Financial Statements 2019/2020

DIRECTORS' REPORT

For the year ended 30 June 2020

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

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

Information on Directors

Stephen BROWN MBA BBus FCA FAICD (Chairman)

Mr Brown is CEO of Launceston City Mission. Prior to this he was Executive Director with a national training organisation and formerly worked in public accounting, consulting and as CEO of a WA-based mutual health insurance organisation. He is also the current Chairman of Health Recruitment Plus Tasmania.

Mr Brown was appointed B&E Ltd Chairman in October 2014 and has been a Director since January 2009. He is also Chairman of the Board Corporate Governance Committee and the Board Remuneration Committee.

Helen GALLOWAY BCom CPA B.I.S GAICD (from 29 October 2019)

Ms Galloway is an experienced Executive and Director with core skills in commercial strategy, finance, IT and analytics. She is the Deputy Chairperson of Tasracing; Director of TT Line and Chairperson of her local council's Audit panel. In these roles she serves on various committees in different capacity including Chairperson Human Resources & Remuneration, Member Asset and Safety, Member Audit and Risk. Ms Galloway is also CEO of Women in Gaming & Hospitality Australasia advocating for gender equity. Ms Galloway was appointed as a Director in November 2019 and is a member of the Board Audit Committee and the Board Risk Committee.

Robert KING, BSc MBA GAICD

Until April 2017 Mr King was the Chief Executive Officer of Intech Bank and a Group Executive of Bank Australia, one of Australia's leading mutuals. Over a thirty year career he has worked in senior leadership roles for a range of banking institutions including ME Bank, Citibank, Rothschild and Newcastle Permanent Building Society.

Mr King was appointed as a Director in November 2017 and is Chairman of the Board Risk Committee and a member of the Board Audit Committee.

Scott NEWTON FAPI, B.Bus (L.Ec) FAPI CPV GAICD

Mr Newton is currently CEO of Knight Frank Tasmania and IPST Pty Ltd. He has worked in the property industry for over 30 years and previously served as the National Director of Opteon Property Group and State President of the Australian Property Institute

Mr Newton was appointed as a Director in October 2014 and is a member of the Board Corporate Governance Committee and Board Remuneration Committee.

Mark NUGENT BCom CPA GAICD

Mr Nugent is Chief Financial Officer of Fairbrother Pty Ltd. He is a Director of Fairbrother Pty Ltd, a Director of Degree C Pty Ltd and a Board Member of Lifeline Tasmania. He has more than 30 years experience in management, accounting and administration in both the private and public sectors.

Mr Nugent was appointed as a Director in February 2012 and is Chairman of the Board Audit Committee and a member of the Board Risk Committee.

Keryn NYLANDER BA FAICD

Ms Nylander, a former political journalist and television news director, is an experienced public relations, media, marketing, brand and communications specialist now heading up her own business, Nylander Consulting. Keryn is currently a Director of Tasmanian energy retailer Aurora Energy and aged care property developer Tempus Village Management. She has also served on a number of boards over the past two decades including Wine Tasmania and the Tasmanian Development Board and recently finished a 9-year term on the Fahan School Board, the past 3 years as Chairman.

Ms Nylander has been a Director since 2004 and served as Chairman 2009-2011. She is a member of the Board Corporate Governance Committee and Board Remuneration Committee.

Lynley (Lyn) COX BEc FCA FAICD (until 29 October 2019)

Mr Cox worked in public accounting from 1970 and was a partner of Deloitte Touché Tohmatsu and antecedent firms from 1976 to 2007 including over 10 years as State Managing Partner. He was a Director and State President of the Australian Institute of Company Directors, Chairman and a Director of the Tasmanian Development Board and a Member of the Governing Council of Tasmanian Health Organisation – South.

Mr Cox retired from the Board in November 2019, he was a Director since June 2007 and past Chairman 2011-2014.

DIRECTORS' REPORT (continued)

For the year ended 30 June 2020

COMPANY SECRETARY

Gerald WHITE BBus(Acc), FCA, MBA, GAICD

Mr White joined the Company on 6 May 2013 as Chief Financial Officer (CFO) and was appointed as Company Secretary effective 16 May 2013 and continues to operate in this role.

	BOARD OF DIRECTORS MEETINGS		MEETINGS OF COMMITTEES							
			Risk		Audit		Remuneration		Corporate Governance	
Meetings held:										
Attended by	Eligible to attend*	No. attended	Eligible to attend	No. attended	Eligible to attend	No. attended	Eligible to attend	No. attended	Eligible to attend	No. attended
S Brown	10	10	-	-	-	-	3	3	2	2
H Galloway	7	7	4	4	5	5	-	-	-	-
R King	10	10	5	5	6	6	-	-	-	-
S Newton	10	10	-	-	-	-	3	3	2	2
M Nugent	10	10	5	5	6	6	-	-	-	-
K Nylander	10	10	-	-	-	-	3	3	2	2
L Cox	3	3	1	1	1	1	-	-	-	-

Principal Activities

The principal activities of the Group during the course of the financial year remained unchanged and were the provision of financial services to clients through a range of saving, investment, loan and insurance products.

Operating Results

Consolidated profit for the financial year, after providing for income tax, was $2,781,208 (2019: $2,302,355).

Significant Changes in Affairs

In the opinion of the Directors there were no significant changes in the state of affairs of the Group that occurred during the financial year under review.

Review of Operations

The year under review recorded strong results in all areas of business operations with another year of strong improvement in loans, with loan approvals close to the previous record at $262.28 million (2019: $279.00 million) while the total loan portfolio grew by $78.19 million (2019: $145.47 million) to $927.23 million (2019: $849.04 million).

Profit before income tax for the year was $3.75 million (2019: $3.17 million). The profit result for the year was driven by strong loan book growth and lower than anticipated funding costs.

Total assets increased 15.67% to $1,148.82 million (2019: increased 18.13% to $993.18 million).

There were no significant changes in the operations of the Group, other than the impact of the Coronavirus (COVID-19) pandemic. The rapid rise of COVID-19 has seen an unprecedented global response by Governments, regulators and industry sectors. This has included an increased level of restrictions on corporate Australia's ability to operate, significant volatility and instability in financial markets and the release of a number of government stimulus packages to support individuals and businesses as the Australian and global economies face significant slowdowns and uncertainties.

The Group received a number of COVID-19 related hardship applications from customers regarding their loan facilities during the 2020 financial year, which has been taken into account in the expected credit loss provision as at 30 June 2020.

The Group's operational resilience has not been adversely impacted to date with all distribution channels and transaction systems continuing to be satisfactorily maintained.

As a contingency measure, the Self Securitisation Trust was increased substantially to enhance the short term funding options available to the Group in the event of any dislocation of financial markets. To date it has not been necessary to utilise the Trust in this capacity.

Events Subsequent to Balance Date

Other than the ongoing impact of the COVID-19 pandemic discussed above under "Review of operations", there has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the Directors, to affect substantially the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial years.

DIRECTORS' REPORT (continued)
For the year ended 30 June 2020

Likely Developments

Other than the ongoing impact of the COVID-19 pandemic discussed above under 'Review of operations', there has not arisen between the end of the financial year and the date of this report, any known or likely developments that will impact the operations of the Group in a material way.

Environmental Issues

The Group's operations are not regulated by any significant environmental regulation under a law of the Commonwealth or of a State or Territory.

Public Prudential Disclosures

In accordance with APS 330 Public Disclosure requirements, the Group is to disclose certain information in respect of:
- details on the composition and features of capital and risk weighted assets; and
- both qualitative and quantitative disclosures for senior managers and material risk takers.

These disclosures can be viewed on the Company's website: https://bankofus.com.au/reports-regulatory-information (under public disclosure of prudential information section).

Indemnification and Insurance of Officers and Auditors

The Directors and Officers of the Group have been indemnified against personal losses arising from their respective positions within the Group.

The Group has the benefit of a Directors' and Officers' Insurance policy. In accordance with common commercial practice the insurance policy prohibits disclosure of the nature of the liability insured against and the amount of the premium.

No liability has arisen under these indemnities as at the date of this report.

The Group has not provided any insurance for the auditor.

Auditor's Independence

An Auditor's Independence Declaration as required under section 307C of the Corporations Act 2001 has been received by the Directors, and a copy of the declaration is set out on page 66.

