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

General Purpose Financial Report for the year ended 30 June 2020

gateway bank

This page has been intentionally left blank

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

General Purpose Financial Report
for the year ended 30 June 2020

CONTENTS

Phone: 1300 302 474
Fax: 02 9307 4299
Email: memberservices@gatewaybank.com.au
Web: www.gatewaybank.com.au

Directors' Report

Your Directors submit their report for the year ended 30 June 2020.

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 – appointed August 2019

Steven R Carritt – resigned August 2020

Daniel R Cassels – appointed September 2020

Robyn L FitzRoy

Christine Franks – appointed August 2019

Malcolm S Graham – resigned July 2019

Graham B Raward

Peter M Schiller

Irene H van der Loos – resigned July 2019

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 Manchester Unity), Lawcover (comprising Lawcover Insurance Pty Limited and Lawcover Pty Limited), SCOR Global Life Australia Pty Limited 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 and Remuneration (July 2014 to present)
- Audit (March 2014 to present)

Andrew B Black

NON-EXECUTIVE DIRECTOR

Qualifications: Dip. Finance & Mortgage Broking, Dip. and Adv. Dip. Financial Planning.

Experience and Special Responsibilities

Andrew joined the Board in August 2019. Andrew has over 35 years' experience in the financial services industry and was most recently an Executive Director and Founder of YOLO Financial Services (2014 to 2018). He has held general and executive management positions with Citibank, Commonwealth Bank and St. George Bank and Managing Director positions at Skandia Australia Ltd and Plan B Group Holdings (ASX:PLB).

Committee Memberships

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

Directors’ Report

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.

- Chair (January 2005 to February 2010)
- Deputy Chair (January 2003 to December 2004)

Committee Memberships

- Risk (March 2014 to August 2020)

Daniel R Cassels

NON-EXECUTIVE DIRECTOR

Qualifications: MAppFin, BMathFin

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)

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, 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

- Convenor Nominations and Remuneration (December 2015 to present)
- Risk (January 2017 to January 2020)
- Audit (January 2020 to present)

Directors' Report

Christine Franks AM

NON-EXECUTIVE DIRECTOR

Qualifications: BA (Statistics, Sociology), M Management (Community), FAICD.

Experience and Special Responsibilities

Christine joined the Board in August 2019. She is a strong not for profit community leader having served as Chair and member of key mutual, not for profit, and government boards and committees for over 25 years with significant experience in aid and development, health, advocacy, standard setting and microfinance.

Committee Memberships

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

Malcolm S Graham

NON-EXECUTIVE DIRECTOR

Qualifications: MA, F Fin., FAMI. MAICD.

Experience and Special Responsibilities

Malcolm joined the Board in July 1992 and has over 45 years' banking and finance experience. Malcolm has held senior positions with the Commonwealth Bank, ING Funds Management and Uniting Financial Services. Malcolm was formally a non-executive director of Australian Mutuals Institute (2007 to February 2016).

- Deputy Chair (March 2008 to February 2009)
- Chair (January 1998 to December 2004)
- Deputy Chair (March 1994 to January 1998)

Committee Memberships

- Audit (February 2015 to July 2019)
- Risk (January 2017 to July 2019)

Graham B Raward

NON-EXECUTIVE DIRECTOR

Qualifications: BComm., M Applied Finance.

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 of the Commonwealth Bank of Australia.

- Deputy Chair (May 2012 to February 2013)

Committee Memberships

- Audit (January 2017 to August 2019)
- Convenor Audit (August 2019 to present)
- Risk (August 2019 to present)
- Nominations and Remuneration (January 2017 to August 2019)

Directors' Report

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 (July 2018 to January 2020)
- Convenor Risk (January 2020 to present)

Irene H van der Loos

NON-EXECUTIVE DIRECTOR

Qualifications: GAICD.

Experience and Special Responsibilities

Rene joined the Board in February 2008 and was most recently General Manager, Living Well Navigator and Emerging Businesses at NRMA Motoring and Services. Rene has 14 years banking experience and was formerly a Director of Sydney Ports Corporation (2006 to 2012).

Committee Memberships

- Nominations and Remuneration (April 2008 to December 2018)
- Convenor Audit (January 2018 to July 2019)
- Risk (January 2019 to July 2019)

COMPANY SECRETARY

Thomas C Lyons

Senior Manager, Finance & Treasury

Appointed Company Secretary July 2020

BComm, CA.

Directors' Report

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	5	6	-
	B	7	5	6	-
Andrew B Black	A	6	4	2	4
	B	6	4	2	4
Steven R Carritt	A	5	-	-	5
	B	7	-	-	7
Robyn L Fitzroy	A	6	5	3	3
	B	7	5	3	3
Christine Franks	A	6	4	-	6
	B	6	4	-	6
Malcolm S Graham	A	1	-	-	-
	B	1	-	-	-
Graham B Raward	A	6	1	6	6
	B	7	1	6	6
Peter M Schiller	A	7	-	6	7
	B	7	-	6	7
Irene H van der Loos	A	1	-	-	-
	B	1	-	-	-

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.

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 2020, 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 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 59 employees at 30 June 2020 (2019: 59).

Directors' Report

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 2020 for the 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 2020 of $2.814 million (2019: $2.098 million).

The Consolidated Entity balance sheet assets decreased to $1.091 billion as at 30 June 2020 (2019: $1.123 billion), representing a decrease of $32 million (2.81%) from the prior financial year. Total loans decreased by $42.9 million (4.48%) to $914.0 million (2019: $956.8 million), with total deposits of $797.9 million (2019: $858.2 million), having decreased $60.3 million (7.02%) from the prior financial year.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

COVID-19 Impacts

COVID-19 has significantly impacted the broader Australian economy, and as such, has also impacted some of Gateway's Members. In response to COVID-19, a number of fiscal initiatives were introduced by the Federal government to help lessen the economic impact of the pandemic, such as the JobKeeper scheme announced in March 2020.

In order to contain the spread of the pandemic, the Australian, State and Territory governments have implemented a range of material restrictions on businesses, venues, travel, movement and gatherings of people. These measures have changed the way Gateway Bank operates.

To protect the wellbeing of our staff, Gateway Bank responded quickly by shifting the majority of its employees to remote working. For staff continuing to work on site, additional safety measures were introduced, including enhanced corporate cleaning, increased availability of hand sanitisers, and changed work arrangements.

Gateway Bank has also provided support to its Members by granting deferrals of mortgage and consumer loan repayments to Members impacted by the COVID-19 pandemic. Further information on the actual and potential impacts of the support provided to Members of Gateway Bank is set out in Note 3(a).

During the financial year, Gateway Bank participated in the Reserve Bank of Australia's Term Funding Facility (TFF) scheme and is collateralised by residential mortgage backed securities issued by the Portavia Trust No.2. The TFF is a three-year facility with a fixed interest rate of 0.25% per annum. As at 30 June 2020, Gateway Bank had drawn $10.1 million of its total available TFF allocation of $45.9 million, composed of $27.9 million of Initial Allowance, and $18.0 million of Supplementary Allowance that became available to Gateway Bank from 1 October 2020.

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

SIGNIFICANT EVENTS AFTER THE BALANCE DATE

There have been no significant events after the balance date.

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.

Directors' Report

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 2020.

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 APS330 *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 Hallinan

C M Hallinan

Chair

Sydney, 13 October 2020

Auditor’s Independence Declaration

For the year ended 30 June 2020

KPMG

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 2020 there have been:

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

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

KPMG

KPMG

Richard Drinnan

Partner

Wollongong

13 October 2020

Statement of Comprehensive Income

For the year ended 30 June 2020

		Consolidated		Bank	
	Notes	**2020**	2019	**2020**	2019 [1]
		$'000	$'000	**$'000**	$'000
Interest revenue	5(a)	**36,068**	39,561	**36,559**	40,205
Interest expense	5(a)	**(17,528)**	(21,840)	**(18,031)**	(22,555)
Net interest revenue		**18,540**	17,721	**18,528**	17,650
Non-interest revenue	5(b)	**1,266**	1,190	**1,120**	994
Total revenue		**19,806**	18,911	**19,648**	18,644
Impairment expense	5(c)	**(1,513)**	(1,097)	**(1,513)**	(1,041)
Occupancy expenses		**(122)**	(1,153)	**(122)**	(1,153)
Marketing expenses		**(658)**	(485)	**(658)**	(485)
IT expenses		**(1,708)**	(1,644)	**(1,708)**	(1,644)
Administration expenses	5(d)	**(3,070)**	(3,093)	**(2,912)**	(2,882)
Employee expenses	5(e)	**(7,231)**	(7,814)	**(7,231)**	(7,814)
Depreciation and amortisation expense	5(f)	**(1,638)**	(614)	**(1,638)**	(614)
Total expenses		**(15,940)**	(15,900)	**(15,782)**	(15,633)
Net profit before tax		**3,866**	3,011	**3,866**	3,011
Income tax expense	6(a)	**(1,052)**	(913)	**(1,052)**	(913)
Net profit after tax attributable to Members		**2,814**	2,098	**2,814**	2,098
Other comprehensive income					
Items that will not be reclassified to profit or loss					
Net change on Cash Flow Hedge Reserve	18	**(92)**	(24)	**(131)**	131
Other comprehensive income net of tax		**(92)**	(24)	**(131)**	131
Total comprehensive income attributable to Members		**2,722**	2,074	**2,683**	2,229

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

(1) Refer to Note 27 for information regarding prior period restatements.

Statement of Financial Position

As at 30 June 2020

	Notes	Consolidated 2020 $'000	Consolidated 2019 $'000	Bank 2020 $'000	Bank 2019 (1) $'000
ASSETS					
Cash and cash equivalents	7	**39,243**	30,632	**33,640**	28,000
Investments	8	**125,904**	129,304	**146,457**	149,857
Loans and advances	9	**913,968**	956,825	**913,968**	956,825
Derivative financial assets	10	**-**	65	**-**	181
Current tax assets		**683**	1,199	**683**	1,199
Net deferred tax assets	6(c)	**1,272**	1,048	**1,272**	1,048
Property, plant and equipment	11	**8,642**	2,259	**8,642**	2,259
Intangible assets	12	**1,130**	671	**1,130**	671
Other assets	13	**507**	902	**3,257**	3,214
TOTAL ASSETS		**1,091,349**	1,122,905	**1,109,049**	1,143,254
LIABILITIES					
Deposits	14	**797,948**	858,182	**797,948**	858,182
Trade payables	15	**5,168**	3,106	**4,893**	2,570
Derivative financial liabilities	10	**77**	-	**-**	-
Borrowings	16(a)	**179,358**	155,956	**16,864**	-
Inter-entity borrowings	16(b)	**-**	-	**180,469**	176,725
Provisions	17	**1,340**	812	**1,340**	812
TOTAL LIABILITIES		**983,891**	1,018,056	**1,001,514**	1,038,289
NET ASSETS		**107,458**	104,849	**107,535**	104,965
MEMBERS' EQUITY					
Retained earnings		**107,535**	104,834	**107,535**	104,834
Reserves	18	**(77)**	15	**-**	131
TOTAL MEMBERS' EQUITY		**107,458**	104,849	**107,535**	104,965

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

(1) Refer to Note 27 for information regarding prior period restatements.

Statement of Changes in Equity

For the year ended 30 June 2020

Consolidated	Notes	Retained Earnings $'000	Cash Flow Hedge Reserve $'000	Total Equity $'000
At 30 June 2018		**103,505**	**39**	**103,544**
Effect of adoption of AASB 9		(769)	-	(769)
At 1 July 2018, as restated		**102,736**	**39**	**102,775**
Total comprehensive income				
Profit for the year		2,098	-	2,098
Other comprehensive income				
Net change in Cash Flow Hedge Reserve	18	-	(24)	(24)
Total other comprehensive income		**-**	**(24)**	**(24)**
Total comprehensive income		**2,098**	**(24)**	**2,074**
At 30 June 2019		**104,834**	**15**	**104,849**
Effect of adoption of AASB 16	2(b)	(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	18	-	(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**

Bank	Notes	Retained Earnings (1) $'000	Cash Flow Hedge Reserve $'000	Total Equity $'000
At 30 June 2018		**103,505**	**-**	**103,505**
Effect of adoption of AASB 9		(769)	-	(769)
At 1 July 2018, as restated		**102,736**	**-**	**102,736**
Total comprehensive income				
Profit for the year		2,098	-	2,098
Other comprehensive income				
Net change in Cash Flow Hedge Reserve	18	-	131	131
Total other comprehensive income		**-**	**131**	**131**
Total comprehensive income		**2,098**	**131**	**2,229**
At 30 June 2019		**104,834**	**131**	**104,965**
Effect of adoption of AASB 16	2(b)	(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	18	-	(131)	(131)
Total other comprehensive income		**-**	**(131)**	**(131)**
Total comprehensive income		**2,814**	**(131)**	**2,683**
At 30 June 2020		**107,535**	**-**	**107,535**

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

(1) Refer to Note 27 for information regarding prior period restatements.

