Gateway Bank

Annual Report and Financial Statement 2021

Gateway bank | For your pocket & your planet

Contents.

New products and services.

TWO AUSTRALIAN BANKING FIRSTS

REVERSE MORTGAGES

ECO DEBIT CARD

MONTHLY LMI PRODUCT

Member.

MEMBER SATISFACTION

85%

EXTREMELY SATISFIED AND VERY SATISFIED

ADVOCACY

61%

TOLD US THEY HAD RECOMMENDED GATEWAY

RIGHT FIRST TIME

94%

TOLD US WE GOT IT RIGHT FIRST TIME

Source: Gateway Member Satisfaction Survey October 2021

Employee engagement.

91%

Up from 75% (2019)

Source: Employee Engagement Survey July 2021

For your pocket & your planet

Financial Metrics.

NPBT
$6,392k
UP 65%

ROA
0.43%
IMPROVED
0.18%

NIM
1.91%
IMPROVED
0.21%

COST TO INCOME
71.10%
IMPROVED
1.7%

Awards.

TOP RANKED MOZO EXPERT CHOICE AWARDS

Gateway's Dollaroo Account 'Pocket Money Saver'

SMSF Term Deposit

Small Business Term Deposit

Pocket & Planet.

Australian banking first Eco debit card delivered

Eco personal loan launched

Green home loans launched

Ethical investment and lending policies delivered

Climate Active Certification achieved

Green Information Eco Hub launched on website

Inaugural Sponsor of Reverse Garbage REConsiderED school creative reuse competition

A message from the Chair.

The 2021 financial year was one even the experts could not predict as COVID-19 again dominated our lives, and will continue to have profound and often unpredictable impacts on Australia's economy for years to come.

In June 2020 experts predicted that the year would see a recession with increased unemployment exacerbated by low consumer confidence and spending. This in turn was expected to soften the housing market.

However, in June 2021 Australia's unemployment rate fell to its lowest rate since December 2010. Consumer confidence increased and government housing initiatives stimulated the market. The residential property market saw its highest annual growth rate of dwelling values since 2004. We experienced a housing market that has been described as overheated, with heightened activity and price increases in most of the country that needs cooling down.

However, as the financial year drew to a close, the country was again experiencing a series of lockdowns and uncertainty.

On behalf of the Board, I commend and thank staff for their continued resilience and flexibility throughout the lockdowns.

> "Gateway also achieved Climate Active status and committed to ethical lending and investment policies."

Gateway achievements

Despite the challenges of the year, Gateway demonstrated strong financial performance and improved across key financial metrics. The results ratified its clear strategies to diversify the lending portfolio and seek niches for profitable growth in its traditional areas of operation. In particular, there was strong growth in commercial and reverse mortgages.

The year also saw Gateway launch two Australian firsts; the first bank Eco debit card made from plant products, and Monthly Lenders Mortgage Insurance (LMI) products, both of which are well regarded by our Members.

The Eco debit card forms part of Gateway's Pocket and Planet purpose – committed to saving both money and the planet. It shouldn't cost the earth to save the earth. Informed by this ethos, we also launched two new Green home loans and an Eco personal loan. Gateway also achieved Climate Active status and committed to ethical lending and investment policies.

Climate Active Carbon Neutral ORGANISATION

Board changes

This year the Gateway Board continued its transformation consistent with its renewal strategy.

As noted at the 2020 AGM, Daniel Cassels was appointed to a casual vacancy on the Board in September 2020 and was elected to the Board at that meeting. That meeting also noted the retirements from the Board of Steven Carritt and Graham Raward and thanked them for many years of dedicated service to Gateway's Members.

In April 2021, Dr Hilangwa Maimbo joined the board, bringing deep IT and industry experience. His appointment is to be confirmed at the 2021 Annual General Meeting. Effective 1 October 2021, Brendan White will join the board. Brendan has strong skills in retail and lending that are relevant for Gateway's continued growth and sustainability.

This is my last message as Chair, I am also retiring from the Board effective 30 September. It has been a great honour and privilege to be a member and director of Gateway, which takes its place proudly as a mutual bank committed to its Members' wellbeing. The Bank has strong and talented leadership, a committed board and I look forward to following its bright future. Current director Peter Schiller has been elected as the new Chair.

Catherine Hallinan
Chair

C Hallinan

A message from the CEO.

For everyone, COVID-19 has brought complexity and uncertainty to their lives. We have made it our first priority to be there for our Members and employees in these challenging times.

Against this background, Gateway implemented measures designed to provide immediate and continued relief for Members experiencing current or expected financial difficulties as a result of COVID-19. This support continues.

This year again, we were able to speak individually with almost every Member that informed us they were affected by COVID-19, to provide re-assurance and assistance.

Gateway has adapted to an ever changing model of virtual and physical working enabling the contact centre and branch to remain open our usual hours throughout the year.

For this I would like to thank everyone who has worked tirelessy in the background to facilitate this, and to our frontline staff who provide a friendly voice to our Members on a daily basis.

> Gateway is proud of its customer and employee centric culture.

Financial performance outcomes

Against an uncertain environment, Gateway focused heavily on the execution of its strategic initiatives and in operating sustainably. As a result, Gateway saw an improvement across key financial metrics. The final NPBT for the year landed at $6,392,000, an increase of 65% on Fiscal 2020. Return on Assets ended the year at 0.43%, an improvement of 0.18% over the course of the year; NIM improved by 0.21% to 1.91% and Cost to Income improved by 1.7%, falling to 71.1%.

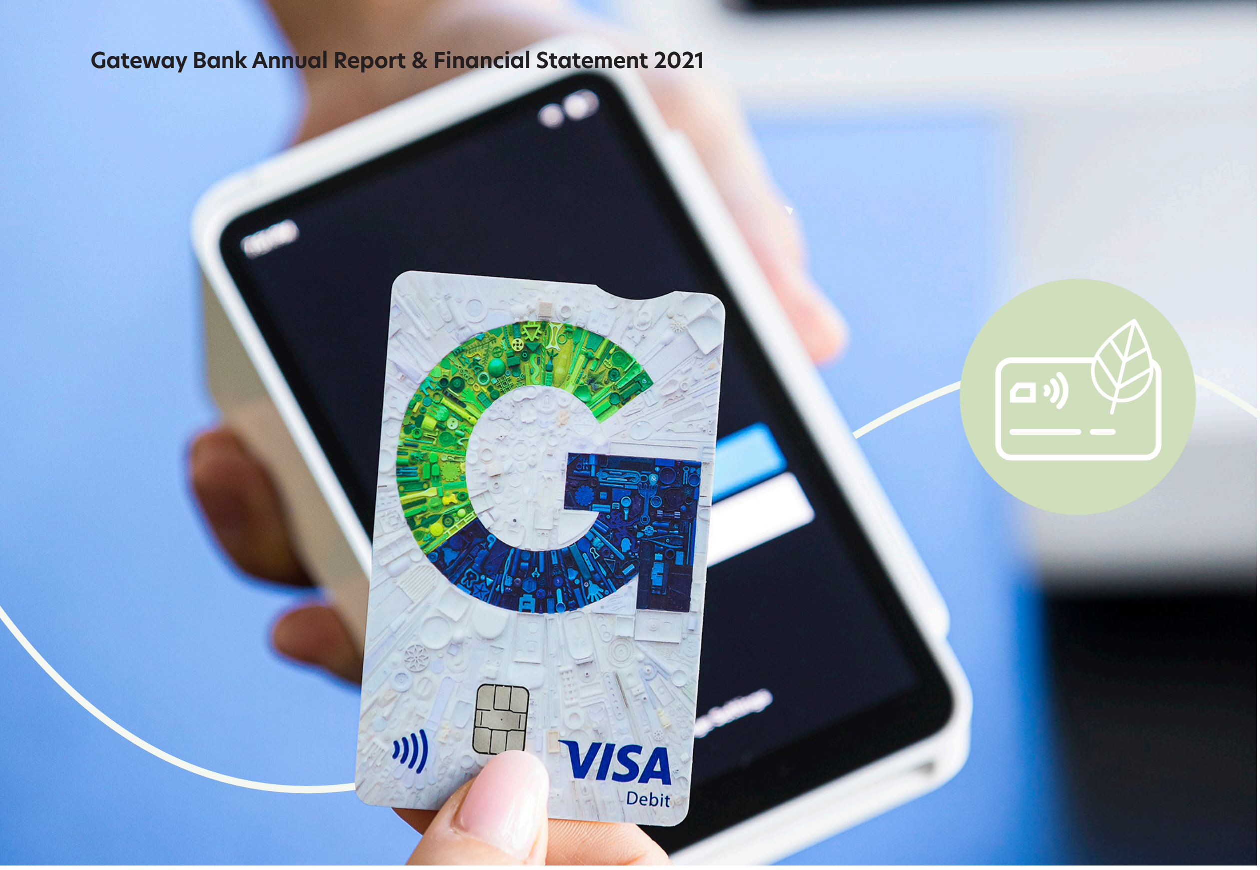
Gateway's loan portfolio decreased by 2.4% as it focused on sustainable growth against a background of heightened competition and an unpredictable economy. Gateway continued its focus on diversification from retail home loans, and after a slow start to the year, saw growth of $10.8m in its commercial lending portfolio.

Gateway's liquidity remained strong throughout COVID-19 and completed the fiscal year at 15.38%.

Gateway's Capital Adequacy Ratio – a core measure of financial strength, stands at 19.9%. This is significantly above regulatory requirements and provides a strong position from which to navigate challenges.

At its peak 6% of our borrowers accessed/enquired about support during COVID. Gateway recognised a credit impairment benefit in the Fiscal 2021 year, primarily driven by the partial release of the COVID-19 overlay largely reflecting the impact of an improved economic outlook relative to the outlook at the Fiscal 2020 year-end.

Elisabeth from our Gateway team working from home with her dog Callie.



Pocket and Planet

Gateway's purpose is to help members save both money and the planet. Pocket and Planet recognises that although many people would like to be greener in their everyday lives, sometimes this option is more expensive. Gateway aims to facilitate both goals simultaneously – being green should save you money, not be expensive. It shouldn't cost the earth to save the earth. Gateway has made great strides on its short journey so far.

During the year Gateway was certified as Carbon Neutral by Climate Active, a partnership between the Australian government and the business community that drives voluntary climate action. The certification forms part of our commitment to Members to minimise the impact of Gateway's operations on the environment and the community.

Gateway launched its ethical investment and lending policies both as part of its Pocket and Planet focus, and in response to growing consumer preference. Stating publicly how Gateway uses Members' money in an ethical and responsible manner, the industries or activities it will not directly invest in or lend to.

In May, Gateway launched an Australian banking first, its plant-based Eco debit card. The card replaces traditional PVC materials with plant-based materials that produce nearly 70% less emissions in manufacture and contain no toxins. The card design features the work of eco-artist Jane Gillings. Jane has been creating art for over 30 years using discarded components and objects.

Close to the end of the financial year, Gateway launched two Green home loans; The Green Plus Home Loan rewards those customers with a 7 star plus NatHERS rating with a discounted variable rate home loan for the life of the loan. The Green Home Loan rewards those customers that have a number of environmentally friendly features on their home but have not received or reached the required level for NatHERS 7 star rating.

> “Gateway launched an Australian banking first, its plant-based Eco debit card.”

To accompany these loans Gateway launched its cheapest personal loan, the Eco personal loan, for customers wanting to purchase or install environmental upgrades to their home.

Gateway also funded $4.6m of new Green loans through the Plenti platform.

Finally, Gateway sponsored Reverse Garbage's inaugural Schools' Creative Reuse Competition REconsiderED. Reverse Garbage is a Co-operative with a role to save materials from going to waste in landfill and to renew their value by making them available for reuse by families, students, artists and community groups. The competition encouraged the reimagining, reinventing, and reinvigorating of resources – transforming an otherwise-disposable item into something of higher quality, to give it another chance at life.

Meeting member needs with new products and services

In addition to those mentioned in the previous section, Gateway launched a number of new products in the 2021 financial year.

Gateway launched a Reverse Mortgage product in response to customer interest in accessing the value in their property without having to sell it or move out. This product has been well received and the portfolio has grown to $31.8m over the year.

Gateway continued its position as one of 27 panellists on the First Home Loan Deposit Scheme. The Scheme is an Australian Government initiative to support eligible first home buyers purchase their first home sooner.

Participation in the scheme has allowed Gateway to welcome many new Members who otherwise would not be able to get on the housing ladder.

Gateway also offered an Australian first – Monthly Lenders Mortgage Insurance. This option to pay a monthly premium better meets the need of those buyers who have the income to comfortably service their loan but may struggle to save the appropriate deposit.

During FY21 Gateway received the following Top Ranked Mozo Expert Choice Awards for its savings products:

- Gateway's Dollaroo Account 'Pocket Money Saver'
- SMSF Term Deposit
- Small Business Term Deposit.

Gateway's Risk and Compliance team on a volunteer day at Reverse Garbage.

Culture

Culture is the greatest advantage a business can have. It is something that takes time to create and not easy to emulate.

Gateway is proud of its customer and employee centric culture. A culture that has been maintained throughout COVID-19 and indeed seen metrics improve during virtual working.

Gateway's measures of customer centricity remain strong. Customer satisfaction is high at 85%. Gateway also asks Members whether they have recommended our products and services and 61% of those surveyed said they had.

It is important for employees to understand the customer, Gateway, and the difference they make. Everyone understanding the consequences of their role and actions, enables a better customer experience, mitigates risks, and gives greater fulfilment in a role. Gateway actively promotes this through its Business and Customer understanding program (BUCUP). The program requires every employee over the course of the year to take part in attending and hosting a number of sessions that enable themselves and their colleagues to better understand Gateway and its Members. Sessions can range from what a Director does, to shadowing branch staff or lenders, to sitting with the finance and risk teams. Unlike in larger institutions, everyone has an opportunity to see how they make a difference.

This year our staff told us:

- 100% of employees agreed "I know the contribution I make to the business."
- 88% said "I know the contribution I make to the customer."
- 100% agreed that they see the values demonstrated around them.

Gateway had hoped to increase its volunteering opportunities during the year. However, these plans were hampered by COVID-19 and were just recommencing as the June Sydney lockdown re-commenced.

Commencing the 2022 financial year, staff have been allocated two volunteering days each year to donate their time.

> "Gateway will continue to drive its Pocket and Planet Purpose, including the creation of a Pocket and Planet Advisory Council."

The year ahead

The Board and management continuously review Gateway's strategy and performance in the context of a changing environment. Gateway rigorously models a range of economic scenarios and their eventualities. It then builds a strategy that looks to embrace opportunities and mitigate risks.

The Gateway board is confident in the current strategy and the year ahead will see Gateway continue its current trajectory; Gateway will continue to drive its Pocket and Planet Purpose, including the creation of a Pocket and Planet Advisory Council. The Advisory Council will provide valuable insight into how Gateway can increase its impact; Identifying emerging customer needs and creating new products and services to meet these will remain the focus.

There will be a continued focus on diversifying its portfolio through commercial lending and reverse mortgages; Gateway will also continue its focus on continuous technological enhancements, enabling reciprocal partnerships that will reduce costs and enhance customer experience.

Final thoughts

Gateway performed well against a background of challenging conditions, and we look forward to continuing to deliver high standards next year.

I would like to thank the entire Gateway team and Members for their continued support.

In particular, I would like to thank our Chair Catherine Hallinan, who retires this year, on behalf of myself and Gateway. Catherine has served on the Board through its iterations as Commonwealth Bank Officers' Association, Gateway Credit Union and Gateway Bank. After originally joining the Board in 1991 to 1994, Catherine re-joined in June 2006 and was appointed Chair in May 2012. She has been with Gateway through a number of key moments for Gateway, including the acquisition of Broadway Credit Union's loans and deposits in 2009, the Global Financial Crisis, and Gateway's transition from Gateway Credit Union to Gateway Bank.

With thanks,

Lexi Airey
Chief Executive Officer

Board of Directors.

Catherine M Hallinan

Chair
BA (Hons), MBA, F Fin., FAICD, FAMI

Catherine joined the Board in June 2006 and was appointed Chair in May 2012. Catherine is also a director of health fund, HCF (and its subsidiary companies HCF Life Limited and Flip Insurance Limited), Lawcover (comprising Lawcover Insurance Pty Limited and Lawcover Pty Limited), SCOR Global Life Australia Pty Ltd and St. Catherine's Aged Care Services. She has over 30 years' experience in banking, finance and management consulting.

- Deputy Chair (March 2010 to May 2012)

Committee Memberships
- Nominations & Remuneration (July 2014 to present)
- Audit (March 2014 to present)
- Risk (November 2020 to present)

Robyn L FitzRoy

Non-Executive Director
BA, MA, FAICD

Robyn joined the Board in January 2015. She is also a director of the Self-Managed Super Fund Association, Diversa Trustees Limited and Football Federation of Australia. She has over 20 years' experience in the financial services industry and is a former Executive Director of Macquarie Bank. Robyn is a management consultant specialising in governance and is a former non-executive director of CUSCAL. She also is an accredited facilitator and author of courses for the Australian Institute of Company Directors.

Committee Memberships
- Nominations and Remuneration Chair (December 2015 to present)
- Audit (January 2020 to present)

Peter M Schiller

Non-Executive Director
MBA, Grad Dip. Banking & Fin. MAICD

Peter joined the Board in July 2018 and has nearly 40 years' banking experience in executive management roles in Risk, Relationship Management, IT and Audit with both the Commonwealth Bank of Australia and the ANZ Banking Group.

Committee Memberships
- Audit (July 2018 to present)
- Risk Chair (January 2020 to present)
- Risk (July 2018 to January 2020)

Christine Franks AM

Non-Executive Director
BA (Statistics, Sociology), M.Mgmt (Community), FAICD

Christine joined the Board in August 2019. She is a director with 20 years' governance experience in financial services, health, NFP and government, and is currently founder and chair of Women in Aid & Development and the Chairs Circle. She is a strong advocate of customer-owned banking with significant experience as a credit union director. Christine has an executive background in sales, marketing, customer research and customer service across commercial and not-for-profit sectors and was awarded the Member of the Order of Australia in 2020.

Committee Memberships:
- Risk (August 2019 to present)
- Nominations & Remuneration (August 2019 to present)

Andrew B Black

Adv. Dip. Financial Planning, Dip. Financial Services (Finance & Mortgage Broking), MAICD

Andrew joined the Board in August 2019. Andrew has over 35 years' financial services experience in banking, wealth, insurance and investments with Citibank (UK and Australia), Commonwealth Bank, St. George Bank, Skandia Australia, and Plan B Group Holdings. Andrew has held other non-executive director and advisory board roles in business coaching and personal insurances and is currently a responsible manager for the personal insurance comparison website lifeinsurancecomparison.com.au owned by Alternative Media.

Committee Memberships:
- Risk Committee (January 2020 to November 2020)
- Nominations and Remuneration (August 2019 to present)
- Audit Chair (November 2020 to present)

Daniel R Cassels

Non-Executive Director
MAppFin, BMathFin, MAICD

Daniel joined the Board in September 2020. Daniel is a skilled practitioner in global fixed income markets with over 25 years of diverse experience in senior positions across treasury management and debt capital markets with the Commonwealth Bank of Australia.

Committee Memberships:
- Risk Committee (September 2020 to present)

Dr Hilangwa Maimbo

Non-Executive Director
PhD (IS), MCom (IS), PGrad Dip. (IS), BTech (Hons), MAICD

Hilangwa joined the board in April 2021. Hilangwa is an Information Technology professional with over 20 years of experience in Senior and Executive in Management roles, both local and international, predominantly in the Financial Services industry. Hilangwa's areas of expertise include Digital Transformation, IT Strategy and IT Operations & Service Delivery

Committee Memberships:
- Audit (April 2021 to present)

Company Secretary

Thomas C Lyons

Senior Manager, Finance & Treasury
Appointed Company Secretary July 2020
BCom, CA.

Executive Team.

Lexi Airey

Chief Executive Officer
BA (Hons), MSc, GAICD

Debra Landgrebe

Chief Financial Officer
CA (SA)

Gerald Nicholls

Chief Risk Officer
B Bus

Peter Buzek

Chief Technology Officer
BSc, CRISC, CISM, MBT

Values.

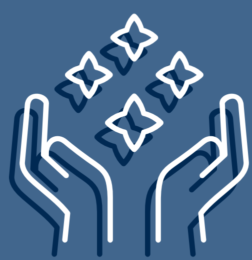
1 Not "work" but **making a difference**

2 "Small up" **do more with less**

3 **Passion**

4 Stumble **don't fall**

5 Do the **right** thing



Gateway Bank

General Purpose Financial Report for the year ended 30 June 2021

Gateway Bank Limited
and its Controlled Entities
ABN 47 087 650 093

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General Purpose Financial Report for the year ended 30 June 2021

Directors' Report

Your directors submit their report for the year ended 30 June 2021.