Signed in accordance with a resolution of the Directors

Stephen Brown
Chairman
Dated at Launceston 29 September 2020

DIRECTORS' DECLARATION

For the year ended 30 June 2020

In the opinion of the Directors of B&E Ltd:

a. the financial statements and notes of B&E Ltd are in accordance with the *Corporations Act 2001* , including

   i. giving a true and fair view of the financial position of the Company and Consolidated Entity as at 30 June 2020 and of their performance for the financial year ended on that date; and

   ii. complying with Australia Accounting Standards and the *Corporation Regulations 2001* ; and

b. there are reasonable grounds to believe that B&E Ltd will be able to pay its debts as and when they become due and payable.

c. the financial statements comply with International Financial Reporting Standards.

Signed in accordance with a resolution of the Directors:

Director

Dated at Launceston 29 September 2020

Financial statements

For the year ended 30 June 2020

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Consolidated Statement of Profit or Loss and Other Comprehensive Income
For the year ended 30 June 2020

	Notes	2020 $	2019 $
Interest revenue	3	36,552,082	36,587,698
Interest expense	3	(14,506,786)	(16,886,078)
Net interest income		22,045,296	19,701,620
Non-interest income	4	2,706,972	2,507,899
		2,706,972	2,507,899
Non-interest expenses			
Fees & commission expense		(2,365,653)	(2,222,183)
Impairment expense	10(g)	(1,271,829)	(291,250)
Marketing costs		(717,255)	(878,569)
Employee costs	5	(10,750,671)	(10,217,664)
Communications and information technology expense		(1,607,125)	(1,440,678)
Occupancy costs		(1,964,386)	(1,874,097)
Administrative costs		(2,321,544)	(2,118,355)
Profit before income tax		3,753,805	3,166,723
Income tax expense	6	(972,597)	(864,368)
Profit after income tax		2,781,208	2,302,355
Other comprehensive income			
Items that will not be reclassified subsequently to profit or loss			
Gain / (Loss) on fair value revaluation of equity investments		25,959	(104,193)
Income tax attributable to revaluation		(7,140)	
Gain / (Loss) on revaluation of buildings		(18,050)	-
Income tax attributable to revaluation		5,415	28,653
		6,184	(75,540)
TOTAL COMPREHENSIVE INCOME		2,787,392	2,226,815

The Consolidated Statement of Profit or Loss and Other Comprehensive Income is to be read in conjunction with the accompanying notes.

Consolidated Statement of Financial Position
As at 30 June 2020

	Notes	2020 $	2019 ** $
ASSETS			
Cash	7	63,424,151	52,048,905
Trade receivables	8	262,109	472,576
Investment securities	9	140,858,708	79,794,677
Customer loans and advances	10	927,228,035	849,039,371
Other investments	11	371,123	345,164
Prepayments		492,083	494,140
Property, plant & equipment	12	5,946,710	6,568,215
Investment property	13	3,500,001	2,945,001
Right-of-use assets	21	4,682,962	-
Deferred tax	20(b)	873,424	548,141
Intangible assets	14	1,184,042	922,942
TOTAL ASSETS		1,148,823,348	993,179,132
LIABILITIES			
Deposits from wholesale investors	15	143,698,343	157,566,548
Deposits from customers	16	902,196,021	753,985,474
Trade and other payables	17	5,285,201	6,942,504
Employee benefits	18	1,859,013	1,617,962
Current tax liabilities	20(a)	138,662	140,380
Lease liabilities	21	4,794,166	-
Deferred tax liabilities	20(a)	573,146	415,430
Long term borrowings	19	14,980,570	-
TOTAL LIABILITIES		1,073,525,122	920,668,298
NET ASSETS		75,298,226	72,510,834
EQUITY			
Reserves		75,298,226	72,510,834
TOTAL EQUITY		75,298,226	72,510,834

** The Company has not restated comparatives when initially applying AASB 16 *Leases*. The comparative information has been prepared under AASB 117 *Leases*.

The Consolidated Statement of Financial Position is to be read in conjunction with the accompanying notes.

Consolidated Statement of Changes in Equity

For the Year ended 30 June 2020

	Retained earnings $	Asset revaluation reserve $	General reserve $	Credit asset impairment reserve $	Financial asset reserve $	Total $
Balance at 1 July 2019	-	2,545,350	68,280,817	1,504,129	180,538	72,510,834
Net profit for the period	2,781,208	-	-	-	-	2,781,208
Other comprehensive income	-	(12,635)	-	-	18,819	6,184
Transfers to and from reserves						
General reserve	(2,781,208)	-	2,781,208	-	-	-
Credit asset impairment reserve	-	-	(210,202)	210,202	-	-
Equity as at 30 June 2020	-	2,532,715	70,851,823	1,714,331	199,357	75,298,226

For the Year ended 30 June 2019 **	Retained earnings $	Asset revaluation reserve $	General reserve $	Credit asset impairment reserve $	Financial asset reserve $	Total $
Balance at 1 July 2018	-	2,545,350	65,931,646	1,333,136	-	69,810,132
Prior year adjustment regarding deferred loans fees/costs	-	-	217,809	-	-	217,809
Effect of adoption of new accounting standards (refer note 1e)	-	-	-	-	256,078	256,078
Opening Balance at 1 July 2018 - Restated	-	2,545,350	66,149,455	1,333,136	256,078	70,284,019
Net profit for the period	2,302,355	-	-	-	-	2,302,355
Other comprehensive income		-	-	-	(75,540)	(75,540)
Transfers to and from reserves						
General reserve	(2,302,355)	-	2,302,355	-	-	-
Credit asset impairment reserve	-	-	(170,993)	170,993	-	-
Equity as at 30 June 2019	-	2,545,350	68,280,817	1,504,129	180,538	72,510,834

** The Company has not restated comparatives when initially applying AASB 16 *Leases*. The comparative information has been prepared under AASB 117 *Leases*.

The Consolidated Statement of Changes in Equity is to be read in conjunction with the accompanying notes.

Consolidated Statement of Cash Flows
For the Year Ended 30 June 2020

	Notes	2020 $	2019 ** $
Cash flows from operating activities:			
Interest received		36,671,482	36,647,905
Interest paid		(16,827,049)	(15,626,212)
Payments to suppliers		(7,428,965)	(6,866,568)
Other receipts		2,799,033	2,491,018
Payments to employees		(10,509,620)	(10,029,934)
Income taxes paid		(1,143,607)	(795,535)
	23(a)	3,561,274	5,820,674
(Increase)/decrease in operating assets:			
Net movement in loans and advances		(79,460,493)	(145,761,065)
Net movement in wholesale deposits		(13,868,205)	39,955,286
Net movement in customer deposits		148,315,276	107,463,093
Net movement in investment securities		(61,064,031)	(8,971,400)
Net cash provided by operating activities	23(a)	(2,516,179)	(7,314,086)
Cash flows from investing activities:			
Proceeds from sale of property, plant and equipment		-	28,000
Acquisition of property, plant and equipment		(768,552)	(1,386,336)
Acquisition of investment properties		-	-
Acquisition of intangibles		-	-
Net cash provided by/(used in) investing activities		(768,552)	(1,358,336)
Cash flows from financing activities:			
Proceeds from long term borrowings		14,980,570	-
Repayment of lease liabilities		(320,593)	-
Net cash (used in) financing activities		14,659,977	-
Net increase/(decrease) in cash		11,375,246	(2,851,748)
Cash at beginning of year		52,048,905	54,900,653
Cash at end of year	7	63,424,151	52,048,905

** The Company has not restated comparatives when initially applying AASB 16 *Leases*. The comparative information has been prepared under AASB 117 *Leases.*

The Consolidated Statement of Cash Flows is to be read in conjunction with the accompanying notes.

Notes to the Financial Statements
For the Year Ended 30 June 2020

1 Significant Accounting Policies

(a) Reporting entity

B&E Ltd (the Company) is a company limited by shares and guarantee, incorporated and domiciled in Australia. The Company is a for profit entity for financial reporting purposes under Australian Accounting Standards.

These consolidated financial statements ('financial statements') comprise B&E Limited, the ultimate parent company and its subsidiary (together, the 'Group'). The Group is primarily involved in retail banking.

(b) Statement of compliance

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

The financial statements were authorised for issue by the Directors on 29 September 2020.

(c) Basis of preparation

The financial statements are presented in Australian dollars.

The financial statements are prepared on an accrual basis and are based on historical costs unless otherwise stated.