Statement of Cash Flows

For the year ended 30 June 2020

	Notes	Consolidated 2020 $'000	Consolidated 2019 $'000	Bank 2020 $'000	Bank 2019 [1] $'000
Cash flows from operating activities					
Interest received		**37,799**	41,470	**38,239**	42,152
Bad debts recovered		**249**	227	**249**	227
Commissions and fees paid		**(1,825)**	(1,792)	**(1,825)**	(1,792)
Other non-interest income received		**1,652**	1,306	**3,296**	(917)
Interest paid		**(20,790)**	(20,399)	**(21,008)**	(20,960)
Net funds receipted from and advanced to members for loans and advances		**43,557**	(67,380)	**45,356**	(64,205)
Payments to suppliers and employees		**(13,167)**	(17,110)	**(17,008)**	(16,384)
Income tax paid		**(710)**	(1,909)	**(710)**	(1,909)
Net repayment of and acceptance from deposits		**(56,639)**	110,809	**(56,639)**	110,809
Net cash flows from operating activities	20	**(9,874)**	45,222	**(10,050)**	47,021
Cash flows from investing activities					
Proceeds from redemption of investments		**214,804**	218,078	**214,804**	218,078
Payments for investments		**(211,404)**	(240,415)	**(211,404)**	(240,415)
Purchase of intangible assets		**(679)**	(169)	**(679)**	(169)
Purchase of property, plant and equipment		**(79)**	(2,292)	**(79)**	(2,292)
Net cash flows from investing activities		**2,642**	(24,798)	**2,642**	(24,798)
Cash flows from financing activities					
Proceeds from debt securities issuance		**47,840**	-	**-**	-
Proceeds from/(repayment of) borrowings		**10,100**	-	**13,844**	(50,683)
Repayment of debt securities		**(41,301)**	(50,842)	**-**	-
Payment of lease liabilities		**(796)**	-	**(796)**	-
Net cash flows from financing activities		**15,843**	(50,842)	**13,048**	(50,683)
Net increase/(decrease) in cash and cash equivalents		**8,611**	(30,418)	**5,640**	(28,460)
Cash and cash equivalents at beginning of year		**30,632**	61,050	**28,000**	56,460
Cash and cash equivalents at end of year	7	**39,243**	30,632	**33,640**	28,000

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

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

(1) Refer to Note 27 for information regarding prior period restatements.

Notes to the Financial Statements

For the year ended 30 June 2020

1 CORPORATE INFORMATION

The financial report of Gateway Bank Limited (the Bank) and its controlled entities (the Consolidated Entity) for the year ended 30 June 2020, was approved and authorised for issue by the Board of Directors on 13 October 2020.

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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(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 a historical cost basis, except for derivative financial instruments, which are measured at fair value;
- presents assets and liabilities on the face of the Statement of Financial Position in decreasing order of liquidity; and
- contains accounting policies that have been consistently applied to all periods presented, unless otherwise stated.

The Consolidated Entity has adopted Class Order 10/654, issued by the Australian Securities and Investments Commission, 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

The Consolidated Entity initially applied AASB 16 *Leases* from 1 July 2019 using the modified retrospective approach, under which the cumulative effect of initial application is recognised in retained earnings at 1 July 2019. Accordingly, the comparative information presented for 2019 is not restated, i.e. it is presented, as previously reported, under AASB 117 *Leases* and related interpretations. The details of the changes in accounting policies are disclosed in Note 2(i).

Notes to the Financial Statements (continued)

For the year ended 30 June 2020

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) New Accounting Standards and Interpretations (continued)

Financial Impact of Initial Application of AASB 16

	1 July 2019 $'000
ASSETS	
Property, plant and equipment – Right-of-use asset	7,775
Deferred tax asset	2,181
TOTAL ASSETS	**9,956**
LIABILITIES	
Borrowings – Lease liability	7,555
Lease make-good provision	376
Deferred tax liability	2,138
TOTAL LIABILITIES	**10,069**
MEMBERS' EQUITY	
Retained earnings	(113)
TOTAL MEMBERS' EQUITY	**(113)**

When measuring lease liabilities for leases that were classified as operating leases, the Consolidated Entity discounted lease payments using its incremental borrowing rate at 1 July 2019, calculated as 2.41%.

	$'000
Operating lease commitment at 30 June 2019 as disclosed under AASB 17 in the Consolidated Entity's financial statements	8,691
Discounted using the incremental borrowing rate at 1 July 2019	(1,136)
Lease liability recognised at 1 July 2019	7,555

Future accounting developments

Interpretation 23 *Uncertainty over Income Tax Treatment*

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of AASB 12 and does not apply to taxes or levies outside the scope of AASB 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The Interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately;
- The assumptions an entity makes about the examination of tax treatments by taxation authorities;
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates; and
- How an entity considers changes in facts and circumstances.

An entity must determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed. The interpretation is effective for annual reporting periods beginning on or after 1 January 2019, but certain transition reliefs are available. The Consolidated Entity has assessed the impact of the interpretation and concluded there is no material impact.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Financial Instruments

(i) Financial instruments - initial recognition

Date of recognition

Financial assets and liabilities, except for loans and advances and deposits, are initially recognised on the trade date, i.e. the date on which the Consolidated Entity becomes a party to the contractual provisions of the instrument. This includes regular way trades, i.e. purchases or sales of financial assets that require delivery of assets within the timeframe generally established by regulation or convention in the marketplace. Loans and advances are recognised when funds are transferred to the members' accounts. The Consolidated Entity recognises deposits when funds are transferred to the Consolidated Entity.

Initial measurement of financial instruments

The classification of financial instruments at initial recognition depends on their contractual terms and the business model for managing the instruments. Financial instruments are initially measured at their fair value adjusted by directly attributable transaction costs, except for those financial assets and financial liabilities recorded at FVTPL, which are measured at fair value. Trade receivables are measured at the transaction price. When the fair value of financial instruments at initial recognition differs from the transaction price, the Consolidated Entity accounts for the Day 1 profit or loss.

(ii) Measurement categories of financial assets and liabilities

The Consolidated Entity classifies all its financial assets based on the business model for managing the assets and the asset's contractual terms, measured at either:

- At amortised cost;
- Fair Value through Other Comprehensive Income (FVOCI); or
- Fair Value through Profit and Loss (FVTPL).

The Consolidated Entity classifies and measures its derivative portfolio at FVOCI. The Consolidated Entity may designate financial instruments at FVTPL, if doing so eliminates or significantly reduces measurement or recognition inconsistencies.

(iii) Determination of fair value

In order to show how fair values have been derived, financial instruments are classified based on a hierarchy of valuation techniques, as summarised below:

- Level 1 financial instruments: Those where the inputs used in the valuation are unadjusted quoted prices from active markets for identical assets or liabilities that the Consolidated Entity has access to at the measurement date. The Consolidated Entity considers markets as active only if there are sufficient trading activities with regards to the volume and liquidity of the identical assets or liabilities and when there are binding and exercisable price quotes available on the measurement date.
- Level 2 financial instruments: Those where the inputs that are used for valuation and are significant, are derived from directly or indirectly observable market data available over the entire period of the instrument's life. 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. In addition, adjustments may be required for the condition or location of the asset or the extent to which it relates to items that are comparable to the valued instrument. However, if such adjustments are based on unobservable inputs which are significant to the entire measurement, the Consolidated Entity will classify the instruments as Level 3.
- Level 3 financial instruments: Those that include one or more unobservable inputs that are significant to the measurement. The Consolidated Entity periodically reviews its valuation techniques including the adopted methodologies and model calibrations.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Financial Instruments (continued)

Loans and advances and Investments

The Consolidated Entity only measures Loans and advances and Investments at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are Solely Payments of Principal and Interest (SPPI) on the principal amount outstanding.

The details of these conditions are outlined below.

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 currency in which the financial asset is denominated, and 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.

Financial assets and financial liabilities at fair value through profit or loss

Financial assets and financial liabilities in this category are those that have been either designated by management upon initial recognition or are mandatorily required to be measured at fair value under AASB 9.

Financial assets and financial liabilities at FVTPL are recorded in the statement of financial position at fair value. Changes in fair value are recorded in profit and loss.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Financial instruments (continued)

Derivatives recorded at fair value through profit or loss

A derivative is a financial instrument or other contract with all three of the following characteristics:

- Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided that, in the case of a non-financial variable, it is not specific to a party to the contract (i.e. the 'underlying');
- It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts expected to have a similar response to changes in market factors; and
- It is settled at a future date.

The Consolidated Entity enters into derivative transactions with various counterparties. These include interest rate swaps. Derivatives are recorded at fair value and carried as assets when their fair value is positive and as liabilities when their fair value is negative. The notional amount and fair value of such derivatives are disclosed separately in Note 10. Changes in the fair value of derivatives are included in non-interest revenue unless hedge accounting is applied. Hedge accounting disclosures are provided in Note 10.

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 Statement of Financial Position. The nominal values of these commitments are disclosed in Note 21(a).

Derecognition of financial assets and financial liabilities

<u>Derecognition due to substantial modification of terms and conditions</u>

The Consolidated Entity derecognises a financial asset, such as a loan to a customer, when the terms and conditions have been renegotiated to the extent that, substantially, it becomes a new loan, with the difference recognised as a derecognition gain or loss, to the extent that an impairment loss has not already been recorded. The newly recognised loans are classified as Stage 1 for ECL measurement purposes.

When assessing whether to derecognise a loan to a customer, amongst others, the Consolidated Entity considers the following factors:

- Change in counterparty; and
- If the modification is such that the instrument would no longer meet the SPPI criterion.

If the modification does not result in cash flows that are substantially different, as set out below, the modification does not result in derecognition. Based on the change in cash flows discounted at the original EIR, the Consolidated Entity records a modification gain or loss, to the extent that an impairment loss has not already been recorded. For financial liabilities, the Consolidated Entity considers a modification substantial based on qualitative factors and if it results in a difference between the adjusted discounted present value and the original carrying amount of the financial liability of, or greater than, ten percent.

<u>Derecognition of a financial asset</u>

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Financial instruments (continued)

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.

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 profit or loss in the Statement of Comprehensive Income.

Portavia Trust No.1

The derecognition criteria outlined above 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Financial instruments (continued)

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.

(d) 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 Statement 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 Statement of Cash Flows, cash and cash equivalents are defined as cash and cash equivalents net of outstanding bank overdrafts. For the purpose of the Statement of Financial Position bank overdrafts are included within interest-bearing loans and borrowings.

(e) Loan 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.

An Expected Credit Loss (ECL) impairment model is forward looking and does not require evidence of an actual loss event for impairment provisions to be recognised.

The implementation of the ECL required management to make several judgements and assumptions. A description of the key components of the Consolidated Entity's AASB 9 impairment methodology is provided below and in Note 3(a).

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

- **Stage 1: Performing loans (12 month's ECL)**

  On origination and for financial assets where there has not been a significant increase in credit risk, an impairment provision equivalent to 12 month's ECL is recognised, i.e. credit losses expected to arise from defaults occurring over the next 12 months.
- **Stage 2: Performing loans that have experienced a significant increase in credit risk (Lifetime ECL)**

  Financial assets that have experienced a significant increase in credit risk since origination are transferred to Stage 2. Lifetime ECL is 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 reverts to 12 month's ECL.
- **Stage 3: Non-Performing (Lifetime ECL)**

  For credit impaired financial assets an impairment provision equivalent to lifetime expected credit losses is recognised.

