



2021 annual report.



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2021 highlights.

At the heart of everything we do is people; our customers and our staff. Together we've been able to overcome the challenges of the past 12 months and deliver an outstanding result.

our purpose.

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

our vision.

To build strong communities through exceptional financial service.

our values.

- Being our best
- Innovation
- Service
- Curiosity
- Accountability
- Team work



financial highlights.

Net interest margin

2.14%

▼ 15 basis points

Total assets

\$763m

▲ 17%

Deposit funding

\$612m

▲ 4.45%

26,817 deposit accounts

Loan funding

\$615m

▲ 27.82%

2,114 home loans
1,024 personal loans



customers.

84%

Customer satisfaction score

22,680

Customers choose to bank with Illawarra Credit Union

99.5%

Customers using digital services

50%

New customers who live outside the Illawarra region



community.

\$65,000

Donated to community groups or charities

653

Customers using Your Financial Wellness

30+

Existing partnerships within the community and brokers

12%

Decrease in electricity usage and related carbon emission to do our best for our environment



our people.

95.7%

Staff with a Cert IV or above

40%

Employees under 30 years old

9

Cadets or interns being supported by the Credit Union

100%

Staff members able to work remotely during the pandemic, noting our branches remained opened



message from the chair.

The world has changed more than anyone could have imagined, and I am sure you would all agree that the 2020/21 financial year was just as tumultuous as the year before.

Our performance shows how resilient the Credit Union has become, and in my first year as Chair and as a founding member, I am pleased by the excellent progress. We are in a stronger position, and together we have much to look forward to as we enter our 50th year.

The events of 2019/20 were definitely challenging, and it will be remembered as the worst season for natural disasters and the beginning of the COVID-19 pandemic that has devastated communities and economies.

Many of us today are still grappling with the impacts on our global community due to the ongoing crisis. It has been a testing time. However, I am proud of how our Credit Union and the financial services industry have responded with a strong focus on supporting customers and avoiding unnecessary financial stress on households and small businesses. My heartfelt thanks extend to all our employees, particularly our front-line staff, who continue to support customers and the community during these critical times.

our board renewal.

I want to thank Roger Downs, our previous Chair of six years, past and present Directors, for their valuable guidance and support. Since our last AGM, Director Mike Halloran retired from the Board after six years, I thank him for his service. We also welcomed Omayya Robinson and John Brannon, who bring the right balance of experience in digital transformation, governance expertise, and fresh thinking around creating engaging customer experiences.

I also extend my thanks to our Management team for their tireless commitment to the business. Throughout the year, your Board and Management team have been meeting more frequently to monitor the short-term operational implications of the rapidly changing environment. We know we are not immune to the unpredictable outlook and continue to adopt a flexible

approach to respond quickly as circumstances change.

our strong position.

I am pleased to share that we were in a sound financial position as we entered the uncertain period of COVID-19. Today, our business remains resilient, supported by a strong capital position and solid growth across our home loan portfolio. Significantly, these outcomes were achieved during a period of record-low interest rates and a highly competitive environment. As a result, we are in a strong position that allows us now to keep lending and supporting customers.

our adaptability.

We continue to adapt and move quickly to prioritise our people's health and safety while supporting customers in need. Our people have adapted to new ways of working with remote working and social distancing, increasing the need for digital technology to keep us all connected. We have also seen extraordinary digital adoption by customers, with more customers shifting away from banking in the branch to embracing the seamlessness of online banking. Even before COVID-19, we had seen a 40% to 60% decrease in transaction volumes at our branches. We face the reality that customers are making fewer branch visits and instead are adopting contactless, online, and app banking services at an exponential rate.

Earlier this year, we took decisive action to restructure our operations and transition our Helensburgh branch to cashless. The necessary change enables the Credit Union to invest in technology which ultimately benefits

everyone. We also strengthened our partnership with Australia Post by providing customers with alternative ways to bank, including fee-free banking across a network of 3,500 locations.

our customers.

We have now laid the foundations and are well-positioned to leverage this accelerated digitalisation. Our focus remains on improving our customer offerings and managing costs, all while balancing the needs of our customers. For us, it's about engaging customers in a manner you would expect for yourself and having the integrity to deliver on our promises. Sometimes customers need a helping hand, and I am proud of how the Credit Union supports customers in need. From celebrating special moments like opening up your first bank account, buying your first home, or reducing a long-time customer's mortgage by \$50,000 like we did in August 2020, as part of our Spin and Win campaign, we're always here for our customers.

Celebrating and connecting with customers is important to us. Our ongoing commitment is evidenced through our Net Promoter Score (+35.5) higher than the major banks' average. It is important to recognise this achievement, as our employees are the driving force behind our ability to deliver outstanding service and value to our customers.

our digital direction.

We recognise there is more to do. We must constantly evolve to meet our customers' needs, explore new ways to operate, new innovations, and new opportunities

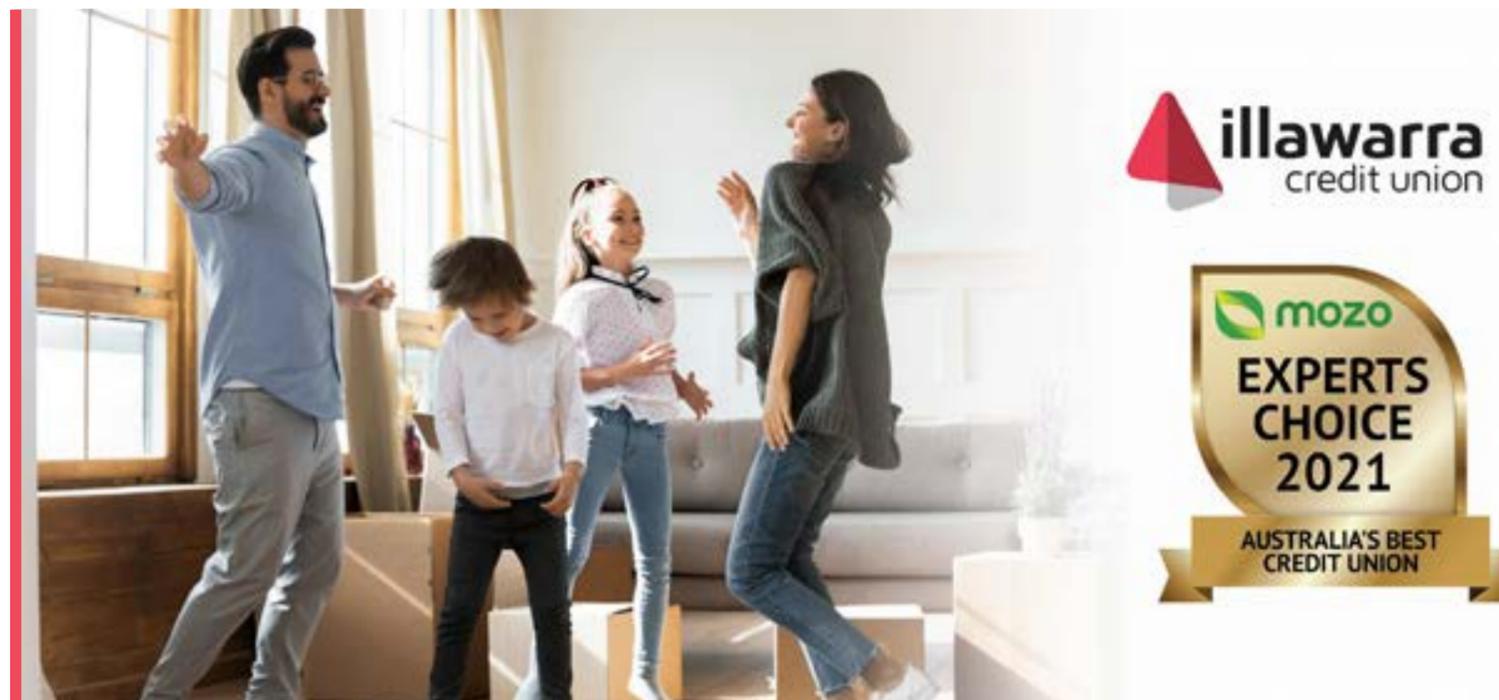
to benefit our customers. Our history of partnering to innovate has always been important to us. Over the past year, we launched a number of digital initiatives worth mentioning: we increased OSKO daily limits and daily ATM cash withdrawal limits, introduced online password reset functionality, and launched a new digital customer on-boarding program. We have also built quality products for our customers, which a number of independent organisations have acknowledged. Eight awards, including Australia's Best Credit Union, is a fantastic result during a challenging time. Further testament to our employees' tenacity and dedication, demonstrating once again that they embody the Credit Union's most important value, which is putting customers first.

