Horizon Bank

Annual Report 2021

Chair's Report

The events of 2020/21 can only be described as challenging. The continuing issues created by COVID-19 lockdowns on people and businesses are not only distressing, but have created challenges for Board and Management. Despite these unparalleled difficulties, Horizon Bank continues to be a financially strong, resilient and growing financial institution.

Our frontline staff have performed amazingly well with the continual COVID-19 interruptions. Management and back-office personnel continue to support branches and members with enthusiasm and dedication to their roles. Whilst the merger with Lysaght Credit Union (LCU) has been highly successful, it did add some extra complications and workload for staff during the IT integration phase. The transition, however, was exceptionally smooth as a direct result of magnificent planning by all parties.

I sincerely hope that former LCU members now feel they have joined the family at Horizon Bank. Paul Dwyer and his loyal LCU staff are now fully integrated at our Head Office and branch at Stewart Street. I hope all 2,200 former LCU members feel at home when they visit any of Horizon's nine branches. I am acutely aware that Horizon has been entrusted with a great responsibility in being chosen as LCU's merger partner and I am confident that Horizon has the culture, people and systems to vindicate the decision of LCU's Board, Management and members.

Horizon's financial results for 2020/21 were once again solid. Excluding the significant merger costs, our pre-tax profit of $2.319M was 37% above the previous year. This result, combined with the merger, resulted in capital adequacy improving by 1.18% to 15.20%, which is well above APRA mandated minimums. All branches are performing extremely well and I am pleased to advise that merger synergy savings are already being achieved. Other highlights of the 2020/21 financial year, were:

- Organic deposit growth of 15.3%;
- Organic loan growth of 10.4%; and
- 3,300 new members welcomed including 2,200 from LCU.

These results reflect Horizon Bank's unquestionable strength

(L-R) David Morgan, Elaine Martin and Paul Dwyer

The Board is immensely proud of our achievements during COVID-19. We continued to remain open to service our members, whilst our competitors in the region shut their doors. Those members who were impacted financially due to job/income losses had their loan repayments deferred until their incomes started flowing again. I am pleased to advise that we achieved zero loan losses from deferred COVID-19 loans. Horizon Bank is here to service members, especially in times of difficulty.

No doubt, you our members, are fully aware that the "Big 4 Banks" have closed a large number of their branches in our geographic region. Members of other mutual banking organisations are now also seeing their branches close. The current strategy of our Board, although expensive and possibly counter-intuitive to those with only a short-term focus, is to maintain a branch network to service our members with face-to-face interactions. Using a decentralised model for some back-office functions enables branch staff to be productive and develop enhanced skills.

The year ahead is exciting, yet daunting. We look forward to the easing of COVID-19 restrictions, especially for those members who have lost their incomes and thus been forced to again defer their loan repayments. We hope for a strong rebound in economic conditions. On the regulatory front, even more challenges must be met. The next phase of 'Open Banking', due in late-2021, is particularly complicated and expensive to implement. Low interest rates seem set to continue, which will place extraordinary pressure on our Net Income Margin (our main line of income) and we must continue to have modest growth in loans to offset this loss of margin.

Finally, I would like to thank three retiring Board Members for their service, Paul Daly, Peter Dun and former Board Chair Jo Hinge. These Directors have steered your Bank to where it is today. Their diligence and financial acumen have been second to none. A big thank you to the rest of the Board also, for their continued hard work, loyalty and integrity. To CEO Jon Stanfield, his management team and all our fantastic staff, who go above and beyond for our members, thank-you.

Mark Crowther, Chair

(L-R) Bermagui branch staff – R U OK Day. Merimbula collection for Hoodies for the Homeless.
Wollongong branch staff collecting food for the Homeless Hub. Bega branch staff getting behind R U OK Day.

Directors' Report

Your Directors present their report on the credit union for the financial year ended 30 June 2021.

The credit union is a company registered under the Corporations Act 2001.

Information on Directors

The names of the directors in office at any time during or since the end of the year are: -

Name	***Qualifications***	***Experience***	***Current Responsibilities***
Mark Crowther	B Com, GAICD	Director – 2013 to Present	Chair of the Board Chair of the Corporate Governance Committee Chair of the Integration Committee Chair of the Remuneration Committee
Paul Daly	B. Acy.	Director – April 2021 to Present	Member of the Integration Committee
Peter Dun	B Bus, MBA	Director – 2014 to April 2021	
Elisha Gilmour	B Law, B Sci., GDLP	Director – April 2021 to Present	Member of the Corporate Governance Committee Member of the Remuneration Committee
Michael Gleeson	FCA, GAICD	Director – 2013 to Present	Member of the Audit Committee Member of the Risk Committee
Jason Hall	ANZIIF (Fellow) CIP, B Bus, CPRM, GAICD	Director – 2014 to Present	Chair of the Risk Committee Member of the Audit Committee
Joanne Hinge	MAICD	Director – 2009 to Present	Member of the Corporate Governance Committee Member of the Remuneration Committee Member of the Integration Committee
Maree Kerr	GAICD	Director – 2012 to Present	Chair of the Audit Committee Member of the Risk Committee
Glenda Papac	MAICD	Director – 2010 to Present	Member of the Audit Committee Member of the Risk Committee
Nick Scavarelli	B Com	Director – April 2021 to Present	Member of the Audit Committee Member of the Risk Committee
Viktor Tomeski	B Com (Hons), CPA, MAICD	Director – April 2021 to Present	Member of the Corporate Governance Committee Member of the Remuneration Committee Member of the Integration Committee

The name of the Company Secretary in office at the end of the year is: -

Name	***Qualifications***	***Experience***
Jon Stanfield	B Ec., ACA	Chief Executive Officer

Directors' meeting attendance

Director	**Board Meetings**		**Committee Meetings**	
	Eligible to attend	**Attended**	**Eligible to attend**	**Attended**
Mark Crowther	12	12	6	6
Paul Daly	3	2	2	2
Peter Dun	10	10	2	2
Elisha Gilmour	2	2	1	1
Michael Gleeson	12	12	10	9
Jason Hall	12	12	10	10
Joanne Hinge	12	12	8	8
Maree Kerr	12	12	10	10
Glenda Papac	12	11	9	9
Nick Scavarelli	3	3	2	2
Viktor Tomeski	3	3	3	3

Directors’ Benefits

No Director has received or become entitled to receive during, or since the financial year, a benefit because of a contract made by the credit union, controlled entity, or a related body corporate 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 33 of the financial report.

Indemnifying Officer or Auditor

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 an officer of the credit union. In accordance with normal commercial practice, disclosure of the premium amount and the nature of the insured liabilities is prohibited by a confidentiality clause in the contract.

No insurance cover has been provided for the benefit of the auditors of the credit union.

Financial Performance Disclosures

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.

No significant changes in the nature of these activities occurred during the year.

Operating Results

The net profit of the credit union for the year after providing for income tax was $981,318 [2020 $1,260,369].

Dividends

No dividends have been paid or declared since the end of the financial year and no dividends have been recommended or provided for by the Directors of the credit union.

Review of Operations

The results of the credit union’s operations from its activities of providing financial services to its members did not change significantly from those of the previous year.

Significant Changes in State of Affairs

Other than the total voluntary transfer of business accepted from Lysaght Credit Union Ltd (LCU) on 1 April 2021, there were no significant changes in the state of the affairs of the credit union during the year. The credit union continues to comply with all government requirements in relation to the COVID-19 pandemic. Changes in consumer banking preferences during the COVID-19 lockdowns have resulted in fewer in-branch transactions, but with significant increases in contactless and online transactions. These changes have not significantly impacted upon Horizon’s core banking operations.

Events occurring after the reporting period

The impact of the COVID-19 pandemic is ongoing. While it is not practical to accurately estimate the ongoing impacts of COVID after the reporting date, the economic rebound experienced in 2020, in conjunction with the decrease likelihood of future lockdowns once community vaccination thresholds are reached, provides sound grounds for expectations of an improved economic environment in the second half of the 2021/22 financial year.

No other matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations, or state of affairs of the credit union in subsequent financial years.

Likely Developments and Results

No other matter, circumstance or likely development in the operations has arisen since the end of the financial year that has significantly affected or may significantly affect: -

(i) The operations of the credit union;
(ii) The results of those operations; or
(iii) The state of affairs of the credit union

in the financial year subsequent to this financial year.

Auditors' Independence

The auditors have provided the following declaration of independence to the Board as prescribed by the Corporations Act 2001 as set out on page 7.

This report is made in accordance with a resolution of the Board of Directors and is signed for and on behalf of the directors by:

Director

Director

Signed and dated this 29 September 2021

AUDITORS INDEPENDENCE DECLARATION UNDER SECTION 307C OF THE CORPORATIONS ACT 2001

TO THE DIRECTORS OF HORIZON CREDIT UNION LIMITED

Auditors' Independence Declaration

I declare that, to the best of my knowledge and belief, during the year ended 30 June 2021, there have been:

(i) no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and

(ii) no contraventions of any applicable code of professional conduct in relation to the audit.

PKF

SCOTT TOBUTT
PARTNER

29 SEPTEMBER 2021
SYDNEY, NSW

PKF(NS) Audit & Assurance Limited Partnership
ABN 91 850 861 839

Sydney
Level 8, 1 O'Connell Street
Sydney NSW 2000 Australia
GPO Box 5446 Sydney NSW 2001
p +61 2 8346 6000
f +61 2 8346 6099

Newcastle
755 Hunter Street
Newcastle West NSW 2302 Australia
PO Box 2368 Dangar NSW 2309
p +61 2 4962 2688
f +61 2 4962 3245

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF HORIZON CREDIT UNION

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Horizon Credit Union Limited (the Credit Union), which comprises the statement of financial position as at 30 June 2021, the statement of profit or loss and other comprehensive income, statement of changes in equity and 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 Credit Union, is in accordance with the Corporations Act 2001, including:

(a) Giving a true and fair view of the Credit Union's financial position as at 30 June 2021, and of its financial performance for the year then ended; and
(b) Complying with the Australian Accounting Standards and 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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Credit Union 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 confirm that the independence declaration required by the Corporations Act 2001, which has been given to the directors of the Credit Union, would be in the same terms if given to the directors as at the time of this auditor's report.

Other Information

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

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Other Information (cont'd)

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 Credit Union 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 Credit Union's ability 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 Credit Union or to cease operations, or has 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 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 the 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 Credit Union's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by directors.

Auditor's Responsibilities for the Audit of the Financial Report (cont'd)

- 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 Credit Union'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 Credit Union 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 our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

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SCOTT TOBUTT
PARTNER

29 SEPTEMBER 2021
SYDNEY, NSW

Directors’ Declaration

In the opinion of the directors of Horizon Credit Union Limited:

a. the financial statements and notes of Horizon Credit Union Limited are in accordance with the Corporations Act 2001, including

   i. giving a true and fair view of its 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 (including the Australian Accounting Interpretations) and the Corporations Regulations 2001; and

b. there are reasonable grounds to believe that Horizon Credit Union Limited will be able to pay its debts as and when they become due and payable.

c. the financial statements comply with International Financial Reporting Standards as stated in Note 1.

