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STRONGER TOGETHER Supporting you when it matters.

ANNUAL REPORT | 2020

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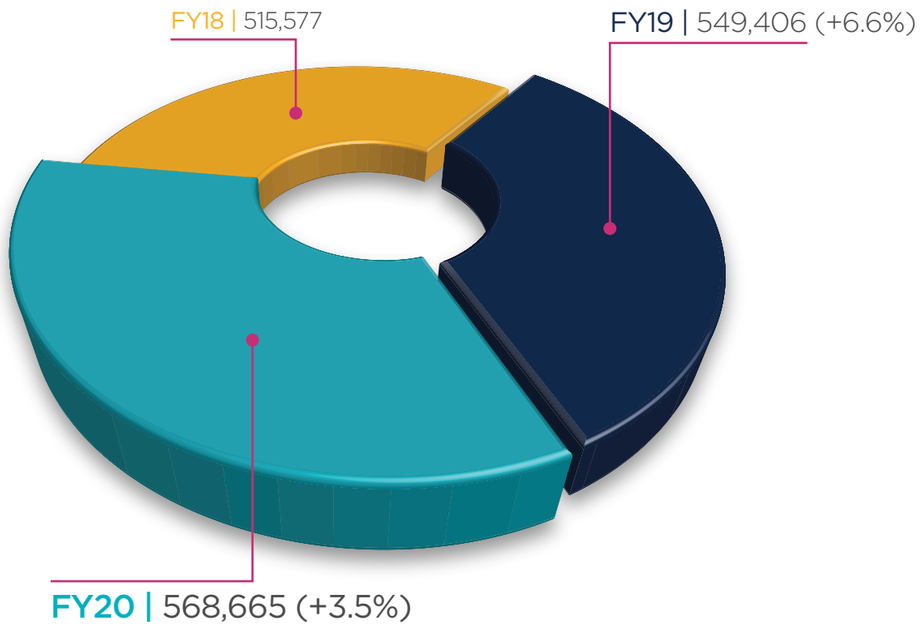
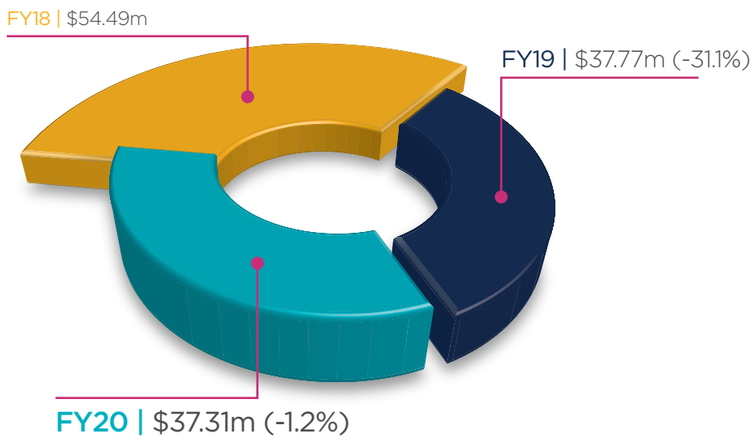
Annual Highlights

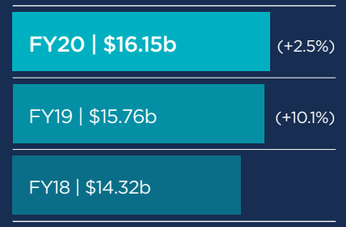
Members (Banking + Health)



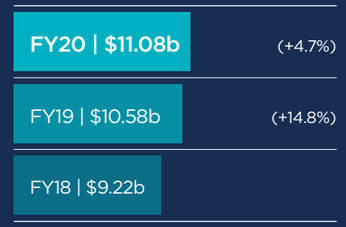
Net Profit After Tax (NPAT)



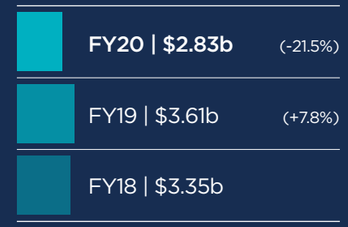
Consolidated Assets



Deposits

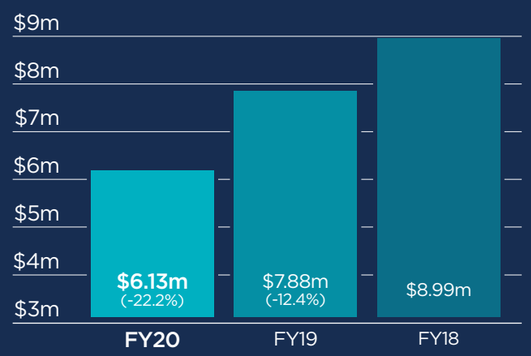


New Lending

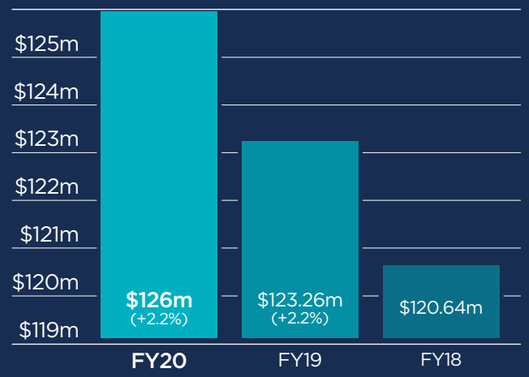


CUA Health

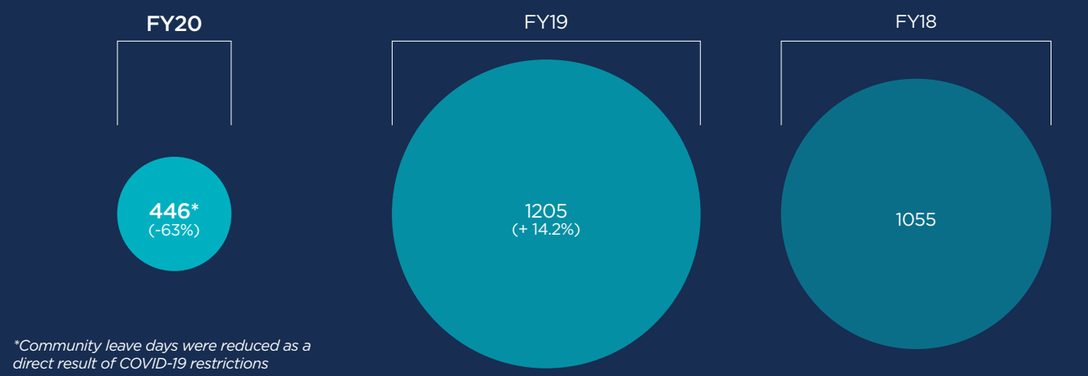
Net Profit After Tax (NPAT)



Benefits Paid for Members



Community Leave Days



**Community leave days were reduced as a direct result of COVID-19 restrictions*

A Message from our CEO & Chairman

We have remained unwavering in support of our members this year against the backdrop of significant economic, health, environmental and social challenges.

We've invested in the long-term foundations and technology that will ensure we can continue to provide you, our members, with the services you need - today and tomorrow.

At the same time, we've delivered targeted financial assistance to help those impacted by the unprecedented summer bushfires and COVID-19 pandemic.

As we look ahead to our 75th year, we continue our focus on growing in relevance and value to our members, while introducing new generations to customer-owned banking. It is a banking alternative grounded in purpose, embraced by members and relevant now, more than ever, as Australians seek trust and empathy from their financial institutions.

Our history has shown us that when we and our members face challenges together, we grow stronger. We are confident we will emerge from this period of sustained crisis even more connected to our shared purpose.

We are proud and privileged to present this report on a year that has been unlike any other in our history.

Our sustainable performance in a challenging year

A solid and sustainable financial performance means we can deliver more value to members today and into the future. Over the past 12 months we've grown our assets, strengthened our capital position and welcomed more than 19,000 new customers, reflecting the underlying strength of our business.

We finished the year with growth across consolidated assets (up 2.5 per cent to $16.15 billion), retail deposits (up 4.7 per cent to $11.08 billion) and loans under management (up 1.0 per cent to $13.58 billion). We further enhanced our already strong capital adequacy ratio to 14.38 per cent (up 0.08 per cent), while net interest income was up 3.4 per cent to $268.24 million. Overall, CUA Group posted a Net Profit After Tax (NPAT) of $37.31 million, down just 1.2 per cent on 2019.

These outcomes reflect our strategic focus on growing transactional banking, through which we've boosted retail deposits and attracted more young customers to join CUA. We've also focused on sustainable increases in our assets – pursuing more moderate home loan balance growth relative to the wider financial system. Combined with careful cost management and a wholesale funding strategy aimed at mitigating market volatility, we have stabilised margins. We ended FY20 in a good position to manage the pressures we expect will continue across the industry beyond this year.

Our solid performance has supported continued investment in improvements to customer experience, while providing Financial Assistance Packages to those facing tough times. We set aside an additional $11.6 million in provisions for COVID-19 and natural disaster impacts on our loan book, while our health insurance subsidiary CUA Health set aside a further $8.1 million in provisions for deferred claims.

CUA Health made a significant contribution to the group result, recording $6.13 million in NPAT. It issued 6,500 new health policies during the year and saw particularly strong growth in those joining via digital channels. We paid $126 million in benefits, up 2.2 per cent from the prior year. More than $3.6 million was returned in savings to policy holders through the 4 per cent discount for those with both CUA banking and health insurance. A further $350,000 in discounts were awarded to policy holders under the age of 30.

Investing in better customer experiences

One of the most important measures of our success is customer satisfaction and we're heartened this increased in FY20. Our overall Net Promoter Score – a measure of how likely our members are to recommend us to their family and friends – increased significantly. In particular, satisfaction levels improved for credit cards, mobile banking and our CUA Direct contact centre.

This reflects our commitment to delivering the things our members value: faster and simpler digital experiences, enhanced cybersecurity, competitive products and easy ways to connect with us. All of these have been a key focus for us in FY20.

We have delivered industry-leading digital experiences in recent years through our Apple Pay and Google Pay digital wallet offerings and PayID. We continue to build on these previous investments to deliver faster, more convenient and secure digital banking through major upgrades to IT infrastructure and cybersecurity controls, as well as enhancements to our mobile and online banking platforms. We've made it easier for members to open accounts online and personalise their banking - with some 90,000 accounts now assigned nicknames chosen by members. We also began the transformation of our home lending system which will ultimately deliver faster decision making and a smoother home buyer journey.

We have continued to evolve our product offering to meet the needs of existing and new members. The launch of our Everyday Snap account – with no monthly fees and a seamless account opening experience – has introduced CUA to new generations, with millennials making up half of all account holders. Meanwhile, the Youth eSaver Account continues to be consistently rated one of the best in market with its competitive interest rate.

CUA has also invested in industry-wide changes that will enhance experiences and security for consumers, including Open Banking and anti-money laundering reforms.

Meanwhile we continue to evolve our CUA Direct contact centre and branch network – both important parts of our service offering – in response to members' needs. A strategic investment in new technology and partnering with a third-party contact centre provider means our 100 per cent Australian-based CUA Direct contact centre can more easily scale to support demand now and into the future. We continue to update our branches and locations – a highlight this year being the relocation of our Perth branch to a modern facility with a community space and a banking self-serve zone.

Our commitment to our members has been independently recognised. For the third year running we won MOZO's Best Large Credit Union award, while Forbes ranked us among the top 10 Australian banks. Further, a Judge's Award from global technology organisation ConfirmIT highlights our commitment to understanding and acting upon customer feedback.

Supporting our members through highs and lows

This has been a year of extremes and we have continued to stand with our members through life's high points as well as its challenges. We're proud to have helped hundreds of members achieve the dream of home ownership, with $244 million in loans approved or in progress via the Australian Government's First Home Loan Deposit Scheme at 30 June 2020.

We have also supported our members and communities through unprecedented challenges during the bushfire crisis over summer and the subsequent COVID-19 pandemic. Since March, we have approved more than 4,300 member applications for financial assistance with repayments paused on nearly $1 billion in lending.

Our Financial Assistance Packages helped alleviate pressure during periods of financial stress, personal loss and uncertainty, by providing relief for members with home loans, small businesses, deposits, personal loans and health insurance. CUA waived fees for a range of services members relied upon during this time.

We paused premium payments on almost 500 health insurance policies where customers were financially impacted by COVID-19 and deferred our annual premium increase by six months.

This help has made a much-needed difference – 94 per cent of members who've taken up our Financial Assistance Package indicated they were highly satisfied with their experience.

Standing with our communities

CUA continued our longstanding commitment to supporting our communities by directing more than $1 million in FY20 to tackling socioeconomic challenges exacerbated by COVID-19 including family violence, digital exclusion and financial stress. These funds have helped organisations like the Financial Counselling Foundation, WIRE, Micah Projects and First Nations Foundation to support more Australians facing vulnerability.

A highlight of our community investment was the launch of CUA's Connected Future partnership with the Australian Red Cross and social enterprise Infoxchange. Its objective – to increase social and financial inclusion through building digital and financial skills – has become more relevant as COVID-19 deepened the digital divide.

During the bushfire crisis, CUA also donated more than $180,000 to rural fire services across Queensland, New South Wales and Victoria, and the Red Cross Disaster Relief and Recovery Fund.

Our regular volunteering program delivered 446 days of support to our community partners before COVID-19 restrictions limited our ability to help on site. During the pandemic, we turned our efforts to remote volunteering through the Red Cross COVID Connect phone service program, tackling social isolation.

Recognising the resilience of our people

Our team members have continued to show tremendous dedication in their support for our members this year. We've worked hard to maintain continuity of services, helping members to bank from home while safely operating our branch network during pandemic restrictions. The resilience of our people is to be commended and caps off a three-year trend of rising culture and engagement scores across our workforce.

We were also pleased to welcome a new team member to our executive – Alana Bailey joined us in July 2020 as our new Chief Financial Officer.

Looking to the future

We achieved an important milestone in our ongoing journey to grow mutual banking in Australia since our last Annual Report. At the 2019 Annual General Meeting members overwhelmingly supported an amendment to CUA's Constitution that enables us to raise capital in the future while maintaining our mutual status. This outcome reflected many years of advocacy by CUA and our mutual sector peers. We are now in a stronger position to pursue future opportunities for growth, reinvention and transformation that will benefit our members, as and when they arise.

As we look ahead, we know Australia and the rest of the world continue to face significant health, social and economic challenges. We will embrace these challenges walking side-by-side with you, our members, and making decisions that are right for today and tomorrow.

We have been, and always will be, stronger together.

Paul Lewis
CEO

Nigel Ampherlaw
Chairman

Directors' report and financial statements

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CREDIT UNION AUSTRALIA LTD

ABN 44 087 650 959

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2020

Contents

Directors' report

The Directors have pleasure in presenting their report together with the financial statements of Credit Union Australia Ltd (the Credit Union) and of the Group, being the Credit Union and its controlled entities, for the year ended 30 June 2020 and the auditor's report thereon.

Directors and Company Secretaries

Directors

The names and details of the Directors of the Credit Union in office during the financial year and until the date of this report are as follows. Directors were in office for this entire period unless otherwise stated.

Nigel Ampherlaw
Paul Bedbrook
Paul Lewis (appointed 1 November 2019)
Kyle Loades
Louise McCann
Deborah O'Toole
Andrew Reeves
Wayne Stevenson

Nigel Ampherlaw
B.Com., FCA, MAICD
Chairman and Independent Non-Executive Director

Nigel joined the Board in March 2011 and has been Chairman since 15 November 2017. He is Chair of the Board Growth Opportunities Committee and a member of the Board Remuneration and Board Strategy Committees.

Nigel has extensive experience in risk management, technology, consulting and auditing for financial services institutions in Australia and the Asia-Pacific region. He is a chartered accountant by profession. He was a Partner of PricewaterhouseCoopers for 22 years where he held a number of leadership positions, including heading the financial services audit, business advisory services and consulting businesses. He also held a number of senior client Lead Partner roles.

Nigel is a Director of the Australian Red Cross Blood Service and Elanor Investors Group.

Paul Bedbrook
B.Sc., AICD, F Fin
Independent Non-Executive Director

Paul joined the Board in July 2011. He is Chairman of the Board Remuneration Committee, Chairman of CUA Health Limited and a member of the CUA Health Board Audit and Risk Committees as well as Chairman of Credicorp Insurance Pty Ltd and a member of the Credicorp Insurance Board Audit and Board Risk Committees.

Paul has over 40 years' experience in financial services, specifically across the areas of banking, insurance and investment management. He is a former long term senior executive with ING (the Dutch global banking, insurance and investment group) and held CEO positions in ING DIRECT Canada, ING Australia and ING Asia Pacific.

Paul is also Chairman of Zürich Financial Services Australia and Elanor Investors Group. He is also a Director of the National Blood Authority.

Directors and Company Secretaries (continued)

Paul Lewis
BA, MBA
Managing Director and Chief Executive Officer

Paul was appointed to the Board on 1 November 2019, coinciding with his commencement in the role of CEO. He is also Chairman of Credicorp Finance Pty Ltd and a Director of CUA Health Ltd, Credicorp Insurance Pty Ltd and CUA Management Pty Ltd.

Paul first joined CUA in February 2018 as Chief Sales Officer with responsibility for leading CUA's distribution channels, including branches, CUA Direct call centres in Sydney and Melbourne, the broker channel, insurance partnerships, and the award winning iM CUA digital banker proposition. In addition to sales and service, Paul was responsible for ensuring strategic projects were effectively rolled out and embedded across the retail network to deliver positive outcomes for members and CUA's frontline teams.

With over 17 years' experience in financial services leadership positions, Paul has held numerous retail banking executive roles in Australia, New Zealand and Malaysia.

Prior to joining CUA, Paul was the Senior Head of Strategy and Transformation at Westpac, where his role included leading the consumer banking strategy development for the Group. Paul has also held a variety of senior executive roles within ANZ in Australia, New Zealand and South East Asia, including three years as General Manager of the ANZ Australian Retail Branch Network. In this role, Paul was responsible for leading more than 800 branches and 7,000 employees before being seconded to Malaysia for two years as the Managing Director, Retail Banking for AmBank with responsibility for 6,500 staff and 2.5 million retail customers.

Paul's professional qualifications include being a graduate of the Senior Executive Management Program at the London Business School and an MBA from Massey University.

Paul is a Director of the Business Council of Co-operatives and Mutuals Ltd.

Kyle Loades
MBA, FAICD, FTL
Independent Non-Executive Director

Kyle joined the Board on 1 December 2017. He is a member of the Board Risk Committee and Board Strategy Committee (from 1 August 2018), a Director of CUA Health Limited and member of the CUA Health Board Audit and Board Risk Committees as well as a Director of Credicorp Insurance Pty Ltd and a member of the Credicorp Insurance Board Audit and Board Risk Committees.

Kyle is a Chairman, Non-Executive Director and Advisor with more than two decades of experience across the commercial, community and public sectors. He has a particular interest and experience in the transformation of business facing disruption.

Kyle is currently Chair of Hunter Medical Research Institute, Local Government Super and the Australian Transformation and Turnaround Association. He is a Conjoint Professor in the Faculty of Business and Law at University of Newcastle. Kyle completed a three and a half year term as Chairman of the NRMA where he directed a period of significant cultural and operational change requiring considerable strategy and risk expertise.

In an executive capacity he established, grew and managed an independent car broking business that disrupted the motor vehicle retail industry. The company was purchased by ASX listed A.P Eagers.

Kyle is a Fellow of the AICD and AUSTTA, has completed an MBA at University of Newcastle, a Harvard Business School Certificate in Disruptive Strategy and a Transformation Leadership Program at ANU.

Directors and Company Secretaries (continued)

Louise McCann
MM MGSM, FAICD, FAIM, FRSA
Independent Non-Executive Director

Louise joined the Board in November 2015 and is Chairman of the Board Strategy Committee and a member of the Board Remuneration Committee.

Louise has a diverse portfolio including technology, media, health, education, personal transport, accounting and professional services. Louise's executive career was as a CEO and senior executive in the media, commercial market research, brand and communications sectors in Australia, New Zealand and across Asia. From April 2011 until August 2015 Louise was a Non-Executive Director with iiNet Limited and chaired the Remuneration and Nominations Committee. iiNet was sold to TPG to form Australia's second largest telecommunications company in August 2015.

Louise's current Non-Executive Director portfolio comprises Macquarie Media Network, Grant Thornton Australia Limited, University of Notre Dame and A2B Limited (*formerly Cabcharge Australia Ltd*) where she is also Chair of the Remuneration and Nomination Committee.

Deborah O'Toole
LLB, MAICD
Independent Non-Executive Director

Deb joined the Board in March 2014. She is Chairman of the Board Risk Committee and a member of the Board Audit Committee and the Board Growth Opportunities Committee.

Deb is a qualified lawyer and has more than 30 years' experience in mining, resources and rail freight industries, many of which have been focused in the finance function including as CFO at Aurizon, Queensland Cotton and MIM Holdings. She served as Chairman of the Audit Committee for CSIRO and the Norfolk Group and also on Boards of the MIM Group and the QR National/Aurizon Group. In 2013 she served as an Advisory Board Member at Pacific Aluminium. Deb was also a member of the former Workers' Compensation Board of Queensland and a former Board member of the Queensland Country Health Society.

Deb is a Director of Sims Limited, Pacific National Rail and Alumina Limited. She is a member of the NSW Treasury Audit and Risk Committee and is also a member of the Queensland University of Technology Banking & Finance School Advisory Board.

Andrew Reeves
BA (Economics), AMP
Independent Non-Executive Director

Andrew joined the Board on 1 September 2017 and is a member of the Board Growth Opportunities Committee and the Board Audit and Board Risk Committees.

Andrew is an experienced consumer goods executive who has 40 years' experience with major Australian consumer brands. His career included a variety of marketing and product development roles, before moving into a variety of managing director and CEO roles over the past 20 years. Andrew took on his first Managing Director role at The Smith's Snackfood Company in 1993. He subsequently held Managing Director roles with Coca-Cola Amatil and Lion Nathan's Australian brewing business and dairy and drinks business. Most recently, Andrew was the CEO of George Weston Foods for six years.

Andrew is also currently a director of Keytone Dairy Corporation Ltd and Inghams Group Limited.

Directors and Company Secretaries (continued)

Wayne Stevenson
B.Com., CA, FAICD
Independent Non-Executive Director

Wayne joined the Board in February 2014. He is Chairman of the Board Audit Committee and a member of the Board Risk Committee.

Wayne's executive background was largely in banking and financial services with ANZ where he held several senior positions across Australia, New Zealand and Asia. Wayne brings strong expertise of the financial services industry including 15 years in CFO roles at ANZ involving a broad range of disciplines including the undertaking of significant acquisitions, restructures and divestments. His roles included Group General Manager, Group Strategy, and prior to that held the role of CFO Asia Pacific, Europe and America.

More recently Wayne has developed a career as a professional Director. His current directorships include BigTinCan Holdings Ltd, Cuscal Limited, MediaWorks Holdings Ltd, and ANZ Lenders Mortgage Insurance Ltd.

Company Secretaries

The names and details of the Company Secretaries of the Credit Union during the financial year and until the date of this report are as follows. The Company Secretaries were in office for this entire period unless otherwise stated.

Nicole Pedwell
Alexander Ong

Nicole Pedwell
B.IntBus., FGIA, FCIS, GAICD
Company Secretary

Nicole joined Credit Union Australia in November 2014 and was appointed Company Secretary of the Credit Union in December 2014. She is also Company Secretary to CUA Health Limited, Credicorp Insurance Pty Ltd, CUA Management Pty Ltd and Credicorp Finance Pty Ltd.

Nicole is a qualified Company Secretary, corporate governance and communications professional. Nicole has over 20 years' investor and stakeholder relations experience in both global and domestic financial services entities. Nicole holds a Bachelor of International Business from Griffith University, a Graduate Diploma in Applied Corporate Governance from the Governance Institute of Australia and is a graduate of the Australian Institute of Company Directors.

Nicole is director of the Financial Basics Foundation and the Financial Basics Community Foundation.

Alexander Ong
LL.B(Hons), B.Com.
General Counsel and Company Secretary

Alex joined Credit Union Australia in March 2013 as General Counsel and Company Secretary. He is also Company Secretary to CUA Health Limited, Credicorp Insurance Pty Ltd, and Credicorp Finance Pty Ltd.

Alex is a financial services lawyer and compliance professional. His experience spans roles as a government regulator, in-house counsel and a private practitioner. Prior to Credit Union Australia, Alex held senior roles leading the legal, compliance and risk management departments of leading financial services organisations, focused on developing and implementing legal and compliance strategy, driving the development of a culture of compliance and overseeing strategies to reduce and manage enterprise risk. He has extensive company secretarial experience and regularly advises on general corporate law, Directors' duties and corporate governance. Alex holds a Bachelor of Laws (Hons) and Bachelor of Commerce (in accounting and finance) from the University of Sydney.

Directors' meetings

The number of meetings of Directors and meetings of Board Committees held during the year and the number of meetings attended by each Director was as follows:

A = Number of meetings eligible to attend.
B = Number of meetings attended.

	Board		Board Audit Committee		Board Risk Committee		Board Remuneration Committee		Combined Board Remuneration & Risk Committee Meeting[1]		Board Strategy Committee		Board Growth Opportunities Committee	
	A	B	A	B	A	B	A	B	A	B	A	B	A	B
N. Ampherlaw	10	10					6	6	2	2	6	6	2	2
P. Bedbrook	10	10					6	6	2	2				
K. Loades	10	10			8	8			2	2	6	6		
P. Lewis	8	8												
L. McCann	10	10					6	6	2	2	6	6		
D. O'Toole	10	10	4	3	8	8			2	2			2	2
A. Reeves	10	10	4	4	8	8			2	2			2	2
W. Stevenson	10	10	4	4	8	8			2	2				

[1] The Board Remuneration Committee and the Board Risk Committee held two combined meetings during the year to consider key risks relating specifically to remuneration issues

The above table relates to the Credit Union's Directors' meetings. The subsidiaries have their own Boards and Board Committee meetings attended by the respective subsidiary Board members.