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

Where necessary, comparative information has been reclassified to achieve consistency in disclosure with current financial year amounts and other disclosures.

(d) RBA repurchase securitisation trust consolidation

The Company initiated the creation of a Trust on the 25 July 2018, which holds rights to a portfolio of secured loans to enable the Company to secure funds from the Reserve Bank of Australia, if required, to meet emergency liquidity requirements. The Company continues to manage these loans and receives all residual benefits from the trust and bears all losses should they arise. Accordingly:

a) the Trust meets the definition of a controlled entity; and
b) as prescribed under the accounting standards, since the Company has not transferred all risk and rewards to the Trust, the assigned loans are retained on the books of the Company and not de-recognised.

The Company has elected to present one set of financial statements to represent both the Company and the consolidated group on the basis that the impact of consolidation is not material to the Company.

The subsidiary member of the Group is known as the Tamar Trust Repo Series No 1.

Notes to the Financial Statements
For the Year Ended 30 June 2020

1 Significant Accounting Policies (continued)

(e) New standard applicable for the current year - AASB 16 *Leases*

The Group has adopted all of the new or amended Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period.

AASB 16 Leases

General impact of initial application

AASB 16 *Leases* replaced AASB 117 *Leases* from 1 July 2019.

AASB 16 introduces new or amended requirement with respect to lease accounting. It introduces significant changes to the lessee accounting by removing the distinction between operating and finance leases and requiring the recognition of a right-of-use account and a lease liability at the lease commencement for all leases, except for short-term leases and leases of low value assets.

In contrast to lessee accounting, the requirements for lessor accounting have remained largely unchanged.

Details of these new requirements are described in Note 1(k), including the recognition exemptions to lease accounting as a lessee for low-value assets and short-term leases.

The impact of the adoption of AASB 16 on the Group's financial statements is described below.

Financial impact on initial application

When adopting AASB 16, the Group has applied the modified retrospective (cumulative catch-up) method from 1 July 2019, and therefore the comparative information has not been restated and continues to be reported under AASB 117 *Leases* and related Interpretations.

The impact of adoption as at 1 July 2019 on assets and liabilities is detailed below:

	Note	Orginal 30 June 2019 balance (under AASB 117)	Change	New 1 July 2019 balance (under AASB 16)
Right-of-use assets	21	-	4,935,710	4,935,710
Lease liabilities	21	-	(4,935,710)	(4,935,710)
Net impact		-	-	**-**

As at 1 July 2019, the Group's right-of-use assets relate to leased properties used by the Group as retail stores.

The Group have presented right-of-use assets and the lease liabilities on the face of the statement of financial position. To support the additional disclosure requirements introduced by AASB 16, the financial statements have a new dedicated leasing note (refer to Note 21).

The deferred tax benefits and liabilities are netted off against each other in the balance sheet - refer Note 20(b).

The application of AASB 16 has also had an impact on the statement of cash flows, as detailed below:

- Short-term lease payments and payments for leases of low-value assets are included as part of operating activities, under payments to suppliers and employees;

Notes to the Financial Statements
For the Year Ended 30 June 2020

1 Significant Accounting Policies (continued)

(e) New standard applicable for the current year - AASB 16 *Leases* (continued)

- Cash paid for the interest portion of lease liability is included as part of operating activities; and
- Cash payments for the principal portion for lease liabilities is included as part of financing activities.

Under AASB 117, all lease payments on operating leases were presented as part of cash flows from operating activities.

The adoption of AASB 16 did not have an impact on net cash flows.

The following transition methods and practical expedients within AASB 16 were applied in adopting the standard:

- The Group measured the lease liability at the present value of remaining lease payments, discounted using the Group's incremental borrowing rate at the date of initial application (1 July 2019). The incremental borrowing applied at 1 July 2019 was 5.1%;
- The Group recognised the right-of-use asset at an amount equal to the lease liability;
- The Group applied a single discount rate to the portfolio of property leases, as they were assessed as having reasonably similar characteristics;
- The Group elected not to apply the requirements of AASB 16 to leases for which the assessed lease term is within 12 months of the date of initial application. These are accounted for the same way as short-term leases; and
- the Group used hindsight in determining the lease term, when the contracts contained extension options.

In selecting which practical expedients to apply, the Group has focused on reducing the complexity of implementation.

Reconciliation to previously reported operating lease commitments note:

	$
Operating lease commitments note from 2019 financial statements	3,657,743
Less: discounting impact using 1 July 2019 incremental borrowing rate	(534,863)
Less: short-term leases not recognised as a right-of-use asset	(6,846)
Less: Low-value asset leases not recognised as a right-of-use asset	(47,135)
Operating lease commitments note from 2019 financial statements (discounted)	**3,068,899**
Add: impact from inclusion of extension options that the Group is ‘reasonably certain’ to exercise	1,866,811
Lease liabilities as at 1 July 2019 (under AASB 16)	**4,935,710**

Lease liabilities as at 1 July 2019 under AASB 16 is higher than the discounted lease commitments note under AASB 117, due to AASB 16 requiring the Group to include lease extension terms where the Group is ‘reasonably certain’ to exercise the option. The AASB 117 disclosure is only based on the non-cancellable period.

There are ‘reasonably certain’ extension options for all the property leases, which have extended the assessed lease terms significantly under AASB 16. The extended term means an increased lease liability. Details of the extension options are detailed at Note 21.

Notes to the Financial Statements
For the Year Ended 30 June 2020

1 Significant Accounting Policies (continued)

(f) Financial assets and liabilities

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the financial instrument and are measured initially at cost adjusted by transactions costs, except for those carried at fair value through profit or loss, which are measured initially at fair value. Subsequent measurement of financial assets and financial liabilities are described below.

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and all substantial risks and rewards are transferred. A financial liability is derecognised when it is extinguished, discharged, cancelled or expires.

Classification of financial assets

Except for those trade receivables that do not contain a significant financing component and are measured at the transaction price, all financial assets are initially measured at fair value adjusted for transaction costs (where applicable).

For the purpose of subsequent measurement, financial assets other than those designated and effective as hedging instruments are classified into the following categories upon initial recognition:

- amortised cost
- fair value through profit or loss (FVTPL)
- fair value through other comprehensive income (FVOCI).

All income and expenses relating to financial assets that are recognised in profit or loss are presented within finance costs, finance income or other financial items, except for impairment of loans and receivables, which is presented within other expenses.

Classifications are determined by both:
- the Group's business model for managing the financial asset; and
- the contractual cash flow characteristics of the financial assets.

Subsequent measurement of financial assets

Financial assets at amortised cost

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding.

After initial recognition, these are measured at amortised cost using the effective interest method. Discounting is omitted where the effect of discounting is immaterial.

Financial assets at fair value through profit or loss (FVTPL)

Financial assets that are within a different business model other than 'hold to collect' or 'hold to collect and sell' are categorised as fair value through profit or loss. Further, irrespective of business model, financial assets whose contractual cash flows are not solely payments of principal and interest are accounted for at FVTPL. All derivative financial instruments fall into this category, except for those designated and effective as hedging instruments, for which the hedge accounting requirements apply.

Notes to the Financial Statements
For the Year Ended 30 June 2020

1 Significant Accounting Policies (continued)

(f) Financial assets and liabilities (continued)

Financial assets through other comprehensive income (FVOCI)

Investments in equity instruments that are not held for trading are eligible for an irrevocable election at inception to be measured at FVOCI. Subsequent movements in fair value are recognised in other comprehensive income and are never reclassified to profit or loss. Dividends from these investments continue to be recorded as other income within the profit or loss unless the dividend clearly represents return of capital. This category includes unlisted equity securities – Australian Settlements Limited - that were previously classified as 'available for sale' under AASB 139.

Customer loans and advances

Loans and advances are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method.

Loan origination fees

Loan establishment fees, discounts and other fees that are deemed to be an integral part of the effective interest rate are initially deferred as part of the loan balance and are brought to account as income over the expected life of the loan or other relevant period. The amounts brought to account are included as part of interest revenue.

Transaction costs

Transaction costs are expenses which are direct and incremental to the establishment of the loan. These costs are initially deferred as part of the loan balance, and are brought to account as a reduction to income over the expected life of the loan. The amounts brought to account are included as part of interest revenue.

Reclassifications

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Group changes its business model for managing financial assets. There were no changes to any of the Group business models during the current year (Prior year: Nil).