Financial assets in Stage 1 and Stage 2 are assessed for impairment collectively within their respective lending portfolios, which are disaggregated when calculating the ECL, whilst those in Stage 3 are subjected to either collective or individual impairment assessment. Interest revenue is recognised on gross carrying amounts for financial assets in Stage 1 and Stage 2, and gross carrying value net of impairment provisions for financial assets in Stage 3.

Notes to the Financial Statements (continued)

For the year ended 30 June 2020

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Loan impairment (continued)

The ECL model applies to all financial assets measured at amortised cost and any debt instruments measured at Fair Value through Other Comprehensive Income (FVOCI).

A significant increase in credit risk is assessed by comparing the risk of default occurring over the expected life of the financial asset at reporting date to the corresponding risk of default at origination. The Consolidated Entity considers all available qualitative and quantitative information that is relevant to assessing a significant increase in credit risk.

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

The ECL is a probability weighted expected credit loss estimated 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.

For each significant portfolio ECL is calculated as a product of the following credit risk factors at a facility level:

- **Probability of default (PD),** is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period if the facility has not been previously derecognised and is still in the portfolio.
- **Exposure at default (EAD),** is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments.
- **Loss given default (LGD)**, is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realisation of any collateral or credit enhancements that are integral to the loan. It is usually expressed as a percentage of the EAD.

Credit risk factors of PD and LGD used in ECL calculation are point-in-time estimates based on current conditions and adjusted to include the impact of multiple probability-weighted future forecast economic scenarios.

The Consolidated Entity uses three alternative macroeconomic scenarios to reflect an unbiased probability-weighted range of possible future outcomes in estimating ECL:

- **Central scenario:** This scenario reflects the Consolidated Entity’s base case assumptions used in business planning and forecasting;
- **Upside and downside scenarios:** These scenarios are set relative to the central scenario based on reasonably possible alternative macroeconomic conditions. The upside and downside scenarios reflect macroeconomic conditions such as the official cash rate, employment levels, Gross Domestic Product (GDP), and House Price Index.

Forward looking PD and LGD factors are modelled for each significant portfolio based on macroeconomic factors that are closely correlated with credit losses in the relevant portfolios, namely: Cash rate, unemployment rate, GDP per capita and House Price Index (HPI).

The three scenarios are probability weighted according to management’s best estimate of their relative likelihood based on historical frequency, current trends and conditions. Refer to Note 3(a) for further detail on the ECL methodology.

Management exercises credit judgement in assessing if an exposure has experienced significant increase in credit risk and in determining the amount of impairment provisions at each reporting date. 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Loan impairment (continued)

The Executive Risk and Compliance Committee (ERCC) is responsible for approving forecast economic scenarios and their associated probability weights, as well as all model adjustments. The Consolidated Entity's loan loss provision model and assumptions, loan impairment expense and any areas of judgement are reported to the Board Risk Committee and Board Audit Committee.

(f) Derivative financial instruments

The Consolidated Entity uses derivative financial instruments, in the form of interest rate swaps, to manage exposure to variability in future cash flows, which could affect profit or loss, from fluctuations in interest rates. The derivatives used by the Consolidated Entity have been entered into for hedging purposes and designated as cash flow hedges.

Derivatives are initially measured at fair value. Derivative financial instruments are contracts whose values are derived from one or more underlying rates, indexes or other variables. The fair value of interest rate swaps is determined with a valuation technique based on discounted cash flows using current market interest rates.

Changes in fair value associated with the effective portion of a cash flow hedge are recognised through Other Comprehensive Income in the Cash Flow Hedge Reserve within equity. Ineffective portions are recognised immediately in profit or loss in the Statement of Comprehensive Income. Amounts deferred in equity are transferred into profit or loss in the Statement of Comprehensive Income in the period as the hedged cash flows affect profit or loss.

The Consolidated Entity performs both prospective and retrospective tests to determine the economic relationship between the hedged items and the hedging instrument, and to assess hedge effectiveness. At inception of the hedge relationship, prospective testing is performed on a matched term basis. This test checks that the critical terms are matched between the hedging instrument and the hedged item. At the same time a hedging ratio is established by matching the notional of the derivatives with the principal of the financial instruments being hedged, in most cases the ratio is 100%. Retrospective testing for each reporting period uses a regression model, which compares the change in the fair value of the hedged item and the change in fair value of the hedging instrument. For a hedge to be deemed effective, the change in fair values should be within 80% to 125% of each other. Should the result fall outside this range the hedge would be deemed ineffective and recognised immediately through the Statement of Comprehensive Income.

Sources of hedge ineffectiveness affecting hedge accounting are:

- mismatches between the contractual terms of the hedged item and the hedging instrument; and
- differences in discounting between the hedged item and the hedging instrument.

When a hedging instrument expires or is sold, terminated or exercised, or when the hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is reclassified to profit or loss in the Statement of Comprehensive Income in the period in which the hedged item affects profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is recycled to the Statement of Comprehensive Income.

Macro cash flow hedges

It is the Consolidated Entity's strategy to apply macro cash flow hedge accounting to minimise the variability in future interest cash flows on non-trading variable rate financial assets and liabilities and to keep fluctuations within its established limits. The amounts and timing of future hedged cash flows represent both the interest and principal based on contractual terms with adjustments for expected defaults, and/or prepayments based on the Consolidated Entity's projected balance sheet including forecasted transactions. The hedged items are designated as the gross asset or liability positions allocated to time buckets based on projected re-pricing and interest profiles. The Consolidated Entity aims to set the hedging ratio at 100% by matching the notional of the designated hedged items to the notional amount of the corresponding interest rate swaps used as the hedging instruments. The hedge accounting relationship is reviewed on a monthly basis and the hedging instruments and hedged items are de-designated and re-designated, if necessary, based on the effectiveness test results and changes in the hedged exposure.

Notes to the Financial Statements (continued)

For the year ended 30 June 2020

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) 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 Statement of Comprehensive Income.

(h) 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 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 its carrying amount may be greater than its recoverable amount.

(i) Leases

AASB 16 (Policy for year ended 30 June 2020)

Definition of a Lease

Previously, the Consolidated Entity determined at contract inception whether an arrangement was, or contained, a lease under Interpretation 4 Determining whether an Arrangement contains a Lease. The Consolidated Entity now assesses whether a contract is, or contains, a lease using the definition of a lease in AASB 16. A contact is, or contains, a lease if the contracts conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

On transition to AASB 16, the Consolidated Entity elected to apply the practical expedient to grandfather the assessment of which transactions are leases. The Consolidated Entity applied AASB 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under AASB 17 and Interpretation 4 were not reassessed for whether there is a lease under AASB 16. Therefore, the definition of a lease under AASB 16 was applied only to contracts entered into or changed on or after 1 July 2019.

As a lessee

As at 30 June 2020, the Consolidated Entity had contracted leases 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Leases (continued)

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 in 'Borrowings' in the statement of financial position.

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 Statement of Comprehensive Income.

AASB 117 (Policy for year ended 30 June 2019)

Previously, the Consolidated Entity classified its head office lease as an operating lease under AASB 117. As a lessee, rental expense was recognised in the Statement of Comprehensive Income on a straight-line basis over the lease term.

(j) Deposits

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

Deposits 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 revenue using the effective interest method.

(k) 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 2020

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Provisions (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.

(l) Net interest revenue

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.

(m) Non-interest revenue

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.

(n) Operating expenses

Employee benefits expense 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. The Consolidated Entity assesses at each Balance Sheet date 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 the relevant service period is rendered. 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.

(o) 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 2020

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(p) Other taxes

Revenue, expenses and assets are recognised net of Goods and Services Tax (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 Statement of Financial Position.

In the Statement 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.

Commitments and contingencies are disclosed net of GST.

(q) Retained earnings

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

(r) Reserves

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 Statement of Comprehensive Income when the hedge transaction impacts profit or loss.

3 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue 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. Actual results may differ from these estimates under different assumptions and conditions and may materially affect financial results or the financial position reported in future periods.

Further details of the nature of these assumptions and conditions may be found in the relevant notes to the financial statements.

(a) Significant accounting judgements

Coronavirus (COVID-19) pandemic

The ongoing COVID-19 pandemic has significantly impacted global and domestic economies, and as such, many of our Members. It also increased the uncertainty surrounding estimates used in the preparation of these financial statements.

Considerable judgement was applied in developing accounting estimates in these financial statements, reflecting expectations and assumptions as at 30 June 2020 about future events. These underlying assumptions are subject to uncertainties often beyond the Consolidated Entity’s control. Accordingly, there is a strong likelihood that actual economic conditions may differ from those predicted, and these differences may significantly impact accounting estimates included in these financial statements.

The significant accounting estimates impacted by these forecasts and associated uncertainties are predominantly related to Expected Credit Losses (ECL). As such, readers should carefully consider the expected credit loss disclosures in light of the inherent uncertainty described above.

ECL on loans and advances

The Consolidated Entity measures the allowance for ECL using an expected credit loss impairment model as required by AASB 9 *Financial Instruments*. The Consolidated Entity’s policy for recognition and measurement of the allowance for ECL is described in Note 2(e).

The table below shows the Consolidated Entity’s allowance for ECL (refer to Note 9 for further information).

$’000	Consolidated		Bank	
	2020	**2019**	**2020**	**2019**
Individually assessed	521	498	521	498
Collectively assessed	2,472	1,842	2,472	1,842
Total	**2,993**	**2,340**	**2,993**	**2,340**

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. Judgements and assumptions in respect of these matters have been updated to reflect the potential impact of COVID-19.

Collectively assessed allowance for ECL

During the financial year ended 30 June 2020 the collectively assessed provision increased from $1.84 million to $2.47 million. Of the $2.47 million, total measurement in provisions, an increase of $1.56 million relates to COVID-19 impacted balances. Other net movements include changes in modelling inputs and portfolio changes not related to COVID-19, which reduced the collective provision by $0.93 million.

3 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)

(a) Significant accounting judgements (continued)

The impact of COVID-19 on the economy and how governments, businesses and consumers respond is uncertain. This uncertainty is reflected in the Consolidated Entity's assessment of ECL from its credit portfolio, which are subject to a number of management judgements and estimates. The following table summarises the key judgements and assumptions in relation to the model inputs and the interdependencies between those inputs and highlights significant changes during the current financial year.

The judgements and associated assumptions have been made within the context of the impact of COVID-19 and reflect historical experience and other factors that are considered relevant, including expectations of future events that are believed to be reasonable under the circumstances. In relation to COVID-19, judgements and assumptions include the extent and duration of the pandemic, the impacts of actions of governments and other authorities, and the responses of businesses and consumers in different industries, along with associated impact on the global economy. Accordingly, the Consolidated Entity's ECL estimates are inherently uncertain and, as a result, actual results may differ from these estimates.

