	3					1	1			1	1

*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 2019 was $243,323 (2018: $241,097). The amount of Directors' fees excluding superannuation paid in 2019 was $222,213 (2018: $220,180) which is in accordance with the resolution made at the 2018 Annual General Meeting.

Directors' 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 7.4 of the financial report.

Indemnifying Directors, Officers or Auditors

Insurance premiums have been paid to ensure 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 is prohibited by a confidentiality clause in the contract.

Principal Activities

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

Operating Results for the Year

The net profit of the Credit Union for the year after income tax is $1,181,000 (2018: $1,455,000) representing a decrease of 19% from the previous year.

The results for the financial year were underpinned by:

- A decrease in Net Income of 5% to $15,096,000 from $15,818,000 in the previous year; and
- A decrease in Operating Expenses of 2% to $13,458,000 from $13,728,000 in the previous year.

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

Significant Changes In State of Affairs

The following significant changes in the state of affairs of the Credit Union occurred during the year:

- In November 2018, the name of the Credit Union was changed from Community Alliance Credit Union to Illawarra Credit Union; and
- In December 2018, the Credit Union established the MTG ICU Repo Trust Series No.1. The Credit Union is the sole beneficiary of the 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.

Apart from this, there were no significant changes in the state of the affairs of the Credit Union during the year.

Significant Events After the Balance Date

There have been no significant events occurring after the balance date which may affect the Credit Union's operations or the results of those operations.

Likely Developments and Expected Results

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

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

in the financial years subsequent to this financial year.

Rounding

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

Auditor's Independence Declaration

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

Signed in accordance with a resolution of the Directors:

R. Downs
Chair of the Board

C. Bloomfield
Chair of the Board Audit Committee

Signed at Wollongong 28th August 2019

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 members 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 to ensure the Directors and Senior Managers are appropriate persons to lead the Credit Union. The 'fit and proper' framework deals with matters such as minimum competencies, professional development, independence and performance.

Minimum Competencies

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

Director Development

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

Independence

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

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

Performance

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

Structure of the Board

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

As at 30 June 2019, 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 Credit Union), which could materially interfere with the exercise of their independent judgement and their ability to act in the best interests of the Credit Union.

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

Role of the Board

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

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

Committees of the Board

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

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

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

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

Board Audit Committee

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

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

Board Risk Committee

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

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

Governance Committee

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

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

Remuneration Committee

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

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

Fit and Proper Committee

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

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

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

Governance Standards

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

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

External Audit

The external audit is performed by Crowe, appointed as auditors at the AGM held in November 2018. Up until this date, the external audit was performed by KPMG. Refer to the Independence Declaration at page 20 and the Audit Opinion at pages 63-65.

Crowe Audit Australia
ABN 13 969 921 386

491 Smollett Street
Albury NSW 2640 Australia

PO Box 500
Albury NSW 2640 Australia

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

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

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2019 there have been no contraventions of:

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

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

Crowe

CROWE AUDIT AUSTRALIA

BRADLEY D BOHUN
Partner

28 August 2019
Albury

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

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CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 30 June 2019

	Note	2019 $'000	2018 $'000
Assets			
Cash and cash equivalents	4.1	**22,395**	8,033
Loans & advances	3.1	**507,206**	514,765
Placements with other financial institutions	3.2	**103,178**	84,866
Property, plant and equipment	5.1	**7,677**	8,105
Income tax receivable	2.4	**3**	-
Intangible assets	5.2	**2,943**	3,102
Other assets	5.3	**1,010**	845
Total Assets		**644,412**	619,716
Liabilities			
Deposits	4.2	**593,043**	570,166
Payables	5.4	**4,601**	3,503
Income tax payable	2.4	**-**	445
Net deferred tax liabilities	2.4	**565**	517
Provisions	5.5	**871**	892
Total Liabilities		**599,080**	575,523
Net Assets		**45,332**	44,193
Equity			
Reserves	5.6	**3,902**	3,982
Retained profits		**41,430**	40,211
Total equity attributable to members of the Credit Union		**45,332**	44,193

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 2019

	Note	2019 $'000	2018 $'000
Interest revenue	2.1	**23,357**	23,280
Interest expense	2.1	**(10,256)**	(9,617)
Net interest income		**13,101**	13,663
Other income	2.2	**1,995**	2,155
Net income		**15,096**	15,818
Net impairment loss on financial assets		**(44)**	(18)
Personnel expenses	2.3	**(5,376)**	(5,620)
Depreciation and amortisation expenses	2.3	**(1,267)**	(1,292)
Data and transaction processing expenses		**(1,120)**	(1,290)
Information technology expenses		**(2,011)**	(1,874)
Property expenses		**(525)**	(597)
Marketing expenses		**(483)**	(429)
Office expenses		**(563)**	(600)
Legal and insurance expenses		**(264)**	(225)
Consulting expenses		**(371)**	(411)
Loss on disposal of assets		**(46)**	(54)
Other corporate expenses		**(1,388)**	(1,318)
Total operating expenses		**(13,458)**	(13,728)
Profit before income tax		**1,638**	2,090
Income tax (expense)/benefit	2.4	**(457)**	(635)
Profit after tax		**1,181**	1,455
Other comprehensive income, net of income tax		**-**	-
Total comprehensive income		**1,181**	1,455

The accompanying notes form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 30 June 2019