(g) Loan impairment

AASB 9's impairment requirements use more forward looking information to recognise expected credit losses - the 'expected credit loss model' (ECL). Instruments within the scope of the new requirements include loans and advances and other debt-type financial assets measured at amortised cost and FVOCI, trade receivables and loan commitments and some financial guarantee contracts (for the issuer) that are not measured at fair value through profit or loss.

The Group considers a broader range of information when assessing credit risk and measuring expected credit losses, including past events, current conditions, reasonable and supportable forecasts that affect the expected collectability of the future cash flows of the instrument.
In applying this forward-looking approach, a distinction is made between:

- financial instruments that have not deteriorated significantly in credit quality since initial recognition or that have low credit risk (performing loans) ('Stage 1'); and

- financial instruments that have deteriorated significantly in credit quality since initial recognition and whose credit risk is not low ('Stage 2').

'Stage 3' would cover financial assets that have objective evidence of impairment (loans in default) at the reporting date.

Loss allowances for lease receivables are always measured at an amount equal to lifetime ECL.

Notes to the Financial Statements
For the Year Ended 30 June 2020

1 Significant Accounting Policies (continued)

(g) Loan impairment (continued)

Measurement of ECL

'12-month expected credit losses' are recognised for the first category while 'lifetime expected credit losses' are recognised for the second category. Measurement of the expected credit losses is determined by a probability weighted estimate of credit losses over the expected life of the financial instrument. They are measured as follows:

- financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive);
- financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows;
- undrawn loan commitments: as the present value of the difference between the contractual cash flows that are due to the Group if the commitment is drawn down and the cash flows that the Group expects to receive; and
- financial guarantee contracts: the expected payments to reimburse the holder less any amounts that the Group expects to recover.

The critical assumptions used in the calculation are as set out in Note 10. Note 26 details the credit risk management approach for loans.

Restructured financial assets

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognised and ECL are measured as follows.

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

Credit-impaired financial assets

At each reporting date, the Group assesses whether financial assets carried at amortised cost are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.
Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the restructuring of a loan or advance by the Group on terms that the Group would not consider otherwise;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

A loan that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment. In addition, a retail loan that is overdue for 90 days or more is considered impaired.

Notes to the Financial Statements
For the Year Ended 30 June 2020

1 Significant Accounting Policies (continued)

(g) Loan impairment (continued)

Presentation of allowance for ECL in the statement of financial position

Loss allowances for ECL are presented in the statement of financial position as follows:

- financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;
- loan commitments and financial guarantee contracts: generally, as a provision; and
- where a financial instrument includes both a drawn and an undrawn component, and the Group cannot identify the ECL on the loan commitment component separately from those on the drawn component, the Group presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision.

Write-off

Loans and debt securities are written off (either partially or in full) when there is no realistic prospect of recovery. This is generally the case when the Group 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-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

(h) Revenue

Interest earned

Term loans - interest is calculated on the basis of the daily balance outstanding and is charged in arrears to a members account on the last day of each month.

Overdraft – interest is calculated initially on the basis of the daily balance outstanding and is charged in arrears to a members account on the last day of each month.

Credit cards – the interest is calculated initially on the basis of the daily balance outstanding and is charged in arrears to a members account on the last day of each month, on cash advances and purchases in excess of the payment due date. Purchases are granted up to 55 days interest free until the due date for payment.

Fees and commission income

Fees and commission income is recognised in accordance with AASB 15 *Revenue from Contracts with Customers* . Under AASB 15, revenue is recognised to depict the transfer of promised goods or services ('performance obligations') to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

Notes to the Financial Statements
For the Year Ended 30 June 2020

1 Significant Accounting Policies (continued)

(h) Revenue (continued)

Revenue from contracts with customers	Nature and timing or satisfaction of performance obligation	Revenue recognition under AASB 15
Fee Income		
Transaction fees	The Group provides financial services to members. Fees for ongoing account maintenance are charged to the customer's account on a monthly basis. Transaction based fees are charged to the customer's account when the transaction takes place.	Revenue from account service and servicing fees is recognised over time as the services are provided. Revenue related to transactions is recognised at the point in time when the transaction takes place.
Loan fees (excluding fees deemed integral to effective interest rate)	Loan fees that are not deemed to be an integral part of the effective interest rate are generally recognised on an accrual basis over the period during which the service is provided.	Revenue from loan fees are recognised over time as the services are provided.
Commission insurance		
Insurance and other commission	Insurance commission income is generated through the issuing of CGU insurance policies to members. A financial contribution is available to help cover the direct costs of insurance marketing campaigns. A development allowance is paid annually and does not require the Group to perform any additional services to receive. A volume bonus is paid if the Group sells an above target number of insurance policies, no additional services are required to be provided to receive the volume bonus. Other commission includes Travelex commission income and Broker Commission.	Insurance commission income is recognised when the insurance policy is issued. Insurance commission income for renewals is recognised on receipt as there is insufficient detail readily available to estimate the most likely amount of income without a high probability of a significant reversal in a subsequent period. Financial contributions for marketing campaigns are recognised in the year the campaign occurs. Development allowances are recognised in the year received and a volume bonus is recognised in the year sales above target are achieved. Other commission income is recognised on receipt. No adjustment has been made for the requirements of AASB 15 as the balance is considered immaterial.

Rental income

Rental income from leases is recognised in accordance with AASB 16 Leases. Refer to Note 1(k).

Government Assistance

Government grants are recognised by the Group when there is reasonable assurance that:

(a) the Group will comply with the conditions attaching to them; and
(b) the grants will be received.

The Group presents government assistance grants received in the profit and loss, within "other income".

Notes to the Financial Statements
For the Year Ended 30 June 2020

1 Significant Accounting Policies (continued)

(i) Property, plant & equipment

Each class of property, plant and equipment is carried at cost or fair value less, where applicable, any accumulated depreciation and impairment losses.

Property

Freehold land and buildings are shown at their fair value (being the amount for which an asset could be exchanged between knowledgeable willing parties in an arm's length transaction), based on valuations by external valuers at frequencies not exceeding three years, less subsequent depreciation for buildings. The fair value is assessed on an annual basis by the Directors.

Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset.

Plant & equipment

Plant and equipment is measured on the cost basis less depreciation and impairment losses.

Depreciation

The depreciable amount of all fixed assets including buildings and capitalised leased assets, but excluding freehold land, is depreciated on a straight-line basis over their useful lives to the Group commencing from the time the asset is held ready for use. Leasehold improvements are amortised over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

The estimated useful lives used for each class of depreciable assets are:

Buildings	40 years
Plant and equipment	3 to 15 years
Leasehold improvements	Term of the lease

Assets less than $1,000 are not capitalised.

The assets' residual value and useful lives are reviewed, and adjusted if appropriate, at each balance date.

(j) Provision for employee benefits

Short-term employee benefits are current liabilities included in employee benefits, measured at the undiscounted amount that the Group expects to pay as a result of the unused entitlement. Annual leave is included in ‘other long-term benefit’ and discounted when calculating the leave liability as the Group does not expect all annual leave for all employees to be used wholly within 12 months of the end of reporting period. Annual leave liability is still presented as a current liability for presentation purposes under *AASB 101 Presentation of Financial Statements.*

Provision is made for the Group’s liability for employee benefits arising from services rendered by employees to the reporting date. Employee benefits expected to be settled within one year, have been measured at their nominal amount.

Other employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those benefits discounted using high quality corporate bond rates.

Provision for long service leave is on a pro-rata basis from commencement of employment with the Group based on the present value of its estimated future cash flows.

Annual leave is accrued in respect of all employees on pro-rata entitlement for part years of service and leave entitlement due but not taken at the reporting date.

Contributions are made by the Group to an employee’s superannuation fund and are charged to profit or loss as incurred.

Notes to the Financial Statements
For the Year Ended 30 June 2020

1 Significant Accounting Policies (continued)

(k) Leases

Policy applicable after 1 July 2019

Group as a lessee

At inception of a contract, the Group assesses whether a lease exists – i.e. whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Group has elected to separate non-lease components from lease components and has accounted for payments separately, rather than as a single component.

At the lease commencement, the Group recognises a right-of-use asset and associated lease liability for the lease term. The lease term includes extension periods where the Group believes it is reasonably certain that the option will be exercised.

