Qudos Bank

For all life's destinations

# Annual report

2020

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# Chair's report to Members

The 2019/20 financial year was tumultuous — for the Australian economy and economies all around the world. No-one could have predicted nor prepared for what nature has presented us, from catastrophic Australian bushfires to the worldwide pandemic of COVID-19, a once in a century life-changing event that is still evolving at the time of writing.

**MARK BOESEN**
CHAIR, NON-EXECUTIVE DIRECTOR

I am proud that through our Environmental, Social and Governance program we were able to demonstrate our support for many rural and regional areas that were devastated by the widespread bushfires that decimated communities and families across Australia. Our contribution of $150,000 in January 2020 is helping communities, industries and ecosystems start the long, arduous task of rebuilding and healing.

Unfortunately, those bushfires were not fully extinguished when we received news of a new virus that spread around the world — which we now know as COVID-19. By mid-March, the World Health Organisation had declared a pandemic and, as with many countries around the world, our Government was forced to trade off economic aspirations against public health necessities.

Unfortunately, but necessarily, some of the industries hardest hit by the approach taken by governments were travel and aviation, and as a result, the measures disproportionately impacted many of our customers. Not surprisingly, mitigating the financial impact to these customers has been a key focus of the Bank in 2020, and will continue to be a key focus.

## Supporting our customers

In April this year, we commenced offering up to 6 months loan repayment deferral support for customers who were financially impacted by the changes flowing from the public health imperative of the pandemic. This has now been extended with the approval of our regulator, the Australian Prudential Regulation Authority (APRA), by up to 4 months, until 31st March 2021.

Our Employees, the majority of whom were facing upheaval from rushed directives to work from home, have worked tirelessly and wholeheartedly to ensure that our customers have received the same level of support and customer service that they are accustomed to, from creating new processes to respond to economic changes, to touching base with customers in need of help. This is a true representation of the Qudos Bank value of putting our customers first.

## Our people

Another of our values is "One Team", the spirit that we are strongest when working together. I could not be prouder of our Employees based on their efforts this year. From our branch teams on the front line who continued to keep our branches open throughout the pandemic to ensure that our customers can continue to bank safely, to our contact centre team who were suddenly required to respond to 1300 747 747 calls from their own homes, and to the many other teams who support them, I can only say congratulations and a heart felt 'well done' on behalf of the Board.

To facilitate a seamless transition to a socially-distanced workplace also required a herculean effort from our technology team, who in the late days of March worked around the clock and have since introduced a number of improvements to our digital offering to reduce the types of transactions required to be conducted 'in-person'.

## Increasing Member participation at our Annual General Meeting

Last year we live streamed our AGM event for the very first time and saw greater participation results from Members right around Australia. This year, with ongoing social distancing restrictions, we will be hosting our first ever virtual event and will continue to accommodate increased member attendance through digital reach. This event will also give attendees the opportunity to ask questions during the meeting through an online message service.

We are also updating our voting process, as we partner with ComputerShare to provide electronic direct voting. This will replace voting and proxies via Online Banking and will facilitate the option for Members to vote for resolutions both prior to the AGM or in real time at the virtual AGM. Members who have elected to vote via post will still be able to do so.

You will be able to attend the AGM from the comfort of your living room or wherever you may be on your preferred device. Members will be sent a link to access the event closer to the time, so stay tuned.

## Movements on the board

Since our last AGM, Directors Barry Phair (29 years' service), Sarah Collins (19 years' service) and Louise Higgins (16 months' service) have retired. We would like to thank Barry, Sarah and Louise for their contributions over the years, making Qudos Bank what it is today, and wish them all the best in their future endeavours.

We would also like to welcome new Directors Dawson Petie, Joe Dicks and Clare Mazzetti, all of whom bring a wealth of financial experience and governance to Qudos Bank.

## In commemoration

We would like to take this time to commemorate past Director Henry Goodman, who passed away this year. Henry served on the Board for 24 years, including as Deputy Chair and Chair of Audit Committee, before his retirement in 2013. Henry was a champion of our retired customers.

## Where we are headed

Looking to the future, I would like to take this opportunity to congratulate Michael Anastasi as recently appointed CEO. Michael was the company's Chief Financial Officer from 2007 and had been acting in the CEO role for more than twelve months. As we continue to work through these challenging times, ensuring we have the right leader to steer a strong course for Qudos Bank is vital.

Finally, and most importantly, as a customer-owned bank, you are at the heart of everything we do. We will continue to put our customers first and provide quality products and valuable services to help you achieve your lifestyle goals at every stage in life.

**MARK BOESEN**
CHAIR

I am proud that through our Environmental, Social and Governance program we were able to demonstrate our support for many rural and regional areas that were devastated by the widespread bushfires.

# Chief executive officer's report to Members

It's been a historic financial year for Qudos Bank on many fronts. While the magnitude of COVID-19 and the ensuing economic climate has been unkind to many businesses, Qudos Bank has a lot to be grateful for. We celebrated our 60th Anniversary, acknowledging our founders, the men and women of Qantas who also celebrated their centenary year of being the spirit of Australian travel.

**MICHAEL ANASTASI**
CHIEF EXECUTIVE OFFICER

As our Chair Mark mentioned, we're very aware of the gravity of the global pandemic, which has impacted us all and is unfortunately not yet over. We will continue to work with our customers to do all that we can to support you, including our Qantas family and our Melbourne Members.

In the past year we launched a number of digital initiatives worth mentioning: the introduction of real-time payment solutions, online password re-set functionality and both Apple Pay and Google Pay services.

Our Board and Executive Management team seized the opportunity of our 60th anniversary to look to our future and how we're going to pave that road forward through key strategic initiatives. This focus has seen us re-fresh our company values, re-set our brand positioning and re-evaluate our purpose. We've included an overview of this work and key highlights of the financial year below.

## Financial performance

We have weathered the social, environmental, and economic forces of our current climate, achieving a solid financial performance.

Despite the volatile economic conditions, I am pleased to say that we remain strong and have grown our financial portfolios for 2020. Our loan portfolio grew by 6.3% from $3.27 billion to $3.47 billion, whilst our deposits portfolio saw an increased growth of 10.7% from $3.61 billion to $3.99 billion, and our assets continued to rise above the $4 billion-mark, growing to $4.48 billion.

Our year end profit is slightly down from the previous year, from $24.93 million to $21.99 million.

## Thanks to our team

We're proud of the recognition that the Bank has received thanks to the dedicated service of our people. We have been awarded Customer-owned Bank of the year by Canstar and Australia's Best Large Mutual Bank for 2020 by Mozo. Canstar, scored Qudos Bank above industry average for all of its products as well as recognised Qudos Bank's residential home loans and deposits as offering outstanding value when compared with other banks products' in the same category.

Mozo Experts Choice Awards honoured the top performing credit-unions and banks in the market that deliver unmistakable and exceptional value to customers Australia-wide. This includes consistently meeting high levels of performance in several leading product categories.

Being acknowledged with these awards during such a challenging time is a testament to our Employees' tenacity and dedication, demonstrating once again that they embody Qudos Bank's most important value, which is putting customers first.

In addition, we have been awarded the Voice Projects' Best Workplace award for 2020. This prestigious award recognises best workplaces who have excellent Management practices and a highly engaged workforce with a high level of employee satisfaction.

It is important to recognise this achievement, as our Employees are the driving force behind our ability to deliver outstanding service and value to our customers.

## Creating efficiency through technology

Streamlining processes to better serve our customers is an area of opportunity for Qudos Bank. We have made the first step towards integrating robotics and artificial intelligence within our business, starting with our lending operations area. Robotics technology is currently assisting our lending operations department by reducing manual administration of some loan processes and procedures, creating back office efficiencies. This advanced technology will benefit our customers and broker network with significantly faster application processing times.

## Our vision for the future

Qudos Bank is committed to forging ahead with key strategic initiatives including a commitment to sustainable business growth. We will continue to strive for further operational efficiencies, enhanced digital systems, product enhancement and service upgrades. Our vision involves improvements to our contact centre systems, our loan origination system, a streamlined integrated Customer Management system, as well as the launch of a new customer portal.

## Thank you

We could not have predicted the challenges we would all face this year. Undeterred by the uncertainties of our world, as an organisation we have showed our customers and each other dedicated care and support throughout difficult times.

Thank you to all our Employees, Management, and Directors for their dedication, ingenuity, and spirit.

To our customers, we thank you for your ongoing support, patience and for valuing our commitment to you. I am honoured to lead an organisation that has our customers best interest at heart and look forward to playing my part in helping our business to continue to thrive.

**MICHAEL ANASTASI**
CHIEF EXECUTIVE OFFICER

# Directors' report

The Directors present their report together with the consolidated financial statements of the Qudos Mutual Limited ("the Bank") and its subsidiary (together: "the Group") for the year ended 30 June 2020 and the auditor's report thereon.

The Bank is a company registered under the Corporations Act 2001.

## Information on Directors

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

### MARK BOESEN

**Chair | Non–Executive Director**

*BBus, CPA, FAMI, MAICD*
*65 years old*

- Director since 1992
- Chair, Board
- Chair, Governance & Remuneration Committee
- Member, Constitution Committee (until 26th February 2020)
- Member, Risk Committee (until 1st July 2020)
- Member, Technology Committee
- Member Nominations Committee
- Partner S&K Accounting Solutions

### BARRY JACKSON

**Deputy Chair, Non-Executive Director**

*BAv, MAICD*
*59 years old*

- Director since 2015
- Deputy Chair, Board
- Chair, Technology Committee
- Member, Audit Committee
- Member, Governance & Remuneration Committee
- Member, Australian International Pilots' Association, AIPA
- Fellow of the Royal Aeronautical Society, FRAeS

### COLIN ADAMS

**Non-Executive Director**

*MAMI, MAICD*
*70 years old*

- Director since 2008
- Chair, Constitution Committee (until 26th February 2020)
- Member, Risk Committee (until 26th February 2020)
- Member, Technology Committee
- Member, Audit Committee (since 26th February 2020)
- Director of
  - Columbia Securities Pty Ltd
  - Columbia Superannuation (NSW) Pty Ltd
- Honorary Life Member of
  - Australian International Pilots
  - Association (AIPA) Interrelate Ltd

## SARAH COLLINS

**Non–Executive Director**

*BEc, LLB, MAMI*
*54 years old | Resigned 31st August 2020*

- Director since 2001
- Member, Audit Committee (until 1st July 2020)
- Member, Risk Committee (from 1st July 2020)
- Counsel – Ashurst Australia

## GARY HALLIDAY

**Non-Executive Director**

*FIPA, FFA, FAMI, MAICD,JP*
*72 years old*

- Director since 2004
- Chair, Audit Committee
- Member, Governance & Remuneration Committee

## BARRY PHAIR

**Non-Executive Director**

*FCPA, FAMI, MAICD*
*75 years old | Resigned 27th November 2019*

- Director since 1990
- Chair, Risk Committee (from 2nd July 2019)
- Member, Governance & Remuneration Committee
- Member, Risk Committee (until 2nd July 2019)

## ANDREW LEITHHEAD

**Non–Executive Director**

*BCom, GAICD, FFin, JP*
*60 years old*

- Director since 2017
- Member, Risk Committee
- Non-Executive Director, The Anglican Schools Corporation
- President, The Australia Racing Drivers' Club
- Director, P.T Management Services P/L

## LOUISE HIGGINS

**Non-Executive Director**

*B.Bus, CIMA, GAICD*
*41 years old | Resigned 31st December 2019*

- Director since 2018
- Chair, Technology Committee
- Member, Audit Committee

## JENNIFER DALITZ

**Non-Executive Director**

*BA, MBA, GAICD, FCPA, CA*
*47 years old*

- Director since 2019
- Chair, Risk Committee (from 26th February 2020)
- Member, Governance & Remuneration Committee (from 26th February 2020)
- Chief Executive Officer, Women in Banking and Finance Incorporated
- Director, Surfing NSW Incorporated

## DAWSON PETIE

**Non–Executive Director**

*FAICD, FASFA*
*69 years old | Appointed 25th November 2019*

- Director since 2019
- Member, Risk Committee (from 26th February 2020)
- Member, Technology Committee (from 26th February 2020)
- Chair, Nortec
- Director, Lowes Petroleum
- Councillor, Australian Institute of Company Directors

## JOE DICKS

**Non-Executive Director**

*BCom, GradDipAcct, CA, GAICD*
*60 years old | Appointed 1st July 2020*

- Director since 1st July 2020
- Member Audit Committee (from 1st July 2020)
- Chair Campus Living Funds Management Limited
- Audit, Risk & Compliance Committee Chair Think Childcare Ltd and Board member
- Audit & Risk Committee Chair Melbourne Polytechnic and Board member
- Director PPB Group of companies
- Treasurer Kooyong Lawn Tennis Club

## CLARE MAZZETTI

**Non-Executive Director**

*Bec, MBA, MIR, GAICD, FFIN*
*40 years old | Appointed 1st September 2020*

- Director since 1st September 2020
- Member, Risk Committee (from 1st September 2020)
- Director, Police Bank 2017-2019

The names of the Company Secretaries in office at the end of the year are:

## CINDY HANSEN

*LLB (Hons), F Fin, GAICD, MAMI*
*53 years old*

- Company Secretary since 24 April 2007
- General Counsel and Company Secretary, Qudos Mutual Limited

## MICHAEL ANASTASI

*CA, B Comm, GAICD, MAMI*
*50 years old*

- Company Secretary since 25 September 2007
- Chief Financial Officer, Qudos Mutual Limited
- Appointed CEO, 26th May 2020

# Executive group

**From left to right:**
Antar Chahine, Anthony Moir, Wendy Hadenham, David Bridges, Michael Anastasi, Cindy Hansen, Joff Stevens, Stephen Swannell

## Directors' meetings

The number of Directors meetings (including meetings of Committees of Directors) and the number of meetings attended by each of the Directors of the Bank during the financial year are:

| | Board meetings | | Committee meetings | |
|---|---|---|---|---|
| DIRECTOR | HELD | ATTENDED | HELD | ATTENDED |
| M. P. Boesen | 19 | 19 | 31 | 31 |
| B. Jackson | 19 | 19 | 22 | 22 |
| C. Adams | 19 | 18 | 11 | 11 |
| S. C. Collins* | 19 | 19 | 5 | 5 |
| G. Halliday | 19 | 19 | 13 | 13 |
| A. Leithhead | 19 | 19 | 19 | 19 |
| B. G. Phair** | 8 | 8 | 9 | 9 |
| L. Higgins *** | 8 | 8 | 5 | 5 |
| J. Dalitz | 19 | 19 | 13 | 13 |
| D. Petie**** | 11 | 10 | 7 | 7 |
| J. Dicks***** | - | - | - | - |
| C.Mazzetti****** | - | - | - | - |

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

* RESIGNED 31ST AUGUST 2020
** RESIGNED 27TH NOVEMBER 2019
*** RESIGNED 31ST DECEMBER 2019
**** APPOINTED 25TH NOVEMBER 2019
***** APPOINTED 1ST JULY 2020
****** APPOINTED 1ST SEPTEMBER 2020

## Principal activities

The principal activities of the Group during the financial year related to the provision of retail financial and associated services to Members in accordance with our Constitution.

No significant changes to these activities occurred during the year.

## Operating results

Profit before income tax for the 2020 financial year was $21.99 million (2019: $24.93 million), reducing to $15.48 million (2019: $17.64 million) after providing $6.51 million (2019: $7.29 million) for taxation.

## Dividends

No dividends have been paid or declared since the end of the financial year and no dividends have been recommended or provided for by the Directors of the Bank. (2019: Nil)

## Review of operations

Total assets at year end were $4,486.49 million, representing an increase of $446.52 million, or 11.05% over the previous year. Included in total assets are Member loans and advances of $3,456.56 million, having risen by $197.18 million or 6.05%. Deposits increased by $387.32 million, or 10.74% to $3,993.78 million at year end. Total Member's equity at year end was $284.91 million, an increase of $14.5 million, or 5.36%. Continued Member support together with strong lending levels and competitive interest rates offered to depositors and borrowers, along with prudent expenditure controls, enabled the Group to further strengthen its financial position during the year.

## Significant changes in state of affairs

No significant changes occurred in the state of affairs of the Group during the year that has not otherwise been disclosed in this Report or the consolidated financial statements.

## Events occurring after balance date

In March 2020 COVID-19 had developed into a global pandemic, impacting health systems, economies and society's general way of living. In response to the pandemic and its impacts Australian governments have implemented a range of initiatives, including government assistance packages, health measures and directives on the movement and interactions of the population. The pandemic and the response of government have a significant impact on the economic environment in which the Bank operate and this environment continues to be uncertain.

Other than disclosed above, there has not arisen in the interval between the end of this financial year and the date of this report any item, transaction or event of a material or unusual nature, likely, in the opinion of the Directors, to significantly affect the operations of the Group, the results of operations, or the state of the affairs of the Group in future financial year.

## Indemnification of Directors and Officers

Since the end of the previous financial year, the Bank has not indemnified or made a relevant agreement for indemnifying against a liability for any person who is or has been an officer, Director or auditor of the Group.

## Insurance of Directors and Officers

During the financial year, the Group paid an insurance premium of $99,977 (2019: $105,682) in respect of Directors' and Officers' Liability and Company Reimbursement insurance policies for any past, present or future, Director, secretary or executive officer of the Group. The policy does not contain details of the premiums paid in respect of individual Directors or officers. The insurance policy does not cover payments made arising out of claims made against any Directors or officers by reason of any wrongful act in their capacity as Directors or officers.