In a year characterised by challenges, we remain a strong and safe Credit Union, well placed for the future. On behalf of the Board, I would like to pass on our thanks to our CEO, Anthony Perkiss, his Management team, and staff.

Stay safe and keep well.

Yours sincerely,

Peter Kell AM
Chair



message from the ceo.

The experiences of this year have significantly changed our perspective on what is possible. We have drawn on our values to guide our decision-making to support our customers in times of need.

While doing so, we have remained committed to constantly improving the customer experience in all aspects of our products and services. We have also accelerated our transformation plans to support our customers, so they can emerge from this crisis better positioned overall.

I want to acknowledge that it has been a particularly difficult and challenging year, and we thank you for your continued support of our Credit Union. I would also like to thank our executive team and employees for their adaptability and flexibility around our new ways of working and their continued commitment to meeting the needs of our customers. While it is unclear how long it will take for our economy and society to recover fully, rest assured that your Credit Union is embracing the opportunities to evolve and transform our business to deliver better outcomes for our people, customers, and communities.

our people.

Throughout the year, we have continued to focus on improving employee experience at our Credit Union. COVID-19 showed us that it was possible to quickly adapt to a new working environment and meet the dramatic shift in customer needs. Keeping our employees engaged has been a priority as we moved to a remote working environment. To support this, we have enhanced communication throughout the organisation, ensuring our employees are more regularly updated on business performance and the impact that COVID-19 is having on our business and providing them with important information about our strategy and priorities.

our customers.

As a purpose-led organisation, we understand that customers seek to achieve financial success when purchasing our products. This purpose has been the driving force behind our response to these extraordinary

events. Throughout 2020/21, we continued to build on our efforts to connect our retail and small business customers to digital channels and services. Today, we have 99.5% of customers utilising our digital services. We continue to educate our older customers on the benefits of using Internet Banking, our mobile app, and using their Visa Debit Card to bank fee-free at any Australia Post outlet across the country.

We continued with our branch transformation with Helensburgh moving to cashless, further providing us with the opportunity to reinvest into our contact centre and online banking services. We also integrated robotics within our business, starting with our lending operations area. The change resulted in significantly faster application processing times, enabling customers to purchase or refinance their homes sooner. We will continue to strive for further operational efficiencies, enhanced digital systems, product enhancement, and service upgrades for the benefit of our customers.

Our customers clearly value the investments we've been making with customers taking advantage of our full range of banking solutions, and I am pleased to report we have more products soon to be released. It is also exciting to be recognised as Australia's Best Credit Union for 2021 by the experts at Mozo. We always strive to find ways we can add value to our customers through our products and services. This independent assessment conducted by Mozo recognises the ongoing efforts of our team to push the boundaries and deliver market-leading products for our customers all across Australia. This is the eighth award we've received from Mozo this financial year, winning four home loan

“

My wife and I have always had excellent and courteous service from any member of the Illawarra Credit Union that we have dealt with. Because of this, even though we now live in Goulburn, we still use this credit union for all our financial dealings.

Thomas - Goulburn, NSW



awards, two personal loan awards, and one credit card award. We were also named a finalist by Finder in the Low Rate Credit Card category, just missing out on the win.

our community and strategic partners.

Our commitment to our communities is unwavering. We're equally proud to celebrate \$65k being returned to communities, enriching communities for the long term. We're proud of our relationship with the University of Wollongong's GoLead Program, with the Credit Union supporting nine GoLead students and two cadets, encouraging young people to pursue a career in banking.

We are also committed to forging ahead with key strategic initiatives, including a commitment to sustainable business growth. This year we launched our broker channel. We are delighted with the relationships developed and the strong growth in new customers, with 50% of our new home loan applications this year attributed to this growth channel.

our financial results.

Our results, particularly during the second half, have been strong despite the highly competitive low-interest-rate environment and changes to consumer spending. While challenging, it presented an opportunity to review what we were doing and benchmark our performance to others across the financial services industry.

We delivered a gross profit of \$2.51 million, slightly lower than the previous year of \$2.52 million (adjusted for a one off intangible write off in 2020), yet a remarkable result, which positions us well for our future growth. We have weathered our current climate's social, environmental, and economic forces, achieving a solid financial performance.

Despite the challenges, there were several highlights,

including favourable underlying performance in our core businesses with positive growth in our consumer home lending (+27%) and deposit (+4.45%) portfolios; improvements in customer satisfaction (84%) and Net Promoter Score strong at +35.5 points across the organisation.

Our Credit Union maintains a strong capital position and our conservative risk margins will continue to give us the flexibility to respond to future volatility. The strength of our balance sheet was a key highlight as it underpins our ability to serve our customers, drive core business outcomes and deliver returns for customers.

Our absolute priority is to help our customers and the broader economy recover. We will continue to work closely with our customers and undertake regular reviews and check-ins, to understand and support their needs. We will also continue to work with our industry peers, the government, and regulators to support initiatives that stimulate economic activity and jobs.

I would also like to take this opportunity to say how incredibly proud I am of the Credit Union team. I want to thank my colleagues and acknowledge the hard work and determination of our people. I would also like to extend my thanks to Peter Kell, Chair, and the Credit Union Board for their support throughout the year.

As always I thank you for your commitment - we remain always here for you.

Yours sincerely,

Anthony Perkiss
CEO



supporting our communities and people.

The past 12 months have been challenging for our community; however, our commitment to supporting our customers, people, and the broader community has never wavered.



covid-19 support.

Throughout the last year, we have continued to see changes in the way our customers bank with us as we navigate the ongoing pandemic. To meet changing needs, we've adapted our business practices.

Our branches have remained open and available for customers to visit. We have also expanded our partnership with Australia Post, now offering customers access to fee-free banking at 3,500 Bank@Post locations across Australia.

Our customers enjoy interacting with our team via our call centre, and accessing our digital channels, which has seen a surge in customers using Internet Banking and moneytree over the past 12 months.

At the height of the pandemic, we were supporting 83 customers who found themselves in hardship. We partnered with each customer to personalise a solution based on their needs. We are committed to supporting our retail and business customers, offering loan repayment deferrals, and other alternatives to ensure our customers are supported, as we navigate together the ups and downs of this pandemic.



Our staff members during a Zoom meeting

supporting our customers and community.

From the beginning, we've been giving back to our customers and supporting our local communities. We continue to listen to our customers, take on feedback, and update our products and services to meet our customers' needs.

Over the last 12 months, the feedback we received resulted in new business processes for managing customer enquiries. We also made changes to our entire loan suite to provide award-winning home loan options to our customers, and updated our digital banking solutions, providing our customers with improved self-service options.