Signed in accordance with a resolution of the directors:

Director

Dated this 29 September 2021

Statement of Profit or Loss and Other Comprehensive Income

for the year ended 30 June 2021

	Note	2021 $	2020 $
Revenue			
Interest revenue	2a	12,802,273	13,784,116
Interest expense	2c	(1,997,975)	(4,143,191)
Net interest income		**10,804,298**	**9,640,925**
Fees, commission and other income	2b	2,541,464	2,457,765
		13,345,762	12,098,690
Non-interest expenses			
Impaired losses on loans receivable from members	2d	122,152	(176,673)
Fee and commission expenses		(1,205,911)	(919,449)
General administration			
- Employee costs		(4,888,060)	(4,629,172)
- Depreciation and amortisation	2f	(524,709)	(531,686)
- Information technology		(1,520,430)	(1,473,742)
- Office occupancy		(632,167)	(684,903)
- Other administration		(429,309)	(434,699)
Business transfer expenses	2e	(1,048,486)	-
Other operating expenses		(1,948,261)	(1,556,756)
Total non-interest expenses		(12,075,181)	(10,407,080)
Profit before Income Tax		**1,270,581**	**1,691,610**
Income Tax Expense	3	(289,263)	(431,241)
Profit for the year		**981,318**	**1,260,369**
Other comprehensive income			
Surplus on revaluation of land and building, net of tax		330,228	-
Deficit on revaluation of Cuscal shares, net of tax		(47,060)	(51,326)
Surplus on revaluation of TAS shares, net of tax		14,878	-
Total comprehensive income for the period		**1,279,364**	**1,209,043**

The above statement should be read in conjunction with the attached notes

Statement of Changes in Member Equity

for the year ended 30 June 2021

	Note	Share Redemption Reserve $	General Reserve for Credit Losses $	Asset Revaluation Reserve $	Transfer of Business Reserve $	Retained Earnings $	Total $
Total at 1 July 2019		**151,146**	**930,956**	**1,352,932**	-	**23,775,230**	**26,210,264**
Net Profit for the year		-	-	-	-	1,260,369	1,260,369
Transfers to (from) Reserves		1,798	34,292	(51,326)	-	(36,090)	(51,326)
Total as at 30 June 2020		**152,944**	**965,248**	**1,301,606**	-	**24,999,509**	**27,419,307**
Net Profit for the year		-	-	-	-	981,318	981,318
Transfers to (from) Reserves		1,872	(292.707)	342,928	-	290,835	342,928
Attributable to business transfers	39	6,000	360,000	470,250	8,487,443	-	9,323,693
Total as at 30 June 2021		**160,816**	**1,032,541**	**2,114,784**	**8,487,443**	**26,271,662**	**38,067,246**

The above statement should be read in conjunction with the attached notes

Statement of Financial Position

as at 30 June 2021

	Note	2021 $	2020 $
Assets			
Cash and cash equivalents	4	9,044,302	9,008,174
Liquid investments	5	118,170,815	79,547,335
Receivables	6	952,295	642,946
Prepayments		164,290	148,872
Loans to members	7 & 8	449,580,114	333,776,636
Investments	9	1,284,104	1,110,228
Property, plant and equipment	10	4,651,877	3,578,811
Intangible assets	11	170,723	327,598
Taxation assets	12	693,629	528,966
Right of use assets	13	794,786	969,154
TOTAL ASSETS		**585,506,935**	**429,638,720**
Liabilities			
Borrowings	14	6,688,311	9,137,853
Deposits from members	15	535,354,517	388,945,201
Payables	16	4,191,608	3,322,483
Taxation liabilities	17	1,125,253	724,876
Provisions	18	80,000	89,000
Total Liabilities		**547,439,689**	**402,219,413**
Net Assets		**38,067,246**	**27,419,307**
Members Equity			
Share redemption reserve	19	160,816	152,944
General reserve for credit losses	20	1,032,541	965,248
Asset revaluation reserve	21	2,114,784	1,301,606
Transfer of business reserve	22	8,487,443	-
Retained earnings	23	26,271,662	24,999,509
Total Members Equity		**38,067,246**	**27,419,307**

The above statement should be read in conjunction with the attached notes

Statement of Cash Flows

for the year ended 30 June 2021

	Note	2021 $	2020 $
Operating Activities			
Inflows			
Interest received		12,790,886	13,810,091
Fees and commissions		2,084,967	2,009,062
Dividends Received		29,776	68,448
Other income		119,714	147,431
Outflows			
Interest paid		(2,336,795)	(4,580,689)
Suppliers and employees		(10,285,860)	(9,774,388)
Income taxes (paid)		(65,748)	(533,139)
Net Cash from Revenue Activities		**2,336,940**	**1,146,816**
Inflows (outflows) from other operating activities			
(Increase) in Member loans (net movement)		(115,718,347)	(22,685,949)
Increase in Member deposits and shares (net movement)		146,409,316	44,779,759
(Increase) Decrease in receivables from financial institutions (net movement)		(38,797,356)	(27,736,654)
Net Cash (used in) Operating Activities	38b	**(5,769,447)**	**(4,496,028)**
Investing Activities			
Inflows			
Proceeds on sale of property, plant and equipment		28,182	-
Transfer of business net of cash acquired		8,330,803	-
Less: Outflows			
Purchase of intangible assets		(53,231)	(212,703)
Purchase of property, plant and equipment		(50,637)	(429,233)
Purchase of shares		-	(47,800)
Net Cash provided by (used in) Investing Activities		**8,255,117**	**(689,736)**
Financing Activities			
Inflows			
(Decrease) Increase in borrowings (net movement)		(2,449,542)	7,988,489
Net Cash from (used in) Financing Activities		**(2,449,542)**	**7,988,489**
Total Net Cash increase/(decrease)		36,128	2,802,725
Cash at Beginning of Year		9,008,174	6,205,449
Cash at End of Year	38a	**9,044,302**	**9,008,174**

The above statement should be read in conjunction with the attached notes

1. Statement of Accounting Policies

The financial report is prepared for Horizon Credit Union Limited (trading as Horizon Bank) as a single entity, for the year ended the 30th June 2021. The report was authorised for issue on 29 September 2021 in accordance with a resolution of the Board of Directors. The financial report is presented in Australian dollars. The financial report is a general purpose financial report that has been prepared in accordance with the requirements of the *Corporations Act 2001*, Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board. Compliance with Australian Accounting Standards ensures compliance with the International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB). Horizon Credit Union Limited is a for-profit entity for the purpose of preparing the financial statements.

a. Changes in significant accounting policies

There were no significant changes to accounting policies during the year. A number of new standards, amendments to standards and interpretations are effective from annual periods beginning after 1 January 2021 have not been applied in preparing this financial report. The credit union's assessment of the impact of these new standards and interpretations is that these are not significant and not likely to impact the financial report and as such have not been reported on.

b. Loan impairment

AASB 9 requires the use of forward looking information to recognise expected credit losses – the 'expected credit loss model' (ECL). Instruments within the scope of the new requirements include loans and advances and other debt-type financial assets measured at amortised cost and FVOCI, trade receivables and loan commitments and some financial guarantee contracts (for the issuer) that are not measured at fair value through profit or loss.

A broader range of information is considered when assessing credit risk and measuring expected credit losses, including past events, current conditions, reasonable and supportable forecasts that affect the expected collectability of the future cash flows of the instrument.

In applying this forward-looking approach, three distinction stages of impairment are made:
- Stage 1 - financial instruments that have not deteriorated significantly in credit quality since initial recognition or that have low credit risk (performing loans);
- Stage 2 - financial instruments that have deteriorated significantly in credit quality since initial recognition and whose credit risk is not low (underperforming loans); and
- Stage 3 - covers financial assets that have objective evidence of impairment (loans in default/non-performing) at the reporting date.

Measurement of ECL

'12 month expected credit losses' are recognised for the first category while 'lifetime expected credit losses' are recognised for the second category. Measurement of the expected credit losses is determined by a probability weighted estimate of credit losses over the expected life of the financial instrument. They are measured as follows:
- Financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due in accordance with the contract and the cash flows expected to be received;
- Financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows;
- Undrawn loan commitments, being the present value of the difference between the contractual cash flows that are due if the commitment is drawn down and the cash flows expected to be received; and
- Financial guarantee contracts, being the expected payments to reimburse the holder less any amounts expected to be recovered.

Note 24 details the credit risk management approach for loans.

Credit-impaired financial assets

At each reporting date, the credit union assesses whether financial assets carried at amortised cost are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:
- Significant financial difficulty of the borrower or issuer;
- A breach of contract such as a default or past due event;
- The restructuring of a loan or advance on terms that would otherwise not be considered;
- It is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- The disappearance of an active market for a security because of financial difficulties.

A loan that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment. In addition, a retail loan that is overdue for 90 days or more is considered impaired.

1. Statement of Accounting Policies (Continued)

Presentation of allowance for ECL in the statement of financial position

Loss allowances for ECL are presented in the statement of financial position as follows:
- Financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;
- Loan commitments and financial guarantee contracts: generally, as a provision; and
- Where a financial instrument includes both a drawn and undrawn component, and ECL cannot be identified on the loan commitment component separately from those on the drawn component, a combined loss allowance for both components is presented. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision.

Write-off

Loans and debt securities are written off, either partially or in full, when there is no realistic prospect of recovery. This is generally the case when it is determined the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the procedures for recovery of amounts due.

Financial assets and liabilities

Financial assets and liabilities are recognised when the credit union becomes a party to the contractual provisions of the financial instrument and are measured initially at cost adjusted by transaction costs, except for those carried at fair value through the profit or loss, which are measured initially at fair value. Subsequent measurement of financial assets and liabilities are described below.

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and all substantial risks and rewards are transferred. A financial liability is derecognised when it is extinguished, discharged, cancelled or expires.

Classification and measurement of financial liabilities

Financial liabilities include borrowings, member deposits and other payables. They are initially measured at fair value, and where applicable, adjusted for transaction costs unless the credit union designated a financial liability at fair value through the profit and loss. Subsequently, financial liabilities are measured at amortised cost using the effective interest method except financial liabilities designated at FVPL, which are carried subsequently at fair value with gains or losses recognised in the profit and loss.

All interest related charges and if applicable, changes in an instrument's fair value that are reported in profit and loss are included within interest or non-interest expenses.

Classification of financial assets

Except for those trade receivables that do not contain a significant financing component and are measured at the transaction price, all financial assets are initially measured at fair value adjusted for transaction costs (where applicable).

For the purpose of subsequent measurement, financial assets other than those designated and effective as hedging instruments are classified into the following categories upon initial recognition:
- Amortised cost
- Fair value through profit and loss (FVPL)
- Fair value through other comprehensive income (FVOCI)

All income and expenses relating to financial assets that recognised in profit or loss are presented within net interest income, fees commissions and other income or non-interest expenses.

Classifications are determined by both:
- The credit union's business model for managing the financial asset, and
- The contractual cash flow characteristics of the financial assets.

Subsequent measurement of financial assets

Financial assets at amortised costs

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as a FVPL:
- The asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- The contractual terms of the financial asset give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding.

After initial recognition, these are measured at amortised cost using the effective interest method. Discounting is omitted where the effect of discounting is immaterial. Cash, cash equivalents and trade receivables fall into this category of financial instruments as well as negotiable certificates of deposit (NCDs), floating rate notes (FRNs) and bonds.

1. Statement of Accounting Policies (Continued)

Financial assets at Fair Value through Profit or Loss (FVPL)

Financial assets that are within a different business model other than ‘hold to collect’ or ‘hold to collect and sell’ are categorised as fair value through profit or loss. Irrespective of the business model, financial assets whose contractual cash flows are not solely payments of principal and interest are accounted for at FVPL.

Fair Value through Other Comprehensive Income (FVOCI)

Investments in equity instruments that are not held for trading are eligible for an irrevocable election at inception to be measured at FVOCI. Subsequent movements in fair value are recognised in other comprehensive income and are never reclassified to profit or loss. Dividends from these investments continue to be recorded as other income within the profit or loss unless the dividend clearly represents return of capital. This category includes unlisted equity securities such as shares in Cuscal Ltd and TAS Ltd.

Loans to member

Loans and advances’ captions in the statement of financial position include loans and advances measured at amortised cost; they are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method.

Loans and advances were non-derivative financial assets with fixed or determinable payments that were not quoted in an active market and that the credit union did not intend to sell immediately or in the near term.

Interest earned

Term loans - The loan interest is calculated on the basis of the daily balance outstanding and is charged in arrears to a member’s account on the last day of each month.

Overdraft - The loan interest is calculated initially on the basis of the daily balance outstanding and is charged in arrears to a member’s account on the last day of each month.

Credit cards – the interest is calculated initially on the basis of the daily balance outstanding and is charged in arrears to a members account on the 28th day of each month, on cash advances and unpaid purchases at the payment due date. Purchases are granted up to 55 days interest free until the due date for payment which is the 21st day of the following month.

Non-accrual loan interest – while still legally recoverable, interest is not brought to account as income when the credit union is informed that the member has deceased, or where a loan is impaired.

Loan origination fees and discounts

Loan establishment fees and discounts are initially deferred as part of the loan balance, and are brought to account as income over the expected life of the loan as interest revenue.

Transaction costs

Transaction costs are expenses which are direct and incremental to the establishment of the loan. These costs are initially deferred as part of the loan balance, and are brought to account as a reduction to income over the expected life of the loan, and included as part of interest revenue.

Fees on loans

The fees charged on loans after origination of the loan are recognised as income when the service is provided or costs are incurred, with the exception of fixed rate loan renegotiation fees. Fees charged to members who break their fixed rate loan contract and continue to hold the loan with either a variable interest rate or renegotiated fixed rate, are recognised over the remainder of the fixed rate period.

