General Purpose Financial Report for the year ended 30 June 2019

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

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and its Controlled Entities
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General Purpose Financial Report
for the year ended 30 June 2019

Contents

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Directors' Report

Your Directors submit their report for the year ended 30 June 2019.

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
Robyn L FitzRoy
Cristine Franks - appointed August 2019
Malcolm S Graham - resigned July 2019
Guy Harding - resigned July 2018
Graham B Raward
Peter M Schiller - appointed July 2018
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)
- Risk (March 2014 to December 2018)
- 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).

Committee Memberships:
- Audit (August 2019 to present)
- Nominations and Remuneration (August 2019 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:
- Convenor Risk (March 2014 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 and of Diversa Trustees Limited. 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 present)

Christine Franks
NON-EXECUTIVE DIRECTOR
Qualifications: BA (statistics, Sociology), M Management (Community)

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)

Directors' Report

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)

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 present)

Directors' Report

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

Gerald M Nicholls
Chief Risk Officer
Appointed Company Secretary February 2019
B Bus (Fin).

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	8	7	6	5
	B	8	7	6	5
Steven R Carritt	A	8	-	-	7
	B	8	-	-	7
Robyn L Fitzroy	A	8	6	-	6
	B	8	7	-	7
Malcolm S Graham	A	8	-	5	5
	B	8	-	6	7
Graham B Raward	A	8	7	5	-
	B	8	7	6	-
Peter M Schiller	A	8	-	5	7
	B	8	-	6	7
Irene H van der Loos	A	8	3	6	3
	B	8	4	6	3

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 2019, 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 2019 (2018: 59).

PRINCIPAL ACTIVITIES

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

Directors' Report

OPERATING AND FINANCIAL REVIEW
The Consolidated Entity results comprises of the full 12 months to 30 June 2019 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 year ended 30 June 2019 of $2.098 million (2018: $2.493 million).

The Consolidated Entity balance sheet assets increased to $1.123 billion as at 30 June 2019 (2018: $1.064 billion), representing an increase of $59 million (+5.55%) over the previous financial year. Total loans increased by $63.7 million (+7.13%) to $956.8 million (2018: $893.1 million) and total deposits were $858.2 million (2018: $746.4 million), being an increase of $111.8 million (+14.98%) from the previous year.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS
There have been no significant changes in the state of affairs of the Consolidated Entity during the 2019 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.

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 REMUNERATION
No benefits have been received or are due to be received by a Director, a firm of which the Director is a member, or an organisation in which a Director has a substantial financial interest, either during the financial year, or subsequently, under a contract for services rendered to the Consolidated Entity.

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, Ernst & Young, 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 Ernst & Young during or since the financial year ended 30 June 2019.

Directors' Report

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

The Directors received an independence declaration from the auditor, Ernst & Young. A copy has been included on the following page.

Signed in accordance with a resolution of the Directors.

C M Hallinan
Chair

Sydney, 26 September 2019

Auditor's Independence Declaration

For the year ended 30 June 2019

EY
Building a better working world

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Auditor's Independence Declaration to the Directors of Gateway Bank Ltd

As lead auditor for the audit of Gateway Bank Ltd for the financial year ended 30 June 2019, I declare to the best of my knowledge and belief, there have been:

a) no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and

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

This declaration is in respect of Gateway Bank Ltd and the entities it controlled during the financial year.

Ernst & Young

Ernst & Young

R. Balfour

Richard Balfour
Partner
26 September 2019

Statement of Comprehensive Income

For the year ended 30 June 2019

	Notes	Consolidated 2019 $'000	Consolidated 2018 $'000	Bank 2019 $'000	Bank 2018 $'000
Interest revenue	5(a)	**39,561**	37,496	**39,561**	37,496
Interest expense	5(a)	**(21,840)**	(19,744)	**(21,840)**	(19,744)
Net interest revenue		**17,721**	17,752	**17,721**	17,752
Non-interest revenue	5(b)	**1,190**	1,196	**976**	1,263
Total revenue		**18,911**	18,948	**18,697**	19,015
Impairment expense	5(c)	**(1,097)**	(828)	**(1,097)**	(828)
Occupancy expenses		**(1,153)**	(1,243)	**(1,153)**	(1,243)
Marketing expenses		**(485)**	(477)	**(485)**	(477)
IT expenses		**(1,644)**	(1,566)	**(1,644)**	(1,566)
Administration expenses	5(d)	**(3,093)**	(3,041)	**(3,093)**	(3,041)
Employee expenses	5(e)	**(7,814)**	(7,624)	**(7,814)**	(7,624)
Depreciation and amortisation expense	5(f)	**(614)**	(477)	**(614)**	(477)
Total expenses		**(15,900)**	(15,256)	**(15,900)**	(15,256)
Net profit before tax		**3,011**	3,692	**2,797**	3,759
Income tax expense	6(a)	**(913)**	(1,199)	**(854)**	(1,219)
Net profit after tax attributable to Members		**2,098**	2,493	**1,943**	2,540
Other comprehensive income					
Net change on Cash Flow Hedge Reserve	18	**(24)**	47	**131**	-
Other comprehensive income net of tax		**(24)**	47	**131**	-
Total comprehensive income attributable to Members		**2,074**	2,540	**2,074**	2,540

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

Statement of Financial Position

As at 30 June 2019

	Notes	Consolidated 2019 $'000	Consolidated 2018 $'000	Bank 2019 $'000	Bank 2018 $'000
ASSETS					
Cash and cash equivalents	7	**30,632**	61,050	**30,632**	61,050
Investments	10	**129,304**	106,967	**129,304**	106,967
Loans and advances	8	**956,825**	893,107	**956,825**	893,107
Derivative financial instruments	14	**65**	39	**181**	-
Current tax assets		**1,199**	283	**1,199**	283
Deferred tax assets	6(c)	**1,048**	1,018	**1,048**	1,018
Property, plant and equipment	11	**2,259**	309	**2,259**	309
Intangible assets	12	**671**	774	**671**	774
Other assets	9	**902**	574	**902**	574
TOTAL ASSETS		**1,122,905**	1,064,121	**1,123,021**	1,064,082
LIABILITIES					
Deposits	13	**858,182**	746,395	**858,182**	746,395
Trade payables	15	**3,106**	4,680	**3,106**	4,680
Bank borrowings	16(a)	**155,956**	208,277	**-**	-
Inter-entity borrowings	16(b)	**-**	-	**156,073**	208,238
Provisions	17	**812**	1,225	**812**	1,225
TOTAL LIABILITIES		**1,018,056**	960,577	**1,018,173**	960,538
NET ASSETS		**104,849**	103,544	**104,849**	103,544
MEMBERS' EQUITY					
Retained earnings		**104,834**	103,505	**104,718**	103,544
Reserves	18	**15**	39	**131**	-
TOTAL MEMBERS' EQUITY		**104,849**	103,544	**104,849**	103,544

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

Statement of Changes in Equity

For the year ended 30 June 2019

Consolidated	Notes	Retained Earnings $'000	Cash Flow Hedge Reserve $'000	Total Equity $'000
At 30 June 2017		**101,012**	**(8)**	**101,004**
Profit for the year		2,493	-	2,493
Net change in Cash Flow Hedge Reserve	18	-	47	47
Total comprehensive income		2,493	47	2,540
At 30 June 2018		**103,505**	**39**	**103,544**
Effect of adoption of new accounting standards	2(b)	(769)	-	(769)
At 1 July 2018, as restated		**102,736**	**39**	**102,775**
Profit for the year		2,098	-	2,098
Net change in Cash Flow Hedge Reserve	18	-	(24)	(24)
Total comprehensive income		2,098	(24)	2,074
At 30 June 2019		**104,834**	**15**	**104,849**

Bank	Notes	Retained Earnings $'000	Cash Flow Hedge Reserve $'000	Total Equity $'000
At 30 June 2017		**101,004**	**-**	**101,004**
Profit for the year		2,540	-	2,540
Net change in Cash Flow Hedge Reserve	18	-	-	-
Total comprehensive income		2,540	-	2,540
At 30 June 2018		**103,544**	**-**	**103,544**
Effect of adoption of new accounting standards	2(b)	(769)	-	(769)
At 1 July 2018, as restated		**102,775**	**-**	**102,775**
Profit for the year		1,943	-	1,943
Net change in Cash Flow Hedge Reserve	18	-	131	131
Total comprehensive income		1,943	131	2,074
At 30 June 2019		**104,718**	**131**	**104,849**