We remain focused on working with our customers to provide products and services that help them achieve their goals.

\$65,000 was given back to our community over the past year.

These funds have allowed local organisations to support local people and local communities. Despite being unable to engage in a range of community events, we have been able to rally behind our community, providing support in different ways during the pandemic.

We have continued to offer our online financial wellness program (Your Financial Wellness) to our customers and community partners to support financial wellbeing.

We remain proud of what we have achieved and are committed to growing our community partnerships.

health and wellbeing.

With changes to our working environments, it has been increasingly important to ensure our staff are supported. As our staff focus on assisting our customers, we have focused on prioritising the health and wellbeing of our team.

Along with an Employee Assistance Program (EAP), we have invested in health and wellbeing programs, focusing on managing stress, mindfulness, and overall positive mental health practices. Dedicated sessions have been held with staff, and we have provided a range of resources to support our team and their families.



Previous UOW GoLead students now employed. From the left; Liam Whiteman, Blake McDougall, Ivana Vrcelj, and Samuel Sciberras.

fostering talent.

Our success is only possible with the support and dedication of our team. As our most important asset, our team has continued pushing the boundaries and delivering outstanding results for our customers. We remain committed to fostering talent within our organisation, investing in ongoing training and education for our team.

We also continue to foster young talent within the region, continuing our cadet program, which provided opportunities for young students to start their careers in financial services. Beyond the cadet program, we have continued our partnership with the University of Wollongong to support the Global Leader (GoLead) program, this year taking on five additional interns, bringing the total to nine students who have participated in the program.

We care deeply about continuing this investment in our team and commend our staff for all their achievements over the past 12 months.



financial report.

2021 financials - 30 June 2021
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 2021.

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 Peter Kell AM, Dip Law, MAMI

Chair

Mr Kell joined the Board in 2013 and became Chair of the Board in 2020. He was Chair of the Governance Committee until 2020. Peter is currently Chair of the Remuneration Committee and a member of the Board Audit Committee and Board Risk Committee.

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

Director

Mr Downs joined the Board in 2010 and was the Chair of the Board from 2014 to 2020. He was a member of the Governance Committee until 2015, and was a member of the Board Audit Committee and Board Risk Committee from 2015 to 2017. Roger is currently a member of the Governance Committee.

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

Director

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

Mr Michael Halloran MBus (Mgmt), GAICD, FAMI

Director

Mr Halloran joined the Board in 2014 and was a member of the Board Audit Committee and Chair of the Board Risk Committee from 2017 until his resignation in October 2020.

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

Director

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

Ms Deborrah Lambourne MAppFin, FCA

Director

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

Ms Omayya Robinson MMgmt, AssocDipAcct, GAICD

Director

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

Mr John Brannon BCom (Econ), MBA, GAICD

Director

Mr Brannon joined the Board in November 2020. He is a member of the Board Risk Committee and Board Audit Committee.

Information on Company Secretary

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

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
P Kell	7	6	3	1	3	-	1	1			2	2
R Downs	7	6		1**		1**	4	4	1	1	1	1
D De Santis	7	6	1	1	1	1	4	4			2	2
M Halloran	2	2	1	1	1	1						
A Frino	7	7	4	4	4	3						
D Lambourne	7	7	4	4	4	4					2	2
O Robinson	6	6	3	2	3	2	3	3			2	2
J Brannon	5	5	3	3	3	3						

*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 2021 was \$245,782 (2020: \$231,329). The amount of Directors' fees excluding superannuation paid in 2021 was \$224,458 (2020: \$211,041) which is in accordance with the resolution made at the 2020 Annual General Meeting.

Director's Benefits

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

Indemnifying Directors, Officers or Auditors

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

Principal Activities

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

Operating Results for the Year

The net profit of the Credit Union for the year after income tax is \$1,897,000 (2020: \$619,000) representing an increase of 204% from the previous year.

The results for the financial year were underpinned by:

- A decrease in Net Income of 2% to \$15,843,000 from \$16,129,000 in the previous year; and
- A decrease in Operating Expenses of 13% to \$13,334,000 from \$15,302,000 in the previous year, largely due to reassessing the useful life of major banking infrastructure, adjusted in the previous financial year as additional amortisation.

The impact of the Coronavirus (COVID-19) pandemic up to 30 June 2021 has been relatively financially neutral.

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

Significant Changes In State of Affairs

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

Significant Events After the Balance Date

There have been no significant events occurring after the balance date which may affect the Credit Union's operations or the results of those operations, except for noting the ongoing COVID-19 pandemic and its associated impact on estimations fundamental to the preparation of the 2021 financial statements.

Likely Developments and Expected Results

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

- The operations of the Credit Union;
- The results of those operations; or
- 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:

DocuSigned by:

0607F67DF2DB48F...

Chair of the Board

Signed at Wollongong 30th August 2021

DocuSigned by:

B5CD23684603487...
J. LAMBOURNE

Chair of the Board Audit Committee

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

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

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

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

Minimum Competencies

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

Director Development

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

Independence

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

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

Performance

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

Structure of the Board

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

As at 30 June 2021, the Board comprised seven Non-Executive Directors. All Directors are shareholding members of the Credit Union. Board members are elected by the members or appointed in accordance with the Credit Union's Constitution. All elected Directors hold a three-year term, and Directors appointed to the Board may hold a term of no longer than three years. The Chair of the Board is a member-elected Non-Executive Director.

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

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

Role of the Board

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

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

Committees of the Board

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

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

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

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

Board Audit Committee

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

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

Board Risk Committee

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

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

Governance Committee

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

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

Remuneration Committee

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

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

Fit and Proper Committee

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

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

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

Governance Standards

CORPORATE GOVERNANCE STATEMENT

For the Year ended 30 June 2021



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

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

External Audit

The external audit is performed by Crowe Audit Australia. Refer to the Independence Declaration at page 20 and the Audit Opinion at pages 70-72.

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 2021 there have been no contraventions of:

- 1) The auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and
- 2) Any applicable code of professional conduct in relation to the audit.



CROWE AUDIT AUSTRALIA



BRADLEY D BOHUN
Partner

30th August 2021
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 2021



	Note	2021 \$'000	2020 \$'000
Assets			
Cash and cash equivalents	4.1	37,441	34,544
Loans & advances	3.1	615,596	480,918
Placements with other financial institutions	3.2	101,173	127,300
Property, plant and equipment	5.1	6,976	7,272
Right-of-use assets	5.6	123	84
Income tax receivable	2.4	50	-
Intangible assets	5.2	836	930
Other assets	5.3	750	836
Total Assets		762,945	651,884
Liabilities			
Deposits	4.2	702,187	588,083
Payables	5.4	2,131	2,054
Income tax payable	2.4	-	19
Net deferred tax liabilities	2.4	397	195
Provisions	5.5	662	710
Lease liabilities	5.6	125	78
Long term borrowings	5.7	9,595	14,794
Total Liabilities		715,097	605,933
Net Assets		47,848	45,951
Equity			
Reserves	5.8	3,565	3,804
Retained profits		44,283	42,147
Total equity attributable to members of the Credit Union		47,848	45,951

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 2021



	Note	2021 \$'000	2020 \$'000
Interest revenue	2.1	16,389	20,591
Interest expense	2.1	(2,653)	(6,553)
Net interest income		13,736	14,038
Other income	2.2	2,107	2,091
Net income		15,843	16,129
Net impairment loss on financial assets		-	(51)
Personnel expenses	2.3	(4,716)	(5,116)
Depreciation and amortisation expenses	2.3	(995)	(3,084)
Data and transaction processing expenses		(1,130)	(986)
Information technology expenses		(2,344)	(1,946)
Other expenses	2.3	(4,149)	(4,119)
Total operating expenses		(13,334)	(15,302)
Profit before income tax		2,509	827
Income tax (expense)/benefit	2.4	(612)	(208)
Profit after tax		1,897	619
Other comprehensive income, net of income tax		-	-
Total comprehensive income		1,897	619