	Note	General reserve for credit losses $'000	Redeemed share capital reserve $'000	Revaluation reserve $'000	Retained earnings $'000	Total $'000
Balance as at 1 July 2017		1,267	242	2,233	38,996	42,738
Total comprehensive income for the year						
Profit after tax		-	-	-	1,455	1,455
Total other comprehensive income		-	-	-	-	-
Total comprehensive income for the year		-	-	-	1,455	1,455
Transfers to/from reserves		237	3	-	(240)	-
Balance as at 30 June 2018	5.6	1,504	245	2,233	40,211	44,193
Adjustment for change in accounting policy (AASB 9)	8.2	**-**	**-**	**-**	**(42)**	**(42)**
Balance at 1 July 2018 – restated		**1,504**	**245**	**2,233**	**40,169**	**44,151**
Total comprehensive income for the year						
Profit after tax		**-**	**-**	**-**	**1,181**	**1,181**
Total other comprehensive income		**-**	**-**	**-**	**-**	**-**
Total comprehensive income for the year		**-**	**-**	**-**	**1,181**	**1,181**
Transfers to/from reserves		**(87)**	**7**	**-**	**80**	**-**
Balance as at 30 June 2019	5.6	**1,417**	**252**	**2,233**	**41,430**	**45,332**

Amounts are stated net of tax

The accompanying notes form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended 30 June 2019

	Note	2019	2018
		$'000	$'000
Cash flows from operating activities			
Interest received		**23,334**	23,253
Other cash receipts in the course of operations		**1,996**	2,182
Interest paid		**(10,053)**	(10,867)
Cash paid to suppliers and employees		**(11,380)**	(11,990)
Net income tax paid		**(838)**	(290)
Net loans repaid/(disbursed)		**7,455**	29,342
Net (decrease)/increase in deposits		**22,875**	(45,408)
Net cash (used in)/from operating activities	4.3	**33,389**	(13,778)
Cash flows from investing activities			
Net movement in placements with other financial institutions		**(18,313)**	43
Proceeds from sale of property, plant and equipment		**45**	-
Payments for property, plant and equipment, and intangibles		**(759)**	(1,816)
Net cash used in investing activities		**(19,027)**	(1,773)
Cash flows from financing activities			
Net cash (used in) financing activities		**-**	-
Net (decrease)/increase in cash held		**14,362**	(15,551)
Cash and cash equivalents at the beginning of the year		**8,033**	23,584
Cash and cash equivalents at the end of the year	4.1	**22,395**	8,033

The accompanying notes form part of these consolidated financial statements.

1. Corporate Information

1.1 Reporting entity

Illawarra Credit Union Limited ("the Credit Union") is a company limited by shares, incorporated and domiciled in Australia. In November 2018, the name of the Credit Union was changed from Community Alliance Credit Union to Illawarra Credit Union.

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 2019. 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 2019.

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 IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

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

- Notes 3.3, 6.1 and 8.1 – impairment of financial assets
- Notes 5.1 and 8.1 – fair value of land and buildings
- Note 2.2 – recognition and measurement of revenue from contracts with customers
- Note 8.3 – assessment of lease term

1.3 Basis of consolidation

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

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

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

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

2. Financial Performance

2.1. Net interest income

	2019 $'000	2018 $'000
Interest revenue		
Loans to members	**20,282**	21,154
Placements with other financial institutions	**2,832**	1,974
Cash and cash equivalents	**243**	152
Total interest revenue	**23,357**	23,280
Interest expense		
Deposits – members	**(8,957)**	(8,171)
Deposits – other ADIs	**(1,288)**	(1,437)
Borrowings	**(11)**	(9)
Total interest expense	**(10,256)**	(9,617)
Net interest revenue	**13,101**	13,663

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 profit or loss using the effective interest rate method under AASB 9.

2.1 Net interest income (continued)

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 profit or loss as a decrease in the value of loans outstanding.

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

Loan origination expenses

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

The balance outstanding of the deferred origination expenses is recognised in profit or loss as an increase in the value of loans outstanding.

2.2. Other income

	2019	2018
	$'000	$'000
Revenue from contracts with customers		
Transaction and exception fees	**966**	1,129
Loan fees & charges	**258**	267
Insurance commissions	**224**	226
Financial planning commissions	**208**	197
International payments commissions	**15**	15
BPAY commissions	**58**	71
Total revenue from contracts with customers	**1,729**	1,905
Other sources of income		
Bad debts recovered	**50**	44
Income from property	**216**	206
Total other sources of income	**266**	250
Total other income	**1,995**	2,155

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.

2.2 Other income (continued)

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

2.2 Other income (continued)

Income from property

Rental income from leases is recognised on a straight-line basis over the term of the lease in accordance with AASB 117 *Leases*. Lease incentives granted are recognised as an integral part of the total rental income over the term of the lease.

	Note	2019	2018
		$'000	$'000

2.3. Expenses

	Note	2019 $'000	2018 $'000
Personnel expenses			
Salaries and associated expenses	5.5	**(5,014)**	(5,249)
Superannuation	5.5	**(362)**	(370)
Redundancy costs	5.5	**-**	(1)
Total personnel expenses		**(5,376)**	(5,620)

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	2019 $'000	2018 $'000
Depreciation and amortisation expenses			
Buildings	5.1	**(134)**	(137)
Plant and equipment	5.1	**(348)**	(372)
Leasehold improvements	5.1	**(108)**	(171)
Intangible software	5.2	**(667)**	(598)
Branch make good		**(10)**	(14)
Total depreciation and amortisation expenses		**(1,267)**	(1,292)

2.4. Taxation

	2019 $'000	2018 $'000
(a) Income tax expense		
Current tax expense		
- current year	**(366)**	(525)
- adjustments for prior periods	**-**	-
	(366)	(525)
Deferred tax expense		
- origination and reversal of temporary differences	**(91)**	(110)
Total income tax expense in the statement of profit or loss and other comprehensive income	**(457)**	(635)

(b) Current tax assets

The current tax asset for the Credit Union of $2,963 (2018: tax liability of $445,000) represents the amount of income tax receivable remaining after the payment of income tax instalments throughout the year.