The right-of-use asset using the cost model where cost on initial recognition comprises: the lease liability, initial direct costs, prepaid lease payments, estimated cost of removal and restoration, less any lease incentives. The right-of-use is depreciated over the lease term on a straight-line basis and assessed for impairment in accordance with the impairment of asset accounting policy.

The lease liability is initially recognised at the present value of the remaining lease payments at the commencement of the lease. The discount rate is the rate implicit in the lease, however where this cannot be readily determined then the Group's incremental borrowing rate is used. Typically the Group uses its incremental borrowing rate as the discount rate.

Subsequent to initial recognition, the lease liability is measured at amortised cost using the effective interest rate method. The lease liability is re-measured whether there is a lease modification, or change in estimate of the lease term or index upon which the lease payments are based (e.g. CPI).

Where the lease liability is re-measured, the right-of-use asset is adjusted to reflect the re-measurement.

The Group has elected to apply the exceptions to lease accounting for both short-term leases (i.e. leases with a term of less than or equal to 12 months) and leases of low-value assets (defined by the Group as $10,000). Group recognises the payments associated with these leases as an expense on a straight-line basis over the lease term.

Intangible assets such as software licences continue to be accounted for under AASB 138 *Intangible Assets* , regardless of whether the arrangement would otherwise meet the AASB 16 *Leases* definition.

Group as a lessor

The lease is classified as either an operating or finance lease at inception date, based on whether substantially all of the risks and rewards incidental to ownership of the asset have been transferred to the lessee. If the risks and rewards have been transferred then the lease is classified as a finance lease, otherwise it is an operating lease.

When the Group has a sub-lease over an asset and is the intermediate lessor then the head lease and sub-lease are accounted for separately. The classification of the sub-lease is based on the right-of-use asset which arises from the head lease rather than the useful life of the underlying asset.

If the lease contains lease and non-lease components then the non-lease components are accounted for in accordance with AASB 15 *Revenue from Contracts with Customers* . The lease income is recognised on a straight-line basis over the lease term.

Notes to the Financial Statements
For the Year Ended 30 June 2020

1 Significant Accounting Policies (continued)

(k) Leases (continued)

Policy applicable before 1 July 2019

Lease payments for operating leases, where substantially all of the risks and benefits remain with the lessor, are charged as expenses in the periods in which they are incurred.

The Group as Lessor:

Rental income from operating leases is recognised on a straight line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight line basis over the term of the lease.

The Group as Lessee:

Operating lease payments are recognised as an expense on a straight line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

(l) Intangible assets

Items of computer software which are not integral to the computer hardware owned by the Group are classified as intangible assets. Computer software held as intangible assets are held at cost and amortised over the expected useful life of the software which is between 3 - 5 years.

(m) Impairment of non-financial assets

At each reporting date, the Group reviews the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to the profit or loss.

(n) Income tax

The charge for current income tax expense is based on the profit for the year adjusted for any non-assessable or disallowed items. It is calculated using the tax rates that have been enacted or are substantially enacted by the balance date.

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

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or liability is settled. Deferred tax is credited in the profit or loss except where it relates to items that may be credited directly to equity, in which case the deferred tax is adjusted directly against equity.

Deferred income tax assets are recognised to the extent that it is probable that future tax profits will be available against which deductible temporary differences can be utilised. The amount of benefits brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income taxation legislation and the anticipation that the economic entity will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

Notes to the Financial Statements
For the Year Ended 30 June 2020

1 Significant Accounting Policies (continued)

(o) Goods and services tax (GST)

As a financial institution the Group is input taxed on all income, except for income from commissions, rents and some fees. An input taxed supply is not subject to GST collection, and similarly the GST paid on related or apportioned purchases cannot be recovered. As some income is charged GST, the GST on purchases are generally recovered on a proportionate basis, using the safe harbour apportionment rate of 18% adopted per Practical Compliance Guide 2017/15 from 1 July 2017. In addition, certain prescribed purchases are subject to reduced input tax credits (RITC), of which 75% of the GST paid is recoverable.

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Taxation Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the balance sheet are shown inclusive of GST.

Cash flows are presented in the statement of cash flows on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

(p) Cash and cash equivalents

For the purposes of the statement of cash flows, cash includes cash on hand and deposits held at call with banks net of bank overdrafts. Where bank overdrafts are held, they are shown within short term borrowings in current liabilities on the statement of financial position.

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Cash and cash equivalents are held at amortised cost, using the effective interest rate method.

(q) Comparative figures

When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year.

(r) Investment securities

Term deposits, bank bills, semi-government investments and negotiable certificates of deposit are held at amortised cost, using the effective interest rate method. All deposits are in Australian currency.

The accrual for interest receivable is calculated on a proportional basis of the expired period of the term of the investment. Interest receivable is included in other receivables in the statement of financial position.

Notes to the Financial Statements
For the Year Ended 30 June 2020

1 Significant Accounting Policies (continued)

(s) Accounting estimates and judgements

The preparation of financial statements in accordance with Accounting Standards requires the exercise of judgement in the selection and application of accounting policies, as well as certain estimates and assumptions that affect amounts reported in the financial statements.

Management have made critical accounting estimates when applying the Group's accounting policies with respect to the measurement of expected credit loss (ECL) allowance – refer Note 10. Key areas of judgement to be considered under the new AASB 9 include:

- Recognition of credit losses based on "Stage 1" 12 month expected losses and "Stage 2" and "Stage 3" lifetime expected credit losses
- Determining criteria for significant increase in credit risk: An asset moves to stage 2 when its credit risk has increased significantly since initial recognition. In assessing whether the credit risk of an asset has significantly increased the Group takes into account qualitative and quantitative reasonable and supportable forward looking information
- Choosing appropriate models and assumptions tor the measurement of ECL
- Establishing groups of similar financial assets for the purposes of measuring ECL: When ECLs are measured on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics.

Additional areas of the financial statements involving a higher degree of judgement or complexity, or areas where reliance on estimates or assumptions are significant include:

- ability to realise deferred tax asset balances (refer to Note 20)
- land and building and investment property valuation assumptions (refer to Note 12, 13 and 30)
- changes in accounting policies (refer to Note 2)
- estimation of the lease term and determination of the appropriate rate to discount the lease payments (Note 21)

Judgement has been exercised in considering the impacts that the Coronavirus (COVID-19) pandemic has had, or may have, on the Group based on known information. The consideration extends to the nature of the products and service offered, customers, staffing and geographic regions in which the Group operates. The key estimates and judgements associated with COVID-19 are detailed in Note 12 (regarding fair value of land and buildings), Note 13 (regarding fair value of investment property) and Note 10 (regarding expected credit loss on loans to members).

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including reasonable expectations of future events. Management believes the estimates used in preparing the financial statements are reasonable. Actual results in the future may differ from those reported.

(t) Investment property

Investment properties are held to earn rentals and/or capital appreciation. Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are measured at fair value. Gains and losses arising from changes in the fair value of investment properties are included in profit or loss in the period in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognised.

Notes to the Financial Statements
For the Year Ended 30 June 2020

1 Significant Accounting Policies (continued)

(u) Deposits from customers and wholesale investors

Deposits are measured at amortised cost, generally being the nominal balance outstanding to the credit of the depositor at balance date.

Interest on deposits is calculated on the daily balance and posted to the account periodically, or on maturity of the term deposit. Interest on deposits is brought to account on an accrual basis in accordance with the interest rate terms and conditions of each savings and term deposit account as varied from time to time. The amount of the accrual is shown as part of amounts payable.

(v) Fair value measurement

When an asset or liability, financial or non-financial, is measured at fair value for recognition or disclosure purposes, the fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date; and assumes that the transaction will take place either; in the principal market, or in the absence of a principal, in the most advantageous market.

Fair value is measured using the assumption that market participants would use when pricing the asset or liability, assuming they act in their economic best interest. For non-financial assets, the fair value measurement is based on its highest and best use. Valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, are used, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Assets and liabilities measured at fair value are classified into three levels using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. Classifications are reviewed each reporting date and transfers between levels are determined based on a reassessment of the lowest level input that is significant to the fair value measurement.

For recurring and non-recurring fair value measurements, external valuers may be used when internal expertise is either not available or when the valuation is deemed to be significant. External valuers are selected based on market knowledge and reputation. Where there is a significant change in the fair value of an assets or liability from one period to another, an analysis is undertaken, which includes a verification of the major inputs applied in the latest valuation and a comparison, where applicable, with external sources of data.