The accompanying notes form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2021

	General reserve for credit losses	Redeemed share capital reserve	Revaluation reserve	Retained earnings	Total
Note	\$'000	\$'000	\$'000	\$'000	\$'000
Balance at 1 July 2019	1,417	252	2,233	41,430	45,332
Total comprehensive income for the year					
Profit after tax	-	-	-	619	619
Total other comprehensive income	-	-	-	-	-
Total comprehensive income for the year	-	-	-	619	619
Transfers to/from reserves	(100)	2	-	98	-
Balance as at 30 June 2020	1,317	254	2,233	42,147	45,951
Balance at 1 July 2020	1,317	254	2,233	42,147	45,951
Total comprehensive income for the year					
Profit after tax	-	-	-	1,897	1,897
Total other comprehensive income	-	-	-	-	-
Total comprehensive income for the year	-	-	-	1,897	1,897
Transfers to/from reserves	(241)	2	-	239	-
Balance as at 30 June 2021	1,076	256	2,233	44,283	47,848

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 2021



	Note	2021 \$'000	2020 \$'000
Cash flows from operating activities			
Interest received		16,510	20,680
Other cash receipts in the course of operations		2,143	2,075
Interest paid		(3,223)	(7,284)
Cash paid to suppliers and employees		(11,815)	(14,060)
Net income tax paid		(479)	(556)
Net loans (disbursed)/repaid		(134,679)	26,237
Net increase/(decrease) in deposits		114,104	(4,959)
Net cash (used in)/from operating activities	4.3	(17,439)	22,133
Cash flows from investing activities			
Net movement in placements with other financial institutions		26,127	(24,122)
Proceeds from sale of property, plant and equipment		56	-
Payments for property, plant and equipment, and intangibles		(518)	(518)
Net cash from/(used in) investing activities		25,665	(24,640)
Cash flows from financing activities			
Repayment of the lease liabilities		(136)	(128)
Proceeds from long term borrowings		9,592	14,784
Repayment of long term borrowings		(14,785)	-
Net cash (used in)/from financing activities		(5,329)	14,656
Net increase in cash held		2,897	12,149
Cash and cash equivalents at the beginning of the year		34,544	22,395
Cash and cash equivalents at the end of the year	4.1	37,441	34,544

The accompanying notes form part of these consolidated financial statements.

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1. Corporate Information

1.1 Reporting entity

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

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

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

1.2 Basis of preparation

Statement of compliance

This financial report is prepared for Illawarra Credit Union Limited and controlled entities (‘the Group’) for the year ended 30 June 2021. 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 30th August 2021.

Basis of measurement

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

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

Functional and presentation currency

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

Use of estimates and judgements

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

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

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

1.2 Basis of preparation (continued)

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

Going concern

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

1.3 Basis of consolidation

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

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

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

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

2. Financial Performance

2.1. Net interest income

	2021 \$'000	2020 \$'000
Interest revenue		
Loans to members	15,345	18,735
Placements with other financial institutions	946	1,668
Cash and cash equivalents	98	188
Total interest revenue	16,389	20,591
Interest expense		
Deposits – members	(2,570)	(6,262)
Deposits – other ADIs	(64)	(263)
Borrowings	(4)	(8)
Lease liabilities	(5)	(11)
Long term borrowings	(10)	(9)
Total interest expense	(2,653)	(6,553)
Net interest revenue	13,736	14,038

2.1 Net interest income (continued)

Recognition and measurement

Interest revenue

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

Interest expense

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

Loan origination income

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

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

Loan origination expenses

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

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

2.2. Other income

	2021	2020
	\$'000	\$'000
Revenue from contracts with customers		
Transaction and exception fees	858	869
Loan fees & charges	396	401
Insurance commissions	165	182
Financial planning commissions	56	162
International payments commissions	15	10
BPAY commissions	53	57
Total revenue from contracts with customers	1,543	1,681
Other sources of income		
Bad debts recovered	23	28
Income from property	347	293
Gain on sale of investment security	169	14
Government grants (cash flow boost)	25	75
Total other sources of income	564	410
Total other income	2,107	2,091

2.2 Other income (continued)

Recognition and measurement

Fee and commission income

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

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

2.2 Other income (continued)

Income from property

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

Government grants

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

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

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

2.3. Expenses

	Note	2021 \$'000	2020 \$'000
Personnel expenses			
Salaries and associated expenses	5.5	(4,281)	(4,672)
Superannuation	5.5	(330)	(361)
Redundancy costs	5.5	(105)	(83)
Total personnel expenses		(4,716)	(5,116)

Recognition and measurement

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

Depreciation and amortisation expenses

Buildings	5.1	(138)	(134)
Plant and equipment	5.1	(314)	(339)
Leasehold improvements	5.1	(53)	(94)
Intangible software	5.2	(343)	(2,370)
Depreciation of right-of-use assets		(147)	(147)
Total depreciation and amortisation expenses		(995)	(3,084)

Other expenses

Property expenses		(450)	(282)
Marketing expenses		(451)	(675)
Office expenses		(410)	(468)
Legal and insurance expenses		(354)	(284)
Consulting expenses		(998)	(811)
Loss on disposal of assets		(4)	(1)
Other corporate expenses		(1,482)	(1,600)
Total other expenses		(4,149)	(4,121)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2021

2.4. Taxation

	2021 \$'000	2020 \$'000
(a) Income tax expense		
Current tax expense		
- current year	(419)	(604)
- adjustments for prior periods	8	26
	(411)	(578)
Deferred tax expense		
- origination and reversal of temporary differences	(201)	370
Total income tax expense in the statement of profit or loss and other comprehensive income	(612)	(208)

(b) Current tax assets

The current tax receivable for the Credit Union of \$49,567 (2020: tax liability of \$19,100) represents the amount of income tax receivable remaining after the payment of income tax instalments throughout the year.

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

	2021 \$'000	2020 \$'000
Profit before tax	2,509	827
Income tax using the Credit Union's current tax rate of 26% (2020: 27.5%)	(652)	(228)
Increase in income tax expense due to:	-	-
- non-deductible expenses	(2)	(6)
<i>Decrease in income tax expense due to:</i>		
Non assessable income	7	-
Under provided in prior years	8	26
Impact on deferred tax from reduction in future tax rate (from current 26% level to 25%)	27	-
Income tax expense on pre-tax net profit	(612)	(208)

(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	211	253
Property, plant and equipment	13	226
Accrued expenses	37	54
Income in advance	9	14
Sundry items	93	90
Total deferred tax assets	363	637

Property, plant and equipment	(726)	(806)
Sundry items	(34)	(26)
Total deferred tax (liability)	(760)	(832)
Net deferred tax (liability)/assets	(397)	(195)

2.4. Taxation (continued)

Recognition and measurement

Income tax

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

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

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

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

3. Financial Assets

3.1. Loans and advances

	Note	2021 \$'000	2020 \$'000
Loans and advances to:			
- members		614,111	479,538
- key management personnel and their related entities		958	1,647
	6.1	615,069	481,185
Provision for impairment	3.3, 6.1	(182)	(210)
Net deferred loan income and expenses	6.1	709	(57)
Net loans and advances		615,596	480,918