Remuneration of directors and key management personnel

CUA's remuneration policy aims to remunerate personnel competitively in line with comparable financial services organisations in order to attract and retain the talent necessary to meet organisational objectives. In addition, the remuneration policy and framework are designed to ensure CUA's long term financial soundness and to support an effective risk management framework.

Directors' Fees

Directors receive fees to recognise their contribution to the work of the Board and Board Committees on which they serve. Directors do not receive any performance-related remuneration. Directors who participate on Board Committees do not receive additional remuneration.

A market benchmarking review of directors' fees is undertaken periodically, with the next review due in 2020. In determining the appropriate level of remuneration, external consultants are engaged to provide independent advice to ensure that the compensation is set competitively compared to the market.

The market benchmarking of fees was last undertaken in 2016, with external consulting advice sought from Godfrey Remuneration Group. These fees were subsequently reviewed in July 2017 having regard to recommendations based on comparisons with a number of other groups.

The most recent increase to directors' fees of 2.0% was made in July 2019, reflecting overall market movements and in line with the review of total fixed remuneration for the CEO and Executive Committee.

Remuneration of directors and key management personnel (continued)

Key management personnel (KMP)

Remuneration comprises total fixed remuneration (TFR) and elements of at-risk pay, including a short term incentive (STI) and a long term incentive (LTI). These elements have been designed to attract and retain talent and are comprised of the following:

- TFR is intended to recognise the delivery of individual role responsibilities and is reviewed annually by the Board Remuneration Committee and the Board for the CEO and Executive Committee. The review considers individual performance and market remuneration data.
- The STI provides an 'above and beyond' reward for contribution aligned to customer interests, annual business performance and collective success and is based on individual and organisational targets. The Board may apply its discretion in determining any STI awards to reflect performance during the year. A portion of the STI is deferred for certain roles to encourage effective risk management.
- The LTI is designed to attract future talent as well as to motivate and retain current executives, focusing on sharing CUA's successes as a team rather than rewarding individual performance. It also aims to balance short-term, in-year performance with the longer term sustainable creation of value for CUA and its members. Any LTI award is paid following the end of a four-year performance period.

Directors' benefits

During, or since the end of the financial year, no Director has received, or become entitled to receive, a benefit by reason of a contract entered into by the Credit Union, or its controlled entities, with the Director, a firm of which the Director is a member, or an entity in which the Director has a substantial financial interest, other than a benefit to which the Director is entitled as a member of the Credit Union. All transactions with entities associated with Directors are at arm's length and on commercial terms.

Indemnification of directors and officers

During the financial year, the Credit Union paid an insurance premium in respect of an insurance policy for the benefit of directors, secretaries, executive officers and employees of the Credit Union and related entities. The insurance policy grants indemnification in respect of certain liabilities for which the *Corporations Act 2001* allows indemnification. The insurance policy does not permit the disclosure of the nature of the liabilities insured nor the amount of the premium. No insurance cover or indemnification has been provided for the benefit of the auditor of the Credit Union.

Financial performance disclosures

Principal activities

The principal activities of the Credit Union during the financial year comprised the raising of funds by deposit and the provision of loans and associated services to members. Through its controlled entities, the Group was also involved in private health insurance, general insurance and securitisation activities.

Significant changes in the state of affairs

There was no significant change in the state of affairs of the Group during the year ended 30 June 2020 not otherwise contained in the director's report or the financial statements.

Dividends

The Constitution of the Credit Union does not allow for the payment of dividends on any member shares currently on issue.

Financial performance disclosures (continued)

Review of operations

The Group reported a net profit after tax for the financial year ended 30 June 2020 of $37.3 million (2019: $37.8 million). The decrease of $0.5 million (1.2%) was driven by COVID-19 impacts, despite the efforts to maintain margins.

Operationally, the Group continues to manoeuvre through the pandemic challenges by prioritising the safety, health and wellbeing of staff and members. The Group has quickly implemented its pandemic plan at the CUA branches and offices to maintain physical distancing and keep staff and members safe. The Group has also made additional investments into its remote working processes and technologies allowing staff to work from home, connect with each other, members, suppliers and other stakeholders.

With the support of members, deposits grew during the year by 4.7% to $11.1 billion (2019: $10.6 billion). A deliberate focus on controlled growth in gross loans and advances resulted in an increase of 1.0% year on year to $13.6 billion (2019: $13.4 billion). This strategy was impacted by continual cuts in the cash rate, an increasingly competitive market seeing aggressive mortgage re-pricing activity, and the recent COVID-19 impacts. This saw growth in net interest income of 3.3% to $268.2 million (2019: $259.5 million).

Other net operating income decreased by $3.0 million to $5.9 million for the year ended 30 June 2020 (2019: $8.9m). This was driven primarily by reduced investment income of $3.4 million owing to the deterioration in economic conditions.

Net insurance income for the year ended 30 June 2020 increased slightly by $0.6 million to $28.0 million (2019: $27.4 million). The growth in Health premium revenue of $4.8 million reflects strong member acquisition activities and product positioning, maintaining membership with improvements to the member experience and a quick response to COVID-19 impacts, including a premium increase pause. Member benefits increased by $2.7 million, due to the continued utilisation and cost of health care services, despite a short downturn of claims volumes. An additional claims provision amount has been taken up to support the expected catch-up of claims.

Underlying expenses for the Group have increased by 6.5% over the course of the year, reflecting our focus the ongoing transformation towards a digital first culture and increasing regulatory and compliance costs. The investment in digital infrastructure has been reflected in personnel and information technology costs and in the amortisation of intangible assets (systems and software) as the Group has further invested in innovation and member initiatives to drive improved member experience.

The Group continues to invest heavily in technology to deliver an improved banking experience for members focused on delivering simple, competitive and effortless products and services. Over the past five years, the Group has invested $76.2 million in intangible assets such as technology systems and software. This increase in investment is due to digital initiatives and major upgrades such as iM CUA, mobile banking enhancements, digital deposits, personal loan enhancements, improved user functionality, the home lending transformation project, upgrades to the core banking platform, the open banking project and enhanced data and analytics capability.

This continued investment is evident in the build-up of the intangible assets held on the Group's balance sheet and also the associated amortisation charge of $17.6 million that is reflected in the Group's Net profit after tax.

The decrease in Administrative expenses and Other expenses were driven largely by cost control measures relating to professional services. General administrative expenses decreased by $1.8 million to $22.1 million (2019: $23.4 million), and Other expenses decreased by $0.8 million to $20.4 million (2019: $21.2 million).

While underlying asset quality remains strong, there was an increase in the credit and other financial asset impairment charges from $8.7 million (2019) to $18.8 million for the year ended 30 June 2020. While the Group's continuing investment into risk management and lending practices resulted in a reduction of credit and other financial asset impairment charges, significant additional provisions of $11.6 million have been raised for the increase in applications for financial assistance owing to COVID-19.

Notwithstanding the decline in net profit after tax for the year, the Banking Group remains well capitalised with a total capital ratio of 14.38% (2019: 14.30%).

Financial performance disclosures (continued)

Non-International Financial Reporting Standard (IFRS) Information[1]

Cash profit

Statutory profit is prepared in accordance with recognition and measurement requirements of Australian Accounting Standards, which comply with *International Financial Reporting Standards (IFRS)*.

Cash profit, a non-IFRS measure, represents the Group's preferred measure of reporting underlying results to readers as it allows meaningful assessment of underlying performance against prior periods and other financial institutions.

Both Statutory profit and Cash profit for the year ended 30 June 2020 were impacted by the continued sustained pressure on margins and the recent COVID-19 impacts. Prudent cost control measures were taken by the Group to mitigate these impacts, while still maintaining a focus on members.

A reconciliation showing the differences between Statutory profit and Cash profit is provided in the following table:

	Group	
	2020	2019
	$'000	$'000
Statutory profit after tax for the year	**37,314**	37,766
Adjustment for specific items:		
Remediation costs		
Discontinued operation (tax effected)	**(1,232)**	7,397
Software impairment (tax effected)	**-**	4,306
Cash net profit after tax	**36,082**	49,469

Remediation costs: In 2019 the Group incurred remediation expenses of $10.6 million relating to the former financial planning business, where investigations were unable to clearly establish whether financial planning advice had been provided in all instances where clients had paid fees for ongoing advice. Further investigation in 2020 resulted in a reduction of the amount required to be remediated. The issue related to a period prior to the sale of the business in 2014.

Software impairment – loan origination system: In 2019 the Group's Home Loan Transformation Program necessitated the decommissioning of various components of the current lending system. The carrying values of the components identified for impairment in 2019 totalled $6.1 million and reduced the carrying value of the existing lending origination platform from $18.5 million to $12.4 million as at 30 June 2019.

[1] The Non IFRS Information section has not been audited nor reviewed in accordance with Australian Accounting Standards.

Risk management

The Group's strategic and operational outcomes are underpinned by the effective management of key risks through the three lines of defence model. This model articulates the key layers of risk management including roles, accountability and responsibilities of each layer.

During the year, the Group continually evaluated and responded to emerging risks in accordance with our defined Risk Management Strategy. This, along with the supporting policies and standards, has helped management to deliver on our business strategy within a comprehensive framework for managing risk. Our enterprise wide risk management activities enable us to aggregate the individual classes of material risk to form Group wide view of risks and to support better, more member focused decision making.

Management continues to invest in improvements to our risk management processes, people and systems to protect our members and meet increasing regulatory obligations.

Other matters

Capital and Remuneration Prudential Disclosures

For Australian Prudential Regulation Authority's (APRA) Authorised Deposit-taking Institution (ADI) Prudential Standard APS 330 *Public Disclosure*, refer to the Prudential Disclosures section of the Credit Union's website (http://www.cua.com.au/about-us/corporate-governance/prudential-disclosures).

Events subsequent to reporting date

There remains significant uncertainty regarding how the COVID-19 pandemic will evolve, including the duration of the downturn and the speed of economic recovery. In accordance with *AASB 110 Events after the Reporting Date*, the Group considered whether events after the reporting period confirmed conditions existing before the reporting date. Consideration was given to the macro-economic impact of varying levels of pandemic development and restrictions across states, border closures and the extension of government support measures. The Group has not identified COVID-19 subsequent events that would require adjustments to the amounts or disclosures in the financial statements.

There are no other matters or circumstances not otherwise dealt with in the Financial Report that have significantly or may significantly affect the Group.

Likely developments

While it is expected that the pandemic will eventually be controlled, the Group remains well positioned to respond quickly and effectively in adapting its business and operational requirements in a challenging and volatile environment.

Further information about likely developments in the operations of the Group and the expected results of those operations in future financial years has not been included in this report because disclosure of the information would be likely to result in unreasonable prejudice to the Group.

Environmental regulation

The Group's operations are not subject to any significant environmental regulations under either Commonwealth or State legislation. The Board believes that the Group is not aware of any breach of environmental requirements as they apply to the Group.

Rounding

Except where indicated, the amounts contained in this report and in the financial statements have been rounded to the nearest thousand dollars in accordance with ASIC Corporations Instrument 2016/191.

Lead auditor's independence

The Directors have obtained a copy of the Lead auditor's independence declaration as required under section 307C of the *Corporations Act 2001*, refer to page 13.

Directors' report

Authorisation by Directors

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

Nigel Ampherlaw
Chairman

Wayne Stevenson
Director

Brisbane
26 August 2020

KPMG

Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

To the Directors of Credit Union Australia Limited

I declare that, to the best of my knowledge and belief, in relation to the audit of Credit Union Australia Limited for the financial year ended 30 June 2020 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.

KPMG

Martin Wardle

Partner

Brisbane

26 August 2020

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2020

Income statements

For the year ended 30 June 2020

		Group		Credit Union	
		2020[1]	2019	**2020[1]**	2019
	Note	**$'000**	$'000	**$'000**	$'000
Net interest income					
Interest income	2.1	**511,169**	569,982	**511,169**	569,982
Interest expense	2.1	**(242,926)**	(310,324)	**(243,038)**	(310,539)
Total net interest income		**268,243**	259,658	**268,131**	259,443
Other net operating income	2.1	**5,861**	8,852	**22,225**	24,215
Net insurance income					
Premium revenue	4.1	**158,735**	155,979	**-**	-
Claims expense	4.1	**(133,893)**	(131,610)	**-**	-
Other insurance income	4.1	**3,158**	3,039	**-**	-
Total net insurance income		**28,000**	27,408	**-**	-
Share of net loss of a joint venture		**(2,612)**	(2,242)	**(2,612)**	(2,242)
Total net operating income		**299,492**	293,676	**287,744**	281,416
Expenses					
Personnel		**(124,953)**	(113,425)	**(118,695)**	(107,532)
Occupancy	2.2	**(3,200)**	(18,576)	**(3,200)**	(18,576)
Depreciation	2.2	**(23,347)**	(5,656)	**(23,345)**	(5,652)
Amortisation of intangible assets		**(17,620)**	(16,466)	**(17,432)**	(16,337)
Information technology		**(16,793)**	(15,029)	**(16,756)**	(14,889)
General administrative expenses	2.2	**(23,818)**	(25,591)	**(22,502)**	(24,272)
Other expenses	2.2	**(20,353)**	(21,164)	**(18,864)**	(19,486)
Total operating expenses		**(230,084)**	(215,907)	**(220,794)**	(206,744)
Profit before impairment and income tax		**69,408**	77,769	**66,950**	74,672
Software asset impairment	5.3	**-**	(6,151)	**-**	(6,151)
Credit and other financial asset impairment	2.2	**(18,763)**	(8,676)	**(18,763)**	(8,676)
Profit before income tax		**50,645**	62,942	**48,187**	59,845
Income tax expense	2.3(a)	**(14,563)**	(17,779)	**(11,678)**	(13,802)
Profit from continuing operations		**36,082**	45,163	**36,509**	46,043
Income (loss) from discontinued operation	5.14	**1,232**	(7,397)	**984**	(6,948)
Profit for the year		**37,314**	37,766	**37,493**	39,095
Profit for the year is attributable to:					
Members of the Credit Union		**37,314**	37,766	**37,493**	39,095

[1] June 2020 results reflect the adoption of AASB 16 *Leases,* refer to Note 6.2 for information on the adoption of this standard. As permitted by the standard, comparative information has not been restated.

The income statements should be read in conjunction with the accompanying notes.

Statements of comprehensive income

For the year ended 30 June 2020

	Note	Group 2020[1] $'000	Group 2019 $'000	Credit Union 2020[1] $'000	Credit Union 2019 $'000
Profit for the year		**37,314**	37,766	**37,493**	39,095
Other comprehensive income					
Items that may be reclassified to profit or loss					
Cash flow hedges:					
Revaluation taken to members' funds		**4,469**	(14,532)	**4,469**	(14,532)
Transferred to profit and loss		**363**	(466)	**363**	(466)
Revaluation of debt instruments - fair value through other comprehensive income		**-**	-	**(350)**	(117)
		4,832	(14,998)	**4,482**	(15,115)
Income tax on other comprehensive income	2.3(d)	**(1,450)**	4,500	**(1,345)**	4,535
Other comprehensive income after tax		**3,382**	(10,498)	**3,137**	(10,580)
Total comprehensive income		**40,696**	27,268	**40,630**	28,515
Total comprehensive income for the period is attributable to:					
Members of the Credit Union		**40,696**	27,268	**40,630**	28,515
Total comprehensive income for the period attributable to members of the Credit Union arises from:					
Continuing operations		**39,464**	34,665	**39,646**	35,463
Discontinued operation	5.14	**1,232**	(7,397)	**984**	(6,948)
		40,696	27,268	**40,630**	28,515

[1] June 2020 results reflect the adoption of AASB 16 *Leases*, refer to Note 6.2 for information on the adoption of this standard. As permitted by the standard, comparative information has not been restated.

The statements of comprehensive income should be read in conjunction with the accompanying notes.

Balance sheets

As at 30 June 2020

	Note	Group 2020[1] $'000	Group 2019 $'000	Credit Union 2020[1] $'000	Credit Union 2019 $'000
Assets					
Cash and cash equivalents	3.1	**317,668**	220,476	**308,693**	209,148
Financial assets - fair value through profit or loss	3.2	**79,946**	84,803	**-**	-
Financial assets - amortised cost	3.2	**1,981,620**	1,871,207	**5,403,913**	3,642,420
Derivative financial instruments	3.3(a)	**2,173**	1,326	**2,173**	1,326
Loans and advances	3.4	**13,576,358**	13,436,463	**13,576,358**	13,436,463
Financial assets - fair value through other comprehensive income	3.2	**42,890**	42,890	**72,144**	51,776
Other assets	5.1	**19,871**	16,482	**8,968**	7,905
Investments in controlled entities	5.9(b)	**-**	-	**1,500**	1,500
Investments in a joint venture	5.10	**2,167**	1,805	**2,167**	1,805
Deferred tax asset	2.3(c)	**13,260**	9,035	**10,952**	10,107
Property, plant and equipment	5.2	**14,214**	13,519	**14,212**	13,501
Intangible assets	5.3	**59,645**	59,588	**59,491**	59,260
Right-of-use assets	5.4	**36,537**	-	**36,537**	-
Total assets		**16,146,349**	15,757,594	**19,497,108**	17,435,211
Liabilities					
Deposits	3.6	**11,076,014**	10,580,846	**11,078,692**	10,587,500
Derivative financial instruments	3.3(a)	**13,044**	17,144	**13,044**	17,144
Borrowings	3.7	**3,829,022**	4,001,175	**7,284,904**	5,782,358
Other liabilities	5.5	**62,765**	67,330	**30,713**	41,419
Lease liabilities	5.6	**39,582**	-	**39,582**	-
Provisions	5.7	**25,149**	33,631	**23,850**	23,706
Total liabilities		**15,045,576**	14,700,126	**18,470,785**	16,452,127
Net assets		**1,100,773**	1,057,468	**1,026,323**	983,084
Members' funds					
Reserves	5.8	**23,536**	30,824	**23,245**	30,778
Retained earnings		**1,077,237**	1,026,644	**1,003,078**	952,306
Total members' funds		**1,100,773**	1,057,468	**1,026,323**	983,084

[1] June 2020 results reflect the adoption of AASB 16 *Leases*, refer to Note 6.2 for information on the adoption of this standard. As permitted by the standard, comparative information has not been restated.

The balance sheets should be read in conjunction with the accompanying notes.

Statements of changes in members' funds

For the year ended 30 June 2020

	Group			Credit Union		
	Reserves $'000	Retained earnings $'000	Total members' funds $'000	Reserves $'000	Retained earnings $'000	Total members' funds $'000
Balance at 1 July 2018	46,097	991,032	1,037,129	46,097	915,310	961,407
Adoption of new accounting standards	(5,517)	(1,412)	(6,929)	(5,481)	(1,357)	(6,838)
Restated balance as at 1 July 2018	40,580	989,620	1,030,200	40,616	913,953	954,569
Profit for the year after tax	-	37,766	37,766	-	39,095	39,095
Other comprehensive income after tax:						
Cash flow hedges:						
Revaluation taken to members' funds	(10,171)	-	(10,171)	(10,171)	-	(10,171)
Transferred to profit and loss	(327)	-	(327)	(327)	-	(327)
Revaluation of debt instruments - fair value through other comprehensive income	-	-	-	(82)	-	(82)
Total comprehensive income for the period	(10,498)	37,766	27,268	(10,580)	39,095	28,515
Redemption of member shares	83	(83)	-	83	(83)	-
Appropriation of retained earnings for credit losses reserve	659	(659)	-	659	(659)	-
Balance at 30 June 2019	30,824	1,026,644	1,057,468	30,778	952,306	983,084
Balance at 1 July 2019	**30,824**	**1,026,644**	**1,057,468**	**30,778**	**952,306**	**983,084**
Adoption of new accounting standards[1]	**-**	**2,609**	**2,609**	**-**	**2,609**	**2,609**
Restated balance as at 1 July 2019	**30,824**	**1,029,253**	**1,060,077**	**30,778**	**954,915**	**985,693**
Profit for the year after tax	**-**	**37,314**	**37,314**	**-**	**37,493**	**37,493**
Other comprehensive income after tax:						
Cash flow hedges:						
Revaluation taken to members' funds	**3,128**	**-**	**3,128**	**3,128**	**-**	**3,128**
Transferred to profit and loss	**254**	**-**	**254**	**254**	**-**	**254**
Revaluation of debt instruments - fair value through other comprehensive income	**-**	**-**	**-**	**(245)**	**-**	**(245)**
Total comprehensive income for the period	**3,382**	**37,314**	**40,696**	**3,137**	**37,493**	**40,630**
Redemption of member shares	**67**	**(67)**	**-**	**67**	**(67)**	**-**
Appropriation of retained earnings to credit losses reserve	**(10,737)**	**10,737**	**-**	**(10,737)**	**10,737**	**-**
Balance at 30 June 2020	**23,536**	**1,077,237**	**1,100,773**	**23,245**	**1,003,078**	**1,026,323**

[1] June 2020 results reflect the adoption of AASB 16 *Leases*, refer to Note 6.2 for information on the adoption of this standard. As permitted by the standard, comparative information has not been restated.

The statements of changes in members' funds should be read in conjunction with the accompanying notes.

Statements of cash flows

For the year ended 30 June 2020

		Group		Credit Union	
	Note	2020[1] $'000	2019 $'000	2020[1] $'000	2019 $'000
Cash flows from operating activities					
Interest received		**529,157**	580,085	**527,447**	576,884
Interest paid		**(242,140)**	(307,858)	**(242,251)**	(308,073)
Fees and commissions received		**30,804**	31,051	**32,054**	32,429
Fees and commissions paid		**(25,000)**	(25,168)	**(23,312)**	(23,218)
Contributions/premiums received		**148,944**	147,408	**-**	-
Benefits/claims paid		**(121,579)**	(121,207)	**-**	-
Dividends received		**1,823**	690	**9,673**	11,140
Other non-interest income received		**2,524**	3,062	**6,116**	6,761
Payments to suppliers and employees		**(202,002)**	(192,413)	**(182,622)**	(183,049)
Income tax paid		**(23,059)**	(27,128)	**(20,471)**	(21,021)
Change in loans and advances		**(169,216)**	(1,162,773)	**(169,216)**	(1,162,773)
Change in financial assets		**(113,781)**	(387,718)	**(115,969)**	(386,402)
Change in deposits		**495,167**	1,361,022	**491,191**	1,356,491
Net cash provided by/(used in) operating activities	3.1(a)	**311,642**	(100,947)	**312,640**	(100,831)
Cash flows from investing activities					
Payments for plant, equipment and intangible assets		**(25,099)**	(13,405)	**(25,099)**	(13,133)
Proceeds from sale of property, plant and equipment		**3**	16	**3**	16
Net cash (used in) investing activities		**(25,096)**	(13,389)	**(25,096)**	(13,117)
Cash flows from financing activities					
Net proceeds from/(repayments to) borrowings		**(172,659)**	26,979	**(171,304)**	26,016
Net (repayments to) lease liabilities		**(16,695)**	-	**(16,695)**	-
Net cash provided by/(used in) financing activities	3.1(b)	**(189,354)**	26,979	**(187,999)**	26,016
Change in cash and cash equivalents		**97,192**	(87,357)	**99,545**	(87,932)
Cash at the beginning of the year		**220,476**	307,833	**209,148**	297,080
Cash at the end of the year	3.1	**317,668**	220,476	**308,693**	209,148

[1] June 2020 results reflect the adoption of AASB 16 *Leases*, refer to Note 6.2 for information on the adoption of this standard. As permitted by the standard, comparative information has not been restated.

The statements of cash flows should be read in conjunction with the accompanying notes.

Notes to the financial statements

For the year ended 30 June 2020

Notes to the financial statements

For the year ended 30 June 2020

1. Basis of preparation

1.1 Corporate information

The financial report of Credit Union Australia Ltd (the Credit Union) as an individual entity, and Credit Union Australia Ltd and its subsidiaries as a Group (the Group) for the year ended 30 June 2020 was authorised for issue in accordance with a resolution of the Directors on 26 August 2020.

Credit Union Australia Ltd is a for-profit company incorporated and domiciled in Australia.

The controlling entity in the Group is Credit Union Australia Ltd. The registered office and principal place of business is:

Credit Union Australia Ltd
Level 23
145 Ann Street
Brisbane QLD 4000

1.2 Basis of accounting

(a) Basis of preparation

The financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards and the *Corporations Act 2001*.

The financial report has been prepared on an historical cost basis, except for derivative financial instruments, freehold land and buildings and financial assets classified as fair value through profit or loss (FVTPL) or fair value through other comprehensive income (FVOCI).

The financial report is presented in Australian dollars and all values are rounded to the nearest thousand dollars ($'000) unless otherwise stated under the option available to the Credit Union under ASIC Corporations Instrument 2016/191. The Credit Union is an entity to which the Corporations Instrument applies.

(b) Statement of compliance

The financial report complies with International Financial Reporting Standards (IFRS) which are applicable to the Group as issued by the International Accounting Standards Board.

(c) COVID-19 Impact assessment

First reported in late December 2019 by the World Health Organisation (WHO) as an unknown virus, the COVID-19 outbreak has developed rapidly in 2020, with a significant number of infections globally. Measures taken to contain the virus after the WHO declared the outbreak as a global pandemic in March 2020 have affected economic activity, which in turn have implications on financial reporting.