(w) COVID-19 and going concern

On 11 March 2020 the World Health Organisation announced that COVID-19, also known as the Coronavirus, was now a pandemic. As the virus affects the general economic activity there may be an impact on the borrower's ability to meet repayment obligations.

The spread of COVID-19 has severely impacted many local economies around the globe, including Australia. To varying degrees in each Australian State, businesses are being forced to cease or limit operations for long or indefinite periods of time. Most employees of these disrupted businesses are receiving various types of income support from the Government. The Group's income and operational resilience has remained stable due to the nature of its income streams and the flexible work arrangements that have been implemented.

Measures taken to contain the spread of the virus, including travel bans, quarantines, social distancing, and closures of non-essential services have triggered significant disruptions to businesses, resulting in an economic slowdown. Global stock markets have also experienced great volatility and a significant weakening. Governments and central banks have responded with monetary and fiscal interventions to stabilise economic conditions. The Group has responded to the pandemic by increasing its liquidity buffers and increasing the level of self securitisation held with the RBA to cushion any further market disruptions.

The duration and impact of the COVID-19 pandemic, as well as the effectiveness of government and reserve bank responses remain unclear at this time. It is not possible to reliably estimate the duration and severity of these consequences, as well as their impact on the financial position and results of the Company for future periods

Notes to the Financial Statements
For the Year Ended 30 June 2020

1 Significant Accounting Policies (continued)

(w) COVID-19 and going concern (continued)

Some of the Group's customers have requested hardship on their loans as a result of the continued spread of COVID-19 and its impact on their ability to service their loans. Of the $24.97 million receivable from these customers, the Company has been working through a process of reviewing options around loan payment deferrals, conversion to interest only or realisation of assets. The allowance for expected credit losses as at 30 June 2020 in detail at Note 10.

Going concern
There has been a significant amount of scenario testing and forecasting undertaken to provide comfort that there is no material uncertainty in terms of the Group as a 'going concern'. The scenario testing undertaken indicates that key metrics such as Capital Adequacy and Liquidity are able to be maintained at levels above both statutory requirements and internal benchmarks for the forecasting period.

(x) Registered office
87 Brisbane St, Launceston, Tasmania 7250

2 New or emerging standards not yet mandatory

There are no new accounting standards or interpretations expected to have any significant impact on the Group's financial report that are issued and not yet applicable.

3 Interest revenue and expense

	2020 $	2019 $
Interest revenue		
Financial assets at amortised cost		
Customer loans and advances	35,007,559	33,530,509
Placements with other financial institutions	1,212,112	2,157,084
Cash (bank accounts and at call deposits)	332,411	900,105
	36,552,082	36,587,698
Interest expense		
Deposits	14,261,321	16,886,078
Lease liabilities	241,361	-
Long term borrowings	4,104	-
	14,506,786	16,886,078
Net interest income	22,045,296	19,701,620

4 Non-interest income

	2020 $	2019 $
Revenue from contracts with customers		
Transaction fees	1,076,147	1,029,493
Loan fees (exc fees deemed to be integral to effective interest rate)	435,040	439,667
Insurance and other commission	454,262	528,709
	1,965,449	1,997,869
Other income		
Rental income	165,356	229,699
Gain / (loss) on disposal of property, plant and equipment	(994)	15,634
Gain / (loss) on revaluation of investment properties	365,000	-
Bad debts recovered	8,619	10,407
Other revenue	153,542	254,290
Government grant income	50,000	-
	741,523	510,030
Total non-interest income	2,706,972	2,507,899

Refer Note 1(h) for additional information on performance obligations and revenue recognition.

Notes to the Financial Statements
For the Year Ended 30 June 2020

	2020 $	2019 $
5 Specific expenses		
Depreciation and amortisation		
Plant and equipment	313,028	318,382
Owner-occupied buildings	44,836	44,816
Leasehold improvements	84,676	47,587
Capitalised software	477,370	363,128
Right-of-use assets	412,025	-
	1,331,935	773,913
Personnel costs		
Long service leave	78,000	67,940
Annual leave	726,565	691,321
Superannuation contributions	876,915	756,183
Salaries and wages	8,265,782	7,949,555
Payroll tax	522,635	494,750
Other	280,774	257,915
	10,750,671	10,217,664
Non-lending losses		
Fraud from payment channels	185,740	11,965
APRA/ASIC		
Supervision and filing fees	107,143	74,187

6 Income tax expense

	2020 $	2019 $
The components of tax expense comprise:		
Current tax expense	1,196,154	927,385
Deferred tax expense	(169,292)	(63,017)
Prior year income tax adjustment	(54,265)	-
	972,597	864,368
Reconciliation of income tax expense		
Prima facie tax payable on profit before income tax at 27.5%	1,032,296	870,849
Tax effect of:		
- prior year income tax adjustment	(54,265)	-
- non-assessable income	(13,750)	(9,453)
- non-deductible expenses	1,905	7,035
- other temporary differences	6,411	(4,063)
	972,597	864,368

Notes to the Financial Statements
For the Year Ended 30 June 2020

	2020 $	2019 $

7 Cash

	2020 $	2019 $
Cash on hand	1,691,261	1,513,641
Cash at bank	61,732,890	50,535,264
	63,424,151	52,048,905

8 Receivables

	2020 $	2019 $
Trade and other receivables	132,566	223,633
Accrued interest receivable	129,543	248,943
	262,109	472,576

9 Investment Securities

	2020 $	2019 $
Investment securities measured at amortised cost		
Deposits with other financial institutions	2,652,245	265,340
State government bonds	31,500,000	-
Bank bills and negotiable certificates of deposit	106,706,463	79,529,337
	140,858,708	79,794,677

Credit quality

The Group uses the ratings of reputable ratings agencies to assess the credit quality of all investment exposures, where applicable, using the credit quality assessment scale in APRA Prudential Guidance Note AGN 112. The credit quality assessment scale within this guidance note has been complied with.

The exposure values associated with each credit rating level, based on Standard & Poor's ratings are as follows:

	2020 $	2019 $
Authorised Deposit-taking Institutions rated A-1	59,489,189	22,294,619
Authorised Deposit-taking Institutions rated A-2	33,222,786	54,249,405
Authorised Deposit-taking Institutions rated A-3 & below	47,952,749	2,985,313
Authorised Deposit-taking Institutions unrated	193,984	265,340
	140,858,708	79,794,677

10 Customer loans and advances

	2020 $	2019 $
Overdrafts and revolving credit facilities	4,870,812	6,576,934
Personal loans	22,375,694	23,806,072
Commercial loans	32,259,452	28,786,018
Residential loans	868,015,243	789,272,723
Gross loans and advances	927,521,201	848,441,747
Provision for impairment	(1,019,796)	(69,659)
Net loans and advances before deferred fees and costs	926,501,405	848,372,088
Deferred break fees	(100,073)	(97,954)
Deferred broker costs	1,019,231	954,191
Deferred loan application fees	(192,528)	(188,954)
Net loans and advances	927,228,035	849,039,371

Notes to the Financial Statements
For the Year Ended 30 June 2020

10 Customer loans and advances (continued)

	2020 $	2019 $
(a) Concentration of risk		
Exposure to groupings of individual loans which concentrate risk within particular geographical segments are as follows:		
- Tasmania	901,947,994	819,841,197
- Other Australian states	25,573,207	28,600,550
	927,521,201	848,441,747

The Group does not have any significant exposure to any particular industry sectors or other groupings of customers, other than the loans that are predominantly for residential housing purposes.

The loans above do not include any loans to individual clients representing 10% or more of total loan assets.

	2020 $	2019 $
(b) Securitised loans		
The value of securitised loans which are not qualifying for derecognition as the conditions do not meet the criteria in AASB 9	250,514,098	166,779,141
(c) Security held against loans and advances		
Secured by mortgage over residential property	868,741,873	789,940,006
Secured by mortgage over commercial property	32,259,452	28,786,018
Total loans and advances secured by real estate	901,001,325	818,726,024
Partly secured by goods mortgage	10,842,703	7,520,285
Wholly unsecured	15,677,173	22,195,438
	927,521,201	848,441,747

(d) Credit quality of loans

A majority of the portfolio of the loan book is secured by residential property in Tasmania. Therefore the Group is exposed to risks should the property market be subject to a decline. The risk of losses from loans is primarily reduced by the nature and quality of the security obtained.