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

## Likely developments

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

i. The operations of the Group;
ii. The results of those operations; or
iii. The state of affairs of the Group

in the financial years subsequent to this financial year.

## Lead Auditor's Independence Declaration

The lead auditor's independence declaration is set out on page 15 and forms part of the Directors' report for financial year ended 30 June 2020.

## Rounding

Unless otherwise stated the amounts contained in the financial statements have been rounded to the nearest one thousand dollars in accordance with ASIC Rounding instrument 2016/191 dated 1 April 2016. The Bank is permitted to round to the nearest one thousand ($'000) for all amounts except prescribed disclosures that are shown in whole dollars.

## Public prudential disclosures

As an Approved Deposit taking Institution ("ADI") regulated by the Australian Prudential Regulation Authority ("APRA"), the group is required to publicly disclose certain information in respect of:

- Consolidated equity and regulatory capital;
- Risk exposure and assessment; and
- Remuneration disclosures.

The disclosures are to be found on the company's website:
https://www.qudosbank.com.au/AboutUs/CorporateInformation/FinancialReports

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

**MARK BOESEN**
CHAIR

**BARRY JACKSON**
DEPUTY CHAIR

SYDNEY
30TH SEPTEMBER 2020

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

## To the Directors of Qudos Mutual Limited

I declare that, to the best of my knowledge and belief, in relation to the audit of Qudos Mutual Limited for the financial year ended 30 June 2020 there have been:

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

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

KPMG

KPMG

Martin McGrath

*Partner*

Sydney

30 September 2020

KPMG, an Australian partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Liability limited by a scheme approved under Professional Standards Legislation.

# Corporate governance statement

Corporate governance is the system by which we are directed and managed. It influences how we set and achieve our objectives, monitor and assess our risk, and optimise our performance.

We are committed to high standards of corporate governance and, with this in mind, have articulated and formalised our corporate governance framework in a Board Charter.

Our approach to corporate governance reflects The Qudos Way, our values, which we embed in everything that we do:

## The Qudos way

### Customer first

**The heart of everything**

We were founded by our own customers and they have always been our centre. We think and act as though our customer is in the room.

### Authentic

**True to our word and real in our actions**

Trust is earned, not owed. We build it every time our actions match our words, whenever we have a frank conversation, and anytime we prioritise the truth.

### Empowering

**We champion initiative**

Every voice matters and we listen intently. And we believe that anyone should be able to act in the interests of what is right. Empowering is what makes us effective.

### Passionate

**Our spirit is our most precious resource**

Enthusiasm fuels us to rise to a challenge. It's the fullness of our spirit that creates incredible outcomes and that's why we can never do things by halves.

### One team

**Better together**

Our individual talents are amplified by the talents of the whole. As a team, we divide challenges to multiply success.

As a proudly customer-owned bank, we have regard to the *Co-operative and Mutual Enterprise Governance Principles* (CME Principles) published by the Business Council of Co-operatives and Mutuals (BCCM).

Eight of the nine CME Principles adapt the *Australian Securities Exchange Corporate Governance Principles and Recommendations* (ASX Principles) to the circumstances of co-operatives and mutuals (CMEs).

The additional (first) CME Principle is a new principle developed to make explicit the core difference between CMEs and other corporate forms; that we exist to create, protect and return value to Members.

## Statement of principles

### CREATE, PROTECT AND RETURN MEMBER VALUE

**Act on behalf of Members to achieve the agreed purpose by pursuing the sustainable creation, protection and return of value to current and future Members.**

#### *Strategic objectives*

In conjunction with senior Management, the Board has developed and will maintain a clear set of strategic objectives, consistent with the Bank's Constitution, purpose, values, risk appetite and banking business, to ensure the sustainable creation, protection and return of value for current and future Members.

The Board regularly reviews and updates the Bank's strategic objectives so that the strategy continues to be aligned with the changing Member value proposition over time.

The Board obtains Member collaboration and support for, and reports on, our strategic objectives via a range of measures including, member approval for changes to the Constitution, surveys, targeted feedback, customer sentiment, complaints and compliments, customer communications, annual reports and effectiveness/success measures.

### LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT

**Establish and disclose the respective roles and responsibilities of Board and Management and how their performance is monitored and evaluated.**

#### *The role of the Board*

The Board Charter outlines the role of the Board and senior Management. In governing the Bank, the Directors must act in the best interests of the Bank as a whole.

The Board has the final responsibility for the successful operations of the Bank. In general, it is responsible for, and has the authority to determine, all matters relating to the policies, practices, management and operations of the Bank. It is required to do all things that may be necessary to be done in order to carry out the objectives of the Bank.

The Board is also responsible for establishing and maintaining a sound risk management culture throughout the Bank. It ensures that the Bank has in place an appropriate risk management framework (for both financial and non-financial risk) and sets the risk appetite within which the Board expects Management to operate.

#### *Board Committees*

The details of some Board functions are handled through Board Committees. However, the Board as a whole is responsible for determining the extent of powers residing in each Committee and is ultimately responsible for accepting, modifying or rejecting Committee recommendations. Each Committee has its own Charter, which includes its structure, authority and responsibilities.

The Board currently has the following Committees*:

| Committee | Role |
|---|---|
| **Governance & Remuneration Committee** | Facilitates the governance activities of the Board and provides an objective non-executive review of the Bank's remuneration, including the CEO, CFO and Senior Executives. |
| **Audit Committee** | Provides an objective non-executive review of the effectiveness of the Bank's financial reporting, internal controls, risk Management framework and internal and external audit functions. |
| **Risk Committee** | Provides an objective non-executive review, oversight and monitoring of the Bank's risk Management policies and processes. |
| **Nominations Committee** | Applies the Bank's Fit and Proper Policy to candidates for appointment to the Board; comprises 2 non-Bank Members and 1 Board representative. |
| **Technology Committee** | Provides guidance to the Board in their consideration of technology strategy, resources and governance to support and enable Qudos Bank's business strategy. |

*Constitution Committee disbanded on the 26th February 2020.

### *The role of senior Management*

It is the role of senior Management to manage the Bank in accordance with the direction and delegations of the Board and the responsibility of the Board to oversee the activities of Management in carrying out these delegated duties. Senior Management is responsible for the day-to-day management of the Bank.

### *Board and Management evaluation*

The Board considers the evaluation of its own and senior executive performance as fundamental to establishing a culture of performance and accountability and the ongoing development and improvement of its own performance as a critical input to effective governance. As a result, the Board regularly evaluates performance of the Board, Board Committee's and Directors. A performance evaluation has taken place in the reporting period in accordance with this process.

Employees, including senior executives are subject to an annual performance evaluation, based on performance targets aligned to overall business goals and the requirements of the position. In the case of senior executives, performance is overseen by the Governance & Remuneration Committee. A performance review of senior executives has taken place in the reporting period.

### *Diversity and inclusion*

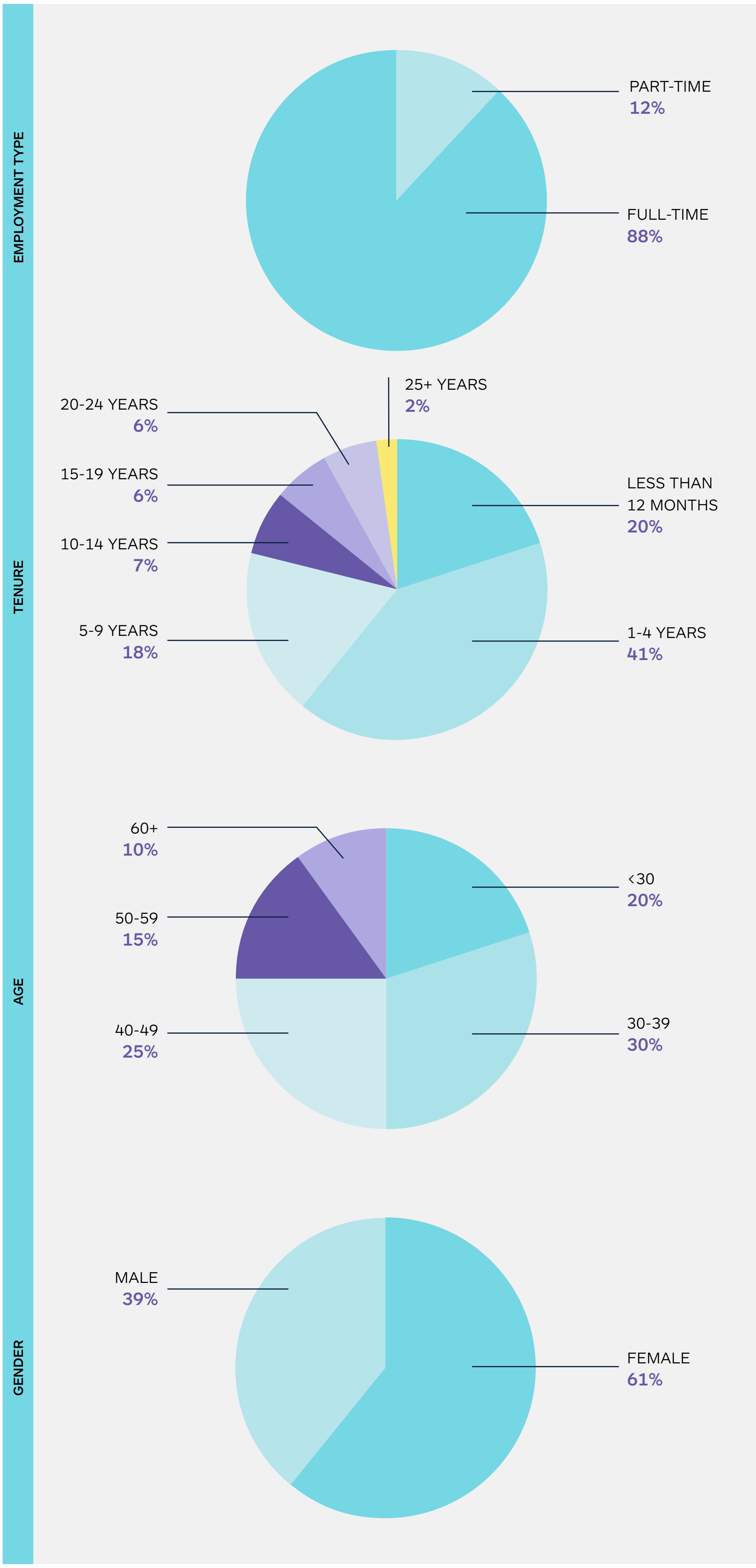
Diversity and inclusion encompass acceptance and respect of the visible and invisible characteristics of an individual, which make one individual different from another. It is central to the maintenance of an inclusive work environment and culture that allows all Employees to contribute to their full potential.

The Bank has policies and procedures that reflect our approach to diversity and inclusion within the workplace, including recruitment and selection, performance management, statement of professional practice and a code of conduct. The Bank continues to meet the requirements of workplace gender equality via yearly reporting.

### *The Bank's employee demographic splits as at 30 June 2020 were:*

As at 30 June 2020, the Bank gender diversity split was 61% female and 39% male. The Board was 25% female and 75% male. As we move through to Senior Executive it was 29% female and 71% male and Management was 46% female and 54% male.

The Bank's employee demographic splits as at 30 June 2020 were:



## STRUCTURE THE BOARD TO ADD VALUE

**Have a Board of appropriate size, composition, skills and commitment to enable it to discharge its duties effectively.**

***Board composition***

The Bank currently has 9 Directors. The Board can increase the number of Directors to the maximum number under the Constitution in future, if necessary to fulfil its obligations.

The Bank's Constitution provides for three 'types' of Director: Member Elected; Board Appointed; and Executive. The majority of Directors must be Member elected. Member representation and voice is achieved through voting and elections in which Members participate.

Both Member Elected and Board Appointed Directors are non-executive Directors and their role is the same, irrespective of their method of appointment. The Board has determined not to appoint an Executive Director.

***Board skills***

Collectively, the Board must have the necessary skills, knowledge and experience to understand the risks of the Bank, including its legal and prudential obligations, and to ensure that the Bank is managed in an appropriate way taking into account these risks. The Bank regularly reviews the need for various skills and experience against the current skills and experience represented on the Board.

All Directors must bring certain personal attributes to the Board table to allow them to make an effective contribution to Board deliberations and processes. In addition, the Board must have a blend of functional competencies and/or characteristics so as to maintain the appropriate mix of skills, experience, expertise and diversity as deemed necessary by the Board from time to time.

Prior to calling for nominations for the Directors' Election each year, or prior to appointing a person to fill a casual vacancy or as a Board Appointed Director, as applicable, the Board will provide to the Nominations Committee a list of the competencies for the role of Director for that election/appointment.

The overriding principle to which the Board has regard in relation to the structure of the Board is that all Directors must be fit and proper persons as defined in APRA Prudential Standard CPS 520 Fit and Proper. The Board Charter and Fit and Proper Policy set out how the Bank assesses whether or not a person is fit and proper. The Nominations Committee assesses the fitness and propriety of all candidates for appointment as a Director. All current Directors have been assessed as being fit and proper, in accordance with the Bank's policy.

***Independence***

In its Prudential Standard *CPS 510 Governance*, APRA requires the Board to have a majority of independent and non-executive Directors at all times. In addition, certain positions, such as Board Chair and Audit Committee Chair, must be held by an independent, non-executive Director.

The Board Charter sets out how the Bank assesses whether or not a person is independent. The Board has resolved that all Directors are independent, in accordance with the Board Charter. All Directors are currently non-executive.

## INSTIL A CULTURE OF ACTING LAWFULLY, ETHICALLY AND RESPONSIBLY

**Instil and continually reinforce a culture of acting lawfully, ethically and responsibly.**

***Culture and values***

Acting lawfully, ethically and responsibly goes well beyond mere compliance with legal obligations and involves acting with honesty, integrity and in a manner that is consistent with the reasonable expectations of Members and the broader community. It includes being, and being seen to be, a 'good corporate citizen', having the customer at the centre of everything we do and asking 'should we' when making business decisions.

The Board instills and continually reinforces a culture across the Bank of acting lawfully, ethically and in a socially responsible manner, which is reflected in our vision, purpose, values, code of conduct and risk appetite. In making its decisions, the Bank not only complies with its legal obligations, but also considers the reasonable expectations of its stakeholders, including customers and Employees.

Our values are our guiding principles that represent who we are and our culture; they define the character of our company and guide how we behave and make decisions. The Bank's policies and procedures reflect those values and promote responsibility, accountability and integrity.

***Whistleblowing***

In most cases, the best source of information about whether a company is living up to its values are its Employees. The Board has adopted a Whistleblowing Policy to encourage eligible whistleblowers to speak up about any unlawful, unethical or irresponsible behaviour within the Bank. Eligible whistleblowers include Employees, Directors, suppliers, Employees of suppliers and the relatives and dependents of such people.

***Conflicts of interest***

The Bank has policies and procedures in relation to disclosing and managing actual or potential conflicts of interest that may or might reasonably be thought to exist, and to minimise the risk of related party transactions.

## SAFEGUARD INTEGRITY IN CORPORATE REPORTING

**Have formal and rigorous processes that independently verify and safeguard the integrity of its corporate reporting.**

The Board has in place a structure of review and authorisation designed to ensure the truthful and factual presentation of the Bank's financial position. The structure includes regular reporting to the Board and its Committees, review and consideration of the accounts by the Audit Committee, internal and external audit programmes and a process to ensure the independence and competence of the Bank's internal and external auditors.

## MAKE TIMELY AND BALANCED DISCLOSURE

**Make timely, transparent and balanced disclosure of all matters concerning it that a reasonable person would expect to have a material effect on the value received from ongoing Membership and the interests of Members and other stakeholders.**

As a non-disclosing entity, the Bank is not subject to continuous disclosure obligations. Member shares are not transferable and are redeemed when a member closes all of their accounts with the Bank.

However, the Bank is subject to obligations under company and banking law regarding the disclosure of financial and other information to Members and other security holders. The Bank will ensure that Members and relevant stakeholders (e.g. ratings agencies and security holders) have access to information relevant to the Bank.

## RESPECT THE RIGHTS OF MEMBERS

**Respect the rights of security holders by providing them with appropriate information and facilities to allow them to exercise those rights effectively.**

The Bank makes information about the company freely and readily available on our website, including:

- governance statement;
- Constitution; and
- other corporate information, including annual reports, notices of meetings and regulatory disclosures.

The Bank provides options for Members to vote for Directors and at meetings electronically to encourage participation and allow Members to vote ahead of the meeting if they choose to do so.

The Bank also provides:

- a secure email facility via our online banking website to allow Members to send communications; and
- optional electronic communication channels for Members to receive communications.

Electronic communications are formatted to be easily readable on a computer screen and other electronic devices commonly used and include a printer friendly option and/or download option for those members who wish to retain a copy of the communication.

## RECOGNISE AND MANAGE RISK

**Establish a sound risk management framework and periodically review the effectiveness of that framework.**

*Risk culture*

The Board recognises that good risk management practices can not only help to protect established value, they can assist in identifying opportunities to create Member value.

The Board and senior Management lead by example and set the tone from the top on culture to create an environment where every employee has ownership and responsibility for 'doing the right thing' and ensuring 'good outcomes for customers'. These principles are reflected in the Bank's business strategy, business model, risk appetite and business practices.

*Risk management*

The Bank's risk management strategy, risk appetite statement and other risk management policies and procedures set out in detail how the Board ensures that the Bank has a risk management framework that is appropriate to its size, business mix and complexity and is consistent with the Bank's strategic objectives and plan.