Statement of Cash Flows

For the year ended 30 June 2019

	Notes	Consolidated 2019 $'000	Consolidated 2018 $'000	Bank 2019 $'000	Bank 2018 $'000
Cash flows from operating activities					
Interest received		**41,470**	39,194	**41,470**	39,194
Bad debts recovered		**227**	236	**227**	236
Commissions and fees paid		**(1,792)**	(1,728)	**(1,792)**	(1,728)
Other non-interest income received		**1,306**	1,316	**1,306**	1,316
Interest paid		**(20,399)**	(19,709)	**(20,399)**	(19,709)
Net funds advanced to and receipts from members for loans and advances		**(67,380)**	(12,896)	**(67,380)**	(12,896)
Payments to suppliers and employees		**(17,110)**	(14,158)	**(17,110)**	(14,158)
Income tax paid		**(1,909)**	(615)	**(1,909)**	(615)
Net acceptance from and repayment of deposits		**110,809**	41,997	**110,809**	41,997
Net cash flows from operating activities	20	**45,222**	33,637	**45,222**	33,637
Cash flows from investing activities					
Proceeds from redemption of investments		**218,078**	116,849	**218,078**	116,849
Payments for investments		**(240,415)**	(113,918)	**(240,415)**	(113,918)
Purchase of intangible assets		**(169)**	(334)	**(169)**	(334)
Purchase of property, plant and equipment		**(2,292)**	(190)	**(2,292)**	(190)
Net cash flows from investing activities		**(24,798)**	2,407	**(24,798)**	2,407
Cash flows from financing activities					
Proceeds from debt securities issuance		**-**	40,599	**-**	40,599
Repayment of debt securities		**(50,842)**	(61,514)	**(50,842)**	(61,514)
Net cash flows from financing activities		**(50,842)**	(20,915)	**(50,842)**	(20,915)
Net increase in cash and cash equivalents		**(30,418)**	15,129	**(30,418)**	15,129
Cash and cash equivalents at beginning of year		**61,050**	45,921	**61,050**	45,921
Cash and cash equivalents at end of year	7	**30,632**	61,050	**30,632**	61,050

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

Notes to the Financial Statements

For the year ended 30 June 2019

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 2019, was approved and authorised for issue by the Board of Directors on 24 September 2019.

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 2016/1991 unless otherwise indicated;
- has been prepared on a going concern basis using a historical cost basis, except for certain assets and liabilities (including derivative instruments) measured at fair value;
- presents assets and liabilities on the face of the Statement of Financial Position in decreasing order of liquidity;
- where required, presents restated comparative information for consistency with the current year’s presentation in the Financial Report; and
- contains accounting policies that have been consistently applied to all periods presented, unless otherwise stated.

(b) New Accounting Standards and Interpretations

The Consolidated Entity applied AASB 15 *Revenue from Contracts with Customers* and AASB 9 *Financial Instruments* for the first time.

AASB 15 *Revenue from Contracts with Customers*

AASB 15 supersedes AASB 18 *Revenue* and related interpretations and it applies, with limited exceptions, to all revenue arising from contracts with customers. AASB 15 establishes a five-step model to account for revenue arising from contracts with customers and requires that revenue be recognised at an amount that reflects the consideration to which an entity is expected to be entitled in exchange for transferring goods or services to a customer.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) New Accounting Standards and Interpretations (continued)

The five steps are:
1. Identify the contract with a customer.
2. Identify the separate performance obligations.
3. Determine the transaction price.
4. Allocate the transaction price to each performance obligation identified in Step 2.
5. Recognise revenue when a performance obligation is satisfied.

AASB 15 applies to contracts with customers except for revenue arising from items such as financial instruments, insurance contracts and leases.

There was no impact to the financial statements of the Consolidated Entity resulting from the adoption of AASB 15.

AASB 9 *Financial Instruments*

AASB 9 replaces AASB 139 for annual periods on or after 1 January 2018. The Consolidated Entity elected, as a policy choice permitted under AASB 9, to continue to apply hedge accounting in accordance with AASB 139.

The Consolidated Entity has not restated comparative information for 2018 for financial instruments in the scope of AASB 9. Therefore, the comparative information for 2018 is reported under AASB 139 and is not comparable with the information presented for 2019. Differences arising from the adoption of AASB 9 have been recognised directly in retained earnings as of 1 July 2018 and are disclosed in the Impairment section below.

The key changes to the Consolidated Entity's accounting policies and the impacts resulting from the adoption are of AASB 9 are described below.

Classification and measurement

To determine their classification and measurement category, AASB 9 requires all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the entity's business model for managing the assets and the instruments' contractual cash flow characteristics.

The AASB 139 measurement categories of financial assets (fair value through profit or loss (FVTPL), available for sale (AFS), held-to-maturity and loans and receivables) have been replaced by:
- Debt instruments at amortised cost.
- Debt instruments at fair value through other comprehensive income (FVOCI), with gains or losses recycled to profit or loss on derecognition.
- Equity instruments at FVOCI, with no recycling of gains or losses in profit or loss on derecognition.
- Financial assets at FVTPL.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) New Accounting Standards and Interpretations (continued)

Impairment

The adoption of AASB 9 has fundamentally changed the Consolidated Entity's accounting for loan loss impairments by replacing AASB 139's incurred loss approach with a forward-looking expected credit loss (ECL) approach. AASB 9 requires the Consolidated Entity to record an allowance for ECLs for all loans and other debt financial assets not held at FVTPL, together with loan commitments and financial guarantee contracts. The allowance is based on the ECLs associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination in which case lifetime ECL is recognised. If the financial asset meets the definition of purchased or originated credit impaired (POCI), the allowance is based on the change in the ECLs over the life of the asset.

Details of the Consolidated Entity's impairment method are disclosed in Note 2(h). The quantitative impact of applying AASB 9 as at 1 July 2018 is disclosed below:

Financial Impact of Adoption of AASB 9

The following table summarises the adjustments arising on adoption of AASB 9. The adjustments have been recognised against the Consolidated Entity's retained earnings for 1 July 2018.

	30 Jun 18 $'000	AASB 9 Impairment $'000	1 Jul 18 $'000
ASSETS			
Loans and advances	893,107	(1,060)	892,047
Deferred tax assets	1,018	291	1,309
TOTAL ASSETS	**894,125**	**(769)**	**893,356**
MEMBERS' EQUITY			
Retained earnings	103,505	(769)	102,736
TOTAL MEMBERS' EQUITY	**103,505**	**(769)**	**102,736**

Other accounting developments

Several other amendments and interpretations were also applied for the first time but did not impact on the financial statements of the Consolidated Entity.

Future accounting developments

Australian Accounting Standards and Interpretations that are issued, but not yet effective, up to the date of issuance of the Consolidated Entity's financial statements are disclosed on the next page. The Consolidated Entity intends to adopt these new standards and interpretations, if applicable, when they become available.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) New Accounting Standards and Interpretations (continued)

Future accounting developments (continued)

AASB 16 *Leases*

In February 2016, the AASB issued AASB 16 *Leases* , which sets out the principles for the recognition, measurement, presentation and disclosure of leases. The standard removes the current requirement for lessees to classify leases as finance leases or operating leases by introducing a single lessee accounting model that requires the recognition of lease assets and lease liabilities on the balance sheet for most leases. Lessees will also recognise depreciation expense on the lease asset and interest expense on the lease liability in the Statement of Comprehensive Income. There are no significant changes to lessor accounting aside from enhanced disclosure requirements.

The Consolidated Entity will adopt AASB 16 *Leases* on 1 July 2019. The requirements of AASB 16 will be implemented on a modified retrospective basis. The Consolidated Entity has adjusted the carrying amounts of financial assets and financial liabilities resulting from the adoption of AASB 16 through opening retained earnings on 1 July 2019. As permitted by AASB 16, the Consolidated Entity will not restate the prior period comparative financial statements.

The key changes to the Consolidated Entity's accounting policies and impacts resulting from adoption of AASB 16 are described below.

Impact of the New Definition of a Lease

A change in the definition of a lease mainly relates to the concept of control. AASB 16 determines whether a contract contains a lease on the basis of whether the customer has the right to control the use of an identified asset for a period of time in exchange for consideration.

The Consolidated Entity applies the definition of a lease and related guidance set out in AASB 16 to all existing lease contracts and lease contracts entered into or modified on or after 1 July 2019. In preparation for the first-time application of AASB 16, the Consolidated Entity performed an implementation review. This review has shown that the new definition in AASB 16 will not change the scope of contracts that meet the definition of a lease for the Consolidated Entity.