Reclassifications

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the credit union changes its business model for managing financial assets. There were no changes to any of the credit union business models during the current year (2020: Nil).

c. Property, plant and equipment

Land and buildings have been revalued as at the following dates less accumulated depreciation:

- Stewart Street as at 30 June 2018
- Auburn Street as at 30 June 2021

1. Statement of Accounting Policies (Continued)

c. Property, plant and equipment (Continued)

Property plant and equipment, with the exception of freehold land, is depreciated on a straight-line basis so as to write off the net cost of each asset over its expected useful life to the credit union. Estimated useful lives are as follows:

- Buildings – 16 to 40 years.
- Leasehold Improvements – 8 to10 years.
- Plant and Equipment – 3 to 7 years.
- Assets less than $300 are not capitalised.

d. Receivables from other financial institutions

Term deposits, Floating Rate Notes and Negotiable Certificates of Deposit with other financial institutions are unsecured and have a carrying amount equal to their principal amount. Interest is paid on the daily balance at maturity or on an annual basis if invested longer than 12 months. All deposits are in Australian currency.

The accrual for interest receivable is calculated on a proportional basis of the expired period of the term of the investment. Interest receivable is included in the amount of receivables in the statement of financial position.

e. Equity investment and other securities

Investments in shares are classified as fair value through other comprehensive income (FVOCI).

Investments in shares that do not have a ready market and are not capable of being reliably valued are recorded at the assessed fair value amount.

All investments are in Australia currency.

f. Member deposits

Basis for measurement

Member savings and term investments are quoted at the aggregate amount payable to depositors as at 30 June 2021.

Interest payable

Interest on savings is calculated on the daily balance and posted to the accounts periodically, or on maturity of the term deposit. Interest on savings is brought to account on an accrual basis in accordance with the interest rate terms and conditions of each savings and term deposit account as varied from time to time. The amount of the accrual is shown as part of amounts payable.

g. Borrowings

All borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the statement of profit or loss and other comprehensive income over the period of the loans and borrowings using the effective interest method.

h. Payables / employee entitlements

Provision is made for the credit union's liability for employee benefits arising from services rendered by employees to balance date.

Short-term employee benefits are current liabilities included in employee benefits, measured at the undiscounted amount that the credit union expects to pay as a result of the unused entitlement. Annual leave is included in 'other long-term benefit' and discounted when calculating the leave liability as the credit union does not expect all annual leave for all employees to be used wholly within 12 months of the end of the reporting period. Annual leave liability is still presented as a current liability for presentation purposes under AASB 101 *Presentation of Financial Statements.*

Provision is made for the credit union's liability for employee benefits arising from services rendered by employees to the reporting date. Employee benefits expected to be settled within one year, have been measured at their nominal amount.

Provision for long service leave is determined on a pro-rata basis from commencement of employment measured at the present value of the estimates future cash outflows discounted using corporate bond rates.

Annual leave is accrued in respect of all employees on a pro-rata entitlement for a part year of service and leave entitlement due but not taken at reporting date.

Contributions are made by the credit union to an employee's superannuation fund and are charged as expenses when incurred.

1. Statement of Accounting Policies (Continued)

i. Leases

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

This involves assessment of whether:

- The contract involves the use of an identified asset – this may be explicitly or implicitly identified within the agreement. If the supplier has a substantive substitution right then there is no identified asset.
- The credit union has the right to obtain substantially all of the economic benefits from the use of the asset throughout the period of use.
- The credit union has the right to direct the use of the asset i.e. decision making rights in relation to changing how and for what purpose the asset is used.

Lessee Accounting

The non-lease components included in the lease agreement have been separated and are recognised as an expense as incurred.

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 only where the credit union believes it is reasonably certain that the option will be exercised.

The right-of-use asset is measured using the cost model where cost on initial recognition comprises of 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 assets accounting policy.

The lease liability is initially measured 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, the credit union's incremental borrowing rate is used.

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

Where the lease liability is measured, the right-of-use asset is adjusted to reflect the remeasurement or the remeasurement is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

Exceptions to lease accounting

The credit union has chosen to apply the exceptions to lease accounting to both short-term leases (i.e. leases with a term of less than or equal to 12 months) and leases of low-value assets. The credit union recognises the payments associated with these leases as an expense on a straight-line basis over the lease term.

j. Income Tax

The income tax expense shown in the statement of profit or loss and other comprehensive income is based on the operating profit before income tax adjusted for any non-tax deductible, or non-assessable items between accounting profit and taxable income. Deferred tax assets and liabilities are recognised using the statement of financial position liability method in respect of temporary differences arising between the tax bases of assets or liabilities and their carrying amounts in the financial statements. Current and deferred tax balances relating to amounts recognised directly in equity are also recognised directly in equity.

Deferred tax assets and liabilities are recognised for all temporary differences between carrying amounts of assets and liabilities for financial reporting purposes and their respective tax bases at the rate of income tax applicable to the period in which the benefit will be received or the liability will become payable. These differences have been assessed at the 1 July 2021 rate of 25%.

Deferred tax assets are only brought to account if it is probable that future taxable amounts will be available to utilise those temporary differences. The recognition of these benefits is based on the assumption that no adverse change will occur in income tax legislation; and the anticipation that the credit union will derive sufficient future assessable income and comply with the conditions of deductibility imposed by the law to permit a future income tax benefit to be obtained.

1. Statement of Accounting Policies (Continued)

k. Intangible assets

Items of computer software that are not integral to the computer hardware owned by the credit union are classified as intangible assets.

Computer software held as intangible assets is amortised over the expected useful life of the software. These lives range from 2 to 5 years.

l. Goods and services tax

As a financial institution the credit union is input taxed on all income except income from commissions and some fees. An input taxed supply is not subject to goods and services tax (GST) collection, and similarly the GST paid on purchases cannot be recovered. As some income is charged GST, the GST on purchases is generally recovered on a proportionate basis. In addition certain prescribed purchases are subject to Reduced Input Tax Credits, of which 75% of the GST paid is recoverable.

Revenue, expenses and assets are recognised net of the amount of GST, except where the amount of the GST incurred is not recoverable from the Australian Tax Office (ATO). In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense.

Receivables and payables are stated with the amount of GST included where applicable GST is collected. 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. Cashflows are included in the statement of cashflows on a gross basis. The GST components of cash flows arising from investing and financing activities, which are recoverable from, or payable to the Australian Taxation Office, are classified as operating cashflows.

m. Cash and cash equivalents

Cash comprises cash on hand and demand deposits.

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value.

n. Transfer of business

Business transfers are accounted for using the acquisition method as at the acquisition date, which is the date control is transferred to the consolidated entity. For every business transfer, the consolidated entity identifies the acquirer, which is the receiving entity that obtains control of the transferring entity or business.

On 1 April 2021 Horizon Credit Union Ltd t/as Horizon Bank accepted a total voluntary transfer from Lysaght Credit Union Ltd (LCU). On this date the assets, liabilities and capital of LCU were transferred to Horizon at carrying value, which approximates fair value.

The identifiable assets and liabilities of the transferee are recognised at their fair value at acquisition date. Consideration transferred is determined as the acquisition date fair value of the transferee's equity interests. Goodwill is recognised if and to the extent the consideration transferred exceeds fair value of the transferee's identifiable assets acquired and liabilities assumed. There was no goodwill recognised in this transfer.

1. Statement of Accounting Policies (Continued)

o. Accounting estimates and judgements

Management have made accounting estimates when applying the credit union's accounting policies with respect to the valuation of land and building. In accordance with AASB 13 fair value for land and buildings should be based on the highest and best use and should take into account a number of factors including physical characteristics such as location or size, any legal restriction such as zoning and financial feasibility, recent sales evidence for comparable properties, and overall market conditions.

Various models and assumptions are used in measuring fair value of financial assets such as Cuscal shares. Judgement is applied in identifying the most appropriate model for each type of asset, as well as for determining the assumptions used in these models, including assumptions that relate to key drivers of price risk and factors such as sales evidence, dividend history, price earning multiple and overall market conditions.

Management have also made significant judgements with respect to the calculation of expected credit loss (ECL) allowance, including the impact of COVID-19. Key areas of judgement to be considered under the AASB 9 standard include:

- Recognition of credit losses based on "Stage 1" 12 month expected losses and "Stage 2" and "Stage 3" lifetime expected credit losses;
- Determining criteria for significant increase in credit risk: an asset moves to stage 2 when its credit risk has increased significantly since initial recognition. In assessing whether the credit risk of an asset has significantly increased the credit union takes into account qualitative and quantitative reasonable and supportable forward looking information.
- Choosing appropriate models and assumptions for the measurement of ECL;
- Establishing groups of similar financial assets for the purposes of measuring ECL: when ECLs are measured on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics.

Refer to **note 8** for further details.

p. New or emerging standards not yet mandatory

The AASB has issued new and amended Accounting Standards and Interpretations that have mandatory application dates for future reporting periods. The directors do not expect the adoption of these standards to have any impact on the reporting position or performance of the credit union.

2.	Statement of Profit or Loss and Other Comprehensive Income	2021 $	2020 $
a.	**Analysis of interest revenue**		
	Interest revenue on assets carried at amortised cost		
	Cash – deposits at call	113,276	121,620
	Receivables from financial institutions	539,077	787,195
	Loans to members	12,149,920	12,875,301
		12,802,273	13,784,116
b.	**Non-interest revenue**		
	Fee and commission revenue		
	- Loan fee income – other than loan origination fees	954,497	539,775
	- Transaction fee income	357,516	392,784
	- ATM income	433,686	572,963
	- Insurance commissions	300,036	353,935
	- Other commissions	337,194	382,429
	Total Fee and commission revenue	2,382,929	2,241,886
	Other Income		
	Dividends received	29,776	68,448
	Bad debts recovered	1,230	9,715
	Gain on disposal of property, plant and equipment	9,045	-
	Government stimulus	50,000	50,000
	Miscellaneous revenue	68,484	87,716
		2,541,464	2,457,765
c.	**Interest expense**		
	Interest expense on liabilities carried at amortised cost		
	Short term borrowings	2,009	10,424
	Deposits from financial institutions	7,971	4,921
	Deposits from members	1,987,995	4,127,846
		1,997,975	4,143,191
d.	**Impairment losses on loans and advances**		
	(Decrease)Increase in provision for impairment	(122,152)	176,673
		(122,152)	176,673
e.	**Individually significant items of expenditure (detail)**		
	Expenses relating to the transfer of business from Lysaght Credit Union Ltd had a material effect on the financial performance. These expenses are one off in nature and won't be repeated in future years.		
	Business transfer expenses	1,048,486	-
f.	**Other prescribed expense disclosures**		
	Auditors remuneration (excluding GST)		
	PKF		
	- External audit fees	57,250	38,710
	- Other services – taxation	6,311	4,774
		63,561	43,484
	Depreciation of		
	- Buildings	27,350	24,875
	- Plant and equipment	278,965	262,686
	- Leasehold improvements	521	23,312
	Amortisation of intangibles	217,871	220,814
		524,707	531,687
	Property leases	493,719	552,467
	Net movement in provisions for:		
	- Employee entitlements	279,976	125,879
	- Leased premises make good	(9,000)	(19,000)
	- Card fraud	-	(15,089)

3. Income Tax Expense

	2021 $	2020 $
a. The income tax expense comprises amounts set aside as:		
Current tax expense	608,186	404,405
Deferred tax	(321,396)	26,836
Under provision from prior year	2,473	-
Total income tax expense in the statement of profit or loss and other comprehensive income	289,263	431,241
b. The prima facie tax payable on profit is reconciled to the income tax expense in the accounts as follows:		
Profit	1,270,581	1,691,610
Prima facie tax payable on profit before income tax at 26% (2020: 27.5%)	330,354	465,193
Add tax effect of expenses not deductible		
- Other non-deductible expenses	3,795	780
- Over provision for tax in prior year	2,473	-
- Dividend imputation adjustment	3,059	7,959
Subtotal	339,681	473,932
Less		
- Government stimulus	(13,000)	(13,750)
- Change in tax rate on opening DTA/DTL balances	(25,651)	-
- Imputation credits	(11,767)	(28,941)
Income tax expense attributable to current year profit	289,263	431,241
c. Franking Credits		
Franking credits held by the credit union after adjusting for franking credits that will arise from the payment of income tax payable as at the end of the financial year is:	8,644,326	7,996,598

4. Cash and Cash Equivalents

	2021 $	2020 $
Cash on hand and at bank	3,544,302	3,008,174
Deposits at call	5,500,000	6,000,000
	9,044,302	9,008,174