Judgement	Description	Changes and considerations during the financial year ended 30 June 2020
Determining when a significant increase in credit risk (SICR) has occurred	In the measurement of ECL, judgement is involved in setting the rules and trigger points to determine whether there has been a SICR since initial recognition of a loan, which would result in a financial asset moving from 'Stage 1' to 'Stage 2'. This is a key area of judgement since transition from 'Stage 1' to 'Stage 2' increases the ECL from an allowance based on the probability of default in the next 12 months, to an allowance for lifetime expected credit losses. Subsequent decreases in credit risk resulting in a transition from 'Stage 2' to 'Stage 1' may similarly result in significant changes in the ECL allowance. The setting of precise trigger points requires judgement, which may have a material impact on the size of the ECL allowance.	All deferral of payments by Members under the current COVID-19 support packages is treated as an indication of a SICR. As such, all Members granted a payment deferral were transitioned from 'Stage 1' to 'Stage 2', resulting in the recognition of an allowance for lifetime expected credit losses for these balances.
Measuring credit losses (12-month and lifetime)	ECL is a function of the Probability of Default (PD), the Loss Given Default (LGD) and the Exposure at Default (EAD), which are point-in-time measures reflecting the relevant forward-looking information determined by management. Judgement is involved in determining which forward-looking information variables are relevant for particular lending portfolios and for determining sensitivity of parameters to movements in these forward-looking variables. In addition, judgement is required where behavioural characteristics are applied in estimating the lifetime of the facility to be used in measuring ECL.	The PD, EAD and LGD used in determining the ECL are subject to the Consolidated Entity's risk policies that stipulate periodic monitoring, periodic validation and defines approval procedures and authorities. During the year, the model was refreshed to: ▪ increase the level of granularity as portfolios were further disaggregated, and additional data was incorporated in modelling ECL outcomes specific to each portfolio; ▪ update discount rates to align to the effective interest rate of the underlying product; ▪ expand PDs to include recent arrears experience for each portfolio;

Judgement	Description	Changes and considerations during the financial year ended 30 June 2020
		▪ recalculate LGDs to better reflect past and expected future performance, with a notable change to the home loan LGD for both the Central and Downside scenarios. There were no changes to behavioural lifetime estimates during the financial year ended 30 June 2020.
Segregation of the COVID-19 impacted lending balances	The unique nature and uncertainty surrounding COVID-19 impacted lending balances and credit commitments, requires the application of significant judgements and assumptions in providing for the expected credit losses for these balances. Accordingly, it was determined that the current ECL model is not appropriately geared to effectively cater for these unique circumstances. In response, an alternative approach to determining the ECL allowance for COVID-19 impacted balances was adopted and operates outside of the existing ECL model.	The relatively limited number of payment deferrals requested and subsequently granted by the Consolidated Entity has enabled the option to conduct individual credit assessments for each impacted loan and credit commitment. As such, the individual merit and characteristics of each facility is individually evaluated and used to determine a specific PD, EAD and LGD for each facility. These are then used to determine the scenario weighted ECL allowance for the COVID-19 impacted population.
Probability weighting of each scenario (Central, Downside and Upside scenarios)	Probability weighting of each scenario is determined by management considering the risks and uncertainties surrounding the Central (base case) scenario. The Downside and Upside scenarios are set relative to the Central scenario based on macro-economic conditions that represent plausible but less likely alternatives to the Central scenario, and are based on a combination of more pessimistic (in the case of the Downside scenario) and optimistic (in the case of the Upside scenario) economic conditions.	The key consideration for probability weightings in the current period is the continuing impact of COVID-19. In addition to the Central scenario which reflects largely the negative economic consequences of COVID-19, greater weighting has been applied to the Downside scenario given the Consolidated Entity's assessment of downside risks.
Temporary management adjustments	Temporary management adjustments to the ECL allowance are adjustments used in circumstances where it is judged that the existing inputs, assumptions and model techniques may not capture all the risk factors relevant to the lending portfolios.	Temporary adjustments have been assessed in context of COVID-19 and the extent that associated credit loss exposures are captured within modelled economic scenarios. Temporary adjustments have been made to select portfolios.

3 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)

(a) Significant accounting judgements (continued)

ECL Sensitivity Analysis

The uncertainty of the impact of COVID-19 introduced significant estimation uncertainty to the measurement of the Consolidated Entity's allowance for expected credit losses. The rapidly evolving consequences of the pandemic and government, business and consumer responses could result in significant adjustments to the allowance within the current and next financial years.

Given current economic uncertainties and the judgement applied to factors used in determining the expected default of borrowers in future periods, expected credit losses reported by the Consolidated Entity should be considered a best estimate within a range of possible estimates.

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	2,993	-
100% Upside scenario ECL	1,568	(1,425)
100% Central (base case) scenario ECL	2,355	(638)
100% Downside scenario ECL	5,740	2,747

Fair Value Measurement of Financial Instruments

The valuation model used by the Bank to fair value financial instruments, namely interest rate swaps, employs observable market data as inputs. This has not changed as a result of COVID-19.

The Bank does not hold any financial instruments subject to valuation using unobservable inputs.

(b) Significant accounting estimates and assumptions

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 year and considered against the remaining useful life. Adjustments to useful lives are made when considered necessary.

Make good provision

The Bank entered into a leasing arrangement 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.

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.

4 RISK MANAGEMENT OBJECTIVES AND POLICIES

Risk is inherent in the Consolidated Entity's activities, but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Consolidated Entity's continuing profitability and each individual within the Consolidated Entity is accountable for the risk exposures relating to his or her responsibilities. The key risks to which the Consolidated Entity is exposed to are market risk, credit risk, liquidity risk and operational risk.

Core Components and Principles

During the year the Consolidated Entity continued to develop its Risk Management Framework.

The Consolidated Entity's Risk Management Framework is embedded throughout its operations and governance process, and incorporates the following core components:

- a ‘three lines of defence’ model clearly defines risk ownership responsibilities with functionally independent levels of oversight and independent assurance;
- a suite of policies, procedures and systems which together document the Consolidated Entity's Board-approved Risk Appetite Statement and risk management systems descriptions, establish specific limits and other measures to restrict particular risk exposures, ensure that all categories of risk are actively monitored by the Board and managed by Executive Management and provide 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 constant 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

The Board of Directors is responsible for the overall risk management framework and for approving the risk strategies and principles.

Audit Committee

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

Risk Committee

The Risk Committee has the overall responsibility for the development of the risk strategy and recommending that strategy to the Board. It is responsible for implementing principles, frameworks, policies and risk limits. The Risk Committee is responsible for the fundamental risk issues and manages and monitors relevant decisions. It is standard practice that the convenor of the Audit Committee attends the Risk Committee Meetings.

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 Chairman of the Audit Committee and has full access to staff and information when conducting its reviews.

Chief Executive Officer

The Chief Executive Officer is responsible for the ongoing management of the Risk Management Framework including its periodic review and renewal subject to requisite Board direction and approvals.

Notes to the Financial Statements (continued)

For the year ended 30 June 2020

4 RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Roles and Responsibilities (continued)

Chief Risk Officer and Executive Management

The Chief Risk Officer 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, chaired by the Chief Executive Officer, is responsible for overseeing the Treasury 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 Statement 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 inherent interest rate risk.

Executive Risk and Compliance Committee (ERCC)

The ERCC, chaired by the Chief Executive Officer, 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 Measurement and Reporting

Monitoring and controlling risks is primarily performed based on limits established within the Risk Appetite Statement by the Board of the Bank. These limits reflect the business strategy and market environment of the Consolidated Entity as well as the level of risk that the Bank 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 Risk Appetite Statement qualifies the appetite or tolerance level for business risks and summarises the limits and management controls which are to apply to control the impact of a particular risk. These parameters are reviewed annually.

Information is compiled, examined and processed in order to analyse, control and identify risks early. This information is presented and explained to the Management Committees, the Risk Committee and the Board of Directors. The reporting includes aggregate credit exposures, delinquency summary, loan security summary, loan type summary, liquidity ratios, VaR, sensitivity analysis and material changes. On a monthly basis detailed reporting takes place. Senior Management assesses the appropriateness of the allowance for impairment on a quarterly basis. The Board receives summarised risk reporting on key risk measures on a monthly basis. 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 use of collateral, delegations, limit frameworks, review of loan concentrations and interest rate hedging.

(a) Interest Rate Risk

Fair value interest rate risk

Fair value risk is the risk that the fair value of future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates. The Consolidated Entity is only exposed to changes in interest rates.

Cash flow interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The Board has established limits on Value at Risk (VaR) and interest rate gaps for stipulated periods. Positions are monitored on a monthly basis and managed using interest rate swaps.

Notes to the Financial Statements (continued)

For the year ended 30 June 2020

4 RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(a) Interest Rate Risk (continued)

Value at Risk (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 Value at Risk (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 management.

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 to be a realistic assumption in almost all cases but may not be the case in situations in which there is severe market illiquidity for a prolonged period.
- A 99 percent confidence level does not reflect losses that may occur beyond this level. Even within the model used there is a one percent probability that losses could exceed the VaR.
- 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	
	2020	2019
As at 30 June	**0.52**	0.71
Average for the period	**0.68**	0.68
Highest for the period	**0.76**	0.76
Lowest for the period	**0.52**	0.57

Interest rate swaps are also used by the Consolidated Entity to manage exposure to variability in future cash flows, which could affect profit or loss and may result from fluctuations in interest rates.

Notes to the Financial Statements (continued)

For the year ended 30 June 2020

4 RISK MANAGEMENT OBJECTIVES AND POLICIES (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 (2)	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 (1)	162,494	-	10,104	6,760	-	179,358
Derivative financial instruments (2)	-	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) 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.

(2) Notional value of derivative financial instruments. Fair value of derivative financial instruments at 30 June 2020 is a liability of $77,274.

Notes to the Financial Statements (continued)

For the year ended 30 June 2020

4 RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(a) Interest Rate Risk (continued)

Consolidated Entity

2019	Floating interest rate $'000	Fixed interest rate 1 year or less $'000	1 to 5 years $'000	More than 5 years $'000	Non-interest bearing $'000	Total $'000
Financial assets measured at amortised cost						
Cash and cash equivalents	30,631	-	-	-	1	30,632
Investments	29,137	97,115	3,052	-	-	129,304
Loans and advances	784,269	63,245	109,311	-	-	956,825
Derivative financial instruments (2)	11,242	60,000	-	-	-	71,242
Total financial assets	**855,279**	**220,360**	**112,363**	**-**	**1**	**1,188,003**
Financial liabilities						
Deposits	262,782	580,536	14,800	13	51	858,182
Borrowings (1)	155,956	-	-	-	-	155,956
Derivative financial instruments (2)	60,000	-	11,242	-	-	71,242
Total financial liabilities	**478,738**	**580,536**	**26,042**	**13**	**51**	**1,085,380**
Total Interest Rate Repricing Gap	**376,541**	**(360,176)**	**86,321 -**	**13**	**(50)**	**102,623**
Cumulative Interest Rate Repricing Gap	**376,541**	**16,365**	**102,686**	**102,673**	**102,623**	

(1) Borrowings relate to funding provided to Portavia Trust No.1 from Westpac Banking Corporation and not other items classified as inter-entity borrowings as part of AASB 9 derecognition accounting requirements.

(2) Notional value of derivative financial instruments. Fair value of derivative financial instruments at 30 June 2019 was $64,845.

Notes to the Financial Statements (continued)

For the year ended 30 June 2020

4 RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(a) Interest Rate Risk (continued)

Bank

2020	Floating interest rate $'000	Fixed interest rate 1 year or less $'000	1 to 5 years $'000	More than 5 years $'000	Non-interest bearing $'000	Total $'000
Financial assets measured at amortised cost						
Cash and cash	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
Derivative financial	-	-	-	-	-	-
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
Derivative financial instruments (2)	-	-	-	-	-	-
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	**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.
(2) Notional value of derivative financial instruments. Fair value of derivative financial instruments at 30 June 2020 is $nil.

Notes to the Financial Statements (continued)

For the year ended 30 June 2020

4 RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(a) Interest Rate Risk (continued)

Bank

2019	Floating interest rate $'000	Fixed interest rate 1 year or less $'000	1 to 5 years $'000	More than 5 years $'000	Non-interest bearing $'000	Total $'000
Financial assets measured at amortised cost						
Cash and cash	27,999	-	-	-	1	28,000
Investments	49,690	97,115	3,052	-	-	149,857
Loans and advances	784,269	63,245	109,311	-	-	956,825
Derivative financial	-	60,000	-	-	-	60,000
Total financial assets	**861,958**	**220,360**	**112,363**	**-**	**1**	**1,194,682**
Financial liabilities						
Deposits	262,782	580,536	14,800	13	51	858,182
Borrowings	-	-	-	-	-	-
Inter-entity borrowings	151,769	11,644	13,312	-	-	176,725
Derivative financial instruments (1)	60,000	-	-	-	-	60,000
Total financial liabilities	**474,551**	**592,180**	**28,112**	**13**	**51**	**1,094,907**
Total Interest Rate Repricing Gap	**387,407**	**(371,820)**	**84,251 -**	**13**	**(50)**	**99,775**
Cumulative Interest Rate	**387,407**	**15,587**	**99,838**	**99,825**	**99,775**	

(1) Notional value of derivative financial instruments. Fair value of derivative financial instruments at 30 June 2020 is $180,738.