Impact on Lease Accounting – Former Operating Leases

AASB 16 changes how the Consolidated Entity accounts for leases previously classified as operating leases under AASB 117, which were off-balance-sheet.

Applying AASB 16, for all leases, the Consolidated Entity:

- recognises right-of-use assets and lease liabilities in the Statement of Financial Position, initially measured at the present value of future lease payments;
- recognises depreciation of right-of-use assets and interest on lease liabilities in the Statement of Comprehensive Income; and
- recognises cash paid for rent (presented within operating activities) in the Statement of Cash Flows.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) New Accounting Standards and Interpretations (continued)

Future accounting developments (continued)

AASB 16 *Leases* (continued)

Lease incentives are recognised as part of the measurement of the right-of-use assets and lease liabilities, whereas under AASB 117 they resulted in the recognition of a lease incentive liability, amortised as a reduction of rental expense on a straight-line basis.

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.

Financial Impact of Initial Application of AASB 16

	AASB 16 Leases $'000
ASSETS	
Property, plant and equipment - Right-of-Use Asset	6,668
Deferred tax asset	45
TOTAL ASSETS	**6,713**
LIABILITIES	
Lease liability	6,457
Lease make-good provision	376
TOTAL LIABILITIES	**6,833**
MEMBERS' EQUITY	
Retained earnings	(120)
TOTAL MEMBERS' EQUITY	**(120)**

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) New Accounting Standards and Interpretations (continued)

Future accounting developments (continued)

IFRIC 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 IAS 12 and does not apply to taxes or levies outside the scope of IAS 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;
- How an entity considers changes in facts and circumstances.

An entity has to 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.

(c) Financial instruments (Policy applies from 1 July 2018)

(i) Financial instruments - initial recognition

<u>Date of recognition</u>
Financial assets and liabilities, with the exception of 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 time frame generally established by regulation or convention in the market place. 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.

<u>Initial measurement of financial instruments</u>
The classification of financial instruments at initial recognition depends on their contractual terms and the business model for managing the instruments, as described in Note 2(d). Financial instruments are initially measured at their fair value, except in the case of financial assets and financial liabilities recorded at FVTPL, transaction costs are added to, or subtracted from, this amount. 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.

<u>Day 1 profit or loss</u>
When a transaction price of the instrument differs from the fair value at origination and the fair value is based on a valuation technique using only inputs observable in market transactions, the Consolidated Entity recognises the difference between the transaction price and the fair value in non-interest revenue. In those cases where fair value is based on models for which some of the inputs are not observable, the difference between the transaction price and the fair value is deferred and is recognised in profit and loss when the inputs become observable, or when the instrument is derecognised.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Financial instruments (Policy applies from 1 July 2018) (continued)

(ii) Measurement categories of financial assets and liabilities

From 1 July 2018, the Consolidated Entity classifies all of its financial assets based on the business model for managing the assets and the asset's contractual terms, measured at either:

- 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 FVTPL. The Consolidated Entity may designate financial instruments at FVTPL, if doing so eliminates or significantly reduces measurement or recognition inconsistencies.

Before 1 January 2018, the Consolidated Entity classified its financial assets as loans and receivables (amortised cost), FVTPL, available-for-sale or held-to-maturity (amortised cost). Financial liabilities, other than loan commitments and financial guarantees, are measured at amortised cost or at FVTPL when they are held for trading and derivative instruments or the fair value designation is applied.

(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 input that is significant to the measurement as the Consolidated Entity periodically reviews its valuation techniques including the adopted methodologies and model calibrations.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Financial assets and liabilities

Loans and advances and Investments

Before 1 July 2018, Loans and advances included non-derivative financial assets with fixed or determinable payments that were not quoted in an active market, other than those:

- that the Consolidated Entity intended to sell immediately or in the near term.
- that the Consolidated Entity, upon initial recognition, designated as at FVTPL or as available for sale; and
- for which the Consolidated Entity may not recover substantially all of its initial investment, other than because of credit deterioration, which were designated as available for sale.

From 1 July 2018, 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, in particular, 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Financial assets and liabilities (continued)

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.

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. Fully collateralised derivatives that are settled net in cash on a regular basis through Austraclear are only recognised to the extent of the overnight outstanding balance. The notional amount and fair value of such derivatives are disclosed separately in Note 14. 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 14.

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.

Under AASB 139, a provision would be made if they were an onerous contract but, from 1 July 2018, 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 instruments are disclosed in Note 21(a). No onerous contracts requiring provision were identified at 30 June 2018.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Financial assets and liabilities (continued)

Derecognition of financial assets and financial liabilities

Derecognition due to substantial modification of terms and conditions
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 or not 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. For financial assets, this assessment is based on qualitative factors.

Derecognition of a financial asset
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.

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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Financial assets and liabilities (continued)

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 asset continues to be recognised only to the extent of the Consolidated Entity's continuing control of the asset, the asset continues to be recognised only to the extent of the Consolidated Entity's continuing associated liability are measured on a basis that reflects the rights and obligations that the Consolidated Entity has retained. 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.

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

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.

<u>Portavia Trust No.1</u>

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.

<u>Portavia Trust No.2</u>

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) 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.

(f) Investments (Policy for the year ended 30 June 2018)

Investments are financial assets that are measured at amortised cost. Investments include negotiable certificates of deposit, floating rate notes and term deposits placed with other financial institutions.

Investments are recognised at settlement date, when funds are placed with other financial institutions. They are initially recognised at fair value plus directly attributable transaction costs such as broker fees. Subsequent to initial recognition, they are measured at amortised cost using the effective interest method.

(g) Loans and advances (Policy for the year ended 30 June 2018)

Loans and advances are financial assets that are measured at amortised cost. Loans and advances include overdrafts, home loans and other personal lending.

Loans and advances are recognised on settlement date, when funding is advanced to the borrowers. They are initially recognised at their fair value plus directly attributable transaction costs such as broker fees. Subsequent to initial recognition, they are measured at amortised cost using the effective interest method and are presented net of provisions for impairment. For the accounting policy for provisions for impairment, please refer to note 2(h).

Critical accounting judgements and estimates

When applying the effective interest method the Consolidated Entity has estimated the behavioural term of each loan portfolio by reference to historical prepayment rates and the contractual maturity.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) 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.

AASB 139 (Policy for year ended 30 June 2018)

The Consolidated Entity assesses at each balance date whether there is any objective evidence that a loan, or a group of loans and advances, is impaired. A loan and advance, or a group of loans and advances, is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and the loss event (or events) has an impact on the estimated future cash flows of the loans and advances or group of loans and advances that can be reliably estimated.

Objective evidence of impairment may include indications that the borrower, or a group of borrowers, is experiencing financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to 'bad debts recovered', which forms part of Non-interest revenue.

Bad debts are written-off when identified. Identification may include: bankruptcy, clearout or unlikelihood of recovery. If a provision of impairment has been recognised in relation to a loan, write-offs for bad debts are made against the provision. If no provision for impairment has previously been recognised, write-offs for bad debts are recognised as expenses in the Statement of Comprehensive Income.

(i) Specific provision
Losses for impaired loans are recognised when there is objective evidence that the impairment of a loan has occurred. Impairment losses are calculated on individual loans. The amount provided for impairment is determined by Management and the Board to recognise the probability of loan amounts not being collected in accordance with terms of the loan agreement.

(ii) Collective provision
A collective provision is made for groups of loans with similar credit risk characteristics. Loans that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

The amount of impairment loss is based upon estimated losses incurred within the portfolio, based upon objective evidence of impairment, the estimated probability of default and the expected loss given default having regard to the historical experience of the Consolidated Entity and industry practices.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Loan impairment (continued)

AASB 9 (Policy for year ended 30 June 2019)

AASB 9 introduced an Expected Credit Loss (ECL) impairment model, which differs significantly from the incurred loss approach under AASB 139. The ECL is forward looking and does not require evidence of an actual loss event for impairment provisions to be recognised.

The implementation of AASB 9 required management to make several judgements and assumptions and has had a significant impact on the Consolidated Entity's impairment methodology. A description of the key components of the Consolidated Entity's AASB 9 impairment methodology is provided below.

The ECL model uses a three-stage approach to ECL recognition. Financial assets migrate through these three

- *Stage 1: Performing loans (12 month's ECL)*
  On origination financial assets recognise an impairment provision equivalent to 12 month's ECL, 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)*
  Credit impaired financial assets recognise an impairment provision equivalent to lifetime expected credit losses.

Financial assets in Stage 1 and Stage 2 are assessed for impairment collectively, whilst those in Stage 3 are subjected to either collective or individual 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.