DIRECTORS

The names and details of Gateway Bank's directors 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.

Catherine M Hallinan (Chair)

Andrew B Black

Steven R Carritt – resigned August 2020

Daniel R Cassels – appointed September 2020

Robyn L FitzRoy

Christine Franks AM

Dr Hilangwa Maimbo – appointed April 2021

Graham B Raward – resigned November 2020

Peter M Schiller

Director Profiles

Catherine M Hallinan

CHAIR

Qualifications

BA (Hons), MBA, F Fin., FAICD, FAMI

Experience and Special Responsibilities

Catherine joined the Board in June 2006 and was appointed Chair in May 2012. Catherine is also a director of health fund HCF (and its subsidiary companies HCF Life Limited and Flip Insurance Pty Limited), Lawcover Insurance Pty Limited, SMIF Pty Limited, SCOR Global Life Australia Pty Limited and St. Catherine's Aged Care Services. Catherine has over 30 years' experience in banking, finance, and management consulting.

- Deputy Chair (March 2010 to May 2012)

Committee Memberships

- Audit (March 2014 to present)
- Nominations and Remuneration (July 2014 to present)
- Risk (November 2020 to present)

Andrew B Black

NON-EXECUTIVE DIRECTOR

Qualifications

Adv. Dip. Financial Planning, Dip. Financial Services (Finance & Mortgage Broking), MAICD

Experience and Special Responsibilities

Andrew joined the Board in August 2019. Andrew has over 35 years' financial services experience in banking, wealth, insurance and investments with Citibank (UK and Australia), Commonwealth Bank, St. George Bank, Skandia Australia, and Plan B Group Holdings. Andrew has held other non-executive director and advisory board roles in business coaching and personal insurances and is currently a responsible manager for the personal insurance comparison website lifeinsurancecomparison.com.au owned by Alternative Media.

Committee Memberships

- Risk Committee (January 2020 to November 2020)
- Nominations and Remuneration (August 2019 to present)
- Audit Chair (November 2020 to present)

Steven R Carritt

NON-EXECUTIVE DIRECTOR

Qualifications

BA (Accounting)

Experience and Special Responsibilities

Steven joined the Board in July 1992. Steven has over 40 years' banking and finance experience and was formerly General Manager ALM with the Commonwealth Bank of Australia.

Committee Memberships

- Risk (March 2014 to August 2020)

Daniel R Cassels

NON-EXECUTIVE DIRECTOR

Qualifications

MAppFin, BMathFin, MAICD

Experience and Special Responsibilities

Daniel joined the Board in September 2020. Daniel is a skilled practitioner in global fixed income markets with over 25 years of diverse experience in senior positions across treasury management and debt capital markets with the Commonwealth Bank of Australia.

Committee Memberships

- Risk Committee (September 2020 to present)

Directors' Report (continued)

Robyn L FitzRoy

NON-EXECUTIVE DIRECTOR

Qualifications

BA, MA, FAICD

Experience and Special Responsibilities

Robyn joined the Board in January 2015. She is also a director of the Self-Managed Super Fund Association, and Football Australia. She has over 20 years' experience in the financial services industry and is a former Executive Director of Macquarie Bank. Robyn is a management consultant specialising in governance and is a former non-executive director of CUSCAL. She also is an accredited facilitator and author of courses for the Australian Institute of Company Directors.

Committee Memberships

- Nominations and Remuneration Chair (December 2015 to present)
- Audit (January 2020 to present)

Christine Franks AM

NON-EXECUTIVE DIRECTOR

Qualifications

BA (Statistics, Sociology), M.Mgmt (Community), FAICD

Experience and Special Responsibilities

Christine joined the Board in August 2019. She is a director with 20 years' governance experience in financial services, health, NFP and government, and is currently founder and chair of Women in Aid & Development and the Chairs Circle. She is a strong advocate of customer-owned banking with significant experience as a credit union director. Christine has an executive background in sales, marketing, customer research and customer service across commercial and not-for-profit sectors and was awarded the Member of the Order of Australia in 2020.

Committee Memberships

- Risk (August 2019 to present)
- Nominations and Remuneration (August 2019 to present)

Dr Hilangwa Maimbo

NON-EXECUTIVE DIRECTOR

Qualifications

PHD (IS), MCom (IS), PGrad Dip. (IS), BTech (Hons), MAICD

Experience and Special Responsibilities

Hilangwa joined the Board in April 2021. He is an Information Technology professional with over 20 years' experience in senior and executive management roles, both locally and internationally, predominantly in the Financial Services industry. Hilangwa's areas of expertise include digital transformation, IT strategy, and IT operations and service delivery.

Committee Memberships

- Audit (April 2021 to present)

Graham B Raward

NON-EXECUTIVE DIRECTOR

Qualifications

BCom, MAppFin

Experience and Special Responsibilities

Graham joined the Board in June 2006. He has over 46 years' banking experience and was formerly Executive Manager, Group Funding at the Commonwealth Bank of Australia.

Committee Memberships

- Audit Chair (August 2019 to November 2020)
- Risk (August 2019 to November 2020)

Peter M Schiller

NON-EXECUTIVE DIRECTOR

Qualifications

MBA, Grad Dip. Banking & Finance, MAICD

Experience and Special Responsibilities

Peter joined the Board in July 2018 and has nearly 40 years' banking experience in executive management roles in Risk, Relationship Management, IT and Audit with both the Commonwealth Bank of Australia and the ANZ Banking Group.

Committee Memberships

- Audit (July 2018 to present)
- Risk Chair (January 2020 to present)
- Risk (July 2018 to January 2020)

Directors' Report (continued)

COMPANY SECRETARY

Thomas C Lyons

Senior Manager, Finance & Treasury

Appointed Company Secretary July 2020

BCom, CA.

DIRECTORS' MEETINGS

The number of meetings of directors (including meetings of committees of directors) held during the year and the number of meetings attended by each director were as follows:

		Board Meetings	Nominations and Remuneration Committee Meetings	Audit Committee Meetings	Risk Committee Meetings
Catherine M Hallinan	A	7	6	6	3
	B	7	6	6	3
Andrew B Black	A	7	6	3	3
	B	7	6	3	3
Steven R Carritt	A				1
	B				1
Daniel R Cassels	A	6			5
	B	6			5
Robyn L FitzRoy	A	7	6	6	
	B	7	6	6	
Christine Franks AM	A	7	6		6
	B	7	6		6
Dr Hilangwa Maimbo	A	3		1	
	B	3		1	
Graham B Raward	A	2		3	3
	B	2		3	3
Peter M Schiller	A	7		6	6
	B	7		6	6

A - Number of meetings attended

B - Number of meetings held during the time the director held office during the year.

All directors requested and were granted leave for meetings they were unable to attend.

Directors' Report (continued)

DIVIDENDS

No dividends have been paid or declared since the end of the previous financial year, nor do the directors recommend the declaration of a dividend.

CORPORATE INFORMATION

Gateway is a public company limited by shares incorporated and domiciled in Australia. As at 30 June 2021, the Consolidated Entity comprises of the Bank, the Portavia Trust No.1 Westpac Warehouse ("Portavia Trust No.1") and Portavia Trust No.2 Series 2013-1R ("Portavia Trust No.2"). The Bank holds nine residual income units in each of the Portavia Trust No.1 and Portavia Trust No.2, which are both controlled entities of the Bank.

The Consolidated Entity employed 62 employees at 30 June 2021 (2020: 59).

PRINCIPAL ACTIVITIES

The principal activities of the Consolidated Entity during the year were the provision of financial and associated services to Members of the Bank. There have been no significant changes in the nature of these activities during the year.

OPERATING AND FINANCIAL REVIEW

The Consolidated Entity results comprises of the full 12 months to 30 June 2021 for Gateway Bank Limited, Portavia Trust No.1 and Portavia Trust No.2.

The Consolidated Entity recorded a profit after income tax for the financial year ended 30 June 2021 of $4.703 million (2020: $2.814 million).

The Consolidated Entity balance sheet assets decreased to $1.083 billion as at 30 June 2021 (2020: $1.091 billion), representing a decrease of $8 million (0.74%) from the prior financial year. Total loans decreased by $20.7 million (2.26%) to $893.3 million (2020: $914.0 million), with total deposits of $804.0 million (2020: $797.9 million), having increased $6.1 million (0.76%) from the prior financial year.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

CORONAVIRUS (COVID-19)

The COVID-19 pandemic caused significant disruptions to community health and economic activities with wide-ranging impacts across many business sectors in Australia. These impacts were initially significant and far-reaching, and while the Australian economy has rebounded, some effects of the pandemic continue. Additional support provided to members, in the form of repayment deferrals, was phased out in March 2021. In respect of the repayment relief offered, 93% of all impacted home loans reverted back to loan repayments. Where members required further support, the Bank provided this through its existing hardship arrangements.

Subsequent to year-end, in response to the continued occurrence of outbreaks and resultant lockdowns, additional support, in the form of repayment deferrals, has again been extended to members. Currently there has not been a significant uptake of this additional support by members.

Financial Statements Impacts

The impacts of COVID-19 continue to be uncertain, with it being difficult to predict further impacts or the duration of the pandemic. In preparing the financial statements for the Bank and its controlled entities, the Consolidated Entity has made various accounting estimates for future events based on forecasts of economic conditions that reflect expectations and assumptions as at 30 June 2021, which the Bank believes are reasonable under the circumstances.

The estimation uncertainty is predominantly related to the Expected Credit Losses (ECL) where the Consolidated Entity recognised an impairment benefit in the Statements of Comprehensive Income for the financial year ended 30 June 2021 of $0.2 million pre-tax (2020: $1.5 million charge). The impairment benefit in the current financial year was primarily driven by the partial release of the COVID-19 overlay largely reflecting the impact of an improved economic outlook relative to the outlook at the 30 June 2020 year-end.

Despite the improving economic outlook though, some uncertainty remains, and the Bank will continue to monitor how its members manage the impact of further lockdowns and the eventual winding down of government assistance in determining impairment provisions.

Further information on the ECL provisioning is set out in Note 8.

Term Funding Facility (TFF)

During the financial year, Gateway Bank extended its participation in the Reserve Bank of Australia's TFF scheme, which is collateralised by residential mortgage-backed securities issued by the Portavia Trust No.2. The TFF is a three-year facility where tranches drawn pre-November 2020 have a fixed interest rate of 0.25% per annum, and tranches from November 2020 have a fixed rate of 0.10% per annum. As at 30 June 2021, Gateway Bank had drawn the total available TFF allocation of $45.9 million (2020: $10.1 million).

Other than the changes outlined above, there have been no other significant changes in the state of affairs during the financial year.

Directors' Report (continued)

SIGNIFICANT EVENTS AFTER THE BALANCE DATE

There remains significant uncertainty regarding how the COVID-19 pandemic will evolve. In accordance with AASB 110 *Events after the Reporting Period*, the Consolidated Entity has considered whether events after the reporting period confirmed conditions existing before the reporting date. Consideration was given to the macro-economic impact of lockdowns implemented across New South Wales, Victoria and South Australia, the closure of state borders, and the extension of further government support measures. The Consolidated Entity did not identify any subsequent events precipitated by COVID-19 related developments, which would require adjustment to the amounts or disclosures in the financial statements. Further, no other material non-adjusting subsequent events relating to COVID-19 were identified requiring disclosure in the financial statements. Given the fluid nature of the current situation, the Consolidated Entity will continue to regularly review forward looking assumptions and forecast economic scenarios.

The Directors are not aware of any other matter or circumstance that has occurred since 30 June 2021, that has significantly affected or may significantly affect the operations of the Consolidated Entity, the results of those operations or the state of affairs of the Consolidated Entity in subsequent financial years.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS

There have been no significant changes in the operations and services of the Consolidated Entity.

ENVIRONMENTAL REGULATION AND PERFORMANCE

The Consolidated Entity is not subject to any particular or significant environmental regulation under laws of the Commonwealth or of a State or Territory.

SHARE OPTIONS

No option to acquire shares in the Bank has been granted to any person. No shares have been issued during the financial year or since the end thereof by virtue of the exercise of any options. There are no unissued shares under option at the date of this report.

DIRECTORS BENEFITS

No director has received or become entitled to receive, during or since the financial year, a benefit of a contract made by Gateway Bank with a director, a firm which a director is a member, or an entity on which a director has a substantial financial interest other than disclosed in Note 23 of the financial statements.

INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

During or since the end of the financial year, a premium was paid in respect of a contract insuring directors and officers (including executive officers, secretary and employees) of the Bank against liability.

In accordance with normal commercial practice, disclosure of the total amount of premium payable and the nature of the liabilities covered by the insurance contract is prohibited by a confidentiality clause in the contract.

To the extent permitted by law, the Bank has agreed to indemnify its auditor, KPMG, as part of the terms of its audit engagement agreement against claims by third parties arising from the audit (for an unspecified amount). No payment has been made to indemnify KPMG during or since the financial year ended 30 June 2021.

ROUNDING

The amounts contained in this report and in the financial report have been rounded to the nearest $1,000 (where rounding is applicable), unless otherwise stated, under the option available to the Bank under ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191. The Bank is an entity to which the Class Order applies.

AUDITOR INDEPENDENCE

As required under Section 307C of the *Corporations Act* the directors received an independence declaration from the auditor, KPMG. A copy has been included on the following page.

PRUDENTIAL DISCLOSURES

Prudential disclosures made in accordance with APS 330 *Public Disclosures* can be located under Important Information on Gateway Bank's website at https://www.gatewaybank.com.au/important-information.

Signed in accordance with a resolution of the directors.

C M Hallinan
Chair
Sydney, 28 September 2021

Auditor's Independence Declaration

For the year ended 30 June 2021

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

To the Directors of Gateway Bank Ltd

I declare that, to the best of my knowledge and belief, in relation to the audit of Gateway Bank Ltd for the financial year ended 30 June 2021 there have been:

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

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

KPMG

KPMG

Richard Drinnan

Partner

Wollongong

28 September 2021

Statements of Comprehensive Income

For the year ended 30 June 2021

		Consolidated		Bank	
		2021	2020	2021	2020
	Note	$'000	$'000	$'000	$'000
Interest income	3(a)	**28,180**	36,068	**28,508**	36,559
Interest expense	3(a)	**(8,006)**	(17,528)	**(8,336)**	(18,031)
Net interest income		**20,174**	**18,540**	**20,172**	**18,528**
Non-interest income	3(b)	**1,384**	1,266	**1,139**	1,120
Operating income		**21,558**	**19,806**	**21,311**	**19,648**
Occupancy expenses		**(128)**	(122)	**(128)**	(122)
Marketing expenses		**(657)**	(658)	**(657)**	(658)
IT expenses		**(1,879)**	(1,708)	**(1,879)**	(1,708)
Administration expenses	3(c)	**(3,409)**	(3,070)	**(3,162)**	(2,912)
Employee expenses	3(d)	**(7,579)**	(7,231)	**(7,579)**	(7,231)
Depreciation and amortisation expense	3(e)	**(1,676)**	(1,638)	**(1,676)**	(1,638)
Operating expenses		**(15,328)**	**(14,427)**	**(15,081)**	**(14,269)**
Net profit before impairment and income tax expense		**6,230**	5,379	**6,230**	5,379
Impairment benefit/(expense)	3(f)	**162**	(1,513)	**162**	(1,513)
Net profit before tax		**6,392**	**3,866**	**6,392**	**3,866**
Income tax expense	4(a)	**(1,689)**	(1,052)	**(1,689)**	(1,052)
Net profit after tax attributable to Members		**4,703**	**2,814**	**4,703**	**2,814**
Other comprehensive income					
Items that will not be reclassified to profit or loss					
Net change on Cash Flow Hedge Reserve	17	**40**	(92)	**-**	(131)
Other comprehensive income net of tax		**40**	**(92)**	**-**	**(131)**
Total comprehensive income attributable to Members		**4,743**	**2,722**	**4,703**	**2,683**

The above Statements of Comprehensive Income should be read in conjunction with the accompanying notes.

Statements of Financial Position

For the year ended 30 June 2021

		Consolidated		Bank	
	Note	2021 $'000	2020 $'000	2021 $'000	2020 $'000
Assets					
Cash and cash equivalents	5	**38,493**	39,243	**35,168**	33,640
Investments	6	**140,995**	125,904	**161,548**	146,457
Loans and advances	7,8	**893,291**	913,968	**893,291**	913,968
Current tax assets		**-**	683	**-**	683
Net deferred tax assets	4(c)	**1,112**	1,272	**1,112**	1,272
Property, plant and equipment	9	**7,283**	8,642	**7,283**	8,642
Intangible assets	10	**935**	1,130	**935**	1,130
Other assets	11	**1,146**	507	**3,355**	3,257
Total assets		**1,083,255**	**1,091,349**	**1,102,692**	**1,109,049**
Liabilities					
Deposits	12	**804,029**	797,948	**804,029**	797,948
Trade payables	13	**4,458**	5,168	**4,283**	4,893
Current tax liabilities		**181**	-	**181**	-
Derivative financial instruments	14	**37**	77	**-**	-
Borrowings	15(a)	**160,992**	179,358	**51,888**	16,864
Inter-entity borrowings	15(b)	**-**	-	**128,716**	180,469
Provisions	16	**1,357**	1,340	**1,357**	1,340
Total liabilities		**971,054**	**983,891**	**990,454**	**1,001,514**
Net assets		**112,201**	**107,458**	**112,238**	**107,535**
Members' equity					
Retained earnings		**112,238**	107,535	**112,238**	107,535
Reserves	17	**(37)**	(77)	**-**	-
Total members' equity		**112,201**	**107,458**	**112,238**	**107,535**

The above Statements of Financial Position should be read in conjunction with the accompanying notes.

Statements of Changes in Equity

For the year ended 30 June 2021

Consolidated	Note	Retained Earnings $'000	Cash Flow Hedge Reserve $'000	Total Equity $'000
At 30 June 2019		**104,834**	**15**	**104,849**
Effect of adoption of AASB 16		(113)	-	(113)
At 1 July 2019, as restated		**104,721**	**15**	**104,736**
Total comprehensive income				
Profit for the year		2,814	-	2,814
Other comprehensive income				
Net change in Cash Flow Hedge Reserve	17	-	(92)	(92)
Total other comprehensive income		**-**	**(92)**	**(92)**
Total comprehensive income		**2,814**	**(92)**	**2,722**
At 30 June 2020		**107,535**	**(77)**	**107,458**
Total comprehensive income				
Profit for the year		4,703	-	4,703
Other comprehensive income				
Net change in Cash Flow Hedge Reserve	17	-	40	40
Total other comprehensive income		**-**	**40**	**40**
Total comprehensive income		**4,703**	**40**	**4,743**
At 30 June 2021		**112,238**	**(37)**	**112,201**

Bank	Note	Retained Earnings $'000	Cash Flow Hedge Reserve $'000	Total Equity $'000
At 30 June 2019		**104,834**	**131**	**104,965**
Effect of adoption of AASB 16		(113)	-	(113)
At 1 July 2019, as restated		**104,721**	**131**	**104,852**
Total comprehensive income				
Profit for the year		2,814	-	2,814
Other comprehensive income				
Net change in Cash Flow Hedge Reserve	17	-	(131)	(131)
Total other comprehensive income		**-**	**(131)**	**(131)**
Total comprehensive income		**2,814**	**(131)**	**2,683**
At 30 June 2020		**107,535**	**-**	**107,535**
Total comprehensive income				
Profit for the year		4,703	-	4,703
Other comprehensive income				
Net change in Cash Flow Hedge Reserve	17	-	-	-
Total other comprehensive income		**-**	**-**	**-**
Total comprehensive income		**4,703**	**-**	**4,703**
At 30 June 2021		**112,238**	**-**	**112,238**

The above Statements of Changes in Equity should be read in conjunction with the accompanying notes.