The Board has in place a system of risk oversight and management and internal control to:

- identify, and where possible, quantify the major risks confronting the Bank;
- develop and review policies to monitor, control and where possible, minimise risks within the broader objectives of the Bank; and
- provide oversight and monitoring by the Risk Committee.

## REMUNERATE FAIRLY AND RESPONSIBLY

**Pay Director remuneration sufficient to attract and retain high quality Directors and design its executive remuneration to attract, retain and motivate high quality senior executives and to align their interests with the creation of value for security holders.**

Directors are paid fees approved by Members. The Board regularly engages external consultants to review Directors fees as part of our commitment to balancing the need to adequately remunerate Directors with our principles of mutuality.

The Board has adopted remuneration policies that comply with the requirements of *APRA Prudential Standard CPS 510 Governance* and the Banking Executive Accountability Regime (BEAR), set out in Part IIAA of the *Banking Act 1959*.

The policies are designed to encourage behaviour that supports the Bank's long-term financial soundness, risk management framework and the creation of member value. The policies aim to attract and maintain appropriately experienced Directors and Employees so as to encourage enhanced performance by the Bank and the offering of the highest level of service to Members. There is a clear relationship between performance and remuneration of executive Employees.

# Directors' declaration

1. In the opinion of the Directors of Qudos Mutual Limited ("the Group"):

   a. the consolidated financial statements and notes that are contained on pages 26 to 85 are in accordance with the *Corporations Act 2001*, including:

      i. giving a true and fair view of the Group's financial position as at 30 June 2020 and of its performance for the financial year ended on that date; and

      ii. complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001;

   b. the financial report also complies with International Financial Reporting Standards as disclosed in Note 1(a); and

   c. there are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable.

2. The Directors have been given the declarations required by Section 295A of the *Corporations Act 2001* from the Chief Executive Officer and Chief Financial Officer for the financial year ended 30 June 2020.

Signed in accordance with a resolution of the Directors:

**MARK BOESEN**
CHAIR, *DIRECTOR*

**BARRY JACKSON**
DEPUTY CHAIR, *DIRECTOR*

SYDNEY
30TH SEPTEMBER 2020

# Independent Auditor's Report

## To the members of Qudos Mutual Limited

### Opinion

We have audited the ***Consolidated Financial Report*** of Qudos Mutual Limited (the Company).

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

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

The ***Consolidated Financial Report*** comprises:

- Consolidated statement of financial position as at 30 June 2020
- Consolidated statement of profit or loss and other comprehensive income, Consolidated statement of changes in equity, and Consolidated statement of cash flows for the year then ended
- Notes including a summary of significant accounting policies
- Directors' Declaration.

The ***Group*** consists of the Company and the entities it controlled at the year-end or from time to time during the financial year.

### Basis for opinion

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

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

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

### Other Information

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

Our opinion on the Consolidated Financial Report does not cover the Other Information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the Consolidated Financial Report, our responsibility is to read the Other

Information. In doing so, we consider whether the Other Information is materially inconsistent with the Consolidated Financial Report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

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

## Responsibilities of the Directors for the Consolidated Financial Report

The Directors are responsible for:

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

## Auditor's responsibilities for the audit of the Consolidated Financial Report

Our objective is:

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

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with *Australian Auditing Standards* will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the Consolidated Financial Report.

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

KPMG

KPMG

Martin McGrath

*Partner*

Sydney

30 September 2020

# Consolidated statement of profit or loss and other comprehensive income

FOR THE YEAR ENDED 30 JUNE 2020

| | Note | 2020 $000 | 2019 $000 |
|---|---|---|---|
| Interest revenue | 2.a | 127,934 | 146,180 |
| Interest expense | 2.b | (65,624) | (78,757) |
| **Net interest income** | | **62,310** | **67,423** |
| Other income | 2.c | 18,689 | 8,399 |
| **Total operating income** | | **80,999** | **75,822** |
| **Non interest expenses** | | | |
| Impairment losses on loans and advances | 2.d | (7,545) | (712) |
| Other expenses | 2.e | (51,461) | (50,179) |
| **Profit before income tax** | | **21,993** | **24,931** |
| Income tax expense | 3 | (6,512) | (7,290) |
| **Profit after income tax** | | **15,481** | **17,641** |
| **Other comprehensive income** | | | |
| Net fair value (loss)/gain on financial assets at FVOCI, net of tax | | (1,214) | 1,568 |
| Net movement on cash flow hedge, net of tax | | 220 | (952) |
| **Total comprehensive income** | | **14,487** | **18,257** |

The above Consolidated Statement of Profit or Loss and Other Comprehensive Income should be read in conjunction with the Notes to the Financial Statements set out on pages 30 to 85.

# Consolidated statement of changes in equity

FOR THE YEAR ENDED 30 JUNE 2020

| | Note | Capital reserve $000 | General reserve for credit losses $000 | Cash flow hedge reserve $000 | Financial assets at FVOCI reserve $000 | Retained profits $000 | Total $000 |
|---|---|---|---|---|---|---|---|
| **Total as at 1 July 2018** | | **388** | **8,543** | **(266)** | **5,521** | **241,763** | **255,949** |
| Profit for the year | 20 | - | - | - | - | 17,641 | 17,641 |
| Other comprehensive income | | | | | | | |
| Net fair value gain on financial assets at FVOCI, net of tax | | - | - | - | 1,568 | - | 1,568 |
| Net movement on cash flow hedge, net of tax | | - | - | (952) | - | - | (952) |
| Change on adoption of AASB 9 | | - | - | - | - | (4,900) | (4,900) |
| Change on adoption of AASB 15 | | - | - | - | - | 1,120 | 1,120 |
| Transfers to / (from) Reserves | 19 | (388) | (6,747) | - | - | 7,135 | - |
| **Total as at 30 June 2019** | | **-** | **1,796** | **(1,218)** | **7,089** | **262,759** | **270,426** |
| Profit for the year | 20 | - | - | - | - | 15,481 | 15,481 |
| Other comprehensive income | | | | | | | |
| Net fair value gain on financial assets at FVOCI, net of tax | | - | - | - | (1,214) | - | (1,214) |
| Net movement on cash flow hedge, net of tax | | - | - | 220 | - | - | 220 |
| Transfers to / (from) Reserves | 19 | - | - | - | - | - | - |
| **Total as at 30 June 2020** | | - | **1,796** | **(998)** | **5,875** | **278,240** | **284,913** |

The above Consolidated Statement of Changes in Equity should be read in conjunction with the Notes to the Financial Statements set out on pages 30 to 85.

# Consolidated statement of financial position

AS AT 30 JUNE 2020

| | Note | 2020<br>$000 | 2019<br>$000 |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and cash equivalents | 4 | 157,092 | 79,354 |
| Receivables | 5 | 2,701 | 3,376 |
| Receivables due from other financial institutions | 6 | 29,765 | 94,321 |
| Loans and advances to Members | 7 | 3,456,563 | 3,259,385 |
| Financial Assets at FVOCI | 9 | 808,354 | 587,734 |
| Plant and equipment | 10.a | 13,553 | 4,749 |
| Intangibles | 10.b | 1,206 | 415 |
| Prepayments and Other Assets | 11 | 12,902 | 7,485 |
| Current Tax Asset | 16 | - | 1,087 |
| Deferred Tax Assets | 12 | 4,358 | 2,068 |
| **TOTAL ASSETS** | | **4,486,494** | **4,039,974** |
| **LIABILITIES** | | | |
| Payables to other Financial Institutions | 13 | 175,101 | 143,526 |
| Deposits | 14 | 3,993,780 | 3,606,457 |
| Creditor accruals and settlement accounts | 15 | 14,918 | 13,698 |
| Lease liability | 18 | 10,721 | - |
| Derivative liability | 29 | 1,426 | 1,740 |
| Current tax liability | 16 | 1,509 | - |
| Provisions | 17 | 4,126 | 4,127 |
| **TOTAL LIABILITIES** | | **4,201,581** | **3,769,548** |
| **NET ASSETS** | | **284,913** | **270,426** |
| **MEMBERS' EQUITY** | | | |
| Reserves | 19 | 6,673 | 7,667 |
| Retained earnings | 20 | 278,240 | 262,759 |
| **TOTAL MEMBERS' EQUITY** | | **284,913** | **270,426** |

The above Consolidated Statement of Financial Position should be read in conjunction with the Notes to the Financial Statements set out on pages 30 to 85.

# Consolidated statement of cash flows

FOR THE YEAR ENDED 30 JUNE 2020

| | Note | 2020 $000 | 2019 $000 |
|---|---|---|---|
| **OPERATING ACTIVITIES** | | | |
| Interest received | | 131,622 | 147,762 |
| Fees and commissions received | | 18,451 | 8,183 |
| Dividends received | | 291 | 291 |
| Interest paid | | (68,659) | (79,678) |
| Cash paid to suppliers and Employees | | (49,173) | (49,837) |
| Income taxes paid | | (6,301) | (2,964) |
| Net increase in member loans | | (204,723) | (220,749) |
| Net increase in deposits and shares | | 418,333 | 262,709 |
| Net decrease in receivables from other financial institutions | | (157,798) | (79,433) |
| **Net cash from/(used in) operating activities** | **28b** | **82,043** | **(13,716)** |
| **INVESTING ACTIVITIES** | | | |
| Proceeds on sale of property, plant and equipment | | 55 | 158 |
| Purchase of property, plant and equipment | | (1,493) | (407) |
| Purchase of intangibles and work in progress | | (1,261) | (333) |
| **Net cash from/(used in) investing activities** | | **(2,699)** | **(582)** |
| **FINANCING ACTIVITIES** | | | |
| Payment for the principal portion of lease liabilities | | (1,606) | - |
| **Net cash from/(used in) financing activities** | | **(1,606)** | **-** |
| **Total net cash increase/(decrease)** | | **77,738** | **(14,298)** |
| Cash at beginning of year | | 79,354 | 93,652 |
| **Cash and cash equivalents at end of year** | **28a** | **157,092** | **79,354** |

The above Consolidated Statement of Cash Flows should be read in conjunction with the Notes to the Financial Statements set out on pages 30 to 85.

# Notes to the consolidated financial statements

FOR THE YEAR ENDED 30 JUNE 2020

## 1. STATEMENT OF ACCOUNTING POLICIES

Qudos Mutual Limited (the "Company" or the "Bank") is a company domiciled in Australia. The address of the Company's registered office is 191 O'Riordan St, Mascot, NSW 2022. The consolidated financial statements of the Company as at and for the year ended 30 June 2020 comprise the Company and the MEAA Funding Trust (the "Trust"), a Special Purpose Vehicle deemed under the Accounting Standards to be controlled by the Bank, for the year ended the 30 June 2020 (together referred to as the "Group"). The Group is a for-profit entity and primarily is involved in the provision of financial products, services and associated activities to Members.

### A. BASIS OF PREPARATION

#### (i) Statement of compliance

The consolidated financial statements are general purpose financial statements which have been prepared in accordance with Australian Accounting Standards (AASBs) adopted by the Australian Accounting Standards Board (AASB) and the Corporations Act 2001. The consolidated financial statements comply with International Financial Reporting Standards (IFRSs) adopted by the International Accounting Standards Board (IASB).

The consolidated financial statements were authorised for issue by the Board of Directors on 30th September 2020.

#### (ii) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for financial assets which are classified as fair value through other comprehensive income (FVOCI) and derivatives.

#### (iii) Functional and presentation currency

These consolidated financial statements are presented in Australian dollars, which is the Group's functional currency.

The Group is of a kind referred to in ASIC Rounding instrument 2016/191 dated 1st April 2016 and in
accordance with the Legislative Instrument, all financial information presented in Australian dollars has been rounded to the nearest thousand unless otherwise stated.

#### (iv) Use of estimates and judgements

The preparation of a financial report in conformity with Australian Accounting Standards requires Management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

The areas involving higher degree of judgement or complexity or areas where assumptions and estimates are significant to the financial statements are disclosed in the following notes to the Financial Statements:

1(i) - Financial Instruments, including loan impairment

22 - Fair value of financial assets and liabilities

1(t) - Leases

### COVID–19 impact on key estimates and judgements

The unfolding implications since March 2020, from the declaration of COVID-19 as a world-wide pandemic by the World Health Organisation, has been unprecedented. The impact and duration of COVID-19 on the global and domestic economy and the interplay of how governments, business and consumers respond is uncertain. The Group has considered the COVID-19 pandemic implications with regard to the evolving and uncertain elements in the preparation of the financial statements.

Whilst impacts of COVID-19 have not resulted in new areas involving estimates judgment, it has created additional challenges within certain areas identified above. The specific impacts are disclosed in the specific notes relating to those areas.

The pandemic has increased the estimation uncertainty in these financial statements. The estimation uncertainty is associated with:

- The extent and duration of the disruption to the economy, business, consumers and government;
- Success of virus suppression in Australia;
- The expected economic downturn and key economic factors such as GDP, unemployment and house prices;
- The continuation, effectiveness and extent of domestic federal and state authorities to assist and /or facilitate business and individuals through the crisis.

The Group has included various accounting estimates in the financial statements based on forecasts of economic conditions and future events which reflect expectations and assumptions as at 30 June 2020.

There is a considerable degree of judgement required in preparing forecasts. The underlying assumptions are also subject to uncertainties and beyond the control of individual entities. The actual economic outcomes are likely to differ from the forecast as the anticipated events and interaction will not always occur as expected. The effect of these differences may significantly impact accounting estimates included in the financial statements.

The significant accounting estimates impacted by these forecasts and associated uncertainties are predominately related to measurement of expected credit losses, fair value measurement of financial assets and recoverable amount assessments of assets.

The impact of the COVID-19 pandemic is further discussed in the relevant notes below. The reader should carefully consider the financial statements with regards to the inherent uncertainty highlighted above.

## B. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.

## C. LOANS AND ADVANCES TO MEMBERS

### (i) Basis of inclusion

The Group recognises loans and advances on the date that they are originated.

All loans are initially recognised at fair value, net of transaction costs incurred and inclusive of loan origination fees. Loans are subsequently measured at amortised cost using the effective interest method net of any credit impairment. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the profit or loss over the period of the loans using the effective interest method.

Loans to Members are reported at their recoverable amount representing the aggregate amount of principal and unpaid interest owing to the Group at balance date, less any allowance or provision for impairment. Refer to note 1(i) for details on the approach to measure the expected credit losses on financial assets accounted for as amortised cost.

### (ii) Interest earned

**Term Loans** - The loan interest is calculated on the basis of daily balance outstanding and is charged in arrears to a Member's account on the last day of each month.

**Credit Cards** - For interest free credit cards, interest will be charged only where the relevant transactions do not qualify for interest free status in accordance with the terms and conditions of the facility.

### (iii) Loan origination fees and transaction costs

Loan establishment fees and associated transaction costs are initially deferred as part of the loan balance, and are brought to account as either a net expense or net income over the expected life of the loan. The amounts brought to account are included as part of interest revenue or expense as appropriate.

## D. PLANT AND EQUIPMENT

Items of plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset.

Plant and equipment with the exception of freehold land, are depreciated on a straight-line basis, so as to write off the net cost of each asset over its expected useful life to the Group. The useful lives are adjusted if appropriate at each reporting date. Estimated useful lives at the balance date are as follows:

- Leasehold Improvements – 3 to 10 years.
- Plant and Equipment – 2.5 to 7 years.

## E. PROVISIONS

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are not recognised for future operating losses. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.
This does not include the ECL provision, for which the accounting policy is outlined in note 1(i).

## F. INTANGIBLES

Research costs are expensed as incurred. Development expenditures on individual projects are recognised in capital work in progress when the Group can demonstrate:

- The technical feasibility of completing the capital project so that it will be available for use or sale;
- Its intention to complete and its ability to use the capital project;
- How the capital project will generate future economic benefits;
- The availability of resources to complete the capital project; and
- The ability to measure reliably the expenditure during the development.

The Group capitalises computer software costs and recognises them as an intangible asset where they are clearly identifiable, can be reliably measured and will lead to future economic benefits that the Group controls. Capitalised software assets are carried at cost less amortisation and any impairment losses. The Group amortises these assets on a straight-line basis at a rate applicable to the expected useful life of the asset, but usually not exceeding 3 years. Any impairment loss is recognised under operating expenditure in the profit or loss when incurred.

## G. RECEIVABLES FROM OTHER FINANCIAL INSTITUTIONS

Receivables from other financial institutions include term deposits and settlement account balances due from other banks. They are recognised and accounted for as financial assets classified as amortised cost in accordance with Note 1(i).

Certificate of deposits and floating rate notes are recognised and accounted for as financial assets classified as Fair Value through OCI (FVOCI) in accordance with Note 1(i).

Interest on receivables due from other financial institutions is recognised on an effective yield basis.

## H. FEES AND COMMISSIONS

Transaction and interchange fees are charged and recognised at the time of the transaction. Service based fees in relation to administrating credit facilities are recognised over the service period.

The group earns trail commissions for the successful referral of customers for certain insurance products. Once the group has referred a successful insurance application to the insurance provider, its performance obligations have been met. As such, the Group recognises this revenue at a point in time, being when the policy is placed by the provider. On initial recognition a contract asset is recognised, representing Management's estimate of the variable consideration to be received from the completion of this performance obligation. The Group uses the 'expected value' method of estimating the variable consideration.

## I. FINANCIAL INSTRUMENTS

### Recognition and measurement

The group initially recognises loans and advances, deposits, debt securities issued and subordinate liabilities on the date on which they are originated. All other financial instruments including repurchase agreements are recognised on the trade date, which is the date on which the Group becomes a party to the contractual provisions of the instruments.