2.4. Taxation (continued)

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

	2019 $'000	2018 $'000
Profit before tax	**1,638**	2,090
Income tax using the company's tax rate of 27.5% (2018: 30%)	**(450)**	(627)
Increase in income tax expense due to:	**-**	-
- non-deductible expenses	**(7)**	(8)
Decrease in income tax expense due to:	**-**	-
Under provided in prior years	**-**	-
Income tax expense on pre-tax net profit	**(457)**	(635)

(d) Deferred tax recognised directly in equity and other comprehensive income

- Revaluation of freehold property - equity component	**-**	-
Total income tax recognised directly in equity	**-**	-

(e) Deferred tax assets/(liabilities)

Provisions and accrued employee entitlements	**290**	302
Property, plant and equipment	**-**	-
Accrued expenses	**20**	41
Income in advance	**10**	8
Sundry items	**66**	72
Total deferred tax assets	**386**	423
Property, plant and equipment	**(948)**	(938)
Sundry items	**(3)**	(2)
Total deferred tax (liability)	**(951)**	(940)
Net deferred tax (liability)/assets	**(565)**	(517)

Recognition and measurement

Income tax

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

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

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

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

3. Financial Assets

	Note	2019 $'000	2018 $'000
3.1. Loans and advances			
Loans and advances to:			
- members		**505,137**	513,541
- key management personnel and their related entities		**2,333**	1,410
	6.1	**507,470**	514,951
Provision for impairment	3.3,6.1	**(185)**	(114)
Net deferred loan income and expenses	6.1	**(79)**	(72)
Net loans and advances		**507,206**	514,765

3.2. Placements with other financial institutions

	2019 $'000	2018 $'000
Deposits with banks and other financial institutions	**34,500**	14,000
Floating rate notes (FRN's)	**26,873**	27,126
Negotiable certificates of deposit (NCD's)	**41,805**	43,740
	103,178	84,866

Recognition and measurement

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

Deposits with banks and other financial institutions and negotiable certificates of deposit have been reclassified from loans and advances to placements with financial institutions in the current financial year, to better reflect the nature of these assets. Floating rate notes, previously classified as held to maturity under AASB 139 *Financial Instruments: Recognition and Measurement,* are also reclassified as placements with other financial institutions. Prior period comparatives have been updated to reflect this change.

3.3 Provision for impairment of financial assets

	Note	2019 $'000	2018 $'000
Total provision comprises of:			
Collective provisions		**-**	114
Additional specific provisions		**-**	-
Expected credit loss allowance		**185**	-
Total provision	3.1, 6.1	**185**	114

The loss allowance for 2019 is calculated under the expected credit loss regime as per the Policy applicable after 1 July 2018 (below). The comparative amounts and disclosures for 2018 represents incurred impairment provisions under the previous measurement basis as per the Policy applicable before 1 July 2018 (below).

3.3 Provision for impairment of financial assets (continued)

2019 – under AASB 9 requirements

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

2018 – under AASB 139 requirements

	Collective provision 2018 $'000	Specific provision 2018 $'000	Total 2018 $'000
Movement category			
Balance at 1 July 2017	176	-	176
Expenses / (written back) during the year	(80)	-	(80)
Bad debts written off from provision	18	-	18
Balance at 30 June 2018	**114**	**-**	**114**

Recognition and measurement

Policy applicable after 1 July 2018

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"); and
- Financial assets that have objective evidence of impairment (loans in default) at the reporting date ("Stage 3").

3.3 Provision for Impairment of financial assets (continued)

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

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

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

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

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

The Credit Union considers reasonable and supportable information that is relevant and available without undue cost or effort, for this purpose.

Assessment of significant increase in credit risk

In determining whether the risk of default has increased significantly since recognition, the Credit Union considers both quantitative and qualitative factors. These include when a loan has been past due more than 2 times within the last 12 months, when there has been a declaration of hardship and/or or the loan has been restructured, and when a loan is more than 30 days past due.

Assumptions used for estimating impairment

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

Calculation of expected credit losses

- Expected credit losses (ECLs) are calculated using three main parameters i.e. a probability of default (PD), a loss given default (LGD) and an exposure at default (EAD). These parameters are derived from internally developed statistical models combined with industry standards and historical loss models. ECL is calculated by multiplying the EAD by the PD and LGD.
- For accounting purposes, the 12-months and lifetime PD represent the expected point-in-time probability of a default over the next 12 months and remaining lifetime of the financial instrument, respectively, based on conditions existing at the balance sheet date. The PD for stage 2 assets is based on the likelihood of a loan already

3.3 Provision for Impairment of financial assets (continued)

greater than 30 days past due reaching the definition of default (90 days past due) over the lifetime of the loan. For stage 3, each asset is already 90 days past due and therefore meets the definition of default. The probability of default is therefore 100%. For stage 1 assets, the Credit Union simply multiples the collective exposure by the historical loss ratio, the LGD.

- The LGD represents expected loss conditional on default, taking into account the mitigating effect of collateral and its expected value when realised.
- The EAD represents the expected exposure at default. It represents the remaining outstanding loan balance less the applicable collateral value. The Credit Union has determined that only home loans with an LVR which is greater than 80% to have an exposure. Collateral has been taken into consideration when determining the ECL for home loans and business loans at all three stages. Collaterals for other segments has not been considered as historically, the likelihood of recovering a significant amount of value has been low. Collateral values have been reduced by 25% to reflect for securities being sold under poor market conditions and any transactions coasts 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.

Incorporation of forward looking information

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

The Credit Union also holds a general reserve for credit losses as an additional allowance for bad debts to comply with prudential requirements. Refer to Note 5.6 for details on this reserve.