Statements of Cash Flows

For the year ended 30 June 2021

	Note	Consolidated 2021 $'000	Consolidated 2020 $'000	Bank 2021 $'000	Bank 2020 $'000
Cash flows from/(used in) operating activities					
Interest received		**29,898**	37,799	**30,247**	38,239
Bad debts recovered		**293**	249	**293**	249
Commissions and fees paid		**(1,941)**	(1,825)	**(1,941)**	(1,825)
Other non-interest income received		**2,003**	1,652	**4,656**	3,296
Interest paid		**(8,756)**	(20,790)	**(8,976)**	(21,008)
Net funds receipted from members for loans and advances		**22,791**	43,557	**25,473**	45,356
Payments to suppliers and employees		**(17,817)**	(13,167)	**(22,640)**	(17,008)
Income tax paid		**(666)**	(710)	**(666)**	(710)
Net repayment of and acceptance from deposits		**7,096**	(56,639)	**7,096**	(56,639)
Net cash flows from/(used in) operating activities	19(a)	**32,901**	**(9,874)**	**33,542**	**(10,050)**
Cash flows (used in)/from investing activities					
Proceeds from redemption of investments		**181,676**	214,804	**181,676**	214,804
Payments for investments		**(196,767)**	(211,404)	**(196,767)**	(211,404)
Purchase of intangible assets		**(26)**	(679)	**(26)**	(679)
Purchase of property, plant and equipment		**(104)**	(79)	**(104)**	(79)
Net cash flows (used in)/from investing activities		**(15,221)**	**2,642**	**(15,221)**	**2,642**
Cash flows (used in)/from financing activities					
Proceeds from debt securities issuance		**-**	47,840	**-**	-
Proceeds from/(repayment of) borrowings		**35,824**	10,100	**(15,929)**	13,844
Repayment of debt securities		**(53,390)**	(41,301)	**-**	-
Payment of lease liabilities		**(864)**	(796)	**(864)**	(796)
Net cash flows (used in)/from financing activities	19(b)	**(18,430)**	**15,843**	**(16,793)**	**13,048**
Net (decrease)/increase in cash and cash equivalents		**(750)**	8,611	**1,528**	5,640
Cash and cash equivalents at beginning of year		**39,243**	30,632	**33,640**	28,000
Cash and cash equivalents at end of year	5	**38,493**	**39,243**	**35,168**	**33,640**

The above Statements of Cash Flows should be read in conjunction with the accompanying notes.

It should be noted that the Consolidated Entity does not use the Statements of Cash Flows in the internal management of its liquidity positions.

Notes to the Financial Statements

For the year ended 30 June 2021

1 FINANCIAL STATEMENTS PREPARATION

The financial report of Gateway Bank Limited (the Bank), together with its controlled entities (the Consolidated Entity), for the year ended 30 June 2021, was authorised for issue by the Board of Directors on 28 September 2021. The directors have the power to amend and reissue the financial statements.

The Bank is a for-profit entity incorporated and domiciled in Australia. It is a public company limited by shares. The registered office is Level 10, 68 York Street, Sydney, New South Wales, 2000.

The financial report includes the consolidated and standalone financial statements of the Consolidated Entity and the Bank. Controlled entities are all those entities over which the parent entity, the Bank, has the power to govern the financial and operating policies to obtain the benefits from their activities. As the Bank holds all the participating residual income units of Portavia Trust No.1 and Portavia Trust No.2 in its ownership structure, both these special purpose entities are deemed to be controlled entities of the Bank.

Notes accompanying the financial statements and the Independent Auditor's Report also form part of the financial report.

The principal accounting policies are set out below and in the relevant notes to the financial statements. These accounting policies provide details of the accounting treatments adopted and where accounting standards provide policy choices. These policies have been consistently applied to all years presented, unless otherwise stated.

(a) Basis of preparation and accounting

The Financial Report:

- is a general purpose financial report;
- has been prepared in accordance with the Australian Accounting Standards and Interpretations adopted by the Australian Accounting Standards Board (AASB) and International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB);
- has been prepared in accordance with the requirements of the Corporations Act 2001;
- is presented in Australian Dollars, which is the Consolidated Entity’s functional and presentation currency;
- is presented with all values rounded to the nearest thousand dollars ($’000) in accordance with ASIC Corporations Instrument 2016/191 unless otherwise indicated;
- has been prepared on a going concern basis using an historical cost basis, as modified by applying fair value accounting to financial assets and financial liabilities (including derivative instruments) measured at fair value through profit and loss (FVTPL) or in other comprehensive income (OCI); and
- presents assets and liabilities on the face of the Statements of Financial Position in decreasing order of liquidity.

The Consolidated Entity has adopted Class Order 10/654, issued by the Australian Securities and Investments Commission (ASIC), permitting entities to continue to include parent entity financial statements in their financial reports. Entities taking advantage of the relief are not required to present the summary parent entity information otherwise required by Regulation 2M.3.01 of the Corporations Regulations 2001.

(b) New accounting standards and interpretations

Conceptual Framework

A revised Conceptual Framework (Framework) was adopted by the Consolidated Entity on 1 July 2020. The Framework includes new definitions and recognition criteria for assets, liabilities, income and expenses and other relevant financial reporting concepts. These changes did not have a material impact on the Consolidated Entity.

General hedge accounting

AASB 9 introduces new hedge accounting requirements which more closely align accounting with risk management activities undertaken when hedging both financial and non-financial risks. AASB 9 provides the Consolidated Entity with an accounting policy choice to continue to apply AASB 139 hedge accounting requirements until the IASB’s ongoing project on macro hedge accounting is completed. The Consolidated Entity continues to apply the hedge accounting requirements of AASB 139.

Notes to the Financial Statements (continued)

For the year ended 30 June 2021

1 FINANCIAL STATEMENTS PREPARATION (continued)

(b) New accounting standards and interpretations

Software-as-a-Service (SaaS) arrangements

The International Financial Reporting Standards Interpretation Committee (IFRIC) has issued two final agenda decisions which impact SaaS arrangements:

- *Customer's right to receive access to the supplier's software hosted on the cloud* (March 2019) – this decision considers whether a customer receives a software asset at the contract commencement or a service over the contract term.
- *Configuration or customisation costs in a cloud computing arrangement* (April 2021) – this decision discusses whether configuration or customisation expenditure relating to SaaS arrangements can be recognised as an intangible asset and if not, over what time period the expenditure is expensed.

The Consolidated Entity does not currently have any SaaS arrangements in place. As such, the adoption of the above agenda decisions did not have an impact of the Consolidated Entity.

(c) Future developments in accounting standards

There are no new standards and interpretations that may have a material impact on the Consolidated Entity that have been issued but are not yet effective, and unless otherwise stated, have not been early adopted by the Consolidated Entity.

(d) Critical accounting assumptions and estimates

The preparation of the financial statements requires the use of judgement, assumptions and estimates which impact the financial information. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, income, and expenses. Management bases its judgements and estimates on historical experience and on other various factors it believes to be reasonable under the circumstances, the result of which form the basis of the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions and conditions.

Management has identified the following critical accounting policies for which significant judgements, estimates and assumptions are made. Further details of the key judgements and estimates may be found in the relevant notes to the financial statements.

Provisions for Expected Credit Losses (ECL)

Details on specific judgements in relation to the impact of COVID-19 on the calculation of provisions for ECL are included in Note 8.

Estimation of useful lives of non-financial assets

The estimation of the useful lives of assets has been based on historical experience as well as lease terms (for leasehold improvements). In addition, the condition of the assets is assessed at least once per annum and considered against the remaining useful life. Adjustments to useful lives are made when considered necessary.

Make good provision

The Bank entered a lease agreement for its office premises at Level 10, 68 York Street, Sydney on 31 October 2018. This lease has a term of 8 years and expires on 31 October 2026. The Consolidated Entity holds a provision to cover the cost of restoring the leased office premises at 68 York Street upon the completion of the lease as per the requirements of the lease contract. An estimate of the per metre cost of the restoration is based on market rates. This rate and the adequacy of the provision build-up is reviewed annually, and management have ensured there is adequate coverage of the make good liability.

Effective Interest Rate (EIR)

The EIR is applied to determine the value of capitalised upfront broker commissions, costs and fees. Under this method, the estimated expected life and run-off rates of loans have been assessed based on historical loan prepayment rates of those portfolios.

Notes to the Financial Statements (continued)

For the year ended 30 June 2021

1 FINANCIAL STATEMENTS PREPARATION (continued)

(d) Critical accounting assumptions and estimates (continued)

Hedge accounting

The Consolidated Entity has designated macro hedge relationships as cash flow hedges. The Consolidated Entity's hedge accounting policies include an element of judgement and estimation, in particular, in respect of the existence of highly probable cash flows for inclusion within the macro cash flow hedge. Estimates of future interest rates and the general economic environment will influence the availability and timing of suitable hedged items, with an impact on the effectiveness of the hedge relationships.

2 RISK MANAGEMENT

Financial instruments are fundamental to the Consolidated Entity's business of providing financial and associated services to Members. The associated financial risks include market risk, credit risk, liquidity and funding risk and operational risk. These risks are managed through a continuous process of identification, analysis, measurement and monitoring, setting of appropriate risk limits and other controls. This risk management process is critical to the Consolidated Entity's sustained profitability and each individual within the Consolidated Entity is accountable for the risk exposures relating to his or her role and responsibilities.

Risk Management Framework (RMF)

The Consolidated Entity's RMF is embedded throughout its operations and governance process, and is subject to ongoing development and enhancement to reflect changes in strategy, market conditions, and products and services offered. It incorporates the following core components:

- a 'three lines of defence' model clearly defining risk ownership responsibilities with functionally independent levels of oversight and independent assurance;
- a suite of policies, procedures and systems documenting the Consolidated Entity's Board-approved Risk Appetite Statement (RAS) and risk management systems descriptions, establishing specific limits and other measures to restrict particular risk exposures, ensuring that all categories of risk are actively monitored by the Board and managed by Executive Management and providing for regular review of the Consolidated Entity's risk tolerance;
- human resources practices designed to recruit, train and retain employees with required specialist skills;
- clearly documented delegations of responsibility and accountability of risk management throughout the organisation;
- internal control processes including structured Board and Executive Management reporting, a system of independent review (by internal and external audit) and regular Board oversight; and
- an operational philosophy that seeks to anticipate and minimise risks before they occur and that fully investigates, and learns from, any unexpected consequences that should arise.

Roles and responsibilities

Board of Directors (Board)

The Board has an overall responsibility for the establishment and oversight of the Consolidated Entity's RMF.

Risk Committee

The Risk Committee is responsible for monitoring compliance with the Consolidated Entity's risk management policies and procedures, and for reviewing the adequacy of the RMF in relation to the risks faced by the Consolidated Entity. The Risk Committee reports regularly to the Board on its activities, and it is a requirement that at least one member of the Audit Committee is also a member of the Risk Committee.

Audit Committee

The Audit Committee provides assurance to the Board on the appropriateness, effectiveness and adequacy of the RMF. It is responsible for the internal and external auditor relationships.

Notes to the Financial Statements (continued)

For the year ended 30 June 2021

2 RISK MANAGEMENT (continued)

Roles and responsibilities (continued)

Internal Audit

From 7 November 2018, Grant Thornton has been engaged by the Board to review risk management and internal controls in the capacity of independent internal auditor. Grant Thornton has provided reports to the Chair of the Audit Committee and has full access to staff and information when conducting its reviews.

Chief Executive Officer (CEO)

The CEO is responsible for the ongoing management of the RMF including its periodic review and renewal, subject to requisite Board direction and approvals.

Chief Risk Officer (CRO) and Executive Management

The CRO and Executive Management team are responsible for implementing the Board-approved risk management strategy and for developing policies, procedures, processes and controls for identifying and managing risks in all areas of activity.

Asset and Liability Committee (ALCO)

The ALCO, convened by the CEO, is responsible for overseeing the Treasury Risk Management Framework including the setting of deposit and loan rates in the context of monetary policy and market competition; the management of liquidity and development of new liquidity sources; approving the structure of the Statements of Financial Position; optimising the loan mix with the appropriate balance of risk and reward; monitoring the short and long-term capital position; and managing the Interest Rate Risk in the Banking Book (IRRBB).

Executive Risk and Compliance Committee (ERCC)

The ERCC, convened by the CEO, oversees the Consolidated Entity's effectiveness in meeting all relevant risk and compliance obligations, as well as developing and reviewing the policy framework for recommendation and approval by the relevant Board Committees and endorsement by the Board.

Risk governance and reporting

Monitoring and controlling risks is primarily conducted using the limits established in the RAS by the Board. These limits reflect the Consolidated Entity's business strategy and market environment as well as the level of risk it is willing to accept.

The Board identifies a number of discrete material risk categories and the risk appetite and tolerance parameters for each of these. The RAS qualifies the appetite or tolerance level for business risks and summarises the limits and management controls that apply to manage the impact of a particular risk. These parameters are reviewed annually.

Information is compiled, processed, and understood to analyse, identify, and manage risks early. This information is presented to the Executive Management Committees, the Risk Committee, and the Board. The reporting includes aggregate credit exposures, delinquency summary, loan security summary, loan type summary, liquidity ratios, Value at Risk (VaR), sensitivity analysis and material changes. Detailed reporting occurs monthly. Executive Management assesses the appropriateness of the inputs and assumptions used in determining the provision for impairment on an annual basis or more frequently where market conditions dictate it. The Board receives summarised risk reporting on key risk measures monthly. More detailed analysis and review of risks is undertaken on a periodic basis by the Risk Committee with reporting of outcomes to the Board.

Risk mitigation

The Consolidated Entity actively manages risk through a framework that includes the use of collateral, delegations, limit frameworks, review of loan concentrations, lending and funding portfolio diversification and interest rate hedging.

(a) Interest rate risk

Market risk is the risk that market rates and prices will change and that this may have an adverse effect on the profitability and/or net worth of the Consolidated Entity. The Consolidated Entity is only exposed to IRRBB.

Notes to the Financial Statements (continued)

For the year ended 30 June 2021

2 RISK MANAGEMENT (continued)

(a) Interest rate risk (continued)

Fair value interest rate risk

Fair value interest rate risk is the risk that the fair value of future cash flows of financial instruments will fluctuate due to changes in interest rates.

Cash flow interest rate risk

Cash flow interest rate risk is the risk that changes in interest rates will affect future cash flows of financial instruments. The Board has established limits on VaR and interest rate gaps for stipulated periods. Positions are monitored monthly and managed using interest rate swaps.

Key controls and risk management strategies

- Defined VaR indicators set in the RAS;
- Pricing appropriately for risk;
- Monthly monitoring of VaR; and
- Using interest rate swaps to manage exposure in variability in future cash flows resulting from fluctuations in interest rates, which could affect profit or loss.

VaR assumptions

The principal risk to which non-trading portfolios are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instruments because of a change in market interest rates. The main tool used to measure and control market risk exposure within the Consolidated Entity's non-trading portfolio is VaR. The VaR of the non-trading portfolio is the estimated loss that will arise on the portfolio over a specified period of time (holding period) from an adverse market movement with a specified probability (confidence level).

The VaR that the Consolidated Entity measures is an estimate, using a confidence level of 99%, of the potential loss that is not expected to be exceeded if the current market risk positions were to be held unchanged for one day. The use of a 99% confidence level means that, within twenty days' horizon, losses exceeding the VaR figure should occur, on average, not more than once every hundred days.

Since VaR is an integral part of the Consolidated Entity's interest rate risk management, VaR limits have been established and exposures are reviewed monthly against the limits by Executive Management and the Board.

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

- A 20-day holding period assumes that it is possible to hedge or dispose of positions within that period. This is considered a realistic assumption in almost all cases but may not be the case in situations in which there is severe market illiquidity for a prolonged period.
- A 99 percent confidence level does not reflect losses that may occur beyond this level. Even within the model used there is a one percent probability that losses could exceed the VaR.
- A 250-day observation period. The use of historical data as a basis for determining the possible range of future outcomes may not always cover all possible scenarios, especially those of an exceptional nature.
- The VaR measure is dependent upon the Consolidated Entity's position and volatility of market prices. The VaR of an unchanged position reduces if the market price volatility declines and vice versa.

A summary of the VaR position of the Consolidated Entity's non-trading portfolio as at 30 June is as follows:

	% of Capital	
	2021	2020
As at 30 June	**0.29**	**0.52**
Average for the period	**0.30**	**0.68**
Highest for the period	**0.37**	**0.76**
Lowest for the period	**0.23**	**0.52**

Notes to the Financial Statements (continued)

For the year ended 30 June 2021

2 RISK MANAGEMENT (continued)

(a) Interest rate risk (continued)

Consolidated Entity

2021	Floating interest rate $'000	Fixed interest rate: 1 year or less $'000	Fixed interest rate: 1 to 5 years $'000	Fixed interest rate: More than 5 years $'000	Non-interest bearing $'000	Total $'000
Financial assets measured at amortised cost						
Cash and cash equivalents	38,492	-	-	-	1	38,493
Investments	63,227	67,632	10,136	-	-	140,995
Loans and advances	691,282	51,174	130,047	4,184	-	876,687
Derivative financial instruments (1)	2,254	-	-	-	-	2,254
Financial assets measured at fair value through profit and loss						
Loans and advances	16,604	-	-	-	-	16,604
Total financial assets	**811,859**	**118,806**	**140,183**	**4,184**	**1**	**1,075,033**
Financial liabilities						
Deposits	286,993	506,591	10,397	-	48	804,029
Borrowings (2)	109,104	-	46,000	5,888	-	160,992
Derivative financial instruments (1)	-	2,254	-	-	-	2,254
Total financial liabilities	**396,097**	**508,845**	**56,397**	**5,888**	**48**	**967,275**
Total interest rate repricing gap	**415,762**	**(390,039)**	**83,786**	**(1,704)**	**(47)**	**107,758**
Cumulative interest rate repricing gap	**415,762**	**25,723**	**109,509**	**107,805**	**107,758**	

(1) Notional value of derivative financial instruments. Fair value of derivative financial instruments at 30 June 2021 is a liability of $37,290.
(2) Borrowings relate to funding provided to Portavia Trust No.1 from Westpac Banking Corporation, AASB 16 lease liability, the Reserve Bank of Australia's Term Funding Facility, and not other items classified as inter-entity borrowings as part of AASB 9 derecognition accounting requirements.

Notes to the Financial Statements (continued)

For the year ended 30 June 2021

2 RISK MANAGEMENT (continued)

(a) Interest rate risk (continued)

Consolidated Entity

2020	Floating interest rate $'000	Fixed interest rate: 1 year or less $'000	Fixed interest rate: 1 to 5 years $'000	Fixed interest rate: More than 5 years $'000	Non-interest bearing $'000	Total $'000
Financial assets measured at amortised cost						
Cash and cash equivalents	39,242	-	-	-	1	39,243
Investments	54,882	64,495	6,527	-	-	125,904
Loans and advances	764,054	50,682	91,550	7,682	-	913,968
Derivative financial instruments (1)	4,313	-	-	-	-	4,313
Total financial assets	**862,491**	**115,177**	**98,077**	**7,682**	**1**	**1,083,428**
Financial liabilities						
Deposits	261,458	524,854	11,587	-	49	797,948
Borrowings (2)	162,494	-	10,104	6,760	-	179,358
Derivative financial instruments (1)	-	1,969	2,344	-	-	4,313
Total financial liabilities	**423,952**	**526,823**	**24,035**	**6,760**	**49**	**981,619**
Total interest rate repricing gap	**438,539**	**(411,646)**	**74,042**	**922**	**(48)**	**101,809**
Cumulative interest rate repricing gap	**438,539**	**26,893**	**100,935**	**101,857**	**101,809**	

(1) Notional value of derivative financial instruments. Fair value of derivative financial instruments at 30 June 2020 is a liability of $77,274.
(2) Borrowings relate to funding provided to Portavia Trust No.1 from Westpac Banking Corporation, AASB 16 lease liability, the Reserve Bank of Australia's Term Funding Facility, and not other items classified as inter-entity borrowings as part of AASB 9 derecognition accounting requirements.

Notes to the Financial Statements (continued)

For the year ended 30 June 2021

2 RISK MANAGEMENT (continued)

(a) Interest rate risk (continued)

Bank

2021	Floating interest rate $'000	Fixed interest rate: 1 year or less $'000	Fixed interest rate: 1 to 5 years $'000	Fixed interest rate: More than 5 years $'000	Non-interest bearing $'000	Total $'000
Financial assets measured at amortised cost						
Cash and cash equivalents	35,167	-	-	-	1	35,168
Investments	83,780	67,632	10,136	-	-	161,548
Loans and advances	691,282	51,174	130,047	4,184	-	876,687
Financial assets measured at fair value through profit and loss						
Loans and advances	16,604	-	-	-	-	16,604
Total financial assets	**826,833**	**118,806**	**140,183**	**4,184**	**1**	**1,090,007**
Financial liabilities						
Deposits	286,993	506,591	10,397	-	48	804,029
Borrowings (1)	-	-	46,000	5,888	-	51,888
Inter-entity borrowings	114,382	5,017	9,317	-	-	128,716
Total financial liabilities	**401,375**	**511,608**	**65,714**	**5,888**	**48**	**984,633**
Total interest rate repricing gap	**425,458**	**(392,802)**	**74,469**	**(1,704)**	**(47)**	**105,374**
Cumulative interest rate repricing gap	**425,458**	**32,656**	**107,125**	**105,421**	**105,374**	

(1) Borrowings relate to funding provided to the AASB 16 lease liability and the Reserve Bank of Australia's Term Funding Facility.