5. Liquid Investments

	2021 $	2020 $
Amortised Cost		
Investments		
Negotiable certificates of deposit	28,987,585	24,467,335
Floating rate notes	41,050,000	36,800,000
Fixed rate bonds	4,000,000	-
Government bonds	22,500,000	1,500,000
Receivables		
Term deposits held with authorised deposit taking institutions	21,633,230	16,780,000
	118,170,815	79,547,335

6. Receivables

	Note	2021 $	2020 $
Interest receivable on deposits with other financial institutions		114,495	107,926
Sundry debtors and settlement accounts		837,800	535,020
		952,295	642,946

7. Loans and Advances

	Note	2021 $	2020 $
a. Amount due comprises:			
Overdrafts and revolving credit		5,555,676	6,192,299
Term loans		444,054,862	327,699,892
		449,610,538	333,892,191
Unamortised loan origination fees		106,098	75,095
		449,716,636	333,967,286
Unamortised fixed rate loan renegotiation fees		(45,856)	(7,569)
Provision for impaired loans	8	(90,666)	(183,081)
		449,580,114	333,776,636
b. Credit quality - Security held against loans			
Secured by residential or a combination of residential/ commercial property		433,708,847	318,382,591
Secured by goods mortgage		10,478,655	8,478,416
Unsecured or wholly secured by commercial property		5,423,036	7,031,184
		449,610,538	333,892,191

It is not practical to value all collateral as at the balance date due to the variety of assets and conditions. A breakdown of the quality of the residential mortgage security on a portfolio basis as follows:

	2021 $	2020 $
Security held as mortgage against real estate is on the basis of:		
- LVR of less than 80%	383,169,317	281,095,195
- LVR of more than 80% but mortgage insured	35,717,133	28,277,784
- LVR of more than 80% and not mortgage insured	14,822,397	9,009,612
Total	433,708,847	318,382,591

(LVR – Loan to valuation ratio)

Where the loan value is less than 80% there is a 20% margin to cover the costs of any sale and/or potential value reduction.

c. Concentration of Loans

	2021 $	2020 $
(i) Individual loans which exceed 10% of member funds in aggregate	-	-
(ii) Loans to members are concentrated in the following areas:		
- Illawarra	196,326,593	122,463,979
- Shoalhaven	98,797,282	83,275,712
- Bega Valley	79,190,845	78,431,164
- Other	75,295,818	49,721,336
	449,610,538	333,892,191
(iii) Loans by Customer type:		
Residential loans and facilities	420,841,725	308,287,171
Personal loans and facilities	13,422,349	10,900,523
Business loans and facilities	15,346,464	14,704,497
	449,610,538	333,892,191

8. Provision on Impaired Loans

a. Amounts arising from Expected Credit Loss (ECL)

The loss allowance as of the year end by class of exposure/asset are summarised in the table below.

	2021			2020		
	Gross Carrying Value	ECL Allowance	Carrying Value	Gross Carrying Value	Provision for impairment	Carrying Value
	$	$	$	$	$	$
Loans to members						
Mortgages	417,768,688	9,559	417,759,129	304,677,663	100,618	304,577,045
Personal	11,295,442	39,230	11,256,212	8,921,837	72,828	8,849,009
Overdrafts	5,199,944	32,351	5,167,593	5,588,194	9,635	5,578,559
Total to natural persons	434,264,074	81,140	434,182,934	319,187,694	183,081	319,004,613
Corporate borrowers	15,346,464	9,526	15,336,938	14,704,497	-	14,704,497
Total	449,610,538	90,666	449,519,872	333,892,191	183,081	333,709,110

An analysis of the credit union's credit risk exposure per class of financial asset and "stage" without reflecting on the effects of any collateral or other credit enhancements is demonstrated in the following tables. Unless specifically indicated, for financial asset, the amounts in the table represent gross carrying amounts.

	2021				2020			
	Stage 1 12 mth ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total	Stage 1 12 mth ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Loans to members	$	$	$	$	$	$	$	$
Mortgage secured	9,559	-	-	9,559	-	100,618	-	100,618
Personal loans	10,554	22,699	5,977	39,230	12,896	48,388	11,544	72,828
Overdrafts	9,553	9,405	13,393	32,351	7,349	617	1,669	9,635
Corporate borrowers	-	-	9,526	9,526	-	-	-	-
Loss allowance	-	-	-	-	-	-	-	-
Total	29,666	32,104	28,896	90,666	20,245	149,623	13,213	183,081

The reconciliations from the opening to the closing balance of the allowance for impairment by class of financial instrument is shown in the table below.

	2021				2020			
	Stage 1 12 mth ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total	Stage 1 12 mth ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Loans to members	$	$	$	$	$	$	$	$
Balance at 1 July	20,245	149,623	13,213	183,081	14,837	23,913	-	38,750
Changes in the loss allowance	-	-	-	-	-	-	-	-
- Transfer to stage 1	-	-	-	-	-	-	-	-
- Transfer to stage 2	-	-	-	-	-	-	-	-
- Transfer to / from stage 3	-	(13,311)	13,311	-	-	(77,899)	45,556	(32,343)
- Net movement due to change in credit risk	9,421	(104,208)	15,683	(79,104)	5,408	203,609	-	209,017
- Write-offs	-	-	(13,311)	(13,311)	-	-	(32,343)	(32,343)
Balance at 30 June	29,666	32,104	28,896	90,666	20,245	149,623	13,213	183,081

8. Provision on Impaired Loans (Continued)

b. Key assumptions in determining the ECL

The key inputs into the measurement of ECL include the following variables:

- probability of default (PD)
- loss given default (LGD); and
- exposure at default (EAD)

These parameters are generally derived from internal analysis, management judgements and other historical data. They are adjusted to reflect forward-looking information as described below.

Probability of default (PD) estimates are calculated based on arrears over 90 days and other loans and facilities where the likelihood of future repayments is low. The definition of default is consistent with the definition of default used for internal credit risk management and regulatory reporting purposes. Instruments which are 90 days past due are generally considered to be in default.

Loss given default (LGD) is the magnitude of the likely loss if there is a default. The credit union estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD percentage applied considers the structure of the loan, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset. For loans secured by retail property, Loan to Value Ratios (LVR) are a key parameter in determining LGD. LGD estimates are recalibrated for different economic scenarios and for real estate lending, reflect possible changes in property values.

Exposure at default (EAD) represents the expected exposure in the event of a default. EAD is derived from the current exposure to the counterparty and potential changes to the current amount allowed under the contract including amortisation. The EAD of a financial asset is its gross carrying amount. For lending commitments and financial guarantees, the EAD includes the amount drawn as well as potential future amounts that may be drawn under the contract, which are estimated based on historical observations and future expectations.

The credit union has elected to use the following segments when assessing credit risk for Stages 1 and 2 of the impairment model:

- Mortgage loans
- Personal loans
- Other – overdrafts

Stage 3 of the impairment model covers financial assets that have objective evidence of impairment (loans in default/non-performing) at the reporting date.

Significant increase in credit risk

The credit union is not required to develop an extensive list of factors in defining a 'significant increase in credit risk'. In assessing significant increase in credit risk where a loan or group of loans must move to Stage 2, the following factors have been considered in the credit union's current model:

- Loans more than 30 days past due
- Loans with approved hardship or modified terms

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the credit union considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the credit union's historical experience and expert judgement, relevant external factors and including forward-looking information.

The credit union presumes that the credit risk on a financial asset has increased significantly since initial recognition when the exposure is more than 30 days past due unless reasonable and supportable information demonstrates otherwise.

The approach in determining the ECL includes forward-looking information. The credit union has performed historical analysis and identified the key economic variables impacting credit risk and expected credit losses for each portfolio segment. Given the lack of loss experience by the credit union and across the wider industry, more emphasis has been applied to the historical data available as opposed to forward looking information. Consideration has also been given to the level of undue cost and effort involved in utilising complex statistical models, which is not considered appropriate for the size and complexity of the portfolio.

The credit union has considered other forward-looking considerations such as the impact of future unemployment rates, property prices, regulatory change and external market risk factors, which are not deemed to have a material impact and therefore no adjustment has been made to the ECL for such factors. The credit union considers the ECL to represent its best estimate of the possible outcomes and is aligned with information used by the credit union for other purposes such as strategic planning and budgeting. Periodically the credit union carries out stress testing of more extreme shocks to calibrate its determination of other potential scenarios.

8. Provision on Impaired Loans (Continued)

c. Impact of COVID-19 on the provision for ECL for the financial year ended 30 June 2021

While COVID-19 is having a significant impact on the Australian economy, given the experiences of the 2020 deferral period, despite the commencement of a lockdown in late June, it is estimated that any deferrals approved during this lockdown will also return to fully performing once the lockdown has passed. For this reason, no additional provision for ECL has been provided specifically for the impacts of COVID-19.

In reassessing the model, the credit union has considered the current and prospective impact of COVID-19 on its member base, including:

- Job security and earning potential of borrowers;
- Trends in borrower behaviour since the outbreak of the pandemic; and
- Increased risk of default should the current situation deteriorate.

9. Investments

	2021 $	2020 $
Equity investment securities designated as FVOCI		
Shares in Cuscal Limited	1,216,467	1,062,428
Shares in Transaction Solutions Limited	67,637	47,800
	1,284,104	1,110,228

Shares in Cuscal Limited

Cuscal supplies end-to-end payments services. At 30 June 2021, the credit union designated its investment in Cuscal shares to be $1.08 per share (2020: HB $1.16, LCU $1.03) as a Fair Value through Other Comprehensive Income (FVOCI).

The credit union is not intending to dispose of these shares.

Shares in Transaction Solutions Limited (TAS)

TAS provides IT hosting services. At 30 June 2021, the credit union designated its investment in TAS shares to be $4.78 per share (2020: HB $4.78, LCU $0.00) as a Fair Value through Other Comprehensive Income (FVOCI), being the cost value of the shares purchased during the FY 2020.

The credit union is not intending to dispose of these shares.

10. Property, Plant and Equipment

	2021 $	2020 $
a. Fixed Assets		
Land – at valuation	2,530,000	1,780,000
Subsequent additions – at cost	-	-
	2,530,000	1,780,000
Buildings – at valuation	1,545,000	995,000
Subsequent additions – at cost	-	-
Less: Provision for depreciation	(74,625)	(49,750)
	4,000,375	2,725,250
Plant and equipment - at cost	3,074,365	3,179,598
Less: Provision for depreciation	(2,423,383)	(2,327,078)
	650,982	852,520
Capitalised Leasehold Improvements at cost	283,605	283,605
Less: Provision for amortisation	(283,085)	(282,564)
	520	1,041
	4,651,877	3,578,811

b. Land and Building – Valuation

	2021 $	2020 $
Land – at valuation	4,075,000	2,775,000

The valuation of land and buildings at 27 Stewart Street, Wollongong NSW 2500 has been based on an independent valuation performed by Opteon Property Group Australia as at 12 February 2018. The increase in valuation is reflected in the Asset Revaluation Reserve. Refer to Note 21.

The building at 13 Auburn Street, Wollongong NSW 2500 was revalued as at 30 June 2021 based on an independent valuation performed by Herron Todd White as at 24 February 2021. The increase in valuation is reflected in the Asset Revaluation Reserve. Refer to Note 21.

The directors have assessed the fair value of land and did not identify any indicators of impairment during the year ended 30 June 2021.

Movement in the assets balances during the year were:

	2021				2020			
	Property $	Plant & equipment $	Leasehold Improvements $	Total $	Property $	Plant & equipment $	Leasehold Improvements $	Total $
Opening balance	2,725,250	852,520	1,041	3,578,811	2,750,125	699,163	24,812	3,474,100
Purchases in the year	-	68,170	-	68,170	-	429,233	-	429,233
Acquisitions through business combinations	862,172	35,891	-	898,063	-	-	-	-
Revaluation	440,304	-	-	440,304	-	-	-	-
Less								
Disposal of assets	-	(26,634)	-	(26,634)	-	-	-	-
Impairment of ATMs	-	-	-	-	-	(13,190)	(460)	(13,650)
Depreciation charge	(27,351)	(278,965)	(521)	(306,837)	(24,875)	(262,686)	(23,311)	(310,872)
Balance at the end of the year	4,000,375	650,982	520	4,651,877	2,725,250	852,520	1,041	3,578,811

11. Intangible Assets

	2021 $	2020 $
Computer Software	1,598,482	1,554,896
Less: Provision for amortisation	(1,427,759)	(1,227,298)
	170,723	327,598
Movement in the assets balances during the year were:		
Opening balance	327,598	335,709
Purchases	53,232	212,703
Acquisitions through business combinations	19,298	
Less:		
Disposal of assets	(11,534)	-
Amortisation charge	(217,871)	(220,814)
Balance at the end of the year	170,723	327,598

12. Taxation Assets

Income tax receivable	-	103,637
Accrual for GST receivable	90,938	68,234
Deferred Tax Asset	602,691	357,095
	693,629	528,966

Deferred tax asset comprises:		
Accrued expenses not deductible until incurred	219,748	49,197
Provisions for impairment on loans	22,667	50,347
Provisions for employee benefits	324,578	225,435
Provisions for other	23,350	27,266
Lease liabilities	4,334	4,850
Capital costs from transfer of business	8,014	-
	602,691	357,095

13. Leases

The credit union has leases over land and buildings and has chosen to not apply AASB 16 to leases of intangible assets.