Policy applicable before 1 July 2018

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

Held-to-maturity financial assets

The Credit Union considers evidence of impairment at both a specific and collective level. All individually significant financial assets are assessed for specific impairment. All significant assets found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Assets that are not individually significant are collectively assessed for impairment by grouping together assets (carried at amortised cost) with a similar risk profile.

Loans and receivables financial assets

The specific provision relates to doubtful loans that have been individually identified and provided for. The collective provision for credit losses is intended to cover losses inherent in the existing overall credit portfolio which are not yet specifically identifiable.

3.3 Provision for impairment of financial assets (continued)

All loan assets are subject to recurring review and assessed for possible impairment. The Credit Union considers evidence of impairment at both a specific and collective level. All individually significant financial assets are assessed for specific impairment. All significant assets found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Assets that are not individually significant are collectively assessed for impairment by grouping together assets (carried at amortised cost) with a similar risk profile.

In assessing collective impairment, the Credit Union's provision for loan losses is based on an incurred loss model, which recognises a provision where there is objective evidence of impairment at each balance date, even where the impairment event cannot be attributed to individual exposures.

Objective evidence that the financial assets may be impaired can include default or delinquency by a borrower, restructuring of a loan or advance by the Credit Union on terms that the Credit Union would not otherwise consider, indications that a borrower has or will enter bankruptcy, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or economic conditions that correlate with defaults by borrowers.

The loss model adopted by the Credit Union considers historical trends of the probability of default, timing of recoveries and the amount of loss incurred. The Credit Union also gives consideration to whether the current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

All impairment losses (bad debts) are written off in the period in which they are identified. If a provision for impairment has been recognised in relation to a loan, write-offs for bad debts are made against the provision. If no provision for impairment has previously been recognised, write-offs for bad debts are recognised as expenses in profit or loss.

The Credit Union holds a general reserve for credit losses as an additional allowance for bad debts to comply with prudential requirements. Refer to Note 5.6 for details on this reserve.

4. Deposits and Liquidity

4.1 Cash and cash equivalents

	Note	2019 $'000	2018 $'000
Cash at bank and on hand		**18,331**	2,962
Deposits at call		**4,064**	5,071
Total cash and cash equivalents	6.1	**22,395**	8,033

Cash and cash equivalents include restricted balances of $9.7 million (2018: $0) in the Credit Union which represents deposits held in securitisation trust collection and liquidity reserve accounts which are not available to the Group.

Recognition and measurement

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

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

4.2. Deposits

	Note	2019 $'000	2018 $'000
Withdrawable shares		**50**	52
Call deposits		**335,926**	334,285
Retail term deposits		**216,817**	172,829
Wholesale term deposits		**40,250**	63,000
	6.1	**593,043**	570,166

Recognition and measurement

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

4.3 Reconciliation of cash flows from operating activities

Reconciliation of cash

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

	Note	2019	2018
Cash and cash equivalents	4.1	**22,395**	8,033
Reconciliation of cash flows from operating activities			
Profit for the year attributable to members of the Group		**1,181**	1,455
Adjustments for:			
Charge for bad and doubtful debts and impairment losses		**44**	18
Depreciation and amortisation		**1,267**	1,292
Gain on sale of assets		**-**	-
Net loss on disposal of plant and equipment		**46**	54
Operating profit before changes in assets and liabilities		**2,538**	2,819
Changes in assets and liabilities			
Net loans repaid/(funded)		**7,455**	29,342
Net movement in deposits		**22,875**	(45,408)
Movement in interest receivable		**(31)**	(38)
Movement in other receivables		**3**	25
Movement in deferred tax asset		**56**	57
Movement in prepayments		**(137)**	5
Movement in interest payable		**212**	(1,238)
Movement in sundry creditors and accruals		**876**	359
Movement in provision for employee entitlements		**(22)**	50
Movement in current tax liabilities		**(448)**	246
Movement in make good provision		**1**	(40)
Movement in deferred tax liability		**11**	43
Net cash flows (used in)/from operating activities		**33,389**	(13,778)

Cash flows presented on a net basis

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

5. Other Financial Position Notes

5.1. Property, plant and equipment

	Note	Land & Buildings at Fair Value $'000	Leasehold Improvements at cost $'000	Plant and Equipment at cost $'000	Work in Progress $'000	Total $'000
Gross carrying amount						
Balance as at 30 June 2017		6,250	733	3,860	54	10,897
Additions		-	10	61	337	408
Revaluations		-	-	-	-	-
Disposals		-	(185)	(735)	-	(920)
Transfers		-	-	391	(391)	-
Balance as at 30 June 2018		6,250	558	3,577	-	10,385
Additions		**15**	**-**	**205**	**-**	**220**
Revaluations		**-**	**-**	**-**	**-**	**-**
Disposals		**-**	**(5)**	**(272)**	**-**	**(277)**
Transfers		**-**	**-**	**-**	**-**	**-**
Balance as at 30 June 2019		**6,265**	**553**	**3,510**	**-**	**10,328**
Accumulated Depreciation						
Balance as at 30 June 2017		-	(313)	(2,192)	-	(2,505)
Disposals		-	180	725	-	905
Depreciation Expenses	2.3	(137)	(171)	(372)	-	(680)
Revaluations		-	-	-	-	-
Balance as at 30 June 2018		(137)	(304)	(1,839)	-	(2,280)
Disposals		**-**	**5**	**214**	**-**	**219**
Depreciation Expenses	2.3	**(134)**	**(108)**	**(348)**	**-**	**(590)**
Revaluations		**-**	**-**	-	-	-
Balance as at 30 June 2019		**(271)**	**(407)**	**(1,973)**	**-**	**(2,651)**
Net Book Value						
Balance as at 30 June 2018		6,113	254	1,738	-	8,105
Balance as at 30 June 2019		**5,994**	**146**	**1,537**	**-**	**7,677**

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.