*Amortised cost*

Financial assets or financial liabilities are initially recognised at fair value, inclusive of any directly attributable costs. They are subsequently measured at amortised cost when they are held within a business model to solely collect contractual cash flows and the contractual terms of the financial assets give rise on specified date to cash flows that are solely payments of principal and interest (SPPI). Amortised cost is calculated by taking into account any discount or premium on the issue of the asset and costs that are an integral part of the effective interest rate. Gains and losses are recognised in the income statement when the financial assets are derecognised or impaired.

*Fair value through other comprehensive income (FVOCI)*
Financial assets including debt instruments are classified at FVOCI when they are held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and the contractual terms of the financial assets give rise on specified dates to cash flows that are SPPI. All financial assets not classified as measured at amortised cost or FVOCI are measured at FVTPL.

*(i) Debt instruments at FVOCI*
Debt instruments at FVOCI includes certificates of deposits and floating rate notes. Changes in the fair value are recognised in OCI, and are transferred to profit or loss when the asset is derecognised. Interest income using the effective interest method and impairment losses are recognised directly in the profit or loss.

*(ii) Equity instruments at FVOCI*
Management has made an irrevocable election to measure the unlisted shares at FVOCI. These equity securities represent investments that the Bank intends to hold for the long term for strategic purposes.

*Fair Value through profit or loss (FVTPL)*
All financial assets not classified as measured at amortised cost or FVOCI are measured at FVTPL. For financial assets in this category, all realised and unrealised gains and losses arising from changes in the fair value of these assets are included in the income statement in the period in which they arise.

*Cash flow hedges*
When a derivative is designated as a cash flow hedging instrument, the effectiveness portion of changes in the fair value of the derivative is recognised in other comprehensive income and accumulated in the hedging reserve. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in profit or loss. The amount accumulated in equity is retained in other comprehensive income and reclassified to profit or loss in the same period or periods during which the hedged item affects profit or loss. If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, or the designation is revoked, then the amount accumulated in equity is reclassified to profit or loss.

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of hedging instruments used in cash flow hedges pending subsequent recognition in profit or loss as the hedged cash flows affect profit or loss.

### Business model assessment

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

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

In determining the business model the Group will assess whether the contractual cash flows are SPPI.

### Contractual cash flows assessment

In assessing whether the cash flows are SPPI, the Bank will consider the contractual terms of the instrument. This will include assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition.

### Impairment of financial assets

The impairment requirements apply to financial assets subsequently measured at amortised cost, debt instruments subsequently measured at FVOCI, loan commitments and financial guarantee contracts and contract assets in the scope of AASB 15 Revenue from Contracts with Customers.

The Accounting Standard requires entities to account for expected credit losses (ECLs) from when financial instruments are first recognised and to recognise full lifetime expected losses on a more timely basis.

The Group measures loss allowances at an amount equal to lifetime ECLs except for the following assets, where they are measured as 12-month ECLs : (1) Debt investment securities that are determined to have low credit risk at the reporting date and (2) financial instruments on which credit risk has not increased significantly since their initial recognition, where they are measured as 12-month ECLs.

The Group considers a debt investment security to have low credit risk when its credit rating is equivalent to the globally understood definition of "investment grade". An ECL assessment is also undertaken over receivables from other financial institutions using an external rating investment grades based approach. The ECL as at 30 June 2020 was immaterial on these investments.

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

- **Stage 1:** Where credit risk has not increased significantly since initial recognition or the asset is not credit impaired upon origination, recognise a portion of the lifetime ECLs associated with the probability of default events occurring within the next 12 months.
- **Stage 2:** Where credit risk has increased significantly since initial recognition but not credit impaired (includes exposures that are greater than 30 days past due), recognise lifetime ECLs.
- **Stage 3:** When a financial asset is assessed as credit impaired (includes exposures that are greater than 90 days past due), recognise lifetime ECLs.

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

### Model inputs

The Group uses AASB 9 collective provisioning models in calculating the ECL for mortgages and non-mortgage lending. The key model inputs used in measuring the ECL include:

- Exposure at default (EAD): The EAD represents the estimated exposure in the event of a default. The EAD is estimated taking into consideration a range of possible exposures including both repayments and future drawdowns of unutilised commitments up to when the exposure is expected to default.
- Probability of default (PD): The calculation of PD is generally performed at a facility level segmented based on product type and shared characteristics that are highly correlated to credit risk. PDs are a function of transition matrices used to determine a point in time PD estimate.
- Loss given default (LGD): The LGD associated with PD used is the magnitude of the ECL in a default event. The LGD is estimated using historical loss rates considering relevant factors for individual exposures or portfolios. These factors include collateral, recovery cost,LMI and the structure of the facility.

### Forward looking information

Forward looking information used in the measurement of ECLs takes into account probability weighted scenarios and includes macroeconomic variables that influence credit losses such as RBA cash rates, gross domestic product (GDP) data, unemployment rates and changing house prices. The Group has a process to assess this information in determining a base case, downside and upside forecast scenario with adjustments to the PD and LGD assumptions used in the ECL model. The adjustments to the assumptions are determined by senior Management based on the scenarios and involve significant judgement. Refer to the COVID-19 impact on key estimates and judgements section below for specific information relating to the current environment.

### Definition of default, impaired and write-offs

The Group uses the definition of default used for in the Group's internal credit risk management framework and has aligned the definition of credit impaired under AASB 9 stage 3 with the definition of default for prudential purposes. Default is generally defined as the point in time when the borrower is unlikely to meet its credit obligations in full, without recourse by the Group to take realisation of collateral; or the borrower is 90 days or more past due.

Facilities are classified as impaired where there is doubt as to whether the full amounts due, including interest and other payments, will be received in a timely manner. Loans and advances are written off (either partially or in full) when there is no reasonable expectation of recovering the financial asset in its entirety or a portion thereof. This is generally the case when the Bank determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-offs. This assessment is carried out at the individual asset level. Recoveries of amounts previously written-off are included in the impairment of loans and advances line in the Income Statement.

### Modified financial assets

The contractual terms of a loan may be modified for a number of reasons. If the terms of modification are substantial, the existing loan will have to be derecognised and the renegotiated loan recognised at a new effective interest rate. Where the modifications are not substantial and do not result in derecognition, the gross carrying amount of the loan is calculated by discounting the modified cash flows using the original effective interest rate. As of 30 June 2020 the Group holds no financial assets where the contractual terms were modified.

### COVID overlay

A COVID overlay adjustment is used by the Group to adjust the expected credit loss model where it is judged that existing inputs, assumptions and model techniques do not capture all the risk factors, limitations or complexity in apply forward looking judgement relevant to the credit portfolios. The COVID-19 crisis has brought a greater complexity and requirement for additional judgement in the estimation of expected credit losses. Refer to application of the COVID overlay in the COVID-19 impact on key estimates and judgments section below.

### COVID-19 impact on key estimates and judgements

As noted in 1(iv) COVID-19 has impacted key estimates and judgements. The impact and unfolding developments of COVID-19 on the global and domestic economy, government, business and consumer impact and interplay is uncertain and unprecedented. This uncertainty is reflected in the Group's assessment of expected credit losses from its credit portfolio which are subject to a number of management judgements and estimates.

In estimating the collectively assessed ECL the Group makes judgements and assumptions in relation to the selection of ECL inputs, assumptions and independencies between these inputs. Judgement and assumptions in respect of these matters have been updated to reflect the potential impact of COVID-19.

The following table summarises the key judgements and assumptions in relation to model inputs and interdependencies between these inputs, and highlights significant changes during the period.

The judgements and associated assumptions have been made within the context of the impact of COVID-19 and reflect historical experience and other factors that are considered to be relevant, including expectations of future events that are believed to be reasonable under the circumstances. In relation to COVID-19 this includes judgements and assumptions about the extent and duration of the pandemic, the impacts of government assistance and the response of business and consumers, differing industries and occupations, along with the domestic and global economy. The Group estimation of Expected Credit Loss is inherently uncertain and actual results and outcomes may differ from these estimates.

| Judgement and assumptions | Details | Changes and considerations with COVID-19 |
|---|---|---|
| **Determining when a significant increase in credit risk SICR has occurred** | In the measurement of ECL, judgement is involved in setting the rules and trigger points to determine whether there has been a SICR since recognition of a loan, which would result in the financial assets moving from stage 1 to stage 2. This represents a key area of judgement with transition from stage 1 to stage 2 changing the ECL from 12 month losses to lifetime expected credit losses. | The Group has where possible offered to assist Members impacted in the COVID-19 with various initiatives, including payment deferrals and short term interest only periods. Such offers, if accepted, are not necessarily considered to indicate SICR but the Group has performed an assessment and categorised the individual loans from Stage 1 to Stage 2. In performing this assessment the Group has considered the information obtained on the financial situation of the individual member and where exposure to industries heavily impacted by COVID-19, in particular the aviation industry.<br><br>The application of categorising member facilities under COVID-19 assistance requires professional judgment and may impact the size of the ECL allowance. Individual facilities are undergoing close ongoing review. |
| **Base case and economic forecast** | The Group uses a best estimate as the likely scenario. To apply a forward looking economic outlook in the current environment requires the addition of a COVID overlay. | In light of COVID-19 the key assumptions in the base case, downside and upside scenarios were reassessed and updated. In performing this assessment consideration was given to the impact of federal and state government policy, the current economic outlook, expectations over declines in residential security prices and additional risk factors such as the Group's exposure to significantly impacted industries such as aviation.<br><br>The updated scenarios resulted in increased estimates for both PD and LGD assumptions used in the models. Assessing the impacts of COVID-19 on future losses involves significant judgment. The Group considers the updated assumptions to reflect the best estimate of the impacts of COVID-19 in each forecast scenario. |
| **Probability weighting of each scenario** | The probability weighting of best estimate, downside and upside scenarios is determined by Management considering the risks and uncertainties surrounding the base case. | The key consideration in the current period has been the COVID-19 outlook. The Group in responding to this has assessed the increased risk and made adjustments to the underlying scenario forecasts (refer above). As such the scenario weightings have remained unchanged as at 30 June 2020 at 50% base case, 10% upside and 40% downside.<br><br>The applied probability weightings are subject to inherent uncertainty and the actual outcomes may be significantly different to those projected. The Group considers the weightings to provide the best estimate of probability outcomes. |
| **COVID overlay** | Management adjustments to the ECL allowance are adjustments used in circumstances where it is judged that existing inputs, assumptions and model techniques do not capture all the risk factors relevant to the credit portfolios.<br><br>Examples of such circumstances are: emerging domestic or global economic events, natural disasters, or forward looking information.<br><br>The use of adjustments may impact the amount of ECL recognised. | To cover known risks not included in the ECL model, Management have developed an out-of-model COVID overlay. These risks include certain information that was not practical to incorporate into the ECL model, including the significant concentrations of exposure that the Group has to the aviation industry. |

The uncertainty on the impact of COVID-19 increases the risk to the forecast resulting in understatement or overstatement of the ECL provision due to the uncertainty of the impacts and evolution of the crisis. The Group's measurement of ECL is based upon available information and applied professional judgment as at 30 June 2020. The rapidly evolving consequences and interplay of government, business and consumer responses could result in significant adjustment to the ECL provision within the next financial year or years. Given the current uncertainties and judgement applied to factors used in determining the expected default of borrowers in future periods, expected losses reported by the Group should be considered as a best estimate within a range of estimates. The Group is continuing to closely monitor and measure the ECL with appropriate adjustments and application of professional judgement.

### Sensitivity analysis

The following sensitivity table shows the reported provision for ECL based on the probability weighted scenarios and what the provisions for ECL would be assuming a 100% weighting is applied to the 3 scenarios as per the below table and when all other assumptions are held constant.as at 30 June 2020.

| Description | PV $000 |
|---|---|
| Expected | 9,138 |
| Downside | 23,431 |
| Upside | 7,008 |

## J. DEPOSITS

### (i) Basis for determination

Savings, term investments and retirement savings accounts are recognised at fair value (being the aggregate amount of money owing to depositors) less directly attributable transaction costs.

### (ii) Interest on deposits

#### At Call

Interest on deposit balances is calculated and accrued on a daily basis at current rates and credited to accounts on a monthly basis.

#### Term Deposits

Interest on term deposits is calculated and accrued on a daily basis at agreed rates and is paid or credited to accounts in accordance with the terms of the deposit.

#### Retirement Savings Accounts (RSA)

Interest on Retirement Savings Accounts are calculated and accrued on a daily basis at current rates and credited to Retirement Savings Accounts on a monthly basis.

## K. BORROWINGS

The Group initially recognises borrowings on the date that they are originated. All other financial liabilities are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

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

## L. PROVISION FOR EMPLOYEE BENEFITS

The provision for long service leave is based on the present value of the estimated future cash outflows to be made resulting from Employees' service up to reporting date, and having regard to the probability that Employees as a group will remain employed for the period of time necessary to qualify for long service leave.

Provisions for annual leave represent present obligations resulting from Employees' services calculated on undiscounted amounts based on remuneration, wage and salary rates that the Group expects to pay as at reporting date.

Contributions are made by the Group to an employee's superannuation fund and are charged to the profit or loss as the related service is provided.

## M. INCOME TAX

The income tax expense shown in the profit or loss is based on the operating profit before income tax adjusted for any non-tax deductible or non-assessable items between accounting profit and taxable income.

Deferred tax assets and liabilities are recognised using the Statement of Financial Position liability method in respect of temporary differences arising between the tax bases of assets or liabilities and their carrying amounts in the financial statements. Current and deferred tax balances relating to amounts recognised directly in equity are also recognised directly in equity.

Deferred tax assets and liabilities are recognised for all temporary differences between carrying amounts of assets and liabilities for financial reporting purposes and their respective tax bases at the rate of income tax applicable to the period in which the benefit will be received or the liability will become payable. These differences are presently assessed at 30%.

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

## N. GOODS AND SERVICES TAX (GST)

As a financial institution, the Group is input taxed on all income except other income from commissions and some fees. An input taxed supply is not subject to GST collection, and similarly the GST paid on purchases cannot be recovered. In addition certain prescribed purchases are subject to reduced input tax credits (RITC), of which 75% of the GST paid is recoverable. In addition, general apportionment may be recoverable in some cases.

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

Receivables and payables are stated with the amount of GST included where applicable GST is collected. The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or current liability in the Consolidated Statement of Financial Position. Cash flows are included in the Consolidated Statement of Cash Flows on a gross basis. The GST components of cash flows arising from investing and financing activities, which are recoverable from, or payable to, the Australian Taxation Office, are classified as operating cash flows.

## O. IMPAIRMENT OF NON-FINANCIAL ASSETS

At each reporting date the Group assesses whether there is any indication that individual assets are impaired. The recoverable amount is determined and impairment losses are recognised in the profit or loss where the asset's carrying value exceeds its recoverable amount. Recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purpose of assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where it is not possible to estimate recoverable amount for an individual asset, recoverable amount is determined for the cash-generating unit to which the asset belongs.

## P. PRINCIPLES OF CONSOLIDATION

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases. In preparing the consolidated financial statements, all inter-company balances and transactions, and unrealised profits arising within the Group are eliminated in full.

## Q. RECOVERABLE AMOUNT OF NON-CURRENT ASSETS VALUED ON COST BASIS

The carrying amounts of non-current assets valued on the cost basis are reviewed to determine whether they are in excess of their recoverable amount at reporting date. If the carrying amount of a non-current asset exceeds its recoverable amount, the asset is written down to the lower amount. The write-down is recognised as an expense in the profit or loss in the reporting period in which it occurs. In assessing the recoverable amounts of non-current assets relevant cash flows have been discounted to their present value.

## R. OTHER TRADE AND OTHER RECEIVABLES

Trade and other receivables are stated at their gross carrying amount cost less impairment losses (see accounting policy 1(i).

## S. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash balances, short term bills and call deposits with maturity equal to or less than 3 months. Bank overdrafts that are repayable on demand and form an integral part of the Group cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

## T. LEASES

The Group has applied AASB 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under AASB 117 and AASB Interpretation 4.

### Policy applicable before 1 July 2019

For contracts entered into before 1 July 2019, the Group determined whether the arrangement was or contained a lease based on the assessment of whether:

- Fulfilment of the arrangement was dependent on the use of a specific asset or assets; and
- The arrangement had conveyed a right to use the asset. An arrangement conveyed the right to use the asset if one of the following was met:
- The purchaser had the ability or right to operate the asset while obtaining or controlling more than an insignificant amount of the output;

- the purchaser had the ability or right to control physical access to the asset while obtaining or controlling more than an insignificant amount of the output; or
- facts and circumstances indicated that it was remote that other parties would take more than an insignificant amount of the output, and the price per unit was neither fixed per unit of output nor equal to the current market price per unit of output.

### Policy applicable from 1 July 2019

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group assesses whether:

- The contract involves the use of an identified asset — this may be specified explicitly or implicitly, and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified;
- The Group has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and – the Group has the right to direct the use of the asset. The Group has this right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used. In rare cases where the decision about how and for what purpose the asset is used is predetermined, the Group has the right to direct the use of the asset if either:
  - The Group has the right to operate the asset; or
  - The Group designed the asset in a way that predetermines how and for what purpose it will be used.

This policy is applied to contracts entered into, or changed, on or after 1 July 2019.

### As a Lessee

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

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

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

- Fixed payments, including in-substance fixed payments;
- Variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- Amounts expected to be payable under a residual value guarantee; and
- The exercise price under a purchase option that the Group is reasonably certain to exercise, lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or if the Group changes its assessment of whether it will exercise a purchase, extension or termination option.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Group presents right-of-use assets that do not meet the definition of investment property in 'property, plant and equipment' and lease liabilities in 'loans and borrowings' in the statement of financial position (see (B)).