Information relating to the leases in place and associated balances and transactions are provided below.

Terms and conditions of leases

The building leases are for branches and have up to 3 years remaining. While some leases have extension options, these are at the discretion of the credit union. Varying increases apply.

Right-of-use assets (ROU)

Balance at beginning of year	969,154	-
Changes due to adoption of AASB 16	-	1,450,602
Additional ROU assets	253,819	-
Depreciation charge	(428,187)	(481,448)
Balance at end of year	794,786	969,154

Lease Liabilities

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

< 1 year	383,485	387,033
1 – 5 years	461,364	610,704
Total undiscounted lease liabilities	844,849	997,737
Lease liabilities included in this Statement of Financial Position	812,122	986,789

13. Leases (Continued)

Extension options

A number of building leases contain extension options which allow the credit union to extend the lease term by up to twice the original non-cancellable period of the lease.

The credit union includes options in the leases to provide flexibility, certainty and reduce costs of moving premises and are at the credit union's discretion.

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

There are $842,779 in potential future lease payments which are not included in lease liabilities as the credit union has assessed that the exercise of the option is not reasonably certain.

Statement of Profit or Loss and Other Comprehensive Income

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 $
Interest expense on lease liabilities		6,829	10,533
Depreciation of right-of-use assets		388,729	481,448
		395,558	491,981

14. Borrowings

Cuscal Limited	31	-	585,271
Reserve Bank of Australia – Term Funding Facility (TFF)	31	6,688,311	8,552,582
		6,688,311	9,137,853

15. Deposits from Members

Member Deposits		
- at call	367,173,863	239,958,280
- term	168,146,312	148,957,449
Total deposits	535,320,175	388,915,729
Member withdrawable shares	34,342	29,472
	535,354,517	388,945,201

Concentration of Member Deposits

Member deposits at balance date are concentrated in the following areas:		
- Illawarra	215,453,782	125,829,849
- Shoalhaven	137,740,266	112,198,397
- Bega Valley	130,266,740	119,737,804
- Other	51,893,729	31,179,151
	535,354,517	388,945,201

16. Payables

Creditors and accruals		1,591,317	652,218
Lease liability	13	812,122	986,789
Employee entitlements		1,311,710	829,910
Interest payable on deposits		476,459	853,566
		4,191,608	3,322,483

17. Taxation Liabilities

	2021 $	2020 $
Current income tax liability	230,058	-
Deferred tax liability	774,667	639,251
Accrual for GST payable	18,300	17,944
Accrual for other tax liabilities	102,228	67,681
	1,125,253	724,876
Current income tax liability comprises:		
Balance – previous year	103,637	25,097
Less: paid	(103,654)	(25,097)
Over provision in prior year	17	-
Liability for income tax in current year	637,241	404,405
Less: Instalments paid in current year	(407,183)	(508,042)
	(230,058)	(103,637)
Deferred tax liability comprises:		
Tax on revalued property held in equity	587,432	352,666
Tax on revalued investments held in equity	112,537	141,046
Revaluation of TAS shares	4,959	
Deferred loan fees	15,060	18,570
Prepayments less than $1,000	3,405	4,409
Depreciation on fixed assets	51,274	122,560
	774,667	639,251

18. Provisions

	2021 $	2020 $
Fraud		
Balance at the beginning of the year	-	15,089
Liability increase in current year	-	(15,089)
Balance at the end of the year	-	-
Lease premises make good		
Balance at the beginning of the year	89,000	108,000
Liability increase in current year	(9,000)	(19,000)
Balance at the end of the year	80,000	89,000
Total provisions	80,000	89,000

19. Share Redemption Reserve

	2021 $	2020 $
Balance at the beginning of the year	152,944	151,146
Attributable to business combinations	6,000	-
Transfer from retained earnings on share redemptions	1,872	1,798
Balance at the end of year	160,816	152,944

This reserve represents the amount of redeemable Preference Shares redeemed by the credit union since 1st July 1999. The Law requires that the redemption of the shares be made out of profits.

20. General Reserve for Credit Losses

	2021 $	2020 $
Balance at the beginning of the year	965,248	930,956
Attributable to business combinations	360,000	-
Transfer (to) from retained earnings	(292,707)	34,292
Balance at the end of year	1,032,541	965,248

This reserve records an amounts previously set aside as a general provision and is maintained to comply with the Prudential Standards set down by APRA.

21. Asset Revaluation Reserve

	2021 $	2020 $
Balance at the beginning of the year	1,301,606	1,352,932
Attributable to business combinations	470,250	-
Add: Land and building revaluation	440,304	-
Add: TAS shares restated at FV	19,837	-
Less: Cuscal shares restated at FV	(62,747)	(70,795)
(Less)/Add: Adjustments transferred to deferred tax liability	(54,466)	19,469
Balance at the end of year	2,114,784	1,301,606

This reserve relates to unrealised gains on land and buildings at 27 Stewart Street, Wollongong NSW 2500 and 13 Auburn Street, Wollongong NSW 2500 as well as shares held in Cuscal Limited and Transaction Solutions Limited.

22. Transfer of Business Reserve

	2021 $	2020 $
Balance at the beginning of the year	-	-
Add: Business combinations during the year	8,487,443	-
Balance at the end of the year	8,487,443	-

23. Retained Earnings

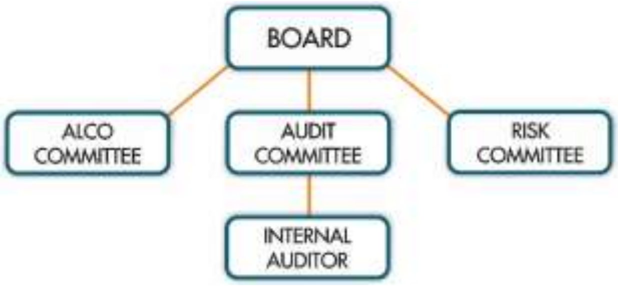
	2021 $	2020 $
Retained Profits at the beginning of the financial year	24,999,509	23,775,230
Add: operating profit for the year	981,318	1,260,369
Add/(Less): transfer of reserves to reserve for credit losses	292,707	(34,292)
Less: transfer of reserves to capital account on redemption of shares	(1,872)	(1,798)
Retained Profits at the end of the Financial Year	**26,271,662**	**24,999,509**

24. Financial Risk Management Objectives and Policies

Introduction

The Board has endorsed a policy of compliance and risk management to suit the risk profile of the credit union.

The credit union's risk management focuses on the major areas of market risk, credit risk and operational risk. Authority flows from the Board of Directors to the Risk Committee which is integral to the management of risk. The following diagram gives an overview of the structure.



The diagram shows the risk management structure. The main elements of risk governance are as follows:

Board: This is the primary governing body. It approves the level of risk which the credit union is exposed to and the framework for reporting and mitigating those risks.

Risk Committee: This is a key body in the control of risk. It is comprised of four directors with the Chief Risk Officer, Chief Executive Officer and other members of the Senior Management Team attending meetings as required. The committee reviews risks and controls that mitigate risks including the identification, assessment and reporting of those risks. Regular monitoring is carried out of operational reports and control assignments to confirm whether risks are within the parameters outlined by the Board.

The committee carries out a regular review of all operational areas to ensure that operational risks are being properly controlled and reported. It also ensures that contingency plans are in place to achieve business continuity in the event of serious disruptions to business operations.

The committee monitors compliance with the framework laid out in the policy and reports in turn to the Board, where actual exposures to risks are measured against prescribed limits on a monthly basis.

Audit Committee: Its key role in risk management is the assessment of the controls that are in place to mitigate risks. The committee considers and confirms that the significant risks and controls are to be assessed within the internal audit plan. The committee receives the internal audit reports on assessment and compliance with the controls, and provides feedback to the risk committee for their consideration.

Asset & Liability Committee (ALCO): This committee meets monthly and has responsibility for managing interest rate risk exposures and ensuring that the treasury and finance functions adhere to exposure limits as outlined in the policies. The committee has the ability to make changes to fixed loan and term deposit rates, and to propose changes to variable loan and variable deposit interest rate changes to the Board. The scrutiny of market risk reports is intended to prevent any exposure breaches prior to review by the Board.

Chief Risk Officer: This person has responsibility for both liaising with the operational function to ensure timely production of information for the risk committee and ensuring that instructions passed down from the Board via the Risk Committee are implemented.

Key risk management policies encompassed in the overall risk management framework include:

- Market Risk
- Liquidity Management
- Credit Risk
- Operational Risk

The credit union has undertaken the following strategies to minimise the risks arising from financial instruments.

24. Financial Risk Management Objectives and Policies (Continued)

A. Market Risk

The objective of the credit union's market risk management is to manage and control market risk exposures in order to optimise risk and return.

Market risk is the risk that changes in interest rates, foreign exchange rates or other prices and volatilities will have an adverse effect on the credit union's financial condition or results. The credit union is not exposed to currency risk, and other significant price risk. The credit union does not trade in the financial instruments it holds on its books. The credit union is exposed only to interest rate risk arising from changes in market interest rates.

The management of market risk is the responsibility of ALCO, which reports directly to the Board.

Interest rate risk

Interest rate risk is the risk of variability of the fair value of future cash flows arising from financial instruments due to the changes in interest rates. The credit union does not trade in financial instruments.

Interest rate risk in the statement of financial position

The credit union is exposed to interest rate risk in its statement of financial position due to mismatches between the repricing dates of assets and liabilities. The interest rate risk on the statement of financial position is measured and reported to the ALCO and Board on a quarterly basis.

The most common interest rate risk the credit union faces arises from fixed rate assets and liabilities. This exposes the credit union to the risk of sensitivity should interest rates change.

The table set out at Note 27 displays the period that each asset and liability will reprice as at the balance date. This risk is not currently considered significant enough to warrant the use of derivatives to mitigate the exposure.

Method of managing risk

The credit union manages interest rate risk by the use of interest rate sensitivity analysis. The detail and assumptions used are set out below.

Interest rate sensitivity

The credit union's exposure to market risk is measured and monitored using interest rate sensitivity models. The primary measure used is Present Value of a Basis Point (PVBP), supplemented by Value at Risk (VaR) and Earnings at Risk (EaR).

Sensitivity or Present Value of a Basis Point (PVBP) is a measure of the change in the present value of an asset or liability due to a change in interest rates of 1 basis point (bp). This impact is extrapolated to 200bp (2.0%) and calculated as a percentage of capital. The 200bp parallel shift is a widely used measure.

The policy of the credit union is to maintain a balanced 'on book' strategy by ensuring the gap between assets and liabilities is not excessive. The PVBP to Capital limit (based on a 200bp shift in interest rates) has been set by the Board at 6% of Capital. The credit union uses on balance sheet methods to maintain interest rate risk within the acceptable range.

Based on the calculations as at 30 June 2021, a 200bp parallel downward shift would result in a gain of 1.858% of capital (2020: loss of 3.355%). The credit union therefore is exposed to interest rates increasing and based on this measure would lose 1.858% of capital if interest rates increase 200bps.

An independent review of the interest rate risk profile is conducted by Protecht.ALM Pty Ltd, an independent risk management consultant. The Board monitors these risks through the reports from Protecht.ALM Pty Ltd and other management reports.

B. Liquidity Risk

Liquidity risk is the risk that the credit union may encounter difficulties raising funds to meet commitments associated with financial instruments, e.g. borrowing repayments or member withdrawal demands. It is the policy of the Board of Directors that the credit union maintains adequate cash reserves and committed credit facilities so as to meet member withdrawal demands when requested.

The credit union manages liquidity risk by:

- Continuously monitoring actual daily cash flows and longer term forecasted cash flows;
- Monitoring the maturity profiles of financial assets and liabilities;
- Maintaining adequate reserves, liquidity support facilities and reserve borrowing facilities; and
- Monitoring the prudential liquidity ratio daily.