An independent valuation was carried out by Opteon in June 2017 on the basis of the open market value of the property concerned in existing use, which resulted in a valuation of $6,250,000 for land and buildings. The valuation was performed on the basis of the Credit Union occupying the majority of the building, with sub-leases in place for areas let to tenants. Revaluations are made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the reporting date. Any increase in fair value is recorded in other comprehensive income and accumulated in equity under the Asset Revaluation Reserve. Any decrease in fair value is recognised in other comprehensive income to the extent of any credit balance in the Asset Revaluation Reserve, otherwise, the decrease is recognised in profit or loss. When revalued assets are sold, the amounts included in the revaluation reserve are transferred to retained earnings.

The fair value measurement of freehold land and buildings has been categorised as a Level 3 fair value based on the inputs to the valuation technique used (see Note 6.1(d)). The fair value measurement is based on the market income capitalisation valuation technique, which measures fair value by converting future cash flows to a current capital value. The expected market capitalisation rate is a significant unobservable input and is currently 8.50%. The estimated fair value would increase/(decrease) if the expected market capitalisation was lower/(higher).

Plant and equipment

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

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

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

Depreciation

Depreciation is based on the cost of the asset less any estimated residual value and is recognised on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Leased assets are depreciated over the shorter of the lease term and their useful lives.

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

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

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

	Note	2019 $'000	2018 $'000

5.2. Intangible assets

	Note	2019 $'000	2018 $'000
At cost		**4,254**	3,875
Provision for amortisation		**(1,618)**	(978)
Intangible assets		**2,636**	2,897
Work in progress		**307**	205
Total intangible assets		**2,943**	3,102
Reconciliation of carrying amounts			
Carrying amount at the beginning of the year		**3,102**	2,331
Additions		**542**	1,408
Amortisation	2.3	**(667)**	(598)
Disposals		**(34)**	(39)
Carrying amount at the end of the year		**2,943**	3,102

Recognition and measurement

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

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

Amortisation

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

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

5.3. Other assets

	Note	2019 $'000	2018 $'000
Prepayments		**425**	444
Interest receivable		**388**	357
Set up costs ICU MTG Trust - net		**156**	-
Other		**41**	44
		1,010	845

5.4. Payables

	Note	2019 $'000	2018 $'000
Sundry creditors		**2,420**	1,574
Accrued interest payable		**1,654**	1,442
Accrued expenses		**527**	487
Total other payables	6.1	**4,601**	3,503

Recognition and measurement

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

	Note	2019 $'000	2018 $'000
5.5. Provisions			
Employee benefits			
-Liability for annual leave		**414**	400
-Liability for long service leave		**393**	429
Make good costs		**64**	63
		871	892

Included in employee benefits is a non-current amount of $126,000 (2018: $151,000)

Recognition and measurement

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

Short term employee benefits

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

Long term employee benefits

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

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

Redundancy benefits

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

Make good provision

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

	2019 $'000	2018 $'000
5.6. Reserves		
General reserve for credit losses	**1,417**	1,504
Redeemed share capital reserve	**252**	245
Asset revaluation reserve	**2,233**	2,233
Total Reserves	**3,902**	3,982

Recognition and measurement

General reserve for credit losses

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

Redeemed share capital reserve

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

Asset revaluation reserve

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

6. Risk Management and Capital

6.1. Risk management framework

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

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

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

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

6.1. Risk management framework (continued)

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.

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

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

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

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

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

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

6.1. Risk management framework (continued)

a) Credit risk (continued)

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:

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

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

6.1. Risk management framework (continued)

a) Credit risk (continued)

Loans restructured - 2019

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

Loans restructured - 2018

Restructured loans are loans where the original contractual terms have been modified due to deterioration in the borrower's financial position and where the Credit Union has made concessions that it would not otherwise consider. During the financial year ending 30 June 2018, loan balances totalling $3,721,000 were renegotiated.

Exposure to credit risk

	Note	30 June 2018 $'000		
		Loans and advances	**Placements with other financial institutions**	**Cash and cash equivalents**
Carrying amount		514,765	84,866	8,033
Individually impaired	3.1			
Gross amount	3.1	-	-	
Provision for impairment	3.2	-	-	
Carrying amount	4.1	-	-	
Past due but not impaired				
Days in arrears	4.2			
< 8 days	4.2	2,329	-	-
> 8 days to 1 month	5.4	3,691	-	-
> 1 to 2 months		2,052	-	-
> 2 to 3 months		419	-	-
> 3 months		2,053	-	-
Carrying amount		10,544	-	-
Neither past due nor impaired				
Secured by mortgage		497,225	-	-
Investment grade		-	70,866	7,379
Unrated		-	14,000	-
Other		7,182	-	655
			-	-
Net loan deferred income and expense	3.1	(72)	-	-
Carrying amount		504,335	84,866	8,033
Provision for Impairment		(114)	-	-
Total adjusted carrying amount		514,765	84,866	8,033
Loans approved not advanced				
Secured by mortgage		14,061	-	-
Other		23	-	-
ECL provision		0	-	-
Carrying amount		14,083	-	-

6.1. Risk management framework (continued)

a) Credit risk (continued)

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

The following two paragraphs relate to 2018 only.

Impaired loans and receivables

Impaired loans and receivables are those that the Credit Union has determined it is probable they will be unable to collect the entire principal and interest due according to the contractual terms of the loan agreement. As at 30 June 2018, there were no loans identified as individually impaired.

Past due but not impaired loans

This relates to loans and receivables where contractual interest or principal payments are past due, but the Credit Union believes that impairment is not appropriate on the basis of the level of security/collateral available and/or the stage of collection of amounts owed to the Credit Union.