The ECL model applies to all financial assets measured at amortised cost and debt instruments measured at 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, which is consistent with the write-off policy under AASB 139.

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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Loan impairment (continued)

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

- *Probability of default (PD)* : The Probability of Default 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)* : The Exposure at Default 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)* : The Loss Given Default 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.

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. The same future forecast scenarios and probability weights apply across all portfolios.

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.

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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) 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. Subsequent to initial recognition, gains or losses on derivatives are recognised in profit or loss in the Statement of Comprehensive Income, unless they are entered into for hedging purposes and designated into an effective cash flow hedge.

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 in which the hedged forecast transaction takes place.

Hedge effectiveness is measured at each reporting date. A hedge is regarded as effective where the change in fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated are expected to offset within a range of 80% to 125%. Where the hedged items is a forecast transaction, the Consolidated Entity assesses whether the transaction is highly probable and presents an exposure to variations in cash flows that could ultimately affect the Statement of Comprehensive Income.

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.

To test the hedge effectiveness, the Consolidated Entity compares the changes in the fair value of the hedging instruments against the changes in fair value of the hedged items attributable to the hedged risk (e.g. changes in the forward exchange rates or interest rate risk) as represented by a hypothetical derivative.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Derivative financial instruments (continued)

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.

(j) 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.

Critical accounting judgements and estimates

At each Balance Sheet date, the Consolidated Entity assesses useful lives and residual values, and whether there is any objective evidence of impairment. If an asset's carrying amount is greater than its recoverable amount, the carrying amount is written down immediately to its recoverable amount.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) 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.

Intangibles 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.

(l) Leases

Operating leases are entered into to meet the business needs to the Consolidated Entity. Leases are solely over commercial premises.

As a lessee, rental expense is recognised in the Statement of Comprehensive Income on a straight-line basis over the lease term.

(m) 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.

(n) 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.

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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) 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.

(p) 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.

(q) 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.

Occupancy expenses include operating lease rentals which are recognised on a straight-line basis over the term of the lease.

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 it 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(r) 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.

Critical accounting judgements and estimates

Provisions for taxation require significant judgement with respect to outcomes that are uncertain. For such uncertainties, the Consolidated Entity has estimated its tax provisions based on its expected outcomes.

(s) 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(t) Retained earnings

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

(u) 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.

(v) Reclassification of comparatives

In accordance with the requirements of AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* , the following balances in the Statement of Comprehensive Income for the year ended 30 June 2018 have been reclassified to better align to common industry practice. The change in presentation does not impact net profit and retained earnings of the Consolidated Entity and Bank.

		Consolidated		**Bank**	
	Notes	**2018 Reclassified $'000**	2018 Reported $'000	**2018 Reclassified $'000**	2018 Reported $'000
Interest revenue	5(a)	**37,496**	39,230	**37,496**	39,230
Non-interest revenue	5(b)	**1,196**	1,533	**1,263**	1,600
Administration Expenses	5(d)	**(3,041)**	(5,112)	**(3,093)**	(5,112)

Broker commissions and transaction costs have been reclassified from expenses to interest revenue, and loan origination fees have been reclassified from non-interest revenue to interest revenue.

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

(i) Impairment losses on loans and advances

The measurement of impairment losses both under AASB 9 and AASB 139 across all categories of financial assets in scope requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk.

Applies from 1 July 2019

These estimates are driven by a number of factors, changes in which can result in different levels of allowances. The Consolidated Entity’s ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include:

- The Consolidated Entity’s criteria for assessing if there has been a significant increase in credit risk and if so, allowances for financial assets should be measured on a lifetime ECL basis and the qualitative assessment.
- The segmentation of financial assets when their ECL is assessed on a collective basis.
- Development of ECL models, including the various formulas and the choice of inputs.
- Determination of associations between macroeconomic scenarios and, economic inputs, such as unemployment levels and collateral values, and the effect on PDs, EADs and LGDs.
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models.
- Assessment of deterioration in geographic risk, hardship applications and delinquency trends.
- Determination of management overlays.

It has been the Consolidated Entity's policy to review its models in the context of actual loss experience and adjust when necessary.

(ii) Recovery of deferred tax assets

Deferred tax assets are recognised for deductible temporary differences to the extent that management considers that it is probable that future taxable profits will be available to utilise those temporary differences.

3 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)

(a) Significant accounting judgements (continued)

(iii) Impairment of non-financial assets

The Consolidated Entity assesses impairment of all assets at each reporting date by evaluating conditions specific to the Consolidated Entity and to the particular asset that may lead to impairment. These include technology, economic and political environments and future expectations. If an impairment trigger exists the recoverable amount of the asset is determined. When management does not consider that the triggers for impairment testing have been significant enough, these assets are not tested for impairment in this financial period.

(b) Significant accounting estimates and assumptions

(i) 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.

(ii) 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.

(iii) 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.

(iv) 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.

4 RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Roles and Responsibilities (continued)

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.

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 Systems

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.

4 RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(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.

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	
	2019	2018
As at 30 June	**0.71**	0.60
Average for the period	**0.68**	0.55
Highest for the period	**0.76**	0.61
Lowest for the period	**0.57**	0.45

Notes to the Financial Statements (continued)

For the year ended 30 June 2019

4 RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(a) Interest Rate Risk (continued)

Consolidated Entity and Bank

2019	Weighted average interest rate %	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							
Cash and cash equivalents	1.30%	30,631	-	-	-	1	30,632
Investments	2.38%	29,137	97,115	3,052	-	-	129,304
Loans and advances	4.02%	784,269	63,245	109,311	-	-	956,825
Derivative financial instruments (2)	1.72%	11,242	60,000	-	-	-	71,242
Total financial assets		**855,279**	**220,360**	**112,363**	**-**	**1**	**1,188,003**
Financial liabilities							
Deposits	2.46%	262,782	580,536	14,800	13	51	858,182
Bank borrowings (1)	3.64%	155,956	-	-	-	-	155,956
Derivative financial instruments (2)	1.34%	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 is $64,845.

Notes to the Financial Statements (continued)

For the year ended 30 June 2019

4 RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(a) Interest Rate Risk (continued)

Consolidated Entity and Bank

2018	Weighted average interest rate %	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							
Cash and cash equivalents	0.98%	61,049	-	-	-	1	61,050
Investments	2.54%	22,127	84,840	-	-	-	106,967
Loans and advances	4.32%	710,805	48,340	133,962	-	-	893,107
Derivative financial instruments [2]	2.08%	20,510	-	-	-	-	20,510
Total financial assets		**814,491**	**133,180**	**133,962**	**-**	**1**	**1,081,634**
Financial liabilities							
Deposits	2.51%	276,233	449,010	21,101	-	51	746,395
Bank borrowings [1]	2.94%	208,277	-	-	-	-	208,277
Derivative financial instruments [2]	2.05%	-	3,118	17,392	-	-	20,510
Total financial liabilities		**484,510**	**452,128**	**38,493**	**-**	**51**	**975,182**
Total Interest Rate Repricing Gap		**329,981**	**(318,948)**	**95,469**	**-**	**(50)**	**106,452**
Cumulative Interest Rate Repricing Gap		**329,981**	**11,033**	**106,502**	**106,502**	**106,452**	

(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 2018 was $39,130.

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 the loans and receivables. 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

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 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.

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.

Maximum exposure to credit risk

The Consolidated Entity's maximum credit risk exposure equals the drawndown 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**	
	2019	2018	**2019**	2018
	$'000	$'000	**$'000**	$'000
Bank balances	**30,632**	61,050	**30,632**	61,050
Investments	**129,304**	106,967	**129,304**	106,967
Loans and advances	**956,825**	893,107	**956,825**	893,107
Unused committed loan facilities	**47,305**	48,277	**47,305**	48,277
Redraw facilities on mortgages	**64,461**	59,579	**64,461**	59,579
Loans approved but not funded	**11,099**	17,138	**11,099**	17,138
Peer to Peer Lending commitments	**1,002**	6,072	**1,002**	6,072
	1,240,628	1,192,190	**1,240,628**	1,192,190

4 RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(b) Credit risk (continued)

Refer to Note 8 for information regarding the carrying value of financial assets measured at amortised cost - past due but not impaired.

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 bank balances and held to maturity investments, 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 although this is reducing.