24. Financial Risk Management Objectives and Policies (Continued)

B. Liquidity Risk (Continued)

The credit union has a longstanding arrangement with the industry liquidity support body Credit Union Financial Support Services (CUFSS) which can access industry funds to provide support to the credit union should it be necessary at short notice.

The credit union is required to maintain at least 9% of total adjusted liabilities as high quality liquid assets (HQLA) capable of being converted to cash within 48 hours under the APRA Prudential standards. The credit union policy is to hold between 14 – 19% of funds as liquid assets to maintain adequate funds for meeting member withdrawal requests and loan funding. The ratio is checked daily. Should the liquidity ratio move outside this range, management and Board are to address the matter by implementing the necessary steps set out in the policy, such as reviewing current deposit rates offered for example. Note 31 describes the borrowing facilities as at the balance date. These facilities are in addition to the support from CUFSS.

The maturity profile of the financial liabilities, based on the contractual repayment terms are set out in the specific Note 26. Liquidity information over the past year is set out below:

HQLA	2021	2020
Holdings at 30 June	$92,811,888	$68,455,509
Ratio at 30 June	16.26%	16.43%
Prescribed ratio	9.00%	9.00%
Average ratio for the year	18.64%	15.85%
Minimum ratio during the year	16.26%	14.80%

C. Credit Risk

Credit risk is the risk that members, financial institutions and other counterparties will be unable to meet their obligations to the credit union which may result in financial losses. Credit risk arises principally from the credit union's loan book and investment assets.

Credit Risk – Loans

The analysis of the credit union's loans by class, is as follows:

	2021			2020		
Loans to	Carrying value $	Commitments $	Max exposure $	Carrying value $	Commitments $	Max exposure $
Mortgage	417,768,688	22,055,187	439,823,875	304,677,663	12,387,420	317,065,083
Personal	11,295,442	319,884	11,615,326	8,921,837	930,994	9,852,831
Credit cards	1,925,960	4,519,709	6,445,669	1,808,339	4,550,752	6,359,091
Overdrafts	3,273,984	4,986,778	8,260,762	3,779,855	3,434,515	7,214,370
Total to natural persons	434,264,074	31,881,558	466,145,632	319,187,694	21,303,681	340,491,375
Corporate borrowers	15,346,464	3,593,744	18,940,208	14,704,497	3,328,075	18,032,572
Total	449,610,538	35,475,302	485,085,840	333,892,191	24,631,756	358,523,947

Carrying value is the value on the statement of financial position**.** Maximum exposure is the value on the statement of financial position plus the undrawn facilities (Loans approved not advanced, redraw facilities; line of credit facilities; overdraft facilities; credit cards limits). The details are shown in Note 30.

All loans and facilities are within Australia. A geographic distribution between the three main areas of Illawarra, Shoalhaven & Bega Valley regions is provided in Note 7c(ii).

The method of managing credit risk is by way of strict adherence to the credit assessment policies before the loan is approved and close monitoring of defaults in the repayment of loans thereafter on a weekly basis. The credit risk policy has been endorsed by the Board to ensure that loans are only made to members that are creditworthy and capable of meeting loan repayments.

24. Financial Risk Management Objectives and Policies (Continued)

The credit union has established policies over the:

- Credit assessment and approval of loans and facilities covering acceptable risk assessment and security requirements;
- Limits of acceptable exposure over the value to individual borrowers, non-mortgage secured loans, commercial lending and concentrations to geographic and industry groups considered at high risk of default;
- Reassessing and review of the credit exposures on loans and facilities;
- Establishing appropriate provisions to recognise the impairment of loans and facilities;
- Debt recovery procedures;
- Review of compliance with the above policies.

A regular review of compliance is conducted as part of the internal audit scope.

Past due and impaired

A financial asset is past due when the counterparty has failed to make a payment when contractually due. As an example, a member enters into a lending agreement with the credit union that requires interest and a portion of the principal to be paid every month. On the first day of the next month, if the agreed repayment amount has not been paid, the loan is past due. Past due does not mean that the counterparty will never pay, but it can trigger various actions such as renegotiation, enforcement of covenants, or legal proceedings. Once the past due exceeds 90 days the loans is regarded as impaired, unless other factors indicate the impairment should be recognised sooner.

Daily reports monitor the loan repayments to detect delays in repayments and recovery action is undertaken after 7 days. For loans where repayments are doubtful, external consultants may be engaged to conduct recovery action once a loan is over 90 days in arrears. The exposure to losses arise predominantly in personal loans and facilities not secured by registered mortgages over real estate.

If such evidence exists, the estimated recoverable amount of that asset is determined and any impairment loss, based on the net present value of future anticipated cash flows, is recognised in the statement of profit or loss and other comprehensive income. In estimating these cash flows, management makes judgements about the counterparty's financial situation and the net realisable value of any underlying collateral.

In addition to specific provisions against individually significant financial assets, the credit union makes collective assessments for each financial asset portfolio segmented by similar risk characteristics.

Statement of financial position provisions are maintained at a level that management deems sufficient to absorb probable incurred losses in the credit union's loan portfolio from homogenous portfolios of assets and individually identified loans.

A provision for incurred losses is established on all past due loans after a specified period of repayment default where it is probable that some of the capital will not be repaid or recovered.

The provisions for impaired and past due exposures relate to the loans to members. Past due value is the 'on statement of financial position' loan balances which are past due by 90 days or more.

Details are as set out in Note 8.

Bad debts

Amounts are written off when collection of the loan or advance is considered to be unlikely. All write offs are on a case by case basis, taking account of the exposure at the date of the write off.

On secured loans, the write off takes place on ultimate realisation of collateral value, or from claims on any lenders mortgage insurance.

A reconciliation in the movement of both past due and impaired exposure provisions is provided in Note 8.

Collateral securing loans

A sizeable portfolio of the loan book is secured on residential property in Australia. Therefore, the credit union is exposed to risks should the property market be subject to a decline.

The risk of losses from the loans undertaken is primarily reduced by the nature and quality of the security taken. Note 7b describes the nature and extent of the security held against loans as at balance date.

24. Financial Risk Management Objectives and Policies (Continued)

Concentration risk – individuals

Concentration risk is a measurement of the credit union's exposure to an individual counterparty (or group of related parties). If prudential limits are exceeded as a proportion of the credit union's regulatory capital (10 per cent) a large exposure is considered to exist. No capital is required to be held against these but APRA must be informed. APRA may impose additional capital requirements if it considers the aggregate exposure to all loans over the 10% capital benchmark, to be higher than acceptable.

The credit union holds no significant concentrations of exposures to members. Concentration exposures to counterparties are closely monitored.

Concentration risk – industry

There is no concentration of credit risk with respect to loans and receivables as the credit union has a large number of customers dispersed in areas of employment.

The credit union's foundation had a concentration of retail lending and deposits from members who comprised employees and families of local councils and Bluescope Steel for ex-LCU members. The community basis for which the credit union now relies upon membership means this small concentration is considered acceptable on the basis that the credit union was originally formed to service these members, and the employment concentration is not exclusive. Should members leave the industry, the loans continue and other employment opportunities are available to the members to facilitate the repayment of the loans. The details of the geographical concentrations are set out in Note 7c.

Credit Risk – Liquid Investments

Credit risk is the risk that the other party to a financial instrument will fail to discharge their obligation resulting in the credit union incurring a financial loss. This usually occurs when debtors fail to settle their obligations owing to the credit union.

There is a concentration of credit risk with respect to investment receivables with the placement of investments in Cuscal and other financial institutions. The credit policy is that investments are only made to institutions that are credit worthy. Directors have established policies that a maximum of 50% of capital can be invested with any one financial institution at a time.

The risk of losses from the liquid investments undertaken is reduced by the nature and quality of the independent rating of the investment body and the limits to concentration on one credit union. Also the relative size of the credit union as compared to the industry is relatively low such that the risk of loss is reduced.

Under the Credit Union Financial Support Scheme (CUFSS), at least 3.0% of the total assets must be invested in an approved manner in order for the scheme to have adequate resources to meet its obligations if needed.

External Credit Assessment for Institution Investments

The credit union uses the ratings of reputable ratings agencies to assess the credit quality of all investment exposure, where applicable, using the credit quality assessment scale in APRA prudential guidance AGN 112. The credit quality assessment scale within this standard has been complied with.

The exposure values associated with each credit quality step are as follows:

	2021			**2020**		
Investments with	Carrying value	Past due value	Provision	Carrying value	Past due value	Provision
Government – rated AA- and above	22,500,000	-	-	1,500,000	-	-
Cuscal – rated A+	7,600,000	-	-	6,280,000	-	-
Banks – rated AA- and above	43,800,000	-	-	-	-	-
Banks – rated below AA-	38,270,815	-	-	61,267,335	-	-
Non-bank ADIs – rated below AA-	-	-	-	-	-	-
Unrated institutions	6,000,000	-	-	10,500,000	-	-
Total	118,170,815	-	-	79,547,335	-	-

24. Financial Risk Management Objectives and Policies (Continued)

D. Capital Management

The capital levels are prescribed by Australian Prudential Regulation Authority (APRA). Under the APRA prudential standards, capital is determined in three components being credit, market and operational risk. The market risk component is not required as the credit union is not engaged in a trading book for financial instruments.

Capital resources

Tier 1 Capital

The vast majority of Tier 1 capital comprises retained profits, the asset revaluation reserve and other realised reserves.

Tier 2 Capital

Tier 2 capital consists of capital instruments that combine the features of debt and equity in that they are structured as debt instruments, but exhibit some of the loss absorption and funding flexibility features of equity. There are a number of criteria that capital instruments must meet for inclusion in Tier 2 capital resources as set down by APRA.

Tier 2 capital generally comprises a general reserve for credit losses.

Capital in the credit union is made up as follows:

	2021	2020
Tier 1		
Capital reserve	160,816	152,944
Asset revaluation reserve	2,114,784	1,301,606
Business combination reserve	8,487,443	-
Retained earnings	26,211,423	24,931,972
	36,974,466	26,386,522
Less prescribed deductions	(1,454,826)	(1,390,025)
Net tier 1 capital	35,519,640	24,996,497
Tier 2		
Reserve for credit losses	1,032,541	965,248
	1,032,541	965,248
Less prescribed deductions	-	-
Net tier 2 capital	1,032,541	965,248
Total Capital	**36,552,181**	**25,961,745**

The credit union is required to maintain a minimum capital level of 8% as compared to the risk weighted assets at any given time.

The risk weights attached to each asset are based on the weights prescribed by APRA in its Guidance AGN 112-1. The general rules apply the risk weights according to the level of underlying security.

The capital ratio as at the end of the financial year over the past 5 years is as follows

	2021	2020	2019	2018	2017
	Basel III	Basel III	Basel III	Basel III	Basel III
Capital Ratio	15.20%	14.02%	14.54%	14.96%	14.61%

The level of capital ratio can be affected by growth in assets relative to growth in reserves and by changes in the mix of assets.

To manage the credit union's capital, the credit union reviews the ratio monthly and monitors major movements in the asset levels. Policies have been implemented that require reporting to the Board and the regulator if the capital ratio falls below 12.75%. Additionally, a 5 year projection of the capital levels is prepared annually to address how strategic decisions or trends may impact on the capital level.

24. Financial Risk Management Objectives and Policies (Continued)

Pillar 2 Capital on Operational Risk

This capital component was introduced as from 1st January 2012 and coincided with changes in the asset risk weightings for specified loans and liquid investments. Previously no operational charge was prescribed.

The credit union uses the Standardised approach which is considered to be most suitable for its business given the small number of distinct transaction streams. The Operational Risk Capital Requirement is calculated by mapping the credit union's three year average net interest income and net non-interest income to the credit union's various business lines.

Based on this approach, the credit union's operational risk capital requirement as at 30 June 2021 was $22,660,350 [2020: $21,254,066].

Internal capital adequacy management

The credit union manages its internal capital levels for both current and future activities through a combination of the various committees. The outputs of the individual committees are reviewed by the Board in its capacity as the primary governing body. The capital required for any change in the credit union's forecasts for asset growth, or unforeseen circumstances, are assessed by the Board. The forecast capital resource model is updated and the impact upon the overall capital position of the credit union is reassessed.