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

	Note	**2019**	2018
		$'000	$'000
Illawarra NSW		**300,989**	304,459
Sydney NSW		**144,530**	146,372
Far South Coast NSW		**9,261**	11,755
Other NSW/ACT		**25,044**	23,477
Victoria		**6,392**	6,336
QLD		**10,108**	10,379
WA		**7,245**	6,842
Other		**3,901**	5,331
	3.1	**507,470**	514,951

6.1. Risk management framework (continued)

a) Credit risk (continued)

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

Loans and advances

	2019		2018
	$'000		$'000
Individually impaired		***Against individually impaired***	
- Property	**-**	- Property	-
- Other	**-**	- Other	-
Stage 3: Lifetime ECL		***Against past due but not impaired***	
- Property	**6,771**	- Property	17,877
- Other	**-**	- Other	2,322
Stage 2: Lifetime ECL		***Against neither past due nor impaired***	
- Property	**38,803**	- Property	1,124,431
- Other	**9,315**	- Other	1,126
Stage 1: 12 month ECL			
- Property	**1,273,414**		
- Other	**3,411**		
Total value of collateral held	**1,331,714**	**Total value of collateral held**	1,145,756
Average Loan to Valuation ratio	**38.09%**	Average Loan to Valuation ratio	44.93%

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.

	2019	2018
	$'000	$'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 $2,275 of debts were written off, but still subject to enforcement activities.

6.1. Risk management framework (continued)

a) Credit risk (continued)

Settlement Risk

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

b) Liquidity risk

Exposure to liquidity risk

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

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

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

	2019	2018
	%	%
HQLA at 30 June	**13.16**	13.51
HQLA average for the period	**13.31**	13.32
HQLA maximum for the period	**17.00**	14.44
HQLA minimum for the period	**12.11**	12.41
Total liquidity at 30 June	**19.00**	15.89

Management of liquidity risk

The Credit Union's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its obligations when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Credit Union's reputation. The Credit Union has an overdraft facility and a self-securitisation programme with which it can access emergency liquidity through an RBA repo facility (refer to note 7.7) in place to assist in adequately managing liquidity.

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

6.1. Risk management framework (continued)

b) Liquidity risk (continued)

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

	Note	Carrying amount	Gross nominal inflow/ (outflow)	Less than 1 month	1-3 months	3 months to 1 year	1-5 years	More than 5 years
		$'000	$'000	$'000	$'000	$'000	$'000	$'000
30 June 2019								
Non-derivative liabilities								
Deposits – retail	4.2	**552,793**	**(554,508)**	**(375,877)**	**(48,883)**	**(128,683)**	**(1,065)**	**-**
Deposits – wholesale	4.2	**40,250**	**(40,382)**	**(15,511)**	**(18,567)**	**(6,304)**	**-**	**-**
Payables	5.4	**4,601**	**(4,601)**	**(3,973)**	**(219)**	**(402)**	**(8)**	**-**
		597,644	**(599,491)**	**(395,361)**	**(67,669)**	**(135,389)**	**(1,073)**	**-**
Unrecognised finance commitments								
- approved but undrawn loans	7.2	**16,701**	**(16,701)**	**(9,089)**	**(5,275)**	**(2,337)**	**-**	**-**
		614,345	**(616,192)**	**(404,450)**	**(72,944)**	**(137,726)**	**(1,073)**	**-**
30 June 2018								
Non-derivative liabilities								
Deposits – retail	4.2	507,166	(508,434)	(364,259)	(57,054)	(86,360)	(761)	-
Deposits – wholesale	4.2	63,000	(63,182)	(34,525)	(24,606)	(4,051)	-	-
Payables	5.4	3,503	(3,503)	(3,050)	(233)	(218)	(2)	-
		573,669	(575,119)	(401,834)	(81,893)	(90,629)	(763)	-
Unrecognised finance commitments								
- approved but undrawn loans	7.2	14,083	(14,083)	(9,818)	(2,028)	(2,237)	-	-
		587,752	(589,202)	(411,652)	(83,921)	(92,866)	(763)	-

6.1. Risk management framework (continued)

c) Market risk

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

Interest rate risk

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

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

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

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

	2019	2018
	$'000	$'000
Interest rate risk – Value at Risk	**359**	298

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

Fixed rate instruments		
Financial assets	**347,776**	345,639
Financial liabilities	**(257,067)**	(235,830)
	90,709	109,809
Variable rate instruments		
Financial assets	**285,266**	235,100
Financial liabilities	**(335,975)**	(334,428)
	(50,709)	(99,328)

6.1. Risk management framework (continued)

d) Fair Values

Fair values versus carrying amounts

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

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

*The Credit Union has not disclosed the fair values for financial instruments such as cash and cash equivalents, short-term trade receivables and payables, because their carrying amounts are a reasonable approximation of fair values. There have been no transfers between the valuation levels during 2019 (2018: Nil).

6.1. Risk management framework (continued)

d) Fair Values (continued)

	Note	Carrying amount $'000				Fair value $'000			
30 June 2018		Held-to-maturity	Loans and advances	Financial Liabilities	Total	Level 1	Level 2	Level 3	Total
Assets carried at amortised cost									
Loans and advances	3.1	-	514,951	-	514,951	-	514,898	-	514,898
Placements with other financial institutions	3.1	84,866		-	84,866	-	85,261	-	85,261
Cash and cash equivalents*	4.1	-	8,033	-	8,033				
		84,866	522,984	-	607,850	-	600,159	-	600,159
Liabilities carried at amortised cost									
Deposits	4.2	-	-	(507,166)	(507,166)	-	(507,896)	-	(507,896)
Wholesale deposits	4.2	-	-	(63,000)	(63,000)	-	(63,051)	-	(63,051)
Payables*	5.4	-	-	(3,503)	(3,503)				
		-	-	(573,669)	(573,669)	-	(570,947)	-	(570,947)

*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 2019 (2018: Nil).