The impact of COVID-19 resulted in additional judgement being applied within those areas identified in Note 1.3. Given the fast-evolving nature of COVID-19 and limited recent experience relating to the economic and financial impacts of such pandemics as well as the unprecedented levels of public and private sector support for consumers and businesses, the judgements and estimates applied in the preparation of these financial statements may change in the future. Other than adjusting events that provide evidence of conditions that existed at the end of the reporting period, the impact of events that arise after the reporting period will be accounted for in future reporting periods.

Impact of COVID-19 on the macro-economic outlook

Forward-looking information, including consideration of various scenarios and probabilities in determining the Group's forward-looking assumptions for the purpose of expected credit loss (ECL), has been provided in Note 3.5. While there are a wide range of possible scenarios and macro-economic outcomes including the uncertainty of how COVID-19 and its financial and economic impacts will evolve, the scenarios and assumptions applied represent reasonable and supportable forward-looking views at the reporting date.

1.2 Basis of accounting (continued)

(c) COVID-19 Impact assessment (continued)

Management considerations

As a result of COVID-19, management applied the following processes and considerations in preparing the 30 June 2020 financial statements:

- Applied COVID-19 guidance from regulators, accounting standard bodies and publications from accounting firms
- Progressively updated its economic outlook for new developments, primarily to assess impairment analysis for financial and non-financial assets and to input into the ECL provision calculation
- Reviewed published economic information and COVID-19 developments to consider their impacts
- Considered trends and economic data from previous downturns and internal stress test calculations and scenarios used for the capital adequacy assessment process.

Consideration of key balance sheet items and areas of disclosures

Financial investments

Insurance assets backing insurance liabilities designated at fair value through profit or loss: Given recent market volatility, valuation inputs have been assessed in terms of classification of exposures in the fair value hierarchy. Most of these investments are high quality investment grade financial assets which are predominantly valued based on level 1 quoted market prices and level 2 observable inputs which have taken into consideration recent market movements.

Equity Investment at fair value through other comprehensive income: The fair value of these investments has been assessed against the most recently transacted prices for the shares, net asset value per share of the underlying investment and earnings multiples valuation methodology. Assumptions applied in the valuation include earnings multiples ranging from 8.0 times to 12.6 times referencing market transactions of companies with similar sized turnovers and those that operate in the same industry.

Derivative assets and liabilities

Given recent market volatility, the Group reviewed the appropriateness of the inputs to the valuation of its derivatives. These include credit valuation adjustments (CVA) and debit valuation adjustments (DVA), the impact of changes of inputs to the valuations have been found to be immaterial.

Hedge accounting

The Group has conducted an assessment of the impact of COVID-19 on the forecast cash flows in the cash flow hedge relationships. The modelling of the hedged forecasted cash flows was determined to remain highly probable and hedge accounting continues to be applied on the Group's hedges.

Loans receivable, due from subsidiaries and other financial assets

In response to COVID-19, the Group undertook a review of loan portfolios, amounts due from subsidiaries, financial assets at amortised cost and their respective ECLs. The review considered the forward-looking macroeconomic outlook, customer credit quality, collateral held, exposure at default, and the effect of the payment deferral option at reporting date. Refer to Note 3.5 for ECL considerations.

Property, plant and equipment, right-of-use assets and intangible assets

These assets were subject to impairment testing given the impact of COVID-19. The 5-year forecast cash flows have been modelled to assume a decrease in projected cash flows for the financial year 2021 compared to prior year forecasts followed by a gradual economic recovery to the financial year 2025. Assumptions applied in the modelling include a discount rate range of 5.5% to 9.0% and earnings multiples ranging from 7 times to 11 times. The outcome of the testing concluded that no impairment was required.

1.2 Basis of accounting (continued)

(c) COVID-19 Impact assessment (continued)

Consideration of key balance sheet items and areas of disclosures (continued)

Investment in subsidiaries and joint venture

These investments were assessed for impairment and the testing concluded that no impairment was required.

Borrowings (covenants)

The Group assessed its debt-related covenants to determine whether there were any breaches. None were identified as at 30 June 2020 and up to the date on which these financial statements were authorised for issue.

Insurance liabilities

As a result of COVID-19 related disruptions caused by restrictions on elective medical procedures, the Group recognised an additional amount of outstanding claims liability for the backlog in respect of its health insurance products. This is expected to be utilised by the next financial year when the procedures occur, and when those claims are paid. Refer to Note 4.1.

Risk management

The Group applies its risk management framework and pandemic plan to monitor and manage the COVID-19 financial and non-financial risks. The processes include, but are not limited to, the identification, assessment, management and governance on our staff health and wellbeing, remote working processes and working arrangements with our members, suppliers, counterparties and other stakeholders.

1.3 Significant accounting judgements and estimates

In the process of applying the Group's accounting policies management has used its judgement and made estimates in determining the amounts recognised in the financial statements. The most significant use of judgements and estimates has been applied to the areas outlined below and incorporate the impact of COVID-19, in particular on the Group's provisioning process, and the first time application of AASB 16 *Leases*. Refer to the respective notes for additional details.

	Reference
Expected credit losses and impairment of loans and advances and financial assets	Note 3.2, Note 3.5 and Note 3.10
Fair value of financial instruments	Note 3.9
Outstanding insurance claims liabilities	Note 4.1 and Note 4.2
Provision for remediation costs	Note 5.7 and Note 5.14
Impairment of intangible assets	Note 5.3
Determining lease terms and estimating the incremental borrowing rate	Note 5.4

2. Financial performance

2.1 Income

	Group		Credit Union	
	2020	2019	**2020**	2019
	$'000	$'000	**$'000**	$'000
Net interest income				
Interest income calculated using the effective interest method				
Loans and advances to members	**476,885**	520,443	**476,885**	520,443
Other financial assets	**34,284**	49,539	**34,284**	49,539
	511,169	569,982	**511,169**	569,982
Interest expense calculated using the effective interest method				
Deposits from members	**(148,321)**	(175,608)	**(148,321)**	(175,608)
Borrowings	**(46,714)**	(72,885)	**(46,714)**	(72,885)
Debt securities	**(23,889)**	(40,608)	**(23,889)**	(40,608)
Wholesale funding	**(13,218)**	(19,963)	**(13,274)**	(20,007)
Other	**(10,784)**	(1,260)	**(10,840)**	(1,431)
	(242,926)	(310,324)	**(243,038)**	(310,539)
Total net interest income	**268,243**	259,658	**268,131**	259,443
Other operating income				
Fees and commissions income from contracts with customers				
Commissions	**12,954**	13,999	**13,656**	15,390
Account services	**11,315**	9,618	**11,315**	9,618
Transactional	**2,969**	3,341	**2,969**	3,341
Other	**3,590**	3,964	**3,590**	3,964
	30,828	30,922	**31,530**	32,313
Fee, brokerage and commission expense				
Brokerage	**(19,954)**	(19,631)	**(19,843)**	(19,508)
Commissions	**(3,282)**	(2,789)	**(1,743)**	(2,092)
Other expense	**(1,645)**	(1,618)	**(1,645)**	(1,618)
	(24,881)	(24,038)	**(23,231)**	(23,218)
Total net fee and commission income	**5,947**	6,884	**8,299**	9,095
Finance cost - other				
Interest expense - lease liabilities	**(1,034)**	-	**(1,034)**	-
Interest expense - site restoration provision	**(64)**	(95)	**(64)**	(95)
Total finance cost - other	**(1,098)**	(95)	**(1,098)**	(95)
Dividends revenue	**1,823**	690	**9,673**	11,140
Net gain/(loss) on derivative financial instruments	**363**	(466)	**363**	(466)
Net gain/(loss) on financial assets designated at fair value through profit or loss	**(2,569)**	999	**-**	-
Net (loss) on financial assets designated at amortised cost	**(263)**	(94)	**(263)**	(94)
Other income	**1,658**	934	**5,251**	4,635
Total net other operating income	**5,861**	8,852	**22,225**	24,215

2.1 Income (continued)

Recognition and measurement

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised.

Interest income and expense

Interest income and expense is recognised as the interest accrues using the effective interest method. The effective interest method calculates the amortised cost using the effective interest rate of a financial asset or financial liability. The effective interest rate is the rate that exactly discounts the estimated future cash receipts or payments over the expected life of the financial assets or financial liabilities to the gross carrying amount or amortised cost of the financial asset or liability. Within net interest income, there are no amounts that relate to assets or liabilities held at fair value through profit or loss. If an asset is assessed as credit impaired, a lifetime expected credit loss (ECL) provision is recognised and interest revenue is calculated on a net basis (gross carrying amount less provision).

The Credit Union has elected to offset the benefit arising from the utilisation of the RBA Term Funding Facility (TFF) against related interest expense from borrowings. Refer to Note 3.8 for further details.

Fee, brokerage and commission revenue and expense

Fee, brokerage and commission revenue are brought to account on an accruals basis over the period that they cover once a right to receive consideration has been attained and the performance obligation in respect of this income is considered to be met. The Group's revenue from contracts with customers is primarily in the nature of fees and commission income as presented in the income statement.

Other fee and commission revenue and expenses

Other fee and commission income includes fees earned on a range of products and services platforms and are brought to account on an accruals basis over the period that they cover once a right to receive consideration has been attained and the performance obligation in respect of this income is considered to be met. Other fee and commission expenses include ATM, card and transaction fees.

Interest expense on lease liabilities

On adoption of AASB 16 Leases, the finance cost portion of lease payments are charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. Refer to recognition and measurement section in Note 5.4

Gain/(loss) from financial assets designated at fair value through profit or loss

The loss of $2.6 million (2019: Gain $1.0 million) relate to the realised and unrealised losses relating to the valuation of insurance investment assets designated at fair value through profit or loss. Refer to the fair value through profit or loss section in Note 3.2.

Losses arising from derecognition of financial assets measured at amortised cost

During the year ended 30 June 2020, the Credit Union sold corporate investment securities measured at amortised cost. These sales were made in order to comply with the credit limits in the Credit Union's Financial Risk Policy. The carrying amounts of the financial assets sold were $148.4 million (2019: $91.1 million) and the losses arising from derecognition was $0.3 million (2019: $0.1 million).

2.2 Expenses

	Group		Credit Union	
	2020	2019	**2020**	2019
	$'000	$'000	**$'000**	$'000
Occupancy[1]	**(3,200)**	(18,576)	**(3,200)**	(18,576)
Depreciation				
Property, plant and equipment	**(5,140)**	(5,656)	**(5,138)**	(5,652)
Right-of-use assets[1]	**(18,207)**	-	**(18,207)**	-
	(23,347)	(5,656)	**(23,345)**	(5,652)
General administrative expenses				
Administrative expenses	**(22,081)**	(23,409)	**(20,765)**	(22,090)
Community	**(1,737)**	(2,182)	**(1,737)**	(2,182)
	(23,818)	(25,591)	**(22,502)**	(24,272)
Other expenses				
Advertising	**(9,051)**	(7,727)	**(8,352)**	(6,950)
Professional services	**(10,102)**	(13,030)	**(9,312)**	(12,129)
Remediation costs[2]	**(1,200)**	(407)	**(1,200)**	(407)
	(20,353)	(21,164)	**(18,864)**	(19,486)
Credit and other financial asset impairment[3]				
Impairment of loans and advances	**13,109**	829	**13,109**	829
Bad debts written off - loans and advances	**6,503**	8,800	**6,503**	8,800
Bad debts recovered - loans and advances	**(1,375)**	(953)	**(1,375)**	(953)
Impairment of other financial assets	**526**	-	**526**	-
	18,763	8,676	**18,763**	8,676

[1] June 2020 results reflect the adoption of AASB 16 Leases, refer to Note 6.2 for information on the adoption of this standard. As permitted by the standard, comparative information has not been restated.
[2] The 2020 remediation costs include refunds and compensation to consumer credit insurance policyholders. Please refer to Notes 5.5 and 5.7 for further details. The 2019 remediation costs relate to interest calculations on certain type of loan products affecting some members of the Credit Union.
[3] Refer to Note 3.5 for recognition and measurement information.

2.3 Income tax

(a) Amounts recognised in income statements

The components of income tax expense are:

	Group		Credit Union	
	2020	2019	**2020**	2019
	$'000	$'000	**$'000**	$'000
Income tax expense is attributable to:				
Profit from continuing operations[1]	**14,563**	17,779	**11,678**	13,802
Income (loss) from discontinued operation	**528**	(3,171)	**422**	(2,977)
	15,091	14,608	**12,100**	10,825
Current tax				
Current income tax	**22,168**	23,629	**15,485**	20,491
Adjustments in respect of current income tax of previous year	**(5)**	(2,419)	**202**	(2,331)
Deferred tax				
Relating to origination and reversal of temporary differences	**(6,976)**	(8,085)	**(3,491)**	(8,818)
Adjustments in respect of deferred income tax of previous year	**(96)**	1,483	**(96)**	1,483
	15,091	14,608	**12,100**	10,825

[1] Refer to Note 5.14 for details relating to discontinued operation.

(b) Reconciliation of tax expense

A reconciliation between the tax expense and the accounting profit before income tax multiplied by the Group's applicable income tax rate is as follows:

	Group		Credit Union	
	2020	2019	**2020**	2019
	$'000	$'000	**$'000**	$'000
Accounting profit before tax from continuing operations	**50,645**	62,942	**48,187**	59,845
Accounting income (loss) before tax from discontinued operation[1]	**1,760**	(10,568)	**1,406**	(9,925)
Accounting profit before income tax	**52,405**	52,374	**49,593**	49,920
At Australia's statutory income tax rate of 30% (2019: 30%)	**15,722**	15,712	**14,878**	14,976
Adjust for tax effect of:				
Non-deductible expenses	**18**	40	**18**	40
Fully franked dividends received	**(547)**	(207)	**(2,902)**	(3,342)
Under/(over) provision in prior year	**(102)**	(937)	**106**	(849)
Income tax expense	**15,091**	14,608	**12,100**	10,825

[1] Refer to Note 5.14 for details relating to discontinued operations.

2.3 Income tax (continued)

(c) Deferred tax balances

Deferred income tax recorded on the balance sheets relates to the following:

	Group		Credit Union	
	2020 $'000	2019 $'000	**2020 $'000**	2019 $'000
Deferred tax assets comprise temporary differences attributable to:				
Derivative financial instruments	**3,061**	4,619	**3,061**	4,619
Provision for impairment of loans and advances	**10,000**	5,855	**10,000**	5,855
Employee benefits	**4,596**	5,129	**4,596**	5,129
Provisions and accruals	**6,390**	5,626	**3,985**	8,378
Remediation costs[1]	**390**	2,977	**-**	-
Lease assets and liabilities	**847**	-	**847**	-
Financial assets - Fair value through profit and loss	**605**	-		-
Other	**251**	215	**251**	215
Total deferred tax assets	**26,140**	24,421	**22,740**	24,196
Deferred tax liabilities comprise temporary differences attributable to:				
Plant and equipment and intangible assets	**5,367**	7,569	**5,391**	7,587
Deferred acquisition costs	**505**	33	**-**	-
Financial assets - Fair value through profit and loss	**-**	775	**-**	-
Financial assets - Fair value through other comprehensive income	**6,521**	6,521	**6,397**	6,502
Receivables and other assets	**487**	488	**-**	-
Total deferred tax liabilities	**12,880**	15,386	**11,788**	14,089
Net deferred tax asset	**13,260**	9,035	**10,952**	10,107

[1] Relates to the tax effect of the provision for remediation costs, refer to Note 5.7 and 5.14 for more details.

2.3 Income tax (continued)

(d) Movement in deferred tax

	Group		Credit Union	
	2020 $'000	2019 $'000	**2020 $'000**	2019 $'000
Increase/(decrease) in deferred tax on adoption of new accounting standards[1]	**(1,118)**	2,887	**(1,118)**	2,872
Deferred income tax (expense)/credit included in income tax expense comprises:				
Increase in deferred tax assets	**3,338**	3,792	**1,497**	4,221
Decrease in deferred tax liabilities	**3,734**	2,810	**2,090**	3,114
	7,072	6,602	**3,587**	7,335
Deferred income tax related to items charged or credited to other comprehensive income during the year as follows:				
Net (gain)/loss on cash flow hedges	**(1,450)**	4,500	**(1,450)**	4,500
Net loss on fair value through other comprehensive income	**-**	-	**105**	35
	(1,450)	4,500	**(1,345)**	4,535
Total deferred tax movement	**4,504**	13,989	**1,124**	14,742

[1] June 2020 results reflect the adoption of AASB 16 *Leases*, refer to Note 6.2 for information on the adoption of this standard. As permitted by the standard, comparative information has not been restated.

(e) Unused tax losses and franking account

	Group		Credit Union	
	2020 $'000	2019 $'000	**2020 $'000**	2019 $'000
Unused tax losses for which no deferred tax asset has been recognised	**906**	906	**-**	-
Potential tax benefit @ 30%	**272**	272	**-**	-

All unused tax losses were incurred by Credicorp Finance Pty Ltd, an Australian entity that is not part of a tax consolidated group.

	Group		Credit Union	
	2020 $'000	2019 $'000	**2020 $'000**	2019 $'000
Franking account balance	**327,102**	313,875	**321,676**	307,035

The ability to use these franking credits is restricted by the Constitution of the Credit Union which does not permit the payment of dividends on any member shares currently on issue.

2.3 Income tax (continued)

Recognition and measurement

Income tax expense comprises current and deferred tax. It is recognised in profit or loss except to the extent that it relates to items recognised directly in members' funds or in other comprehensive income.

Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year and any adjustments to the tax payable or receivable in respect of previous years.

Deferred tax is recognised in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. No deferred income tax is recognised on the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible temporary differences to the extent it is probable that future taxable profits will be available against which they can be used. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Unrecognised deferred tax assets are reassessed at each reporting date and recognised to the extent that it has become probable that future taxable profits will be available against which they can be used.

3. Balance sheet and risk management

3.1 Cash and cash equivalents

	Group		Credit Union	
	2020	2019	**2020**	2019
	$'000	$'000	**$'000**	$'000
Cash on hand	**3,636**	3,327	**3,636**	3,327
Deposits on call	**314,032**	217,149	**305,057**	205,821
	317,668	220,476	**308,693**	209,148

Cash and cash equivalents include restricted balances of $201.5 million (2019: $124.6 million) in the Group which represents deposits held in securitisation trust collection accounts which are not available to the Group.

Recognition and measurement

Cash and cash equivalents include notes and coins on hand, unrestricted balances held with the Reserve Bank of Australia (RBA) and cash on deposits and call accounts with other Authorised Deposit-taking Institutions (ADIs) and Approved Deposit Funds (ADFs).

Cash and cash equivalents are carried at amortised cost in the balance sheet. Interest is brought to account using the effective interest method.

Notes to the statements of cash flows

(a) Reconciliation of profit for the year to net cash provided by/(used in) operating activities:

	Group		Credit Union	
	2020[1]	2019	**2020[1]**	2019
	$'000	$'000	**$'000**	$'000
Profit after tax for the year	**37,314**	37,766	**37,493**	39,095
Adjustments for:				
Depreciation and amortisation[1]	**40,967**	22,122	**40,777**	21,989
Credit and other financial asset impairment	**20,138**	9,629	**20,138**	9,629
Loan & borrowing origination cost amortisation	**11,607**	12,212	**11,607**	12,212
Net loss (gain) on financial assets - fair value through profit or loss	**2,569**	(999)	**-**	-
Derivative financial instruments (unrealised)	**(1,565)**	5,365	**(1,565)**	5,365
Software impairment	**-**	6,151	**-**	6,151
Other non-cash items	**12**	(30)	**12**	(30)
Changes in:				
Loans and advances	**(169,216)**	(1,162,773)	**(169,216)**	(1,162,773)
Financial assets	**(113,781)**	(387,718)	**(115,969)**	(386,402)
Deferred tax liability	**(5,343)**	(13,989)	**(1,858)**	(14,742)
Other assets	**1,602**	(1,663)	**5,374**	(1,691)
Deposits	**495,167**	1,361,022	**491,191**	1,356,491
Insurance policy liabilities	**2,502**	1,488	**-**	-
Income tax payable/receivable	**(1,175)**	(3,043)	**(5,064)**	35
Provisions	**(9,209)**	10,770	**(583)**	845
Other liabilities	**53**	2,743	**303**	12,995
Net cash provided by/(used in) operating activities	**311,642**	(100,947)	**312,640**	(100,831)

[1] June 2020 results reflect the adoption of AASB 16 *Leases,* refer to Note 6.2 for information on the adoption of this standard. As permitted by the standard, comparative information has not been restated.

3.1 Cash and cash equivalents (continued)

Notes to the statements of cash flows (continued)

(b) Reconciliation of cash flows from financing activities:

Group	1 July 2019[1]	Cash flows	Non-cash changes: Changes in fair value	Non-cash changes: Other	30 June 2020
	$'000	**$'000**	**$'000**	**$'000**	**$'000**
Liabilities					
Borrowings	**4,001,175**	**(172,659)**	**-**	**506**	**3,829,022**
Lease liabilities	**44,304**	**(16,695)**	**-**	**11,973**	**39,582**
Total liabilities from financing activities	**4,045,479**	**(189,354)**	**-**	**12,479**	**3,868,604**

[1] 1 July 2019 balance reflects the adoption of AASB 16 *Leases,* refer to Note 6.2 for information on the adoption of this standard.

Group	1 July 2018	Cash flows	Non-cash changes: Changes in fair value	Non-cash changes: Other	30 June 2019
	$'000	$'000	$'000	$'000	$'000
Liabilities					
Borrowings	3,972,060	26,979	-	2,136	4,001,175
Total liabilities from financing activities	3,972,060	26,979	-	2,136	4,001,175

Credit Union	1 July 2019[1]	Cash flows	Non-cash changes: Changes in fair value	Non-cash changes: Other	30 June 2020
	$'000	**$'000**	**$'000**	**$'000**	**$'000**
Liabilities					
Borrowings	**5,782,358**	**(171,304)**	**-**	**1,673,850**	**7,284,904**
Lease liabilities	**44,304**	**(16,695)**	**-**	**11,973**	**39,582**
Total liabilities from financing activities	**5,826,662**	**(187,999)**	**-**	**1,685,823**	**7,324,486**

[1] 1 July 2019 balance reflects the adoption of AASB 16 *Leases,* refer to Note 6.2 for information on the adoption of this standard.

Credit Union	1 July 2018	Cash flows	Non-cash changes: Changes in fair value	Non-cash changes: Other	30 June 2019
	$'000	$'000	$'000	$'000	$'000
Liabilities					
Borrowings	5,369,385	26,016	-	386,957	5,782,358
Total liabilities from financing activities	5,369,385	26,016	-	386,957	5,782,358

3.2 Financial assets

	Group 2020	Group 2019	Credit Union 2020	Credit Union 2019
	$'000	$'000	**$'000**	$'000
Fair value through profit or loss				
Term deposits	**10,548**	11,534	**-**	-
Mortgage-backed securities	**1,463**	1,843	**-**	-
Australian listed equities	**6,349**	6,113	**-**	-
Investment in unlisted unit trusts:				
Fixed interest and other debt securities	**51,445**	54,118	**-**	-
Property	**3,243**	3,694	**-**	-
International equities	**6,898**	7,501	**-**	-
	79,946	84,803	**-**	-
Amortised cost				
Deposits	**451,550**	674,648	**451,550**	674,648
Fixed coupon bonds	**-**	54,502	**-**	54,502
Floating rate notes	**1,530,596**	1,142,057	**1,530,596**	1,142,057
Mortgage-backed securities	**-**	-	**3,422,293**	1,771,213
Impairment provision[1]	**(526)**	-	**(526)**	-
	1,981,620	1,871,207	**5,403,913**	3,642,420
Fair value through other comprehensive income				
Debt instruments - mortgage-backed securities	**-**	-	**29,254**	8,886
Equity instruments - shares in an unlisted entity	**42,890**	42,890	**42,890**	42,890
	42,890	42,890	**72,144**	51,776

[1] Refer to Note 3.5 for consideration of asset credit quality and ECL.

Recognition and measurement

Initial recognition of financial assets

On initial recognition, financial assets are measured at its fair value plus, for an asset that is not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of that financial asset. The fair value of a financial instruments at initial recognition is generally its transaction price.

Fair value through profit or loss

Financial assets in this category relate to investments backing insurance liabilities (refer to Note 4.1 for further details). This group of financial assets is managed and its performance is evaluated on a fair value basis because related liabilities are also managed on this basis. Realised and unrealised gains and losses arising from changes in the fair value of these assets are included in the income statement in the period in which they arise.

Amortised cost

Financial assets are classified at amortised cost when they are held within a business model to solely collect contractual cash flows and the contractual terms of the financial assets give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI). Amortised cost is calculated by taking into account any discount or premium on the issue of the asset and costs that are an integral part of the effective interest rate.

Gains and losses are recognised in the income statement when the financial assets are derecognised or impaired.

3.2 Financial assets (continued)

Recognition and measurement (continued)

Fair value through other comprehensive income

Financial assets are classified as at fair value through other comprehensive income when they are held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and the contractual terms of the financial assets give rise on specified dates to cash flows that are SPPI.

All financial assets not classified as at amortised cost or fair value through other comprehensive income are classified as fair value through profit or loss. In certain circumstances, on initial recognition, the Group may irrevocably designate a financial asset as measured at fair value through profit or loss if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Debt instruments at fair value through other comprehensive income

Debt instruments at fair value through other comprehensive income includes the change in the fair value of investments in debt instruments. The changes recognised in other comprehensive income are transferred to profit or loss when the asset is derecognised or impaired.

Equity instruments at fair value through other comprehensive income

Equity instruments at fair value through other comprehensive income include unlisted shares. These equity securities represent investments that the Group intends to hold for the long term and have designated on adoption of *AASB 9 Financial Instruments* in the prior financial year as at fair value through other comprehensive income.