25. Categories of Financial Instruments

a. The following information classifies the financial instruments into measurement classes

	2021 $	2020 $
Financial assets – carried at amortised cost		
Cash and cash equivalents	9,044,302	9,008,174
Receivables	837,800	535,021
Receivables from financial institutions	118,285,310	79,655,261
Loans to members	449,610,538	333,892,191
	577,777,950	423,090,647
Assets carried at FVOCI	1,284,104	1,110,228
	579,062,054	**424,200,875**
Financial Liabilities – carried at amortised cost		
Borrowings	6,688,495	9,142,774
Creditors	1,591,317	1,639,007
Deposits from members	535,796,451	389,764,374
Members withdrawable shares	34,342	29,472
	544,110,605	**400,575,627**

b. Assets measured at fair value

Fair value measurement at the end of the reporting period using:

Equity investment securities designated as FVOCI	**Note**	**Balance**	**Level 1**	**Level 2**	**Level 3**
Opening balance as at 1 July 2020		1,110,228	-	-	1,110,228
Add: Cuscal shares acquired through business transfer		216,786	-	-	216,786
Add: revaluation of TAS shares		19,837	-	-	19,837
Less: revaluation of Cuscal shares		(62,747)	-	-	(62,747)
Closing balance as at 30 June 2021	9	1,284,104	-	-	1,284,104

The fair value hierarchy has the following levels:

a. quoted prices (unadjusted in active markets for identical assets or liabilities (Level 1);
b. inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices) (Level 2); and
c. inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3)

The level 3 equity investment securities designated as FVOCI relate to the shares in Cuscal Limited and Transaction Solutions Limited.

26. Maturity Profile of Financial Assets and Liabilities

Monetary assets and liabilities have differing maturity profiles depending on the contractual term, and in the case of loans, the repayment amount and frequency. The table below shows the period in which different monetary assets and liabilities held will mature and be eligible for renegotiation or withdrawal. In the case of loans, the table shows the period over which the principal outstanding will be repaid based on the remaining period to the repayment date assuming contractual repayments are maintained. For term loans the below dissection is based upon contractual conditions of each loan being strictly complied with and is subject to change in the event that current repayment conditions are varied.

2021	Within 1 month $	1 – 3 months $	3 – 12 months $	1 – 5 years $	After 5 years $	No maturity $	Total $
Assets							
Cash	5,989,107	-	-	-	-	3,055,196	9,044,303
Receivables	837,800	-	-	-	-	-	837,800
Liquid investments	41,033,241	10,002,471	11,588,775	62,677,394	-	-	125,301,881
Loans & advances	2,644,203	5,288,406	23,096,428	113,003,894	462,548,522	-	606,581,453
FVOCI equity investment	-	-	-	-	-	1,284,104	1,284,104
Total financial assets	50,504,351	15,290,877	34,685,203	175,681,288	462,548,522	4,339,300	743,049,541
Liabilities							
Borrowings	-	-	-	6,708,394	-	-	6,708,394
Creditors	1,591,317	-	-	-	-	-	1,591,317
Leases	37,140	73,206	263,599	438,177	-	-	812,122
Deposits from members – at call	367,173,863	-	1,476	-	-	34,342	367,209,681
Deposits from members – term	24,977,943	56,112,648	80,547,768	7,403,102	-	-	169,041,461
On statement of financial position	393,780,263	56,185,854	80,812,843	14,549,673	-	34,342	545,362,975
Undrawn commitments	-	-	-	-	-	39,029,940	39,029,940
Total financial liabilities	393,780,263	56,185,854	80,812,843	14,549,673	-	39,064,282	584,392,915

2020	Within 1 month $	1 – 3 months $	3 – 12 months $	1 – 5 years $	After 5 years $	No maturity $	Total $
Assets							
Cash	6,001,325	-	-	-	-	3,008,174	9,009,499
Receivables	535,021	-	-	-	-	-	535,021
Liquid investments	23,530,821	17,510,970	3,516,179	42,276,368	-	-	86,834,338
Loans & Advances	2,061,078	4,122,156	18,285,162	88,866,570	361,594,523	-	474,929,489
FVOCI equity investment	-	-	-	-	-	1,110,228	1,110,228
Total financial assets	32,128,245	21,633,126	21,801,341	131,142,938	361,594,523	4,118,402	572,418,575
Liabilities							
Borrowings	585,271	-	-	8,616,961	-	-	9,202,232
Creditors	652,218	-	-	-	-	-	652,218
Leases	32,775	65,648	282,148	606,218	-	-	986,789
Deposits from members – at call	239,958,280	-	-	-	-	29,472	239,987,752
Deposits from members – term	24,559,630	49,047,069	65,758,737	11,375,887	-	-	150,741,323
On statement of financial position	265,788,174	49,112,717	66,040,885	20,599,066	-	29,472	401,570,314
Undrawn commitments	-	-	-	-	-	28,311,826	28,311,826
Total financial liabilities	265,788,174	49,112,717	66,040,885	20,599,066	-	28,341,298	429,882,140

27. Financial Assets and Liabilities Maturing Within 12 Months

The table below represents the above maturity profile summarised at discounted values. The contractual arrangements best represents the estimated minimum amount of repayment on the loans, liquid investments and on the member deposits within 12 months. While the liquid investments and member deposits are presented in the table below on a contractual basis, as part of our normal banking operations, we would expect a large proportion of these balances to roll over. Loan repayments are generally accelerated by members choosing to repay loans earlier. These advance repayments are at the discretion of the members and not able to be reliably estimated.

	2021			2020		
	Within 12 months	After 12 months	Total	Within 12 months	After 12 months	Total
	$	$	$	$	$	$
Financial assets						
Cash	9,044,302	-	9,044,302	9,008,174	-	9,008,174
Liquid investments	56,520,815	61,650,000	118,170,815	38,467,335	41,080,000	79,547,335
Loans & advances	22,779,260	426,831,278	449,610,538	18,564,727	315,327,464	333,892,191
Receivables	952,295	-	952,295	642,947	-	642,947
FVOCI equity investments	1,284,104	-	1,284,104	1,110,228	-	1,110,228
Total financial assets	90,580,776	488,481,278	579,062,054	67,793,411	356,407,464	424,200,875
Financial liabilities						
Borrowings	6,688,311	-	6,688,311	9,137,853	-	9,137,853
Deposits from members – at call	367,175,339	-	367,175,339	239,958,280	-	239,958,280
Deposits from members – term	161,342,554	7,278,741	168,621,295	138,895,125	10,915,890	149,811,015
Creditors	1,591,317	-	1,591,317	652,218	-	652,218
Leases	373,945	438,177	812,122	380,572	606,217	986,789
Total financial liabilities	537,171,466	7,716,918	544,888,384	389,024,048	11,522,107	400,546,155

28. Interest Rate Change Profile of Financial Assets and Liabilities

Financial assets and liabilities have conditions, which allow interest rates to be amended either on maturity (term deposits and term investments) or after adequate notice is given (loans and savings). The table below shows the respective value of funds where interest rates are capable of being altered within the prescribed time bands, being the earlier of the contractual repricing date, or maturity date.

2021	Within 1 month $	1 – 3 months $	3 – 12 months $	1 – 5 years $	Non-interest bearing $	Total $
Assets						
Cash and cash equivalents	5,989,107	-	-	-	3,055,196	9,044,303
Receivables	-	-	-	-	837,800	837,800
Liquid investments	60,412,915	41,316,273	7,510,556	15,034,673	-	124,274,417
Loans and advances	180,156,090	14,682,659	64,266,364	190,505,425	-	449,610,538
FVOCI equity investments	-	-	-	-	1,284,104	1,284,104
On statement of financial position	246,558,112	55,998,932	71,776,920	205,540,098	5,177,100	585,051,162
Undrawn commitments	-	-	-	-	37,029,940	37,029,940
Total financial assets	246,558,112	55,998,932	71,776,920	205,540,098	42,207,040	622,081,102
Liabilities						
Borrowings	-	-	-	6,688,311	-	6,688,311
Creditors	-	-	-	-	1,591,317	1,591,317
Leases	37,140	73,206	263,599	438,177	-	812,122
Deposits from members – at call	367,173,863	-	1,476	-	34,342	367,209,681
Deposits from members – term	24,976,095	56,046,036	80,282,180	7,316,880	-	168,621,191
On statement of financial position	392,187,098	56,119,242	80,547,255	14,443,368	1,625,659	544,922,622
Undrawn commitments	-	-	-	-	2,000,000	2,000,000
Total financial liabilities	392,187,098	56,119,242	80,547,255	14,443,368	3,625,659	546,922,622

2020	Within 1 month $	1 – 3 months $	3 – 12 months $	1 – 5 years $	Non-interest bearing $	Total $
Assets						
Cash and cash equivalents	6,000,000	-	-	-	3,008,174	9,008,174
Receivables	-	-	-	-	535,021	535,021
Liquid investments	37,340,275	42,314,986	-	-	-	79,655,261
Loans and advances	172,831,941	10,439,613	39,815,174	110,805,463	-	333,892,191
FVOCI equity investments	-	-	-	-	1,110,228	1,110,228
On statement of financial position	216,172,216	52,754,599	39,815,174	110,805,463	4,653,423	424,200,875
Undrawn commitments	-	-	-	-	26,897,097	26,897,097
Total financial assets	216,172,216	52,754,599	39,815,174	110,805,463	31,550,520	451,097,972
Liabilities						
Borrowings	585,271	-	-	8,552,582	-	9,137,853
Creditors	-	-	-	-	652,218	652,218
Leases	32,775	65,648	282,148	606,218	-	986,789
Deposits from members – at call	239,958,280	-	-	-	29,472	239,987,752
Deposits from members – term	24,547,473	48,944,347	65,282,597	11,031,678	-	149,806,095
On statement of financial position	265,123,799	49,009,995	65,564,745	20,190,478	681,690	400,570,707
Undrawn commitments	-	-	-	-	1,414,729	1,414,729
Total financial liabilities	265,123,799	49,009,995	65,564,745	20,190,478	2,096,419	401,985,436

29. Net Fair Value of Financial Assets and Liabilities

Fair value has been determined on the basis of the present value of **expected future cash flows** under the terms and conditions of each financial asset and financial liability.

Significant assumptions used in determining the cash flows are that the cash flows will be consistent with the contracted cash flows under the respective contracts.

The information is only relevant to circumstances at balance date and will vary depending on the contractual rates applied to each asset and liability, relative to market rates and conditions at the time. No assets held are regularly traded by the credit union and there is no active market to assess the value of the financial assets and liabilities. The values reported have not been adjusted for the changes in credit ratings of the assets. Disclosure of fair value is not required when the carrying amount is a reasonable approximation of fair value.

The calculation reflects the interest rate applicable for the remaining term to maturity not the rate applicable to original term.

	2021			2020		
	Fair Value	**Carrying Amount**	**Variance**	**Fair Value**	**Carrying Amount**	**Variance**
Financial Assets	**$**	**$**	**$**	**$**	**$**	**$**
Cash and cash equivalents	9,044,302	9,044,302	-	9,008,174	9,008,174	-
Receivables *	952,295	952,295	-	642,947	642,947	-
Advances to other financial institutions	119,313,857	118,170,815	1,143,042	79,633,502	79,547,335	86,167
Loans to members	448,688,647	449,580,114	(891,467)	333,224,037	333,776,636	(552,599)
FVOCI equity investments	1,284,104	1,284,104	-	1,110,228	1,110,228	-
Total financial assets	579,283,205	579,031,630	251,575	423,618,888	424,085,320	(466,432)
Financial Liabilities						
Borrowings	6,688,311	6,688,311	-	8,552,582	8,552,582	-
Payables *	3,989,784	3,989,784	-	3,322,483	3,322,483	-
Deposits from members – at call	367,208,205	367,208,205	-	239,987,752	239,987,752	-
Deposits from members – term	168,600,544	168,146,312	454,232	149,948,493	148,957,449	991,044
Total financial liabilities	546,486,844	546,032,612	454,232	401,811,310	400,820,266	991,044

* For these assets and liabilities the carrying value approximates fair value.

Assets where the net fair value is lower than the book value have not been written down in the accounts of the credit union on the basis that they are to be held to maturity, or in the case of loans, all amounts due are expected to be recovered in full.

The fair value estimates were determined by the following methodologies and assumptions:

Liquid Assets and Receivables from other Financial Institutions

The carrying values of cash and liquid assets and receivables due from other financial institutions redeemable within 12 months approximate their net fair value as they are short term in nature or are receivable on demand.

Loans, Advances

The carrying value of loans and advances is net of unearned income and both general and specific provisions for doubtful debts.

For variable rate loans (excluding impaired loans) the amount shown in the statement of financial position is considered to be a reasonable estimate of net fair value. The net fair value for fixed rate loans is calculated by utilising discounted cash flow models (i.e. the net present value of the portfolio future principal and interest cash flows), based on the period to maturity of the loans. The discount rates applied were based on the current applicable rate offered for the average remaining term of the portfolio.