6.1. Risk management framework (continued)

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

Deposits

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

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

Interest bearing liabilities

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

Fair value hierarchy

The different levels have been defined as follows:

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

e) Operational risk

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

6.1. Risk management framework (continued)

e) Operational Risk (continued)

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

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

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

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

6.2. Capital management

Regulatory capital

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

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

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

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

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

	2019	2018
	$'000	$'000
Regulatory capital	**42,117**	40,984
Risk weighted assets	**267,807**	268,540
Regulatory capital expressed as a percentage of total risk weighted assets	**15.73%**	15.26%

7. Other Notes

7.1. Operating leases receivable

The Credit Union leases out portions of its Young St (Wollongong) building under operating leases typically running for a period of two to five years. All leases have options for renewal. Lease revenue comprises of a base amount plus an incremental contingent rental. Contingent rentals are based on either movements in consumer price index or a fixed rate. The future minimum lease payments receivable by the Credit Union under non-cancellable leases are as follows:

	2019 $'000	2018 $'000
Less than one year	**330**	223
Between one and five years	**846**	318
	1,176	541

During the year ended 30 June 2019 $215,000 was recognised as rental income (2018: $204,000). Repairs and maintenance expense, recognised in property expenses were as follows:

Income-generating property	**103**	5
	103	5

7.2. Commitments

Capital expenditure commitments

Capital expenditure commitments not taken up in the financial statements		
- payable less than one year	**-**	30

Lease expenditure commitments

Operating leases (non-cancellable)		
- payable less than one year	**142**	139
- payable between one and five years	**83**	187
	225	326

The Credit Union leases retail branches to provide financial services to its members. The leases typically run for a period of three to five years, with an option to renew after that date. Lease rentals are generally indexed annually for inflation. During the financial year ended 30 June 2019, $135,000 was recognised in profit or loss in respect of operating leases (2018: $176,000).

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	**16,701**	14,083

7.3. 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.

7.3. Contingent liabilities (continued)

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.

	2019 $'000	2018 $'000
Performance bonds	**30**	36

7.4. 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 2018-19 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**
Mr R Downs	Mr B Kotic (former Chief Executive Officer) (resigned May 2019)
Mr P Kell	Mr A Perkiss (Chief Executive Officer / Company Secretary since May 2019, former Deputy Chief Executive officer until May 2019)
Ms N Murray (resigned November 2018)	Mr T Ellem (General Manager Member Services)
Mr M Halloran	Ms B Hogan (Chief Financial Officer/Company Secretary) (resigned March 2019)
Ms D De Santis	Mr R Coldwell (Chief Information Officer)
Mr C Bloomfield	Ms J Zondag (Head of Finance) (appointed June 2019)
Mr A Frino	Ms L Ali (Head of Credit and Banking Operations) (appointed June 2019)
Ms D Lambourne (appointed February 2019)	Mr Stephen Robertson (appointed June 2019)

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:

	2019 $	2018 $
Short term employee benefits	**1,339,020**	1,325,699
Other long-term benefits	**74,330**	34,380
Post-employment benefits	**111,984**	119,988
	1,525,334	1,480,067

7.4. Related parties (continued)

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

Loans to Key Management Personnel and their related parties

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

	2019	2018
	$	$
Aggregate of loans as at balance date	1,671,790	1,409,764
Total undrawn revolving credit facilities available at balance date	50,000	-
Interest charged on loans and overdraft facilities	73,596	46,177

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

	2019	2018
	$	$
Aggregate of term and savings deposits as at balance date	1,746,905	1,150,664
Interest paid on deposits	22,147	17,396

Key management personnel related parties

Mr Roger Downs, a Director of the Credit Union, is a consultant to Kells the Lawyers. The Credit Union has used the legal services of Kells the Lawyers. The total dollar value of these services provided for the year was $8,374 (2018: $6,397). This arrangement is on terms that are no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to non-director related entities on an arm's length basis. There were no amounts owing to Kells the Lawyers at the end of the year.

7.5. 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.

7.6. Auditor's remuneration

Audit services		
Audit of the financial report	**84,396**	**104,830**
Other regulatory audit services	**16,230**	**32,500**
	100,626	**137,330**

7.6. Auditor's remuneration (continued)

	2019	2018
Other services	**$**	$
Taxation services	-	13,500
Professional advice services	-	19,900
	-	33,400
	100,626	170,730

The external audit is performed by Crowe, appointed as auditors at the AGM held in November 2018. Up until this time the external audit was performed by KPMG.

7.7. Transfer of financial assets

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

	2019	2018
	$'000	$'000
Securitised loans retained on the balance sheet (not derecognised)		
The values of securitised loans which are not qualifying for de-recognition as the conditions do not match the criteria in the accounting standards are set out below. 100% of the loans are variable interest rate loans, hence the book value of the loans transferred equates to the fair value of these loans.		
The associated liabilities are equivalent to the book value of the loans reported.		
Balance sheet values		
Loans	**60,652**	-
Fair value of associated liabilities	**(60,652)**	-
Net	**-**	-
Carrying amount of the loans as at the time of transfer	**71,666**	-

Repurchase obligations MTG ICU Repo Series No.1 Trust

The MTG ICU Repo Series No.1 Trust is a trust established by the company 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 company 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 company has financed the loans and receives the net gains or loses from the Trust after trustee, manager, and ratings expenses. The company 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 company 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 company is obliged to repurchase those loans and may substitute equivalent qualifying loans into the Trust.