4 RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(b) Credit risk

Credit risk is the risk of financial loss if a counterparty fails to meet an obligation under a contract. It arises principally from loans and advances. Potential customers and new facilities of existing customers are subjected to the loan approval system of the Consolidated Entity. Credit quality follows the Consolidated Entity's policy which is reviewed regularly and amendments, where necessary, are implemented promptly.

Credit Risk Management

The Consolidated Entity has clearly defined credit policies for the approval and management of credit risk. Credit policies apply to all credit risks, with specific portfolio standards applying to all major lending areas. These set the minimum requirements in assessing the integrity and ability of counterparties to meet their contractual obligations for repayment, acceptable forms of collateral and security and the frequency of credit reviews.

The Consolidated Entity’s credit policies and frameworks include concentration limits, which are designed to achieve portfolio outcomes that are consistent with the Consolidated Entity’s risk appetite. Concentration limits are applied to the introduction source, repayment type (Interest Only vs. Principle and Interest), borrower type (Investor vs. Owner-occupied), Loan to Valuation Ratio (LVR), security risk category, and non-standard loan approvals.

The Credit and Operational Risk team review credit policies and business compliance with credit policies, frameworks, application of credit risk ratings and other key practices on a regular basis. Credit risk management is supervised by the Executive Risk and Compliance Committee (ERCC) which comprises members of the Senior Leadership Team and designated technical personnel. Credit risk management functions of the ERCC include:

- Formulation of credit assessment, documentary and legal procedures. This includes administration of internal authorisation limits for personnel with credit risk management responsibilities.
- Responsibility for compliance with regulatory requirements.
- Portfolio performance and reporting in accordance with the Board’s approved Credit Risk Appetite.
- Formulation of policy recommendations for consideration by the Board Risk Committee.

Credit Risk Processes

A manual credit assessment is conducted for each loan application. This assessment determines an applicant’s capacity to repay the loan after consideration of other aspects such as projected income minus outgoings such as living expenses and other existing proposed financial commitments. Previous financial conduct and the value and suitability of collateral offered in support of the loan are also considered, including area code.

Loan Security

The Consolidated Entity's lending portfolio is primarily comprised of mortgage loans secured by residential properties. All residential properties are appropriately valued in line with Board-approved policy. Lenders mortgage insurance is required where the loan to valuation ratio exceeds 80%. The Consolidated Entity's portfolio also includes unsecured personal loans. Refer to Note 9 for a security dissection.

4 RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(b) Credit risk (continued)

Maximum exposure to credit risk

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

	Consolidated		Bank	
	2020	2019	**2020**	2019
	$'000	$'000	**$'000**	$'000
Bank balances	**39,243**	30,632	**33,640**	28,000
Investments	**125,904**	129,304	**146,457**	149,857
Loans and advances	**913,968**	956,825	**913,968**	956,825
Unused committed loan facilities	**47,556**	47,305	**47,556**	47,305
Redraw facilities on mortgages	**65,764**	64,461	**65,764**	64,461
Loans approved but not funded	**15,672**	11,099	**15,672**	11,099
Undrawn Peer to Peer Lending commitments	**-**	1,002	**-**	1,002
	1,208,107	1,240,628	**1,223,057**	1,258,549

Refer to Note 9 for information regarding the carrying value of financial assets measured at amortised cost.

Collateral and other credit enhancements

Loans and advances, except unsecured lines of credit and unsecured personal loans, are backed by collateral. The amount and type of collateral required depends on the assessment of the credit risk of the Member. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

The main types of collateral obtained are as follows:

- for retail lending; mortgages over residential properties;
- for commercial lending; charges over real estate properties; and
- for personal car loans, charges over the underlying vehicles.

Management monitors the market value of collateral on a portfolio basis, and on an individual basis as required. The terms and conditions of the collateral are specific to individual loan and security types.

It is the Consolidated Entity's policy to dispose of repossessed collateral in an orderly fashion. The proceeds are used to reduce or repay the outstanding claim. The Bank does not occupy repossessed properties for business use.

For cash and investment balances, the balances are unsecured. The Consolidated Entity has a policy only to invest with counterparties with investment grade ratings and to limit the exposures to them to maximum levels for each counterparty.

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.

4 RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(b) Credit risk (continued)

Concentrations of the Consolidated Entity's and Bank's credit risk by geographic areas are illustrated below:

	Consolidated		Bank	
	2020	2019	**2020**	2019
	%	%	**%**	%
New South Wales	**52.6**	50.6	**52.6**	50.6
Victoria	**22.2**	23.5	**22.2**	23.5
Queensland	**14.9**	14.9	**14.9**	14.9
Western Australia	**4.5**	4.8	**4.5**	4.8
South Australia	**2.5**	2.7	**2.5**	2.7
Tasmania	**0.7**	0.7	**0.7**	0.7
Northern Territory	**0.1**	-	**0.1**	-
Australian Capital Territory	**2.5**	2.8	**2.5**	2.8

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

(c) Liquidity risk

Liquidity risk is the risk that the Consolidated Entity will be unable to meet its payment obligations when they fall due under normal and stressed circumstances. To limit this risk, the Consolidated Entity manages assets with liquidity in mind and monitors future cash flows and liquidity on a daily basis incorporating an assessment of expected cash flows.

The Bank maintains a portfolio of High-Quality Liquid Assets (HQLA) that can be easily liquidated in the event of an unforeseen interruption of cash flow. In July 2013 the Consolidated Entity established a self-securitisation program and Reserve Bank of Australia (RBA) repo arrangement to enable access to liquidity in a crisis situation. Overall, the liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general and specifically to the Bank. The most important of these is to maintain minimum regulatory limits on the ratio of net liquid assets to customer liabilities, set to reflect market conditions. Net liquid assets consist of cash, short-term bank negotiable certificates of deposits/bills and floating rate notes available for immediate sale.

The closing Liquidity ratio at year end was 15.80% (2019: 14.63%) versus an APRA prudential minimum of 12%. The Board approved policies covering Liquidity management ensure that adequate buffers, trigger points and contingency arrangements are in place.

Refer to Note 14 and 16 for maturity analysis of financial liabilities.

Notes to the Financial Statements (continued)

For the year ended 30 June 2020

4 RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(c) Liquidity risk (continued)

Consolidated Entity

2020	Note	Carrying amount $'000	Gross nominal inflow / (outflow) $'000	Less than 1 month $'000	1-3 months $'000	3 months - 1 year $'000	1-5 years $'000	More than 5 years $'000
Financial liabilities								
Deposits	**14**	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 liabilities	**10**	77	(82)	(10)	(11)	(31)	(30)	-
		977,383	**(996,365)**	**(377,479)**	**(169,665)**	**(420,638)**	**(26,864)**	**(1,719)**

2019	Note	Carrying amount $'000	Gross nominal inflow / (outflow) $'000	Less than 1 month $'000	1-3 months $'000	3 months - 1 year $'000	1-5 years $'000	More than 5 years $'000
Financial liabilities								
Deposits	14	858,182	(865,796)	(329,067)	(99,670)	(421,457)	(15,588)	(14)
Bank borrowings	16	155,956	(165,956)	(2,087)	(7,730)	(156,139)	-	-
Derivative financial liabilities	10	-	-	-	-	-	-	-
		1,014,138	**(1,031,752)**	**(331,154)**	**(107,400)**	**(577,596)**	**(15,588)**	**(14)**

Notes to the Financial Statements (continued)

For the year ended 30 June 2020

4 RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(c) Liquidity risk (continued)

Bank

2020	Note	Carrying amount $'000	Gross nominal inflow / (outflow) $'000	Less than 1 month $'000	1-3 months $'000	3 months - 1 year $'000	1-5 years $'000	More than 5 years $'000
Financial liabilities								
Deposits	**14**	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)	-	-
Derivative financial liabilities	**10**	-	-	-	-	-	-	-
		995,281	**(996,283)**	**(377,469)**	**(169,654)**	**(420,607)**	**(26,834)**	**(1,719)**

2019	Note	Carrying amount $'000	Gross nominal inflow / (outflow) $'000	Less than 1 month $'000	1-3 months $'000	3 months - 1 year $'000	1-5 years $'000	More than 5 years $'000
Financial liabilities								
Deposits	14	858,182	(800,864)	(372,953)	(153,207)	(262,631)	(12,073)	-
Bank borrowings	16	-	-	-	-	-	-	-
Inter-entity borrowings	16	176,725	(177,920)	(4,434)	(16,282)	(157,204)	-	-
Derivative financial liabilities	10	-	-	-	-	-	-	-
		1,034,907	**(978,784)**	**(377,387)**	**(169,489)**	**(419,835)**	**(12,073)**	**-**

(d) Operational risk

Operational risk is the risk of loss arising from system failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Consolidated Entity cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Consolidated Entity is able to manage these risks to within tolerable limits. Controls include effective segregation of duties, access, authorisation and reconciliation procedures, staff training and assessment processes; including the use of internal audit.

(e) Fair value risk

The Consolidated Entity uses various methods in estimating the fair value of a financial instrument. The methods are detailed in Note 2(c).

Notes to the Financial Statements (continued)

For the year ended 30 June 2020

4 RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(e) Fair value risk (continued)

Derivative Financial Instruments

The consolidated entity enters into swaps with 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 rate offered for the average remaining term of the portfolio as at 30 June 2020.

Borrowings

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

	Consolidated Entity							
	2020				2019			
	Level 1	**Level 2**	**Level 3**	**Total**	Level 1	Level 2	Level 3	Total
	$'000	**$'000**	**$'000**	**$'000**	$'000	$'000	$'000	$'000
Financial assets								
Cash	**39,243**	**-**	**-**	**39,243**	30,632	-	-	30,632
Investments	**-**	**125,904**	**-**	**125,904**	-	129,304	-	129,304
Loans and advances	**-**	**-**	**917,388**	**917,388**	-	-	958,074	958,074
Derivative financial instruments	**-**	**-**	**-**	**-**	-	65	-	65
	39,243	**125,904**	**917,388**	**1,082,535**	30,632	129,369	958,074	1,118,075

	Bank							
	2020				2019			
	Level 1	**Level 2**	**Level 3**	**Total**	Level 1	Level 2	Level 3	Total
	$'000	**$'000**	**$'000**	**$'000**	$'000	$'000	$'000	$'000
Financial assets								
Cash	**33,640**	**-**	**-**	**33,640**	28,000	-	-	28,000
Investments	**-**	**146,457**	**-**	**146,457**	-	149,857	-	149,857
Loans and advances	**-**	**-**	**917,388**	**917,388**	-	-	958,074	958,074
Derivative financial instruments	**-**	**-**	**-**	**-**	-	181	-	181
	33,640	**146,457**	**917,388**	**1,097,485**	28,000	150,038	958,074	1,136,112

Notes to the Financial Statements (continued)

For the year ended 30 June 2020

4 RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(e) Fair value risk (continued)

	Consolidated Entity							
	2020				2019			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Financial liabilities								
Deposits	-	799,046	-	799,046	-	859,738	-	859,738
Derivative financial instruments	-	77	-	77	-	-	-	-
Borrowings	-	172,598	6,760	179,358	-	155,956	-	155,956
	-	971,721	6,760	978,481	-	1,015,694	-	1,015,694

	Bank							
	2020				2019			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Financial liabilities								
Deposits	-	799,046	-	799,046	-	859,738	-	859,738
Derivative financial instruments	-	-	-	-	-	-	-	-
Borrowings	-	10,104	6,760	16,864	-	-	-	-
Inter-entity borrowings	-	180,469	-	180,469	-	176,725	-	176,725
	-	989,619	6,760	996,379	-	1,036,463	-	1,036,463

Quoted market price represents the fair value based on quoted prices on active markets as at the reporting date without any deduction for transaction costs.

For financial instruments not quoted in active markets, the Consolidated Entity uses valuation techniques such as present value techniques, comparison to similar instruments for which market observable prices exist and other relevant models used by market participants. These valuation techniques use both observable and unobservable market inputs.

Financial instruments that use valuation techniques with only observable market inputs, or unobservable inputs that are not significant to the overall valuation, include interest rate swaps. Deposits and Borrowings are measured at amortised cost.