Amounts in other comprehensive income are subsequently transferred to retained earnings, and not profit or loss, when the asset is derecognised. Dividends on such investments are recognised in profit or loss unless the dividend represents a recovery of part of the cost of the investment.

Business model assessment

The assessment of the objective of the business model is made at a portfolio level as this best reflects the way the business is managed and information is prepared and reported. The information includes:

- Stated policies and objectives for the portfolio and the operation of those policies in practice, strategy on earning contractual interest revenue, interest rate profile, duration of financial assets and associated financial liabilities that are funding the assets, and cash flows from the sale of assets;
- How performance of the portfolio is evaluated and reported to the Group's management;
- The risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- The frequency, volume and timing of sales in prior periods, the reason for such sales and the expectation of future sales activity (as part of an overall assessment on how the Group's objective of managing financial assets is achieved and how cash flows are realised).

Contractual cash flows assessment

In assessing whether the cash flows are SPPI, the Group will consider the contractual terms of the instrument, including contractual terms that could change the timing or amount of contractual cash flows.

Impairment of financial assets

Refer to Note 3.5.

Modified financial assets

Where the modification to the contractual terms of a loan is substantial, the existing loan is derecognised and a new renegotiated loan is recognised at a new effective interest rate. Where the modification is not substantial and does not result in derecognition, the gross carrying amount of the loan is calculated by discounting the modified cash flows using the original effective interest rate. Credit risk is assessed by comparing the remaining lifetime probability of default (PD) at the reporting date based on the modified terms with the remaining lifetime PD at initial recognition and based on the original terms.

3.3 Derivative financial instruments

(a) Fair value of derivatives

The Credit Union is exposed to interest rate risk arising from changes in market interest rates. As part of its financial risk management, the Credit Union enters into interest rate swaps to hedge the interest rate risk associated with offering longer term fixed rate loans funded by shorter term liabilities. Movements in interest rates for the shorter term funding are offset with the floating leg of the swap. This is in line with the Financial Risk Policy and establishes the hedge ratio by aligning the par amount of fixed rate loans and the notional amount of the interest rate swaps designated as cash flow hedges.

The following table summarises the fair value and notional amounts of the Credit Union's commitments to derivative financial instruments at reporting date. The fair value of derivative financial instruments is estimated using net present value techniques.

Group & Credit Union - 2020	**Assets**	**Liabilities**	**Weighted average fixed interest rate**	**Notional amount**	**Maturity of notional amount**		
					Within 1 year	**1 to 5 years**	**Over 5 years**
	$'000	**$'000**	**%**	**$'000**	**$'000**	**$'000**	**$'000**
Derivative financial instruments							
Interest rate swaps	**2,173**	**13,044**	**1.83%**	**993,640**	**540,000**	**453,640**	**-**

Group & Credit Union - 2019	Assets	Liabilities	Weighted average fixed interest rate	Notional amount	Maturity notional amounts		
					Within 1 year	1 to 5 years	Over 5 years
	$'000	$'000	%	$'000	$'000	$'000	$'000
Derivative financial instruments							
Interest rate swaps	1,326	17,144	1.74%	1,914,640	1,046,000	868,640	-

By using interest rate swaps to hedge exposures to changes in interest rates, the Credit Union also exposes itself to credit risk of the derivative counterparty, which is not offset by the hedged item. The Credit Union manages this risk by entering into transactions with high-quality counterparties whose credit rating is grade 1 (refer to Note 3.10(c) for grade definitions).

3.3 Derivative financial instruments (continued)

(b) Accounting for derivatives

Recognition and measurement

Interest rate swaps are initially recognised at fair value on the date the contract is entered into and are subsequently remeasured at fair value.

For interest rate swaps which do not qualify for hedge accounting, changes in fair value are recorded in net gain or loss on derivatives at fair value through profit or loss.

Interest earned or incurred is accrued in interest income or expense respectively, according to the terms of the contract.

Cash flow hedges

For the purposes of hedge accounting, the Credit Union continues to apply the hedge accounting requirements under AASB 139 *Financial Instruments: Recognition and Measurement* as permitted under AASB 9 *Financial Instruments*. Hedging instruments are classified as cash flow hedges where they are used to hedge the exposure to variability in cash flows that is attributable to either a particular risk associated with a recognised asset or liability, or a highly probable forecast transaction.

In assessing hedge effectiveness, the Credit Union determines whether an economic relationship exists between the cash flows of the hedged item and hedging instrument based on an evaluation of the qualitative characteristics of these items and the hedged risk that is supported by quantitative analysis. The Credit Union considers whether the critical terms of the hedged item and hedging instrument closely align when assessing the presence of an economic relationship.

The Credit Union evaluates whether the cash flows of the hedged item and the hedging instrument respond similarly to the hedged risk, such as the benchmark interest rate. The Credit Union further supports this qualitative assessment by using regression analysis to assess whether the hedging instrument is expected to be and has been highly effective in offsetting changes in the present value of the hedged item.

The quantitative analysis involves the use of the hypothetical derivative method, which creates a derivative instrument to serve as a proxy for the hedged item. The terms of the hypothetical derivative match the critical terms of the hedged item and it has a fair value of zero at inception. The hypothetical derivative and the actual derivative are regressed to establish the statistical significance of the hedge relationship. The Credit Union assesses whether the derivative designated in each hedging relationship is expected to be and has been highly effective in offsetting changes in cash flows of the hedged item (prospectively and retrospectively) using this regression analysis.

Hedging relationships are considered to be highly effective if all the following criteria are met:

- The regression co-efficient (R squared), which measures the correlation between variables in the regression, is at least 80%;
- The slope of regression is within an 80%-125% range; and
- The confidence level of the slope is at least 95%.

In the Credit Union's hedging relationships, the main sources of ineffectiveness are:

- The effect of the counterparty's and the Credit Union's credit risks on the fair value of the swap, which is not reflected in the fair value of the hedged item; and
- Differences in maturities or timing of cash flows of the interest rate swaps and the hedged item.

There were no other sources of ineffectiveness in the Credit Union's hedging relationships. The Credit Union's policy is to de-designate ineffective hedges.

For designated and qualifying cash flow hedges, the change in fair value of the effective portion of the hedging instrument is initially recognised directly in members' funds in the 'cash flow hedge reserve'. The ineffective portion is recognised immediately in the income statement.

3.3 Derivative financial instruments (continued)

(b) Accounting for derivatives (continued)

Cash flow hedges (continued)

When the hedged cash flow affects the income statement, the gain or loss on the hedging instrument is recorded in the corresponding income or expense line of the income statement. When a hedging instrument expires or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in the cash flow hedge reserve at that time remains in the reserve and is recognised when the hedged forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in the cash flow hedge reserve is immediately transferred to the income statement.

The following table provides information regarding the determination of hedge ineffectiveness at 30 June 2020 and 30 June 2019[1]:

Group & Credit Union - 2020	**Changes in fair value used for calculating hedge ineffectiveness**	**Changes in the value of the hedged item used for calculating ineffectiveness[2]**	**Hedge ineffectiveness recognised in income statement**	**Line item in income statement that includes hedge ineffectiveness**	**Amount reclassified from the cash flow hedge reserve to income statement**	**Line item in income statement affected by the reclassification**
Interest rate risk	**$'000**	**$'000**	**$'000**		**$'000**	
Derivative financial instruments						
Interest rate swaps	**3,124**	**3,128**	**(4)**	**Other net operating income**	**258**	**Other net operating income**

Group & Credit Union - 2019	Changes in fair value used for calculating hedge ineffectiveness	Changes in the value of the hedged item used for calculating ineffectiveness[2]	Hedge ineffectiveness recognised in income statement	Line item in income statement that includes hedge ineffectiveness	Amount reclassified from the cash flow hedge reserve to income statement	Line item in income statement affected by the reclassification
Interest rate risk	$'000	$'000	$'000		$'000	
Derivative financial instruments						
Interest rate swaps	(10,184)	(10,171)	(13)	Other net operating income	(314)	Other net operating income

[1] Balances presented in the table are net of tax. There is $nil (2019: $nil) remaining in the hedging reserve from hedging relationships for which hedge accounting is no longer applied.
[2] This amount is recognised in other comprehensive income as part of the cash flow hedge reserve.

3.4 Loans and advances

	Group		Credit Union	
	2020	2019	**2020**	2019
	$'000	$'000	**$'000**	$'000
Term loans	**13,476,925**	13,303,806	**13,476,925**	13,303,806
Credit cards and overdrafts	**112,164**	130,160	**112,164**	130,160
Gross loans and advances	**13,589,089**	13,433,966	**13,589,089**	13,433,966
Impairment provision	**(33,559)**	(20,343)	**(33,559)**	(20,343)
Net deferred origination cost and fee revenue	**20,828**	22,840	**20,828**	22,840
Net loans and advances	**13,576,358**	13,436,463	**13,576,358**	13,436,463

Recognition and measurement

Loans and advances are financial assets with fixed or determinable payments that are not quoted in an active market. They are not entered into with the intention of immediate or short term resale. Loans and advances are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method, net of any credit impairment. Losses arising from credit impairments are recognised in the income statement in 'impairment of loans and advances'.

3.5 Impairment of financial assets

The provision for impairment of loans and advances reflects ECLs measured using the three-stage approach as detailed below. The tables below show the movements in the impairment provisions by ECL stage.

	Stage 1	**Stage 2**	**Stage 3**		
Group & Credit Union - 2020	**Collective provision**	**Collective provision**	**Collective provision**	**Specific provision**	**Total provision**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**
Balance at 30 June 2019	**12,138**	**4,032**	**4,173**	**-**	**20,343**
Changes due to financial assets recognised in the opening balance that have:					
Transferred from Stage 1	**(560)**	**237**	**323**	**-**	**-**
Transferred from Stage 2	**1,413**	**(2,434)**	**1,021**	**-**	**-**
Transferred from Stage 3	**605**	**309**	**(914)**	**-**	**-**
Charge to income statement	**9,692**	**889**	**2,280**	**248**	**13,109**
Securitisation insurance receivable	**(43)**	**(3)**	**104**	**49**	**107**
Balance at 30 June 2020	**23,245**	**3,030**	**6,987**	**297**	**33,559**

The increase in collective provision during the year was predominantly driven by significant additional provisions of $11.6 million required for the change in economic outlook owing to COVID-19. The assessment of COVID-19 impacts on loans and advances are summarised in the recognition and measurement section of this note.

3.5 Impairment of financial assets (continued)

	Stage 1	Stage 2	Stage 3				
Group & Credit Union - 2019	Collective provision	Collective provision	Collective provision	Specific provision	Collective provision[1]	Specific provision	Total provision
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Balance at 30 June 2018	-	-	-	-	9,442	103	9,545
Changes on adoption of new accounting standards	12,001	4,100	3,310	103	(9,442)	(103)	9,969
Restated balance as at 1 July 2018	12,001	4,100	3,310	103	-	-	19,514
Changes due to financial assets recognised in the opening balance that have:							
Transferred from Stage 1	(506)	381	125	-	-	-	-
Transferred from Stage 2	1,680	(2,224)	544	-	-	-	-
Transferred from Stage 3	652	204	(856)	-	-	-	-
Charge to income statement	(1,689)	1,571	1,050	(103)	-	-	829
Balance at 30 June 2019	12,138	4,032	4,173	-	-	-	20,343

[1] Opening balance for collective provision of doubtful debts measured under AASB 139 *Financial Instruments* is now presented as 12-month and Lifetime expected credit losses following the adoption of AASB 9 *Financial Instruments*, with no restatement to prior period comparatives. Refer to Note 6.2 for information on the adoption of AASB 9 *Financial Instruments*

Impact of movements in gross carrying amount on impairment of loans and advances

The following table shows the effect of movements in the gross carrying amount of loans and advances in different stages during the financial year ended 30 June 2020.

Group & Credit Union - 2020	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
	$'000	**$'000**	**$'000**	**$'000**
Loans and advances (Gross) as at 1 July 2019	**13,268,590**	**147,087**	**18,289**	**13,433,966**
Transfers				
Transferred from Stage 1	**(107,932)**	**80,276**	**27,656**	**-**
Transferred from Stage 2	**73,935**	**(86,191)**	**12,256**	**-**
Transferred from Stage 3	**2,929**	**1,700**	**(4,629)**	**-**
Balance of new loans and advances originated during the year	**2,522,241**	**4,934**	**461**	**2,527,636**
Loans and advances derecognised during the period including write-offs	**(2,328,711)**	**(35,061)**	**(8,741)**	**(2,372,513)**
Loans and advances (Gross) as at 30 June 2020	**13,431,052**	**112,745**	**45,292**	**13,589,089**

3.5 Impairment of financial assets (continued)

Recognition and measurement

The expected credit loss model used for impairment under AASB 9 *Financial Instruments* applies to financial assets measured at amortised cost, fair value through other comprehensive income, amounts receivable from contracts with customers as defined in AASB 15 *Revenue from Contracts with Customers,* loan commitments and financial guarantee contracts.

The Group applies a three-stage approach in measuring ECLs based on changes in the financial assets' underlying credit risk and includes forward-looking or macroeconomic conditions:

- Stage 1: Where there has been no significant increase in credit risk (SICR) since initial recognition or the asset is not credit impaired upon origination, a portion of the lifetime ECLs associated with the probability of default events occurring within the next 12 months is recognised. Debt investment securities that are determined to have low credit risk at the reporting date and Other financial instruments on which credit risk has not increased significantly since their initial recognition are measured as 12 month ECL.
- Stage 2: Where there has been a SICR since initial recognition but the asset is not credit impaired, the lifetime ECL is recognised.
- Stage 3: When a financial asset is assessed as credit impaired (includes exposures that are greater than 90 days past due), the lifetime ECL is recognised. Interest revenue is calculated on a net basis (gross carrying amount less provision).

Lifetime ECLs are generally determined based on the contractual maturity or behavioural life of the financial asset. When measuring ECLs, the Credit Union takes into account the probability weighted outcome of cash shortfalls over the expected life of the asset discounted at its current effective interest rate. The cash shortfall is the difference between all contractual cash flows that are due to the Group and all the cash flows that the Group is expected to receive.

The Group considers a debt investment security to have low credit risk when its credit rating is equivalent to the globally understood definition of "investment grade". The Group does not apply the low credit risk exemption to any other financial instruments.

Model inputs

The ECL model takes into account the Probability of Default (PD), Loss Given Default (LGD) and the Exposure at Default (EAD) discounted at the effective interest rate:

- PD: The estimate of the likelihood that a borrower will default over a given period. The ECL model uses probability of default taking into account the prior status of the loans.
- LGD: The expected loss in the event of the borrower defaulting. Dynamic LGDs are used in the personal lending segments with benchmarked LGDs used in the consumer home loan segments. The model and macro-economic forward-looking factors are reviewed semi-annually under the Credit Union's model governance framework.
- EAD: The expected balance sheet exposure at default.

Forward-looking information

Forward-looking information is used in the measurement of ECLs through probability weighted scenarios and includes macroeconomic variables that influence credit losses such as RBA cash rates, gross domestic product (GDP) data, unemployment rates and changing house prices.

The consideration of COVID-19 impacts on forward-looking information is summarised below.

Significant increase in credit risk

The Credit Union will assess whether there has been a significant increase in credit risk (SICR) for financial assets by comparing the risk of a default occurring over the expected life of a financial asset at the reporting date to the corresponding risk of default at origination. In assessing whether there has been a SICR, the Credit Union considers reasonable and supportable information that is relevant and available without undue cost or effort. The credit risk assessment is carried out on an individual and collective basis. The Credit Union considers contractual payments that are 30 days past due, financial hardship or default events (e.g. 90 days past due) as primary indicators of SICR. The determination of SICR also takes into consideration various qualitative and quantitative factors, including past due arrears information, hardship and watch-list status.

3.5 Impairment of financial assets (continued)

Impairment of financial assets (continued)

The impact of the Credit Union's COVID-19 Financial Assistance Packages on the assessment of SICR is summarised below.

COVID-19 considerations

In response to COVID-19, the Credit Union undertook a review of the potential impact on the ECL of its loan portfolios. The review considered the assessment of SICR thresholds, the Credit Union's COVID-19 Financial Assistance Packages and payment deferral options of between three to six months offered to affected members and the macroeconomic outlook. The Credit Union's ECL methodology, SICR thresholds and definition of default remains consistent with prior periods other than model inputs and forward-looking information which were revised to account for COVID-19.

The Credit Union has determined that a request and approval of a COVID-19 loan repayment deferral is not an automatic SICR trigger after considering a number of factors which include:

- The scale of the government response to support consumers and business;
- The expected temporary nature of the economic impact;
- Benchmarking and comparison to the approaches adopted by other financial institutions in Australia taking into consideration that this is an economy-wide event; and
- Guidance issued by the International Accounting Standards Board (IASB) on 27 March 2020.

While the loan repayment deferral is not considered an overarching SICR trigger, the level of support packages offered by Government and lenders to consumers and businesses differs significantly to our ordinary historical experience which is used to inform our ECL calculations.

The Credit Union has considered the impact of COVID-19 loan repayment deferrals through the existing forward-looking economic adjustments and adjustments to address the uncertainty of these loans not returning to performing post the deferral period.

Forward-looking macroeconomic adjustments

The Credit Union continues to incorporate forward-looking information through probability weighted scenarios to evaluate and measure ECLs. The existing ECL macro-economic model is based on historical relationships between macro-economic factors and loan losses. The current unique economic conditions and response from the public and private sectors undermine those historical relationships. For example, unprecedented increases in social welfare payments and widespread loan repayment deferrals will alter the relationship between high unemployment and loan defaults.

Recognising this changing dynamic and unprecedented level of uncertainty in economic outlooks, the Credit Union identified a need to apply a different solution to better reflect the forward-looking macro-economic impacts on the ECL. This was most relevant over the next 18 months during which the economy is broadly expected to experience a sharp contraction in economic activity followed by a strong, partial recovery. Given the Government response to date it is considered likely that the extraordinary Government responses will largely remain in place through this period.

The Credit Union considered that the most material forward-looking impact on ECL over the next 18 months would arise from those members seeking short-term financial assistance through the Financial Assistance Package. Whilst the package is offered with the intention of helping members through these challenging times, it is recognised that not all of these members will be able to resume their repayments and increased loan losses are inevitable. To account for this forward-looking view, the Credit Union forecasted the number of COVID-19 loan repayment deferrals we expected to incur through this period. This forecast was done taking into account the 3,600 accounts ($830.9 million or 6.2% of total outstanding loans) already on the Financial Assistance Package as at the balance date, together with an allowance for future growth in loan deferrals based on economic and industry factors and supported by sensitivity analysis. This was considered sufficient to incorporate further impacts of future regional or state-based outbreaks, but not necessarily sufficient for a full national outbreak if that were to occur.

3.5 Impairment of financial assets (continued)

Forward-looking macroeconomic adjustments (continued)

A range of potential scenarios were evaluated to consider the probability of default that could apply to this cohort of loans. Selected scenarios were then probability-weighted to determine an appropriate ECL adjustment.

The scenarios and assumptions used to address the uncertainty of loan performance are summarised below:

Scenario	Assumption applied
Best Case	• Assumes strong deterioration in economic conditions with government support programs for consumers and business. • Proportion of loans to reach default is materially higher than observed for ordinary up-to-date loans
Downside Case	• Similar to Scenario 1 with elevated government support but with some programs winding up or tightening access criteria. • Approximately 3 times increase in default rate from Scenario 1.
Worst Case	• Severe but plausible scenario where government support schemes are reduced to pre COVID-19 levels at a time when support is still needed by a material proportion of consumers and businesses. • A further 50% increase in default rate from Scenario 2.

Beyond the next 18 months the Credit Union considers the economic outlook to be highly uncertain and largely dependent on the future of the pandemic. To reflect this in the ECL calculation a range of future economic scenarios from December 2021 onwards have been incorporated using the Credit Union's existing model.

The scenarios and assumptions considered for the forward-looking macroeconomic adjustments are summarised below:

Scenario	Assumption applied

Base Case	• Economic conditions in December 2021 remain contracted compared to pre-pandemic levels, but a strong partial recovery in economic activity and employment has occurred. This is followed by a more gradual recovery to return to pre-pandemic levels by December 2024.
	• Key considerations in setting the base case include:
	  • International movement restrictions impacting property demands over the 5-year forecast horizon;
	  • Business failures and new ways of working impacting employment growth and an extended period of higher unemployment;
	  • Extended delay in resumption of international tourism;
	  • Federal and State Governments fiscal policies complement existing expansionary monetary policy settings; and
	  • Assumes a modest level of localised clusters and varying levels of restrictions across the states reflecting differing infections levels across the country.

Upside	• Leveraging record low interest rates and extraordinary public stimulus packages domestically and with key trading partners, Australian economic conditions in December 2021 recover to pre-pandemic levels. Pre-pandemic conditions largely persist for the balance of the planning horizon.
	• Key considerations in setting the upside case:
	  • The removal of health restrictions at a faster pace enabling many industries and business to resume normal trading levels;
	  • Health outcomes better than initially expected and fewer emerging virus hot-spots compared to the base case;
	  • Financial stimulus provided by Federal and State governments and key Australian trading partners, which includes support to the housing sector, stimulates economic growth and job creation to allow faster recovery and;
	  • Increased consumer confidence improves and stabilises property market leading to the return of modest price growth.

Major Stress	• Represents a major economic downturn with a prolonged contraction in GDP peaking in 2022 and subsequently improving. Unemployment more than doubles from pre-pandemic conditions and house prices experience a steady and material decrease over each of the next 3 years. • This scenario was considered to address the risk of a more material second wave of infection and economic disruptions as well as additional low probability downside events.

3.5 Impairment of financial assets (continued)

Sensitivity Analysis

Given the heightened uncertainty, sensitivity analysis was conducted to understand the impact of changes in certain variables on the ECL.

The table below shows the impact on the total ECL by adjusting the specified input and leaving all other inputs unchanged.

	Change to ECL	
Sensitivity Measure	**Upside $'000**	**Downside $'000**
+/- 20% change in future growth in new loan deferrals	**(493)**	**493**
+/- 5% re-allocation between Best Case and Worst Case Probability of Default Scenarios	**(477)**	**477**
+/- 1% on modelled unemployment assumption	**(850)**	**1,300**

Climate change considerations

The impact of climate change has the potential to affect loan repayments and the value of the collateral held to secure those loans. These impacts include changes in climatic conditions, extreme weather events and actions or initiatives by the government or regulators.

At present, the risk of climate change is assessed at loan origination and ongoing reviews as part of the Credit Union's credit risks processes. As at 30 June 2020, management has assessed no material risks of loss due to climate change risk in our members' exposures. This assessment has taken into consideration the impacts of the recent 2019 - 2020 bush fires and previous extreme weather events where affected members received support through CUA's disaster relief package. Management are in the process of evaluating and enhancing the Credit Union's processes to consider climate risks exposures and the potential ways to manage those risks.

Write-off

Loans and advances are written off (either partially or in full) when there is no reasonable expectation of recovering the financial asset in its entirety or a portion thereof. This is generally the case when the Credit Union determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-offs. This assessment is carried out at the individual asset level. Recoveries of amounts previously written off are included in the impairment of loans and advances line in the income statement.

Use of judgements and estimates

The Group individually reviews loans and advances that have triggered certain criteria to assess whether an impairment loss should be recorded in the income statement. Judgement is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. In estimating these cash flows, the Group makes judgements about the borrower's financial situation and the net realisable value of collateral. These estimates are based on assumptions about a number of factors including forward-looking information available at the time. Actual results may differ, resulting in future changes to the allowance.

3.6 Deposits

	Group		Credit Union	
	2020	2019	**2020**	2019
	$'000	$'000	**$'000**	$'000
Members' shares	**3,182**	3,249	**3,182**	3,249
Members' call deposits	**7,406,695**	7,079,491	**7,409,373**	7,086,145
Members' term deposits	**3,666,137**	3,498,106	**3,666,137**	3,498,106
	11,076,014	10,580,846	**11,078,692**	10,587,500

No customer or industry groups represent 10% or more of total deposit liabilities.

Recognition and measurement

All deposits and borrowings are initially recognised at cost, being the fair value of the consideration received net of direct incremental issue costs associated with the borrowings. After initial recognition, deposits and borrowings are subsequently measured at amortised cost using the effective interest method.

3.7 Borrowings

	Group		Credit Union	
	2020	2019	**2020**	2019
	$'000	$'000	**$'000**	$'000
Securitisation trust borrowings	**1,227,026**	1,547,119	**4,649,319**	3,318,332
Securitisation warehouse borrowings	**808,889**	511,298	**838,560**	520,251
Term borrowings	**1,793,107**	1,942,758	**1,797,025**	1,943,775
	3,829,022	4,001,175	**7,284,904**	5,782,358

For recognition and measurement details, refer to Note 3.6.

3.8 Standby borrowing facilities

In the normal course of business, the Credit Union enters into various types of contracts which give rise to the following standby and overdraft facilities:

	Group		Credit Union	
	2020	2019	**2020**	2019
	$'000	$'000	**$'000**	$'000
(i) Australia and New Zealand Banking Group				
Approved limit	**500,000**	500,000	**500,000**	500,000
Amount utilised	**340,580**	102,655	**340,580**	102,655
(ii) Deutsche Capital Markets Australia Limited				
Approved limit	**32,800**	52,500	**32,800**	52,500
Amount utilised	**27,423**	25,139	**27,423**	25,139
(iii) Gryphon Capital Investments Pty Limited				
Approved limit	**10,000**	-	**10,000**	-
Amount utilised	**10,000**	-	**10,000**	-
(iv) National Australia Bank Limited				
Approved limit	**456,320**	690,000	**456,320**	690,000
Amount utilised	**430,367**	375,349	**430,367**	375,349
(v) Overdraft				
Approved limit	**10,000**	10,000	**10,000**	10,000
Amount utilised	**-**	-	**-**	-
(vi) RBA (internal securitisation)				
Approved limit	**2,599,744**	1,233,074	**2,599,744**	1,233,074
Amount utilised	**-**	-	**-**	-
(vii) RBA Term Funding Facility (TFF)				
Approved limit	**406,569**	-	**406,569**	-
Amount utilised	**49,981**	-	**49,981**	-

The RBA announced on 19 March 2020 the establishment of a TFF to offer three-year funding to ADIs at a fixed rate of 25 basis points in response to COVID-19. The Credit Union, being an eligible ADI, was granted an initial allowance of $406.6 million and has utilised $49.9 million of the facility as at 30 June 2020. $61.3 million of mortgage backed securities that have a fair value of $60.8 million were pledged as collateral for the amount utilised.