7.8. 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.

	2019	2018
Results of the parent entity	**$'000**	$'000
Profit for the year	**1,181**	1,455
Other comprehensive income for the year	**-**	-
Total comprehensive income for the year	**1,181**	1,455
Financial position of the parent entity		
Total assets	**644,412**	619,716
Total liabilities	**599,080**	575,523
Retained earnings	**41,430**	40,211
Reserves	**3,902**	3,982
	45,332	44,193

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

8. Other Accounting Policies

8.1. Other significant accounting policies

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

(a) Goods and services tax

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

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

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

(b) Impairment of non-financial assets

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

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

8.1. Other significant accounting policies (continued)

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

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

(c) Leases

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

8.2 Changes in significant accounting policies

AASB 15 *Revenue from Contracts with Customers*

AASB 15 replaces AASB 118 *Revenue*, AASB 111 *Construction Contracts* and several revenue-related Interpretations. The new Standard has been applied as at 1 July 2018 using the modified retrospective approach. Under this method, the cumulative effect of initial application is recognised as an adjustment to the opening balance of retained earnings at 1 July 2018 and comparatives are not restated. In accordance with the transition guidance, AASB 15 has only been applied to contracts that are incomplete as at 1 July 2018.

The adoption of AASB 15 did not materially impact the timing or amount of fee and commission income from contracts with customers and the related assets and liabilities of the Group, and as such there was no 1 July 2018 adjustment relating to this standard.

AASB 9 *Financial Instruments*

AASB 9 *Financial Instruments* replaces AASB 139 *Financial Instruments: Recognition and Measurement*. It makes major changes to the previous guidance on the classification and measurement of financial assets and introduces an 'expected credit loss' model for impairment of financial assets.

When adopting AASB 9, the Group has applied transitional relief and opted not to restate prior periods. Differences arising from the adoption of AASB 9 in relation to classification, measurement, and impairment are recognised in opening retained earnings as at 1 July 2018.

The adoption of AASB 9 has impacted the following areas:

Classification and measurement of the Group's financial assets

AASB 9 allows for three classification categories for financial assets – amortised cost, FVOCI and FVPL. Classification is based on the business model in which a financial asset is managed and the related contractual cashflows. AASB 9 eliminates

8.2 Changes in significant accounting policies (continued)

previous categories of held to maturity, loans and receivables and available for sale. Classification of financial liabilities is largely unchanged.

There have been no changes in the measurement of financial assets or liabilities under AASB 9. The Group continues to measure all financial assets and financial liabilities at amortised cost. Refer to note 6.1(d) for further details.

Impairment of the Group's financial assets

The Group's financial assets carried at amortised cost are subject to AASB 9's new three-stage expected credit loss model. The Group measures loss allowances at an amount equal to lifetime expected credit losses (ECL), except for the following, for which they are measured as 12 months ECL:

- Debt investment securities that are determined to have a low credit risk at the reporting date; and
- Other financial instruments on which credit risk has not significantly increased since initial recognition.

An additional impairment allowance of $60k was included on 1 July 2018 in respect of loans and advances to members. The adjustment to retained earnings at 1 July 2018 is $42k, as this is net of the 30% deferred tax impact. No impairment allowance was recognised for other investments. Further detail of how the Group has applied the ECL policy is included in Note 3.3.

8.3. New accounting policies not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for the 30 June 2019 reporting period. The Credit Union's assessment of the impact of these new standards and interpretations is set out below. Changes that are not likely to impact the financial report of the Credit Union have not been reported.

AASB Reference	Nature of Change	Application date	Impact on Initial Application
AASB 16 *Leases* Replaces AASB 117	AASB 16 replaces AASB 117 *Leases* and some lease related interpretations; requires all leases to be accounted for "on-balance sheet" by lessees, other than short term and low value asset leases; provides new guidance on the application of the definition of lease and on sale and lease back accounting; and requires new and different disclosures about leases.	Periods beginning on or after 1 January 2019	The Credit Union has elected to use the modified retrospective transition approach, along with the simplified calculation approach for the Right of Use Asset. Based on the Credit Union's assessment, it is expected that the first-time adoption of AASB 16 for the year ending 30 June 2020 will have a material impact on the transactions and balances recognised in the financial statements, in particular: - Right of Use assets and Lease liabilities on the balance sheet will increase by $231,000 and $206,000 respectively as at 1 July 2019 (based on the facts at the date of the assessment) - There will be a reduction in the reported equity as the carrying amount of lease assets will reduce more quickly than the carrying amount of lease liabilities - Operating cash outflows will be lower and financing cash flows will be higher in the statement of cash flows as principal repayments on all lease liabilities will now be included in financing activities rather than operating activities. Interest can also be included within financing activities.

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

   a) The consolidated financial statements and notes of the Credit Union (and its controlled entities) that are set out on pages 21 to 61 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 2019 and of its performance for the financial year ended on that date; and

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

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

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

Signed in accordance with a resolution of the Directors:

R. Downs
Chair of the Board

C. Bloomfield
Chair of the Board Audit Committee

Wollongong, 28th August 2019

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Illawarra Credit Union Limited

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), which comprises the consolidated statement of financial position as at 30 June 2019, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

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

(a) giving a true and fair view of the consolidated Company's financial position as at 30 June 2019 and of its financial performance for the year then ended; and

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

Basis for Opinion

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

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

Other Information

The directors are responsible for the other information. The other information comprises the directors' report information contained in the Company's annual report for the year ended 30 June 2019, 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 Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the Company 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 Company 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 Company'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 Company'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 Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

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

Crowe

CROWE AUDIT AUSTRALIA

BRADLEY D BOHUN
Partner

28 August 2019
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