3.2. Placements with other financial institutions

Deposits with banks and other financial institutions		3,500	37,750
Government and semi-government securities		33,206	-
Floating rate notes (FRN's)		48,058	66,142
Negotiable certificates of deposit (NCD's)		16,409	23,408
		101,173	127,300

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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2021

3.3 Provision for impairment of financial assets

	Note	2021 \$'000	2020 \$'000
Total provision comprises of:			
Expected credit loss allowance		182	210
Total provision	3.1, 6.1	182	210

2021

Movement category	Stage 1	Stage 2	Stage 3	Total
	12 month ECL	Lifetime ECL	Lifetime ECL	
	2021	2021	2021	2021
	\$'000	\$'000	\$'000	\$'000
Balance at 1 July 2020	54	108	48	210
Movement due to increase in loans & advances	13	4	-	17
Movement due to change in credit risk	(26)	(75)	74	(27)
Bad debts written off from provision	-	-	(18)	(18)
Changes in model/risk parameters	-	-	-	-
Balance at 30 June 2021	41	37	104	182

2020

Movement category	Stage 1	Stage 2	Stage 3	Total
	12 month ECL	Lifetime ECL	Lifetime ECL	
	2020	2020	2020	2020
	\$'000	\$'000	\$'000	\$'000
Balance at 1 July 2019	44	92	49	185
Movement due to increase in loans & advances	21	9	6	36
Movement due to change in credit risk	(15)	(1)	3	(13)
Bad debts written off from provision	-	-	(10)	(10)
Changes in model/risk parameters	4	8	-	12
Balance at 30 June 2020	54	108	48	210

Recognition and measurement

AASB 9's impairment requirements use more forward looking information to recognise expected credit losses – the “expected credit loss model” (ECL). The Credit Union considers a broader range of information when assessing credit risk and measuring expected credit losses, including past events, current conditions, and reasonable and supportable forecasts that affect the expected collectability of the future cash flows of the financial asset. In applying this forward looking approach, a distinction is made between:

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

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 the loan has been restructured, and when a loan is more than 30 days past due. Any declaration of hardship or restructure due to the COVID-19 pandemic has also been considered a significant increase in credit risk.

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.

3.3 Provision for impairment of financial assets (continued)

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

Sensitivity Analysis

A probability-weighted ECL has been prepared taking into consideration a base case, upside and downside scenario across each of the Credit Union's loan portfolios. Given the forecast near-term outlook, including the anticipated COVID-19 pandemic impact, a 5% weighting has been applied to the upside scenario. The base case incorporates a reasonable level of portfolio stress driven by forecast unemployment rate (unemployment slowly recovering until 2023). This scenario is weighted at 55%. The downside scenario assumes a prolonged downturn (unemployment remaining elevated throughout 2022 and 2023) and collateral values being discounted by 25% for the calculation of the EAD. This scenario has been given a 45% weighting. As the effect of these weightings was minor, the Credit Union has elected to use the base case.

Incorporation of forward looking information

The Credit Union has taken into consideration several macro-economic factors including unemployment rate, gross domestic product, housing price index and interest rates. Through analysis it was determined that the unemployment rate showed a correlation with the Credit Union's arrears history, therefore the PD will be reviewed and adjusted if a significant change in the unemployment rate is forecast or has occurred. In 2020, the PD for each stage was reviewed and adjusted based on a forecasted increase in unemployment rate due to the potential impacts of the COVID-19 pandemic. In 2021, these assumptions were reassessed based on the improved economic outlook and decreased unemployment rates. However, due to the recent change in economic forecasts driven by the 2021 lockdowns, the PD has remained at the heightened 2020 levels.

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2021

4. Deposits and Liquidity

	Note	2021 \$'000	2020 \$'000
4.1 Cash and cash equivalents			
Cash at bank and on hand		35,303	23,393
Deposits at call		2,138	11,152
Total cash and cash equivalents	6.1	37,441	34,544

Cash and cash equivalents include restricted balances of \$14.7 million (2020: \$16.4 million) in the Credit Union which represents deposits held in securitisation trust collection and liquidity reserve accounts which are not available to the Group.

Recognition and measurement

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

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

	Note	2021 \$'000	2020 \$'000
4.2. Deposits			
Withdrawable shares		46	48
Call deposits		415,364	352,521
Retail term deposits		197,527	234,264
Wholesale term deposits		89,250	1,250
	6.1	702,187	588,083

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	2021 \$'000	2020 \$'000
Cash and cash equivalents	4.1	37,441	34,544
Reconciliation of cash flows from operating activities			
Profit for the year attributable to members of the Group		1,897	619
Charge for bad and doubtful debts and impairment losses		-	51
Depreciation and amortisation		995	3,084
Net loss on disposal of plant and equipment		4	1
Operating profit before changes in assets and liabilities		2,896	3,755
Changes in assets and liabilities			
Net loans repaid/(funded)		(134,679)	26,237
Net movement in deposits		114,104	(4,959)
Movement in interest receivable		69	68
Movement in other receivables		36	(16)
Movement in deferred tax asset		275	(252)
Movement in prepayments		(19)	122
Movement in interest payable		(528)	(719)
Movement in sundry creditors and accruals		600	(1,844)
Movement in provision for employee entitlements		(46)	(163)
Movement in current tax liabilities		(69)	22
Movement in make good provision		(2)	2
Movement in Right-of-use Asset		(3)	(1)
Movement in deferred tax liability		(73)	(119)
Net cash flows (used in)/from operating activities		(17,439)	22,133

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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2021

5. Other Financial Position Notes

5.1. Property, plant and equipment

		Land & Buildings at Fair Value	Leasehold Improvements at cost	Plant and Equipment at cost	Total
	Note	\$'000	\$'000	\$'000	\$'000
Gross carrying amount					
Balance as at 30 June 2019		6,265	554	3,510	10,329
Additions		-	-	162	162
Revaluations		-	-	-	-
Disposals		-	-	(27)	(27)
Transfers		-	-	-	-
Balance as at 30 June 2020		6,265	554	3,645	10,464
Additions		155	-	113	268
Revaluations		-	-	-	-
Disposals		-	-	(218)	(218)
Transfers		-	-	-	-
Balance as at 30 June 2021		6,420	554	3,540	10,514
Accumulated Depreciation					
Balance as at 30 June 2019		(271)	(407)	(1,973)	(2,651)
Disposals		-	-	27	27
Depreciation Expenses	2.3	(134)	(94)	(339)	(567)
Revaluations		-	-	-	-
Balance as at 30 June 2020		(405)	(501)	(2,285)	(3,191)
Disposals		-	-	158	158
Depreciation Expenses	2.3	(138)	(53)	(314)	(505)
Revaluations		-	-	-	-
Balance as at 30 June 2021		(543)	(554)	(2,441)	(3,538)
Net Book Value					
Balance as at 30 June 2020		5,860	52	1,360	7,272
Balance as at 30 June 2021		5,877	-	1,099	6,976

5.1. Property, plant and equipment (continued)

Recognition and measurement

Land and buildings

Land and buildings are measured at fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. The carrying amount of land and buildings as at balance date is \$5,877,000.