It is not practical to value all collateral as at balance date due to the variety of assets and their nature and condition. A breakdown of the quality of the residential mortgage security on a portfolio basis is as follows:

	2020 $	2019 $
LVR less than 80%	718,135,525	636,851,244
LVR more than 80% but mortgage insured	123,342,618	133,277,964
LVR more than 80% and not mortgage insured	27,263,730	19,810,798
	868,741,873	789,940,006
(e) Provision for impairment		
Expected credit loss allowance	1,019,796	69,659
	1,019,796	69,659
(f) Movement in provision for impairment		
Opening balance	69,659	35,666
Impaired loans previously provided for written off during the year	(321,692)	(12,580)
Impaired loans (reduced)/provided for during the year	1,271,829	46,573
Closing balance	1,019,796	69,659
(g) Impairment expense		
Impaired loans (reduced)/provided for during the year	1,271,829	46,573
Bad debts recognised directly as an expense	-	244,677
	1,271,829	291,250
(h) Assets acquired through enforcement of security		
Real estate	-	-
Motor vehicles	-	-
	-	-

Notes to the Financial Statements
For the Year Ended 30 June 2020

10 Customer loans and advances (continued)

(i) Amounts arising from ECL

The loss allowance as of the year end by class of exposure/asset are summarised in the table below. Carrying values are shown exclusive of any deferred fees and/or costs.

	Gross carrying value 2020 $	ECL allowance 2020 $	Carrying value 2020 $	Gross carrying value 2019 $	ECL allowance 2019 $	Carrying value 2019 $
Residential owner occupied loans	697,533,550	(204,514)	697,329,036	640,550,350	(1,958)	640,548,392
Residential investment loans	170,481,693	(23)	170,481,670	148,722,373	(23)	148,722,350
Commercial loans	32,259,452	(13,421)	32,246,031	28,786,018	-	28,786,018
Personal loans	22,375,694	(686,483)	21,689,211	23,806,072	(52,246)	23,753,826
Other	4,870,812	(115,355)	4,755,457	6,576,934	(15,432)	6,561,502
Total	927,521,201	(1,019,796)	926,501,405	848,441,747	(69,659)	848,372,088

An analysis of the Group credit risk exposure per class of financial assets and 'stage' without reflecting the effects of any collateral or other credit enhancements is demonstrated in the following tables. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts.

	Stage 1 12 month ECL 2020 $	Stage 2 Lifetime ECL 2020 $	Stage 3 Lifetime ECL 2020 $	Total 2020 $
Current year (2020)				
Residential owner occupied loans				
- no indicators of change in credit quality	679,482,321	-	-	679,482,321
- 31 to 89 days past due	-	833,313	-	833,313
- in arrears more than twice in last 12 months	-	3,124,307	-	3,124,307
- hardships and loans subject to modifications	-	13,431,658	220,000	13,651,658
- 90 days or greater past due	-	-	441,951	441,951
Residential investment loans				
- no indicators of change in credit quality	166,493,311	-	-	166,493,311
- 31 to 89 days past due	-	270,381	-	270,381
- in arrears more than twice in last 12 months	-	991,863	-	991,863
- hardships and loans subject to modifications	-	2,726,138	-	2,726,138
Commercial loans				
- no indicators of change in credit quality	27,561,748	-	-	27,561,748
- 31 to 89 days past due	-	23	-	23
- in arrears more than twice in last 12 months	-	322,330	-	322,330
- hardships and loans subject to modifications	-	4,345,650	-	4,345,650
- 90 days or greater past due	-	-	29,701	29,701
Personal loans				
- no indicators of change in credit quality	21,074,369	-	-	21,074,369
- 31 to 89 days past due	-	243,286	-	243,286
- in arrears more than twice in last 12 months	-	6,906	-	6,906
- hardships and loans subject to modifications	-	908,844	-	908,844
- 90 days or greater past due		-	142,289	142,289
Other				
- no indicators of change in credit quality	4,829,707	-	-	4,829,707
- 1 to 14 days past due	-	1,976	-	1,976
- hardships and loans subject to modifications	-	2	-	2
- greater than 14 days past due	-	-	39,127	39,127
Total	899,441,456	27,206,677	873,068	927,521,201

Notes to the Financial Statements
For the Year Ended 30 June 2020

10 Customer loans and advances (continued)

(i) Amount arising from ECL (continued)

	Stage 1 12 month ECL 2019 $	Stage 2 Lifetime ECL 2019 $	Stage 3 Lifetime ECL 2019 $	Total 2019 $
Prior year (2019)				
Residential owner occupied loans				
- no indicators of change in credit quality	634,978,304	-	-	634,978,304
- 31 to 89 days past due	-	1,882,425	-	1,882,425
- in arrears more than twice in last 12 months	-	2,089,893	-	2,089,893
- hardships and loans subject to modifications	-	1,368,587	-	1,368,587
- 90 days or greater past due	-	-	231,141	231,141
Residential investment loans				
- no indicators of change in credit quality	147,453,439	-	-	147,453,439
- 31 to 89 days past due	-	-	-	-
- in arrears more than twice in last 12 months	-	473,500	-	473,500
- hardships and loans subject to modifications	-	795,434	-	795,434
Commercial loans				
- no indicators of change in credit quality	28,178,809	-	-	28,178,809
- 31 to 89 days past due	-	437,497	-	437,497
- in arrears more than twice in last 12 months	-	155,556	-	155,556
- hardships and loans subject to modifications	-	14,156	-	14,156
Personal loans				
- no indicators of change in credit quality	23,739,556	-	-	23,739,556
- 31 to 89 days past due	-	51,775	-	51,775
- in arrears more than twice in last 12 months	-	6,278	-	6,278
- hardships and loans subject to modifications	-	8,463	-	8,463
Other				
- no indicators of change in credit quality	6,543,794	-	-	6,543,794
- 1 to 14 days past due	-	2,846	-	2,846
- greater than 14 days past due	-	-	30,294	30,294
Total	840,893,902	7,286,410	261,435	848,441,747

The reconciliation from the opening to the closing balance of the allowance for impairment by class of financial instrument is shown in the tables below.

	Stage 1 12 month ECL 2020 $	Stage 2 Lifetime ECL 2020 $	Stage 3 Lifetime ECL 2020 $	Total 2020 $
Current year (2020)				
Balance at 1 July 2019	-	15,720	53,939	69,659
Changes in the loss allowance				
- Net movement due to change in ECL model parameters	384,587	253,190	-	637,777
- Other increases due to credit risk	31,798	69,997	532,257	634,052
- Write-offs	-	-	(321,692)	(321,692)
Balance at 30 June 2020	416,385	338,907	264,504	1,019,796

Notes to the Financial Statements
For the Year Ended 30 June 2020

10 Customer loans and advances (continued)

(i) Amount arising from ECL (continued)

	Stage 1 12 month ECL 2019 $	Stage 2 Lifetime ECL 2019 $	Stage 3 Lifetime ECL 2019 $	Collective Provision per AASB 139 $	Total 2019 $
Prior year					
Balance at 1 July per AASB 139	-	-	-	35,666	35,666
Adjustment on initial application of AASB 9	-	-	-	-	-
Balance at 1 July per AASB 9	-	-	-	35,666	35,666
Changes in the loss allowance					
- Transfers between stages	-	(9,498)	9,498	-	-
- Net movement due to change in credit risk	-	12,713	28,745	(35,666)	5,792
- Write-offs	-	-	(12,580)	-	(12,580)
- Increase in current year provisions	-	12,505	28,276	-	40,781
Balance at 30 June 2019	-	15,720	53,939	-	69,659

Key assumptions in determining ECL

Measurement of ECL

The key inputs into the measurement of ECL include the following:

- probability of default (PD);
- loss given default (LGD); and
- exposure at default (EAD).

These parameters are generally derived from internal analysis, management judgements and other historical data. They are adjusted to reflect forward-looking information as described below.

PD estimates are calculated based on arrears over 90 days and other loans and facilities where the likelihood of future payments is low. The definition of default is consistent with the definition of default used for internal credit risk management and regulatory reporting purposes. Instruments which are 90 days past due are generally considered to be in default.

LGD is the magnitude of the likely loss if there is a default. The Group estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties, industry averages and regulatory requirements. The LGD percentage applied considers the structure of the loan, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset. For loans secured by retail property, Loan to Value Ratios (LVR) are a key parameter in determining LGD. LGD estimates are recalibrated for different economic scenarios and, for real estate lending, to reflect possible changes in property prices.