Notes to the Financial Statements (continued)

For the year ended 30 June 2021

2 RISK MANAGEMENT (continued)

(a) Interest rate risk (continued)

Bank

2020	Floating interest rate $'000	Fixed interest rate: 1 year or less $'000	Fixed interest rate: 1 to 5 years $'000	Fixed interest rate: More than 5 years $'000	Non-interest bearing $'000	Total $'000
Financial assets measured at amortised cost						
Cash and cash equivalents	33,639	-	-	-	1	33,640
Investments	75,435	64,495	6,527	-	-	146,457
Loans and advances	764,054	50,682	91,550	7,682	-	913,968
Total financial assets	**873,128**	**115,177**	**98,077**	**7,682**	**1**	**1,094,065**
Financial liabilities						
Deposits	261,458	524,854	11,587	-	49	797,948
Borrowings (1)	-	-	10,104	6,760	-	16,864
Inter-entity borrowings	166,004	7,187	7,278	-	-	180,469
Total financial liabilities	**427,462**	**532,041**	**28,969**	**6,760**	**49**	**995,281**
Total interest rate repricing gap	**445,666**	**(416,864)**	**69,108**	**922**	**(48)**	**98,784**
Cumulative interest rate repricing gap	**445,666**	**28,802**	**97,910**	**98,832**	**98,784**	

(1) Borrowings relate to funding provided to the AASB 16 lease liability and the Reserve Bank of Australia's Term Funding Facility.

Notes to the Financial Statements (continued)

For the year ended 30 June 2021

2 RISK MANAGEMENT (continued)

(b) Credit risk

Credit risk is the potential for loss arising from the failure of a counterparty to meet their contractual obligations to the Consolidated Entity. It arises primarily from loans and advances.

Key controls and risk mitigation strategies

- Defined credit risk indicators set in the RAS;
- Transacting with counterparties that demonstrate the ability and willingness to service their obligations through performance of due diligence and thorough credit assessments;
- Applications manually assessed by qualified, approved credit authority holders within the Consolidated Entity using clearly defined credit policies, with more complex or higher risk applications referred to more senior and experienced credit authority holders with a higher delegated lending authority;
- Taking collateral where appropriate, such as mortgage interests over property, other registered securities over assets, and guarantees;
- For residential mortgages, where the Loan to Value Ratio (LVR) is greater than 80%, Lenders Mortgage Insurance (LMI) is required;
- Pricing appropriately for risk – in particular for unsecured loans and advances;
- Credit concentration frameworks that set exposure limits to the introduction source, repayment type (interest-only vs. principal and interest), borrower type (investor vs. owner-occupier), LVR, security risk category, counterparties, or groups of related counterparties;
- Regular monitoring of credit quality, concentration arrears, policy exceptions and policy breaches;
- Working with impaired counterparties, or those in danger of becoming so, to help rehabilitate their financial positions;
- Stress testing, either at a counterparty or portfolio level;
- Frequent independent credit reviews to assess business compliance with credit policies and frameworks, application of credit risk ratings and other key practices; and
- Regular review of credit policies, and prompt implementations of amendments where required.

Maximum exposure to credit risk

The Consolidated Entity's maximum credit risk exposure equals the drawn-down portion on the Statements of Financial Position and the undrawn portion of all committed facilities of loans and receivables, and is shown in the following table:

	Consolidated		Bank	
	2021	2020	2021	2020
	$'000	$'000	$'000	$'000
Bank balances	**38,493**	39,243	**35,168**	33,640
Investments	**140,995**	125,904	**161,548**	146,457
Loans and advances	**893,291**	913,968	**893,291**	913,968
Unused committed loan facilities	**47,058**	47,556	**47,058**	47,556
Redraw facilities on mortgages	**68,913**	65,764	**68,913**	65,764
Loans approved but not funded	**28,178**	15,672	**28,178**	15,672
Undrawn reverse mortgage loans	**14,348**	-	**14,348**	-
Maximum credit risk exposure	**1,231,276**	**1,208,107**	**1,248,504**	**1,223,057**

Refer to Note 5, 6 and 7 for information regarding the carrying value of financial assets measured at amortised cost.

Notes to the Financial Statements (continued)

For the year ended 30 June 2021

2 RISK MANAGEMENT (continued)

(b) Credit risk (continued)

The following tables summarise the exposures to credit risk under AASB 9.

	Consolidated Entity				
2021	**Loans and advances $'000**	**Deposits with other ADIs $'000**	**Investment debt securities $'000**	**Cash and cash equivalents $'000**	**Total $'000**
Carrying amount of financial assets measured at amortised cost					
Stage 1: Collectively assessed					
Secured by mortgage: current	815,985	-	-	-	815,985
Secured by mortgage: <= 30 days arrears	7,686	-	-	-	7,686
Investment grade	-	650	130,209	30,906	161,765
Unrated	-	-	10,136	7,587	17,723
Other	43,096	-	-	-	43,096
Net deferred income and expenses	1,716	-	-	-	1,716
Carrying amount	868,483	650	140,345	38,493	1,047,971
Stage 2: Collectively assessed					
Secured by mortgage	5,689	-	-	-	5,689
Other	269	-	-	-	269
Carrying amount	5,958	-	-	-	5,958
Stage 3: Collectively assessed					
Secured by mortgage	-	-	-	-	-
Other	-	-	-	-	-
Carrying amount	-	-	-	-	-
Stage 3: Individually assessed					
Secured by mortgage	4,188	-	-	-	4,188
Other	202	-	-	-	202
Carrying amount	4,390	-	-	-	4,390
Expected credit loss	(2,144)	-	-	-	(2,144)
Total carrying amount of financial assets measured at amortised cost	**876,687**	**650**	**140,345**	**38,493**	**1,056,175**
Includes restructured loans	2,734	-	-	-	2,734
Carrying amount of financial assets measured at fair value through profit and loss					
Secured by mortgage: current	16,604	-	-	-	16,604
Total carrying amount of financial assets measured at fair value through profit and loss	**16,604**	**-**	**-**	**-**	**16,604**
Total carrying amount	**893,291**	**650**	**140,345**	**38,493**	**1,072,779**

For a definition of Stage 1, 2 and 3 refer to Note 8.

Notes to the Financial Statements (continued)

For the year ended 30 June 2021

2 RISK MANAGEMENT (continued)

(b) Credit risk (continued)

2020	Consolidated Entity Loans and advances $'000	Deposits with other ADIs $'000	Investment debt securities $'000	Cash and cash equivalents $'000	Total $'000
Carrying amount of financial assets measured at amortised cost					
Stage 1: Collectively assessed					
Secured by mortgage: current	808,808	-	-	-	808,808
Secured by mortgage: <= 30 days arrears	4,098	-	-	-	4,098
Investment grade	-	603	118,774	30,726	150,103
Unrated	-	-	6,527	8,517	15,044
Other	42,306	-	-	-	42,306
Net deferred income and expenses	1,587	-	-	-	1,587
Carrying amount	856,799	603	125,301	39,243	1,021,946
Stage 2: Collectively assessed					
Secured by mortgage	54,458	-	-	-	54,458
Other	2,277	-	-	-	2,277
Carrying amount	56,735	-	-	-	56,735
Stage 3: Collectively assessed					
Secured by mortgage	-	-	-	-	-
Other	-	-	-	-	-
Carrying amount	-	-	-	-	-
Stage 3: Individually assessed					
Secured by mortgage	3,179	-	-	-	3,179
Other	248	-	-	-	248
Carrying amount	3,427	-	-	-	3,427
Expected credit loss	(2,993)	-	-	-	(2,993)
Total carrying amount of financial assets measured at amortised cost	**913,968**	**603**	**125,301**	**39,243**	**1,079,115**
Includes restructured loans	618	-	-	-	618

For a definition of Stage 1, 2 and 3 refer to Note 8.

Notes to the Financial Statements (continued)

For the year ended 30 June 2021

2 RISK MANAGEMENT (continued)

(b) Credit risk (continued)

2021	Bank				
	Loans and advances $'000	Deposits with other ADIs $'000	Investment debt securities $'000	Cash and cash equivalents $'000	Total $'000
Carrying amount of financial assets measured at amortised cost					
Stage 1: Collectively assessed					
Secured by mortgage: current	815,985	-	-	-	815,985
Secured by mortgage: <= 30 days arrears	7,686	-	-	-	7,686
Investment grade	-	650	150,762	27,581	178,993
Unrated	-	-	10,136	7,587	17,723
Other	43,096	-	-	-	43,096
Net deferred income and expenses	1,716	-	-	-	1,716
Carrying amount	868,483	650	160,898	35,168	1,065,199
Stage 2: Collectively assessed					
Secured by mortgage	5,689	-	-	-	5,689
Other	269	-	-	-	269
Carrying amount	5,958	-	-	-	5,958
Stage 3: Collectively assessed					
Secured by mortgage	-	-	-	-	-
Other	-	-	-	-	-
Carrying amount	-	-	-	-	-
Stage 3: Individually assessed					
Secured by mortgage	4,188	-	-	-	4,188
Other	202	-	-	-	202
Carrying amount	4,390	-	-	-	4,390
Expected credit loss	(2,144)	-	-	-	(2,144)
Total carrying amount of financial assets measured at amortised cost	**876,687**	**650**	**160,898**	**35,168**	**1,073,403**
Includes restructured loans	2,734	-	-	-	2,734
Carrying amount of financial assets measured at fair value through profit and loss					
Secured by mortgage: current	16,604	-	-	-	16,604
Total carrying amount of financial assets measured at fair value through profit and loss	**16,604**	**-**	**-**	**-**	**16,604**
Total carrying amount	**893,291**	**650**	**160,898**	**35,168**	**1,090,007**

For a definition of Stage 1, 2 and 3 refer to Note 8.

Notes to the Financial Statements (continued)

For the year ended 30 June 2021

2 RISK MANAGEMENT (continued)

(b) Credit risk (continued)

2020	Bank				
	Loans and advances $'000	Deposits with other ADIs $'000	Investment debt securities $'000	Cash and cash equivalents $'000	Total $'000
Carrying amount of financial assets measured at amortised cost					
Stage 1: Collectively assessed					
Secured by mortgage: current	808,808	-	-	-	808,808
Secured by mortgage: <= 30 days arrears	4,098	-	-	-	4,098
Investment grade	-	603	139,327	25,123	165,053
Unrated	-	-	6,527	8,517	15,044
Other	42,306	-	-	-	42,306
Net deferred income and expenses	1,587	-	-	-	1,587
Carrying amount	856,799	603	145,854	33,640	1,036,896
Stage 2: Collectively assessed					
Secured by mortgage	54,458	-	-	-	54,458
Other	2,277	-	-	-	2,277
Carrying amount	56,735	-	-	-	56,735
Stage 3: Collectively assessed					
Secured by mortgage	-	-	-	-	-
Other	-	-	-	-	-
Carrying amount	-	-	-	-	-
Stage 3: Individually assessed					
Secured by mortgage	3,179	-	-	-	3,179
Other	248	-	-	-	248
Carrying amount	3,427	-	-	-	3,427
Expected credit loss	(2,993)	-	-	-	(2,993)
Total carrying amount of financial assets measured at amortised cost	**913,968**	**603**	**145,854**	**33,640**	**1,094,065**
Includes restructured loans	618	-	-	-	618

For a definition of Stage 1, 2 and 3 refer to Note 8.

Notes to the Financial Statements (continued)

For the year ended 30 June 2021

2 RISK MANAGEMENT (continued)

(b) Credit risk (continued)

Concentrations of credit risk

The Consolidated Entity minimises the concentration of geographic credit risk by undertaking transactions with counterparties across a range of geographic areas. Customers located in New South Wales comprise the largest segment.

	Consolidated		Bank	
	2021	2020	2021	2020
	%	%	%	%
New South Wales	**53.5**	**52.6**	**53.5**	**52.6**
Victoria	**21.1**	**22.2**	**21.1**	**22.2**
Queensland	**14.9**	**14.9**	**14.9**	**14.9**
Western Australia	**3.7**	**4.5**	**3.7**	**4.5**
South Australia	**3.3**	**2.5**	**3.3**	**2.5**
Tasmania	**0.6**	**0.7**	**0.6**	**0.7**
Northern Territory	**0.1**	**0.1**	**0.1**	**0.1**
Australian Capital Territory	**2.8**	**2.5**	**2.8**	**2.5**

The Consolidated Entity further minimises concentration risk by monitoring credit risk by postcode, as certain postcodes have higher credit risk than others and therefore limits are applied to lending to postcodes identified as high risk.

Collateral and other credit enhancements

The Consolidated Entity holds collateral against loans to customers in the form of mortgage interests over property, other registered securities over assets, and guarantees. The following tables provide information on credit exposures from residential and commercial mortgage lending by stratifications of LVRs. The LVR is calculated as the ratio of the current balance of the loan to the most recent valuation of the collateral.

Residential mortgages

	Consolidated		Bank	
LVRs	2021	2020	2021	2020
	$'000	$'000	$'000	$'000
<= 25%	**37,810**	29,918	**37,810**	29,918
>25% <=50%	**158,229**	167,730	**158,229**	167,730
>50% <=70%	**239,248**	282,484	**239,248**	282,484
>70% <=80%	**181,322**	246,037	**181,322**	246,037
>80% <=90% (1)	**71,904**	75,284	**71,904**	75,284
>90% <=100% (1)	**141,495**	49,996	**141,495**	49,996
>100%	**320**	-	**320**	-
Total residential mortgages	**830,328**	**851,449**	**830,328**	**851,449**

(1) For the residential mortgages with an LVR of >80% and >90%, $20.0 million and $116.1 million (2020: $3.1 million and $37.0 million) respectively, is attributable to participants of the Federal Government's First Home Loan Deposit Scheme (FHLDS). Under the FHLDS the Federal Government acts as a guarantor for up to 15% of the home loan.

Notes to the Financial Statements (continued)

For the year ended 30 June 2021

2 RISK MANAGEMENT (continued)

(b) Credit risk (continued)

Commercial mortgages

LVRs	Consolidated 2021 $'000	Consolidated 2020 $'000	Bank 2021 $'000	Bank 2020 $'000
<= 25%	**27**	43	**27**	43
>25% <=50%	**3,256**	4,373	**3,256**	4,373
>50% <=70%	**16,541**	14,671	**16,541**	14,671
>70% <=80%	**-**	-	**-**	-
>80% <=90%	**-**	-	**-**	-
>90% <=100%	**-**	-	**-**	-
>100%	**-**	-	**-**	-
Total commercial mortgages	**19,824**	**19,087**	**19,824**	**19,087**

(c) Liquidity and funding risk

Liquidity risk is the combined risk of not being able to meet financial obligations as they fall due (funding liquidity risk), and that liquidity in financial markets, such as the market for debt securities, may reduce significantly (market liquidity risk). The Consolidated Entity is exposed to liquidity risk primarily through the funding mismatch between the Consolidated Entity's loans, investments and sources of funding.

Key controls and risk mitigation strategies

- Defined liquidity risk indicators in RAS;
- Preparation of an annual Funding Plan based on the Budget for the next financial year and a further 4-year outlook;
- Maintaining a diverse, yet stable, pool of potential funding sources across different entities and products;
- Maintaining sufficient liquidity buffers and funding capacity to withstand periods of disruption in wholesale funding markets and unanticipated changes in the Balance Sheet funding gap;
- Conservatively managing the mismatch between asset and liability maturities;
- Maintaining a portfolio of High-Quality Liquid Assets (HQLA) readily saleable or repo-eligible liquid assets;
- Maintaining minimum regulatory limits on the ratio of net liquid assets (cash, short-term bank negotiable certificates of deposits/bills and floating rate notes) to customer liabilities, set to reflect market conditions;
- Daily monitoring of liquidity risk exposures, incorporating an assessment of expected future cash flows; and
- Maintaining a Contingency Funding Plan that provides strategies for addressing liquidity shortfalls in a crisis situation.

The closing Liquidity ratio for the year ended 30 June 2021 was 15.38% (2020: 15.80%) versus an APRA prudential minimum of 12%. The Board approved policies addressing liquidity risk management ensure that adequate buffers, trigger points and contingency arrangements are in place.

Refer to Note 13 and 16 for maturity analysis of financial liabilities.

Notes to the Financial Statements (continued)

For the year ended 30 June 2021

2 RISK MANAGEMENT (continued)

(c) Liquidity and funding risk (continued)

Consolidated Entity

2021	Note	Carrying amount $'000	Gross nominal inflow / (outflow) $'000	Less than 1 month $'000	1-3 months $'000	3-12 months $'000	1-5 years $'000	More than 5 years $'000
Financial liabilities								
Deposits	13	804,029	(805,572)	(368,283)	(185,558)	(241,043)	(10,688)	-
Bank borrowings	16	155,104	(156,270)	(2,834)	(2,227)	(105,020)	(46,189)	-
Lease liability	16	5,888	(6,266)	(86)	(171)	(804)	(4,773)	(432)
Derivative financial instruments	15	37	(32)	-	(11)	(21)	-	-
		965,058	**(968,140)**	**(371,203)**	**(187,967)**	**(346,888)**	**(61,650)**	**(432)**

2020	Note	Carrying amount $'000	Gross nominal inflow / (outflow) $'000	Less than 1 month $'000	1-3 months $'000	3-12 months $'000	1-5 years $'000	More than 5 years $'000
Financial liabilities								
Deposits	13	797,948	(800,864)	(372,953)	(153,207)	(262,631)	(12,073)	-
Bank borrowings	16	172,598	(188,096)	(4,434)	(16,282)	(157,204)	(10,176)	-
Lease liability	16	6,760	(7,323)	(82)	(165)	(772)	(4,585)	(1,719)
Derivative financial instruments	15	77	(82)	(10)	(11)	(31)	(30)	-
		977,383	**(996,365)**	**(377,479)**	**(169,665)**	**(420,638)**	**(26,864)**	**(1,719)**

Notes to the Financial Statements (continued)

For the year ended 30 June 2021

2 RISK MANAGEMENT (continued)

(c) Liquidity and funding risk (continued)

Bank

2021		Carrying amount $'000	Gross nominal inflow / (outflow) $'000	Less than 1 month $'000	1-3 months $'000	3-12 months $'000	1-5 years $'000	More than 5 years $'000
Financial liabilities								
Deposits	13	804,029	(805,572)	(368,283)	(185,558)	(241,043)	(10,688)	-
Bank borrowings	16	46,000	(46,189)	-	-	-	(46,189)	-
Lease liability	16	5,888	(6,266)	(86)	(171)	(804)	(4,773)	(432)
Inter-entity borrowings	16	128,716	(110,081)	(2,834)	(2,227)	(105,020)	-	-
		984,633	**(968,108)**	**(371,203)**	**(187,956)**	**(346,867)**	**(61,650)**	**(432)**

2020		Carrying amount $'000	Gross nominal inflow / (outflow) $'000	Less than 1 month $'000	1-3 months $'000	3-12 months $'000	1-5 years $'000	More than 5 years $'000
Financial liabilities								
Deposits	13	797,948	(800,864)	(372,953)	(153,207)	(262,631)	(12,073)	-
Bank borrowings	16	10,104	(10,176)	-	-	-	(10,176)	-
Lease liability	16	6,760	(7,323)	(82)	(165)	(772)	(4,585)	(1,719)
Inter-entity borrowings	16	180,469	(177,920)	(4,434)	(16,282)	(157,204)	-	-
		995,281	**(996,283)**	**(377,469)**	**(169,654)**	**(420,607)**	**(26,834)**	**(1,719)**

Notes to the Financial Statements (continued)

For the year ended 30 June 2021

2 RISK MANAGEMENT (continued)

(d) Operational risk

Operational risk is the risk of loss arising from inadequate or failed internal processes, people and systems or from external events.

The Consolidated Entity is exposed to operational risk primarily through:

- Process execution errors;
- Cyber security losses;
- Technology failures;
- Data management issues;
- Model risks;
- Accounting, legal and taxation risks;
- Third parties;
- People (employment practice and workplace safety);
- Fraud (external and internal); and
- Non-technology business disruption.

Key controls and risk mitigation strategies

- Defined operational risk indicators in RAS;
- Implementation of manual and automated controls to prevent, detect and mitigate the specific operational risks that the Consolidated Entity is exposed to;
- Regular risk and control self-assessment to assess key risks and controls;
- Use of independent internal audit (Line 3) to assess whether controls are designed and operating effectively to maintain risk exposures within acceptable levels;
- Incident management processes to identify, assess, record, report and manage actual operational or compliance events that have occurred. This data is used to guide management to further strengthen processes and controls;
- Issue management processes to identify, assess, record, report and manage weaknesses or gaps in controls;
- Establishment of key risk indicators to monitor movements in risk exposures over time; and
- Assurance undertaken by the Line 2 Risk team to assess that operational risks are appropriately identified and managed by the Consolidated Entity.