### Short-term leases and leases of low-value assets

The Group has elected not to recognise right-of-use assets and lease liabilities for short-term leases of machinery that have a lease term of 12 months or less and leases of low-value assets, including IT equipment. The Group recognises the lease payments associated with these leases as an expense on a straight- line basis over the lease term.

### Amount recognised in Profit and Loss

| | 2020 $000 | 2019 $000 |
|---|---|---|
| Interest on lease liabilities | (342) | - |
| Variable lease payments not included in the measurements of lease liabilities | (508) | - |
| ROU asset depreciation | (1,697) | - |
| Lease expense | - | (2,454) |
| | **(2,547)** | **(2,454)** |

### Real estate leases

The Group leases land and buildings for its office space and retail branches. The leases of office space typically run for a period of 10 years, and leases of retail branches for five years. Some leases include an option to renew the lease for an additional period of the same duration after the end of the contract term.

### Extension options

Some leases of office buildings contain extension options exercisable by the Group up to one year before the end of the non-cancellable contract period. The extension options held are exercisable only by the Group and not by the lessors. The Group assesses at lease commencement whether it is reasonably certain to exercise the extension options. The Group has elected to not exercise the lease options in the adoption of AASB 16.

### Extension options - $000

| | Lease liabilities recognised (discounted) | Potential future lease payments not included in lease liabilities (discounted) |
|---|---|---|
| Office buildings | 12,221 | 10,806 |

## U. TRADE AND OTHER PAYABLES

Trade and other payables are stated at their amortised cost.

Trade payables are non-interest bearing and are normally settled on 60-day terms.

## V. CHANGES TO ACCOUNTING POLICIES

Except for the changes below, the Group has consistently applied the accounting policies to all periods presented in these consolidated financial statements.

The Group applied AASB 16 with a date of initial application of 1 July 2019. As a result, the Group has changed its accounting policy for lease contracts as detailed below.

The Group applied AASB 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognised in retained earnings at 1 July 2019. The details of the changes in accounting policies are disclosed below.

### (i) Definition of a lease

Previously, the Group determined at contract inception whether an arrangement is or contains a lease under AASB Interpretation 4. Under AASB 16, the Group assesses whether a contract is or contains a lease based on the definition of a lease, as explained in Note 1(t).

On transition to AASB 16, the Group elected to apply the practical expedient to grandfather the assessment of which transactions are leases. It applied AASB 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under AASB 117 and AASB Interpretation 4 were not reassessed for whether there is a lease. Therefore, the definition of a lease under AASB 16 was applied only to contracts entered into or changed on or after 1 July 2019.

### (ii) As a lessee

As a lessee, the Group previously classified leases as operating leases based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the Group. Under AASB 16, the Group recognises right-of-use assets and lease liabilities for most leases – i.e. these leases are on-balance sheet.

The Group decided to apply recognition exemptions to short-term leases of IT equipment (see Note 1(t)). For leases of other assets, which were classified as operating under AASB 117, the Group recognised right-of-use assets and lease liabilities.

### Leases classified as operating leases under AASB 117

At transition, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Group's incremental borrowing rate as at 1 July 2019. Right-of-use assets are measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments – the Group applied this approach to all leases.

The Group used the following practical expedients when applying AASB 16 to leases previously classified as operating leases under AASB 117.

- Applied different discount rates to a portfolio of leases with similar characteristics.
- Applied the exemption not to recognise right-of-use assets and liabilities for leases with less than 12 months of lease term.
- Excluded initial direct costs from measuring the right-of-use asset at the date of initial application.
- Used hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

### Impacts on financial statements

On transition to AASB 16, the Group recognised an additional $10,432 thousand of right-of-use assets and $12,221 thousand of lease liabilities, the opening right of use asset balance was adjusted to reflect lease incentive payable that was derecognised on transition.

AASB 16.C12(a) When measuring lease liabilities, the Group discounted lease payments using its incremental borrowing rate at 1 July 2019. The weighted-average rate applied is 3.0%

| | 2020 $000 |
|---|---|
| Operating lease commitments disclosed under AASB 117 as at 30 June 2019 | 17,952 |
| Lease payments that are excluded from calculation of lease liability under AASB 16 | 4,394 |
| Less discounting effect using incremental borrowing rate at 1 July 2019 | 1,337 |
| Recognition exemption for leases with less than 12 months of lease term at transition | - |
| **Lease liability recognised as at 1 July 2019** | **12,221** |

## 2. STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

| | | 2020<br>$000 | 2019<br>$000 |
|---|---|---|---|
| | ANALYSIS OF INTEREST REVENUE | | |
| a. | **Category of interest bearing assets** | | |
| | Loans and advances to Members | 118,594 | 129,405 |
| | Investment Securities | 8,221 | 13,881 |
| | Call Deposits with other Financial Institutions | 420 | 1,100 |
| | Term Deposits with other Financial Institutions | 450 | 1,191 |
| | Regulatory Deposits | 249 | 603 |
| | **TOTAL INTEREST REVENUE*** | **127,934** | **146,180** |
| | *Interest revenue is calculated using the effective interest rate method. | | |
| b. | **Category of interest bearing liabilities** | | |
| | Deposits | 65,278 | 78,752 |
| | Bank Overdraft | 4 | 5 |
| | Other | 342 | - |
| | **TOTAL INTEREST EXPENSE** | **65,624** | **78,757** |
| c. | **Other Income** | | |
| | Fees and Commissions | 7,954 | 7,806 |
| | Litigation settlement proceeds* | 9,125 | - |
| | Dividends received | 291 | 291 |
| | Bad debts recovered | 261 | 302 |
| | Income from Government Grants | 1,058 | - |
| | **TOTAL OTHER INCOME** | **18,689** | **8,399** |
| | *Non-recurring item relating to a litigation settlement during the period. | | |
| d. | **Impairment losses on loans and advances** | | |
| | Bad debts written off directly against profit | 402 | 639 |
| | Addition/(Release) to/(from) provision for doubtful debts | 7,143 | 73 |
| | **TOTAL IMPAIRMENT LOSSES ON LOANS & ADVANCES** | **7,545** | **712** |

## 2. STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (CONTINUED)

| | | 2020 $000 | 2019 $000 |
|---|---|---|---|
| e. | **Other expenses** | | |
| | Salaries and on costs | 19,291 | 17,850 |
| | Superannuation costs | 1,520 | 1,407 |
| | Transaction costs | 8,655 | 9,076 |
| | Information technology | 5,703 | 5,275 |
| | Insurance and legal | 1,028 | 1,957 |
| | Directors remuneration | 609 | 577 |
| | Depreciation of plant and equipment | 1,475 | 1,938 |
| | Lease Depreciation | 1,697 | - |
| | Amortisation of intangibles | 470 | 176 |
| | Amounts set aside to provisions: | | |
| | Employee entitlements | 640 | 812 |
| | Occupancy expenses | 1,186 | 2,896 |
| | Supervision levies | 234 | 198 |
| | Marketing costs | 3,850 | 4,047 |
| | Other costs | 5,103 | 3,970 |
| | **TOTAL OTHER EXPENSES** | **51,461** | **50,179** |

| | | 2020 $ | 2019 $ |
|---|---|---|---|
| f. | **Auditor's Remuneration**<br>**Accounts received or due and receivable by KPMG for:** | | |
| | Audit services | | |
| | Audit of financial statements | 204,494 | 178,897 |
| | Other regulatory and audit services | 88,893 | 68,059 |
| | **TOTAL AUDIT SERVICES** | **293,387** | **246,956** |
| | Non-audit services | | |
| | Other services | 161,643 | 34,821 |
| | **TOTAL NON-AUDIT SERVICES** | **161,643** | **34,821** |
| | **TOTAL AUDITOR'S REMUNERATION** | **455,030** | **281,777** |

## 3. INCOME TAX EXPENSE

| | | 2020 $000 | 2019 $000 |
|---|---|---|---|
| a. | **Current Tax Expense** | | |
| | Current year | 8,598 | 744 |
| | Prior year over/(under) provision for current tax | (1,088) | (18) |
| | **Deferred Tax Expense** | | |
| | Prior year under/(over) provision for deferred tax | 772 | 2,406 |
| | (Increase)/Decrease in deferred tax asset | (1,770) | 4,158 |
| | **TOTAL INCOME TAX EXPENSE IN INCOME STATEMENT** | **6,512** | **7,290** |
| b. | **Reconciliation between tax expense and pre-tax net profit:** | | |
| | Profit before tax | 21,993 | 24,931 |
| | Income tax using the Company tax rate of 30% | 6,598 | 7,479 |
| | Tax effect of expenses/income | | |
| | - Other non-deductible expenses | (86) | (189) |
| | **INCOME TAX EXPENSE ATTRIBUTABLE TO PROFIT** | **6,512** | **7,290** |

## 4. CASH AND CASH EQUIVALENTS

| | 2020 $000 | 2019 $000 |
|---|---|---|
| Cash on hand | 637 | 512 |
| Deposits at call | | |
| Cash at Bank | 84,070 | 43,819 |
| Other Financial Institutions | 24,885 | 10,023 |
| Other Authorised Deposit-taking Institutions | 47,500 | 25,000 |
| **TOTAL CASH AND CASH EQUIVALENTS** | **157,092** | **79,354** |

## 5. RECEIVABLES

| | 2020 $000 | 2019 $000 |
|---|---|---|
| Interest receivable | 536 | 2,241 |
| Sundry debtors and settlement accounts | 2,165 | 1,135 |
| **TOTAL RECEIVABLES** | **2,701** | **3,376** |
| *Maturity Analysis* | | |
| Not longer than 3 months | 809 | 1,183 |
| 3 to 12 months | 1,892 | 2,193 |
| | **2,701** | **3,376** |

## 6. RECEIVABLES DUE FROM OTHER FINANCIAL INSTITUTIONS

| | 2020 $000 | 2019 $000 |
|---|---|---|
| Deposits with other Authorised Deposit-taking Institutions | 29,765 | 94,321 |
| **TOTAL RECEIVABLE DUE FROM OTHER FINANCIAL INSTITUTIONS** | **29,765** | **94,321** |
| *Maturity Analysis* | | |
| Not longer than 3 months | - | 64,556 |
| 3 to 12 months | 29,765 | 29,765 |
| | **29,765** | **94,321** |
| *Fair Value* | | |
| Deposits with other Authorised Deposit-taking Institutions | 29,765 | 94,470 |
| | **29,765** | **94,470** |

## 7. LOANS AND ADVANCES

| | 2020 $000 | 2019 $000 |
|---|---|---|
| **Amount due comprises:** | | |
| Home loans | 3,433,364 | 3,215,196 |
| Credit cards | 19,405 | 24,741 |
| Personal loans | 10,850 | 16,799 |
| Car loans | 8,408 | 10,970 |
| **Subtotal** | **3,472,027** | **3,267,706** |
| **Less:** | | |
| Provision for impaired loans (Note 8) | (15,464) | (8,321) |
| **TOTAL LOANS AND ADVANCES** | **3,456,563** | **3,259,385** |
| *Maturity analysis - gross loans and advances* | | |
| Not longer than 3 months | 75,604 | 77,645 |
| Longer than 3 months and not longer than 12 months | 309,180 | 95,549 |
| Longer than 1 year and not longer than 5 years | 406,402 | 557,893 |
| Longer than 5 years | 2,680,841 | 2,536,619 |
| | **3,472,027** | **3,267,706** |

The Bank has established the MEAA Funding Trust ("Trust") to provide access to emergency liquidity support in the event of a systemic liquidity crisis. The Bank sells the rights to future cash flows of eligible residential home loans into the Trust and receives funds equal to the aggregated outstanding balances on all loans which the Trust has purchased and subsequently issued Notes. Two classes of notes were issued by the Trust and both are fully owned by the Bank. Whilst the rights to the underlying cash flows have been transferred, the Bank has been appointed to service the loans and accordingly must continue to manage the loans as if it were the lender. The Trust is in substance controlled by the Group. Accordingly, the Trust is consolidated and the loans are included in the Group's statement of financial position. The balance of securitised loans included in Note 7 is $550,987,600 (30 June 2019: $705,837,231).

## 8. PROVISION FOR IMPAIRMENT

The table below represents the reconciliation from the opening to the closing balance of ECL allowances on loan assets to which the impairment requirements under AASB 9 are applied:

| | Stage 1 12 month ECL $000 | Stage 2 Lifetime ECL $000 | Stage 3 Lifetime ECL $000 | COVID overlay $000 | Provision Total $000 |
|---|---|---|---|---|---|
| **As at 1 July 2018** | **6,667** | **80** | **1,501** | **-** | **8,248** |
| **Changes due to financial assets that have:** | | | | | |
| Transferred to/(from) 12 months ECL collectively assessed | - | (16) | (68) | - | **(84)** |
| Transfer to/(from) lifetime ECL not credit impaired collectively assessed | 5 | - | 268 | - | **273** |
| Transfer to/(from) lifetime ECL credit impaired collectively assessed | 4 | (8) | - | - | **(4)** |
| New and increased provisions net of releases | 453 | (75) | (1,129) | - | **(751)** |
| Bad debts written off | 59 | 62 | 518 | - | **639** |
| **As at 30 June 2019** | **7,188** | **43** | **1,090** | **-** | **8,321** |
| | | | | | |
| **As at 1 July 2019** | **7,188** | **43** | **1,090** | **-** | **8,321** |
| **Changes due to financial assets that have:** | | | | | |
| Transferred to/(from) 12 months ECL collectively assessed | 2,179 | 3,746 | 428 | - | 6,353 |
| Transfer to/(from) lifetime ECL not credit impaired collectively assessed | (720) | 3 | (99) | - | (816) |
| Transfer to/(from) lifetime ECL credit impaired collectively assessed | (14) | 19 | 62 | - | 67 |
| New and increased provisions net of releases | 322 | 280 | (287) | - | 315 |
| Bad debts written off | 66 | 5 | 331 | - | 402 |
| COVID overlay | - | - | - | 822 | 822 |
| **As at 30 June 2020** | **9,021** | **4,096** | **1,525** | **822** | **15,464** |

*Use of judgements and estimates*

Refer to Note 1(i) for further details on the Group's methodology for estimating the provision for impaired loans. The Group reviews individually significant loans and advances at each reporting date to assess whether an impairment loss should be recorded in the income statement. Judgement by Management is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. In estimating these cash flows, the Bank makes judgements about the borrower's financial situation and the net realisable value of collateral. These estimates are based on assumptions about a number of factors including forward looking information available at the time. Actual results may differ, resulting in future changes to the allowance.

## 9. FINANCIAL ASSETS AT FVOCI

| | 2020<br>$000 | 2019<br>$000 |
|---|---|---|
| **Equity Investments** | | |
| Indue Limited | 11,073 | 12,468 |
| **Debt instrument investments** | | |
| Bank issued certificates of deposit | 327,242 | 195,417 |
| Floating rate notes | 470,039 | 379,850 |
| **TOTAL FINANCIAL ASSETS AT FVOCI** | **808,354** | **587,734** |
| ***Maturity Analysis*** | | |
| Not longer than 3 months | 331,179 | 254,043 |
| 3 to 12 months | 209,301 | 88,940 |
| 1-5 years | 256,801 | 232,283 |
| No maturity | 11,073 | 12,468 |
| | **808,354** | **587,734** |
| ***Fair Value*** | | |
| Bank issued certificates of deposit | 327,242 | 195,417 |
| Floating rate notes | 470,039 | 379,850 |
| Shares in Indue | 11,073 | 12,468 |
| | **808,354** | **587,734** |

## 10a. PLANT AND EQUIPMENT

| | 2020 $000 | 2019 $000 |
|---|---|---|
| **Leasehold property improvements - at cost** | 7,006 | 7,215 |
| Less: Accumulated depreciation | (4,510) | (4,292) |
| | 2,496 | 2,923 |
| **Office furniture and equipment - at cost** | 2,280 | 2,125 |
| Less: Accumulated depreciation | (1,638) | (1,224) |
| | 642 | 901 |
| **Computer equipment - at cost** | 4,492 | 3,632 |
| Less: Accumulated depreciation | (3,657) | (3,439) |
| | 835 | 193 |
| **Motor vehicles - at cost** | 1,338 | 1,283 |
| Less: Accumulated depreciation | (599) | (551) |
| | 739 | 732 |
| TOTAL PLANT AND EQUIPMENT OWNED – NET BOOK VALUE | **4,712** | **4,749** |
| **Right-of-use assets - at cost** | 10,538 | - |
| Less: Accumulated depreciation | (1,697) | - |
| | 8,841 | - |
| TOTAL PLANT AND EQUIPMENT – NET BOOK VALUE | **13,553** | **4,749** |

## 10a. PLANT AND EQUIPMENT (CONTINUED)

**MOVEMENT IN THE ASSETS BALANCES DURING THE YEAR WERE:**

| Plant & Equipment | 2020 | | 2019 | |
|---|---|---|---|---|
| | Leasehold improvements $000 | Other plant & equipment $000 | Leasehold improvements $000 | Other plant & equipment $000 |
| Opening balance | 2,923 | 1,826 | 3,608 | 2,830 |
| Purchases | 31 | 1,462 | 32 | 374 |
| Transfers | - | - | - | - |
| Less: | | | | |
| Assets disposed | - | (55) | (16) | (141) |
| Depreciation charge | (458) | (1,017) | (701) | (1,237) |
| **Balance at the end of the year** | **2,496** | **2,216** | **2,923** | **1,826** |

| Plant & Equipment | 2020 | 2019 |
|---|---|---|
| | Right-of-use Assets $000 | Right-of-use Assets $000 |
| Opening balance | 10,432 | - |
| Additions during the year | 106 | - |
| Less: | | |
| Depreciation charge for the year | (1,697) | - |
| **Balance at the end of the year** | **8,841** | **-** |