3.9 Fair value of financial instruments

The following tables provides the fair value measurement hierarchy of the Group's financial assets and liabilities at the reporting date.

Group - 2020	Fair value				Carrying amount
	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000	$'000
Financial assets measured at fair value					
Derivative financial instruments	-	2,173	-	2,173	2,173
Financial assets - fair value through profit or loss: *Insurance assets*	6,349	73,597	-	79,946	79,946
Financial assets - fair value through other comprehensive income: *Investment in shares in unlisted entity*	-	-	42,890	42,890	42,890
Financial assets for which fair values are disclosed					
Loans and advances	-	-	13,539,921	13,539,921	13,576,358
Financial assets - amortised cost	-	-	1,971,506	1,971,506	1,981,620
Financial liabilities measured at fair value					
Derivative financial instruments	-	13,044	-	13,044	13,044
Financial liabilities for which fair values are disclosed					
Deposits	-	11,073,608	-	11,073,608	11,076,014
Borrowings[1]	-	2,072,964	1,733,121	3,806,085	3,829,022

[1]The amount utilised from the RBA TFF has been included in borrowings. Refer to Note 3.8 for further details.

Group - 2019	Fair value				Carrying amount
	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000	$'000
Financial assets measured at fair value					
Derivative financial instruments	-	1,326	-	1,326	1,326
Financial assets - fair value through profit or loss: *Insurance assets*	6,113	78,690	-	84,803	84,803
Financial assets - fair value through other comprehensive income: *Investment in shares in unlisted entity*	-	-	42,890	42,890	42,890
Financial assets for which fair values are disclosed					
Loans and advances	-	-	13,260,437	13,260,437	13,436,463
Financial assets – amortised cost	-	-	1,844,428	1,844,428	1,871,207
Financial liabilities measured at fair value					
Derivative financial instruments	-	17,144	-	17,144	17,144
Financial liabilities for which fair values are disclosed					
Deposits	-	10,563,178	-	10,563,178	10,580,846
Borrowings	-	2,061,007	1,914,572	3,975,579	4,001,175

3.9 Fair value of financial instruments (continued)

Credit Union - 2020	Fair value				Carrying amount
	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000	$'000
Financial assets measured at fair value					
Derivative financial instruments	-	2,173	-	2,173	2,173
Financial assets - fair value through other comprehensive income: *Investment in shares in unlisted entity and Mortgage backed securities*	-	29,254	42,890	72,144	72,144
Financial assets for which fair values are disclosed					
Loans and advances	-	-	13,539,921	13,539,921	13,576,358
Financial assets - amortised cost	-	3,393,012	1,971,506	5,364,518	5,403,913
Financial liabilities measured at fair value					
Derivative financial instruments	-	13,044	-	13,044	13,044
Financial liabilities for which fair values are disclosed					
Deposits	-	11,076,286	-	11,076,286	11,078,692
Borrowings[1]	-	5,495,382	1,737,035	7,232,417	7,284,904

[1]The amount utilised from the RBA TFF has been included in borrowings. Refer to Note 3.8 for further details.

Credit Union - 2019	Fair value				Carrying amount
	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000	$'000
Financial assets measured at fair value					
Derivative financial instruments	-	1,326	-	1,326	1,326
Financial assets - fair value through other comprehensive income: *Investment in shares in unlisted entity Mortgage-backed securities*	-	8,886	42,890	51,776	51,776
Financial assets for which fair values are disclosed					
Loans and advances	-	-	13,260,437	13,260,437	13,436,463
Financial assets – amortised cost	-	1,766,487	1,844,428	3,610,915	3,642,420
Financial liabilities measured at fair value					
Derivative financial instruments	-	17,144	-	17,144	17,144
Financial liabilities for which fair values are disclosed					
Deposits	-	10,569,832	-	10,569,832	10,587,500
Borrowings	-	3,836,678	1,915,932	5,752,610	5,782,358

There were no transfers between levels during the period.

3.9 Fair value of financial instruments (continued)

Fair value

The Group measures fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements:

- Level 1 – the fair value is calculated using quoted prices in active markets;
- Level 2 – the fair value is estimated using inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices); and
- Level 3 – the fair value is estimated using inputs for the asset or liability that are not based on observable market data.

The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date. The following methods and assumptions are used to determine the net fair values of financial assets and liabilities.

Derivative financial instruments

The fair value for derivative financial instruments are derived from a combination of quoted closing market prices at balance date, discounted cash flow models and option pricing models. Where there is no market value, the fair value is determined using inputs which are observable either directly or indirectly. The fair values of derivative financial instruments take into account both credit valuation adjustments (CVA) and debit valuation adjustments (DVA) when market participants take this into consideration in pricing the derivatives.

Financial assets – fair value through profit or loss

These assets are insurance assets backing insurance liabilities and are therefore designated at fair value through profit or loss to reduce the accounting mismatch between assets and related liabilities. These assets are valued based on quoted market prices; where these are not available the following alternative valuation techniques are used:

- Floating rate notes – indicative external broker valuations;
- Mortgage-backed securities - external broker valuations;
- Term deposits - the amortised cost is deemed to represent fair value, due to their short term nature (all mature within 1 to 3 months of balance date) and the lack of fluctuations in the market interest rates or credit quality of the counterparties since their inception;
- Australian listed equities – are valued using quoted market price (unadjusted current bid price) on the Australian Securities Exchange (ASX); and
- Investment in unlisted unit trusts – are valued at the redemption price quoted by the trust managers as at the reporting date.

The Group has an established control framework with respect to the measurement of fair values when third party information, such as external broker quotes or valuations are used to measure fair value, which includes:

- Verification of observable pricing;
- Re-performance of the market valuation, for example Australian listed equities are agreed to closing market price listed on the ASX as at the reporting date; and
- Understanding how the fair value has been derived, the extent to which it represents actual market transactions and whether it represents a quoted price in an active market for an identical instrument.

Significant valuations issues are reported to the Board Audit Committee.

Financial assets – fair value through other comprehensive income

Equity instruments at fair value through other comprehensive income

These shares represent an investment that the Credit Union intends to hold long term for strategic purposes and are not actively traded. These shares were measured at fair value on initial recognition and subsequently where their value cannot be measured reliably, the assets are measured at the carrying amount determined at the last date on which the fair value could be determined reliably.

3.9 Fair value of financial instruments (continued)

Financial assets – fair value through other comprehensive income (continued)

Level 3 fair value measurement

In the current financial year, the fair value of these assets has been estimated taking into consideration the most recently transacted prices for the shares and earning multiples of other similar entities and the net asset value per share of the underlying investment. This asset is categorised at Level 3 in the fair value hierarchy given the lack of visibility of these valuation variables.

The following table shows a reconciliation from the opening balance to the closing balance.

	Group & Credit Union	
	2020	2019
	$'000	$'000
Balance at beginning of financial year	**42,890**	-
Restated for adoption of new accounting standards	**-**	42,890
Balance at end of financial year	**42,890**	42,890

Debt instruments at fair value through other comprehensive income

These notes are internally held residential mortgage-backed securities that are not quoted or traded on an active market and are accordingly categorised at Level 2 in the fair value hierarchy. These assets are measured at fair value on initial recognition and are subsequently measured by means of discounted cash flows and other valuation techniques that are commonly used by market participants.

Loans and advances

The carrying value of loans, advances and other receivables are net of provisions for impairment. The fair values are estimated using valuation models such as discounted cash flow techniques using current market rates as at balance date.

For variable rate loans, excluding impaired loans, the amortised cost is a reasonable estimate of the net fair value. The net fair value for fixed rate loans was calculated by utilising discounted cash flow model and including an adjustment for the creditworthiness of the customer. The discount rates applied were based on the current benchmark rate for fixed rate loans being offered on terms with a similar remaining period.

Level 3 fair value measurement

Where observable market transactions are not available to estimate the fair value of loans and advances, fair value is estimated using valuation models such as discounted cash flow techniques.

Financial assets – amortised cost

Financial assets – amortised cost comprise of investments and securities where cash flows arise on specified contractual dates, and the underlying terms can range anywhere from short to long term. They are categorised across Level 2 and Level 3 in the fair value hierarchy. Fair value is estimating utilising valuation models such as discounted cash flow techniques using current market rates as at balance date, and observable market data on capital pricing for similar instruments.

Level 3 fair value measurement

Where observable market transactions are not available to estimate the fair value of financial assets – amortised cost, fair value is estimated using valuation models such as discounted cash flow techniques.

3.9 Fair value of financial instruments (continued)

Deposits

The net fair value for deposits was calculated by utilising a discounted cash flow model. The discount rates applied were based on the current benchmark rate offered for the actual remaining term of the portfolio as at balance date.

The net fair value of non-interest bearing, call and variable rate deposits repriced within twelve months is the carrying value as at balance date.

Borrowings

Borrowings are generally short term in nature and reprice frequently, however also include securitisation borrowings that are long term. They are categorised across Level 2 and Level 3 in the fair value hierarchy. Fair value is estimated utilising valuation models such as discounted cash flow techniques using current market rates as at balance date, and observable market data on capital pricing for similar instruments.

Level 3 fair value measurement

Where observable market transactions are not available to estimate the fair value of borrowings, fair value is estimated using valuation models such as discounted cash flow techniques.

Financial instruments where fair value not separately disclosed – carrying amount approximates fair value

Cash and cash equivalents

The carrying amount approximates fair value as they are short term in nature or are receivable on demand.

Recognition and measurement

The fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments, the Group determines fair values using other valuation techniques.

For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgement depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific financial instruments.

All financial assets and liabilities are initially recognised on the settlement date.

Use of judgements and estimates

Where the fair values of financial assets and financial liabilities recorded in the balance sheet cannot be derived from active markets, they are determined using a variety of valuation models. The inputs to these models are derived from observable market data where possible, but where observable market data is not available these assets are valued using valuation techniques based on non-observable data.

3.10 Risk management

Overview

The Group manages risk to fulfil its commitments to members whilst providing a positive member experience and delivering on strategic objectives. The Group's Board of Directors has overall responsibility for the establishment and oversight of the Group's Risk Management Framework. The Risk Management Framework is a key component of the Group's strategy for managing risk and is comprised of structures, policies and processes designed to enable the purpose of "members working together through life's changes for mutual good". The overarching principles for this framework applicable to the Group are outlined in the sections below.

The key pillars which are reviewed and approved annually by the Board and subsequently provided to APRA include:

- Risk Appetite Statement – outlines, through qualitative and quantitative terms, the degree of risk the Group is willing to take in order to meet strategic objectives; and
- Risk Management Strategy – provides the method for identifying and managing risk including approach, responsibilities, policies and systems.

The Group applies the Three Lines of Defence model for the approach to managing risk across the business. The responsibilities for each line of defence are as follows:

Line of defence	Responsibilities
First	Under the first line of defence, operational management (including each member of staff) is responsible for identifying and managing risks in a way that is consistent with the risk management framework and risk appetite set by the Board.
Second	The second line of defence is the Risk Management function, headed by the Chief Risk Officer, which contributes toward the progressive development and monitoring of the implementation of the Group's risk management framework. The risk management function also maintains the regulatory compliance framework in line with regulator expectations.
Third	Internal Audit forms the third line of defence and provides independent assurance over the performance of both first and second lines in managing risk.

In addition to the lines of defence within the Group, external audit provides an independent audit opinion on the organisation's financial report and an audit/review opinion on certain aspects of the Groups compliance with its APRA regulatory compliance requirements.

Risk management policies have been established to identify and analyse the risks, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. The risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. Training, management standards and procedures, aim to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

Formal governance structures enable the management of risk at the Board and Executive level. Five key committees are in place to achieve this including: (i) the Board Risk Committee (BRC); (ii) the Board Audit Committee (BAC); (iii) the Board Strategy Committee (BSC); (iv) the Board Remuneration Committee (BRem); and (v) Board Growth Opportunities Committee (BGOC) each responsible for overseeing management of specific categories of risks for the Group. The BRC is assisted in its oversight role by the Risk Management function. The BAC is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the BAC.

The Credit Union maintains five key management committees for monitoring and reporting risk across the Group: (i) Enterprise Risk Committee (ERCO), responsible for the Group's enterprise-wide risk management framework; (ii) Asset and Liability Committee (ALCO), responsible for balance sheet risk; (iii) Operational Risk and Compliance Committee (ORCC), responsible for the operational risk and compliance framework; (iv) Credit Risk Committee (CRC) responsible for providing credit risk oversight and; (v) Breach Committee (BreachCo) responsible for assessing regulatory incidents.

3.10 Risk management (continued)

The Group's approach to managing interest rate, price, credit, liquidity and funding risk are further detailed below.

(a) Interest rate risk

Interest rate risk is the risk that changes in interest rates result in losses for a financial institution. The Group is exposed to interest rate risk due to an underlying mismatch in the timing of interest rate repricing across all financial products.

The tables below show the value of financial instruments grouped by interest rate repricing period:

Group - 2020	At call/ variable	Fixed interest rate maturing			Non interest bearing	Total
		Within 1 year	1 to 5 years	Over 5 years		
	$'000	$'000	$'000	$'000	$'000	$'000
Assets						
Cash and cash equivalents	314,032	-	-	-	3,636	317,668
Financial assets - fair value through profit or loss	1,463	10,548	-	-	-	12,011
Financial assets - amortised cost	1,620,603	361,017	-	-	-	1,981,620
Derivative financial instruments	-	502	1,671	-	-	2,173
Loans and advances (Gross)	9,361,974	1,462,274	2,580,460	184,381	-	13,589,089
	11,298,072	1,834,341	2,582,131	184,381	3,636	15,902,561
Liabilities						
Deposits	7,406,629	3,254,665	411,538	-	3,182	11,076,014
Derivative financial instruments	-	4,975	8,069	-	-	13,044
Borrowings	2,896,080	884,352	48,590	-	-	3,829,022
Commitments (Note 5.11)	345,967	713	14,445	918	-	362,043
	10,648,676	4,144,705	482,642	918	3,182	15,280,123

Group - 2019	At call/ variable	Fixed interest rate maturing			Non interest bearing	Total
		Within 1 year	1 to 5 years	Over 5 years		
	$'000	$'000	$'000	$'000	$'000	$'000
Assets						
Cash and cash equivalents	217,149	-	-	-	3,327	220,476
Financial assets - fair value through profit or loss	1,843	11,534	-	-	-	13,377
Financial assets - amortised cost	1,232,796	638,411	-	-	-	1,871,207
Derivative financial instruments	-	557	769	-	-	1,326
Loans and advances (Gross)	8,999,802	996,233	3,258,289	179,642	-	13,433,966
	10,451,590	1,646,735	3,259,058	179,642	3,327	15,540,352
Liabilities						
Deposits	7,079,432	3,209,453	288,712	-	3,249	10,580,846
Derivative financial instruments	-	1,958	15,186	-	-	17,144
Borrowings	3,034,773	944,121	22,281	-	-	4,001,175
Commitments (Note 5.11)	426,599	2,349	18,447	-	46,109	493,504
	10,540,804	4,157,881	344,626	-	49,358	15,092,669

3.10 Risk management (continued)

(a) Interest rate risk (continued)

Credit Union - 2020	At call/ variable	Fixed interest rate maturing			Non interest bearing	Total
		Within 1 year	1 to 5 years	Over 5 years		
	$'000	$'000	$'000	$'000	$'000	$'000
Assets						
Cash and cash equivalents	305,057	-	-	-	3,636	308,693
Financial assets - amortised cost	5,042,895	361,018	-	-	-	5,403,913
Derivative financial instruments	-	502	1,671	-	-	2,173
Loans and advances (Gross)	9,361,974	1,462,274	2,580,460	184,381	-	13,589,089
Financial assets - fair value through other comprehensive income	29,254	-	-	-	-	29,254
	14,739,180	1,823,794	2,582,131	184,381	3,636	19,333,122
Liabilities						
Deposits	7,409,307	3,254,664	411,538	-	3,183	11,078,692
Derivative financial instruments	-	4,975	8,069	-	-	13,044
Borrowings	6,348,044	888,270	48,590	-	-	7,284,904
Commitments (Note 5.11)	345,967	713	14,445	918	-	362,043
	14,103,318	4,148,622	482,642	918	3,183	18,738,683

Credit Union - 2019	At call/ variable	Fixed interest rate maturing			Non interest bearing	Total
		Within 1 year	1 to 5 years	Over 5 years		
	$'000	$'000	$'000	$'000	$'000	$'000
Assets						
Cash and cash equivalents	205,821	-	-	-	3,327	209,148
Financial assets - amortised cost	3,004,009	638,411	-	-	-	3,642,420
Derivative financial instruments	-	557	769	-	-	1,326
Loans and advances (Gross)	8,999,802	996,233	3,258,289	179,642	-	13,433,966
Financial assets - fair value through other comprehensive income	8,887	-	-	-	-	8,887
	12,218,519	1,635,201	3,259,058	179,642	3,327	17,295,747
Liabilities						
Deposits	7,086,086	3,209,453	288,712	-	3,249	10,587,500
Derivative financial instruments	-	1,958	15,186	-	-	17,144
Borrowings	4,814,939	945,138	22,281	-	-	5,782,358
Commitments (Note 5.11)	426,599	2,349	18,447	-	46,109	493,504
	12,327,624	4,158,898	344,626	-	49,358	16,880,506

The Credit Union's exposure to interest rates is through earnings and valuation risk. Earnings risk is measured through Net Interest Income Sensitivity (NIIS), while valuation risk is measured through Present Value Sensitivity (PVS) and Value at Risk (VaR). The Board has responsibility for ensuring compliance with these limits and is assisted by the monitoring activities implemented by management under the broader risk management process.

NIIS is used for determining the potential volatility in our net interest income over the short term. NIIS is reported based on a 1% movement in interest rates across the yield curve to determine the potential adverse change in net interest income in the ensuing 12-month period.

3.10 Risk management (continued)

(a) Interest rate risk (continued)

The below table represents the average, maximum and minimum potential adverse change in NIIS.

Net interest income sensitivity	2020 $'000	2019 $'000
Average exposure	**1,714**	2,155
Maximum exposure	**4,090**	3,621
Minimum exposure	**532**	266

VaR and PVS are used as complementary metrics for determining the potential volatility in longer term economic value. VaR measures historically observed interest rate changes, whilst PVS measures pre-defined rate movements across the yield curve.

The VaR methodology is a statistical technique used to measure and quantify the valuation risk over a specific holding period at a given confidence level. The Credit Union's approach is based on a historical interest rate simulation which uses a 1500-day observation period and consists of a 99% confidence level with a 20-day holding period.

The below table represents the average, maximum and minimum VaR as a percentage of equity as measured at the end of each month over the financial year:

	2020		2019	
Value at risk	**$'000**	**%**	$'000	%
Average	**3,035**	**0.31%**	4,803	0.50%
Maximum	**4,454**	**0.41%**	6,536	0.68%
Minimum	**1,828**	**0.18%**	3,541	0.39%

PVS measures the sensitivity of the present value of the balance sheet based on a 1% movement in interest rates across the yield curve. The following table represents the average, maximum and minimum potential change in PVS since implementation of the enhanced framework:

Present value sensitivity	2020 $'000	2019 $'000
Average exposure	**6,941**	9,250
Maximum exposure	**10,247**	12,790
Minimum exposure	**3,498**	5,980

3.10 Risk management (continued)

(b) Equity price risk

Equity price risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices, whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

The Group is exposed to equity price risk on investments in Australian listed equities and from investments in unlisted unit trusts. These investments are backing insurance liabilities and are held by the wholly owned subsidiary, CUA Health Limited. To manage the risk of a decline in the value of the investments, the specialist asset manager is required to follow the investment guidelines as approved by the Board of CUA Health Limited.

Risk management techniques are used in the selection of investments, including derivatives, which are only acquired if they meet specified investment criteria. Daily monitoring of trade restrictions and derivative exposure against limits is undertaken with any breach of these restrictions reported to the Board of CUA Health Limited. Additionally, the group is exposed to equity price risk on its investment in unlisted securities, see Note 3.2 and 3.9 for further detail.

The following sensitivity analysis is based on the equity price risk exposures on average balances at balance date. It shows the effect on equity and profit after tax if market prices had moved, with all other variables held constant.

Group	2020		2019	
Judgments of reasonably possible movements	**10% $'000**	**-10% $'000**	10% $'000	-10% $'000
Australian listed equities	**433**	**(433)**	439	(439)
Investment in unlisted unit trusts	**4,311**	**(4,311)**	4,572	(4,572)
Investment in unlisted securities	**3,002**	**(3,002)**	3,002	(3,002)
	7,746	**(7,746)**	8,013	(8,013)

(c) Credit risk

Credit risk is the risk that a counterparty will default on its contractual obligations resulting in financial loss. Credit risk arises from the Credit Union's lending activities, which includes residential mortgages, consumer loans, overdrafts and credit cards (Credit quality – lending portfolios) and from the financial instruments held for liquidity management purposes and to hedge interest rate risk (Credit quality - investment with counterparties).

The Group has an established Credit Risk Management Framework that encompasses:

- Risk appetite for lending;
- Strategies, policies and governance for managing credit risk; and
- Processes for continually monitoring credit quality for impairment and the adequacy of provisions.

Maximum credit exposure

Credit exposures are capped to the carrying value reported on the balance sheets for the related assets. The table below (refer to Credit quality – investment with counterparties) presents the Group's maximum credit exposure to the respective asset classes at the reporting dates. The amounts are presented gross of provisions for impairment and before taking account of any collateral held or other credit enhancement.

Credit quality – investment with counterparties

Counterparty concentration risk is monitored daily by Treasury and the Risk Management Division, and monthly by the ALCO. Management establishes counterparty limits based on maximum exposure limits set by the Board and our internal credit assessment of a counterparty. Exposure is limited to the carrying amount in the balance sheet and are classified according to APRA's APS 112 *Capital Adequacy: Standardised Approach to Credit Risk (Attachment E, paragraph 13, Table 6)* which are broadly aligned to external long term credit rating agencies such as Standard & Poor's, Moody's and Fitch.

3.10 Risk management (continued)

(c) Credit risk (continued)

Credit quality – investment with counterparties (continued)

The following tables summarise the counterparty concentration risk exposure by rating grades:

Group - 2020	**Credit rating Grade 1 $'000**	**Credit rating Grade 2 $'000**	**Credit rating Grade 3 $'000**	**Unrated $'000**	**Total $'000**
Assets					
Cash and cash equivalents	**226,533**	**86,746**	**782**	**3,607**	**317,668**
Financial assets - fair value through profit or loss	**4,465**	**7,546**	**-**	**-**	**12,011**
Financial assets - amortised cost					
Stage 1: 12-month ECL - not credit impaired	**1,048,883**	**687,500**	**245,237**	**-**	**1,981,620**
Derivative financial instruments	**2,173**	**-**	**-**	**-**	**2,173**
	1,282,054	**781,792**	**246,019**	**3,607**	**2,313,472**

Group - 2019	Credit rating Grade 1 $'000	Credit rating Grade 2 $'000	Credit rating Grade 3 $'000	Unrated $'000	Total $'000
Assets					
Cash and cash equivalents	165,387	45,476	-	9,613	220,476
Financial assets - fair value through profit or loss	4,953	2,848	5,576	-	13,377
Financial assets - amortised cost					
Stage 1: 12-month ECL - not credit impaired	893,540	529,688	447,979	-	1,871,207
Derivative financial instruments	1,326	-	-	-	1,326
	1,065,206	578,012	453,555	9,613	2,106,386

Credit Union - 2020	**Credit rating Grade 1 $'000**	**Credit rating Grade 2 $'000**	**Credit rating Grade 3 $'000**	**Unrated $'000**	**Total $'000**
Assets					
Cash and cash equivalents	**222,345**	**81,980**	**761**	**3,607**	**308,693**
Financial assets - amortised cost					
Stage 1: 12-month ECL - not credit impaired	**4,256,793**	**687,464**	**245,237**	**214,419**	**5,403,913**
Financial assets - fair value through other comprehensive income					
Stage 1: 12-month ECL - not credit impaired	**-**	**-**	**-**	**29,254**	**29,254**
Derivative financial instruments	**2,173**	**-**	**-**	**-**	**2,173**
	4,481,311	**769,444**	**245,998**	**247,280**	**5,744,033**

Credit Union - 2019	Credit rating Grade 1 $'000	Credit rating Grade 2 $'000	Credit rating Grade 3 $'000	Unrated $'000	Total $'000
Assets					
Cash and cash equivalents	163,287	42,529	-	3,332	209,148
Financial assets - amortised cost					
Stage 1: 12-month ECL - not credit impaired	2,553,630	529,688	447,979	111,123	3,642,420
Financial assets - fair value through other comprehensive income					
Stage 1: 12-month ECL - not credit impaired	-	-	-	8,887	8,887
Derivative financial instruments	1,326	-	-	-	1,326
	2,718,243	572,217	447,979	123,342	3,861,781

Refer to APRA's APS 112 *Capital Adequacy: Standardised Approach to Credit Risk (Attachment E, paragraph 13, Table 6* for credit rating grade definition.