Notes to the Financial Statements (continued)

For the year ended 30 June 2021

2 RISK MANAGEMENT (continued)

(e) Fair value risk

The Consolidated Entity uses various methods in estimating the fair value of a financial instrument.

Accounting policy

Fair value is the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

On initial recognition, the transaction price generally represents the fair value of the financial instrument, unless there is observable information from an active market that provides a more appropriate fair value.

Determination of Fair Value

The Consolidated Entity measures fair value using the following fair value hierarchy, which reflects the observability of the inputs used in measuring fair value:

- **Level 1:** Those financial instruments valued using inputs that are unadjusted quoted prices for identical assets or liabilities in active markets where the quoted price is readily available, and the price represents actual and regularly occurring market transactions on an arms' length basis. Financial instruments included in this category are cash and cash equivalents.
- **Level 2:** Those financial instruments valued using inputs other than quoted prices as described for level 1, but which are observable for the asset or liability, either directly or indirectly. Such inputs include quoted prices for similar assets or liabilities in active markets, quoted prices for identical instruments in inactive markets and observable inputs other than quoted prices such as interest rates and yield curves, implied volatilities, and credit spreads. The valuation techniques include the use of discounted cash flow analysis and other market-accepted valuation models. Financial instruments included in this category are investments, deposits, derivative financial instruments, and borrowings (excluding the lease liability).
- **Level 3:** Those financial instruments where the valuation incorporates significant inputs that are not based on observable market data (unobservable inputs). Unobservable inputs are those not readily available in an active market due to market liquidity or complexity of the instrument. These inputs are generally derived and extrapolated from observable inputs to match the risk profile of the financial instrument, and are calibrated against current market assumptions, historical transactions, and economic models, where available. These inputs may include timing and amount of future cash flows, rates of estimated credit losses, discount rates and volatility. Financial instruments included in this category are loans and advances, assets at fair value through profit and loss (reverse mortgages), and lease liabilities.

Derivative financial instruments

The Consolidated Entity uses interest rate swaps from various counterparties who have investment-grade credit ratings. The fair value is calculated as the present value of estimated future interest cash flows based on observable yield curves. Other inputs include the credit quality of counterparties and forward rates.

Cash and investments

The fair value for financial assets is based on the current quoted market price. For those assets where there is no quoted price the fair value is calculated as the present value of estimated future interest cash flows based on observable yield curves.

Loans and advances

The fair value is measured on a level 3 basis which is determined by adjusting the fixed rate loan portfolio for current market rates as at balance date. For variable rate loans, the carrying amount is a reasonable estimate of the fair value. Unobservable inputs used in calculating fair value include the timing and amount of future cash flows, rates of estimated credit losses, discount rates and volatility. The net fair value for fixed rate loans is calculated utilising discount cash flow models based on the maturity of the loans. The discount rates applied were based on current benchmark rates offered for the average remaining term of the portfolio as at 30 June 2021.

Notes to the Financial Statements (continued)

For the year ended 30 June 2021

2 RISK MANAGEMENT (continued)

(e) Fair value risk (continued)

Assets at fair value through profit and loss (Loans and advances)

The fair value of reverse mortgages cannot be measured by reference to an active market or observable inputs. As such, the Consolidated Entity has used valuation techniques (income approach) to consider fair value. When the Consolidated Entity enters into a reverse mortgage, it has set expectations regarding the loan's current and future risk profile and expectation of performance. This expectation references various assumptions including:

- Age;
- Mortality and move to care;
- House price changes;
- No negative equity guarantee; and
- Interest rate margin

At balance date the Consolidated Entity does not consider any of the above assumptions to have moved outside of the original expectation range. Therefore, the Consolidated Entity has continued to estimate the fair value of the portfolio at transaction price. There has been no fair value movement recognised in profit and loss during the year. Given the nature of the loan terms and tenor, the fair value as recorded is regarded as not being highly sensitive to the above assumptions, particularly to house prices and interest rates, that would impact the fair value at balance date. The Consolidated Entity will continue to reassess the existence of a relevant market and movements in assumptions on an ongoing basis.

Deposits and borrowings

Due to the short-term nature of deposits and borrowings, the carrying amount (amortised cost) of the Consolidated Entity's bank facility balances, including overdraft, approximate their fair value.

	Consolidated Entity							
	2021				2020			
	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Financial assets measured at amortised cost								
Cash	**38,493**	**-**	**-**	**38,493**	39,243	-	-	39,243
Investments	**-**	**140,995**	**-**	**140,995**	-	125,904	-	125,904
Loans and advances	**-**	**-**	**877,827**	**877,827**	-	-	917,388	917,388
Financial assets measured at fair value through profit and loss								
Loans and advances	**-**	**-**	**16,604**	**16,604**	-	-	-	-
Financial assets	**38,493**	**140,995**	**894,431**	**1,073,919**	**39,243**	**125,904**	**917,388**	**1,082,535**

Notes to the Financial Statements (continued)

For the year ended 30 June 2021

2 RISK MANAGEMENT (continued)

(e) Fair value risk (continued)

	Bank							
	2021				2020			
	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Financial assets measured at amortised cost								
Cash	35,168	-	-	35,168	33,640	-	-	33,640
Investments	-	161,548	-	161,548	-	146,457	-	146,457
Loans and advances	-	-	877,827	877,827	-	-	917,388	917,388
Financial assets measured at fair value through profit and loss								
Loans and advances	-	-	16,604	16,604	-	-	-	-
Financial assets	35,168	161,548	894,431	1,091,147	33,640	146,457	917,388	1,097,485

	Consolidated Entity							
	2021				2020			
	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Financial liabilities								
Deposits	-	804,324	-	804,324	-	799,046	-	799,046
Derivative financial instruments	-	37	-	37	-	77	-	77
Borrowings	-	155,104	5,888	160,992	-	172,598	6,760	179,358
Financial liabilities	-	959,465	5,888	965,353	-	971,721	6,760	978,481

	Bank							
	2021				2020			
	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Financial liabilities								
Deposits	-	804,324	-	804,324	-	799,046	-	799,046
Derivative financial instruments	-	-	-	-	-	-	-	-
Borrowings	-	46,000	5,888	51,888	-	10,104	6,760	16,864
Inter-entity borrowings	-	128,716	-	128,716	-	180,469	-	180,469
Financial liabilities	-	979,040	5,888	984,928	-	989,619	6,760	996,379

There were no transfers between Level 1, Level 2, and Level 3 during the year.

Notes to the Financial Statements (continued)

For the year ended 30 June 2021

3 INCOME AND EXPENSES

	Consolidated		Bank	
	2021	2020	2021	2020
	$'000	$'000	$'000	$'000
(a) Interest income and interest expense				
Interest income				
Loans and advances to members	**26,834**	33,689	**26,834**	33,689
Investment securities	**1,311**	2,223	**1,641**	2,727
Deposits at call with other financial institutions	**35**	156	**33**	143
Total interest income	**28,180**	**36,068**	**28,508**	**36,559**
Interest expense				
Deposits	**6,025**	13,909	**6,025**	13,909
Borrowings	**1,981**	3,619	**224**	177
Inter-entity borrowings	**-**	-	**2,087**	3,945
Total interest expense	**8,006**	**17,528**	**8,336**	**18,031**
(b) Non-interest income				
Fees and commissions	**1,041**	967	**796**	821
Bad debts recovered	**293**	249	**293**	249
Government grants	**50**	50	**50**	50
Total non-interest income	**1,384**	**1,266**	**1,139**	**1,120**
(c) Administration expenses				
Lending expenses	**465**	116	**465**	116
Transactional expenses	**830**	786	**614**	672
Other administration expenses	**2,114**	2,168	**2,083**	2,124
Total administration expenses	**3,409**	**3,070**	**3,162**	**2,912**
(d) Employee expenses				
Salaries and wages	**6,513**	6,252	**6,513**	6,252
Workers' compensation	**12**	(70)	**12**	(70)
Defined contribution superannuation	**614**	568	**614**	568
Other employee benefits	**440**	481	**440**	481
Total employee expenses	**7,579**	**7,231**	**7,579**	**7,231**
(e) Depreciation and amortisation expense				
Depreciation of:				
- Property, plant and equipment	**1,456**	1,471	**1,456**	1,471
Total depreciation expense	**1,456**	**1,471**	**1,456**	**1,471**
Amortisation of:				
- Computer software	**220**	167	**220**	167
Total amortisation expense	**220**	**167**	**220**	**167**
Total depreciation and amortisation expense	**1,676**	**1,638**	**1,676**	**1,638**

Notes to the Financial Statements (continued)

For the year ended 30 June 2021

3 INCOME AND EXPENSES (continued)

	Consolidated		Bank	
	2021	2020	2021	2020
	$'000	$'000	$'000	$'000
(f) Impairment (benefit)/expense				
(Decrease)/increase in loan impairment provision	**(849)**	654	**(849)**	654
Bad debts written-off	**687**	859	**687**	859
Total impairment (benefit)/expense	**(162)**	**1,513**	**(162)**	**1,513**

Accounting policy

Net interest income

Interest income and interest expense on financial assets and liabilities are measured using the effective interest method. The effective interest method calculates the amortised cost of a financial instrument, such as a loan or deposit, and allocates the interest income or interest expense over the expected life of the financial instrument.

Fees, transaction costs and issue costs integral to the financial assets and liabilities are capitalised and included in the interest recognised over the expected life of the instrument.

Non-interest income

Non-interest income includes fees and commissions earned from delivering a range of services to members. Facility fees earned for managing and administering credit and other facilities for members, are recognised over the service period.

Operating expenses

Employee expenses includes salaries and related on-costs namely annual leave, long service leave, employee incentives and relevant taxes. Staff expenses are recognised over the period the employee renders the service. Long service leave is discounted to present value using assumptions relating to staff departures, leave utilisation and future salary.

Superannuation expense includes expenses relating to defined contribution superannuation plans. The defined contribution expense is recognised in the period the service is provided.

IT expenses are recognised as incurred unless they qualify for capitalisation as computer software due to the expenditure generating probable future economic benefits. If capitalised, the computer software is subsequently amortised over its estimated useful life. At each Balance Sheet date, the Consolidated Entity assesses useful lives and residual values and whether there is any objective evidence of impairment. If an asset's carrying value is greater than its recoverable amount, the carrying amount is written down immediately to its recoverable amount.

Operating expenses are recognised as services are provided to the Consolidated Entity, over the period which an asset is consumed, or once a liability is created. Operating expenses related to provisions are recognised for present obligations arising from past events where a payment to settle the obligation is probable and can be reliably estimated.

Goods and Services Tax (GST)

Income, expenses, and assets are recognised net of GST, except where:

- the GST incurred on a purchase of goods and services is not recoverable from the taxation authority. In this instance GST is included in the cost of acquisition of the asset or as part of the expense incurred; and
- the receivables and payables are stated inclusive of GST.

Net GST recoverable or payable is recognised as a receivable or payable respectively in the Statements of Financial Position.

Impairment expense

Impairment losses are written-off in the Statements of Comprehensive Income as an expense when there is no realistic probability of recovery.

Notes to the Financial Statements (continued)

For the year ended 30 June 2021

4 INCOME TAX

	Consolidated		Bank	
	2021 $'000	2020 $'000	2021 $'000	2020 $'000
(a) Income tax expense				
The major components of income tax expense are:				
Statement of Comprehensive Income				
Current income tax				
- Current income tax charge	**1,529**	1,476	**1,529**	1,476
- Deferred tax expense/(benefit)	**160**	(424)	**160**	(424)
Income tax expense reported in the Statements of Comprehensive Income	**1,689**	**1,052**	**1,689**	**1,052**
(b) Reconciliation between aggregate tax expense recognised in the Statements of Comprehensive Income and tax expense calculated per the statutory income tax rate				
A reconciliation between tax expense and the product of accounting profit before tax multiplied by the Bank's applicable income tax rate is as follows:				
Total accounting profit before income tax	**6,392**	**3,866**	**6,392**	**3,866**
At the Bank's statutory income tax rate of 26.0% (2020: 27.5%)	**1,662**	1,063	**1,662**	1,063
Adjustments in respect of current income tax of previous years	**-**	-	**-**	-
Adjustments in respect of deferred tax of previous years	**(6)**	(2)	**(6)**	(2)
Effect of changes in income tax rate on deferred tax	**43**	-	**43**	-
Non assessable government grants	**(13)**	(14)	**(13)**	(14)
Non-deductible expenses	**3**	5	**3**	5
Aggregate income tax expense	**1,689**	**1,052**	**1,689**	**1,052**

Accounting policy

Income tax

Income tax on profit or loss for the period comprises current and deferred tax.

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

Deferred tax is calculated using the Balance Sheet method where temporary differences are identified by comparing the carrying amount of assets and liabilities for financial reporting purposes and their tax bases.

The amount of deferred tax recognised is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities (i.e. through use or sale), using tax rates which are expected to apply when the deferred tax asset is realised, or the deferred tax liability is settled.

A deferred tax asset can only be recognised to the extent that it is probable that future taxable profits will be available for it to be used against. Deferred tax assets and liabilities are offset as they relate to income tax levied by the same taxation authority on the same taxable entity.

Notes to the Financial Statements (continued)

For the year ended 30 June 2021

4 INCOME TAX (continued)

	Consolidated		Bank	
	2021	2020	2021	2020
	$'000	$'000	$'000	$'000
(c) Recognised deferred tax assets and liabilities				
Deferred tax at 30 June relates to the following:				
Statements of Financial Position				
(i) Deferred tax liabilities				
- Other assets	**-**	(62)	**-**	(62)
- Plant and equipment	**(212)**	(240)	**(212)**	(240)
- Right-of-use asset	**(1,412)**	292	**(1,412)**	292
Sub-total	**(1,624)**	**(10)**	**(1,624)**	**(10)**
Amounts recognised directly in equity				
- Effect of adoption of AASB 16	**-**	(2,138)	**-**	(2,138)
- Derivatives	**-**	-	**-**	-
Gross deferred tax liabilities	**(1,624)**	**(2,148)**	**(1,624)**	**(2,148)**
(ii) Deferred income tax assets				
- Loans and advances	**536**	824	**536**	824
- Creditors and other liabilities	**490**	480	**490**	480
- Employee entitlements	**238**	257	**238**	257
- Lease Liability	**1,472**	(322)	**1,472**	(322)
Sub-total	**2,736**	1,239	**2,736**	1,239
Amounts recognised directly in equity				
- Effect of adoption of AASB 16	**-**	2,181	**-**	2,181
Gross deferred tax assets	**2,736**	**3,420**	**2,736**	**3,420**
Offset of deferred tax liabilities	**(1,624)**	(2,148)	**(1,624)**	(2,148)
Net deferred tax assets	**1,112**	**1,272**	**1,112**	**1,272**
Statements of Comprehensive Income				
Deferred income tax charge				
- Other assets	**(61)**	(6)	**(61)**	(6)
- Loans and advances	**287**	(471)	**287**	(471)
- Plant and equipment	**(28)**	177	**(28)**	177
- Creditors and other liabilities	**(9)**	(112)	**(9)**	(112)
- Employee entitlements	**20**	(42)	**20**	(42)
- Right-of-use asset	**(436)**	(292)	**(436)**	(292)
- Lease Liability	**387**	322	**387**	322
Sub-total	**160**	(424)	**160**	(424)
Amounts recognised directly in equity				
- Effect of adoption of new accounting standards	**-**	43	**-**	43
- Derivatives	**-**	(50)	**-**	(50)
Deferred tax income	**160**	**(431)**	**160**	**(431)**

Notes to the Financial Statements (continued)

For the year ended 30 June 2021

FINANCIAL ASSETS

Accounting policy

Financial assets – General

There are three measurement classifications for financial assets under AASB 9: amortised cost, fair value through profit and loss (FVTPL), and fair value through other comprehensive income (FVOCI).

Financial assets are classified into these measurement classifications based on two criteria:

- the business model within which the financial asset is managed; and
- the contractual cash flow characteristics of the financial asset (specifically whether the contractual cash flows represent Solely Payments of Principal and Interest (SPPI)).

The resultant financial asset classifications are as follows:

- **Amortised cost:** Financial assets with contractual cash flows that comprise SPPI, and which are held in a business model whose objective is to collect their cash flows;
- **FVOCI:** Financial assets with contractual cash flows that comprise SPPI, and which are held in a business model whose objective is to collect their cash flows or to sell the assets; and
- **FVTPL:** Any other financial assets not falling into the categories above are measured at FVTPL.

Fair value option for financial assets

A financial asset may be irrevocably designated as FVTPL on initial recognition when the designation eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Business model assessment

The Consolidated Entity determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective:

- The risks that affect the performance of the business model (and the financial assets held within that business model) and the way those risks are managed; and
- How managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected).

The expected frequency, value and timing of sales are also important aspects of the Consolidated Entity's assessment. The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realised in a way that is different from the Consolidated Entity's original expectations, the Consolidated Entity does not change the classification of the remaining financial assets held in that business model but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

The SPPI test

As a second step of its classification process the Consolidated Entity assesses the contractual terms of the financial asset to identify whether they meet the SPPI test.

Principal for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortisation of the premium/discount).

The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk. To make the SPPI assessment, the Consolidated Entity applies judgement and considers relevant factors such as the period for which the interest rate is set.

In contrast, contractual terms that introduce a more than de minimis exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payments of principal and interest on the amount outstanding. In such cases, the financial asset is required to be measured at FVTPL.

Notes to the Financial Statements (continued)

For the year ended 30 June 2021

Accounting policy (continued)

Derecognition

The Consolidated Entity derecognises a loan to a customer, when the rights to receive cash flows from the financial asset have expired. The Consolidated Entity also derecognises the financial asset if it has both transferred the financial asset and the transfer qualifies for derecognition.

The Consolidated Entity has transferred the financial asset if, and only if, either:

- The Consolidated Entity has transferred its contractual rights to receive cash flows from the financial asset; or
- It retains the rights to the cash flows but has assumed an obligation to pay the received cash flows in full without material delay to a third party under a ‘pass-through’ arrangement.

Pass-through arrangements are transactions whereby the Consolidated Entity retains the contractual rights to receive the cash flows of a financial asset (the 'original asset'), but assumes a contractual obligation to pay those cash flows to one or more entities (the 'eventual recipients'), when all of the following three conditions are met:

- The Consolidated Entity has no obligation to pay amounts to the eventual recipients unless it has collected equivalent amounts from the original asset, excluding short-term advances with the right to full recovery of the amount lent plus accrued interest at market rates.
- The Consolidated Entity cannot sell or pledge the original asset other than as security to the eventual recipients.
- The Consolidated Entity has to remit any cash flows it collects on behalf of the eventual recipients without material delay. In addition, the Consolidated Entity is not entitled to reinvest such cash flows, except for investments in cash or cash equivalents, including interest earned, during the period between the collection date and the date of required remittance to the eventual recipients.

A transfer only qualifies for derecognition if either:

- The Consolidated Entity has transferred substantially all the risks and rewards of the asset; or
- The Consolidated Entity has neither transferred nor retained substantially all the risks and rewards of the asset but has transferred control of the asset.

The Consolidated Entity considers control to be transferred if and only if, the transferee has the practical ability to sell the asset in its entirety to an unrelated third party and is able to exercise that ability unilaterally and without imposing additional restrictions on the transfer.

When the Consolidated Entity has neither transferred nor retained substantially all the risks and rewards and has retained control of the asset, the Consolidated Entity continues to recognise the financial asset to the extent of its continuing involvement in the financial asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration the Consolidated Entity could be required to pay.

Notes to the Financial Statements (continued)

For the year ended 30 June 2021

5 CASH AND CASH EQUIVALENTS

	Consolidated		Bank	
	2021 $'000	2020 $'000	2021 $'000	2020 $'000
Cash on hand	**1**	1	**1**	1
Cash at bank [(1)]	**23,088**	29,126	**19,763**	23,523
Deposits at call with financial institutions	**15,404**	10,116	**15,404**	10,116
Cash and cash equivalents	**38,493**	**39,243**	**35,168**	**33,640**

(1) Includes $0.950 million (2020: $1.365 million) cash in Peer-to-Peer Lending platforms, and $11.648 million (2020: $15.538 million) of cash in Portavia Trust No.1 and Portavia Trust No.2 not readily available and subject to restrictions of the respective Trust Deeds.

Cash at bank earns interest at floating rates based on daily bank deposit rates depending on product category. The carrying amounts of cash and cash equivalents approximates fair value. Short-term deposits are made for varying periods of between one day and three months, depending on the immediate cash requirements of the Consolidated Entity, and earns interest at the respective short-term rates.

Accounting policy

Cash and cash equivalents

Cash and cash equivalents include cash at bank and on hand, short-term bills, and money at call with an original maturity of three months or less. Cash and cash equivalents are initially measured at fair value then subsequently at amortised cost. Interest is recognised in the Statements of Comprehensive Income using the effective interest method.