## 10b. INTANGIBLES

| | 2020 $000 | 2019 $000 |
|---|---|---|
| **Computer Software - at cost** | 12,077 | 10,816 |
| Less: provision for amortisation | (10,871) | (10,401) |
| TOTAL INTANGIBLES | **1,206** | **415** |
| MOVEMENT IN THE INTANGIBLES BALANCES DURING THE YEAR WERE: | | |
| **Computer Software** | | |
| Opening balance | 415 | 258 |
| Purchases | 1,261 | 333 |
| Less: | | |
| Assets disposed | - | - |
| Amortisation charge | (470) | (176) |
| **Balance at the end of the year** | **1,206** | **415** |

## 11. PREPAYMENTS & DEBTORS

| | 2020<br>$000 | 2019<br>$000 |
|---|---|---|
| Prepayments | 6,466 | 5,603 |
| Other assets | 6,143 | 1,064 |
| **Total** | **12,609** | **6,667** |
| Capitalised expenses | 293 | 818 |
| **Total** | **293** | **818** |
| TOTAL PREPAYMENTS & DEBTORS | **12,902** | **7,485** |
| *Maturity Analysis* | | |
| Less than 12 months | 10,333 | 5,431 |
| Greater than 12 months | 2,569 | 2,054 |
| | **12,902** | **7,485** |

## 12. DEFERRED TAX

| | 2020 $000 | 2019 $000 |
|---|---|---|
| Net Deferred Tax Asset | **4,358** | **2,068** |
| Net Deferred tax assets represents the estimated future tax benefit/liability at the applicable rate of 30% on the following items: | | |
| Deferred Tax Assets | | |
| - Provisions for impairment on loans | 4,639 | 2,497 |
| - Provisions for employee benefits not currently deductible | 1,238 | 1,238 |
| - Other accruals | 438 | 631 |
| - Fixed assets | 133 | 218 |
| - Financial Instruments | 428 | 522 |
| | **6,876** | **5,106** |
| Deferred Tax Liabilities | | |
| - Financial Instruments | (2,518) | (3,038) |
| | **(2,518)** | **(3,038)** |
| **NET DEFERRED TAX ASSETS** | **4,358** | **2,068** |

## 13. PAYABLES DUE TO OTHER FINANCIAL INSTITUTIONS

| | 2020 $000 | 2019 $000 |
|---|---|---|
| Repurchase agreement with the RBA* | 19,854 | - |
| Electronic Certificates of Deposit issued | 155,247 | 88,481 |
| Floating Rate Notes Issued | - | 55,045 |
| **TOTAL PAYABLES TO OTHER FINANCIAL INSTITUTIONS** | **175,101** | **143,526** |
| ***Maturity Analysis*** | | |
| Not longer than 3 months | 111,630 | 136,593 |
| Longer than 3 and not longer than 6 months | 15,944 | 6,933 |
| Longer than 6 and not longer than 12 months | 47,527 | - |
| | **175,101** | **143,526** |

*On the 27th March 2020 entered into a repurchase agreement with the RBA expiring on 23rd September 2020. Two FRNs with a total face value $23,900,000 were pledged in relation to this. Under the terms of the agreement, if the Repo is not paid on maturity RBA can claim the pledged assets.

## 14. DEPOSITS

| | 2020<br>$000 | 2019<br>$000 |
|---|---|---|
| Deposits | | |
| - Call deposits | 2,424,710 | 2,296,687 |
| - Superannuation Savings Accounts | 213,449 | 239,109 |
| - Term deposits | 1,354,960 | 1,069,991 |
| **Total deposits** | **3,993,119** | **3,605,787** |
| Member withdrawable shares | 661 | 670 |
| **TOTAL DEPOSITS & SHARES** | **3,993,780** | **3,606,457** |
| **Maturity analysis** | | |
| At call | 2,638,819 | 2,536,466 |
| Not longer than 3 months | 517,746 | 385,537 |
| Longer than 3 and not longer than 6 months | 298,529 | 228,244 |
| Longer than 6 and not longer than 12 months | 387,538 | 246,763 |
| Longer than 12 months and not longer than 5 years | 151,148 | 209,447 |
| | **3,993,780** | **3,606,457** |

### CUSTOMER OR INDUSTRY GROUPS

The majority of deposits are from Employees and former Employees of companies within the Qantas Group, associated companies, Commonwealth Government departments and authorities and from related or nominated persons or entities in accordance with the Constitution of the Bank. Deposits are also accepted from non-Members and wholesale depositors.

### CHARGE ON MEMBERS' ACCOUNTS

The Bank may charge the deposit accounts of a Member in relation to any debt owed by the Member to the Bank.

## 15. CREDITOR ACCRUALS AND SETTLEMENT ACCOUNTS

| | 2020 $000 | 2019 $000 |
|---|---|---|
| Creditors and accruals | 4,131 | 3,344 |
| Interest payable on deposits | 6,560 | 7,614 |
| Sundry creditors | 4,227 | 2,740 |
| **TOTAL CREDITOR ACCRUALS AND SETTLEMENT ACCOUNTS** | **14,918** | **13,698** |

## 16. TAXATION ASSETS AND LIABILITIES

| | 2020 $000 | 2019 $000 |
|---|---|---|
| Current income tax (asset)/liability | 1,509 | (1,087) |
| **TOTAL TAXATION (ASSET)/LIABILITIES** | **1,509** | **(1,087)** |
| **Current income tax liability comprises:** | | |
| Balance – previous year | (1,087) | 1,504 |
| Income tax paid | (7,389) | (3,695) |
| RSA tax liability | 299 | 377 |
| Liability for income tax in current year | 8,598 | 745 |
| (Over)/ understatement in prior year | 1,088 | (18) |
| | **1,509** | **(1,087)** |

## 17. PROVISIONS

| | 2020 $000 | 2019 $000 |
|---|---|---|
| Employee entitlements | 4,126 | 4,127 |
| **TOTAL PROVISIONS** | **4,126** | **4,127** |
| **PROVISIONS MOVEMENTS** | | |
| **Employee Entitlements** | | |
| Balance – previous year | 4,127 | 3,686 |
| Less amounts paid | (641) | (371) |
| Increases in provision | 640 | 812 |
| **CLOSING BALANCE** | **4,126** | **4,127** |

## 18. LEASE LIABILITY

| | 2020 $000 | 2019 $000 |
|---|---|---|
| Opening Balance | 12,221 | - |
| Additions | 106 | - |
| Lease Payment | (1,948) | - |
| Interest Expense on Leases | 342 | - |
| **BALANCE AT THE END OF YEAR** | **10,721** | **-** |
| **Maturity analysis – contractual undiscounted cash flows** | | |
| Less than 1 year | 2,028 | - |
| 1 to 5 years | 7,535 | - |
| More than 5 years | 2,157 | - |
| **TOTAL UNDISCOUNTED LEASE LIABILITIES AT THE END OF YEAR** | **11,720** | **-** |
| **LEASE LIABILITIES INCLUDED IN THE STATEMENT OF FINANCIAL POSITION AT END OF YEAR** | **10,721** | **-** |
| Current | 1,733 | - |
| Non-current | 8,988 | - |

## 19. RESERVES

| | 2020<br>$000 | 2019<br>$000 |
|---|---|---|
| Capital Reserve Account | - | - |
| General Reserve for Credit Losses | 1,796 | 1,796 |
| Cash Flow Hedge Reserve | (998) | (1,218) |
| Financial Assets at FVOCI | 5,875 | 7,089 |
| **TOTAL RESERVES** | **6,673** | **7,667** |
| **Capital Reserve Account** | | |
| Balance at the beginning of the year | - | 388 |
| Transfer to retained earnings | - | (388) |
| **BALANCE AT THE END OF YEAR** | **-** | **-** |

Under the Corporations Act 2001, redeemable preference shares (member shares) may only be redeemed out of the Group's profit or through the new issue of shares for the purpose of the redemption. In previous periods the Group had transferred an amount equal to the value of redeemable preference shares redeemed since 1 July 1999 (the date that the Corporations Act 2001 applied to the Group), from retained earnings to the Capital Reserve Account. The Group's accounting policy was changed in 2019 to no longer recognise a specific reserve in equity and transferred the amount to retained earnings as of 30 June 2019. The value of members' shares is disclosed as a liability in Note 14 Deposits.

| | | |
|---|---|---|
| **General Reserve for Credit Losses** | | |
| Balance at the beginning of the year | 1,796 | 8,543 |
| Add: increase/(decrease) transferred from retained earnings | - | (6,747) |
| **BALANCE AT THE END OF YEAR** | **1,796** | **1,796** |

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

## 19. RESERVES (CONTINUED)

| | 2020 $000 | 2019 $000 |
|---|---|---|
| **Cash Flow Hedge Reserve** | | |
| Balance at the beginning of the year | (1,218) | (266) |
| Movement of cash flow hedge | 315 | (1,359) |
| Effect of tax | (95) | 407 |
| **BALANCE AT THE END OF YEAR** | **(998)** | **(1,218)** |
| **Financial Assets at FVOCI Reserve** | | |
| Balance at the beginning of the year | 7,089 | 5,521 |
| Fair value gain on available for sale financial assets | (1,734) | 2,240 |
| Effect of tax | 520 | (672) |
| **BALANCE AT THE END OF YEAR** | **5,875** | **7,089** |

## 20. RETAINED EARNINGS

| | 2020 $000 | 2019 $000 |
|---|---|---|
| Retained profits at the beginning of the financial year | 262,759 | 241,763 |
| Add: operating profit for the year | 15,481 | 17,641 |
| Add: Change on adoption of AASB 9 | - | (4,900) |
| Add: Change on adoption of AASB 15 | - | 1,120 |
| Add: Transfer from/(to) reserve for credit losses in year | - | 6,747 |
| Add: Transfer to capital account on change in accounting policy | - | 388 |
| **RETAINED PROFITS AT THE END OF THE FINANCIAL YEAR** | **278,240** | **262,759** |

## 21. INTEREST RATE CHANGE PROFILE OF FINANCIAL ASSETS AND LIABILITIES

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

| 2020 | Up to 3 months $000 | Up to 12 months $000 | 1-5 years $000 | Non interest bearing $000 | Total $000 |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| Cash | 156,455 | - | - | 637 | **157,092** |
| Receivables | - | - | - | 2,701 | **2,701** |
| Financial assets at FVOCI: | | | | | |
| Shares in Indue Ltd | - | - | - | 11,073 | **11,073** |
| Certificates of deposit | 266,321 | 60,921 | - | - | **327,242** |
| Floating rate notes | 470,039 | - | - | - | **470,039** |
| Receivables due from other financial institutions | - | 29,765 | - | - | **29,765** |
| Loans & advances | 3,130,163 | 98,167 | 228,233 | - | **3,456,563** |
| Derivative Asset | - | - | - | - | **-** |
| **Total Assets** | **4,022,978** | **188,853** | **228,233** | **14,411** | **4,454,475** |
| **LIABILITIES** | | | | | |
| Payables to other financial institutions | 175,101 | - | - | - | **175,101** |
| Deposits | 3,155,904 | 686,067 | 151,148 | - | **3,993,119** |
| Redeemable Preference Shares | - | - | - | 661 | **661** |
| Payables | - | - | - | 6,560 | **6,560** |
| Derivative Liability | 69 | 603 | 754 | - | **1,426** |
| **Total Liabilities** | **3,331,074** | **686,670** | **151,902** | **7,221** | **4,176,867** |

## 21. INTEREST RATE CHANGE PROFILE OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

| 2019 | Up to 3 months $000 | Up to 12 months $000 | 1-5 years $000 | Non interest bearing $000 | Total $000 |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| Cash | 78,842 | - | - | 512 | **79,354** |
| Receivables | - | - | - | 3,376 | **3,376** |
| Financial assets at FVOCI: | | | | | |
| Shares in Indue Ltd | - | - | - | 12,468 | **12,468** |
| Certificates of deposit | 190,528 | 4,889 | - | - | **195,417** |
| Floating rate notes | 379,850 | - | - | - | **379,850** |
| Receivables due from others financial institutions | 64,556 | 29,765 | - | - | **94,321** |
| Loans & advances | 2,934,982 | 116,679 | 207,724 | - | **3,259,385** |
| Derivative Asset | - | - | - | - | **-** |
| **Total Assets** | **3,648,758** | **151,333** | **207,724** | **16,356** | **4,024,171** |
| **LIABILITIES** | | | | | |
| Payables to other financial institutions | 143,526 | - | - | - | **143,526** |
| Deposits | 2,921,333 | 475,007 | 209,447 | - | **3,605,787** |
| Redeemable Preference Shares | - | - | - | 670 | **670** |
| Payables | - | - | - | 7,613 | **7,613** |
| Derivative Liability | 239 | 695 | 806 | - | **1,740** |
| **Total Liabilities** | **3,065,098** | **475,702** | **210,253** | **8,283** | **3,759,336** |

## 22. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

Fair value has been determined on the basis of the present value of expected future cash flows under the terms and conditions of each financial asset and financial liability. The information is only relevant to circumstances at balance date and will vary depending on the contractual rates applied to each asset and liability, relative to market rates and conditions at the time.

The following table shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy.

| | 2020 | | | 2019 | | |
|---|---|---|---|---|---|---|
| | Fair Value $000 | Book Value $000 | Fair Value Level | Fair Value $000 | Book Value $000 | Fair Value Level |
| **FINANCIAL ASSETS** | | | | | | |
| Investment Securities: | | | | | | |
| Shares in Indue Ltd | 11,073 | 11,073 | Level 3 | 12,468 | 12,468 | Level 3 |
| Certificates of deposit | 327,242 | 327,242 | Level 2 | 195,417 | 195,417 | Level 2 |
| Floating rate notes | 470,039 | 470,039 | Level 2 | 379,850 | 379,850 | Level 2 |
| With other financial institutions | 29,765 | 29,765 | Level 2 | 94,470 | 94,321 | Level 2 |
| Derivative asset | - | - | Level 2 | - | - | Level 2 |
| Loans & advances | 3,457,294 | 3,456,563 | Level 2 | 3,261,185 | 3,259,385 | Level 2 |
| **FINANCIAL LIABILITIES** | | | | | | |
| Payables to Other Financial Institutions | 175,505 | 175,101 | Level 2 | 143,857 | 143,526 | Level 2 |
| Deposits | 3,999,049 | 3,993,119 | Level 2 | 3,610,544 | 3,605,787 | Level 2 |
| Derivative liability | 1,426 | 1,426 | Level 2 | 1,740 | 1,740 | Level 2 |

Fair values are categorised into different levels in fair value hierarchy based on the inputs used in the valuation techniques as follows:

**Level 1** – the fair value is calculated using quoted prices in active markets.

**Level 2** – the fair value is estimated using inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices).

**Level 3** – the fair value is estimated using inputs for the asset or liability that are not based on observable market data.

The Group recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

There have been no transfers between levels for the year ended 30 June 2020.

## 22. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

**The following methods and assumptions are used to determine the fair values of financial assets and liabilities, including those where the carrying amount if a reasonable approximation of fair value.**

### CASH ASSETS

The carrying amounts approximate fair value because of their short term to maturity or are receivable on demand.

### RECEIVABLES

The carrying amount approximates fair value because of their short term to maturity.

### INVESTMENT SECURITIES

For financial instruments traded in organised financial markets, fair value is the current quoted market bid price for an asset or offer price for a liability, adjusted for transaction costs necessary to realise the asset or settle the liability. For investments where there is no quoted market price, a reasonable estimate of the fair value is determined by reference to the current market value of another instrument which is substantially the same or is calculated based on the expected cash flows or the underlying net asset base of the investment/security.

### LOANS AND ADVANCES

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

The fair value of impaired loans is calculated by discounting expected cash flows using a rate which includes a premium for the uncertainty of the flows.

### OTHER ASSETS

The carrying amount approximates fair value as they are short term in nature.

### DEPOSITS

The book value of non-interest bearing, call and variable rate deposits, and fixed rate deposits is the amount shown in the Statement of Financial Position as at 30 June 2020. Discounted cash flows (based upon the deposit type and its related maturity) were used to calculate the fair value of other term deposits to Members.

### PAYABLES

The carrying value of payables approximates their fair value as they are short term in nature and reprice frequently.

### DERIVATIVES

The fair value of derivatives is calculated by discounting expected cash flows using applicable market rates.

### INDUE

| Level 3 fair values | $000 |
|---|---|
| Balance at 1 July 2018 | 11,451 |
| - Net change in fair value recognised in OCI | 1,017 |
| Balance at 30 June 2019 | 12,468 |
| Balance at 1 July 2019 | 12,468 |
| - Net change in fair value recognised in OCI | (1,395) |
| Balance at 30 June 2020 | 11,073 |

### FAIR VALUE FOR INDUE

The investment consists of shares in an unlisted entity which are not actively traded. In the current financial year, the fair value of these assets has been estimated based on the net asset value per share of the underlying investment. If there are recent transactions of the shares Management will also consider the pricing of those transactions. There have been no transaction of the shares in the current financial year. The fair value through other comprehensive income investment is categorised at Level 3 in the fair value hierarchy given the lack of visibility of these valuation variables.