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 2020

5 REVENUE AND EXPENSES

	Consolidated		Bank	
	2020	2019	**2020**	2019
	$'000	$'000	**$'000**	$'000
(a) Interest revenue and interest expense				
Interest revenue				
Loans and advances to members	**33,689**	36,022	**33,689**	35,898
Investment securities	**2,223**	3,022	**2,727**	3,862
Deposits at call with other financial institutions	**156**	517	**143**	445
Total interest revenue	**36,068**	39,561	**36,559**	40,205
Interest expense				
Deposits	**13,909**	16,118	**13,909**	16,119
Borrowings	**3,619**	5,722	**177**	-
Inter-entity borrowings	**-**	-	**3,945**	6,436
Total interest expense	**17,528**	21,840	**18,031**	22,555
(b) Non-interest revenue				
Fees and commissions	**967**	963	**821**	767
Bad debts recovered	**249**	227	**249**	227
Government grants	**50**	-	**50**	-
Total non-interest revenue	**1,266**	1,190	**1,120**	994
(c) Impairment expense				
Increase in loan impairment provision	**654**	387	**654**	387
Bad debts written-off	**859**	710	**859**	654
Total impairment expense	**1,513**	1,097	**1,513**	1,041
(d) Administration expenses				
Lending expenses	**116**	81	**116**	81
Transactional expenses	**786**	680	**672**	522
Other administration expenses	**2,168**	2,332	**2,124**	2,279
Total administration expenses	**3,070**	3,093	**2,912**	2,882
(e) Employee expenses				
Wages and salaries	**6,252**	6,449	**6,252**	6,449
Workers' compensation	**(70)**	89	**(70)**	89
Defined contribution superannuation	**568**	575	**568**	575
Other employee benefits	**481**	701	**481**	701
Total employee benefits expense	**7,231**	7,814	**7,231**	7,814

Notes to the Financial Statements (continued)

For the year ended 30 June 2020

5 REVENUE AND EXPENSES (continued)

	Consolidated		Bank	
	2020	2019	**2020**	2019
	$'000	$'000	**$'000**	$'000
(f) Depreciation and amortisation expense				
Depreciation of:				
- Property, plant and equipment	**1,471**	342	**1,471**	342
Total depreciation expense	**1,471**	342	**1,471**	342
Amortisation of:				
- Computer software	**167**	272	**167**	272
Total amortisation expense	**167**	272	**167**	272
Total depreciation and amortisation expense	**1,638**	614	**1,638**	614

6 INCOME TAX

	Consolidated		Bank	
	2020	2019	**2020**	2019
	$'000	$'000	**$'000**	$'000
(a) Income tax expense				
The major components of income tax expense are:				
Statement of Comprehensive Income				
Current income tax				
Current income tax charge	**1,476**	701	**1,476**	701
Deferred tax (benefit)/expense	**(424)**	212	**(424)**	212
Income tax expense reported in the Statement of Comprehensive Income	**1,052**	913	**1,052**	913

(b) Reconciliation between aggregate tax expense recognised in the Statement 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:

	Consolidated 2020 $'000	Consolidated 2019 $'000	Bank 2020 $'000	Bank 2019 $'000
Total accounting profit before income tax	**3,866**	3,011	**3,866**	3,011
At the Bank's statutory income tax rate of 27.5% (2019: 27.5%)	**1,063**	828	**1,063**	828
Adjustments in respect of current income tax of previous years	**-**	86	**-**	86
Adjustments in respect of deferred tax of previous	**(2)**	(4)	**(2)**	(4)
Effect of changes in income tax rate on deferred tax	**-**	-	**-**	-
Non assessable government grants	**(14)**	-	**(14)**	-
Non-deductible expenses	**5**	3	**5**	3
Aggregate income tax expense	**1,052**	913	**1,052**	913

Notes to the Financial Statements (continued)

For the year ended 30 June 2020

6 INCOME TAX (continued)

	Consolidated 2020 $'000	Consolidated 2019 $'000	Bank 2020 $'000	Bank 2019 $'000
(c) Recognised deferred tax assets and liabilities				
Deferred tax at 30 June relates to the following:				
Statement of Financial Position				
(i) Deferred tax liabilities				
- Other assets	**(62)**	(67)	**(62)**	(67)
- Plant and equipment	**(240)**	(62)	**(240)**	(62)
- Right-of-Use Asset	**292**	-	**292**	-
Sub-total	**(10)**	(129)	**(10)**	(129)
Amounts recognised directly in equity				
- Effect of adoption of AASB 16	**(2,138)**	-	**(2,138)**	-
- Derivatives	**-**	(50)	**-**	(50)
Gross deferred tax liabilities	**(2,148)**	(179)	**(2,148)**	(179)
(ii) Deferred income tax assets				
- Loans and advances	**824**	353	**824**	353
- Creditors and other liabilities	**480**	368	**480**	368
- Employee entitlements	**257**	215	**257**	215
- Lease Liability	**(322)**	-	**(322)**	-
Sub-total	**1,239**	936	**1,239**	936
Amounts recognised directly in equity				
- Effect of adoption of AASB 16	**2,181**	-	**2,181**	-
- Effect of adoption of AASB 9	**-**	291	**-**	291
Gross deferred tax assets	**3,420**	1,227	**3,420**	1,227
Offset of deferred tax liabilities	**(2,148)**	(179)	**(2,148)**	(179)
Net deferred income tax assets	**1,272**	1,048	**1,272**	1,048
Statement of Comprehensive Income				
Deferred income tax charge				
- Other assets	**(6)**	(1)	**(6)**	(1)
- Loans and advances	**(471)**	(106)	**(471)**	(106)
- Plant and equipment	**177**	221	**177**	221
- Creditors and other liabilities	**(112)**	67	**(112)**	67
- Employee entitlements	**(42)**	31	**(42)**	31
- Right-of-Use Asset	**(292)**	-	**(292)**	-
- Lease Liability	**322**	-	**322**	-
Sub-total	**(424)**	212	**(424)**	212
Amounts recognised directly in equity				
- Effect of adoption of new accounting standards	**43**	(291)	**43**	(291)
- Derivatives	**(50)**	50	**(50)**	50
Deferred tax income	**(431)**	(29)	**(431)**	(29)

Notes to the Financial Statements (continued)

For the year ended 30 June 2020

7 CASH AND CASH EQUIVALENTS

	Consolidated		Bank	
	2020	2019	**2020**	2019
	$'000	$'000	**$'000**	$'000
Cash on hand	**1**	1	**1**	1
Cash at bank (1)	**29,126**	17,984	**23,523**	15,352
Deposits at call with financial institutions	**10,116**	12,647	**10,116**	12,647
	39,243	30,632	**33,640**	28,000

(1) Includes $1.365 million (2019: $0.678 million) cash in Peer to Peer Lending platforms, and $15.538 million (2019: $8.214 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 represents 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 deposit rates.

8 INVESTMENTS

	Consolidated		Bank	
	2020	2019	**2020**	2019
	$'000	$'000	**$'000**	$'000
Negotiable Certificates of Deposits	**63,892**	96,511	**63,892**	96,511
Floating Rate Notes (1)	**54,882**	29,137	**75,435**	49,690
Term Deposit	**603**	604	**603**	604
Debt investments at amortised cost	**6,527**	3,052	**6,527**	3,052
	125,904	129,304	**146,457**	149,857
Maturity analysis: Investments				
- < 3 months	**29,966**	24,432	**29,966**	24,432
- 3 to 6 months	**45,963**	77,154	**45,963**	77,154
- 6 to 12 months	**9,642**	5,561	**30,195**	26,114
- > 1 year	**40,333**	22,157	**40,333**	22,157
Total	**125,904**	129,304	**146,457**	149,857

(1) The Bank holds $20,553,025 (2019: $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.

Notes to the Financial Statements (continued)

For the year ended 30 June 2020

9 LOANS AND ADVANCES

	Consolidated		Bank	
	2020	2019	**2020**	2019
	$'000	$'000	**$'000**	$'000
Lines of credit	**26,409**	32,283	**26,409**	32,283
Term loans	**888,965**	924,957	**888,965**	924,957
Gross loans and advances	**915,374**	957,240	**915,374**	957,240
Add:				
- Gross commissions capitalised	**9,252**	8,580	**9,252**	8,580
- Accumulated amortisation	**(7,665)**	(6,655)	**(7,665)**	(6,655)
Net commissions capitalised	**1,587**	1,925	**1,587**	1,925
Allowance for impairment loss	**(2,993)**	(2,340)	**(2,993)**	(2,340)
Net loans and advances	**913,968**	956,825	**913,968**	956,825
Security dissection				
- Secured by mortgage	**870,536**	915,210	**870,536**	915,210
- Secured other	**9,260**	1,324	**9,260**	1,324
- Unsecured	**35,578**	40,706	**35,578**	40,706
	915,374	957,240	**915,374**	957,240
Purpose dissection				
- Residential loans	**851,448**	901,793	**851,448**	901,793
- Personal loans	**44,831**	51,959	**44,831**	51,959
- Commercial loans	**19,095**	3,488	**19,095**	3,488
	915,374	957,240	**915,374**	957,240
Maturity analysis: Gross loans and advances (1)				
- < 3 months	**324**	2,255	**324**	2,255
- 3 to 12 months	**7,425**	3,372	**7,425**	3,372
- 1 - 5 years	**37,697**	32,532	**37,697**	32,532
- > 5 years	**869,928**	919,081	**869,928**	919,081
	915,374	957,240	**915,374**	957,240

(1) Cash flow s are based on contractual obligations.

Notes to the Financial Statements (continued)

For the year ended 30 June 2020

9 LOANS AND ADVANCES (continued)

(a) Allowance for impairment loss

An increase in allowance for impairment loss of $653,000 (2019: increase of $387,000) has been recognised in the 'Impairment expense' line. This provision is in respect of specific debtors and debtors assessed on a collective basis, as described in note 2(e).

	Consolidated		Bank	
	2020	2019	**2020**	2019
	$'000	$'000	**$'000**	$'000
Provision for impairment				
Balance at beginning of period	**2,340**	893	**2,340**	893
Remeasurement	**-**	1,060	**-**	1,060
Restated opening balance under AASB 9	**2,340**	1,953	**2,340**	1,953
Additional individually assessed impairment	**1,050**	934	**1,050**	934
Loans written-off	**(842)**	(678)	**(842)**	(678)
Reversal of individually assessed impairment	**(137)**	(257)	**(137)**	(257)
Changes to modelling assumptions	**901**	-	**901**	-
Increase in collective impairment	**(319)**	388	**(319)**	388
Balance at end of period	**2,993**	2,340	**2,993**	2,340
Individually assessed impairment	**521**	498	**521**	498
Collective impairment	**2,472**	1,842	**2,472**	1,842
Total provision for impairment	**2,993**	2,340	**2,993**	2,340

	Consolidated Entity and Bank			
	2020	**2020**	**2020**	**2020**
	Stage 1	**Stage 2**	**Stage 3**	**Total**
	12mnth ECL	**Lifetime ECL**	**Lifetime ECL**	
	$'000	**$'000**	**$'000**	**$'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**

Notes to the Financial Statements (continued)

For the year ended 30 June 2020

9 LOANS AND ADVANCES (continued)

(a) Allowance for impairment loss (continued)

	Consolidated Entity and Bank			
	2019	2019	2019	2019
	Stage 1	Stage 2	Stage 3	Total
	12mnth ECL	Lifetime ECL	Lifetime ECL	
	$'000	$'000	$'000	$'000
Gross carrying amount as at 1 July 2018	**880,145**	**8,959**	**3,030**	**892,134**
New loans originated	235,800	-	-	**235,800**
Payments and assets derecognised	(167,563)	(853)	(1,568)	**(169,984)**
Transfers to Stage 1	3,042	(2,239)	(803)	**-**
Transfers to Stage 2	(3,008)	3,024	(16)	**-**
Transfers to Stage 3	(3,210)	(1,271)	4,481	**-**
Amounts written-off	-	-	(710)	**(710)**
At 30 June 2019	**945,206**	**7,620**	**4,414**	**957,240**

	Consolidated Entity and Bank			
	2020	**2020**	**2020**	**2020**
	Stage 1	**Stage 2**	**Stage 3**	**Total**
	12mnth ECL	**Lifetime ECL**	**Lifetime ECL**	
	$'000	**$'000**	**$'000**	**$'000**
ECL allowance as at 1 July 2019	**1,471**	**371**	**498**	**2,340**
New loans originated	32	-	-	**32**
Transfers to Stage 1	0	(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**

	Consolidated Entity and Bank			
	2019	2019	2019	2019
	Stage 1	Stage 2	Stage 3	Total
	12mnth ECL	Lifetime ECL	Lifetime ECL	
	$'000	$'000	$'000	$'000
ECL allowance as at 1 July 2018				**893**
Adjustment on adoption of AASB 9				**1,060**
Revised opening balance	**1,118**	**336**	**499**	**1,953**
New loans originated	1,227	-	-	**1,227**
Transfers to Stage 1	2	(66)	(61)	**(125)**
Transfers to Stage 2	(10)	250	(16)	**224**
Transfers to Stage 3	(590)	(52)	1,011	**369**
Loans repaid	(276)	(97)	(257)	**(630)**
Write-offs	-	-	(678)	**(678)**
At 30 June 2019	**1,471**	**371**	**498**	**2,340**

Notes to the Financial Statements (continued)

For the year ended 30 June 2020

9 LOANS AND ADVANCES (continued)

(a) Allowance for impairment loss (continued)

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

	Consolidated		Bank	
	2020	2019	**2020**	2019
	$'000	$'000	**$'000**	$'000
Past due 30 days and over [1]	**13,873**	9,660	**13,873**	9,660

(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.