3.10 Risk management (continued)

(c) Credit risk (continued)

Credit quality – lending portfolios

All loans are subject to continuous management review to assess whether there is any objective evidence that any loan or group of loans is impaired. The Credit Union sets aside provisions for impairment of loans in accordance with its internal policies and procedures, which comply with AASB 9 *Financial Instruments: Recognition and Measurement* and APRA's APS 220 *Credit Quality*.

The following table sets out information about the overdue status of loans and advances to members in Stage 1, Stage 2 and Stage 3 as defined in Note 3.5.

Distribution of loans and advances by credit quality at the reporting date was:

Group & Credit Union - 2020 **Loans and advances (Gross)**	**Stage 1 $'000**	**Stage 2 $'000**	**Stage 3 $'000**	**Total $'000**
Residential mortgages				
Current	**12,881,616**	**79,149**	**-**	**12,960,765**
Overdue less than or equal to 30 days	**74,077**	**4,344**	**-**	**78,421**
Overdue more than 30 days	**-**	**21,162**	**36,763**	**57,925**
	12,955,693	**104,655**	**36,763**	**13,097,111**
Commercial lending				
Current	**24,163**	**-**	**-**	**24,163**
Overdue less than or equal to 30 days	**65**	**-**	**-**	**65**
Overdue more than 30 days	**-**	**27**	**164**	**191**
	24,228	**27**	**164**	**24,419**
Personal lending				
Current	**440,858**	**3,559**	**-**	**444,417**
Overdue less than or equal to 30 days	**10,273**	**611**	**-**	**10,884**
Overdue more than 30 days	**-**	**3,893**	**8,365**	**12,258**
	451,131	**8,063**	**8,365**	**467,559**
Total Loans and Advances (Gross)	**13,431,052**	**112,745**	**45,292**	**13,589,089**
Total impairment provision	**23,245**	**3,030**	**7,284**	**33,559**

Loans and advances of $830.9 million for which borrowers have been meeting their repayment obligations but have applied for payment deferrals as a result of COVID-19 are not considered past due and continued to be assessed using the 12-month ECL in Stage 1.

3.10 Risk management (continued)

(c) Credit risk (continued)

Credit quality – lending portfolios

Group & Credit Union - 2019 **Gross loans and advances**	Stage 1 $'000	Stage 2 $'000	Stage 3 $'000	Total $'000
Residential mortgages				
Current	12,625,939	82,538	-	12,708,477
Overdue less than or equal to 30 days	150,421	18,404	-	168,825
Overdue more than 30 days	-	35,138	13,166	48,304
	12,776,360	136,080	13,166	12,925,606
Commercial lending				
Current	31,490	88	-	31,578
Overdue less than or equal to 30 days	23	-	-	23
Overdue more than 30 days	-	550	399	949
	31,513	638	399	32,550
Personal lending				
Current	443,008	3,510	-	446,518
Overdue less than or equal to 30 days	17,709	1,207	-	18,916
Overdue more than 30 days	-	5,652	4,724	10,377
	460,717	10,369	4,724	475,811
Total Gross loans and advances	13,268,590	147,087	18,289	13,433,966
Total impairment provision	12,138	4,032	4,173	20,343

3.10 Risk management (continued)

(c) Credit risk (continued)

Credit quality – lending portfolios (continued)

Collateral held

The Credit Union holds collateral against certain classes of loans and advances to members in the form of mortgage interest over property, other registered securities over assets and guarantees. To mitigate credit risk, the Credit Union can take possession of the security held against the loans and advances as a result of default.

The following table sets out the principal types of the collateral held against different types of financial assets.

Group & Credit Union **Types of credit exposure**	**Percentage of exposure that is subject to collateral requirements** **2020** **%**	 2019 %	**Principal type of collateral held**
Financial assets - amortised cost	**-**	-	None
Derivative financial instruments	**-**	-	None
Loans and advances:			
Residential mortgages	**100**	100	Real estate property
Commercial lending	**100**	100	Real estate property
Personal lending	**37**	31	Motor vehicle
Financial assets - fair value through other comprehensive income	**-**	-	None

An estimate of the value of collateral held as security is assessed at the time of the borrowing and is generally not updated except when loans and advances are individually assessed as impaired. As at 30 June 2020 the fair value of collateral held against those loans and advances that have been individually assessed as Stage 3 credit impaired is $24.8 million (2019: $7.5 million). It has not been practicable to determine the fair value of the collateral held as security against Stage 1 and Stage 2 loans. During the year, the Credit Union took possession of properties valued at $3.1 million (2019: $0.5 million) which were securing loans of $3.1 million (2019: $0.5 million).

The following table shows the Credit Union's Loan to Value Ratios (LVR) on its residential mortgages. Valuation amounts used in these calculations are based on the security value taken at the time the loans were originated or subsequent revaluation.

Group & Credit Union	**2020** **$'000**	2019 $'000
LVR 0% - 60%	**3,974,161**	3,934,408
LVR 60.01% - 80%	**6,533,878**	6,631,325
LVR 80.01% - 90%	**1,967,844**	1,832,548
LVR 90.01% - 100%	**602,016**	515,428
LVR > 100%	**19,212**	11,897
	13,097,111	12,925,606

3.10 Risk management (continued)

(c) Credit risk (continued)

Credit risk – geographical analysis (concentration risk)

The lending portfolio is heavily concentrated on residential mortgages in line with our core business and risk appetite. The concentration of exposures broadly aligns to our traditional branch network. Management undertakes periodic exercises including stress testing and geographic analysis to better understand the impact of concentration risk within the lending portfolio. Based on these exercises management is comfortable with the level of concentration risk. None of our retail lending exposures exceeds 2.5% of our regulatory capital base.

Group & Credit Union	2020		2019	
	Residential mortgages	**Other loans**	Residential mortgages	Other loans
State	**$'000**	**$'000**	$'000	$'000
Queensland	**4,829,074**	**244,078**	4,812,436	251,303
New South Wales	**4,044,212**	**116,825**	3,866,267	126,559
Victoria	**2,904,729**	**92,697**	2,932,032	94,818
Western Australia	**845,112**	**24,013**	859,207	22,006
Australian Capital Territory	**199,339**	**6,079**	193,328	6,247
South Australia	**211,655**	**5,237**	211,306	4,444
Tasmania	**48,200**	**1,500**	35,545	1,580
Northern Territory	**14,790**	**1,549**	15,485	1,403
	13,097,111	**491,978**	12,925,606	508,360

3.10 Risk management (continued)

(d) Liquidity and funding risk

Liquidity and funding risk is the risk that the Group is unable to meet its financial obligations as they fall due, caused by a mismatch in cash flows. The primary liquidity objective is to fund in a way that will facilitate growth in core business under a wide range of market conditions.

Liquidity risk is managed through matching of maturity profiles of assets and liabilities on a daily basis, maintenance of committed funding facilities, continuous forecasting of cash-flows, supplemented with liquidity scenario analysis. Funding risk is managed through a range of key metrics around diversification, duration and capacity.

Operational management of liquidity and funding is performed centrally within the Treasury Division, with oversight from the Risk Management Division, ALCO and Board. Policies are approved by the Board on the recommendation of the ALCO and are consistent with the requirements of APRA's regulatory standard APS 210 *Liquidity*. During the current and the previous year the Credit Union did not breach these requirements.

The following table shows the expected cash flow liquidity analysis for different monetary liabilities and assets held. In the case of borrowings, the table shows the period in which the principal outstanding will be repaid based on the remaining period to the repayment date. For term borrowings, the below dissection is based upon contractual conditions for each borrowing being strictly complied with and is subject to change in the event that current repayment conditions are varied.

Group - 2020	**Carrying Amount**	**Gross contractual inflow/(outflow)**	**Within 1 month**	**1-3 months**	**3-12 months**	**1-5 years**	**More than 5 years**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Financial liability by type							
Non-derivative financial liabilities							
Members' shares	**3,182**	**3,182**	**3,182**	**-**	**-**	**-**	**-**
Members' call deposits	**7,406,695**	**7,406,695**	**7,406,695**	**-**	**-**	**-**	**-**
Members' term deposits	**3,666,137**	**3,701,654**	**852,639**	**538,878**	**1,886,398**	**423,739**	**-**
Borrowings[1]	**3,829,022**	**3,954,469**	**225,209**	**406,297**	**717,142**	**1,214,264**	**1,391,557**
Lease liabilities	**39,582**	**41,093**	**1,470**	**2,761**	**11,812**	**24,582**	**468**
Total non-derivative financial liabilities	**14,944,618**	**15,107,093**	**8,489,195**	**947,936**	**2,615,352**	**1,662,585**	**1,392,025**
Derivative financial liabilities							
Interest rate swaps[2]							
Outflow	**13,921**	**13,921**	**1,312**	**2,679**	**7,585**	**2,345**	**-**
Inflow	**(877)**	**(877)**	**(60)**	**(106)**	**(487)**	**(224)**	**-**
Total derivative financial liabilities	**13,044**	**13,044**	**1,252**	**2,573**	**7,098**	**2,121**	**-**
Financial asset by type[3]							
Non-derivative financial assets							
Cash and cash equivalents	**317,668**	**317,668**	**317,668**	**-**	**-**	**-**	**-**
Financial assets - fair value through profit or loss[4]	**79,946**	**79,946**	**4,549**	**2,600**	**3,400**	**-**	**69,397**
Financial assets - amortised cost	**1,981,620**	**1,981,622**	**105,257**	**319,067**	**403,030**	**1,154,268**	**-**
Loans and advances	**13,576,358**	**13,576,358**	**28,662**	**88,221**	**263,935**	**1,489,572**	**11,705,968**
Financials assets – fair value through other comprehensive income	**42,890**	**42,890**	**-**	**-**	**-**	**-**	**42,890**
Total non-derivative financial assets	**15,998,482**	**15,998,484**	**456,136**	**409,888**	**670,365**	**2,643,840**	**11,818,255**
Derivative financial assets							
Interest rate swaps[2]							
Outflow	**(2,012)**	**(2,012)**	**(12)**	**(22)**	**(146)**	**(1,832)**	**-**
Inflow	**4,185**	**4,185**	**134**	**280**	**944**	**2,827**	**-**
Total derivative financial assets	**2,173**	**2,173**	**122**	**258**	**798**	**995**	**-**

[1] The amount utilised from the RBA TFF has been included in borrowings. Refer to Note 3.8 for further details.
[2] For interest rate swaps the cash flows have been estimated using forward interest rates applicable at the end of the reporting period.
[3] The financial assets have been presented based on the remaining contractual maturities.
[4] Financial assets – fair value through profit or loss include investments in unlisted unit trusts and listed and unlisted equity shares that do not have contractual maturities. The Group intends to hold these investments with a long term view.

3.10 Risk management (continued)

(d) Liquidity and funding risk (continued)

Group - 2019	Carrying Amount	Gross contractual inflow/ (outflow)	Within 1 month	1-3 months	3-12 months	1-5 years	More than 5 years
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Financial liability by type							
Non-derivative financial liabilities							
Members' shares	3,249	3,249	3,249	-	-	-	-
Members' call deposits	7,079,491	7,079,491	7,079,491	-	-	-	-
Members' term deposits	3,498,106	3,540,164	459,238	694,923	2,086,245	299,758	-
Borrowings	4,001,175	4,173,439	278,624	399,055	1,202,001	1,520,893	772,866
Total non-derivative financial liabilities	14,582,021	14,796,343	7,820,602	1,093,978	3,288,246	1,820,651	772,866
Derivative financial liabilities							
Interest rate swaps[1]							
Outflow	34,216	34,216	2,000	3,674	14,969	13,573	-
Inflow	(17,072)	(17,072)	(1,451)	(2,222)	(7,339)	(6,060)	-
Total derivative financial liabilities	17,144	17,144	549	1,452	7,630	7,513	-
Financial asset by type[2]							
Non-derivative financial assets							
Cash and cash equivalents	220,476	220,476	220,476	-	-	-	-
Financial assets - fair value through profit or loss[3]	84,803	84,803	2,700	2,636	6,200	-	73,267
Financial assets - amortised cost	1,871,207	1,871,207	338,172	309,190	476,291	747,554	-
Loans and advances	13,436,463	13,436,463	26,598	86,235	236,161	1,380,378	11,707,091
Financials assets – fair value through other comprehensive income	42,890	42,890	-	-	-	-	42,890
Total non-derivative financial assets	15,655,839	15,655,839	587,946	398,061	718,652	2,127,932	11,823,248
Derivative financial assets							
Interest rate swaps[1]							
Outflow	(6,691)	(6,691)	(1,115)	(2,868)	(2,474)	(235)	-
Inflow	8,017	8,017	1,183	3,209	3,053	573	-
Total derivative financial assets	1,326	1,326	68	341	579	338	-

[1] For interest rate swaps the cash flows have been estimated using forward interest rates applicable at the end of the reporting period.
[2] The financial assets have been presented based on the remaining contractual maturities.
[3] Financial assets – fair value through profit or loss include investments in unlisted unit trusts that do not have contractual maturities. The Group intends to hold these investments with a long term view.

3.10 Risk management (continued)

(d) Liquidity and funding risk (continued)

Credit Union - 2020	Carrying Amount	Gross contractual inflow/(outflow)	Within 1 month	1-3 months	3-12 months	1-5 years	More than 5 years
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Financial liability by type							
Non-derivative financial liabilities							
Members' shares	3,182	3,182	3,182	-	-	-	-
Members' call deposits	7,409,373	7,409,373	7,409,373	-	-	-	-
Members' term deposits	3,666,137	3,701,654	852,639	538,878	1,886,398	423,739	-
Borrowings[1]	7,284,904	7,484,359	294,357	537,728	1,337,134	3,229,652	2,085,488
Lease liabilities	39,582	41,093	1,470	2,761	11,812	24,582	468
Total non-derivative financial liabilities	18,403,178	18,639,661	8,561,021	1,079,367	3,235,344	3,677,973	2,085,956
Derivative financial liabilities							
Interest rate swaps[2]							
Outflow	13,921	13,921	1,312	2,679	7,585	2,345	-
Inflow	(877)	(877)	(60)	(106)	(487)	(224)	-
Total derivative financial liabilities	13,044	13,044	1,252	2,573	7,098	2,121	-
Financial asset by type[3]							
Non-derivative financial assets							
Cash and cash equivalents	308,693	308,693	308,693	-	-	-	-
Financial assets - amortised cost	5,403,913	5,403,915	106,165	319,067	403,030	1,154,268	3,421,385
Loans and advances	13,576,358	13,576,358	28,662	88,221	263,935	1,489,572	11,705,968
Financials assets – fair value through other comprehensive income	72,144	72,144	34	-	-	-	72,110
Total non-derivative financial assets	19,361,108	19,361,110	443,554	407,288	666,965	2,643,840	15,199,463
Derivative financial assets							
Interest rate swaps[2]							
Outflow	(2,012)	(2,012)	(12)	(22)	(146)	(1,832)	-
Inflow	4,185	4,185	134	280	944	2,827	-
Total derivative financial assets	2,173	2,173	122	258	798	995	-

[1] The amount utilised from the RBA Term Funding Facility has been included in borrowings. Refer to Note 3.8 for further details.
[2] For interest rate swaps the cash flows have been estimated using forward interest rates applicable at the end of the reporting period.
[3] The financial assets have been presented based on the remaining contractual maturities.

3.10 Risk management (continued)

(d) Liquidity and funding risk (continued)

Credit Union - 2019	Carrying Amount	Gross contractual inflow/ (outflow)	Within 1 month	1-3 months	3-12 months	1-5 years	More than 5 years
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Financial liability by type							
Non-derivative financial liabilities							
Members' shares	3,249	3,249	3,249	-	-	-	-
Members' call deposits	7,086,145	7,086,145	7,086,145	-	-	-	-
Members' term deposits	3,498,106	3,540,164	459,238	694,923	2,086,245	299,758	-
Borrowings	5,782,358	6,088,785	318,791	471,776	1,493,860	2,460,239	1,344,119
Total non-derivative financial liabilities	16,369,858	16,718,343	7,867,423	1,166,699	3,580,105	2,759,997	1,344,119
Derivative financial liabilities							
Interest rate swaps[1]							
Outflow	34,216	34,216	2,000	3,674	14,969	13,573	-
Inflow	(17,072)	(17,072)	(1,451)	(2,222)	(7,339)	(6,060)	-
Total derivative financial liabilities	17,144	17,144	549	1,452	7,630	7,513	-
Financial asset by type[2]							
Non-derivative financial assets							
Cash and cash equivalents	209,148	209,148	209,148	-	-	-	-
Financial assets - amortised cost	3,642,420	3,642,420	340,645	309,190	476,291	747,554	1,768,740
Loans and advances	13,436,463	13,436,463	26,598	86,235	236,161	1,380,378	11,707,091
Financials assets – fair value through other comprehensive income	51,776	51,776	-	-	-	-	51,776
Total non-derivative financial assets	17,339,807	17,339,807	576,391	395,425	712,452	2,127,932	13,527,607
Derivative financial assets							
Interest rate swaps[1]							
Outflow	(6,691)	(6,691)	(1,115)	(2,868)	(2,474)	(234)	-
Inflow	8,017	8,017	1,183	3,209	3,053	572	-
Total derivative financial assets	1,326	1,326	68	341	579	338	-

[1] For interest rate swaps the cash flows have been estimated using forward interest rates applicable at the end of the reporting period.
[2] The financial assets have been presented based on the remaining contractual maturities.

3.11 Capital management

Regulatory capital

The Group maintains an actively managed capital base to cover risks inherent in the business. The primary objectives of the Group's capital management strategies are to ensure that the Credit Union maintains sufficient capital resources to support the Group's business activities and operational requirements and to ensure continuous compliance with externally imposed capital ratios. The Credit Union uses capital to reinvest in the business to enhance products and services supplied to the members of the Credit Union.

The adequacy of the Group's capital is monitored using, among other measures, the rules and ratios established by the Basel Committee on Banking Supervision and adopted by APRA in supervising the Credit Union. During the current and previous years, the Banking Group has not breached any capital requirements.

The elements of capital are analysed as follows:

Qualifying capital	Banking Group[1]	
	As at 30 June 2020	As at 30 June 2019
	$'000	$'000
Common equity tier 1 capital		
Retained profits, including current year profits	**1,007,086**	956,415
Reserves	**20,455**	17,252
Total common equity tier 1 capital	**1,027,541**	973,667
Regulatory adjustments		
Intangibles	**(59,478)**	(59,296)
Equity investments	**(47,856)**	(47,494)
Other deductions	**(31,529)**	(29,142)
Total regulatory adjustments	**(138,863)**	(135,932)
Net common equity tier 1 capital	**888,678**	837,735
Tier 2 capital		
General reserve for credit losses	**17,972**	24,217
Net tier 2 capital	**17,972**	24,217
Capital base	**906,651**	861,952
Risk weighted assets	**6,304,493**	6,028,228
Risk weighted capital ratios		
Tier 1	**14.10%**	13.90%
Tier 2	**0.28%**	0.40%
Total capital ratio	**14.38%**	14.30%

[1] The regulatory capital requirements are measured for the Credit Union and all of its banking subsidiaries (known as the Banking Group).

4. Insurance business

4.1 Key financial information

The following table summarises the key financial information of the insurance businesses of CUA Health Limited (CHL) and Credicorp Insurance Pty Ltd (Credicorp) which contribute to the income statement and balance sheet of the Group.

	Insurance Business	
	2020	2019
	$'000	$'000
Income statement extract		
Net premium revenue	**158,735**	155,979
Claims expense	**(133,893)**	(131,610)
Interest income - fair value through profit or loss	**229**	431
Net investment income	**2,929**	2,608
Net insurance income	**28,000**	27,408
Balance sheet extract		
Assets		
Investments backing insurance liabilities	**79,946**	84,803
Deferred acquisition costs	**2,084**	1,895
Rebate receivable from Health Insurance Commission	**3,169**	3,238
Receivable from Risk Equalisation Special Account	**1,524**	1,626
Liabilities		
Unearned insurance premiums	**18,455**	21,743
Outstanding insurance claims liabilities	**20,085**	13,735

4.2 Key insurance accounting policies

Premium revenue

Premium revenue comprises amounts charged to policyholders and is inclusive of government rebates where applicable. Premium revenue is recognised from attachment date in accordance with the pattern of the incidence of risk expected over the term of the insurance contracts. The portion of premium received or receivable not earned at reporting date is recognised on the balance sheet as unearned premiums.

Claims expense

Claims expense represents the charge to the income statement for the period and represents the sum of claims settled and claims management expenses relating to claims incurred in the period and the movement in the outstanding insurance claims liabilities over the period.

Net investment income

Net investment income relates to amounts received from investments held by the insurance business. Gains or losses arising from changes in the fair value of these assets are presented in the income statement within other operating income in the period in which they arise.

Trust distributions and dividend income derived from these financial assets is recognised in the income statement within net investment income when the Group's right to receive payments is established. Interest income from these financial assets is recognised using the effective interest method.

4.2 Key insurance accounting policies (continued)

Investments backing insurance liabilities

A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Investment assets backing insurance liabilities are designated at fair value through profit or loss as required by AASB 1023 *General Insurance Contracts*. Realised and unrealised gains and losses arising from changes in the fair value of these assets are included in the income statement in the period in which they arise.

Deferred acquisition costs

Acquisition costs incurred in obtaining insurance contracts are deferred and recognised as assets where they can be reliably measured and where it is probable that they will give rise to premium revenue that will be recognised in the income statement in subsequent reporting periods. Deferred acquisition costs are amortised systematically in accordance with the expected pattern of the incidence of risk under the insurance contracts to which they relate. This pattern of amortisation corresponds to the earning pattern of the corresponding premium revenue.

Rebate receivable from Health Insurance Commission

The Australian Government provides a rebate in respect of the premium paid for resident private health insurance. The rebate is paid directly by the government and is recognised as a receivable when the rebate is due but not yet received at balance date.

Receivable from Risk Equalisation Special Account (health insurance business)

Under private health insurance legislation, all private health insurers must participate in the Risk Equalisation Special Account. Through the Risk Equalisation Special Account, all private health insurers share the cost of proportions of the eligible claims of all persons aged 55 years and over and claims meeting the high cost claims criteria. The amount payable to or receivable from the Risk Equalisation Special Account is determined by APRA after the end of each quarter. Estimated provisions are made for amounts payable or receivable for periods for which determinations have not yet been made, including an estimate of risk equalisation for unpresented and outstanding claims.

Outstanding insurance claims liabilities

The outstanding claims liabilities provide for the expected future payments in relation to claims reported but not yet paid or assessed and claims incurred but not yet reported with an allowance for claims handling expenses.

The estimation of outstanding claims liabilities is based largely on the assumption that past benefit settlement patterns are an appropriate predictor of expected future benefit settlement patterns and involves a variety of actuarial techniques that analyse experience, trends and other relevant factors. The process for establishing the outstanding claims provision involves consultation with the external Appointed Actuary and internal review meetings with management.

The outstanding claims liabilities comprises a central estimate and risk margin. The central estimate is an estimate of the level of claims provision that is intended to contain no intentional under or over estimation. For this reason, the inherent uncertainty in the central estimate must also be considered and a risk margin added. The risk margin is added to the central estimate of outstanding claims to achieve a desirable probability of adequacy.

The risk margins are 10% (2019: 28%) and 19.2% (2019: 17.4%) respectively for CHL and Credicorp. The risk margin has been estimated to equate to the Company's objective of achieving at least a 75% probability of adequacy (2019: at least 75%).

4.2 Key insurance accounting policies (continued)

Deferred insurance claims liabilities

Restrictions on elective medical procedures imposed by the government as a response to COVID-19 in March 2020 have affected the pattern of claims by CHL's policyholders. It is expected that in many instances, the policyholders affected by the restrictions will defer rather than forgo those procedures, resulting in a delay in when they claim benefits from their insurance health policy. To address the impact of COVID-19 on the timing of claims, CHL recognised a deferred claims liability of $8.1 million at 30 June 2020 in accordance with the guidance issued by APRA to private health insurers on 22 June 2020.

The value of the deferred insurance claims liability is estimated based on the following:

- Claims that did not occur in the period between March to June 2020 multiplied by the percentages determined by APRA for hospital and general treatments based on industry consultations and actuarial input.
- Claims that did not occur are estimated as the difference between:
    - The incurred claims for March-June 2020 service months from the pre-COVID projection (based on CHL's April 2020 pricing round submission to APRA); and
    - The latest estimate of incurred claims for that period based on the amount paid at 30 June 2020, plus the estimated outstanding claims for those service months.

The deferred insurance claims liability is expected to be utilised by the next financial year when the procedures and claims occur.

The deferred insurance claims liability is included within the outstanding insurance claims liabilities disclosed.

Use of judgements and estimates

The Group takes all reasonable steps to ensure that it has appropriate information regarding its claim's exposures. Given the uncertainty in establishing claims provisions it is likely that the final outcome will prove to be different from the original liability established. The provision also includes an estimate for expenses to be incurred in settling claims.

Liability adequacy

The liability adequacy test is required to be performed to determine whether the unearned premium liability (premiums in advance and unclosed premium liability) is adequate to cover the present value of expected cash flows relating to future claims arising from rights and obligations under current insurance contracts, plus an additional risk margin to reflect the inherent uncertainty in the central estimate. If the unearned premium liability is inadequate, then the deficiency must be recognised in the income statement. The Group applies a risk margin to achieve the same range of probability of adequacy for future claims as achieved by the estimate for the outstanding claims liabilities.