## 23. FINANCIAL COMMITMENTS

| | | 2020<br>$000 | 2019<br>$000 |
|---|---|---|---|
| a. | **Outstanding loan commitments** | | |
| | Loans approved but not funded | **68,264** | **60,437** |

The loans will be made available at the discretion of Management and the Board subject to the availability of funds, anticipated to be drawn down within 6 months.

| | | 2020<br>$000 | 2019<br>$000 |
|---|---|---|---|
| b. | **Outstanding overdraft commitments** | | |
| | Member overdraft facilities approved but not funded | **41,118** | **42,709** |

There are no restrictions as to the utilisation of such overdraft facilities.

| | | 2020<br>$000 | 2019<br>$000 |
|---|---|---|---|
| c. | **Outstanding credit card commitments** | | |
| | Member credit card facilities approved but not funded | **65,372** | **63,864** |
| d. | **Loan Redraw Facilities** | | |
| | Loan Redraw facilities available | **325,186** | **280,778** |

e. **Material Contracts**

The Group signed an addendum to a contract with Data Action Pty. Ltd. who provide computer facilities, management services and associated support services, the contract addendum extended the term of the agreement for a period of at least to 31 July 2020. Post 31 July 2020 the contract can be terminated at Qudos discretion with 90 days notice. The fees payable over the next years are as follows:

| | 2020<br>$000 | 2019<br>$000 |
|---|---|---|
| Within 1 year | 265 | 2,793 |
| Later than 1 year but not later than 5 years | - | 237 |
| | **265** | **3,030** |

f. **Contingent Liabilities and Contingent Assets**

The Directors of the Group are of the opinion that there are no matters that require a provision other than those that are adequately provided for.

## 24. STANDBY BORROWING FACILITIES

Unrestricted access to the following credit facilities with a bank and an Authorised Deposit-taking Institution are held:

| 2020 | Gross | Current Borrowing $000 | Net Available $000 |
|---|---|---|---|
| Unsecured Overdraft | 11,100 | - | 11,100 |
| **TOTAL STANDBY BORROWING FACILITIES** | **11,100** | **-** | **11,100** |
| **2019** | **Gross** | **Current Borrowing $000** | **Net Available $000** |
| Unsecured Overdraft | 11,100 | - | 11,100 |
| **TOTAL STANDBY BORROWING FACILITIES** | **11,100** | **-** | **11,100** |

## 25. RELATED PARTIES

### A. REMUNERATION OF KEY MANAGEMENT PERSONNEL (KMP)

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

Key management personnel have been taken to comprise the Directors and the three Members (2019: three Members) of the executive management responsible for the day-to-day financial and operational management of the Group.

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

| | 2020 $ | 2019 $ |
|---|---|---|
| (a) Short-term employee benefits | 1,586,242 | 1,997,291 |
| (b) Post-employment benefits - superannuation contributions | 147,619 | 181,685 |
| (c) Other long-term benefits | 19,972 | 31,655 |
| (d) Termination Benefits* | 997,263 | - |
| **Total** | **2,751,096** | **2,210,631** |

*Includes payment of Long Service Leave entitlement and Annual Leave entitlement of $482,264 in total.

## 25. RELATED PARTIES (CONTINUED)

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

All remuneration to Directors was approved by the Members at the 2016 Annual General Meeting of the Bank.

### B. LOANS TO KEY MANAGEMENT PERSONNEL

| | | 2020 $ | 2019 $ |
|---|---|---|---|
| (i) | The aggregate value of loans to key management personnel as at balance date amounted to | **8,111,346** | **8,961,610** |
| (ii) | The total value of revolving credit facilities to key management personnel, as at balance date amounted to: | 40,000 | 40,000 |
| | Less amounts drawn down and included in (i) | - | - |
| | Net balance available | **40,000** | **40,000** |
| (iii) | During the year the aggregate value of loans disbursed to key management personnel amounted to: | | |
| | Revolving credit facilities | 403,414 | 484,661 |
| | Term Loans | 2,920,682 | 3,217,788 |
| | | **3,324,096** | **3,702,449** |
| (iv) | During the year the aggregate value of repayments received amounted to: | **4,428,905** | **3,706,228** |
| (v) | Interest and other revenue earned on Loans and revolving credit facilities to KMP | **254,545** | **328,503** |

The Group's policy for lending to Directors and Management is that all loans are approved and deposits accepted on the same terms and conditions that applied to Members for each class of loan or deposit.

There are no loans that are impaired in relation to the loan balances with Directors or other KMP.

There are no benefits or concessional terms and conditions applicable to the close family members of the key management persons. There are no loans which are impaired in relation to the loan balances with close family relatives of Directors and other KMP.

## 25. RELATED PARTIES (CONTINUED)

### C. OTHER TRANSACTIONS BETWEEN RELATED PARTIES INCLUDING DEPOSITS FROM KEY MANAGEMENT PERSONNEL ARE:

| | 2020<br>$ | 2019<br>$ |
|---|---|---|
| Total value term and savings deposits from KMP | **5,531,857** | **5,715,704** |
| Total interest paid on deposits to KMP | **75,303** | **98,481** |

The Group's policy for receiving deposits from KMP is that all transactions are approved and deposits accepted on the same terms and conditions that applied to Members for each type of deposit.

### D. TRANSACTIONS WITH OTHER RELATED PARTIES

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

There are no benefits paid or payable to the close family members of the key management personnel.

## 26. MEMBERSHIP

### A. ELIGIBILITY

Membership is available to Employees and former Employees of companies within the Qantas Group, associated companies and industries, Commonwealth Government departments and authorities and nominated or related persons or entities in accordance with the Constitution of the Bank.

All Members are required to hold five redeemable preference shares of $2 each in accordance with member eligibility. From 1 April 2010, the Bank ceased calling up the share capital and for all new Members who joined the Bank since this date, the share capital remains uncalled.

### B. TOTAL MEMBERSHIP

| | 2020 Number | 2019 Number |
|---|---|---|
| **Total Membership** | **98,855** | **96,164** |
| Of which fully paid | 65,902 | 66,815 |
| Of which uncalled | 32,953 | 29,349 |

## 27. SUPERANNUATION LIABILITIES

The Group contributes to the Qantas Superannuation Plan ("the Plan") with other entities in the Qantas Airways Group. For all Employees the Group contributes the minimum required under the Superannuation Guarantee Act (1992) plus, additional contributions are made for those eligible permanent Employees. Employees may also make additional contributions to the Plan, depending on their circumstances. All Employees are entitled to benefits on resignation, retirement, disability or death. The Group has no interest in the Plan (other than as a contributor) and is not liable for the performance of the Plan, or the obligations of the Plan. The Group contributed $1,569,878 to the Plan during the 2020 financial year, ($1,451,299 in 2019). No contributions were outstanding as at 30 June 2020.

## 28. NOTES TO STATEMENT OF CASH FLOWS

| | | 2020 $000 | 2019 $000 |
|---|---|---|---|
| a. | **Reconciliation of Cash and Cash equivalents** | | |
| | For the purpose of the Statement of Cash Flow, cash includes: | | |
| | Cash on hand | 637 | 512 |
| | Deposits at call | 131,570 | 68,819 |
| | Other Authorised Deposit Taking Institutions | 24,885 | 10,023 |
| | **TOTAL CASH AND CASH EQUIVALENTS** | **157,092** | **79,354** |
| b. | **Reconciliation of cash from operations to accounting profit** | | |
| | The net cash increase/(decrease) from operating activities is reconciled to the profit after tax | | |
| | Profit after income tax | 15,481 | 17,641 |
| | **Add/(Deduct):** | | |
| | Bad debts written off | 402 | 638 |
| | Depreciation & amortisation expense | 3,642 | 2,114 |
| | Profit on disposal of plant and equipment | (65) | - |
| | (Decrease)/increase in provision for impairment | 7,143 | 73 |
| | (Decrease)/increase in provisions for employee entitlements | (1) | 441 |
| | (Decrease)/increase in provision for income tax | 2,596 | (2,969) |
| | (Increase)/decrease in net deferred tax assets | (2,290) | 7,295 |
| | (Decrease) in interest payable | (1,053) | 380 |
| | Increase in creditors and other liabilities | (1,046) | (1,193) |
| | Decrease/(increase) in prepayments | (338) | (1,021) |
| | Decrease/(increase) in sundry debtors | 54 | 77 |
| | (Increase)/decrease in interest receivable | 1,706 | 281 |
| | (Increase) in Member loans | (204,723) | (220,749) |
| | Increase in deposits and shares | 418,333 | 262,709 |
| | (Increase)/in receivables from other financial institutions | (157,798) | (79,433) |
| | **NET CASH FROM/(USED IN) OPERATING ACTIVITIES** | **82,043** | **(13,716)** |

## 29. FINANCIAL RISK MANAGEMENT

### A. INTRODUCTION AND OVERVIEW

The Group has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk
- Operational risk

This Note presents information about the Group's exposure to each of the above risks, the objectives, policies and processes for measuring and managing those risks, and the Group's management of capital.

#### Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board has established both a Risk Committee and Audit Committee to oversee the financial reporting, audit and risk management processes.

The Risk Committee is comprised of not less than three non-executive Directors.

The Risk Committee's major activities are to:

- Assist the Board to update and regularly review the Group's risk profile, including the Group's risk appetite;
- Assist the Board to review the Group's policy on risk and review the Group's system of risk management and internal control, having regard to the Group's material business risks. These risks may include but are not limited to:
  - Credit risk;
  - Liquidity risk;
  - Market risk (funding risk and interest rate risk);
  - Operational risk (risks attributable to the daily operations of the Group, such as data, legal, fraud, property and asset); and
  - Other risks which if not properly managed will affect the Group (such as environmental, sustainability, compliance, strategic, external, ethical conduct, reputation or brand, technological, product or service quality and human capital).
- Oversee, monitor and review the Group's system of risk management, policies and procedures;
- Report to the Board on all material matters arising from its review and monitoring functions by the provision to the Board of the Committee's minutes of meetings or by special report, as appropriate;
- Review and make recommendations on any changes to risk limit structures; and
- Oversee and monitor Management's annual risk assessment.

The Audit Committee is comprised of not less than three non-executive Directors, the majority of who must be independent. The Chair of the Board cannot be Chair of the Audit Committee.

The Audit Committee's major activities are to:

- Recommend to the Board the appointment of both the internal and external auditor;
- Monitor reports received from internal audit and external audit, and Management's responses thereto;
- Liaise with the auditors (internal and external) on the scope of their work, and experience in conducting an effective audit;
- Ensure that external auditors remain independent in the areas of work conducted;
- Oversight compliance with statutory responsibilities relating to financial disclosure and Management information reporting to the Board;
- Review and approve the compliance approach, ensuring that it covers all material risks and financial reporting requirements of the Group;
- Assist the Board in the engagement, performance assessment and remuneration of the auditors;
- Evaluate the adequacy and effectiveness of the Group's administrative, operating and accounting policies;
- Monitor and review the propriety of any related party transactions;
- Overseeing APRA statutory reporting requirements, as well as other financial reporting requirements; and
- Establish and maintain policies and procedures for whistle blowing.

## B. CREDIT RISK

Credit risk is the risk of financial loss to the Group if a Member or counter party to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's loans and advances to Members, liquid investments and investment securities.

**Management of credit risk – loans and advances**

The Board of Directors has delegated responsibility for the management of credit risk to the Lending & Credit Control departments in respect of loans and advances. The Group has established functional areas responsible for the oversight of the Group's credit risk, including:

- Formulating credit policies covering credit assessment, collateral requirements, reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements;
- Establishing the authorization structure for the approval and renewal of credit facilities. Authorisation limits are delegated by the Board of Directors and are detailed within policy;
- Total loan facilities to any one member or family group exceeding $5,000,000 requires the approval of the CEO and the Executive Manager – Retail Banking.
- Limit concentrations of exposure to counterparties. Total borrowings for any Member must not exceed 5% of the Group's tier 1 capital;
- Reviewing and assessing credit risk. The Credit Control department assesses all credit exposures where they are in breach of contractual obligations;
- Establishing appropriate provisions to recognise the impairment of loans and facilities;
- Debt recovery procedures; and
- Review of compliance with the above policies.

## 29. FINANCIAL RISK MANAGEMENT (CONTINUED)

### Credit quality – lending portfolios

All loans are subject to continuous management review to assess whether there is any objective evidence that any loan or group of loans is impaired. The Bank sets aside provisions for impairment of loans in accordance with its internal policies and procedures, which comply with AASB 9 Financial Instruments: Recognition and Measurement and APRA's APS 220 Credit Quality. Loans where repayments are deferred due to COVID-19 are not being treated as part due.

The following table sets out information about the overdue status of loans and advances to Members in Stage 1, Stage 2 and Stage 3 as defined in Note 1. The distribution of loans and advances by credit quality at the reporting date was:

| | 2020 Stage 1 $000 | 2020 Stage 2 $000 | 2020 Stage 3 $000 | Total 2020 $000 | Total 2019 $000 |
|---|---|---|---|---|---|
| **Mortgage loans** | | | | | |
| Current & less than 30 days | 2,959,614 | 451,390 | - | 3,411,004 | 3,198,971 |
| 31 days & less than 60 days | - | 3,045 | - | 3,045 | 4,159 |
| 61 days & less than 90 days | - | 5,190 | - | 5,190 | 2,095 |
| 91 days & less than 120 days | - | - | 5,411 | 5,411 | 1,741 |
| Greater than 120 days | - | - | 8,714 | 8,714 | 8,230 |
| **Total Mortgage Loans** | - | - | - | **3,433,364** | **3,215,196** |
| **Personal loans** | | | | | |
| Current & less than 30 days | 35,267 | 2,669 | - | 37,936 | 51,738 |
| 31 days & less than 60 days | - | 327 | - | 327 | 323 |
| 61 days & less than 90 days | - | 172 | - | 172 | 136 |
| 91 days & less than 120 days | - | - | 51 | 51 | 133 |
| Greater than 120 days | - | - | 177 | 177 | 180 |
| **Total Personal Loans** | - | - | - | **38,663** | **52,510** |
| **Total Loans** | **-** | **-** | **-** | **3,472,027** | **3,267,706** |

## 29. FINANCIAL RISK MANAGEMENT (CONTINUED)

### Management of credit risk – liquid investments

The risk of losses from liquid investments is reduced by the nature and quality of the independent rating of the counterparty, and the limits of concentration of investments to any individual counterparty. The Group will only hold investments with Authorised Deposit-taking Institutions (ADIs) trading in Australia and Australian Federal and State Governments. Any exposures to any individual ADI (or group) will not exceed 50% of the Group's capital base. There is no set limit for government counterparties.

In addition to limiting counterparty exposures, the Group will only hold High Quality Liquid Investments (HQLA), assets which can be easily converted into cash in private markets, within the range detailed below:

| Credit Rating Grade | Minimum % of investments | Maximum % of investments | Investments as at 30 June 2020 |
|---|---|---|---|
| Credit Rating Grade 1 or 2 | 50% | 100% | 64.1% |
| Credit Rating Grade 3 | 0% | 50% | 35.9% |

### Management of credit risk – equity investments

In respect of equity investments, the Board must approve any equity holding, and will have regard to the size and risks associated with any proposed investment to ensure it will not have a detrimental effect on the Group's capital position.

The Board has approved the holding of Membership and participation equity in Indue Limited and future equity subscriptions. The equity may be in the form of shares and/or subordinated debt. The level of equity is based on the assets of the Group and is reviewed twice yearly. The Constitution of Indue Limited also provides for deferral of equity subscriptions if, in Indue Limited's assessment, it holds sufficient capital. The Group is required at all times to hold sufficient equity in Indue Limited to support the services sourced from them, which may be raised from time to time. Indue Limited is an ADI supervised by APRA. The Group will obtain APRA's approval before committing to any exposure to an unrelated entity in excess of prescribed limits.

### Impaired loans

Loans for which the Group determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan.

### Past due but not impaired loans

Loans where contractual interest or principal payments are past due, but the Group believes that impairment is not appropriate on the basis of the level of security / collateral available and / or the stage of collection of amounts owed to the Group.

### Loans with renegotiated terms

Loans that have been restructured due to deterioration in the borrower's financial position and where the Group has made concessions that it would not otherwise consider. Once the loan is restructured it remains in this category independent of satisfactory performance after restructuring. Currently, the Group has no renegotiated loans.

As a result of COVID-19 the group has developed a hardship assistance package which includes a 6 month holiday repayment period and the ability to switch to an interest only for a set period.

## 29. FINANCIAL RISK MANAGEMENT (CONTINUED)

### Allowances for impairment

The Group uses an Expected Credit Loss model as defined in AASB 9. Details are included in Note 1i.

### Write-off policy

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

### Collateral

Where the Group holds collateral against loans and advances to Members, it is in the form of mortgage interests over property, other registered securities over assets, and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired.

An estimate of the fair value of collateral and other security enhancements held against past due and impaired financial assets are shown below:

### Loans and advances to Members

| Loans and advances to Members | 2020 $000 | 2019 $000 |
|---|---|---|
| Stage 3 Lifetime | 14,125 | 9,971 |
| Collateral value of loans | 24,169 | 15,951 |

It is the Group's policy to dispose of repossessed properties in an orderly fashion. The proceeds are used to reduce or repay the outstanding claim. The Group does not use or take repossessed properties for business use. During the year ended 30 June 2020, the Group took possession of nil collateral (30 June 2019: nil).