Cash and cash equivalents also include cash within Portavia Trust No.1 and Portavia Trust No.2, which are subject to restriction.

For the purpose of the Statements of Cash Flows, cash and cash equivalents are defined as cash and cash equivalents net of outstanding bank overdrafts. Whereas, for the purpose of the Statements of Financial Position bank overdrafts are included within interest-bearing loans and borrowings.

Notes to the Financial Statements (continued)

For the year ended 30 June 2021

6 INVESTMENTS

	Consolidated		Bank	
	2021 $'000	2020 $'000	2021 $'000	2020 $'000
Negotiable Certificates of Deposits	**66,982**	63,892	**66,982**	63,892
Floating Rate Notes (1)	**63,227**	54,882	**83,780**	75,435
Term Deposits	**650**	603	**650**	603
Debt investments at amortised cost	**10,136**	6,527	**10,136**	6,527
Investments	**140,995**	**125,904**	**161,548**	**146,457**
Maturity analysis: Investments				
< 3 months	**65,052**	29,966	**65,052**	29,966
3 to 6 months	**12,995**	45,963	**12,995**	45,963
6 to 12 months	**12,673**	9,642	**33,226**	30,195
> 1 year	**50,275**	40,333	**50,275**	40,333
Investments	**140,995**	**125,904**	**161,548**	**146,457**

(1) The Bank holds $20,553,025 (2020: $20,553,025) in sub-ordinated notes issued by Portavia Trust No.1 as part of a contingency liquidity facility. These investments are eliminated on consolidation.

Accounting policy

Investments

Investments include debt securities held as part of the Consolidated Entity's liquidity portfolio.

These investments are held within the business model where the objective is to hold them in order to collect contractual cash flows. The contractual cash flows on these financial assets comprise payments of principal and interest only. These securities are initially recognised at their fair value plus directly attributable transaction costs.

Subsequent to initial recognition, they are measured at amortised cost using the effective interest method and presented net of any provisions for impairment.

The securities are assessed for impairment using the expected credit loss approach described in Note 8. Impairment is recognised in the Impairment expense line in the Statements of Comprehensive Income.

Notes to the Financial Statements (continued)

For the year ended 30 June 2021

7 LOANS AND ADVANCES

	Consolidated		Bank	
	2021 $'000	2020 $'000	2021 $'000	2020 $'000
Loans and advances measured at fair value through profit and loss				
Lines of credit	16,604	-	16,604	-
Sub-total	16,604	-	16,604	-
Loans and advances measured at amortised cost				
Lines of credit	21,149	26,409	21,149	26,409
Term loans	855,966	888,965	855,966	888,965
Sub-total	877,115	915,374	877,115	915,374
Gross loans and advances	893,719	915,374	893,719	915,374
Add:				
- Gross commissions capitalised	10,285	9,252	10,285	9,252
- Accumulated amortisation	(8,569)	(7,665)	(8,569)	(7,665)
Net commissions capitalised	1,716	1,587	1,716	1,587
Allowance for impairment loss	(2,144)	(2,993)	(2,144)	(2,993)
Net loans and advances	893,291	913,968	893,291	913,968
Security dissection				
- Secured by mortgage	850,152	870,536	850,152	870,536
- Secured other	15,770	9,260	15,770	9,260
- Unsecured	27,797	35,578	27,797	35,578
Gross loans and advances	893,719	915,374	893,719	915,374
Purpose dissection				
- Residential loans	813,724	851,448	813,724	851,448
- Personal loans	50,124	44,831	50,124	44,831
- Commercial loans	29,871	19,095	29,871	19,095
Gross loans and advances	893,719	915,374	893,719	915,374
Maturity analysis: Gross loans and advances (1)				
< 3 months	107	324	107	324
3 to 12 months	16,748	7,425	16,748	7,425
1 - 5 years	42,466	37,697	42,466	37,697
> 5 years	834,398	869,928	834,398	869,928
Gross loans and advances	893,719	915,374	893,719	915,374

(1) Cash flows are based on contractual obligations.

Credit risk adjustments on financial assets designated as FVTPL

There were no credit risk adjustments on individual financial assets.

Notes to the Financial Statements (continued)

For the year ended 30 June 2021

7 LOANS AND ADVANCES (continued)

	Consolidated 2021 $'000	Consolidated 2020 $'000	Bank 2021 $'000	Bank 2020 $'000
(a) Concentration of loans				
Geographic areas: Residence and/or Employed within:				
- New South Wales	**477,092**	481,257	**477,092**	481,257
- Victoria	**188,852**	202,800	**188,852**	202,800
- Queensland	**133,307**	136,083	**133,307**	136,083
- Western Australia	**32,805**	41,254	**32,805**	41,254
- South Australia	**29,775**	23,231	**29,775**	23,231
- Northern Territory	**1,037**	1,228	**1,037**	1,228
- Tasmania	**5,665**	6,212	**5,665**	6,212
- Australian Capital Territory	**25,186**	23,309	**25,186**	23,309
Gross loans and advances	**893,719**	**915,374**	**893,719**	**915,374**
(b) Fair value				
The *carrying amount* of loans and advances are as follows:				
- Lines of credit	**37,753**	26,409	**37,753**	26,409
- Term loans	**855,966**	888,965	**855,966**	888,965
Gross loans and advances	**893,719**	**915,374**	**893,719**	**915,374**
The *fair values* of loans and advances are as follows:				
- Lines of credit	**37,753**	26,409	**37,753**	26,409
- Term loans	**856,678**	890,979	**856,678**	890,979
Gross loans and advances	**894,431**	**917,388**	**894,431**	**917,388**

The fair values are based on cash flows discounted at a rate reflecting current market rates adjusted for counterparty credit risk.

Accounting policy

Loans and advances measured at FVTPL

Reverse mortgages are initially recognised and subsequently measured at FVTPL, per Note 2(e).

Loans and advances measured at amortised cost

Loans and advances are held within a business model whose objective is to hold them in order to collect contractual cash flows. The contractual cash flows on these financial assets comprise solely payments of principal and interest. These instruments are accordingly measured at amortised cost.

Loans and advances are recognised on settlement date, i.e. when funds are transferred to the members' accounts. They are initially recognised at their fair value plus directly attributable transaction costs, primarily brokerage and loan origination fees.

Subsequent to initial recognition, they are measured at amortised cost using the effective interest method and presented net of provisions for impairment.

For the accounting policy for provisions for impairment, refer to Note 8. For information on the Consolidated Entity's management of credit risk, refer to Note 2(b).

Notes to the Financial Statements (continued)

For the year ended 30 June 2021

8 PROVISION FOR IMPAIRMENT

A decrease in allowance for impairment loss of $849,000 (2020: increase of $653,000) has been recognised within the impairment benefit/expense in the Statements of Comprehensive Income. This provision is in respect of specific debtors and debtors assessed on a collective basis, as described in the accounting policy section of this note.

	Consolidated		Bank	
	2021 $'000	2020 $'000	2021 $'000	2020 $'000
Provision for impairment				
Balance at beginning of period	**2,993**	2,340	**2,993**	2,340
Additional individually assessed impairment	**552**	1,050	**552**	1,050
Loans written-off	**(386)**	(842)	**(386)**	(842)
Reversal of individually assessed impairment	**(231)**	(137)	**(231)**	(137)
Changes to modelling assumptions	**88**	901	**88**	901
Decrease in collective impairment	**(872)**	(319)	**(872)**	(319)
Balance at end of period	**2,144**	**2,993**	**2,144**	**2,993**
Individually assessed impairment	**435**	521	**435**	521
Collective impairment	**1,709**	2,472	**1,709**	2,472
Total provision for impairment	**2,144**	**2,993**	**2,144**	**2,993**

2021	Consolidated Entity and Bank			
	Stage 1 12 month ECL $'000	Stage 2 Lifetime ECL $'000	Stage 3 Lifetime ECL $'000	Total(1) $'000
Gross carrying amount as at 1 July 2020	**855,228**	**56,716**	**3,430**	**915,374**
New loans originated	206,324	-	-	**206,324**
Payments and assets derecognised (excluding write-offs)	(230,996)	(10,706)	(2,216)	**(243,918)**
Transfers to Stage 1	41,375	(41,052)	(323)	**-**
Transfers to Stage 2	(3,691)	3,691	-	**-**
Transfers to Stage 3	(1,472)	(2,690)	4,162	**-**
Amounts written-off	-	-	(665)	**(665)**
At 30 June 2021	**866,768**	**5,959**	**4,388**	**877,115**

2020	Consolidated Entity and Bank			
	Stage 1 12 month ECL $'000	Stage 2 Lifetime ECL $'000	Stage 3 Lifetime ECL $'000	Total(1) $'000
Gross carrying amount as at 1 July 2019	**945,206**	**7,620**	**4,414**	**957,240**
New loans originated	161,757	-	-	**161,757**
Payments and assets derecognised (excluding write-offs)	(198,052)	(2,770)	(1,945)	**(202,767)**
Transfers to Stage 1	3,086	(2,928)	(158)	**-**
Transfers to Stage 2	(54,458)	55,382	(924)	**-**
Transfers to Stage 3	(2,311)	(588)	2,899	**-**
Amounts written-off	-	-	(856)	**(856)**
At 30 June 2020	**855,228**	**56,716**	**3,430**	**915,374**

(1) Carrying amount of loans and advances measured at amortised cost..

Notes to the Financial Statements (continued)

For the year ended 30 June 2021

8 PROVISION FOR IMPAIRMENT (continued)

2021	Consolidated Entity and Bank Stage 1 12 month ECL $'000	 Stage 2 Lifetime ECL $'000	 Stage 3 Lifetime ECL $'000	 Total $'000
ECL allowance as at 1 July 2020	**761**	**1,743**	**489**	**2,993**
New loans originated	51	-	-	**51**
Transfers to Stage 1	36	(155)	(30)	**(149)**
Transfers to Stage 2	(7)	140	-	**133**
Transfers to Stage 3	(6)	(226)	583	**351**
Loans repaid	(242)	(464)	(231)	**(937)**
Changes to modelling assumptions	949	(860)	(1)	**88**
Write-offs	-	-	(386)	**(386)**
At 30 June 2021	**1,542**	**178**	**424**	**2,144**

2020	Consolidated Entity and Bank Stage 1 12 month ECL $'000	 Stage 2 Lifetime ECL $'000	 Stage 3 Lifetime ECL $'000	 Total $'000
ECL allowance as at 1 July 2019	**1,471**	**371**	**498**	**2,340**
New loans originated	32	-	-	**32**
Transfers to Stage 1	-	(100)	(14)	**(114)**
Transfers to Stage 2	(106)	606	(56)	**444**
Transfers to Stage 3	6	(162)	1,121	**965**
Loans repaid	(486)	(110)	(137)	**(733)**
Changes to modelling assumptions	(156)	1,138	(81)	**901**
Write-offs	-	-	(842)	**(842)**
At 30 June 2020	**761**	**1,743**	**489**	**2,993**

The estimation of the fair value of collateral and other security enhancements held against loans and advances in arrears is shown below:

	Consolidated 2021 $'000	 2020 $'000	Bank 2021 $'000	 2020 $'000
Past due 30 days and over (1)	**11,074**	**13,873**	**11,074**	**13,873**

(1) The fair value of collateral held for loans less than 30 days past due exceeds the carrying value of loans.

Management monitors the market value of collateral obtained during its review of the adequacy of the allowance for impairment losses.

Notes to the Financial Statements (continued)

For the year ended 30 June 2021

8 PROVISION FOR IMPAIRMENT (continued)

Impact of overlays on the provision for impairment

The following table reflects the split between modelled ECL and other economic overlays.

Where there is increased uncertainty regarding the forward-looking economic conditions under AASB 9 or limitations of the historical data used to calibrate the model to current stressed environments, overlays are typically used to address areas of potential risk not captured in the underlying modelled ECL.

	Consolidated		Bank	
	2021	2020	2021	2020
	$'000	$'000	$'000	$'000
Modelled provision for ECL	**1,060**	1,353	**1,060**	1,353
Overlays (1)	**1,084**	1,640	**1,084**	1,640
Total provision for ECL	**2,144**	**2,993**	**2,144**	**2,993**

(1) Included is $1.0 million related to COVID-19 (2020: $1.6 million).

Accounting policy

Provision for impairment

By providing loans to members the Consolidated Entity bears the risk that the future circumstances of members might change, including their ability to repay their loans in part or in full. While the Consolidated Entity's credit and responsible lending policies aim to minimise this risk, there will always be instances where the Consolidated Entity will not receive the full amount owed and hence a provision for expected credit loss is necessary.

Expected Credit Loss (ECL) model

The ECL model applies to all financial assets measured at amortised cost or FVOCI. These include cash and cash equivalents, deposits with other ADIs, investment debt securities and loans and advances to customers. Financial assets are divided into homogenous portfolios based on shared risk characteristics. These include on-balance sheet residential mortgages, commercial mortgages, commercial loans, peer-to-peer lending, personal loans and lines of credit and off-balance sheet undrawn commitments.

For investment debt securities and deposits with other ADIs, the Consolidated Entity has applied the AASB 9 'low credit risk' exemption given their credit risk rating is equivalent to the globally understood definition of 'investment grade'.

Model stages

The ECL model uses a three-stage approach to the recognition of expected credit losses. Financial assets migrate through these three stages based on significant changes in credit risk since origination:

- **Stage 1: 12 months ECL, Performing loans**

  On origination, financial assets recognise an impairment provision equivalent to 12 months ECL, which represents the credit losses expected to arise from defaults occurring over the next 12 months.

- **Stage 2: Lifetime ECL, Performing loans that have experienced a Significant Increase in Credit Risk (SICR)**

  Financial assets that have experienced a SICR are transferred to Stage 2 and recognise an impairment provision equivalent to lifetime ECL. Lifetime ECL represents the credit losses expected to arise from defaults occurring over the remaining life of financial assets. If credit quality improves in a subsequent period such that the increase in credit risk since origination is no longer considered significant, the exposure is reclassified to Stage 1 and the impairment provision reverts to 12 months ECL.

- **Stage 3: Lifetime ECL, Non-performing loans**

  Financial assets in default recognise a provision equivalent to lifetime ECL. This includes assets that are considered impaired as well as assets that are considered to be in default but are not impaired because, for example, no loss is expected based on the security position.

Notes to the Financial Statements (continued)

For the year ended 30 June 2021

8 PROVISION FOR IMPAIRMENT (continued)

Accounting policy (continued)

Movement between stages

Assets may move in both directions through the stages of the impairment model. Assets previously in Stage 2 may move back to Stage 1 if it is no longer considered that there has been a SICR. Similarly, assets in Stage 3 may move back to Stage 1 or Stage 2 if they are no longer assessed to be non-performing.

Collective and individual assessment

Credit losses for financial assets in Stage 1 and Stage 2 are assessed for impairment collectively, whilst those in Stage 3 are subjected to either collective or individual assessment of expected credit losses.

Significant Increase in Credit Risk (SICR)

When determining whether the risk of default on a financial instrument has increased significantly since origination, the Consolidated Entity uses the criteria of 30 days past due or loans under credit watch as the criteria to identify whether there has been a SICR.

Default occurs when there are indicators that a debtor is unlikely to meet contractual credit obligations to the Consolidated Entity in full, or the exposure is 90 days past due. Financial assets, including those that are well secured, are considered credit impaired when they default.

Measurement of ECL

The ECLs are a probability-weighted estimate of the cash shortfalls expected to result from defaults over the relevant timeframe. They are determined by evaluating a range of possible outcomes and taking into account the time value of money, past events, current conditions and forecasts of future economic conditions.

The ECL is calculated as the product of the following credit risk factors at a facility level, discounted to incorporate the time value of money:

- **Probability of Default (PD)** – the estimate of the likelihood that a borrower will default over a given period;
- **Exposure at Default (EAD)** – the expected balance sheet exposure at default taking into account repayments of principal and interest, expected additional drawdowns and accrued interest; and
- **Loss Given Default (LGD)** – the expected loss in the event of the borrower defaulting, expressed as a percentage of the facility's EAD, taking into account direct and indirect recovery costs.

These credit risk factors are adjusted for current and forward-looking information through the use of macro-economic variables.

Expected life

When estimating ECL exposures in Stage 2 and 3, the Consolidated Entity considered the expected lifetime over which it is exposed to credit risk.

The expected lifetime is determined using a behavioural term, taking into account expected prepayment behaviour and substantial modifications.

Forward-looking macroeconomic information

The measurement of ECL for each stage and the assessment of SICR consider information about past events and current conditions as well as reasonable and supportable projections of future events and economic conditions. The estimation of forward-looking information is a critical accounting judgement. The Consolidated Entity considers three future macroeconomic scenarios, including a base case scenario along with upside and downside scenarios.

The macroeconomic variables used in these scenarios, based on current economic forecasts, include Gross Domestic Product (GDP) growth rates, movements in the official Cash Rate, Unemployment rates, and annual changes in the ASX All-Ordinaries Index.

Notes to the Financial Statements (continued)

For the year ended 30 June 2021

8 PROVISION FOR IMPAIRMENT (continued)

Accounting policy (continued)

Forward-looking macroeconomic information (continued)

- **Base case scenario** is the Consolidated Entity's view of the most likely future macro-economic conditions. It reflects management's assumptions used for strategic planning and budgeting.
- **Upside scenario** is based on more optimistic economic events than the base case scenario
- **Downside scenario** is a more severe scenario with ECL higher than those under the current base case scenario.

The macroeconomic scenarios are weighted based on the Consolidated Entity's best estimate of the relative likelihood of each scenario. The requirement to probability-weight future outcomes captures the uncertainty inherent in the credit outlook. The weighting applied to each of the three scenarios is based on management's best estimate of the proportion of potential future loss outcomes that each scenario represents, and takes into account historical frequency, current trends, and forward-looking conditions.

Where applicable, model adjustments are made to incorporate reasonable and supportable information about known or expected risks that have not been considered in the modelling process. This includes but is not limited to information about emerging risk at a geographical location or a particular portfolio segment level. Judgements can change with time as new information becomes available, which could result in changes to the provision for ECL.

The Executive Risk and Compliance Committee (ERCC) and Board Risk Committee are responsible for approving macroeconomic variables and probability weightings of the three macroeconomic scenarios, as well as all model refinements. The Consolidated Entity's loan loss provision model and assumptions, loan impairment expense and all areas of judgement are reported to the Board.

Key judgements and estimates

Individually assessed allowance for ECL

In estimating individually assessed ECL for Stage 3 exposures, the Consolidated Entity makes judgements and assumptions in relation to expected repayments, the realisable value of collateral, the business or employment prospects for the member, competing claims, and the likely cost and duration of the work-out process.

Collectively assessed allowance for ECL

During the financial year ended 30 June 2021 the collectively assessed provision decreased from $2.47 million to $1.71 million. This credit impairment release in the current financial year was primarily driven by the partial release of the COVID-19 overlay, largely reflecting the impact of an improved economic outlook relative to the outlook at the 30 June 2020 year end. Other net movements include changes in modelling inputs and portfolio changes not related to COVID-19, which further reduced the collective provision by $0.17 million.

Additional support provided to members, in the form of repayment deferrals, was phased out in March 2021; whereby the majority of members impacted have reverted back to loan repayments. Where members required further support, the Bank provided this through its existing hardship arrangements. Subsequent to the financial year-ended 30 June 2021, in response to the continued occurrence of outbreaks and resultant lockdowns additional support, in the form of repayment deferrals, has again been extended to members.

Despite the improving economic outlook, uncertainty remains, and the Consolidated Entity will continue to monitor how its members manage the impact of further lockdowns and the eventual winding down of government assistance in determining impairment provisions. As such, $1.0 million of the COVID-19 overlay was retained until further information becomes available.

In estimating collectively assessed ECL, the Consolidated Entity makes judgements and assumptions in relation to the selection of:

- a modelling methodology; and
- inputs for the model, including interdependencies between those inputs.

Notes to the Financial Statements (continued)

For the year ended 30 June 2021

8 PROVISION FOR IMPAIRMENT (continued)

Key judgements and estimates (continued)

Key judgements and assumptions, and changes

Determining when a SICR has occurred

Judgement is involved in setting the rules and trigger points to determine whether there has been a SICR since initial recognition of a loan. The effectiveness of SICR criteria is monitored on an ongoing basis. The Consolidated Entity uses the criteria of 30 days past due or loans under credit watch as the criteria for determining whether there has been a SICR.

There have been no changes to the rules and trigger points used to determine whether a SICR has occurred in the year ended 30 June 2021.

Measuring both 12-month and lifetime ECLs

The PD, LGD and EAD credit risk parameters used in determining ECL are point-in-time measures reflecting forward-looking information determined by management. Judgement is involved in determining which forward-looking information variables are relevant for particular lending portfolios.