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

	Consolidated		**Bank**	
	2019	2018	**2019**	2018
	%	%	**%**	%
New South Wales	**50.6**	52.1	**50.6**	52.1
Victoria	**23.5**	23.4	**23.5**	23.4
Queensland	**14.9**	14.5	**14.9**	14.5
Western Australia	**4.8**	4.6	**4.8**	4.6
South Australia	**2.7**	2.0	**2.7**	2.0
Tasmania	**0.7**	0.7	**0.7**	0.7
Australian Capital Territory	**2.8**	2.7	**2.8**	2.7
Total	**100.0**	100.0	**100.0**	100.0

4 RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(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 stress 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 its self securitisation program and 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 consists of cash and short term bank negotiable certificates of deposits/bills available for immediate sale.

The closing Liquidity ratio at year end was 14.63% (2018: 16.06%) 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 13 and 16 for maturity analysis of financial liabilities.

(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).

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.

4 RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(e) Fair value risk (continued)

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 2019.

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

	2019				2018			
	Level 1 $'000	**Level 2 $'000**	**Level 3 $'000**	**Total $'000**	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Financial assets								
Cash	**30,632**	**-**	**-**	**30,632**	61,050	-	-	61,050
Investments	**-**	**129,304**	**-**	**129,304**	-	106,967	-	106,967
Loans and advances	**-**	**-**	**958,074**	**958,074**	-	-	892,880	892,880
Derivative financial instruments	**-**	**65**	**-**	**65**	**-**	39	-	39
	30,632	**129,369**	**958,074**	**1,118,075**	61,050	107,006	892,880	1,060,936

Bank

	2019				2018			
	Level 1 $'000	**Level 2 $'000**	**Level 3 $'000**	**Total $'000**	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Financial assets								
Cash	**30,632**	**-**	**-**	**30,632**	61,050	-	-	61,050
Investments	**-**	**129,304**	**-**	**129,304**	-	106,967	-	106,967
Loans and advances	**-**	**-**	**958,074**	**958,074**	-	-	892,880	892,880
Derivative financial instruments	**-**	**181**	**-**	**181**	-	-	-	-
	30,632	**129,485**	**958,074**	**1,118,191**	61,050	106,967	892,880	1,060,897

4 RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(e) Fair value risk (continued)

	Consolidated Entity							
	2019				2018			
	Level 1 $'000	**Level 2 $'000**	**Level 3 $'000**	**Total $'000**	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Financial liabilities								
Deposits	**-**	**859,738**	**-**	**859,738**	-	746,395	-	746,395
Derivative financial instruments	**-**	**-**	**-**	**-**	-	-	-	-
Bank borrowings	**-**	**155,956**	**-**	**155,956**	-	208,277	-	208,277
	-	**1,015,694**	**-**	**1,015,694**	-	954,672	-	954,672

	Bank							
	2019				2018			
	Level 1 $'000	**Level 2 $'000**	**Level 3 $'000**	**Total $'000**	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Financial liabilities								
Deposits	**-**	**859,738**	**-**	**859,738**	-	746,395	-	746,395
Inter-entity borrowings	**-**	**156,073**	**-**	**156,073**	-	208,238	-	208,238
	-	**1,015,811**	**-**	**1,015,811**	-	954,633	-	954,633

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 2019

5 REVENUE AND EXPENSES

(a) Interest revenue and interest expense

	Average balance $'000	Interest [(1)] $'000	Average interest rate %
Consolidated			
Interest revenue 2019			
Loans and advances to members	**918,951**	**36,022**	**3.92**
Investment securities	**120,479**	**3,022**	**2.51**
Deposits at call with other financial institutions	**40,719**	**517**	**1.27**
	1,080,149	**39,561**	**3.66**
Interest revenue 2018			
Loans and advances to members	873,182	34,272	3.93
Investment securities	106,796	2,882	2.70
Deposits at call with other financial institutions	47,220	342	0.72
	1,027,198	37,496	3.65
Interest expense 2019			
Deposits	**798,651**	**16,118**	**2.02**
Bank borrowings	**178,517**	**5,722**	**3.21**
	977,168	**21,840**	**2.24**
Interest expense 2018			
Deposits	719,997	13,430	1.87
Bank borrowings	206,865	6,314	3.05
	926,862	19,744	2.13

(1) Comparative figures have been reclassified to conform to the current year's presentation.

5 REVENUE AND EXPENSES (continued)

(a) Interest revenue and interest expense (continued)

	Average balance $'000	Interest [1] $'000	Average interest rate %
Bank			
Interest revenue 2019			
Loans and advances to Members	**918,951**	**36,022**	**3.92**
Investment securities	**120,479**	**3,022**	**2.51**
Deposits at call with other financial institutions	**40,719**	**517**	**1.27**
	1,080,149	**39,561**	**3.66**
Interest revenue 2018			
Loans and advances to Members	873,182	34,272	3.93
Investment securities	106,796	2,882	2.70
Deposits at call with other financial institutions	47,220	342	0.72
	1,027,198	37,496	3.65
Interest expense 2019			
Deposits	**798,651**	**16,118**	**2.02**
Inter-entity borrowings	**178,517**	**5,722**	**3.21**
	977,168	**21,840**	**2.24**
Interest expense 2018			
Deposits	719,997	13,430	1.87
Inter-entity borrowings	206,865	6,314	3.05
	926,862	19,744	2.13

(1) Comparative figures have been reclassified to conform to the current year's presentation.

5 REVENUE AND EXPENSES (continued)

	Consolidated		Bank	
	2019	2018	**2019**	2018
	$'000	$'000	**$'000**	$'000
(b) Non-interest revenue [1]				
Fees and commissions	**963**	960	**749**	1,027
Bad debts recovered	**227**	236	**227**	236
Total non-interest revenue	**1,190**	1,196	**976**	1,263
(c) Impairment expense				
Increase in loan impairment provision	**387**	251	**387**	251
Bad debts written-off	**710**	577	**710**	577
Total impairment expense	**1,097**	828	**1,097**	828
(d) Administration expenses				
Lending expenses	**81**	70	**81**	70
Transactional expenses	**680**	737	**680**	737
Other administration expenses	**2,332**	2,234	**2,332**	2,234
Total administration expenses	**3,093**	3,041	**3,093**	3,041
(e) Employee expenses				
Wages and salaries	**6,449**	6,298	**6,449**	6,298
Workers' compensation	**89**	75	**89**	75
Defined contribution superannuation	**575**	593	**575**	593
Other employee benefits	**701**	658	**701**	658
Total employee benefits expense	**7,814**	7,624	**7,814**	7,624
(f) Depreciation and amortisation expense				
Depreciation of:				
- Plant and equipment	**342**	165	**342**	165
Total depreciation expense	**342**	165	**342**	165
Amortisation of:				
- Computer software	**272**	312	**272**	312
Total amortisation expense	**272**	312	**272**	312
Total depreciation and amortisation expense	**614**	477	**614**	477

(1) Comparative figures have been reclassified to conform to the current year's presentation.

Notes to the Financial Statements (continued)

For the year ended 30 June 2019

6 INCOME TAX

	Consolidated		Bank	
	2019	2018	**2019**	2018
	$'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	**701**	1,297	**642**	1,317
Deferred tax benefit	**212**	(98)	**212**	(98)
Income tax expense reported in the Statement of Comprehensive Income	**913**	1,199	**854**	1,219
(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:				
Total accounting profit before income tax	**3,011**	3,692	**2,797**	3,759
At the Bank's statutory income tax rate of 27.5% (2018: 30%)	**828**	1,107	**769**	1,127
Adjustments in respect of current income tax of previous years	**86**	1	**86**	1
Adjustments in respect of deferred tax of previous years	**(4)**	-	**(4)**	-
Effect of changes in income tax rate on deferred tax	**-**	86	**-**	86
Non-deductible expenses	**3**	5	**3**	5
Aggregate income tax expense	**913**	1,199	**854**	1,219
(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	**(67)**	(68)	**(67)**	(68)
- Plant and equipment	**(62)**	-	**(62)**	-
Sub-total	**(129)**	(68)	**(129)**	(68)
Amounts recognised directly in equity				
- Derivatives	**(50)**	**-**	**(50)**	**-**
Gross deferred tax liabilities	**(179)**	**(68)**	**(179)**	**(68)**