4.3 Insurance governance

CUA Health Limited

The provision of private health insurance in Australia is governed by the Private Health Insurance Act 2007 which is premised on the fundamental principal of community rating. Community rating is a form of mandatory cross-subsidy which requires that the premium paid for a person's chosen health insurance product, and the cover available under that product, are the same regardless of the health or demographic characteristics of the individual seeking coverage. Premiums are only allowed to vary by Risk Equalisation Jurisdiction (State) which is a scheme that seeks to share the risks among all registered health insurers by averaging out the cost of hospital treatment across the industry. Premiums can only be changed annually and require the approval of the Minister for Health and products must have minimum coverage requirements.

The inability to risk rate or quickly change premiums, and the highly regulated nature of private health insurance are all included in CHL's risk management strategy. This strategy has been implemented to mitigate CHL's exposure to insurance risk and includes key policies and controls such as actuarial models used to calculate and monitor claims patterns, Capital Management Policy, Pricing Philosophy and Risk Appetite Statement.

There is a concentration of private health insurance risk in the areas where CHL has a higher than average policy holder base, for example in Queensland. As a result of the Community Rating Principle, CHL is unable to set different prices based on an individual's age or to reflect their previous claims history. As such, CHL is limited in its ability to directly mitigate this.

Credicorp Insurance Pty Ltd

General insurance contracts are defined as contracts under which Credicorp accepts insurance risk from another party by agreeing to compensate those insured from a specified uncertain event that adversely affects them.

Insurance risk is dependent on both the probability of an insurance event and the magnitude of its potential effect. A Risk Management Strategy has been implemented to mitigate insurance risk which includes the separation of duties, annual risk culture assessment, whistleblowing program and education on risk accountability.

Credicorp's exposure to concentrations of insurance risk is mitigated by a portfolio of diversified insurance products (personal loan protection, home loan protection and car loan gap cover) across all States of Australia. Because of the small size of the claims, the financial impact of concentrations of risk is not material to the Group.

On 17 September 2019, the Credicorp Board approved the decision of Credicorp to stop selling consumer credit insurance products.

4.4 Capital management

CUA Health Limited

The CHL Board's policy on capital management is to maintain a strong capital base so as to maintain creditor and market confidence and to sustain future development of the business. The CHL Board manages capital by assessing financial and insurance risks and adjusting its Capital Management Policy and Liquidity Management Plan in response to changes in these risks. The CHL Board also manages the size of dividends to the Credit Union.

CHL is required to comply with APRA's Solvency and Capital Adequacy Standards and submits audited returns at the end of each financial year. During the current and previous years, CHL has not breached any capital requirements.

	2020 $'000	2019 $'000
Capital Adequacy Standard		
Excess assets	**51,322**	61,837
Solvency standard		
Excess qualifying assets: Solvency Test	**9,959**	13,417

Credicorp Insurance Pty Ltd

The Credicorp Board's policy on capital management is to maintain a strong capital base so as to maintain creditor and market confidence and to sustain future development of the business. The Credicorp Board manages capital by assessing the financial and insurance risks and adjusting its target minimum capital levels in response to changes in these risks. The Credicorp Board also manages the size of dividends to the ordinary shareholder.

General insurers are required to maintain a capital base in excess of the minimum Prescribed Capital Amount, which is at least $5.0 million. During the current and previous years, Credicorp has not breached any capital requirements.

Credicorp has set out in its Internal Capital Adequacy Assessment Process (ICAAP), a targeted minimum capital amount equal to the greater of $6.0 million or 150% of the sum of the prudential risk charges, calculated in accordance with the Prudential Standards. Credicorp has maintained target capital levels during the current and the previous financial year. Capital levels and the PCA coverage ratio are calculated and reported to the Credicorp Board on a regular basis.

	2020 $'000	2019 $'000
Prescribed Capital Amount per APRA	**5,000**	5,000
Targeted minimum capital amount per ICAAP	**6,000**	6,000
Capital base	**7,900**	8,182

5. Other notes

5.1 Other assets

	Group		**Credit Union**	
	2020 $'000	2019 $'000	**2020 $'000**	2019 $'000
Deferred acquisition costs	**2,084**	1,895	**-**	-
Rebate receivable from Health Insurance Commission	**3,169**	3,238	**-**	-
Receivable from Risk Equalisation Special Account	**1,524**	1,626	**-**	-
Sundry debtors	**7,068**	4,499	**3,299**	2,884
Prepayments	**6,026**	5,224	**5,669**	5,021
	19,871	16,482	**8,968**	7,905

Except for deferred acquisition costs, all other asset balances at 30 June 2020 and 30 June 2019 are current. The current and non-current balances in respect to the deferred acquisition costs are as follows: current $1.0 million (2019: $1.0 million), non-current $1.1 million (2019: $0.9 million).

5.2 Property, plant and equipment

	Group		**Credit Union**	
	2020[1] $'000	2019 $'000	**2020[1] $'000**	2019 $'000
At cost/fair value	**67,507**	65,951	**67,463**	65,895
Accumulated depreciation	**(53,293)**	(52,432)	**(53,251)**	(52,394)
Total property, plant and equipment	**14,214**	13,519	**14,212**	13,501

[1] June 2020 results reflect the adoption of AASB 16 *Leases*, refer to Note 6.2 for information on the adoption of this standard. As permitted by the standard, comparative information has not been restated.

All property, plant and equipment balances at 30 June 2020 and 30 June 2019 are non-current.

Recognition and measurement

Freehold land and buildings are measured at fair value less subsequent depreciation and impairment losses. The fair value measurement has been categorised as a Level 3 fair value.

Plant and equipment are measured at cost less depreciation and impairment losses.

All property, plant and equipment other than freehold land are depreciated using the straight-line method over their expected useful lives to the Group. Leasehold improvements are depreciated over the shorter of either their estimated useful life or the remaining term of the lease. The estimated useful lives have not changed from the prior year.

The estimated useful lives are as follows:

Buildings	40 years
Computer hardware	4 years
Office furniture and equipment	3-5 years
Leasehold improvements	3-10 years

5.3 Intangible assets

	Group		Credit Union	
	2020 $'000	2019 $'000	**2020 $'000**	2019 $'000
At cost	**128,496**	119,225	**127,837**	118,579
Accumulated amortisation	**(79,989)**	(62,373)	**(79,484)**	(62,055)
Intangible assets	**48,507**	56,852	**48,353**	56,524
Capital work in progress	**11,138**	2,736	**11,138**	2,736
Total intangible assets	**59,645**	59,588	**59,491**	59,260
Reconciliation of carrying amounts				
Carrying amount at beginning of financial year	**59,588**	73,194	**59,260**	72,998
Additions	**9,275**	13,068	**9,261**	12,807
Disposals	**-**	(24)	**-**	(24)
Net movement in capital work in progress	**8,402**	(4,033)	**8,402**	(4,033)
Impairment	**-**	(6,151)	**-**	(6,151)
Amortisation	**(17,620)**	(16,466)	**(17,432)**	(16,337)
Carrying amount at end of financial year	**59,645**	59,588	**59,491**	59,260

All intangible asset balances at 30 June 2020 and 30 June 2019 are non-current.

Recognition and measurement

Intangible assets include acquired or internally generated software. Software is amortised using the straight-line method over the expected useful life to the Group. The estimated useful lives are as follows:

Major banking infrastructure software	10 years
Loan origination system	3-10 years
Other computer software	3-7 years

Use of judgements and estimates

The Group estimates the useful life of its major banking infrastructure software to be at least 10 years based on the expected technical obsolescence of such assets and a comparison of other similar platforms. However, the actual useful life may be shorter or longer than 10 years, depending on technical innovations and competitor actions. As at 30 June 2020, the carrying amount of this software was $21.2 million (2019: $25.6 million). If the useful life was only 7 years, the carrying amount would be $3.6 million (2019: $11.5 million) as at 30 June 2020. If the useful life was estimated to be 12 years, the carrying amount would be $27.7 million (2019: $31.1 million) as at 30 June 2020.

5.4 Right-of-use assets

	Group		Credit Union	
	2020[1] $'000	2019 $'000	**2020[1] $'000**	2019 $'000
Buildings	**36,248**	-	**36,248**	-
Plant and equipment	**289**	-	**289**	-
Total right-of-use assets	**36,537**	-	**36,537**	-
Reconciliation of carrying amounts				
Balance at 30 June 2019	**-**	-	**-**	-
Restated for adoption of new accounting standards at 1 July 2019	**42,266**	-	**42,266**	-
Restated balance as at 1 July 2019	**42,266**	-	**42,266**	-
Additions	**12,760**	-	**12,760**	-
Reclassification upon sublease of asset	**(282)**	-	**(282)**	-
Depreciation				
Buildings	**(16,891)**	-	**(16,891)**	-
Plant and equipment	**(1,316)**	-	**(1,316)**	-
	(18,207)	-	**(18,207)**	-
Carrying amount at end of financial year	**36,537**	-	**36,537**	-

[1] June 2020 results reflect the adoption of AASB 16 *Leases*, refer to Note 6.2 for information on the adoption of this standard. As permitted by the standard, comparative information has not been restated.

All right-of-use asset balances at 30 June 2020 are non-current.

The Group leases various hub offices, branch premises, vehicles and automated teller machines. Lease contracts are typically made for periods of 1 to 10 years, excluding extension options.

Until 30 June 2019, the Group's leases of property, plant and equipment were classified as operating leases, see Note 6.1(d) for details. From 1 July 2019, right-of-use (ROU) assets are recognised for these leases, together with corresponding lease liabilities, at the date on which the assets are available for use by the Group.

Recognition and measurement

Assets and liabilities arising from a lease are initially measured on a present value basis.

ROU assets are measured at cost, which comprises the following:
- The amount of the initial measurement of the lease liability
- Any lease payments made at or before the commencement date less any lease incentives received
- Any initial direct costs, and
- Restoration costs.

ROU assets are depreciated over the shorter of the asset's useful life and the lease term, on a straight-line basis.

Lease liabilities include the following lease payments:
- Fixed payments, less any lease incentives received or receivable; and
- Variable lease payment that are based on an index or a rate, initially measured using the index or rate as at the commencement date.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

5.4 Right-of-use assets (continued)

Recognition and measurement (continued)

The lease payments are discounted using the Group's incremental borrowing rates (IBR) as the rates implicit to Group's leases cannot be readily determined. The IBR is the rate that the Group would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

The group is exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the right-of-use asset.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Exemptions are available for short term leases of equipment and vehicles and leases of low-value assets. The Group did not apply these exemptions.

Use of judgements and estimates

Determining the lease term of contracts with renewal and termination options

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Group has several lease contracts that include extension and termination options. The Group considers all relevant factors that create an economic incentive in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not to exercise the option to renew or to terminate (e.g., construction of significant leasehold improvements or significant customisation to the leased asset).

Estimating the incremental borrowing rate

The IBR reflects the interest the Group would otherwise have to pay, which requires estimation when no observable rates are available. The Group estimates the IBR using observable inputs (such as market interest rates) when available.

5.5 Other liabilities

	Group		Credit Union	
	2020[1]	2019	**2020[1]**	2019
	$'000	$'000	**$'000**	$'000
Trade creditors and accruals	**23,301**	22,419	**31,917**	21,598
Indemnity payable	**-**	-	**1,299**	9,925
Straight-line lease liability	**-**	7,334	**-**	7,334
Unearned insurance premiums	**18,455**	21,743	**-**	-
Outstanding insurance claims liabilities	**20,085**	13,735	**-**	-
Income tax payable/(receivable)	**924**	2,099	**(2,503)**	2,562
	62,765	67,330	**30,713**	41,419

[1] June 2020 results reflect the adoption of AASB 16 *Leases,* refer to Note 6.2 for information on the adoption of this standard. As permitted by the standard, comparative information has not been restated.

Except for the straight-line lease liability, all other liability balances at 30 June 2020 and 30 June 2019 are current. The current and non-current balances in respect to the lease liability for the prior financial year are as follows: current: nil (2019: $1.7 million), non-current: nil (2019: $5.6 million).

Indemnity payable

There are deeds of indemnity in place between the Credit Union and its subsidiaries as follows:

Credicorp Insurance Pty Ltd: To indemnify Credicorp Insurance Pty Ltd against losses and damage as a result of policyholder remediation costs which arose from previous sales practices of consumer credit insurance policies by the Credit Union. Please refer to Note 5.7 Provisions for details.

CUA Management Pty Ltd: To indemnify CUA Management Pty Ltd against loss and damage as a result of remediation costs of the previously divested financial planning business. Please refer to Note 5.7 Provisions and Note 5.14 Discontinued operation for further details.

5.6 Lease liabilities

	Group		Credit Union	
	2020[1]	2019	**2020[1]**	2019
	$'000	$'000	**$'000**	$'000
Lease liabilities	**39,582**	-	**39,582**	-
	39,582	-	**39,582**	-
Current	**15,232**	-	**15,232**	-
Non-current	**24,350**	-	**24,350**	-
	39,582	-	**39,582**	-
Reconciliation of carrying amounts				
Balance at 30 June 2019	**-**	-	**-**	-
Restated for adoption of new accounting standards at 1 July 2019	**44,304**	-	**44,304**	-
Restated balance as at 1 July 2019	**44,304**	-	**44,304**	-
Additions	**11,973**	-	**11,973**	-
Lease payments				
Gross lease payments	**(17,729)**	-	**(17,729)**	-
Interest portion of lease payments	**1,034**	-	**1,034**	-
	(16,695)		**(16,695)**	
Carrying amount at end of financial year	**39,582**	-	**39,582**	-

[1] June 2020 results reflect the adoption of AASB 16 *Leases*, refer to Note 6.2 for information on the adoption of this standard. As permitted by the standard, comparative information has not been restated.

For recognition and measurement details, refer to Note 5.4.

5.7 Provisions

	Group		Credit Union	
	2020	2019	**2020**	2019
	$'000	$'000	**$'000**	$'000
Employee benefits	**15,320**	17,097	**15,320**	17,097
Make good provision	**5,335**	4,994	**5,335**	4,994
Other provisions	**889**	700	**889**	700
Remediation costs	**1,299**	10,840	**-**	915
Restructuring costs	**2,306**	-	**2,306**	-
	25,149	33,631	**23,850**	23,706
Current	**19,304**	27,073	**18,898**	17,148
Non-current	**5,845**	6,558	**4,952**	6,558
	25,149	33,631	**23,850**	23,706

5.7 Provisions (continued)

Recognition and measurement

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events and it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions payable later than one year have been measured at the present value by discounting the expected future cash outflows at a pre-tax rate that reflects the current market assessment of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as financing costs, excluding long term employee benefits.

Employee benefits

Employee provisions comprise liabilities for employee benefits such as annual and long service leave, short term and long term incentives plans, refer to Note 5.8(a). These arise from services rendered by employees to balance date. Employee benefits have maturities of both less than one year and greater than one year and have been measured at the amounts expected to be paid when the liability is settled plus related on-costs.

Superannuation contributions are made by the Group to defined contribution superannuation funds and are charged as expenses when incurred.

Make good provision

The make good provision is the estimated present value of expenditure required to restore the leased branches and hub offices to their original condition at the end of the respective leases. The provision is assessed at each balance date for new, amended and expired leases. The estimate of the costs has been calculated using historical costs.

Remediation costs

These costs relate to refunds and compensation to past and existing members, policyholders and clients impacted by the following remediation matters.

The 2020 remediation costs relate to Credicorp Insurance Pty Ltd consumer credit insurance business where investigations indicated that the previous sales practices of consumer credit insurance policies by the Credit Union resulted in a small number of members being mistakenly sold a policy.

The bulk of the 2019 remediation costs (2019: $9.9 million) relate to the former financial planning business, where investigations were unable to clearly establish whether financial planning advice had been provided in all instances where clients had paid fees for ongoing advice. The issue related to a period prior to the sale of the business in 2014. Please refer to Note 5.14 Discontinued operation for further details.

In 2019 there was also other remediation costs ($0.9 million) relating to interest calculation on certain types of loan products affecting some members of the Credit Union. The costs that related directly to remediating member totalled $0.4 million during 2019, remainder are the associated project costs.

Restructuring costs

These costs relate to planned organisational restructure activities that have been finalised and announced in June 2020. They are provided for in the current reporting period and are expected to be fully utilised over the next financial year.

5.8 Reserves

	Group		Credit Union	
	2020	2019	**2020**	2019
	$'000	$'000	**$'000**	$'000
General reserve for credit losses	**2,789**	13,526	**2,789**	13,526
Redeemed member share reserve	**3,066**	2,999	**3,066**	2,999
Fair value through other comprehensive income reserve	**15,216**	15,216	**14,925**	15,170
Cash flow hedge reserve	**(7,125)**	(10,507)	**(7,125)**	(10,507)
Business combination reserve	**9,590**	9,590	**9,590**	9,590
	23,536	30,824	**23,245**	30,778

Nature and purpose of reserves

General reserve for credit losses

The Credit Union is required by APRA to maintain a general reserve for credit losses. The general reserve for credit losses and collective provision for impairment are aggregated for the purpose of reporting the general reserve for credit losses to APRA. The general reserve for credit losses is calculated in accordance with APRA's APS 220 *Credit Quality*, taking into consideration APRA's interim approach and expectations around the regulatory treatment of AASB 9 *Financial Instruments* as set out in its industry letter released on 4 July 2017. APRA has reaffirmed this approach in its draft APS 220 *Credit Quality* published in March 2019 for consultation purposes. The general reserve for credit losses represents an appropriation of retained profits to non-distributable reserves for the difference between the lifetime ECL and accounting provision for impairment of loans and advances.

The accounting provision for impairment has increased during the year mainly due to accounting for COVID-19 impact. This has reduced the difference between the accounting provision and lifetime ECL and reducing the general reserve for credit losses. Please refer to Note 3.5 for details.

Redeemed member share reserve

Under the *Corporations Act 2001*, redeemable preference shares (member shares) may only be redeemed out of the Credit Union's profit or through the new issue of shares for the purpose of the redemption. The Credit Union therefore has transferred the value of member shares redeemed since 1 July 1999 (the date that the *Corporations Act 2001* applied to the Credit Union), from retained earnings to the redeemed member share reserve. The value of members' shares is disclosed as a liability in Note 3.6.

Fair value through other comprehensive income reserve

Equity and debt instruments at fair value through other comprehensive income

Comprises the cumulative net changes in fair value of investments in equity and debt instruments. Amounts in the reserve are subsequently transferred to retained earnings, and not profit or loss, when the investment is derecognised or impaired.

Cash flow hedge reserve

This reserve is for the portion of the cumulative net gain or loss on cash flow hedges that are determined to be an effective hedge.

Business combination reserve

This reserve is used to record mergers with other mutual entities. The reserve represents the excess of the fair value of assets taken up over liabilities assumed in a merger.

5.9 Related parties

(a) Key management personnel (KMP)

Compensation of the Credit Union's Directors and other KMP

	Non-executive directors		Other KMP	
	2020	2019	**2020**	2019
	$	$	**$**	$
The aggregate compensation of KMP during the year comprising amount paid or payable or provided for was as follows:				
- Short term employee benefits	**1,029,516**	1,009,388	**4,163,272**	4,180,568
- Post employment benefits	**241,219**	211,855	**170,562**	177,093
- Other long term benefits	**-**	-	**301,247**	358,084
- Termination benefits	**-**	-	**426,489**	32,746
	1,270,735	1,221,243	**5,061,570**	4,748,491

Compensation shown as short term benefits means (where applicable) salaries, paid annual and sick leave, bonuses and the value of fringe benefits received, but excludes out of pocket expense reimbursements. The Credit Union's Non-executive directors and other KMP are only remunerated by the Credit Union.

Included in post-employment benefits is superannuation contributions and compensation relating to the directors' defined benefit plan. The plan provides lump sum benefits based on years of service and the final average salary for the respective directors. Included in other long term benefits is the inaugural long term incentive plan for the CEO and Executive Committee which was approved by the Board on 11 December 2019. Details of the plan are disclosed in the Directors' Report.

The average total compensation to each Non-executive director excluding post employment benefits is $147,074 (2019: $144,198).

Loans to the Credit Union's Directors and other KMP

	2020	2019
	$	$
Aggregate of loans as at balance date	**2,935,893**	5,322,935
Total undrawn revolving credit facilities available at balance date	**105,276**	88,095
Interest charged on loans and overdraft facilities	**55,648**	187,888

The above table includes amounts for the Credit Union's Directors and other KMP in office or employed by the Credit Union at balance date and their related parties. Directors and other KMP who resigned during the 2020 financial year are excluded from the 2020 analysis but are included in the 2019 comparative analysis.

The Credit Union's policy for lending to its Directors and other KMP is that all loans are approved under the same criteria applicable to members. All loans were at lending terms and conditions applicable to members. KMP may receive concessional rates of interest on their loans and facilities that are available to all the Credit Union's employees. No amounts were written down or recorded as impaired during the year (2019: nil).

There are no benefits or concessional terms and conditions applicable to the family members of the Credit Union's Directors and other KMP (2019: nil). No loan balances with family or relatives of the Credit Union's Directors and other KMP were written down or recorded as impaired during the year (2019: nil).

Other transactions with the Credit Union's Directors and other KMP

Other transactions with the Credit Union's Directors and other KMP and their related parties generally relates to deposits and private health insurance.

The Credit Union's policy for these other transactions is that all transactions are approved on the same terms and conditions that apply to members. Interest has been paid on terms and conditions no more favorable than those available on similar transactions to members of the Credit Union. KMP may receive discounts on premiums for private health insurance that are available to all Credit Union employees.

5.9 Related parties (continued)

(b) Controlled entities and other related parties

Controlled entities are entities where the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity.

(i) Particulars in relation to controlled entities

The Group financial statements include the financial statements of the Credit Union and the subsidiaries listed in the following table:

	Equity interest		Investment	
	2020	2019	**2020**	2019
Name of entity	**%**	%	**$'000**	$'000
CUA Health Limited	**100%**	100%	**-**	-
Credicorp Finance Pty Ltd	**100%**	100%	**1,500**	1,500
Credicorp Insurance Pty Ltd	**100%**	100%	**-**	-
CUA Management Pty Ltd	**100%**	100%	**-**	-
			1,500	1,500

Investments in controlled entities are carried at cost and eliminated on consolidation.

All entities are incorporated in Australia.

(ii) Securitisation

The Credit Union conducts an asset securitisation program through which it packages and sells asset-backed securities to investors and borrows from lenders (for Warehouses) through special purpose entities (SPE). The Group is entitled to any residual income of the SPE after all payments to investors and lenders and costs of the programs have been met. These SPEs are consolidated as the Credit Union has the power to govern directly or indirectly decision making in relation to financial and operating policies and receives the majority of the residual income or is exposed to the majority of the residual risk associated with the SPEs.

The following securitisation trusts are controlled by the Credit Union:

- Series 2012-1R Harvey Trust
- Series 2013-1 Harvey Trust
- Series 2015-1 Harvey Trust
- Series 2017-1 Harvey Trust
- Series 2018-1 Harvey Trust
- Harvey Warehouse Trust No. 4
- Harvey Warehouse Trust No. 5

5.9 Related parties (continued)

(b) Controlled entities and other related parties (continued)

(ii) Securitisation (continued)

Transfer of financial assets

The following table sets out the financial assets transferred to the above Trusts that did not qualify for derecognition and associated liabilities from conducting the securitisation program.

	Group		Credit Union	
	2020	2019	**2020**	2019
	$'000	$'000	**$'000**	$'000
Transferred financial assets				
Loans and advances at amortised cost	**5,366,089**	3,767,219	**5,366,089**	3,767,219
Associated financial liabilities				
Securitisation liabilities - external investors	**2,035,915**	2,058,417	**2,035,915**	2,058,417
Amounts due to the Credit Union	**-**	-	**3,512,800**	1,816,600
	2,035,915	2,058,417	**5,548,715**	3,875,017
For those liabilities that have recourse only to transferred assets:				
Fair value of transferred assets	**5,362,107**	3,757,102	**5,362,107**	3,757,102
Fair value of associated liabilities	**(2,024,373)**	(2,058,417)	**(5,507,628)**	(3,875,017)
Net position	**3,337,734**	1,698,685	**(145,521)**	(117,915)

Collateral

The Credit Union has advanced $3.0 million (2019: $3.0 million) as cash collateral in relation to interest rate swaps for securitisation trusts. The funds are held in restricted interest earning accounts and will be returned at maturity of the interest rate swap contracts.

(iii) Significant restrictions

Cash and cash equivalents include restricted balances of $201.5 million (2019: $124.6 million) in the Group which represents deposits held in securitisation trust collection accounts which are not available to the Group.

The regulatory frameworks within which the health and general insurance subsidiaries operate, require these subsidiaries to keep certain levels of regulatory capital and liquid assets, limit their exposure to other parts of the Group and comply with various ratio requirements. The significant restrictions imposed by the regulatory frameworks are the only restrictions on the Credit Union transferring the cash or other assets of the subsidiaries. The net carrying amount of these subsidiaries' assets and liabilities are $99.8 million and $24.4 million respectively (2019: $95.1 million and $18.2 million respectively).

(iv) Particulars in relation to a joint venture entity

The Group has a 50% interest in Mutual Marketplace Pty Ltd (2019: 50%). For more details, refer to Note 5.10.

5.9 Related parties (continued)

(b) Controlled entities and other related parties (continued)

(v) Transactions with controlled and joint venture entities

The following table provides the total amount of transactions that were entered into by the Credit Union with controlled and joint venture entities for the relevant financial year. These transactions were all carried out under normal commercial terms and where possible are benchmarked against industry averages.

Transactions with controlled and joint venture entities:

	Credit Union	
	2020	2019
	$	$
Dividend revenue	**7,850,000**	10,450,000
Commission revenue	**784,669**	1,646,882
Net management fees	**2,020,402**	2,464,733
Net interest income/(expense)	**(109,342)**	(215,742)
Net income/(expense) Mutual Marketplace Pty Ltd[1]	**(99,511,688)**	(81,318,043)
Operating lease revenue	**381,132**	381,132

[1] Spend in ordinary course of business that would otherwise flow through the Credit Union.