An independent valuation was carried out by Opteon in June 2017 on the basis of the open market value of the property concerned in existing use, which resulted in a valuation of \$6,250,000 for land and buildings. The valuation was performed on the basis of the Credit Union occupying the majority of the building, with leases in place for areas let to tenants. A subsequent valuation was carried out by Opteon in June 2020 on the basis of the open market value of the property concerned in existing use, which resulted in a valuation of \$6,500,000. The valuation was performed during the Covid-19 pandemic, with limited market activity and low sales volumes. The valuation report acknowledged that past cycles indicate a lag for property markets to react to economic events, and that the extent of any decline in value at the time was uncertain, and may depend on the length of the Covid-19 pandemic. As the Covid-19 pandemic continues to create market uncertainty in 2021 through low-sales volumes and increased market vacancy rates, the extent of any decline in value since the 2020 valuation remains uncertain. The market rental rate used in the 2020 valuation was \$300/sqm. Current rental rates received for the letted areas of the property, along with local market data for the Wollongong commercial property market indicate that this input remains valid in the present market. While the 2020 valuation report did not indicate impairment of land and buildings, it did present estimation uncertainty regarding the increased valuation of the land and buildings which still exists at the balance date.

Due to the continued estimation uncertainty, the Credit Union has determined that the carrying amount of land and buildings, and the fair value are not materially different, and has decided not to revalue land and buildings based on the June 2020 valuation.

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

The fair value measurement of freehold land and buildings has been categorised as a Level 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 7.50% based on the 2020 valuation. The property outgoings rate is a significant unobservable input, and a rate of \$70/sqm is currently used, in line with the assumptions used in the 2020 valuation. The market rental rate is a significant unobservable input, and a rate of \$300/sqm is currently used, which is in line with the assumption used in the 2020 valuation. In the 2020 valuation, the assumption was determined using the average rental rates of the Credit Union's existing leases, along with the impact of the current market conditions. While the average rental rate of the Credit Union's existing leases is \$320/sqm, it is likely that the Credit Union would need to reduce this rate when seeking new commercial tenants, given the increased market vacancy rates of the Wollongong region in 2021, and reduced demand due to work from home requirements. The tenant incentive required to attract a new commercial tenant is also a significant unobservable input. An incentive of a 3 month rent free period has been assumed, in line with the assumptions in the 2020 valuation.

5.1. Property, plant and equipment (continued)

The level 3 unobservable inputs and sensitivity are as follows:

Input Description	Input Type	Range (if unobservable)	Sensitivity (if unobservable)
Market capitalisation rate	Unobservable	7.00% - 8.00%	A 0.50% change would increase/decrease the market value of land & buildings by ~\$450,000
Property outgoings rate	Unobservable	\$65 - \$75/sqm	A \$5/sqm change would increase/decrease the market value of land & buildings by ~\$150,000
Market Rental Rate	Unobservable	\$280 - \$320/sqm	A \$20/sqm change would increase/decrease the market value of land & buildings by ~\$570,000
Tenant Incentive	Unobservable	2 - 4 month rent free period	A one month change in the rent incentive offered would increase/decrease the market value of land & buildings by ~\$50,000

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.

5.1. Property, plant and equipment (continued)

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

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

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

5.2. Intangible assets

	Note	2021 \$'000	2020 \$'000
At cost		2,024	1,878
Provision for amortisation		(1,291)	(948)
Intangible assets		733	930
Work in progress		103	-
Total intangible assets		836	930
<i>Reconciliation of carrying amounts</i>			
Carrying amount at the beginning of the year		930	2,943
Additions		249	357
Amortisation	2.3	(343)	(2,370)
Disposals		-	-
Carrying amount at the end of the year		836	930

Recognition and measurement

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

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

Amortisation

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

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

In the 2020 financial year core major banking infrastructure was reassessed as having a useful life of 3 years (previously 7 years). An amount of \$1.7m was recognised in 2020 as additional amortisation in the Statement of Profit or Loss and Other Comprehensive Income as depreciation and amortisation expense. The core banking infrastructure asset had a nil written down value as at 30 June 2020, consequently no amortisation was expensed in the 2021 financial year.

5.3. Other assets

	2021 \$'000	2020 \$'000
Prepayments	479	460
Interest receivable	250	320
Other	21	56
	750	836

5.4. Payables

	Note	2021 \$'000	2020 \$'000
Sundry creditors		1,069	704
Accrued interest payable		404	927
Accrued expenses		658	423
Total other payables	6.1	2,131	2,054

Recognition and measurement

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

5.5. Provisions

	2021 \$'000	2020 \$'000
Employee benefits		
-Liability for annual leave	313	358
-Liability for long service leave	286	286
Make good costs	63	66
	662	710

Included in employee benefits is a non-current amount of \$98,000 (2020: \$124,000)

Recognition and measurement

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

Short term employee benefits

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

5.5. Provisions (continued)

Long term employee benefits

The liability for employee benefits for long service leave represents the present value of the estimated future cash outflows to be made by the Credit Union resulting from employees' services provided in the current and prior financial reporting periods, as at balance date. The provision is calculated using expected future increases in wage and salary rates including related on-costs and expected settlement dates based on turnover history, and is discounted to determine its present value. The unwinding of the discount is treated as long service leave expense.

Redundancy benefits

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

Make good provision

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

5.6. Leases

(a) Credit Union as a lessee

Nature of the leasing activities

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

Terms and conditions of leases

All leases have an initial term of one year plus a one year extension option, with the exception of the Dapto lease, which is a one year term with no extension option

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

5.6. Leases (continued)

Right-of-use assets

	2021	2020
	\$'000	\$'000
At cost	270	231
Accumulated depreciation	(147)	(147)
Balance at the end of the year	123	84

	Land and buildings	Total
	\$'000	\$'000
Balance at 1 July 2019	231	231
Depreciation charge	(147)	(147)
Balance at 30 June 2020	84	84
Additions to right-of-use assets	186	186
Depreciation charge	(147)	(147)
Balance at 30 June 2021	123	123

Lease liabilities

	2021	2020
	\$'000	\$'000
Current		
Not later than 1 year	115	78
Non current		
Later than 1 year	10	-
Total	125	78

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

	2021	2020
	\$'000	\$'000
Not later than 1 year	117	80
Later than 1 year and not later than 5 years	11	-
Total	128	80

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

5.6. Leases (continued)

Extension options

Two of the building leases contain extension options which allow the Credit Union to extend the lease term beyond the non-cancellable period. These option periods are one year for each lease. The Credit Union includes options in the leases to provide flexibility and certainty to the Credit Union’s operations and reduce costs of moving premises, and the extension options are at the Credit Union’s discretion.

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

There are no potential future lease payments not included in the lease liabilities. Both lease options are included in the lease liabilities, as the Credit Union has assessed the exercise of these options as being reasonably certain as at the balance date.

Income statement

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

	2021	2020
	\$'000	\$'000
Interest expense on lease liabilities	<u>(5)</u>	<u>(11)</u>

Statement of cash flows

	2021	2020
	\$'000	\$'000
Total cash outflow for leases – including interest	<u>(141)</u>	<u>(139)</u>

Exemptions applied

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

As at 30 June 2021, the Credit Union is not committed to any short-term leases (2020: nil).

5.6. Leases (continued)

Key assumptions used in calculations

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

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

(b) Credit Union as a lessor

Operating leases

Nature of the leasing activities

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

Terms and conditions of leases

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

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

Income statement

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

	2021	2020
	\$'000	\$'000
Lease/rental income (excluding variable lease payments not dependent on an index or rate)	347	293
Total lease/rental income	347	293
Direct operating expenses (including repairs & maintenance) arising from investment property that generated rental income during the period	(81)	(91)
Total direct operating expenses	(81)	(91)

5.6. Leases (continued)

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

	2021	2020
	\$'000	\$'000
< 1 year	366	300
1 - 2 years	133	298
2 - 3 years	62	60
3 - 4 years	-	39
Total undiscounted lease payments receivable	561	697

Finance leases

Nature of the leasing activities

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

(c) Accounting policy for leases

Credit Union as a lessee

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

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

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

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

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

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

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

5.6. Leases (continued)

(c) Accounting policy for leases (continued)

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

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

Credit Union as a lessor

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

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

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

5.7. Long term borrowings

	2021 \$'000	2020 \$'000
Term Funding Facility (TFF)	9,595	14,794
Total long term borrowings	9,595	14,794

Recognition and measurement

Term Funding Facility (TFF)

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

The Credit Union's Supplementary Allowance of \$9,591,908 was drawn on 24 February 2021 (purchase date). The collateral used to access the facility is \$11,470,000 Class A notes from the MTG ICU Trust Repo Series No 1. The Credit Union has nil additional or supplementary allowances available.