6 INCOME TAX (continued)

	Consolidated		Bank	
	2019	2018	**2019**	2018
	$'000	$'000	**$'000**	$'000
(ii) Deferred income tax assets				
- Loans and advances	**353**	246	**353**	246
- Plant and equipment	**-**	159	**-**	159
- Creditors and other liabilities	**368**	435	**368**	435
- Employee entitlements	**215**	246	**215**	246
Sub-total	**936**	1,086	**936**	1,086
Amounts recognised directly in equity				
- Effect of adoption of new accounting standards	**291**	-	**291**	-
Gross deferred tax assets	**1,227**	1,086	**1,227**	1,086
Offset of deferred tax liabilities	**(179)**	(68)	**(179)**	(68)
Net deferred income tax assets	**1,048**	1,018	**1,048**	1,018
Statement of Comprehensive Income				
Deferred income tax charge				
- Other assets	**(1)**	(11)	**(1)**	(11)
- Loans and advances	**(106)**	(54)	**(106)**	(54)
- Plant and equipment	**221**	(4)	**221**	(4)
- Creditors and other liabilities	**67**	(26)	**67**	(26)
- Employee entitlements	**31**	(3)	**31**	(3)
Sub-total	**212**	(98)	**212**	(98)
Amounts recognised directly in equity				
- Effect of adoption of new accounting standards	**(291)**	-	**(291)**	-
- Derivatives	**50**	-	**50**	-
Deferred tax income	**(29)**	(98)	**(29)**	(98)

7 CASH AND CASH EQUIVALENTS

	Consolidated		Bank	
	2019	2018	**2019**	2018
	$'000	$'000	**$'000**	$'000
Cash on hand	**1**	1	**1**	1
Cash at bank (1)	**17,984**	19,875	**17,984**	19,875
Deposits at call with financial institutions	**12,647**	41,174	**12,647**	41,174
	30,632	61,050	**30,632**	61,050

(1) Includes $0.678 million (2018: $0.536 million) cash in Peer to Peer Lending platforms, and also $8.214 million (2018: $11.201 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 LOANS AND ADVANCES

	Consolidated		Bank	
	2019	2018	**2019**	2018
	$'000	$'000	**$'000**	$'000
Lines of credit	**32,283**	36,341	**32,283**	36,341
Term loans	**924,957**	855,793	**924,957**	855,793
Gross loans and advances	**957,240**	892,134	**957,240**	892,134
Add:				
- Gross commissions capitalised	**8,580**	7,500	**8,580**	7,500
- Accumulated amortisation	**(6,655)**	(5,634)	**(6,655)**	(5,634)
Net commissions capitalised	**1,925**	1,866	**1,925**	1,866
Allowance for impairment loss	**(2,340)**	(893)	**(2,340)**	(893)
Net loans and advances	**956,825**	893,107	**956,825**	893,107
Security dissection				
- Secured by mortgage	**915,210**	856,458	**915,210**	856,458
- Secured other	**1,324**	2,003	**1,324**	2,003
- Unsecured	**40,706**	33,673	**40,706**	33,673
	957,240	892,134	**957,240**	892,134
Purpose dissection				
- Residential loans	**901,793**	855,130	**901,793**	855,130
- Personal loans	**51,959**	35,676	**51,959**	35,676
- Commercial loans	**3,488**	1,328	**3,488**	1,328
	957,240	892,134	**957,240**	892,134
Maturity analysis: Gross loans and advances (1)				
Not later than three months	**2,255**	939	**2,255**	939
Later than three months but not later than one year	**3,372**	15,593	**3,372**	15,593
Later than one year but not later than five years	**32,532**	21,639	**32,532**	21,639
Later than five years	**919,081**	853,963	**919,081**	853,963
	957,240	892,134	**957,240**	892,134

(1) Cash flows are based on contractual obligations.

8 LOANS AND ADVANCES (continued)

(a) Allowance for impairment loss

An increase in allowance for impairment loss of $387,000 (2018: increase of $251,000) 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(h). A further increase for allowance in impairment loss of $1,060,000 has been recognised on adoption of AASB 9 and reflected in equity, as described in note 2(b).

	Consolidated		**Bank**	
	2019	2018	**2019**	2018
	$'000	$'000	**$'000**	$'000
Provision for impairment				
Balance as beginning of period	**893**	642	**893**	642
Remeasurement	**1,060**	-	**1,060**	-
Restated opening balance under AASB 9	**1,953**	642	**1,953**	642
Additional individually assessed impairment	**934**	374	**934**	374
Loans written-off	**(678)**	(55)	**(678)**	(55)
Reversal of individually assessed impairment	**(257)**	(94)	**(257)**	(94)
Increase in collective impairment	**388**	26	**388**	26
Balance at end of period	**2,340**	893	**2,340**	893
Individually assessed impairment	**498**	431	**498**	431
Collective impairment	**1,842**	462	**1,842**	462
Total provision for impairment	**2,340**	893	**2,340**	893

Disclosure under AASB 9 (30 June 2019 only)

	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 (excluding write-offs)	(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**

8 LOANS AND ADVANCES (continued)

(a) Allowance for impairment loss (continued)

Disclosure under AASB 9 (30 June 2019 only)

	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**

Disclosure under AASB 139 (30 June 2018 only)

	Consolidated	**Bank**
	2018	2018
	$'000	$'000
At 30 June, the analysis of loans and advances is as follows:		
Neither past due nor impaired	869,837	869,837
Current		
Past due but not impaired (1)	-	-
Individually impaired	-	-
1 - 29 days		
Past due but not impaired (1)	14,218	14,218
Individually impaired	-	-
30 - 89 days		
Past due but not impaired (1)	4,638	4,638
Individually impaired	-	-
Over 90 days		
Past due but not impaired (1)	3,010	3,010
Individually impaired	431	431
	892,134	892,134

(1) Payment terms on these amounts have not been renegotiated, however credit has been stopped until full payment is made. The Consolidated Entity has been in direct contact with the relevant debtor and is satisfied that payment will be received in full.

Notes to the Financial Statements (continued)

For the year ended 30 June 2019

8 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

	Consolidated		Bank	
	2019	2018	**2019**	2018
	$'000	$'000	**$'000**	$'000
Past due 30 days and over but not impaired (1)	**9,660**	9,320	**9,660**	9,320

(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	**483,836**	464,975	**483,836**	464,975
- Victoria	**225,193**	208,996	**225,193**	208,996
- Queensland	**142,633**	129,499	**142,633**	129,499
- Western Australia	**46,375**	40,815	**46,375**	40,815
- South Australia	**25,675**	18,192	**25,675**	18,192
- Tasmania	**6,254**	6,479	**6,254**	6,479
- Other	**27,274**	23,178	**27,274**	23,178
	957,240	892,134	**957,240**	892,134

(c) Fair value

The *carrying amount* of loans and advances are as follows:				
- Lines of credit	**32,283**	36,341	**32,283**	36,341
- Term loans	**924,957**	855,793	**924,957**	855,793
	957,240	892,134	**957,240**	892,134
The *fair values* of loans and advances are as follows:				
- Lines of credit	**32,283**	36,146	**32,283**	36,146
- Term loans	**925,791**	856,734	**925,791**	856,734
	958,074	892,880	**958,074**	892,880

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

9 OTHER ASSETS

	Consolidated		Bank	
	2019	2018	**2019**	2018
	$'000	$'000	**$'000**	$'000
Prepayments	**492**	532	**492**	532
Sundry debtors	**410**	42	**410**	42
	902	574	**902**	574

10 INVESTMENTS

	Consolidated		Bank	
	2019	2018	**2019**	2018
	$'000	$'000	**$'000**	$'000
Negotiable Certificates of Deposits	**96,511**	84,232	**96,511**	84,232
Floating Rate Notes	**29,137**	22,127	**29,137**	22,127
Term Deposit	**604**	608	**604**	608
Debt investments at amortised cost	**3,052**	-	**3,052**	-
	129,304	106,967	**129,304**	106,967
Maturity analysis				
- < 3 months	**24,432**	28,542	**24,432**	28,542
- 3 to 6 months	**77,154**	41,847	**77,154**	41,847
- 6 to 12 months	**5,561**	21,381	**5,561**	21,381
- > 1 year	**22,157**	15,197	**22,157**	15,197
Total	**129,304**	106,967	**129,304**	106,967

Due to the short-term nature, the carrying amount of the financial investments held at amortised cost approximate their fair value.