### LVR Summary

| LVR Buckets | 2020 $000 | 2019 $000 |
|---|---|---|
| 0 – 60% | 1,368,642 | 1,249,743 |
| 60.01 – 80% | 1,523,068 | 1,398,032 |
| 80.01 – 90% | 381,303 | 334,979 |
| 90.01 – 100% | 197,417 | 231,116 |
| 100% + | 1,597 | 1,326 |
| **Total** | **3,472,027** | **3,215,196** |

## 29. FINANCIAL RISK MANAGEMENT (CONTINUED)

The Group monitors concentration of credit risk by purpose. An analysis of concentrations of credit risk at the reporting date is shown below:

| | 2020<br>$000 | 2019<br>$000 |
|---|---|---|
| Residential loans | 3,433,364 | 3,215,196 |
| Personal loans | 38,663 | 52,510 |
| **Total gross loans** | **3,472,027** | **3,267,706** |

The Group also monitors the investment options in the market based on the credit rating of the counter party. An analysis of concentrations of investment credit risk at the reporting date is shown below:

| | 2020<br>$000 | 2019<br>$000 |
|---|---|---|
| Short Term Rating (Standard and Poors or equivalent) | | |
| A1 and above | 444,320 | 382,458 |
| A2 | 423,059 | 303,217 |
| A3 | 2,003 | 23,529 |
| Unrated (Indue Limited) | 113,497 | 40,065 |
| **Total** | **982,879** | **749,268** |

## 29. FINANCIAL RISK MANAGEMENT (CONTINUED)

### C. LIQUIDITY RISK

Liquidity risk is the risk that the Group will encounter difficulty in meeting Member withdrawal requests in a timely manner.

#### Management of liquidity risk

The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient funds available to meet its liabilities under both normal and stressed conditions, without incurring unacceptable losses.

The Group maintains a portfolio of short term liquid assets to ensure that sufficient liquidity is maintained for daily operational requirements.

The Group has documented its strategy to manage liquidity risk in a liquidity policy and liquidity management plan which includes the following activities by Management:

- On a daily basis, an assessment is made of the daily cash position and the investment action to be undertaken.
- On a daily basis, a summary of the Group's liquidity position, including movements in major liquid assets and liabilities is reviewed.
- On a monthly basis, the liquidity position is reported to the Board, including an explanation of significant movements and corrective action taken, where applicable.
- Periodically liquidity forecasts and associated "stress-tested" worst-case scenarios are modelled and reported to the Risk Committee.
- Regularly reporting current and emerging liquidity management trends to the Risk Committee and highlighting risk areas and relevant market conditions/expectations.

Management provides an annual budget to the Board, which includes details of the Group's forecast liquidity position. Monthly Board reporting includes tracking against the budgeted forecast position.

APRA Prudential Standards require at least 9% of total adjusted liabilities to be held as liquid assets capable of being converted to cash within 48 hours. The Group's policy is to apply a minimal target of 11.5% (2019:11.5%) of funds as liquid assets to maintain adequate funds for meeting daily cash flow needs. A trigger level of 13% (2019:13%) has been set for a detailed review of liquidity levels by the Group to provide sufficient time for remedial action to be taken. During the past year the Group did not breach these requirements.

COVID-19 has impacted the normal operations of financial markets. The actions of the Reserve Bank of Australia has provided significant liquidity support to the system and financial markets generally. The Group's liquidity has remained above management targets throughout this period and has been strengthened following the actions of the Reserve Bank.

The Group has access to the RBA's Term Funding Facility of $100m. This has also been factored into the below calculations.

The liquidity policy and management plan are reviewed at least annually by the Risk Committee, with the policy then approved by the Board.

The liquidity ratio is calculated based on the formula prescribed by APRA in APS 210 as can be seen below:

| | 2020<br>$000 | 2019<br>$000 |
|---|---|---|
| High quality liquid assets | 1,001,058 | 661,377 |
| Total Liabilities Base | 4,588,813 | 4,109,675 |
| **Liquidity Ratio** | **21.81%** | **17.66%** |
| **MLH Ratio** | **21.81%** | **16.09%** |

## 29. FINANCIAL RISK MANAGEMENT (CONTINUED)

The residual contractual maturities of the financial liabilities are outlined in the table below:

| 30 June 2020<br>On Statement of Financial Position | Note | Carrying amount $000 | Gross nominal (outflows) $000 | Less than 1 month $000 | 1 – 3 months $000 | 3 months to 1 year $000 | 1 – 7 years $000 |
|---|---|---|---|---|---|---|---|
| Financial Inst. | 13 | 175,101 | 175,101 | 38,897 | 72,734 | 63,470 | - |
| Deposits | 14 | 3,993,780 | 4,010,420 | 2,908,375 | 416,563 | 473,242 | 212,240 |
| Creditors and accruals | 15* | 8,359 | 8,359 | 8,359 | - | - | - |
| Derivative Liability | | 1,426 | 1,433 | 99 | 220 | 628 | 486 |
| Lease Liability | 18 | 10,721 | 11,720 | - | 499 | 1,529 | 9,692 |
| **Subtotal** | | **4,189,387** | **4,207,033** | **2,955,730** | **490,016** | **538,869** | **222,418** |
| **Off Statement of Financial Position** | | | | | | | |
| Commitments to extend credit | 23 | 68,264 | 68,264 | 68,264 | - | - | - |
| **Total** | | **4,257,651** | **4,275,297** | **3,023,994** | **490,016** | **538,869** | **222,418** |

| 30 June 2019<br>On Statement of Financial Position | Note | Carrying amount $000 | Gross nominal (outflows) $000 | Less than 1 month $000 | 1 – 3 months $000 | 3 months to 1 year $000 | 1 – 5 years $000 |
|---|---|---|---|---|---|---|---|
| Financial Inst. | 13 | 143,526 | 143,526 | 15,918 | 65,629 | 61,978 | - |
| Deposits | 14 | 3,606,457 | 3,621,530 | 2,732,206 | 309,300 | 437,474 | 142,550 |
| Creditors and accruals | 15* | 6,085 | 6,085 | 6,085 | - | - | - |
| Derivative Liability | | 1,740 | 1,770 | 67 | 168 | 676 | 859 |
| **Subtotal** | | **3,752,819** | **3,767,923** | **2,754,276** | **375,098** | **495,140** | **143,409** |
| **Off Statement of Financial Position** | | | | | | | |
| Commitments to extend credit | 23 | 60,437 | 60,437 | 60,437 | - | - | - |
| **Total** | | **3,813,259** | **3,828,361** | **2,814,715** | **375,098** | **495,140** | **143,409** |

*excluding interest payable and PAYG tax

## 29. FINANCIAL RISK MANAGEMENT (CONTINUED)

### D. MARKET RISK

Market risk is the risk that changes in market prices, such as interest rates, equity prices or foreign exchange rates will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk.

#### Management of market risks

The Group is exposed to interest rate risk arising from changes in market interest rates. However, the Group is not exposed to currency risk and other price risk as the Board prohibits trading in financial instruments.

Overall authority for market risk is vested in the Board. The Risk Committee is responsible for the development of detailed risk management policies (subject to review and approval by the Board) and review of their implementation.

#### Exposure to market risks

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 Group'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 model used by the Group is based upon a 99% confidence level and assumes a 20-day holding period. The VaR model used is based mainly on historical simulation, taking account of market data from the previous two years, and observed relationships between different markets and prices. The model generates a wide range of plausible future scenarios for market price movements. 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 Group's position and volatility of market prices. The VaR of an unchanged position reduces if the market price volatility declines and vice versa.

The Group uses VaR limits for interest rate risk. The interest rate risk policy which details the overall structure of VaR limits is subject to review and approval by Risk Committee and the Board. The VaR limit has been set at a maximum of 3% of Capital. VaR is measured monthly and reported to the Board at each meeting. A detailed VaR report is provided to the Risk Committee on a monthly basis.

## 29. FINANCIAL RISK MANAGEMENT (CONTINUED)

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

| | 2020 (% of Capital) | 2019 (% of Capital) |
|---|---|---|
| At 30 June | 0.41% | 0.67% |

A summary of the Group's interest rate gap position can be seen in note 21.

The management of interest rate risk also involves the monitoring of the sensitivity of the Group's financial assets and liabilities to a parallel shift across the yield curve. An analysis of the Group's sensitivity to a 200 basis points increase in market interest rates is as follows:

| | 2020 (% of Capital) | 2019 (% of Capital) |
|---|---|---|
| At 30 June | 4.80% | 7.93% |

### Derivative assets and liabilities

The Group enters into derivative transactions which are designated and qualify as cash flow hedges, for at call deposits. The Group adopted hedge accounting on 1 July 2013.

The Group uses interest rate swaps to protect against changes in cash flows of certain fixed rate loans. For the year ended 30 June 2020 the Group recognised a profit of $nil (2019: $nil), which represents the ineffective portion of the cash flow hedges.

The effective portion of gains or losses on derivative contracts designated as cash flow hedges are initially recorded in the Cash Flow Hedge Reserve but are reclassified to current period earnings when the hedged cash flow occurs.

During the year ended 30 June 2020 the Group did not sell any swaps designated in cash flow hedge relationships.

| 2020 | Notional value $000 | Fair value asset $000 | Fair value liability $000 |
|---|---|---|---|
| Derivatives designated as cash flow hedges | 66,000 | - | 1,426 |

Below is the schedule indicating as at 30 June 2020, the periods when the hedged cash flows are expected to occur and when they are expected to affect profit or loss.

| 2020 | Within 1 year $000 | 1 - 2 years $000 | 2 - 3 years $000 |
|---|---|---|---|
| Cash outflows | (1,012) | (423) | (125) |
| Cash inflows | 65 | 42 | 20 |
| **Net cash flows** | **(947)** | **(381)** | **(105)** |

## 29. FINANCIAL RISK MANAGEMENT (CONTINUED)

| 2019 | Notional value $000 | Fair value asset $000 | Fair value liability $000 |
|---|---|---|---|
| Derivatives designated as cash flow hedges | 96,000 | - | 1,740 |

Below is the schedule indicating as at 30 June 2019, the periods when the hedged cash flows are expected to occur and when they are expected to affect profit or loss.

| 2019 | Within 1 year $000 | 1 - 2 years $000 | 2 - 3 years $000 |
|---|---|---|---|
| Cash outflows | (1,762) | (1,060) | (548) |
| Cash inflows | 850 | 461 | 289 |
| **Net cash flows** | **(912)** | **(599)** | **(259)** |

## 29. FINANCIAL RISK MANAGEMENT (CONTINUED)

### Offsetting financial assets and financial liabilities

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The gross and net positions of financial assets and liabilities that have been offset in the balance sheet are disclosed in the first three columns of the tables below.

| 30 June 2020 | Effects of offsetting on the balance sheet | | | Related amounts not offset | |
|---|---|---|---|---|---|
| | Gross amounts of financial assets $000 | Gross amounts set off in the balance sheet $000 | Net amount of financial assets presented in the balance sheet $000 | Amounts subject to master netting arrangements and cash collateral $000 | Net amounts $000 |
| **Financial assets** | | | | | |
| Derivative financial instruments | - | - | - | - | - |
| **Financial liabilities** | | | | | |
| Derivative financial instruments | 1,426 | - | 1,426 | - | 1,426 |

| 30 June 2019 | Effects of offsetting on the balance sheet | | | Related amounts not offset | |
|---|---|---|---|---|---|
| | Gross amounts of financial assets $000 | Gross amounts set off in the balance sheet $000 | Net amount of financial assets presented in the balance sheet $000 | Amounts subject to master netting arrangements and cash collateral $000 | Net amounts $000 |
| **Financial assets** | | | | | |
| Derivative financial instruments | - | - | - | - | - |
| **Financial liabilities** | | | | | |
| Derivative financial instruments | 1,740 | - | 1,740 | - | 1,740 |

### Master netting arrangement

Agreements with derivative counterparties are based on the ISDA Master Agreement. Under the terms of these arrangements, only where certain credit events occur (such as default), the net position owing/receivable to a single counterparty in the same currency will be taken as owing and all the relevant arrangements terminated. As the Group does not presently have a legally enforceable right of set-off, these amounts have not been offset in the balance sheet, but have been presented separately in the above table.

## 29. FINANCIAL RISK MANAGEMENT (CONTINUED)

### E. OPERATIONAL RISK

Operational risk is a risk of direct or indirect loss arising from a wide variety of causes associated with the Group's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks (such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour). Operational risks arise from all of the Group's operations and are faced by all business entities.

The Group's objective is to manage operational risk so as to balance the avoidance of financial loss and damage to the Group's reputation, against excessive cost and control procedures that restrict initiative and creativity.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior Management within each business unit. This responsibility is supported by the development of the Group's overall standards for management of operational risk in the following areas:

- Compliance with regulatory and other legal requirements;
- Third party supplier relationships;
- Business continuity and contingency planning;
- People & key person risk including training and professional development;
- Outsourcing risk associated with materially outsourced services;
- Competition risk;
- Fraud risk;
- Requirements for appropriate segregation of duties, including the independent authorisation of transactions;
- Requirements for the reconciliation and monitoring of transactions;
- Documentation of controls and procedures;
- Requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified;
- Requirements for the reporting of operational losses and proposed remedial action;
- Ethical and business standards; and
- Risk mitigation, including insurance where this is effective.

Compliance with the Group's standards is supported by a program of periodic reviews undertaken by Internal Audit and Compliance. The results of these reviews are discussed with the management of the business unit to which they relate and are reported to the Audit & Compliance Committee.

### F. CAPITAL MANAGEMENT

The Group is licensed as an ADI under the *Banking Act 1959* and is subject to prudential supervision by APRA. APRA has issued a series of prudential standards to implement the Basel II capital framework which took effect from 1 January 2008. The Basel III measurement and monitoring of Capital has been effective since 1 January 2013.

The Basel III standards include *APS 110 Capital Adequacy which:*

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

(b) Obliges the Group to have in place an Internal Capital Adequacy Assessment Process (ICAAP).

The Group has documented its strategy to manage capital in a capital policy and capital management plan.

Under Basel III framework, the regulatory capital is divided into Common Equity Tier 1, Additional Tier 1, and Tier 2 Capital. Common Equity Tier 1 capital consists of retained earnings and capital reserve less intangible assets and other regulatory adjustments. Tier 2 Capital consists of collective impairment reserve. Total capital is the aggregate of Tier 1 and Tier 2 capital.

## 29. FINANCIAL RISK MANAGEMENT (CONTINUED)

Capital Adequacy is measured by means of a risk based capital ratios. The capital ratios reflect capital as a percentage of total risk weighted assets.

The Group is required to maintain at least 12.5% capital. The Group's policy is to apply a minimum target of 13.5% capital. A trigger level of 14% has been set by the Board to provide sufficient time for remedial action to be taken.

The Group's regulatory capital position at 30 June was as follows:

| | 2020<br>$000 | 2019<br>$000 |
|---|---|---|
| **Tier 1 Capital** | | |
| General reserves | 266,594 | 249,645 |
| Current year earnings | 15,481 | 17,641 |
| Upfront fee income | | |
| Less: Deferred tax assets | (4,358) | (2,068) |
| Less: Intangible assets | (1,488) | (1,175) |
| Less: Other capitalised expenses | (40) | 300 |
| Less: Equity investment in other ADI's | (3,743) | (3,743) |
| Less: Fair value adjustments | (4,877) | (5,871) |
| Total | 267,569 | 254,729 |
| **Tier 2 Capital** | | |
| Collective impairment reserve | 14,479 | 8,529 |
| Total | 14,479 | 8,529 |
| **Total regulatory capital** | **282,048** | **263,258** |
| **Risk weighted assets** | | |
| Credit risk | 1,715,879 | 1,535,631 |
| Operational risk | 244,665 | 222,842 |
| Total risk weighted assets | 1,960,544 | 1,758,473 |
| **Capital ratios** | **14.39%** | **14.97%** |

## 30. SUBSEQUENT EVENTS

In March 2020 COVID-19 had developed into a global pandemic, impacting health systems, economies and society's general way of living. In response to the pandemic and its impacts Australian governments have implemented a range of initiatives, including government assistance packages , health measures and directives on the movement and interactions of the population.
The pandemic and the response of government have a significant impact on the economic environment in which the Bank operate and this environment continues to be uncertain. In the period subsequent to the financial year end the pandemic and the response of government continues to evolve and change, and this continues to change the broader economic environment in Australia.

Other than disclosed above, there has not arisen in the interval between the end of this financial year and the date of this report any item, transaction or event of a material or unusual nature, likely, in the opinion of the Directors, to significantly affect the operations of the Group, the results of operations, or the state of the affairs of the Group in future financial year.

## 31. PARENT ENTITY DISCLOSURES

As at, and throughout, the financial year ended 30 June 2020 the parent of the Group was the Bank.

| | 2020<br>$000 | 2019<br>$000 |
|---|---|---|
| **Result of parent entity** | | |
| Profit for the year | 15,481 | 17,641 |
| Other comprehensive income | (994) | 616 |
| **Total comprehensive income for the year** | **14,487** | **18,257** |
| **Financial position of parent entity at year end** | | |
| Total assets | 5,712,119 | 4,613,186 |
| Total liabilities | 5,427,206 | 4,342,760 |
| **Total equity of parent entity comprising of:** | | |
| Reserves | 6,673 | 7,667 |
| Retained earnings | 278,240 | 262,759 |
| **Total equity** | **284,913** | **270,426** |

We will continue to put our customers first and provide quality products and valuable services to help you achieve your lifestyle goals at every stage in life.

Qudos Bank

For all life's destinations

Qudos Mutual Limited trading as Qudos Bank

A.B.N. 53 087 650 557 Incorporated in Australia
30 June 2020 – Annual Consolidated Financial Statements
QUDOS0012/13 Registered Office: 191 O'Riordan St, Mascot NSW 2020