The PD, EAD and LGD models are subject to the Consolidated Entity's policies that stipulate periodic model monitoring, periodic revalidation and defines approval procedures and authorities. There were no material changes to the policies during the year end 30 June 2021.

In addition, judgement is required where behavioural characteristics are applied in estimating the lifetime of a facility to be used in measuring ECL.

There were no material changes to behavioural lifetime estimates during the year ended 30 June 2021.

Base case economic forecast

The Consolidated Entity derives a forward-looking base case economic scenario which reflects its view of the most likely future macro-economic conditions.

There have been no changes to the types of forward-looking variables (key economic drivers) used as model inputs in the current year.

As at 30 June 2021, the base case assumptions have been updated to reflect the evolving economic climate. This includes an assessment of central bank policies, governments' actions, and the response of regulators and business.

Probability weightings of macroeconomic scenarios

Probability weighting of each economic scenario is determined by management considering the risks and uncertainties surrounding the base case economic scenario at each measurement date.

Historically, the Consolidated Entity conducted an economic assessment and applied judgement in determining appropriate probability weightings. In the current year, the Consolidated Entity implemented a modelled approach incorporating historical, current, and forward-looking macroeconomic indicators to determine the probability weightings more dynamically and with greater objectivity.

Management temporary adjustments

Management temporary adjustments to the allowance for impairment are used in circumstances where it is judged that the existing inputs, assumptions, and model methodology do not capture all the risk factors relevant to the Consolidated Entity's lending portfolios. The use of management temporary adjustments may impact the amount of ECL recognised.

The uncertainty associated with the COVID-19 pandemic is not fully incorporated into the existing ECL model. Accordingly, management overlays have been applied to ensure provisions are appropriate.

Management has applied a number of adjustments to the modelled ECL, primarily related to COVID-19. Management overlays (including the COVID-19 overlay) which add to the modelled ECL provision have been made for risks particular to less seasoned products and for loan portfolios in run-off.

Notes to the Financial Statements (continued)

For the year ended 30 June 2021

8 PROVISION FOR IMPAIRMENT (continued)

The table below reflects the sensitivity of the ECL allowance to key factors used in determining it.

ECL sensitivity (weightings applied to scenarios)

	Total ECL $'000	Impact $'000
Reported probability weighted ECL	2,144	-
100% Upside scenario ECL	1,564	(580)
100% Central (base case) scenario ECL	2,025	(119)
100% Downside scenario ECL	3,117	973

Notes to the Financial Statements (continued)

For the year ended 30 June 2021

9 PROPERTY, PLANT AND EQUIPMENT

	Consolidated		Bank	
	2021	2020	2021	2020
	$'000	$'000	$'000	$'000
Plant and equipment				
At cost	**676**	614	**676**	614
Accumulated depreciation	**(480)**	(395)	**(480)**	(395)
Net carrying amount	**196**	**219**	**196**	**219**
Leasehold improvements				
At cost	**2,158**	2,158	**2,158**	2,158
Accumulated depreciation	**(719)**	(450)	**(719)**	(450)
Net carrying amount	**1,439**	**1,708**	**1,439**	**1,708**
Right-of-use asset				
At cost	**8,474**	8,482	**8,474**	8,482
Accumulated depreciation	**(2,826)**	(1,767)	**(2,826)**	(1,767)
Net carrying amount	**5,648**	**6,715**	**5,648**	**6,715**
Total property, plant and equipment				
At cost	**11,308**	11,254	**11,308**	11,254
Accumulated depreciation and impairment	**(4,025)**	(2,612)	**(4,025)**	(2,612)
Net carrying amount	**7,283**	**8,642**	**7,283**	**8,642**
Reconciliation of carrying amounts at the beginning and end of the period				
Plant and equipment				
Opening balance	**219**	280	**219**	280
- Additions	**104**	79	**104**	79
- Disposals (net of accumulated depreciation)	**-**	-	**-**	-
- Depreciation charge for the year	**(127)**	(140)	**(127)**	(140)
Closing balance	**196**	**219**	**196**	**219**
Leasehold property improvements				
Opening balance	**1,708**	1,979	**1,708**	1,979
- Additions	**-**	-	**-**	-
- Disposals (net of accumulated depreciation)	**-**	-	**-**	-
- Depreciation charge for the year	**(269)**	(271)	**(269)**	(271)
Closing balance	**1,439**	**1,708**	**1,439**	**1,708**
Right-of-use asset				
Opening balance	**6,715**	-	**6,715**	-
- Impact of adoption of AASB 16	**-**	7,775	**-**	7,775
- Effect of remeasurement	**(7)**	-	**(7)**	-
- Additions	**-**	-	**-**	-
- Disposals (net of accumulated depreciation)	**-**	-	**-**	-
- Depreciation charge for the year	**(1,060)**	(1,060)	**(1,060)**	(1,060)
Closing balance	**5,648**	**6,715**	**5,648**	**6,715**

Notes to the Financial Statements (continued)

For the year ended 30 June 2021

9 PROPERTY, PLANT AND EQUIPMENT (continued)

Accounting policy

Property, plant and equipment

Property, plant, and equipment are stated at cost, including direct and incremental acquisition costs less accumulated depreciation and impairment if required. Subsequent costs are capitalised where it enhances the asset. Depreciation is calculated using the straight-line method over the asset's estimated useful economic life.

The useful lives of major depreciable asset categories are as follows:

Office equipment and furniture	2 to 8 years
Computer hardware	2 to 5 years
Leasehold improvements	4 to 8 years (1)

(1) Calculated as the shorter of the useful life or the remaining lease term.

Assets that cost less than $300 are expensed immediately.

Property, plant, and equipment is derecognised upon disposal or where no further future economic benefits are expected from its use or disposal. Upon derecognition, any resulting gain or loss, calculated as the difference between the net disposal proceeds and the carrying amount of the asset, is included in profit and loss in the Statements of Comprehensive Income.

Right-of-use asset

Definition of a lease

The Consolidated Entity assesses whether a contract is, or contains, a lease using the definition of a lease in AASB 16 *Leases*. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

As a lessee

As at 30 June 2021, the Consolidated Entity had contracted a lease for its head office only. A right-of-use asset and a lease liability is recognised at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of the costs to restore the underlying asset, less any lease incentives received.

Subsequently, the right-of-use asset is depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful life of the right-of-use asset is determined on the same basis as those of property, plant, and equipment. In addition, the right-of-use asset is periodically adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Consolidated Entity's incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments; and
- variable lease payments that depend on an index or a rate, measured using the index or rate as at the commencement date.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset.

The Consolidated Entity presents right-of-use assets in Property, Plant and Equipment and lease liabilities within Borrowings (Note 16) in the Statements of Financial Position.

Notes to the Financial Statements (continued)

For the year ended 30 June 2021

9 PROPERTY, PLANT AND EQUIPMENT (continued)

Accounting policy

As a lessee (continued)

Under AASB 16, right-of-use assets are tested for impairment in accordance with AASB 136 *Impairment of Assets*. This replaces the previous requirement to recognise a provision for onerous lease contracts.

For short-term leases (lease term of 12 months or less) and leases of low-value items (such as personal computers and office furniture), the Consolidated Entity has opted to recognise a lease expense on a straight-line basis as permitted by AASB 16. This expense is presented within administration expenses in the Statements of Comprehensive Income.

10 INTANGIBLE ASSETS

	Consolidated		Bank	
	2021 $'000	2020 $'000	2021 $'000	2020 $'000
Work in progress				
Net carrying amount - at cost	**340**	416	**340**	416
Computer software				
- Cost	**2,617**	2,602	**2,617**	2,602
- Accumulated amortisation	**(2,022)**	(1,888)	**(2,022)**	(1,888)
Net carrying amount	**595**	714	**595**	714
Intangible assets	**935**	**1,130**	**935**	**1,130**
Reconciliation of carrying amount at beginning and end of the period				
Work in progress				
Opening balance	**416**	441	**416**	441
- Additions	**48**	635	**48**	635
- Transfers out	**(79)**	(606)	**(79)**	(606)
- Disposals	**(45)**	(54)	**(45)**	(54)
Closing balance	**340**	**416**	**340**	**416**
Computer software				
Opening balance	**714**	230	**714**	230
- Additions	**22**	45	**22**	45
- Transfers in	**79**	606	**79**	606
- Amortisation	**(220)**	(167)	**(220)**	(167)
Closing balance	**595**	**714**	**595**	**714**

Notes to the Financial Statements (continued)

For the year ended 30 June 2021

10 INTANGIBLE ASSETS (continued)

Accounting policy

Intangible assets

Intangible assets are identifiable non-monetary assets without physical substance. They are recognised only if it is probable the asset will generate future economic benefits for the Consolidated Entity.

Intangible assets include certain internal and external costs incurred in acquiring and developing software that are capitalised and amortised over the estimated useful life on a straight-line basis.

Software projects are amortised over two to five years.

Software maintenance is expensed as incurred.

All intangible assets must be tested for impairment when there is an indication that the carrying amount may be greater than the recoverable amount.

11 OTHER ASSETS

	Consolidated		Bank	
	2021 $'000	2020 $'000	2021 $'000	2020 $'000
Prepayments	**1,022**	366	**1,022**	366
Sundry debtors	**124**	141	**2,333**	2,891
Other assets	**1,146**	**507**	**3,355**	**3,257**

Accounting policy

Other assets

Other assets are recognised on an accrual or service performed basis and amortised over the period in which the economic benefits from these assets are received.

Notes to the Financial Statements (continued)

For the year ended 30 June 2021

FINANCIAL LIABILITIES

Accounting policy

Financial liabilities – General

Outlined below is a description of how the Consolidated Entity classifies and measures financial liabilities relevant to the subsequent note disclosures.

Classification and measurement

Financial liabilities are measured at amortised cost, or fair value through profit and loss (FVTPL) when they are held for trading.

Additionally, financial liabilities can be designated at FVTPL where:

- The designation eliminates or significantly reduces an accounting mismatch which would otherwise arise;
- A group of financial liabilities are managed, and their performance is evaluated, on a fair value basis in accordance with a documented risk management strategy; or
- The financial liability contains one or more embedded derivatives, unless the embedded derivative:
  - does not significantly modify the cash flows that otherwise would be required by the contract; or
  - is closely related to the host financial instrument.

Derecognition of a financial liability

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of the existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability, and the difference in the respective carrying amount is recognised in the Statements of Comprehensive Income.

Notes to the Financial Statements (continued)

For the year ended 30 June 2021

12 DEPOSITS

	Consolidated		Bank	
	2021 $'000	2020 $'000	2021 $'000	2020 $'000
Call deposits	**286,993**	261,459	**286,993**	261,459
Retail term deposits	**420,442**	461,459	**420,442**	461,459
Wholesale term deposits	**96,546**	74,981	**96,546**	74,981
Withdrawable shares	**48**	49	**48**	49
Deposits	**804,029**	**797,948**	**804,029**	**797,948**
(a) Maturity analysis: Deposits				
At call	**287,042**	261,508	**287,042**	261,508
< 3 months	**266,555**	264,163	**266,555**	264,163
3 to 6 months	**137,705**	178,672	**137,705**	178,672
6 to 12 months	**102,330**	82,018	**102,330**	82,018
1 to 5 years	**10,397**	11,587	**10,397**	11,587
> 5 years	**-**	-	**-**	-
Deposits	**804,029**	**797,948**	**804,029**	**797,948**
(b) Fair value				
The fair values of deposits are as follows:				
- Call deposits	**286,993**	261,459	**286,993**	261,459
- Term deposits	**517,283**	537,538	**517,283**	537,538
- Withdrawable shares	**48**	49	**48**	49
Total fair value of deposits	**804,324**	**799,046**	**804,324**	**799,046**

Information regarding the interest rate risk and liquidity and funding risk related to deposits is set out in Note 2(a) and 2(c) respectively.

Accounting policy

Deposits

Deposits include terms deposits and other demand deposits from members and wholesale money market counterparties.

Deposits are initially recognised at fair value less directly attributable transaction costs.

Subsequent to initial recognition, they are measured at amortised cost.

Interest incurred is recognised within net interest income in the Statements of Comprehensive Income using the effective interest method.

Notes to the Financial Statements (continued)

For the year ended 30 June 2021

13 TRADE PAYABLES

	Consolidated 2021 $'000	Consolidated 2020 $'000	Bank 2021 $'000	Bank 2020 $'000
Creditors and accruals	**4,458**	**5,168**	**4,283**	**4,893**
Undiscounted maturity analysis: Creditors and accruals				
< 3 months	**3,880**	4,711	**3,705**	4,436
> 3 months	**578**	457	**578**	457
Creditors and accruals	**4,458**	**5,168**	**4,283**	**4,893**

Accounting policy

Trade payables

The payables are non-trade, non-interest bearing and have an average term of 14 days.

Due to the short-term nature of these payables, their carrying value (contractual value) is deemed to approximate their fair value.

14 DERIVATIVE FINANCIAL INSTRUMENTS

Interest rate swaps

Portavia Trust No.1 has interest rate swap contracts with Westpac Banking Corporation, paying a fixed rate of interest in return for a floating rate receipt. The payment flows are typically netted against each other, with the difference being paid by one party to the other. The Portavia Trust No.1 swaps have amortising profiles. The table below reflects the fair value of the derivative financial instruments and the total notional amount.

	Consolidated 2021 $'000	Consolidated 2020 $'000	Bank 2021 $'000	Bank 2020 $'000
Cash flow Hedges				
Fair value asset	**-**	-	**-**	-
Fair value liability	**(37)**	(77)	**-**	-
Notional amount	**2,254**	**4,313**	**-**	**-**

The schedule below indicates, as at 30 June, the periods when the hedged cash flows are expected to occur and when they are expected to affect profit or loss for the Consolidated Entity and Bank.

	Consolidated Within 1 year $'000	Consolidated 1 to 5 years $'000	Bank Within 1 year $'000	Bank 1 to 5 years $'000
2021				
Net cash flows	**(32)**	**-**	**-**	**-**
2020				
Net cash flows	**(51)**	**(30)**	**-**	**-**

Notes to the Financial Statements (continued)

For the year ended 30 June 2021

14 DERIVATIVE FINANCIAL INSTRUMENTS (continued)

Accounting policy

Derivative financial instruments

Under the policy choice provided by AASB 9 *Financial Instruments*, the Consolidated Entity has continued to apply the hedge accounting requirements of AASB 139 *financial Instruments: Recognition and Measurement*.

Features

Derivative financial instruments are contracts:

- whose value is derived from one or more underlying price indices (or other variables) defined in the contract;
- that require little or no initial net investment; and
- that are settled at a future date.

Movements in the price of the underlying variables, which cause the value of the contract to fluctuate, are reflected in the fair value of the derivative.

Purpose

The Consolidated Entity's financial instruments have been categorised as:

Designated in Hedging Relationships

Derivatives designated into hedge accounting relationships in order to minimise profit or loss volatility by matching movements to underlying positions relating to hedges of the Consolidated Entity's exposure to interest rate risk.

Types

The Consolidated Entity uses one type of financial instrument, swaps, a contract in which two parties exchange a series of cash flows for another.

Risk managed

The Consolidated Entity uses swaps to manage a particular market factor, namely interest rates – fixed interest rates applying to money lent, deposited, or borrowed.

Designated in hedging relationships

The Consolidated Entity utilises cash flow hedges:

- **Objective of this hedging arrangement**

  To hedge the Consolidated Entity's exposure to volatility in cash flows of a recognised asset or liability, a firm commitment to a highly probable forecast transaction caused by interest rate movements.
- **Recognition of effective hedge portion**

  The effective portion of changes in the fair value of derivatives designated as a cash flow hedge is recognised in the cash flow hedge reserve.
- **Recognition of ineffective hedge portion**

  Recognised immediately in the Statements of Comprehensive Income as non-interest income.
- **If a hedging instrument expires, or is sold, terminated, or exercised; or no longer qualifies for hedge accounting**

  Only when the Consolidated Entity recognises the hedged items in profit or loss is the amount previously deferred in the cash flow hedge reserve transferred to profit or loss.
- **Hedge item sold or repaid**

  Amounts accumulated in equity are transferred immediately to profit or loss.

Recognition and measurement

Recognition

Initially and at each reporting date, the Consolidated Entity recognises its derivatives at fair value. If the fair value of a derivative is positive, then it is carried as an asset, and where its value is negative then it is carried as a liability.

Notes to the Financial Statements (continued)

For the year ended 30 June 2021

14 DERIVATIVE FINANCIAL INSTRUMENTS (continued)

Accounting policy (continued)

Recognition and measurement (continued)

Derecognition of assets and liabilities

The Consolidated Entity removes derivative assets from its balance sheet when the contracts expire, or the Consolidated Entity has transferred substantially all the risks and rewards of ownership.

The Consolidated Entity removes derivative liabilities from its balance sheet when the Consolidated Entity's contractual obligations are discharged, cancelled, or expired.

Impact on the profit and loss

All derivative financial instruments held by the Consolidated Entity are designated in a cash flow relationship, refer to the *Designated in Hedging Relationships* section on the previous page for profit or loss treatment of the Consolidated Entity's derivative financial instruments.

Sources of hedge effectiveness may arise from basis risk and differences in discounting between hedged items and the hedging instruments. The hedging instruments are discounted using Overnight Index Swaps discount curves which are not applied to the hedged items.

Hedge effectiveness

To qualify for hedge accounting, a hedge is expected to be highly effective. A hedge is highly effective only if the following conditions are met:

- The hedge is expected to be highly effective in achieving offsetting changes in cash flows attributable to the hedged risk during the period for which the hedge is designated (prospective effectiveness)
- The actual results of the hedge are within the range of 80-125% (retrospective effectiveness).

The Consolidated Entity monitors hedge effectiveness on a regular basis but at least at a minimum at least at each reporting date.

Fair valuation

The valuation model used to fair value interest rate swaps employs observable market data as inputs (Level 1). Refer to Note 2(e) for further details.

15 BORROWINGS

	Consolidated		Bank	
	2021	2020	2021	2020
	$'000	$'000	$'000	$'000
(a) Borrowings				
Lease liability	**5,888**	6,760	**5,888**	6,760
Bank borrowings	**155,104**	172,598	**46,000**	10,104
Borrowings	**160,992**	**179,358**	**51,888**	**16,864**

The Consolidated Entity's interest-bearing bank borrowings relate to funding provided to Portavia Trust No.1 from Westpac Banking Corporation, as well as the Reserve Bank of Australia's Term Funding Facility (TFF). The Portavia Trust No.1 facility from Westpac is typically renewed annually, and its next maturity date is 16 March 2022. The TFF is a three-year facility, with the tranches set to mature between 8 May 2023 to 13 May 2024. The undiscounted values are assumed to approximate the fair values.

In the current year, the Consolidated Entity incurred interest on the lease liability of $153,692 (2020: $173,767).

Notes to the Financial Statements (continued)

For the year ended 30 June 2021

15 BORROWINGS (continued)

	Consolidated		Bank	
	2021	2020	2021	2020
	$'000	$'000	$'000	$'000
(b) Inter-entity borrowings				
Inter-entity borrowings	**-**	**-**	**128,716**	**180,469**

The inter-entity borrowings in the Bank relates to loans sold to the Portavia Trust No.1.

(c) Maturity analysis: Interest-bearing borrowings

	Consolidated		Bank	
	2021	2020	2021	2020
	$'000	$'000	$'000	$'000
Lease liability	**5,888**	6,760	**5,888**	6,760
Bank borrowings	**155,104**	172,598	**46,000**	10,104
Inter-entity borrowings	**-**	-	**128,716**	180,469
Borrowings	**160,992**	**179,358**	**180,604**	**197,333**
Maturity analysis: Borrowings				
< 3 months	**259**	247	**259**	247
3 to 6 months	**267**	255	**267**	255
> 6 months	**160,466**	178,856	**180,078**	196,831
Borrowings	**160,992**	**179,358**	**180,604**	**197,333**

(d) Fair values

Due to the short-term nature of these borrowings, the carrying amount of the Consolidated Entity's bank facility balances, including the overdraft, approximate their fair values.

(e) Financing facilities available

At reporting date, the following facilities were available. The committed facility refers to the Portavia Trust No.1 Westpac warehouse notes program and the Reserve Bank of Australia's Term Funding Facility.