11 PROPERTY, PLANT AND EQUIPMENT

	Consolidated		Bank	
	2019	2018	**2019**	2018
	$'000	$'000	**$'000**	$'000
Plant and equipment				
At cost	**712**	884	**712**	884
Accumulated depreciation	**(432)**	(576)	**(432)**	(576)
Net carrying amount	**280**	308	**280**	308
Leasehold improvements				
At cost	**2,165**	7	**2,165**	7
Accumulated depreciation	**(186)**	(6)	**(186)**	(6)
Net carrying amount	**1,979**	1	**1,979**	1
Total property, plant and equipment				
At cost	**2,877**	891	**2,877**	891
Accumulated depreciation and impairment	**(618)**	(582)	**(618)**	(582)
Net carrying amount	**2,259**	309	**2,259**	309

11 PROPERTY, PLANT AND EQUIPMENT (continued)

	Consolidated		Bank	
	2019	2018	**2019**	2018
	$'000	$'000	**$'000**	$'000
Reconciliation of carrying amounts at the beginning and end of the period				
Plant and equipment				
Opening balance	**308**	284	**308**	284
- Additions	**155**	190	**155**	190
- Disposals (net of accumulated depreciation)	**(21)**	(1)	**(21)**	(1)
- Depreciation charge for the year	**(162)**	(165)	**(162)**	(165)
Closing balance	**280**	308	**280**	308
Leasehold property improvements				
Opening balance	**1**	2	**1**	2
- Additions	**2,158**	-	**2,158**	-
- Disposals (net of accumulated depreciation)	**-**	-	**-**	-
- Depreciation charge for the year	**(180)**	(1)	**(180)**	(1)
Closing balance	**1,979**	1	**1,979**	1
Total Property, plant and equipment				
Opening balance	**309**	286	**309**	286
- Additions	**2,313**	190	**2,313**	190
- Disposals (net of accumulated depreciation)	**(21)**	(1)	**(21)**	(1)
- Depreciation charge for the year	**(342)**	(166)	**(342)**	(166)
Closing balance	**2,259**	309	**2,259**	309

12 INTANGIBLE ASSETS

	Consolidated		Bank	
	2019	2018	**2019**	2018
	$'000	$'000	**$'000**	$'000
Work in Progress				
Net carrying amount - at cost	**441**	303	**441**	303
Computer software				
- Cost	**2,491**	2,646	**2,491**	2,646
- Accumulated amortisation	**(2,261)**	(2,175)	**(2,261)**	(2,175)
Net carrying amount	**230**	471	**230**	471

Notes to the Financial Statements (continued)

For the year ended 30 June 2019

12 INTANGIBLE ASSETS (CONTINUED)

Reconciliation of carrying amount at beginning and end of the period

	Consolidated		Bank	
	2019	2018	**2019**	2018
	$'000	$'000	**$'000**	$'000
Work in Progress				
Opening balance	**303**	165	**303**	165
- Additions	**138**	138	**138**	138
Closing balance	**441**	303	**441**	303
Computer software				
Opening balance	**471**	584	**471**	584
- Additions	**31**	198	**31**	198
- Amortisation	**(272)**	(311)	**(272)**	(311)
Closing balance	**230**	471	**230**	471
Total Intangible Assets				
Opening balance	**774**	749	**774**	749
- Additions	**169**	336	**169**	336
- Amortisation	**(272)**	(311)	**(272)**	(311)
Closing balance	**671**	774	**671**	774

13 DEPOSITS

	Consolidated		Bank	
	2019	2018	**2019**	2018
	$'000	$'000	**$'000**	$'000
Call deposits	**262,783**	276,233	**262,783**	276,233
Retail term deposits	**541,296**	304,571	**541,296**	304,571
Wholesale term deposits	**54,052**	165,540	**54,052**	165,540
Withdrawable shares	**51**	51	**51**	51
	858,182	746,395	**858,182**	746,395
(a) Maturity analysis of deposits				
- At call	**262,834**	276,284	**262,834**	276,284
- < 3 months	**165,427**	255,272	**165,427**	255,272
- 3 to 6 months	**186,213**	110,211	**186,213**	110,211
- 6 to 12 months	**228,895**	83,786	**228,895**	83,786
- 1 to 5 years	**14,800**	20,842	**14,800**	20,842
- > 5 years	**13**	-	**13**	-
	858,182	746,395	**858,182**	746,395

13 DEPOSITS (CONTINUED)

(b) Fair value

	Consolidated		Bank	
	2019	2018	**2019**	2018
	$'000	$'000	**$'000**	$'000
The fair values of deposits are as follows:				
- Call deposits	**262,834**	276,233	**262,834**	276,233
- Term deposits	**596,853**	470,111	**596,853**	470,111
- Withdrawable shares	**51**	51	**51**	51
	859,738	746,395	**859,738**	746,395

(c) Interest rate and liquidity risk

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

14 DERIVATIVE FINANCIAL INSTRUMENTS

Interest Rate Swaps

As at 30 June, Gateway and Portavia Trust No.1 have interest rate swap contracts with Westpac Banking Corporation. Portavia No. 1 pays a fixed rate of interest in return for a floating rate receipt. Gateway pays 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. These swaps have amortising profiles. The table below reflects the fair value of the derivative financial instruments, recorded as assets, and the total notional amount.

	Consolidated		Bank	
	2019	2018	**2019**	2018
	$'000	$'000	**$'000**	$'000
Cash flow Hedges				
- Fair value asset	**65**	39	**181**	-
- Notional amount	**71,242**	20,510	**60,000**	-

Cash Flows

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**
2019				
Net cash flows	**423**	**(36)**	**486**	**-**
2018				
Net cash flows	20	18	-	-

In 2019, nil (2018: nil) was recognised in the profit or loss due to hedge ineffectiveness from cash flow hedges.

15 TRADE PAYABLES

	Consolidated		Bank	
	2019	2018	**2019**	2018
	$'000	$'000	**$'000**	$'000
Creditors and accruals	**3,106**	4,680	**3,106**	4,680
Undiscounted Maturity analysis of Creditors and accruals:				
- < 3 months	**2,812**	4,475	**2,812**	4,475
- > 3 months	**294**	205	**294**	205
Total	**3,106**	4,680	**3,106**	4,680

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.

16 INTEREST-BEARING BORROWINGS

(a) Bank borrowings

	Consolidated		Bank	
	2019	2018	**2019**	2018
	$'000	$'000	**$'000**	$'000
Bank borrowings	**155,956**	208,277	**-**	-

The Consolidated Entity's 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 2020. The undiscounted value is assumed to approximate the fair value.

(b) Inter-entity borrowings

Inter-entity borrowings	**-**	-	**156,073**	208,238

The inter-entity borrowings in the Bank relates to securities issued and derivatives of the Portavia Trust No.1.

(c) Maturity analysis of interest bearing borrowings

Bank borrowings	**155,956**	208,277	**-**	-
Inter-entity borrowings	**-**	-	**156,073**	208,238
	155,956	208,277	**156,073**	208,238
Maturity analysis of bank borrowings:				
- < 3 months	**-**	-	**-**	-
- 3 to 6 months	**-**	-	**-**	-
- > 6 months	**155,956**	208,277	**156,073**	208,238
Total	**155,956**	208,277	**156,073**	208,238

Notes to the Financial Statements (continued)

For the year ended 30 June 2019

16 INTEREST-BEARING BORROWINGS (continued)

(d) Fair values

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

(e) Financing facilities available

At reporting date, the following facilities were available. The committed facility refers to the Portavia Trust No.1 Westpac warehouse notes program.

	Consolidated		Bank	
	2019	2018	**2019**	2018
	$'000	$'000	**$'000**	$'000
Total facilities				
- Bank overdraft	**-**	-	**-**	-
- Committed facility	**175,000**	250,000	**-**	-
- Inter-entity borrowings	**-**	-	**175,000**	250,000
	175,000	250,000	**175,000**	250,000
Facilities used at reporting date				
- Bank overdraft	**-**	-	**-**	-
- Committed facility	**155,956**	208,277	**-**	-
- Inter-entity borrowings	**-**	-	**155,956**	208,277
	155,956	208,277	**155,956**	208,277
Facilities unused at reporting date				
- Bank overdraft	**-**	-	**-**	-
- Committed facility	**19,044**	41,723	**-**	-
- Inter-entity borrowings	**-**	-	**19,044**	41,723
	19,044	41,723	**19,044**	41,723

(f) Assets pledged as security

At the reporting date, there were no assets pledged as security for interest bearing liabilities.