The net amounts receivable from/(payable to) controlled and joint venture entities as at 30 June were:

	Credit Union	
	2020	2019
	$	$
CUA Health Limited	**(15,043,043)**	(9,586,056)
Credicorp Finance Pty Ltd	**(97,949)**	(99,942)
Credicorp Insurance Pty Ltd	**(3,650,850)**	(1,479,225)
CUA Management Pty Ltd	**(1,828,074)**	(11,090,620)
Mutual Marketplace Pty Ltd	**3,792**	-

(vi) Overdraft facility to a joint venture entity

The Credit Union has granted an overdraft facility of $1.5 million to Mutual Marketplace Pty Ltd which is intended for the joint venture's working capital requirements. Interest is charged at 7% per annum. During the year, there was no amount advanced on this facility (2019: nil).

(vii) Indemnity arrangements

The Credit Union has deeds of indemnity in place between the Credit Union and its subsidiaries Credicorp Insurance Pty Ltd and CUA Management Pty Ltd. Please refer to Note 5.7 Provisions for details.

5.10 Joint venture

The Credit Union has an interest in a joint venture known as Mutual Marketplace Pty Ltd which provides procurement services to the joint venture owners and extends those services to other Australian mutuals. The country of incorporation and principal place of business of the joint operation is Australia.

(a) Interest in joint venture

Set out below are details of this joint venture.

Name of entity	Place of business/country of incorporation	% Ownership interest		Nature of relationship	Measurement	Carrying amount	
		2020	2019			**2020**	2019
						$'000	$'000
Mutual Marketplace Pty Ltd	Australia	**50%**	50%	Joint Venture	Equity Method	**2,167**	1,805

Mutual Marketplace Pty Ltd has share capital consisting solely of ordinary shares, which are held directly by the Group and ownership interest is in the same proportion as the voting rights held.

(i) Commitments and contingent liabilities in respect of joint venture

	2020	2019
	$'000	$'000
Commitments to operating expenditure	**968**	47,743
Commitment to provide funding if called	**1,500**	1,500
	2,468	49,243

The Group has commitments of $nil (2019: $45.3 million) relating to non-cancellable operating lease contracts entered into by the Group's interest in the joint venture. Due to the adoption of AASB 16 *Leases*, non-cancellable operating lease contracts have been recognised as a liability. As permitted by the standard, comparative information has not been restated. Refer to Note 6.2 for information on the adoption of this standard.

(ii) Summarised financial information for joint venture

The table below provides summarised financial information for the joint venture. The information disclosed reflects the amounts presented in the financial statements of the relevant joint venture and not the Credit Union's share of those amounts. They have been amended to reflect adjustments made by the Credit Union when using the equity method, including fair value adjustments and modifications for differences in accounting policy.

	2020	2019
Summarised income statement	**$'000**	$'000
Revenue	**167,935**	135,649
Cost of sales	**(161,515)**	(130,372)
Gross profit	**6,420**	5,277
Operating expenses	**(5,303)**	(4,703)
Profit before income tax	**1,117**	574
Income tax benefit/(expense)	**(393)**	(188)
Profit for the year	**724**	386

5.10 Joint venture (continued)

(a) Interest in joint venture (continued)

(ii) Summarised financial information for joint venture (continued)

Summarised balance sheet	2020 $'000	2019 $'000
Total assets	**13,360**	9,338
Total liabilities	**(9,026)**	(5,728)
Net assets	**4,334**	3,610
Reconciliation to carrying amounts:		
Opening net assets	**3,610**	3,224
Profit/(loss) for the period	**724**	386
Closing net assets	**4,334**	3,610
Group's share in %	**50%**	50%
Group's share in $	**2,167**	1,805
Carrying amount	**2,167**	1,805

Recognition and measurement

The Group's investment in the joint venture is accounted for under the equity method in the Group financial statements as it has joint control over all operational decisions and activities.

Under the equity method, the investment in the joint venture is initially recognised at cost and the carrying value is subsequently increased or decreased by the Group's share of the joint venture entity's profits or losses. The Group ceases to recognise its share of losses when its share of net assets and amounts due from the joint venture entity has been reduce to nil, unless it has incurred further obligations.

Unrealised gains or losses resulting from transactions between the Group and the joint venture are eliminated to the extent of the interest in the joint venture.

Dividends received or receivable from the joint venture entity are recognised as a reduction to the carrying amount of the investment.

At each reporting date, the Group determines whether there is objective evidence that the investment in the joint venture is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the joint venture and it's carrying value.

5.11 Commitments

(a) Operating lease commitments

	Group		Credit Union	
	2020 $'000	2019 $'000	**2020 $'000**	2019 $'000
Within one year	**-**	16,609	**-**	16,609
After one but not more than five years	**-**	29,240	**-**	29,240
More than five years	**-**	260	**-**	260
	-	46,109	**-**	46,109

The Group leases various hub offices, branch premises, vehicles and automated teller machines. Lease contracts are typically made for periods of 1 to 10 years, excluding extension options.

Until 30 June 2019, the Group's leases of property, plant and equipment were classified as operating leases. Due to the adoption of AASB 16 *Leases*, non-cancellable operating lease contracts have been recognised as a liability. No exemptions to AASB 16 *Leases* for short term or low value leases have been applied during the year.

As permitted by the standard, comparative information has not been restated. Refer to Note 6.2 for information on the adoption of this standard.

The majority of the Credit Union's lease agreements have been novated to Mutual Marketplace Pty Ltd. Refer to Note 5.10 for compliance with the prior year disclosure requirements set out by AASB 117 *Leases* paragraph 35(c) regarding the Group's commitments relating to non-cancellable operating lease contracts entered into by the Group's interest in the joint venture.

The Credit Union has a bank guarantee of $2.5 million (2019: $2.5 million) in respect of one of its leased properties.

(b) Outstanding loan and credit facility commitments not provided for

Loans approved but not advanced and credit facilities undrawn at the end of the financial year were as follows:

	Group		Credit Union	
	2020 $'000	2019 $'000	**2020 $'000**	2019 $'000
Loans approved not advanced	**90,413**	191,888	**90,413**	191,888
Undrawn overdrafts and credit facilities at call	**271,630**	255,507	**271,630**	255,507
	362,043	447,395	**362,043**	447,395

(c) Capital commitments

At 30 June 2020, the Group had a commitment of $0.1 million (2019: $0.2 million) predominantly relating to plant and equipment acquisitions.

(d) Superannuation commitments

The Credit Union contributes to a number of defined contribution superannuation funds, which provide benefits for employees on retirement, death or disability. Employees may contribute additional amounts of their gross income to their respective superannuation fund. The Credit Union has no financial interest in any of the funds and is not liable for their performance or their obligations.

5.12 Remuneration of auditor

The auditor of the Group is KPMG.

	Group		Credit Union	
	2020	2019	**2020**	2019
	$	$	**$**	$
Amounts received or due and receivable by KPMG for:				
Audit services				
Audit of financial statements	**541,567**	520,476	**430,476**	439,976
Other regulatory and audit services	**217,800**	229,087	**140,692**	129,464
Total audit services	**759,367**	749,563	**571,168**	569,440
Audit related services	**83,715**	120,480	**78,715**	120,480
Non-audit services				
Other services	**97,549**	88,834	**97,549**	85,834
Total non-audit services	**97,549**	88,834	**97,549**	85,834
Total auditor's remuneration	**940,631**	958,877	**747,432**	775,754

The majority of other services provided are recurring agreed upon procedure engagements related to securitisation trust top up transactions.

5.13 Economic dependency

The Credit Union has significant service contracts with Cuscal Limited. This entity provides the Credit Union with rights to the VISA and Mastercard card systems in Australia and provides settlement services with other financial institutions for ATM, VISA and Mastercard card transactions, BPay, New Payments Platform (NPP), cheque processing and direct entry transactions.

The Credit Union has an agreement with Tata Consulting Services Limited for the perpetual licence, maintenance and support of the Credit Union's core banking platform TCS BaNCS.

5.14 Discontinued operation

	Group		Credit Union	
	2020	2019	**2020**	2019
	$'000	$'000	**$'000**	$'000
Other income	**354**	-	**-**	-
Financial planning remediation costs	**1,406**	(10,568)	**1,406**	(9,925)
Income (loss) before income tax	**1,760**	(10,568)	**1,406**	(9,925)
Income tax benefit (expense)	**(528)**	3,171	**(422)**	2,977
Income (loss) from discontinued operation	**1,232**	(7,397)	**984**	(6,948)
Cash flow information				
Net cash (used in) operating activities	**(8,358)**	(351)	**(8,420)**	-
Net (decrease) in cash generated from discontinued operation	**(8,358)**	(351)	**(8,420)**	-

The 2019 loss from discontinued operation relates to client remediation and associated project costs relating to the financial planning business which the Credit Union sold in 2014. Further investigation in 2020 resulted in a reduction of the amount required to be remediated. Additionally, a refund of the Goods and Services Tax paid on those premiums refunded was receipted in the current financial year.

5.15 Events subsequent to reporting date

There remains significant uncertainty regarding how the COVID-19 pandemic will evolve, including the duration of the downturn and the speed of economic recovery. Consideration was given to the macro-economic impact of varying levels of restrictions across states, border closures and the extension of government support measures.

The Group has not identified any subsequent events that would require adjustments to the amounts or disclosures in the financial statements.

5.16 Contingent liabilities

A provision of $1.2 million was raised for the remediation costs relating to the Credicorp Insurance Pty Ltd's consumer credit insurance business based on insurance policies assessed up to the date which these financial statements were authorised for issue (refer to Note 5.7 for details).

Investigation into the remaining cohorts of identified insurance policies is ongoing. The outcome and total costs associated with the remaining remediation exercise remains uncertain. As such contingent liabilities may exist pending finalisation of the work on those policies.

6. Accounting policies and new accounting standards

6.1 Other accounting policies

(a) Basis of consolidation

The Group financial statements comprise the financial statements of Credit Union Australia Ltd and all of its controlled entities (the Group). Controlled entities are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

All inter-company balances and transactions between entities in the Group, including any unrealised profit or losses, have been eliminated on consolidation. Adjustments are made to bring into line any dissimilar accounting policies that may exist. The financial statements of controlled entities are prepared for the same accounting period as the Credit Union.

Where controlled entities have entered or left the Group during the year, their operating results have been included from the date control was obtained or until the date control ceased.

(b) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the asset. All other borrowing costs are expensed in the period in which they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

(c) Impairment of non-financial assets (intangible assets, property, plant and equipment and right-of-use assets)

The Group assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or group of assets. When the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

(d) Leases (applicable before 1 July 2019)

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses over the period of the lease on a straight-line basis.

The accounting for an arrangement in the legal form of a lease must reflect the substance of the arrangement. All aspects and implications of the arrangement are evaluated to determine its substance, with weight given to those aspects and implications that have an economic effect. All aspects of an arrangement that does not, in substance, involve a lease under AASB 117 *Leases* are considered in determining the appropriate disclosures that are necessary to understand the arrangement and the accounting treatment adopted.

All lease incentives for the agreement of a new or renewed operating lease are recognised as an integral part of the net consideration agreed for the use of the leased asset, irrespective of the incentive's nature or form or the timing of payments. The Group recognises the aggregate benefit of incentives as a reduction of rental expense over the lease term, on a straight-line basis.

(e) Loyalty Program

The Credit Union participates in a Customer Loyalty Program operated by a third party. The program allows credit card holders to accumulate points when they transact with their Credit Union Australia Platinum credit card. The third party is paid for points redeemed by the credit card holders in exchange for rewards supplied. The Credit Union has fulfilled its obligations to the credit card holders when the points are granted and recognises revenue from the points for fees arising from the card transactions. Revenue is measured gross of the amount payable to the third party as the Credit Union is collecting the revenue on its own account. The amount payable to the third party is measured based on the fair value of the points and the redemption rate estimated.

Certain accounting policies have been incorporated into relevant notes under the "Recognition and measurement" sections of those notes for ease of reference and to promote the usefulness of those disclosures.

6.2 New accounting standards

(a) New Australian Accounting Standards and amendments to accounting standards that are effective as of 1 July 2019

The Group has adopted the following new and amended Australian Accounting Standards and AASB Interpretations as of 1 July 2019:

- AASB 16 *Leases*
- AASB 2017-6 Amendments to Australian Accounting Standards: *Prepayment features with negative compensation* (early adopted by the Group on 1 July 2018)
- AASB Interpretation 23 *Uncertainty over tax treatments*
- AASB 2017-7 Amendments to Australian Accounting Standards: *Long term interests in associates and joint ventures*
- AASB 2018-1 Amendments to Australian Accounting Standards – *Annual improvements 2015 – 2017 cycle*

Other than AASB 16 *Leases*, the application of these standards and amendments do not materially impact the annual consolidated financial statements. The impacts of transitioning to AASB 16 are detailed below.

AASB 16 Leases

AASB 16 replaced AASB 117 Leases for the Group's financial year commencing 1 July 2019. The Group recognised right-of-use assets (ROU) and lease liabilities for those leases previously classified as operating leases.

Change on initial application of AASB 16

The Group has applied AASB 16 from 1 July 2019 using the modified retrospective approach and therefore comparative information has not been restated and continued to be reported under AASB 117 and AASB Interpretation 4 *Determining whether an arrangement contains a lease*. As a result, adjustments and reclassifications are recognised to opening retained earnings on transition.

The Group applied the practical expedient to grandfather the definition of a lease on transition apply to all contracts which were entered into before 1 July 2019 and identified as leases in accordance with AASB 117 and AASB Interpretation 4.

The ROU assets for the leases were recognised based on the amount equal to the lease liabilities, adjusted for any related prepaid and accrued lease payments or incentives. Lease liabilities were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application.

Judgements have been applied by the Group in determining the transition adjustment which includes assessing the period over which the lease exists, the incremental borrowing rate and the variability of future cash flows.

The Group also applied the available practical expedients to:

- Apply a single discount rate to a portfolio of leases with reasonably similar characteristics
- Assess whether the leases are onerous as an alternative approach to the impairment assessment of ROU assets
- Exclude initial direct costs from the measurement of ROU assets on transition
- Apply hindsight in determining lease terms if the contract contains options to extend or terminate the lease.

6.2 New accounting standards (continued)

(a) New Australian Accounting Standards and amendments to accounting standards that are effective as of 1 July 2019 (continued)

The impact of adopting AASB 16 on the Group and Credit Union balance sheets at 1 July 2019 is as follows:

	Group	Credit Union
	$'000	$'000
Opening retained earnings at 1 July 2019	1,026,644	952,306
Right-of-use assets	42,266	42,266
Net deferred tax asset	(1,118)	(1,118)
Lease liabilities	(44,304)	(44,304)
Property, plant and equipment (Lease make good asset)	(1,570)	(1,570)
Other liabilities (Straight-line lease liability)	7,335	7,335
Net impact on retained earnings	2,609	2,609
Restated balance as at 1 July 2019	1,029,253	954,915

The following table reconciles the operating lease commitments disclosed under AASB 117 as at 30 June 2019 to the opening lease liabilities recognised under AASB 16 as at 1 July 2019:

	Group	Credit Union
	$'000	$'000
Operating lease commitments as at 30 June 2019 under AASB 117	46,109	46,109
Total undiscounted lease payments	46,109	46,109
Effect of discounting at a weighted average incremental borrowing rate of 2.41%	(1,805)	(1,805)
Total lease liabilities recognised as at 1 July 2019 on adoption of AASB 16	44,304	44,304

6.2 New accounting standards (continued)

(b) New accounting standards and amendments to accounting standards and interpretations that are not yet effective

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective and have not been early adopted by the Group for the annual reporting period ended 30 June 2020 are outlined below. Based on preliminary assessments and other than as disclosed below, management does not expect significant impacts to arise from these standards and interpretations subject to the Group's further detailed analysis and assessment process.

Standard Reference: AASB 2018-6 Amends the definition of a business in AASB 3 Business Combinations	**Application Date: 1 January 2020 * Application Date for the Group: 1 July 2020 ***
Nature of Change • This amendment revises the definition of a business and provides clarity to assist entities determine whether a transaction should be accounted for as a business combination or an asset acquisition. Impact to the Group • At present, management are not expecting these amendments to have any material impacts on the Group and its subsidiaries except when adopted by the AASB and when the Group and its subsidiaries conduct business acquisition transactions.	
Standard Reference: AASB 2018-7 Amends the definition of material	**Application Date: 1 January 2020 * Application Date for the Group: 1 July 2020 ***
Nature of Change • Amendments made to AASB 101 Presentation of Financial Statements and AASB 108 Accounting Policies, Changes in Accounting Estimates and Errors and consequential amendments to other AASBs which: i) use a consistent definition of materiality throughout AASBs, the Framework for Preparation of Financial Statements and AASB Practice Statement 2 Making Materiality Judgements ii) clarify when information is material; and iii) incorporate some of the guidance in AASB 101 about immaterial information. Impact to the Group • At present, management are not expecting these amendments to have any material impacts on the Group and its subsidiaries	
Standard Reference: AASB 2019-1 Revised Conceptual Framework for Financial Reporting	**Application Date: 1 January 2020 * Application Date for the Group: 1 July 2020 ***
Nature of Change • The AASB has issued a revised Conceptual Framework which introduces a new reporting entity concept, provides updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts. • The key areas in this Framework are - objective of financial reporting, qualitative characteristics of useful financial information, financial statements and the reporting entity, elements of financial statements, recognition and derecognition, measurement, presentation and disclosures and concepts of capital and capital maintenance. Impact to the Group • The changes to the Conceptual Framework may affect the application of IFRS in situations where no standard applies to a particular transaction or event. • Management are assessing the revised framework but are not expecting the amendments to have a material impact on the Group.	

* Designates the beginning of the applicable annual reporting period unless the Group opt for early adoption where permitted by the standard.

6.2 New accounting standards (continued)

(b) New accounting standards and amendments to accounting standards and interpretations that are not yet effective (continued)

Standard Reference: AASB 2019-3 Interest rate benchmark reform	Application Date: 1 January 2020 * Application Date for the Group: 1 July 2020 *

Nature of Change

- A number of public and private sector working groups have been discussing alternative reference rates (ARRs) to interbank offered rates (IBOR) such as LIBOR (IBOR reforms). The IASB has commenced a project to address accounting issues leading up to the IBOR reform and on transition to those ARRs and issued first phase amendments to address uncertainties related to the ongoing reform of IBOR.
- These amendments were issued by the AASB in October 2019. AASB 2019-3 amends AASB 7 Financial Instruments: Disclosures, AASB 9 Financial Instruments and AASB 139 Financial Instruments: Recognition and Measurement to modify some specific hedge accounting requirements to provide relief from the potential effects of the uncertainty caused by the interest rate benchmark reforms. In addition, the amendments require entities to provide additional information about their hedging relationships that are directly affected by these uncertainties.

Impact to the Group

- At present, management are not expecting this amendment to have any material impacts on the Group and its subsidiaries.
- As the Group does not currently have any funding, derivatives or contracts which reference LIBOR, the LIBOR transition does not directly impact CUA. Management will monitor the potential IBOR / BBSW reforms and also current and any subsequent amendments to the financial instrument standards by the IASB in relation to these reforms.

Standard Reference: AASB 2019-5 Disclosure of the effect of new IFRS accounting standards not yet issued in Australia (amendment to AASB 1054 Australian Additional Disclosures)	Application Date: 1 January 2020 * Application Date for the Group: 1 July 2020 *

Nature of Change

- AASB decided to add an additional disclosure requirement to AASB 1054 on the potential effect on an entity's financial statements of issued IFRS Standards that have not yet been issued by the AASB. This is to ensure that IFRS compliance can be maintained automatically when for-profit publicly accountable entities comply with Australian Accounting Standards.

Impact to the Group

- At present, management are not expecting this amendment to have any material impacts on the Group and its subsidiaries as it is a disclosure requirement only.

Standard Reference: AASB 2014-10/ AASB 2017-5 Amendments to Australian Accounting Standards – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture/ Effective Date of Amendments to AASB 10 and AASB 128	Application Date: 1 January 2022 * Application Date for the Group: 1 July 2022 *

Nature of Change

- Clarify that a full gain or loss is recognised when a transfer to an associate or joint venture involves a business as defined in AASB 3. Any gain or loss that does not constitute a business is only recognised to the extent of unrelated investor's interests in the associate or joint venture.
- AASB 2017-5 has deferred this amendment to reporting periods beginning 1 January 2022 pending IASB's decision to defer the amendment indefinitely.

Impact to the Group

- The amendments are not expected to be material.

* Designates the beginning of the applicable annual reporting period unless the Group opt for early adoption where permitted by the standard.

6.2 New accounting standards (continued)

(b) New accounting standards and amendments to accounting standards and interpretations that are not yet effective (continued)

Standard Reference: AASB 17 Insurance Contracts	Application Date: 1 January 2023 * Application Date for the Group: 1 July 2023 *

Nature of Change

- AASB 17 was released by the AASB on 20 July 2017. The new standard will replace AASB 4 Insurance Contracts, AASB 1023 General Insurance Contracts and AASB 1038 Life Insurance Contracts. Exposure draft ED 292 Amendments to IFRS 17 was issued by the AASB in July 2019, proposing targeted amendments to AASB 17, in response to implementation challenges raised by stakeholders. Comments on the amendments were submitted by the AASB to the IASB in September 2019.
- On 17 March 2020, the IASB has announced the effective date of IFRS 17 Insurance Contracts to be delayed by 2 years from the original effective date to 1 January 2023 (applicable to the CUA Group on 1 July 2023).
- In May 2020, the IASB completed its discussion on the amendments to IFRS 17 that was proposed for public consultation in June 2019. These amendments were issued on 25 June 2020.
- AASB 17 requires all insurance contracts to be measured using a current estimate of the present value of expected cash flows to fulfil the contractual obligations. The default measurement model is based on the building blocks approach (BBA) of discounted probability-weighted cash flows, a risk adjustment and a contractual service margin (CSM) representing the unearned profit to the contract. Short duration contracts (one year or less) can apply the simplified model using premium allocation approach (PAA).

Impact to the Group

- Management are in the process of conducting a gap analysis to assess business and data requirements. Management are also carrying out an initial impact assessment of the new standard on the Group's insurance operations. Due to the complexity of the standard's requirements, evolving interpretation of the requirements and the proposed amendments to the standard, the impact of the standard to Group is still being determined.

* Designates the beginning of the applicable annual reporting period unless the Group opt for early adoption where permitted by the standard.

Directors' declaration

In the opinion of the Directors of Credit Union Australia Ltd (the Credit Union):

(a) the financial statements and notes of the Credit Union and of the Group as set out on pages 14 to 93, are in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the Credit Union's and the Group's financial position as at 30 June 2020 and of their performance for the financial year ended on that date; and

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

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

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

Signed in accordance with a resolution of the Directors:

Nigel Ampherlaw
Chairman

Wayne Stevenson
Director

Brisbane
26 August 2020

KPMG

Independent Auditor's Report

To the Members of Credit Union Australia Limited

Opinions

We have audited the ***Financial Report*** of Credit Union Australia Limited (the Group Financial Report). We have also audited the Financial Report of Credit Union Australia Limited (the Company Financial Report).

In our opinion, each of the accompanying Group Financial Report and Company Financial Report is in accordance with the *Corporations Act 2001*, including:

- giving a true and fair view of the ***Group's*** and ***Company's*** financial position as at 30 June 2020 and of its financial performance for the year ended on that date; and
- complying with *Australian Accounting Standards* and the *Corporations Regulations 2001*.

The respective ***Financial Reports*** of the Group and the Company comprise:

- Balance Sheet as at 30 June 2020;
- Income statement, Statement of comprehensive income, Statement of changes in members' funds and Statement of cash flows for the year then ended;
- Notes including a summary of significant accounting policies; and
- Directors' Declaration.

The ***Group*** consists of the Credit Union Australia Limited (the ***Company***) and the entities it controlled at the year-end or from time to time during the financial year.

Basis for opinions

We conducted our audits in accordance with *Australian Auditing Standards*. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Financial Report* section of our report.

We are independent of the Group and Company in accordance with the *Corporations Act 2001* and the ethical requirements of the *Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the Financial Report in Australia. We have fulfilled our other ethical responsibilities in accordance with the Code.

Other Information

Other Information is financial and non-financial information in Credit Union Australia Limited's annual reporting which is provided in addition to the Financial Reports and the Auditor's Report. The Directors are responsible for the Other Information.

The Other Information we obtained prior to the date of this Auditor's Report was the Directors' Report.

Our opinion on the Financial Reports does not cover the Other Information and, accordingly, we

do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the Financial Reports, our responsibility is to read the Other Information. In doing so, we 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.

We are required to report if we conclude that there is a material misstatement of this Other Information, and based on the work we have performed on the Other Information that we obtained prior to the date of this Auditor's Report we have nothing to report.

Responsibilities of the Directors for the Financial Report

The Directors are responsible for:

- preparing the Financial Reports that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001;*
- implementing necessary internal control to enable the preparation of a Financial Reports that gives a true and fair view and is free from material misstatement, whether due to fraud or error; and
- assessing the Group and Company's ability to continue as a going concern and whether the use of the going concern basis of accounting is appropriate. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Group and Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Financial Report

Our objective is:

- to obtain reasonable assurance about whether the Financial Reports 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. They 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 Reports.

A further description of our responsibilities for the audit of the Financial Report is located at the *Auditing and Assurance Standards Board* website at: http://www.auasb.gov.au/auditors_responsibilities/ar3.pdf. This description forms part of our Auditor's Report.

KPMG

KPMG

Martin Wardle
Partner
Brisbane
26 August 2020