	Consolidated		Bank	
	2021	2020	2021	2020
	$'000	$'000	$'000	$'000
Total facilities				
- Committed facility	**220,925**	202,858	**45,925**	27,858
Total facilities	**220,925**	**202,858**	**45,925**	**27,858**
Facilities used at reporting date				
- Committed facility	**155,029**	172,598	**45,925**	10,104
Facilities used at reporting date	**155,029**	**172,598**	**45,925**	**10,104**
Facilities unused at reporting date				
- Committed facility	**65,896**	30,260	**-**	17,754
Facilities unused at reporting date	**65,896**	**30,260**	**-**	**17,754**

Notes to the Financial Statements (continued)

For the year ended 30 June 2021

15 BORROWINGS (continued)

(f) Assets pledged as security

At the reporting date, residential mortgage-backed securities issued by Portavia Trust No.2 were pledged as security for the Reserve Bank of Australia's Term Funding Facility (2021: $75.9 million; 2020: $12.0 million).

(g) Interest rate risk

Information regarding the interest rate risk of the interest-bearing loans and borrowings is set out in Note 2(a).

(h) Defaults and breaches

During the current and prior years, there were no defaults or breaches on any of the loans or loan conditions.

Accounting policy

Bank borrowings

Bank borrowings are initially recognised at their fair values less directly attributable transaction costs. Subsequent to initial recognition, they are measured at amortised cost. Interest incurred is recognised within Net interest income using the effective interest method.

Lease liability

The accounting policy for the recognition and measurement criteria for the lease liability is set out in Note 10.

Notes to the Financial Statements (continued)

For the year ended 30 June 2021

16 PROVISIONS

	Consolidated		Bank	
	2021 $'000	2020 $'000	2021 $'000	2020 $'000
Annual leave	**501**	493	**501**	493
Long service leave	**452**	443	**452**	443
Lease make-good	**404**	404	**404**	404
Provisions	**1,357**	**1,340**	**1,357**	**1,340**
Reconciliation of carrying amount at beginning and end of the period				
Annual leave				
Opening balance	**493**	378	**493**	378
- Arising during the year	**526**	516	**526**	516
- Utilised	**(518)**	(401)	**(518)**	(401)
Closing balance	**501**	**493**	**501**	**493**
Long service leave				
Opening balance	**443**	405	**443**	405
- Arising during the year	**101**	114	**101**	114
- Utilised	**(92)**	(76)	**(92)**	(76)
Closing balance	**452**	**443**	**452**	**443**
Lease make-good				
Opening balance	**404**	29	**404**	29
- Arising during the year	**-**	375	**-**	375
- Utilised	**-**	**-**	**-**	**-**
Closing balance	**404**	**404**	**404**	**404**

In accordance with the lease agreement, the Consolidated Entity must restore the leased premises in Sydney to its original condition at the end of the lease term. No additional provisions were raised during the year ended 30 June 2021 (2020: $375,000) in respect of the Consolidated Entity's obligation to restore the leased office premises at the completion of the lease per the requirements of the contract.

Accounting policy

Provisions

Provisions are recognised for present obligations arising from past events where a payment to settle the obligation is probable and can be reliably estimated. When payments to settle amounts are expected to be greater than one year in the future, they are then discounted using a market observable rate.

Provisions for employee entitlements (annual leave and long service leave)

The provision is calculated based on expected payments. Where the payments are expected to be more than one year in the future, these factor in the expected period of service by employees, as well as salary increases. These future obligations are discounted using a market observable rate.

Notes to the Financial Statements (continued)

For the year ended 30 June 2021

16 PROVISIONS (continued)

Accounting policy (continued)

Lease make-good

The provision reflects the present value of the estimated costs to be incurred in restoring the leased site to the condition required by the terms and conditions of the lease upon completion of the lease.

17 RESERVES

	Consolidated $'000	Bank $'000
Cash flow hedge reserve		
At 30 June 2019	**15**	**131**
- Net unrealised loss on cash flow hedges net of tax	(92)	(131)
- Net (loss)/gain on cash flow hedges reclassified to profit or loss	-	-
At 30 June 2020	**(77)**	**-**
- Net unrealised gain on cash flow hedges net of tax	40	-
- Net (loss)/gain on cash flow hedges reclassified to profit or loss	-	-
At 30 June 2021	**(37)**	**-**

A General Reserve for Credit Losses (GRCL) for regulatory purposes of $1,724,495 (2020: $1,406,778) is reflected in retained earnings.

Accounting policy

Reserves

Retained earnings

Retained earnings includes the accumulated profits for the Consolidated Entity including certain amounts recognised directly in retained earnings.

Cash flow hedge reserve

The cash flow hedge reserve is used to record fair value gains or losses associated with the effective portion of designated cash flow hedging instruments. Amounts are reclassified to profit or loss in the Statements of Comprehensive Income when the hedge transaction impacts profit or loss.

Notes to the Financial Statements (continued)

For the year ended 30 June 2021

18 CAPITAL MANAGEMENT

The Consolidated Entity is licensed as an Authorised Deposit-taking Institution (ADI) under the Banking Act and is subject to prudential supervision by APRA. APRA has issued a series of prudential standards to implement the Basel III capital framework.

The Basel III Standards include APS 110 *Capital Adequacy*, which:

(i) Imposes on the Board a duty to ensure that the Consolidated Entity maintains an appropriate level and quality of capital commensurate with the level and extent of the risks to which the Consolidated Entity is exposed from its activities; and

(ii) Obliges the Consolidated Entity to have an Internal Capital Adequacy Assessment Process (ICAAP) in place.

There are three pillars to the Basel III capital framework:

Pillar 1

Involves specific capital charges for credit risk, operational risk, and the risk of financial market trading activities.

Pillar 2

Involves the Consolidated Entity making an assessment of any additional capital necessary to cover other risks not included in Pillar 1.

Pillar 3

Involves increased reporting by the Consolidated Entity to APRA.

The Consolidated Entity's regulatory capital is analysed into two tiers:

- Tier 1 capital: Includes general reserves and current year earnings.
- Tier 2 capital: Includes tier 2 capital of the GRCL.

Various limits are applied to elements of the capital base. APRA may require an ADI to hold more than 50% of its required prudential capital in the form of Tier 1 capital and there are restrictions on the amount of collective impairment allowances that may be included as part of Tier 2 capital. Other deductions from capital include deferred tax assets and intangible assets.

	2021 $'000	2020 $'000
Regulatory capital		
Tier 1 capital	106,750	102,140
Tier 2 capital	3,445	3,911
Regulatory capital	**110,195**	**106,051**
Risk weighted assets	**553,618**	**534,597**
Capital adequacy ratios	**19.90%**	**19.84%**

During the period the Consolidated Entity has complied with all externally imposed capital requirements.

Notes to the Financial Statements (continued)

For the year ended 30 June 2021

19 NOTES TO THE STATEMENTS OF CASH FLOWS

(a) Reconciliation of net profit after tax to net cash flows from/(used in) operations

	Consolidated		Bank	
	2021 $'000	2020 $'000	2021 $'000	2020 $'000
Profit for the year	**4,703**	2,814	**4,703**	2,814
Adjustments for:				
Depreciation and amortisation	**1,676**	1,638	**1,676**	1,638
Bad debts written-off	**687**	859	**687**	859
Movement in allowance for impairment loss	**(849)**	653	**(849)**	653
Deferred tax attributed directly to equity	**-**	50	**-**	50
Changes in assets and liabilities				
Decrease in other assets	**1,275**	668	**1,278**	660
Decrease/(increase) in deferred tax assets	**160**	(225)	**160**	(225)
Decrease in loans and advances	**16,480**	40,112	**16,480**	40,112
Increase in current tax liability	**864**	516	**864**	516
Increase in provisions	**17**	529	**17**	529
Increase in trade creditors and other liabilities	**1,439**	2,126	**2,077**	1,958
Increase/(decrease) in deposits	**6,449**	(59,614)	**6,449**	(59,614)
Net cash flows from/(used in) operating activities	**32,901**	**(9,874)**	**33,542**	**(10,050)**

Accounting policy

Statements of Cash Flows

In the Statements of Cash Flows:

- Gross GST cash flows are included; and
- GST cash flows resulting from investing and financing activities are included in operating cash flows.

Notes to the Financial Statements (continued)

For the year ended 30 June 2021

19 NOTES TO THE STATEMENTS OF CASH FLOWS (continued)

(b) Reconciliation of movements of liabilities to cash flows (used in)/from financing activities

Consolidated	Borrowings $'000	Total $'000
Balance at 30 June 2019	**155,956**	**155,956**
Proceeds from debt securities issuance	47,840	47,840
Proceeds from borrowings	10,100	10,100
Repayment of debt securities	(41,301)	(41,301)
Payment of lease liabilities	(796)	(796)
Total change from financing cash flows	**15,843**	**15,843**
Effect of adoption of AASB 16	**7,555**	**7,555**
Liability-related		
Interest expense	**4**	**4**
Total liability-related other changes	**4**	**4**
Balance at 30 June 2020	**179,358**	**179,358**
Proceeds from borrowings	35,824	35,824
Repayment of debt securities	(53,390)	(53,390)
Payment of lease liabilities	(864)	(864)
Total change from financing cash flows	**(18,430)**	**(18,430)**
Liability-related		
Interest expense	71	71
Effect of remeasurement	(7)	(7)
Total liability-related other changes	**64**	**64**
Balance at 30 June 2021	**160,992**	**160,992**

Bank	Inter-entity Borrowings $'000	Borrowings $'000	Total $'000
Balance at 30 June 2019	**176,725**	**-**	**176,725**
Proceeds from borrowings	3,744	10,100	13,844
Payment of lease liabilities	-	(796)	(796)
Total change from financing cash flows	**3,744**	**9,304**	**13,048**
Effect of adoption of AASB 16	**-**	**7,555**	**7,555**
Liability-related			
Interest expense	-	5	5
Total liability-related other changes	**-**	**5**	**5**
Balance at 30 June 2020	**180,469**	**16,864**	**197,333**
(Repayment of)/proceeds from borrowings	(51,753)	35,824	(15,929)
Payment of lease liabilities	-	(864)	(864)
Total change from financing cash flows	**(51,753)**	**34,960**	**(16,793)**
Liability-related			
Interest expense	-	71	71
Effect of remeasurement	-	(7)	(7)
Total liability-related other changes	**-**	**64**	**64**
Balance at 30 June 2021	**128,716**	**51,888**	**180,604**

Notes to the Financial Statements (continued)

For the year ended 30 June 2021

20 COMMITMENTS AND CONTINGENCIES

(a) Commitments

		Consolidated		Bank	
		2021 $'000	2020 $'000	2021 $'000	2020 $'000
(i)	**Capital expenditure commitments**				
	Contracted but not provided for and payable within one year	**-**	-	**-**	-
(ii)	**Outstanding loan commitments** [(1)]				
	Member loans approved but not funded	**28,178**	15,672	**28,178**	15,672
	Undrawn reverse mortgage loans	**14,348**	-	**14,348**	-
	Total outstanding loan commitments	**42,526**	**15,672**	**42,526**	**15,672**
(iii)	**Outstanding line of credit commitments**				
	Member line of credit facilities approved but not funded	**47,058**	47,556	**47,058**	47,556
(iv)	**Outstanding redraw commitments**				
	Member loan facilities where the outstanding loan balance is lower than the scheduled balance and the prepaid amount is subject to being redrawn	**68,913**	65,764	**68,913**	65,764

(1) There is no certainty that all unfunded loans will ultimately be funded.

The Consolidated Entity retains the right, at any time, to reduce or withdraw an approved line of credit limit or facility.

(b) Contingencies

The Consolidated Entity is not aware of any contingencies comprising possible obligations or assets arising from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events.

Accounting policy

Commitments and contingencies

Undrawn loan commitments

The Consolidated Entity issues loan commitments. Undrawn loan commitments are commitments under which, over the duration of the commitment, the Consolidated Entity is required to provide a loan with pre-specified terms to the customer.

These contracts are in the scope of the ECL requirements under AASB 9.

The nominal contractual value of undrawn loan commitments, where the loan agreed to be provided is on market terms, are not recorded in the Statements of Financial Position. The nominal values of these commitments are disclosed in Note 20(a).

Commitments and contingencies are disclosed net of GST.

Notes to the Financial Statements (continued)

For the year ended 30 June 2021

21 AUDITOR'S REMUNERATION

The auditor for the Consolidated Entity is KPMG. All fees paid in 2021 and 2020 were payable to KPMG.

	Consolidated		Bank	
	2021	2020	2021	2020
	$	$	$	$
Audit and review services				
Audit and review of financial statements	**139,725**	139,725	**139,725**	139,725
Assurance services				
Regulatory assurance services	**54,338**	51,698	**54,338**	51,698
Other services				
Taxation advice and tax compliance services	**15,162**	33,275	**15,162**	33,275
Other services	**-**	25,614	**-**	25,614
Auditor's remuneration	**209,225**	**250,312**	**209,225**	**250,312**

22 KEY MANAGEMENT PERSONNEL

(a) Compensation of key management personnel

Key management personnel are those persons having authority and responsibility for planning, directing, and controlling the activities of the Bank, directly or indirectly, including any Director (whether executive or otherwise).

	Consolidated		Bank	
	2021	2020	2021	2020
	$	$	$	$
Short-term benefits	**1,868,287**	1,758,064	**1,868,287**	1,758,064
Post employment	**143,723**	141,966	**143,723**	141,966
Other Long-term benefits	**25,888**	87,420	**25,888**	87,420
	2,037,898	**1,987,450**	**2,037,898**	**1,987,450**

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

Post-employment benefits include superannuation benefits.

Other long-term employee benefits include long-service leave and annual leave.

All remuneration to Directors was approved by the Members at the previous Annual General Meeting of the Consolidated Entity.

Notes to the Financial Statements (continued)

For the year ended 30 June 2021

22 KEY MANAGEMENT PERSONNEL (continued)

(b) Loans to key management personnel

	Consolidated		Bank	
	2021	2020	2021	2020
	$	$	$	$
(i) The aggregate value of loans to key management personnel as at balance date amounted to:				
Personal loans - secured	**1**	11,952	**1**	11,952
Term Loans - secured	**2,420,362**	1,889,927	**2,420,362**	1,889,927
	2,420,363	**1,901,879**	**2,420,363**	**1,901,879**
(ii) During the year the aggregate value of loans disbursed to key management personnel amounted to:				
Personal loans - secured	**1**	3,000	**1**	3,000
Term Loans - secured	**913,047**	-	**913,047**	-
	913,048	**3,000**	**913,048**	**3,000**
(iii) During the year the aggregate value of repayments received totalled	**442,900**	**722,939**	**442,900**	**722,939**
(iv) Interest and other revenue earned on loans and revolving credit facilities to key management personnel	**54,737**	**80,136**	**54,737**	**80,136**

Secured loans are secured against residential property. All loans advanced to Key Management Personnel are to be settled in cash and are issued under the same terms and conditions as other Members.

Terms and conditions of loans

The Consolidated Entity's policy for lending to Key Management Personnel is that all loans are approved, and deposits accepted, on the same terms and conditions that applied to Members for each class of loan or deposit. There are no impaired loans relating to loan balances with Key Management Personnel.

(c) Other transactions and balances with key management personnel and their related parties

	Consolidated		Bank	
	2021	2020	2021	2020
	$	$	$	$
Total value of term and savings deposits from key management personnel	**1,036,066**	887,861	**1,036,066**	887,861
Total interest paid on deposits to key management personnel	**4,489**	7,561	**4,489**	7,561

The Consolidated Entity's policy for receiving deposits from Key Management Personnel is that all transactions are approved, and deposits accepted, on the same terms and conditions that applied to Members for each type of deposit. There are no benefits paid or payable to the close family members of Key Management Personnel.

Notes to the Financial Statements (continued)

For the year ended 30 June 2021

23 CONSOLIDATED ENTITIES

Details of controlled entities are as follows:

Name of Entity	% Holdings		Note
	2021	2020	
Portavia Trust No. 1	**100**	100	1, 2
Portavia Trust No. 2	**100**	100	1, 3

(1) The Bank holds 100% of participating residual income units.

(2) Established 9 December 2011.

(3) Established 10 July 2013.

Accounting policy

Consolidated entities

Portavia Trust No.1

The derecognition criteria outlined on pages 39 and 55 have not been fully satisfied in respect of Portavia Trust No.1. Therefore, eligible financial assets and liabilities of this special purpose entity continue to be included in the financial statements of both the Bank and Consolidated Entity.

Portavia Trust No.2

Although the Bank has transferred its contractual rights to receive the cash flows from the securitised mortgages to Portavia Trust No.2, the Bank has substantially retained all risks and rewards of these cash flows through its ownership of the note investment and residual income units.

The residual income units issued by the Trust entitle the Bank to any residual income or loss of the Trust after all costs of the Trust have been met, and the note investments provide the Bank with interest income. As such the eligible financial assets and liabilities do not meet the criteria for derecognition and continue to be included in the financial statements of both the Bank and Consolidated Entity.

24 SUBSEQUENT EVENTS

Impact of COVID-19

There remains significant uncertainty regarding how the COVID-19 pandemic will evolve. In accordance with AASB 110 *Events after the Reporting Period*, the Consolidated Entity has considered whether events after the reporting period confirmed conditions existing before the reporting date. Consideration was given to the macro-economic impact of lockdowns implemented across New South Wales, Victoria and South Australia, the closure of state borders, and the extension of further government support measures. The Consolidated Entity did not identify any subsequent events precipitated by COVID-19 related developments, which would require adjustment to the amounts or disclosures in the financial statements. Further, no other material non-adjusting subsequent events relating to COVID-19 were identified requiring disclosure in the financial statements. Given the fluid nature of the current situation, the Consolidated Entity will continue to regularly review forward looking assumptions and forecast economic scenarios.

Notes to the Financial Statements (continued)

For the year ended 30 June 2021

25 ECONOMIC DEPENDENCY

The term “economic dependency” means that a change in existing relationships could have an economic effect on the Consolidated Entity. It does not mean that the Consolidated Entity is economically supported by the listed organisations in any way, whether financially or by guarantee, other than by means of normal commercial arrangements.

The Consolidated Entity has an economic dependency on the following:

Australian Settlements Limited (ASL)

This company provides a range of transactional settlement support processes, particularly in relation to the Consolidated Entity's Visa Debit Card offering.

Commonwealth Bank of Australia (CBA)

CBA is a provider of banking facilities to the Consolidated Entity.

Data Action Pty Limited

This company provides and maintains the core banking system and internet banking utilised by the Consolidated Entity.

Reserve Bank of Australia (RBA)

The Consolidated Entity has access to the RBA's "repo" arrangement, which allows it to draw funding at short notice under a crisis liquidity situation.

The Consolidated Entity also has access to the RBA’s Term Funding Facility (TFF), which is a three-year funding facility.

Westpac Banking Corporation (WBC)

WBC provides a debt warehouse facility for the Portavia Trust No.1.

Directors' Declaration

In accordance with a resolution of the Directors of Gateway Bank Limited, I state that:

In the opinion of the Directors:

(b) the financial statements and notes of the Bank and Consolidated Entity for the year ended 30 June 2021, as set out on pages 8 to 71, are in accordance with the *Corporations Act 2001*, including:

  (i) giving a true and fair view of the Bank's and Consolidated Entity's financial position as at 30 June 2021 and of their performance for the year ended on that date; and

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

(c) the financial statements and notes also comply with the International Financial Reporting Standards as disclosed in Note 1;

(d) there are reasonable grounds to believe that the Consolidated Entity will be able to pay its debts as and when they become due and payable.

On behalf of the Board

C M Hallinan
Chair
Sydney, 28 September 2021

Independent Auditor's Report

For the year ended 30 June 2021

KPMG

Independent Auditor's Report

To the members of Gateway Bank Ltd

Opinions

We have audited the consolidated Financial Report of Gateway Bank Ltd (the Group Financial Report). We have also audited the Financial Report of Gateway Bank Ltd (the Company Financial Report).

In our opinion, each of the accompanying Group Financial Report and Company Financial Report of Gateway Bank Ltd are 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 2021 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:

- Statements of financial position as at 30 June 2021
- Statements of comprehensive income, Statements of changes in equity, and Statements of cash flows for the year then ended
- Notes including a summary of significant accounting policies
- Directors' Declaration.

The Group consists of Gateway Bank Ltd (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 audits of the Financial Reports* 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 (including Independence Standards) (the Code)* that are relevant to our audits of the Financial Reports 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 Gateway Bank Ltd'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 opinions on the Financial Reports do not cover the Other Information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon.

Independent Auditor's Report (continued)

For the year ended 30 June 2021

In connection with our audits 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 Reports or our knowledge obtained in the audits, 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 Reports

The Directors are responsible for:

- preparing Financial Reports that give 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 Financial Reports that give a true and fair view and are free from material misstatement, whether due to fraud or error
- 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 audits of the Financial Reports

Our objective is:

- to obtain reasonable assurance about whether each of the Financial Reports as a whole are free from material misstatement, whether due to fraud or error; and
- to issue an Auditor's Report that includes our opinions.

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 Report.

A further description of our responsibilities for the audits of the Financial Reports 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

Richard Drinnan

Partner

Wollongong

28 September 2021

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