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 flows.

Deposits From Members

The fair value of call and variable rate deposits, and fixed rate deposits repricing within 12 months, is the amount shown in the statement of financial position. Discounted cash flows were used to calculate the net fair value of other term deposits, based upon the deposit type and the rate applicable to its related period of maturity.

Short Term Borrowings

The carrying value of payables due to other financial institutions approximate their net fair value as they are short term in nature and reprice frequently.

30. Financial Commitments

	2021 $	2020 $
a. Outstanding Loan commitments		
Loans approved but not funded as at 30 June	15,202,722	12,889,939
b. Loan Redraw Facility		
Facilities available as at 30 June	8,280,350	1,520,976
c. Undrawn Loan Facilities		
Loan facilities available to members for overdrafts and line of credit loans are as follows:		
Total value of facilities approved	19,102,544	18,678,481
Less: Amount advanced	(5,555,676)	(6,192,299)
Net undrawn value	13,546,868	12,486,182
These commitments are contingent on members maintaining credit standards and ongoing repayment terms on amounts drawn.		
Total financial commitments	37,029,940	26,897,097
d. Computer Software Expense Commitments		
The costs committed under the current Ultradata and TAS contracts are as follows:		
Not later than 1 year	1,212,976	484,509
Later than 1 year but not 2 years	1,154,194	121,827
Later than 2 years but not 5 years	284,825	-
	2,651,995	606,336

31. Standby Borrowing Facilities

	2021 $	2020 $
Committed facilities		
Cuscal Limited overdraft facility	2,000,000	2,000,000
Current borrowing	-	(585,271)
Standby borrowing facilities available	2,000,000	1,414,729

Cuscal Limited holds a term deposit as security against overdraft amounts drawn.

	2021 $	2020 $
Reserve Bank of Australia Term Funding Facility (TFF)	6,688,311	9,753,101
Current borrowing	(6,688,311)	(8,552,582)
Standby borrowing facilities available	-	1,200,519
Total standby borrowing facilities available	2,000,000	2,615,248

Reserve Bank of Australia holds $9,600,000 of floating rate notes as security against amounts drawn.

	2021 $	2020 $
Uncommitted facilities		
IOOF Investment Management Ltd	-	27,000,000
Current borrowing	-	-
Total standby borrowing facilities available	-	27,000,000

32. Contingent Liabilities

Liquidity Support Scheme

The credit union is a member of the Credit Union Financial Support Scheme Limited (CUFSS) a company established to provide financial support to members in the event of a liquidity or capital problem. As a member, the credit union is committed to maintaining 3.0% of the total assets in an approved manner.

Under the terms of the Industry Support Contract (ISC), the maximum call for each participating credit union would be 3.0% of the credit union's total assets. This amount represents the participating credit union's irrevocable commitment under the ISC. At the balance date there were no loans outstanding under this arrangement.

Guarantees

The credit union has provided a guarantee to Cuscal for drawings made by approved members up to a limit of $18,000, to enable Cuscal to settle the funds transferred by way of direct debit with other financial institutions. The guarantees are cancellable by either the credit union or Cuscal. The credit union has an arrangement with the members to maintain sufficient funds in their account to settle the payments as and when required.

33. Disclosures on Directors and other Key Management Personnel

a. Remuneration of Key Management Persons (KMP)

Key management persons are those persons having authority and responsibility for planning, directing and controlling the activities of the credit union, directly or indirectly, including any director (whether executive or otherwise) of that entity. *Control* is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Key management persons comprise the directors, the senior managers and chief risk officer who are responsible for the day to day financial and operational management of the credit union.

The aggregate compensation of KMP during the year comprising amounts paid or payable or provided for, was as follows:

	2021 Directors	2021 Other KMP	2021 Total	2020 Directors	2020 Other KMP	2020 Total
	$	**$**	**$**	**$**	**$**	**$**
(a) short-term employee benefits;	170,096	1,012,871	1,182,967	150,572	916,392	1,066,964
(b) post-employment benefits - superannuation contributions	40,741	129,516	170,257	38,887	124,646	163,533
(c) other long-term benefits – net (decrease)/increases in long service leave provision and retirement gifts	-	208,211	208,211	-	17,239	17,239
(d) termination benefits	-	-	-	-	-	-
(e) share-based payment	-	-	-	-	-	-
Total KMP compensation	210,837	1,350,598	1,561,435	189,459	1,058,277	1,247,736

In the above table, remuneration shown as short term benefits means (where applicable) **wages, salaries, directors fees, paid annual and sick leave, profit-sharing and bonuses, value of fringe benefits received,** but excludes out of pocket expense reimbursements.

All remuneration to directors was approved by the members at the previous Annual General Meeting of the credit union.

33. Disclosures on Directors and other Key Management Personnel (Continued)

b. Loans to Directors and other Key Management Persons

The credit union's policy for lending to directors and management is that all loans are approved and deposits accepted on the same terms and conditions that applied to members for each class of loan and deposit.

There are no loans that are impaired in relation to the loans balances of directors or other KMP.

There are no benefits or concessional terms and conditions applicable to the close family members of the KMP. There are no loans that are impaired in relation to the loan balances with close family relatives of directors and other KMP.

The details of transactions during the year are as follows:

	2021 Mortgage Secured	2021 Other term loans	2021 Credit Cards	2020 Mortgage Secured	2020 Other term loans	2020 Credit Cards
	$	$	$	$	$	$
Funds available to be drawn	594,581	-	84,361	523,407	-	64,502
Balance	3,158,648	-	5,639	1,555,745	-	33,498
Amounts disbursed or facilities increased in the year	1,050,233	-	71,250	63	-	120,804
Interest and other revenue earned	62,347	-	27	52,141	861	342

	2021	2020
	$	$
Other transactions between related parties include deposits from directors, and other Key Management Persons are:		
Total value of term and savings deposits of KMP	2,829,527	2,051,800
Total interest paid on deposits to KMP	19,448	22,805

The credit union's policy for receiving deposits from KMP is that all transactions are accepted on the same terms and conditions that apply to members.

c. Transactions with Other Related Parties

Other transactions between related parties include deposits from director related entities or close family members of directors and other KMP. The credit union's policy for receiving deposits from related parties is that all transactions are approved and deposits accepted on the same terms and conditions that applied to members for each type of deposit.

An amount of $90,143 was paid to a company partly owned by a close family member of a KMP for the purposes of leasing a property. This lease has been in place since 14 November 2005, being prior to the relevant party becoming a KMP and was renewed on 15 November 2017 on a normal arms-length commercial basis by reference to market rentals at the time.

The current lease is in place until 14 November 2021, having a future financial commitment of $33,071 and is included in Note 13.

There are no other service contracts to which key management persons or their close family members are an interested party.

34. Economic Dependency

The credit union has an economic dependency on the following suppliers of services:

a. Cuscal Limited

Cuscal Limited is an Approved Deposit Taking Institution registered under the Corporations Act 2001 (Cwlth) and the Banking Act. This entity:

(i) provides the license rights to Visa Card and settlement with other institutions for ATM, Visa card, Pays products, New Payments Platform and cheque transactions, as well as the production of Visa and for use by members;

(ii) operates the computer network used to link Visa cards and Pays products operated through ATMs and POS facilities to the credit union's IT systems.

(iii) provides settlement and clearance facilities to the credit union.

b. Ultradata Australia Pty Limited

Ultradata Australia Pty Limited provides and maintains the banking software utilised by the credit union.

c. Transaction Solutions Limited (TAS)

Transaction Solutions Limited provides IT facilities management services to the credit union. The credit union has a management contract with TAS to receive computer support services to meet the day-to-day needs of the credit union and ensure compliance with the relevant Prudential Standards.

35. Segmental Reporting

The credit union operates exclusively in the retail financial services industry within Australia.

36. Superannuation Liabilities

The credit union contributes primarily to the NGS Super Plan for the purpose of Superannuation Guarantee payments and payment of other superannuation benefits on behalf of employees. An independent Corporate Trustee administers the plan.

The credit union has no interest in any of these superannuation plans (other than as a contributor) and is not liable for the performance nor the obligations of the plans.

37. Events Occurring after the Reporting Period

There are no events occurring after the reporting period that materially impact the financial statements measurement of assets and liabilities.

38. Notes to Statement of Cash Flows

a. Reconciliation of Cash and cash equivalents

Cash includes cash on hand, and deposits at call with other financial institutions and comprises:

	2021 $	2020 $
Cash on hand and at bank	3,544,302	3,008,174
Deposits at call	5,500,000	6,000,000
Total Cash and cash equivalents	9,044,302	9,008,174

b. Reconciliation of cash from operations to accounting profit

The net cash increase from operating activities is reconciled to the operating profit after tax

	2021 $	2020 $
Operating profit after income tax	**981,318**	**1,260,369**
Non cash flows		
Depreciation	306,837	310,872
Amortisation of intangibles	217,871	220,814
Loss on sale of assets	19,031	13,650
Profit on sale of assets	(9,045)	-
Add changes in assets and liabilities		
Increase in provision for loans	-	144,331
Increase in GST and other tax liabilities	34,903	-
Increase in provision for income tax	230,058	-
Increase in employee entitlements	481,800	125,879
Increase in accrued expenses	939,099	819,443
Increase in unamortised fixed rate loan renegotiation fees	38,287	636
Increase in deferred tax liability	135,416	100,409
Increase in member deposits and shares	146,409,316	44,779,759
Decrease in prepayments	-	31,561
Decrease in taxes receivable	103,637	-
Decrease in right of use assets	174,368	-
Decrease in interest receivable	-	25,975
Less changes in assets and liabilities		
Decrease in provision for loans	(92,415)	-
Decrease in other provisions	(9,000)	(34,089)
Decrease in GST and other tax liabilities	-	(15,455)
Decrease in provision for income tax	-	(25,097)
Decrease in interest payable	(377,107)	(438,134)
Decrease in lease liabilities	(174,667)	-
Decrease in effective rate adjustments	(31,003)	(6,885)
Increase in deferred tax asset	(245,596)	(73,573)
Increase in prepayments	(15,418)	-
Increase in taxes receivable	-	(111,912)
Increase in sundry debtors and other receivables	(320,666)	(232,824)
Increase in investments	(173,876)	-
Increase in right of use assets	-	(969,154)
Increase in interest receivable	(11,387)	-
Increase in other assets	(39,381)	-
Increase in member loans	(115,718,347)	(22,685,949)
Increase in receivables from financial institutions	(38,623,,480)	(27,736,654)
Net cash from operating activities	**(5,769,447)**	**(4,496,028)**

39. Business Transfers

The credit union accepted a total voluntary transfer of Lysaght Credit Union Limited (LCU) on 1 April 2021 under the Financial Sector (Business Transfer and Group Restructure) Act 1999 (Cth). No consideration was paid under this transaction.

The transfer has resulted in a combined entity with over 17,100 members and assets under management of $575m, bringing together two credit unions with shared values, to focus on creating and returning value to members and supporting the communities in which these members live and work. Members transferred from LCU mainly reside in the Illawarra region.

No current year profit was transferred from LCU as the financial year for this entity ended on 31 March 2021.

	2021 $
Consideration	
Cash	-
Deferred purchase consideration	-
	-
Identifiable assets	
Cash and cash equivalents	8,330,803
Receivables	493,640
Receivables due from other financial institutions	8,388,890
Loans and advances	80,230,327
Other financial assets	216,786
Intangibles	16,189
Plant, property and equipment	914,870
Identifiable liabilities	
Deposits from other financial institutions	500,000
Deposits	87,557,698
Payables	635,372
Income tax provisions	207,721
Provisions	367,020
Net assets acquired	**9,323,694**
Reserves	904,298
Retained earnings	8,419,396
Equity	**9,323,694**
Net assets less equity acquired	-
Goodwill on acquisition	-

Transfer of business reserve

Transfers of business with other mutual entities are accounted for by recognising the identifiable assets and liabilities of the transferring entity on the statements of financial position at their fair value at the date of merger. The excess of the fair value of assets taken up over liabilities assumed is taken directly to equity as a reserve.

40. Corporate Information

The credit union is a company limited by shares, and is registered under the Corporations Act 2001.

The address of the registered office and main place of business is 27 Stewart Street, Wollongong NSW.

The nature of the operations and its principal activities are the provision of deposit taking facilities and loan facilities to the members of the credit union.

Horizon Bank

Administration

Horizon Credit Union Ltd ABN 66 087 650 173
AFSL & Australian credit licence number 240573
trading as Horizon Bank
27 Stewart Street, Wollongong NSW 2500
(02) 4224 7700