(b) Concentration of loans

Geographic areas-residence and/or employed within:				
- New South Wales	**481,257**	483,836	**481,257**	483,836
- Victoria	**202,800**	225,193	**202,800**	225,193
- Queensland	**136,083**	142,633	**136,083**	142,633
- Western Australia	**41,254**	46,375	**41,254**	46,375
- South Australia	**23,231**	25,675	**23,231**	25,675
- Northern Territory	**1,228**	-	**1,228**	-
- Tasmania	**6,212**	6,254	**6,212**	6,254
- Australian Capital Territory	**23,309**	27,274	**23,309**	27,274
	915,374	957,240	**915,374**	957,240

(c) Fair value

The *carrying amount* of loans and advances are as follows:				
- Lines of credit	**26,409**	32,283	**26,409**	32,283
- Term loans	**888,965**	924,957	**888,965**	924,957
	915,374	957,240	**915,374**	957,240
The *fair values* of loans and advances are as follows:				
- Lines of credit	**26,409**	32,283	**26,409**	32,283
- Term loans	**890,979**	925,791	**890,979**	925,791
	917,388	958,074	**917,388**	958,074

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

Notes to the Financial Statements (continued)

For the year ended 30 June 2020

10 DERIVATIVE FINANCIAL INSTRUMENTS

Interest Rate Swaps

As at 30 June 2020, 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.

As at 30 June 2019, Gateway and Portavia Trust No.1 had interest rate swap contracts with National Australia Bank and Westpac Banking Corporation respectively. Portavia No. 1 paid a fixed rate of interest in return for a floating rate receipt, and Gateway paid a floating rate of interest in return for a fixed 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, recorded as assets, and the total notional amount.

Interest Rate Swaps

	Consolidated		Bank	
	2020	2019	**2020**	2019
	$'000	$'000	**$'000**	$'000
Cash flow Hedges				
- Fair value asset	**-**	65	**-**	181
- Fair value liability	**(77)**	-	**-**	-
- Notional amount	**4,313**	71,242	**-**	60,000

Below is a schedule indicating 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		Bank	
	Within 1 year	**1 to 5 years**	**Within 1 year**	**1 to 5 years**
	$'000	**$'000**	**$'000**	**$'000**
2020				
Net cash flows	**(51)**	**(30)**	**-**	**-**
2019				
Net cash flows	423	(36)	486	-

Notes to the Financial Statements (continued)

For the year ended 30 June 2020

11 PROPERTY, PLANT AND EQUIPMENT

	Consolidated		Bank	
	2020	2019	**2020**	2019
	$'000	$'000	**$'000**	$'000
Plant and equipment				
At cost	**614**	712	**614**	712
Accumulated depreciation	**(395)**	(432)	**(395)**	(432)
Net carrying amount	**219**	280	**219**	280
Leasehold improvements				
At cost	**2,158**	2,165	**2,158**	2,165
Accumulated depreciation	**(450)**	(186)	**(450)**	(186)
Net carrying amount	**1,708**	1,979	**1,708**	1,979
Right-of-use asset				
At cost	**8,482**	-	**8,482**	-
Accumulated depreciation	**(1,767)**	-	**(1,767)**	-
Net carrying amount	**6,715**	-	**6,715**	-
Total property, plant and equipment				
At cost	**11,254**	2,877	**11,254**	2,877
Accumulated depreciation and impairment	**(2,612)**	(618)	**(2,612)**	(618)
Net carrying amount	**8,642**	2,259	**8,642**	2,259
Reconciliation of carrying amounts at the beginning and end of the period				
Plant and equipment				
Opening balance	**280**	308	**280**	308
- Additions	**79**	155	**79**	155
- Disposals (net of accumulated depreciation)	**-**	(21)	**-**	(21)
- Depreciation charge for the year	**(140)**	(162)	**(140)**	(162)
Closing balance	**219**	280	**219**	280
Leasehold property improvements				
Opening balance	**1,979**	1	**1,979**	1
- Additions	**-**	2,158	**-**	2,158
- Disposals (net of accumulated depreciation)	**-**	-	**-**	-
- Depreciation charge for the year	**(271)**	(180)	**(271)**	(180)
Closing balance	**1,708**	1,979	**1,708**	1,979
Right-of-use asset				
Opening balance	**-**	-	**-**	-
- Impact of adoption of AASB 16	**7,775**	-	**7,775**	-
- Additions	**-**	-	**-**	-
- Disposals (net of accumulated depreciation)	**-**	-	**-**	-
- Depreciation charge for the year	**(1,060)**	-	**(1,060)**	-
Closing balance	**6,715**	-	**6,715**	-

12 INTANGIBLE ASSETS

	Consolidated		Bank	
	2020	2019	**2020**	2019
	$'000	$'000	**$'000**	$'000
Work in Progress				
Net carrying amount - at cost	**416**	441	**416**	441
Computer software				
- Cost	**2,602**	2,491	**2,602**	2,491
- Accumulated amortisation	**(1,888)**	(2,261)	**(1,888)**	(2,261)
Net carrying amount	**714**	230	**714**	230
Intangible assets	**1,130**	671	**1,130**	671

Reconciliation of carrying amount at beginning and end of the period

	Consolidated		Bank	
	2020	2019	**2020**	2019
	$'000	$'000	**$'000**	$'000
Work in Progress				
Opening balance	**441**	303	**441**	303
- Additions	**635**	138	**635**	138
- Transfers out	**(606)**	-	**(606)**	-
- Disposals	**(54)**	-	**(54)**	-
Closing balance	**416**	441	**416**	441
Computer software				
Opening balance	**230**	471	**230**	471
- Additions	**45**	31	**45**	31
- Transfers in	**606**	-	**606**	-
- Amortisation	**(167)**	(272)	**(167)**	(272)
Closing balance	**714**	230	**714**	230

13 OTHER ASSETS

	Consolidated		Bank	
	2020	2019	**2020**	2019
	$'000	$'000	**$'000**	$'000
Prepayments	**366**	492	**366**	492
Sundry debtors	**141**	410	**2,891**	2,722
	507	902	**3,257**	3,214

Notes to the Financial Statements (continued)

For the year ended 30 June 2020

14 DEPOSITS

	Consolidated		Bank	
	2020	2019	**2020**	2019
	$'000	$'000	**$'000**	$'000
Call deposits	**261,459**	262,783	**261,459**	262,783
Retail term deposits	**461,459**	541,296	**461,459**	541,296
Wholesale term deposits	**74,981**	54,052	**74,981**	54,052
Withdrawable shares	**49**	51	**49**	51
	797,948	858,182	**797,948**	858,182
(a) Maturity analysis: Deposits				
- At call	**261,508**	262,834	**261,508**	262,834
- < 3 months	**264,163**	165,427	**264,163**	165,427
- 3 to 6 months	**178,672**	186,213	**178,672**	186,213
- 6 to 12 months	**82,018**	228,895	**82,018**	228,895
- 1 to 5 years	**11,587**	14,800	**11,587**	14,800
- > 5 years	**-**	13	**-**	13
	797,948	858,182	**797,948**	858,182
(b) Fair value				
The fair values of deposits are as follows:				
- Call deposits	**261,459**	262,834	**261,459**	262,834
- Term deposits	**537,538**	596,853	**537,538**	596,853
- Withdrawable shares	**49**	51	**49**	51
	799,046	859,738	**799,046**	859,738

(c) Interest rate and liquidity risk

Information regarding the liquidity risk and effective interest rate risk of deposits is set out in Note 4.

15 TRADE PAYABLES

	Consolidated		Bank	
	2020	2019	**2020**	2019
	$'000	$'000	**$'000**	$'000
Creditors and accruals	**5,168**	3,106	**4,893**	2,570
Undiscounted Maturity analysis of Creditors and accruals:				
- < 3 months	**4,711**	2,812	**4,436**	2,276
- > 3 months	**457**	294	**457**	294
Total	**5,168**	3,106	**4,893**	2,570

Due to the short-term nature of these payables, their carrying value is assumed to approximate their fair value.

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

Notes to the Financial Statements (continued)

For the year ended 30 June 2020

16 BORROWINGS

	Consolidated		Bank	
	2020	2019	**2020**	2019
	$'000	$'000	**$'000**	$'000
(a) Borrowings				
Lease liability	**6,760**	-	**6,760**	-
Bank borrowings	**172,598**	155,956	**10,104**	-
	179,358	155,956	**16,864**	-

The Consolidated Entity's interest-bearing bank borrowings relate to funding provided to Portavia Trust No.1 from Westpac Banking Corporation. The facility is typically renewed annually, and its next maturity date is 19 March 2021. The undiscounted value is assumed to approximate the fair value.

In the current year, the Consolidated Entity incurred interest on the lease liability of $173,767 (2019: $nil).

	Consolidated 2020	Consolidated 2019	Bank 2020	Bank 2019
(b) Inter-entity borrowings				
Inter-entity borrowings	**-**	-	**180,469**	176,725

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

	Consolidated 2020	Consolidated 2019	Bank 2020	Bank 2019
(c) Maturity analysis: Interest-bearing borrowings				
Lease liability	**6,760**	**-**	**6,760**	**-**
Bank borrowings	**172,598**	155,956	**10,104**	-
Inter-entity borrowings	**-**	-	**180,469**	176,725
	179,358	155,956	**197,333**	176,725
Maturity analysis of borrowings:				
- < 3 months	**247**	-	**247**	-
- 3 to 6 months	**255**	-	**255**	-
- > 6 months	**178,856**	155,956	**196,831**	176,725
Total	**179,358**	155,956	**197,333**	176,725

(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.

Notes to the Financial Statements (continued)

For the year ended 30 June 2020

16 BORROWINGS (continued)

(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	
	2020	2019	**2020**	2019
	$'000	$'000	**$'000**	$'000
Total facilities				
- Committed facility	**202,858**	175,000	**27,858**	-
	202,858	175,000	**27,858**	-
Facilities used at reporting date				
- Committed facility	**172,598**	155,956	**10,104**	-
	172,598	155,956	**10,104**	-
Facilities unused at reporting date				
- Committed facility	**30,260**	19,044	**17,754**	-
	30,260	19,044	**17,754**	-

(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 (2020: $12 million; 2019: $nil).

(g) Interest rate risk

Information regarding the interest rate risk of the interest-bearing loans and borrowings is set out in Note 4.