The TFF is measured at amortised cost and recognised as the aggregate amount of money owing to the Reserve Bank of Australia (RBA) as part of the reciprocal purchase transaction. The amount of interest accrued at balance date is shown as part of the TFF. The repurchase price is \$9,620,710 and the repurchase date is 26 February 2024.

5.8. Reserves	2021	2020
	\$'000	\$'000
General reserve for credit losses	1,076	1,317
Redeemed share capital reserve	256	254
Asset revaluation reserve	2,233	2,233
Total Reserves	3,565	3,804

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 Poor's.

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:

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2021

6.1 Risk management framework (continued)

a) Credit risk (continued)

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

As at the balance date, there were no individual members that have loans that represent more than 10% of the Credit Union's assets (2020: nil).

**Hardships declarations/restructures resulting from the COVID-19 pandemic are included here of which the total balance was \$0

6.1. Risk management framework (continued)

a) Credit risk (continued)

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

**Hardships declarations/restructures resulting from the COVID-19 pandemic are included here of which the total balance was \$30,660,729 across 86 loans.

6.1. Risk management framework (continued)

a) Credit risk (continued)

Loans restructured

During the year loans totalling \$2,776,000 (2020: \$4,076,000) have been restructured by the Credit Union and at the end of 30 June 2021, the Credit Union had a total of \$2,854,000 (2020: \$3,998,000) restructured loans. The Credit Union has determined that restructured loans show significant increase in credit risk since initial recognition, hence are a trigger for movement into Stage 2 of the Expected Credit Loss impairment model. No restructured loans have moved into Stage 3 during the year.

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

	Note	2021 \$'000	2020 \$'000
Illawarra NSW		330,461	291,728
Sydney NSW		201,195	133,837
Far South Coast NSW		9,852	8,052
Other NSW/ACT		42,392	21,358
Victoria		7,678	4,232
QLD		14,842	12,041
WA		5,780	6,437
Other		2,869	3,500
	3.1	615,069	481,185

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

Loans and advances

	2021 \$'000		2020 \$'000
Stage 3: Lifetime ECL		Stage 3: Lifetime ECL	
- Property	1,496	- Property	3,042
- Other	25	- Other	-
Stage 2: Lifetime ECL		Stage 2: Lifetime ECL	
- Property	14,481	- Property	83,176
- Other	120	- Other	2,747
Stage 1: 12 month ECL		Stage 1: 12 month ECL	
- Property	1,520,152	- Property	1,111,685
- Other	13,087	- Other	7,927
Total value of collateral held	1,549,361	Total value of collateral held	1,208,577
Average Loan to Valuation ratio	39.73%	Average Loan to Valuation ratio	39.79%

6.1. Risk management framework (continued)

a) Credit risk (continued)

Collateral

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

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

	2021	2020
	\$'000	\$'000
Nature of non-financial assets – Property	-	-
Nature of non-financial assets – Motor vehicle	-	-
	<u>-</u>	<u>-</u>

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 \$18,217 (2020: \$11,393) of debts were written off, but are still subject to enforcement activities.

Settlement Risk

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

b) Liquidity risk

Exposure to liquidity risk

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

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

6.1. Risk management framework (continued)

b) Liquidity risk (continued)

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

	2021	2020
	%	%
MLH at 30 June	14.47	15.98
MLH average for the period	17.74	13.80
MLH maximum for the period	23.16	17.28
MLH minimum for the period	12.94	11.73
Total liquidity at 30 June	16.10	23.55

Management of liquidity risk

The Credit Union’s approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its obligations when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Credit Union’s reputation. The Credit Union has an overdraft facility with a limit of \$4,000,000 for 2021 (2020: \$4,000,000) and a self-securitisation programme with which it can access emergency liquidity through an RBA repo facility (refer to note 7.6) in place to assist in adequately managing liquidity.

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2021

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 \$'000	Gross nominal inflow/ (outflow) \$'000	Less than 1 month \$'000	1-3 months \$'000	3 months to 1 year \$'000	1-5 years \$'000	More than 5 years \$'000
30 June 2021								
<i>Non-derivative liabilities</i>								
Deposits – retail	4.2	612,937	(612,935)	(456,992)	(70,861)	(84,098)	(983)	-
Deposits – wholesale	4.2	89,250	(89,355)	(13,003)	(48,284)	(28,068)	-	-
Payables	5.4	2,131	(2,131)	(2,004)	(64)	(62)	(1)	-
Long term borrowings	5.7	9,595	(9,621)	-	-	-	(9,621)	-
		713,913	(714,042)	(471,999)	(119,209)	(112,228)	(10,605)	-
Unrecognised finance commitments - approved but undrawn loans	7.2	58,436	(58,436)	(40,118)	(9,247)	(9,071)	-	-
		772,349	(772,478)	(512,117)	(128,456)	(121,299)	(10,605)	-
30 June 2020								
<i>Non-derivative liabilities</i>								
Deposits – retail	4.2	586,833	(587,893)	(399,131)	(57,937)	(129,461)	(1,364)	-
Deposits – wholesale	4.2	1,250	(1,251)	(1,000)	(251)	-	-	-
Payables	5.4	2,054	(2,054)	(1,757)	(92)	(203)	(2)	-
Long term borrowings	5.7	14,794	(14,896)	-	-	-	(14,896)	-
		604,931	(606,094)	(401,888)	(58,280)	(129,664)	(16,262)	-
Unrecognised finance commitments - approved but undrawn loans	7.2	11,089	(11,089)	(5,412)	(3,469)	(2,208)	-	-
		616,020	(617,183)	(407,300)	(61,749)	(131,872)	(16,262)	-

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:

	2021 \$'000	2020 \$'000
Interest rate risk – Value at Risk	322	91

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

Fixed rate instruments

Financial assets	233,009	252,718
Financial liabilities	(296,369)	(250,299)
	(63,360)	2,419

Variable rate instruments

Financial assets	520,673	390,311
Financial liabilities	(415,410)	(352,569)
	105,263	37,743

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2021

6.1. Risk management framework (continued)

d) Fair Values

Fair values versus carrying amounts

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

	Note	30 June 2021			Fair value \$'000			
		Carrying amount \$'000						
		Financial assets measured at amortised cost	Financial liabilities measured at amortised cost	Total	Level 1	Level 2	Level 3	Total
Financial assets carried at amortised cost								
Loans and advances	3.1	615,596	-	615,596	-	610,060	-	610,060
Placements with other financial institutions	3.2	101,173	-	101,173	-	101,812	-	101,812
Cash and cash equivalents*	4.1	37,441	-	37,441	-	-	-	-
		754,210	-	754,210	-	711,872	-	711,872
Financial liabilities carried at amortised cost								
Deposits	4.2	-	(612,937)	(612,937)	-	(612,950)	-	(612,950)
Wholesale deposits	4.2	-	(89,250)	(89,250)	-	(9,595)	-	(9,595)
Payables*	5.4	-	(2,131)	(2,131)	-	-	-	-
Long term borrowings	5.7	-	(9,595)	(9,595)	-	(9,537)	-	(9,537)
		-	(713,913)	(713,913)	-	(632,082)	-	(632,082)

*The Credit Union has not disclosed the fair values for financial instruments such as cash and cash equivalents, short-term trade receivables and payables, because their carrying amounts are a reasonable approximation of fair values. There have been no transfers between the valuation levels during 2021 (2020: Nil).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2021

6.1. Risk management framework (continued)

d) Fair Values (continued)

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

*The Credit Union has not disclosed the fair values for financial instruments such as cash and cash equivalents, short-term trade receivables and payables, because their carrying amounts are a reasonable approximation of fair values.