(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	
	2019	2018	**2019**	2018
	$'000	$'000	**$'000**	$'000
Annual leave	**378**	373	**378**	373
Long service leave	**405**	522	**405**	522
Lease make-good	**29**	330	**29**	330
	812	1,225	**812**	1,225

17 PROVISIONS (continued)

Movements in provisions

Movements in the provision during the financial year for annual leave, long service leave and lease make-good, are set out below:

	Consolidated		Bank	
	2019	2018	**2019**	2018
	$'000	$'000	**$'000**	$'000
Annual Leave				
Opening balance	**373**	362	**373**	362
- Arising during the year	**504**	440	**504**	440
- Utilised	**(499)**	(429)	**(499)**	(429)
Closing balance	**378**	373	**378**	373
Long Service Leave				
Opening balance	**522**	449	**522**	449
- Arising during the year	**92**	98	**92**	98
- Utilised	**(209)**	(25)	**(209)**	(25)
Closing balance	**405**	522	**405**	522
Lease Make-Good				
Opening balance	**330**	287	**330**	287
- Arising during the year	**46**	43	**46**	43
- Utilised	**(347)**	-	**(347)**	-
Closing balance	**29**	330	**29**	330

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 $46,000 was raised during the year ended 30 June 2019 (2018: $43,000) 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

	Consolidated	Bank
Cash flow hedge reserves	$'000	**$'000**
At 30 June 2017	**(8)**	**-**
- Net unrealised gain on cash flow hedges net of tax	47	-
- Net gain/(loss) on cash flow hedges reclassified to profit or loss	-	-
At 30 June 2018	**39**	**-**
- Net unrealised (loss)/gain on cash flow hedges net of tax	(24)	131
- Net gain/(loss) on cash flow hedges reclassified to profit or loss	**-**	**-**
At 30 June 2019	**15**	**131**

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 II capital framework.

The Basel II 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 II 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.

	2019 $'000	2018 $'000
Regulatory capital		
Tier 1 capital	**98,949**	97,596
Tier 2 capital	**2,239**	2,021
Capital Base	**101,188**	99,617
Risk Weighted Assets	**529,714**	489,302
Capital adequacy ratios	**19.10%**	20.36%

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 2019

20 CASH FLOW STATEMENT RECONCILIATION

Reconciliation of net profit after tax to net cash flows from operations

	Consolidated		Bank	
	2019	2018	**2019**	2018
	$'000	$'000	**$'000**	$'000
Profit for the year	**2,098**	2,493	**1,943**	2,540
Adjustments for:				
Depreciation and amortisation	**614**	477	**614**	477
Bad debts written off	**710**	577	**710**	577
Net loss on disposal of property, plant and equipment	**21**	-	**21**	-
Movement in allowance for impairment loss	**678**	252	**678**	252
Deferred tax attributed directly to equity	**(50)**	-	**(50)**	-
Fair value adjustment on acquired deposits	**-**	-	**155**	(47)
Changes in assets and liabilities				
Increase in other assets	**(611)**	(50)	**(611)**	(50)
Increase in deferred tax assets	**(30)**	(98)	**(30)**	(98)
Increase in loans and advances	**(69,456)**	(14,319)	**(69,456)**	(14,319)
(Decrease)/Increase in current tax liability	**(917)**	682	**(917)**	682
(Decrease)/Increase in provisions	**(414)**	127	**(414)**	127
Increase in trade creditors and other liabilities	**157**	1,994	**157**	1,994
Increase in deposits	**112,422**	41,502	**112,422**	41,502
Net cash flows from operating activities	**45,222**	33,637	**45,222**	33,637

Notes to the Financial Statements (continued)

For the year ended 30 June 2019

21 COMMITMENTS AND CONTINGENCIES

(a) Commitments

(i) Leasing commitments

Operating lease commitments – Consolidated Entity as lessee
The Bank leases office premises at Level 10, 68 York Street, Sydney. The lease has a life of 8 years expiring on 31 October 2026. There are no restrictions placed upon the lessee by entering into this lease.

Future minimum rentals payable under non-cancellable operating leases as at 30 June are as follows:

	Consolidated		Bank	
	2019	2018	**2019**	2018
	$'000	$'000	**$'000**	$'000
Within one year	**1,044**	1,259	**1,044**	1,259
After one year but not more than five years	**4,610**	5,240	**4,610**	5,240
After more than five years	**3,037**	5,033	**3,037**	5,033
Total minimum lease payments	**8,691**	11,532	**8,691**	11,532
(ii) Capital expenditure commitments				
Contracted but not provided for and payable within one year	**325**	-	**325**	-
(iii) Outstanding loan commitments				
Peer to Peer Lending commitments	**1,002**	6,072	**1,002**	6,072
Member loans approved but not funded	**11,099**	17,138	**11,099**	17,138
Total outstanding loan commitments	**12,101**	23,210	**12,101**	23,210

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

(iv) Outstanding line of credit commitments				
Member line of credit facilities approved but not funded	**47,305**	48,277	**47,305**	48,277
(v) 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	**64,461**	59,579	**64,461**	59,579

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.

Notes to the Financial Statements (continued)

For the year ended 30 June 2019

22 AUDITORS' REMUNERATION

The auditor for the Consolidated Entity is Ernst & Young.

	Consolidated		Bank	
	2019	2018	**2019**	2018
	$	$	**$**	$
Audit of the financial report of the entity	**250,994**	200,598	**250,994**	200,598
Other services in relation to the entity:				
- Tax compliance	**27,489**	26,950	**27,489**	26,950
- Audit-related services	**-**	37,950	**-**	37,950
- Other non-audit related services	**7,700**	-	**7,700**	-
	286,183	265,498	**286,183**	265,498

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	
	2019	2018	**2019**	2018
	$	$	**$**	$
Short-term benefits	**2,020,737**	1,751,304	**2,020,737**	1,751,304
Post employment	**137,368**	114,154	**137,368**	114,154
Other Long-term benefits	**16,383**	20,520	**16,383**	20,520
Termination benefits	**47,796**	-	**47,796**	-
	2,222,284	1,885,978	**2,222,284**	1,885,978

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

Post-employment benefits includes superannuation benefits.

Other long-term employee benefits, includes long-service leave.

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

23 KEY MANAGEMENT PERSONNEL (continued)

(b) Loans to Key Management Personnel

	Consolidated		Bank	
	2019	2018	**2019**	2018
	$	$	**$**	$
(i) The aggregate value of loans to Key Management Personnel as at balance date amounted to:				
Personal loans - secured	**106,937**	96,082	**106,937**	96,082
Term Loans - secured	**2,434,745**	1,144,265	**2,434,745**	1,144,265
	2,541,682	1,240,347	**2,541,682**	1,240,347
(ii) During the year the aggregate value of loans disbursed to Key Management Personnel amounted to:				
Personal loans - secured	**12,700**	32,000	**12,700**	32,000
Term Loans - secured	**1,546,000**	195,000	**1,546,000**	195,000
	1,558,700	227,000	**1,558,700**	227,000
(iii) During the year the aggregate value of repayments received amounted to:	**342,726**	104,030	**342,726**	104,030
(iv) Interest and other revenue earned on loans and revolving credit facilities to Key Management Personnel:	**74,981**	42,950	**74,981**	42,950

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

Terms and conditions of loans

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

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

	Consolidated 2019 $	Consolidated 2018 $	Bank 2019 $	Bank 2018 $
Total value of term and savings deposits from Key Management Personnel	**774,552**	1,374,123	**774,552**	1,374,123
Total interest paid on deposits to Key Management Personnel	**13,683**	12,297	**13,683**	12,297

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

Notes to the Financial Statements (continued)

For the year ended 30 June 2019

24 GROUP CONTROLLED ENTITY HOLDINGS

Details of controlled entities are as follows:

Name of Entity	% Holdings		Note
	2019	2018	
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.

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.

Directors' Declaration

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

In the opinion of the Directors:

(a) 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 2019 and of their performance for the year ended on that date; and

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

(b) the financial statements and notes also comply with the International Financial Reporting Standards as disclosed in Note 2;

(c) 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 Hallinan

C M Hallinan
Chair

Sydney, 26 September 2019

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Independent Auditor's Report to the Members of Gateway Bank Ltd

Opinion

We have audited the financial report of Gateway Bank Ltd (the Company) and its subsidiaries (collectively the Group), which comprises:

- the Group consolidated and Company statements of financial position as at 30 June 2019;
- the Group consolidated and Company statements of comprehensive income, statements of changes in equity and statements of cash flows for the year then ended;
- notes to the financial statements, including a summary of significant accounting policies; and
- the directors' declaration.

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

a) giving a true and fair view of the Company's and the Group's financial position as at 30 June 2019 and of their financial performance for the year ended on that date; and

b) complying with Australian Accounting Standards and the Corporations Regulations 2001.

Basis for Opinion

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

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

Information Other than the Financial Report and Auditor's Report Thereon

The directors are responsible for the other information. The other information is the directors' report accompanying the financial report.

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

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

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

Responsibilities of the Directors for the Financial Report

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

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

Auditor's Responsibilities for the Audit of the Financial Report

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

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

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's or the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

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- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's or Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company or the Group to cease to continue as a going concern.

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

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

Ernst & Young

Ernst & Young

R.Balfour

Richard Balfour
Partner
Sydney
26 September 2019

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