(h) Defaults and breaches

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

17 PROVISIONS

	Consolidated		Bank	
	2020	2019	**2020**	2019
	$'000	$'000	**$'000**	$'000
Annual leave	**493**	378	**493**	378
Long service leave	**443**	405	**443**	405
Lease make-good	**404**	29	**404**	29
	1,340	812	**1,340**	812

Notes to the Financial Statements (continued)

For the year ended 30 June 2020

17 PROVISIONS (continued)

	Consolidated		Bank	
	2020	2019	**2020**	2019
	$'000	$'000	**$'000**	$'000
Annual Leave				
Opening balance	**378**	373	**378**	373
- Arising during the year	**516**	504	**516**	504
- Utilised	**(401)**	(499)	**(401)**	(499)
Closing balance	**493**	378	**493**	378
Long Service Leave				
Opening balance	**405**	522	**405**	522
- Arising during the year	**114**	92	**114**	92
- Utilised	**(76)**	(209)	**(76)**	(209)
Closing balance	**443**	405	**443**	405
Lease Make-Good				
Opening balance	**29**	330	**29**	330
- Arising during the year	**375**	46	**375**	46
- Utilised	**-**	(347)	**-**	(347)
Closing balance	**404**	29	**404**	29

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. A provision of $375,000 was raised during the year ended 30 June 2020 (2019: $46,000) 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.

18 RESERVES

Cash Flow Hedge Reserve	**Consolidated $'000**	**Bank $'000**
At 30 June 2018	**39**	**-**
- Net unrealised (loss)/gain on cash flow hedges net of tax	(24)	131
- Net (loss)/gain on cash flow hedges reclassified to profit or loss	-	-
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)**	**-**

A General Reserve for Credit Losses for regulatory purposes of $1,406,778 (2019: $962,063) is reflected in retained earnings.

Notes to the Financial Statements (continued)

For the year ended 30 June 2020

19 CAPITAL MANAGEMENT

The Consolidated Entity is licensed as an Australian 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 general reserve for credit losses.

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.

	2020 **$'000**	2019 $'000
Regulatory capital		
Tier 1 capital	**102,140**	98,949
Tier 2 capital	**3,911**	2,239
Capital Base	**106,051**	**101,188**
Risk Weighted Assets	**534,597**	529,714
Capital adequacy ratios	**19.84%**	19.10%

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 2020

20 CASH FLOW STATEMENT RECONCILIATION

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

	Consolidated		Bank	
	2020	2019	**2020**	2019
	$'000	$'000	**$'000**	$'000
Profit for the year	**2,814**	2,098	**2,814**	2,098
Adjustments for:				
Depreciation and amortisation	**1,638**	614	**1,638**	614
Bad debts written off	**859**	710	**859**	654
Net loss on disposal of property, plant and	**-**	21	**-**	21
Movement in allowance for impairment loss	**653**	678	**653**	678
Deferred tax attributed directly to equity	**50**	(50)	**50**	(50)
Fair value adjustment on derivative financial instruments	**-**	-	**-**	-
Changes in assets and liabilities				
Decrease/(increase) in other assets	**668**	(611)	**660**	(613)
Increase in deferred tax assets	**(225)**	(30)	**(225)**	(30)
Decrease/(increase) in loans and advances	**40,112**	(69,456)	**40,112**	(69,456)
Increase/(decrease) in current tax liability	**516**	(917)	**516**	(917)
Increase/(decrease) in provisions	**529**	(414)	**529**	(414)
Increase in trade creditors and other liabilities	**2,126**	157	**1,958**	2,014
(Decrease)/increase in deposits	**(59,614)**	112,422	**(59,614)**	112,422
Net cash flows from operating activities	**(9,874)**	45,222	**(10,050)**	47,021

Notes to the Financial Statements (continued)

For the year ended 30 June 2020

20 CASH FLOW STATEMENT RECONCILIATION (continued)

(b) Reconciliation of movements of liabilities to cash flows arising from financing activities

Consolidated	Borrowings $'000	Total $'000
Balance at 30 June 2018	**206,798**	**206,798**
Repayment of debt securities	(50,842)	(50,842)
Total change from financing cash flows	**(50,842)**	**(50,842)**
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**

Bank	Inter-entity Borrowings $'000	Borrowings $'000	Total $'000
Balance at 30 June 2018	**227,567**	**-**	**227,567**
Repayment of debt securities	(50,842)	-	(50,842)
Total change from financing cash flows	**(50,842)**	**-**	**(50,842)**
Balance at 30 June 2019	**176,725**	**-**	**176,725**
Proceeds from/(repayment of) 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**

Notes to the Financial Statements (continued)

For the year ended 30 June 2020

21 COMMITMENTS AND CONTINGENCIES

(a) Commitments

	Consolidated		Bank	
	2020	2019	**2020**	2019
	$'000	$'000	**$'000**	$'000
(i) Capital expenditure commitments				
Contracted but not provided for and payable within one year	**-**	325	**-**	325
(ii) Outstanding loan commitments				
Peer to Peer Lending commitments	**-**	1,002	**-**	1,002
Member loans approved but not funded	**15,672**	11,099	**15,672**	11,099
Total outstanding loan commitments	**15,672**	12,101	**15,672**	12,101

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

(iii) Outstanding line of credit commitments				
Member line of credit facilities approved but not funded	**47,556**	47,305	**47,556**	47,305
(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	**65,764**	64,461	**65,764**	64,461

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.

22 AUDITORS' REMUNERATION

The auditor for the Consolidated Entity is KPMG (2019: Ernst & Young). All fees paid in 2020 were payable to KPMG, and all fees paid in 2019 were payable to Ernst & Young.

	Consolidated		Bank	
	2020	2019	**2020**	2019
	$	$	**$**	$
Audit and review services				
Audit and review of financial statements	**139,725**	228,176	**139,725**	228,176
Assurance services				
Regulatory assurance services	**51,698**	-	**51,698**	-
Other services				
Taxation advice and tax compliance services	**33,275**	24,990	**33,275**	24,990
Other services	**25,614**	7,000	**25,614**	7,000
	250,312	260,166	**250,312**	260,166

Notes to the Financial Statements (continued)

For the year ended 30 June 2020

23 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	
	2020	2019	**2020**	2019
	$	$	**$**	$
Short-term benefits	**1,758,064**	2,020,737	**1,758,064**	2,020,737
Post employment	**141,966**	137,368	**141,966**	137,368
Other Long-term benefits	**87,420**	16,383	**87,420**	16,383
Termination benefits	**-**	47,796	**-**	47,796
	1,987,450	2,222,284	**1,987,450**	2,222,284

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 paid annual leave.

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

(b) Loans to Key Management Personnel

	Consolidated 2020	Consolidated 2019	Bank 2020	Bank 2019
(i) The aggregate value of loans to Key Management Personnel as at balance date amounted to:				
Personal loans - secured	**11,952**	106,937	**11,952**	106,937
Term Loans - secured	**1,889,927**	2,434,745	**1,889,927**	2,434,745
	1,901,879	2,541,682	**1,901,879**	2,541,682
(ii) During the year the aggregate value of loans disbursed to Key Management Personnel amounted to:				
Personal loans - secured	**3,000**	12,700	**3,000**	12,700
Term Loans - secured	**-**	1,546,000	**-**	1,546,000
	3,000	1,558,700	**3,000**	1,558,700
(iii) During the year the aggregate value of repayments received amounted to:	**722,939**	342,726	**722,939**	342,726
(iv) Interest and other revenue earned on loans and revolving credit facilities to Key Management	**80,136**	74,981	**80,136**	74,981

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.

Notes to the Financial Statements (continued)

For the year ended 30 June 2020

23 KEY MANAGEMENT PERSONNEL (continued)

(c) Other transactions and balances with Key Management Personnel and their related parties

Total value of term and savings deposits from Key Management Personnel	**887,861**	774,552	**887,861**	774,552
Total interest paid on deposits to Key Management Personnel	**7,561**	13,683	**7,561**	13,683

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.

24 GROUP CONTROLLED ENTITY HOLDINGS

Details of controlled entities are as follows:

Name of Entity	% Holdings		Note
	2020	2019	
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.

25 EVENTS AFTER BALANCE SHEET DATE

There have been no significant events after the balance date.

Notes to the Financial Statements (continued)

For the year ended 30 June 2020

26 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.

Westpac Banking Corporation

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

Notes to the Financial Statements (continued)

For the year ended 30 June 2020

27 RESTATEMENTS

During 2020, the prior period financial statements of the parent entity (Bank) have been restated to reflect a change in the way that the activities of the Portavia Trust No.1 warehouse securitisation are accounted for. The warehouse securitisation trust is now accounted for on a gross basis in the Bank financial statements. As a result, the Bank has recognised its investment in the notes issued by Portavia Trust No.1 as an asset and has also recognised a corresponding inter-entity borrowing (along with associated interest income and expense on the notes and borrowings, respectively). The change had no impact on the Consolidated Entity.

The following table summarises the impact on the Bank financial statements.

(a) Statement of Comprehensive Income

For the year ended 30 June 2019 $'000	As Previously Reported	Adjustment	As Restated
Interest revenue	39,561	644	40,205
Interest expense	(21,840)	(715)	(22,555)
Net interest revenue	**17,721**	**(71)**	**17,650**
Non-interest revenue	976	18	994
Total revenue	**18,697**	**(53)**	**18,644**
Impairment expense	(1,097)	56	(1,041)
Administration expenses	(3,093)	211	(2,882)
Total expenses	**(15,900)**	**267**	**(15,633)**
Net profit before tax	**2,797**	**214**	**3,011**
Income tax expense	(854)	(59)	(913)
Net profit after tax attributable to members	**1,943**	**155**	**2,098**
Total comprehensive income attributable to members	**2,074**	**155**	**2,229**

(b) Statement of Financial Position

As at 30 June 2019 $'000	As Previously Reported	Adjustment	As Restated
Assets			
Cash and cash equivalents	30,632	(2,632)	28,000
Investments	129,304	20,553	149,857
Other assets	902	2,312	3,214
Total Assets	**1,123,021**	**20,233**	**1,143,254**
Liabilities			
Trade payables	3,106	(536)	2,570
Inter-entity borrowings	156,072	20,653	176,725
Total Liabilities	**1,018,172**	**20,117**	**1,038,289**
Net Assets	**104,849**	**116**	**104,965**
Members' Equity			
Retained earnings	104,718	116	104,834
Total Members Equity	**104,849**	**116**	**104,965**

Notes to the Financial Statements (continued)

For the year ended 30 June 2020

27 RESTATEMENTS (continued)

(c) Statement of Cash Flows

For the Year Ended 30 June 2019 $'000	As Previously Reported	Adjustment	As Restated
Cash flows from operating activities			
Interest received	41,470	682	42,152
Other non-interest income received	1,306	(2,223)	(917)
Interest paid	(20,399)	(561)	(20,960)
Net funds receipted from and advanced to members for loans and advances	(67,380)	3,175	(64,205)
Payments to suppliers and employees	(17,110)	726	(16,384)
Net cash flows from operating activities	**45,222**	**1,799**	**47,021**
Cash flows from financing activities			
Proceeds from/(repayment) of borrowings	(50,842)	159	(50,683)
Net cash flows from financing activities	**(50,842)**	**159**	**(50,683)**
Net increase/(decrease) in cash and cash equivalents	(30,418)	1,958	(28,460)
Cash and cash equivalents at beginning of year	61,050	(4,590)	56,460
Cash and cash equivalents at end of year	**30,632**	**(2,632)**	**28,000**

Directors' Declaration

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

In the opinion of the Directors:

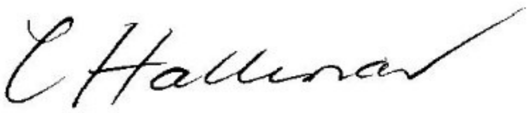
(b) the financial statements and notes of the Bank and Consolidated Entity are in accordance with the Corporations Act 2001, including:

  (i) giving a true and fair view of the Bank's and Consolidated Entity's financial position as at 30 June 2020 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 2;

(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, 13 October 2020

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 2020 and of their 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 2020
- *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 (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.

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.

KPMG

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

KPMG

Richard Drinnan

Partner

Wollongong

13 October 2020

This page has been intentionally left blank

Gateway Bank
Branch/Head office
Level 10, 68 York Street,
Sydney NSW 2000

T 1300 302 474
F 02 9307 4299
gatewaybank.com.au
memberservices@gatewaybank.com.au

ABN 47 087 650 093
AFSL/ACL 238 293