6.1. Risk management framework (continued)

d) Fair Values (continued)

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

Cash and cash equivalents

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

Payables

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

Loans and receivables

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

Deposits

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

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

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:

	2021 \$'000	2020 \$'000
Regulatory capital	46,080	44,902
Risk weighted assets	323,441	281,283
Regulatory capital expressed as a percentage of total risk weighted assets	14.25%	15.96%

7. Other Notes

7.1. Commitments

	2021 \$'000	2020 \$'000
Capital expenditure commitments		
Capital expenditure commitments not taken up in the financial statements		
- payable less than one year	<u>177</u>	<u>-</u>
	<u>177</u>	<u>-</u>

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	<u>58,436</u>	<u>11,089</u>
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7.2. Contingent liabilities

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

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

	2021 \$'000	2020 \$'000
Performance bonds	<u>147</u>	<u>177</u>

7.3. Related parties

Key management personnel are those persons having authority and responsibility for planning, directing, and controlling the activities of the entity, directly or indirectly, including any Directors (whether executive or otherwise) of the entity. During the 2020-21 period, key management personnel would consist of all Directors which served during the period, as well as the following senior managers.

7.3. Related parties (continued)

Directors

Mr P Kell
Mr R Downs
Mr M Halloran (resigned November 2020)
Ms D De Santis
Mr A Frino
Ms D Lambourne
Ms O Robinson (appointed October 2020)
Mr J Brannon (appointed November 2020)

Key Management Personnel

Mr A Perkiss (Chief Executive Officer / Company Secretary)
Mr T Ellem (General Manager Member Services) (cessation November 2020)
Mr R Coldwell (Chief Information Officer)
Ms J Zondag (Head of Finance and Banking Operations)
Mr S Robertson (Chief Risk Officer) (cessation July 2021)
Ms L Ali (Head of Credit) (maternity leave September 2020)

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:

	2021	2020
	\$	\$
Short term employee benefits	1,330,153	1,332,397
Other long-term benefits	17,554	35,859
Post-employment benefits	110,744	122,024
Termination benefits	21,679	-
	1,480,130	1,490,280

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:

	2021	2020
	\$	\$
Aggregate of loans as at balance date	958,168	1,646,731
Total undrawn revolving credit facilities available at balance date	60,000	50,000
Interest charged on loans and overdraft facilities	13,273	66,016

7.3. Related parties (continued)

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

Deposits from Key Management Personnel and their related parties

	2021	2020
	\$	\$
Aggregate of term and savings deposits as at balance date	605,975	681,454
Interest paid on deposits	3,073	9,794

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 \$19,429 (2020: \$8,038). 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 was \$6,226 owing to Kells the Lawyers at the end of the year (2020: nil).

7.4. Events subsequent to balance date

There has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the Directors of the Credit Union, to affect significantly the operations of the Credit Union, the results of those operations, or the state of affairs of the Credit Union, in future financial years, except for noting the ongoing COVID-19 pandemic and its associated impact on estimations fundamental to the preparation of the 2021 financial statements. Refer to Note 1.2.

7.5. Auditor's remuneration

Audit services	2021	2020
	\$	\$
Audit of the financial report	91,645	88,843
Other regulatory audit services	17,853	16,555
	109,498	105,398
Other services		
Taxation services	12,984	-
	12,984	-
	122,482	105,398

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

7.6. Transfer of financial assets

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

The Trust was created on 13th December 2018 and was approved by the RBA on 23rd March 2019. On 16th April 2020 (effective 31st March 2020) the Credit Union transferred additional loan contractual benefits to increase the size of these liquidity facilities. The last top up of the trust occurred on 23rd April 2021 where the loan balance of \$21,575,888 was sold. The carrying amount of the loans at the time of the last transfer was \$134,522,992.

	2021 \$'000	2020 \$'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	126,474	124,726
Fair value of associated liabilities	<u>(126,474)</u>	<u>(124,726)</u>
Net	<u>-</u>	<u>-</u>

Repurchase obligations MTG ICU Repo Series No.1 Trust

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

7.7. Parent entity disclosures

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

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

Results of the parent entity	2021	2020
	\$'000	\$'000
Profit for the year	1,897	619
Other comprehensive income for the year	-	-
Total comprehensive income for the year	1,897	619
Financial position of the parent entity		
Total assets	762,945	651,884
Total liabilities	(715,097)	(605,933)
Net assets	47,848	45,951
Retained earnings	44,283	42,147
Reserves	3,565	3,804
	47,848	45,951

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

8. Other Accounting Policies

8.1. Other significant accounting policies

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

(a) Goods and services tax

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

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

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

(b) Impairment of non-financial assets

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

The recoverable amount of an asset or cash-generating unit (CGU) is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

8.1. Other significant accounting policies (continued)

For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets, the CGU. An impairment loss is recognised if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss.

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

8.2 Changes in significant accounting policies

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

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

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

8.3. New accounting policies not yet adopted

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

DIRECTORS' DECLARATION

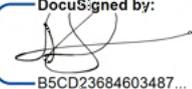
For the Year ended 30 June 2021

1. In the opinion of the Directors of Illawarra Credit Union Limited ("the Credit Union"):
 - a) The consolidated financial statements and notes of the Credit Union (and its controlled entities) that are set out on pages 21 to 68 are in accordance with the *Corporations Act 2001*, including:
 - (i) Giving a true and fair view of the Credit Union's financial position as at 30 June 2021 and of its performance for the financial year ended on that date; and
 - (ii) Complying with Australian Accounting Standards and the Corporations Regulations 2001.
 - b) There are reasonable grounds to believe that the Credit Union will be able to pay its debts as and when they become due and payable.
2. The Directors draw attention to note 1.2 to the financial statements, which includes a statement of compliance with International Financial Reporting Standards.

Signed in accordance with a resolution of the Directors:

DocuSigned by:

0607F67DF2DB48F...
P. Kell
Chair of the Board

DocuSigned by:

B5CD23684603487...
D. Lambourne
Chair of the Board Audit Committee

Wollongong, 30th August 2021

Illawarra Credit Union Limited and its subsidiaries

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

Opinion

We have audited the financial report of Illawarra Credit Union Limited (the Company and its subsidiaries, 'the Group'), which comprises the consolidated statement of financial position as at 30 June 2021, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

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

- (a) giving a true and fair view of the Group's financial position as at 30 June 2021 and of its financial performance for the year then ended; and
- (b) complying with Australian Accounting Standards report and the *Corporations Regulations 2001*.

Basis for Opinion

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

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

Other Information

The directors are responsible for the other information. The other information comprises the directors' report information contained in the Group's annual report for the year ended 30 June 2021, but does not include the financial report and our auditor's report thereon.

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

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

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

Responsibilities of the Directors for the Financial Report

The directors of the Group are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

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

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

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



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

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

A handwritten signature in blue ink, appearing to read "Bradley D Bohun".

CROWE AUDIT AUSTRALIA

A handwritten signature in blue ink, appearing to read "Bradley D Bohun".

BRADLEY D BOHUN

Partner

30th August 2021

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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FSL/Australian credit licence 245576