EAD represents the expected exposure in the event of a default. The Group derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract including amortization. The EAD of a financial asset is its gross carrying amount. For lending commitments and financial guarantees, the EAD includes the amount drawn, as well as potential future amounts that may be drawn under the contract, which are estimated based on historical observations and future expectations.

Where appropriate, in calculating the ECL, future cash flows are discounted at the original effective interest rate of the exposure.

Notes to the Financial Statements

For the Year Ended 30 June 2020

10 Customer loans and advances (continued)

(i) Amount arising from ECL (continued)

COVID-19 Judgement and Estimates

Judgement has been exercised in considering the impacts that the Coronavirus (COVID-19) pandemic has had, or may have, in calculating the ECL this year. In assessing forecast conditions, consideration must be given to both the effects of COVID-19 and the significant government support measures currently being undertaken. Given the difficulty in being able to reasonably measure the specific effects of COVID-19's impact, the Group has provisioned for this impact via a post-model overlay (included within 'Stage 1' as no specific loan indicators of a significant change in credit risk), as well as a through a detailed review for all COVID-19 hardship loans (included within 'Stage 2'). The review of COVID-19 hardship loans considers various loan characteristics that may indicate a significant change in credit risk. These include the reason for a loan variation, remedy, employment status, employment type, industry and review result. All COVID-19 hardship loans have been reviewed and risk-assessed on a loan-by-loan basis.

The COVID-19 overlay incorporates the following key forward-looking economic indicators, such as the RBA unemployment rate forecasts as a benchmark for an increase in PD.
Other key judgements and estimates within the model include management's assessment of housing prices and the assumption LMI providers will continue to operate under contractual terms and agreements.

Sensitivity analysis has been conducted for the overlay provision, which has been considered under 3 scenarios aligned with the most recent RBA statement of monetary policy. To appropriately recognise the uncertainty of the economic environment, management have applied judgement in considering the likelihood of each scenario occuring and have included a weighted calculation to reduce exposure where an unexpected economic outcome occurs.

Grouping of similar assets

Since the loans are homogenous in terms of borrower type and contractual repayment terms, the portfolio is currently managed through the dissection of the portfolio arrears reports. The Group has grouped exposures by type on the basis of shared risk characteristics that include:

- instrument type;
- collateral type; and
- LVR ratio for retail mortgages.

The Group has elected to use the following segments when assessing credit risk for Stages 1 and 2 of the impairment model:

- Residential owner occupied mortgages
- Residential investment mortgages
- Commercial loans
- Personal loans
- Other – representing credit cards, overdrafts.

Stage 3 of the impairment model will be assessed on an individual basis.

The groupings are subject to regular review to ensure that exposures within a particular group remain appropriately homogenous.

For portfolios in respect of which the Group has limited historical data, external benchmark information is used to supplement the internally available data.

Significant increase in credit risk

The Group is not required to develop an extensive list of factors in defining a ‘significant increase in credit risk’. In assessing significant increases in credit risk where a loan or group of loans must move to Stage 2 the following factors have been considered in the Group’s current model:

Notes to the Financial Statements
For the Year Ended 30 June 2020

10 Customer loans and advances (continued)

(i) Amount arising from ECL (continued)

- Loans more than 30 days past due
- Loans with more than 2 instances of arrears experience in the previous 12 months
- Loans with approved hardship or modified terms

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and expert judgement, relevant external factors and including forward-looking information.

The Group presumes that the credit risk on a financial asset has increased significantly since initial recognition when the exposure is more than 30 days past due unless the Group has reasonable and supportable information that demonstrates otherwise.

Sensitivity analysis and forward looking information

The uncertainty in the current environment due to the COVID-19 pandemic introduced significant estimation uncertainty in relation to the measurement of the Group's allowance for expected credit losses which could result in an understatement or overstatement due to the following factors:

- The extent and duration of measures to stop or reduce the speed and spread of the Covid-19 virus;
- The extent and duration of the economic downturn, along with the time required for economic activity to recover; and
- The effectiveness and extent of continued government stimulus measures, in particular their impact on the magnitude of economic downturn and the extent and duration of the recovery.

The Group has prepared a sensitivity analysis over the allowance for expected credit losses taking into consideration the following individual scenarios across the Group's loan portfolio. The scenarios, including its underlying indicators, have been developed using a combination of publicly available data, internal forecasts and third-party information to form the base case scenario.

Base Case – the scenario was prepared using reasonable and supportable information that is relevant and available without undue cost or effort at balance date. The Group took into consideration COVID-19 hardship loans, loan-to-value ratio on security for loans in hardship, borrower's capacity to repay and expected default of borrowers, unemployment rates, and a continuation of government policy to support to individuals (i.e. JobKeeper and JobSeeker).

Worse than Base case – this scenario considered a deterioration of borrower's capacity to repay and expected default of borrowers, a future increase in unemployment rates, and a price shock to the in the property market compared to the base case.

Better than Base case - this scenario considered an improvement in the borrower's capacity to repay and expected default of borrowers, a future decrease in unemployment rates, and an improvement to the property market compared to the base case.

The results of the sensitivity analysis performed, taking into consideration a probability weighted average of each different scenario eventuating, showed that the effect was not material compared to the Group's base case allowance for expected credit losses. The Group has elected to use the base case to measure its expected credit loss allowance at 30 June 2020.

Given the economic uncertainties and the judgement applied to factors used in determining the expected default of borrowers in future period, expected credit losses reported by the Group should be considered as a best estimate within a range of possibilities. The rapidly evolving consequences of COVID-19 and government, business and consumer responses could result in adjustments to the allowance within the next financial year.

Notes to the Financial Statements
For the Year Ended 30 June 2020

11 Other investments

	Notes	2020 $	2019 $
Equity investment securities designated at FVOCI			
Australian Settlements Limited	(a)	371,123	345,164
		371,123	345,164

(a) Disclosures on shares held at FVOCI

Australian Settlements Limited ('ASL')

The Group owns ordinary non-voting shares, ordinary shares and system participation shares in ASL which provide settlement services to the Group. ASL provides efficient settlement and transaction processing services to its members which are all mutual financial institutions. The Group holds shares in ASL to enable the Group to receive essential banking services.

To receive these services certain requirements must be met including the following:

- Pay the required Mandated Prudential Funds (pre funding) to ASL as approved by APRA and the Reserve Bank ('RBA');
- Hold a shareholder / system participant share; and
- Agree to volunteer excess funds (agreed amount in excess of the prudential reserve) to cover daily RTGS payments.

The Group has designated its investment in ASL equity securities as FVOCI as the Group considered these investments to be strategic in nature and the shares are only available to be traded within a market limited to other mutual ADI's.

Management have used unobservable inputs to assess the fair value of the shares. Management has determined that the net tangible asset per share (from the latest available financial statements) is a reasonable approximation of fair value based on the likely value available on a sale.

Notes to the Financial Statements
For the Year Ended 30 June 2020

12 Property, plant and equipment

	2020 $	2019 $
Land and buildings		
Freehold land		
At fair value	2,100,000	2,400,000
	2,100,000	2,400,000
Buildings		
At fair value	1,800,000	1,850,000
Accumulated depreciation	(3,693)	(100,683)
	1,796,307	1,749,317
Total Land and buildings	3,896,307	4,149,317
Plant and equipment		
Plant and equipment		
At cost	4,650,344	4,730,403
Accumulated depreciation	(3,257,606)	(3,303,395)
	1,392,738	1,427,008
Leasehold improvements		
At cost	1,143,361	1,131,009
Accumulated amortisation	(496,863)	(411,691)
	646,498	719,318
Capital works in progress		
At cost	11,167	272,572
Total property, plant and equipment	5,946,710	6,568,215

(a) Valuations of land and buildings

Properties are independently valued at frequencies not exceeding three years. Opteon Property Group was engaged to conduct an independent valuation of the Group's properties as at 30 June 2020. The valuations were performed by:

- Richard Edwards B.Com (L.Econ), APPI CPV
- Gavin Lipplegoes Grad. Dip (Prop) B.Bus (Acc) Ffin, APPI CPV

The basis of the valuation of land and buildings is fair value, being the amounts for which the assets could be exchanged between willing parties in an arms length transaction, based on current prices in an active market for similar properties in the same location and condition. In estimating the fair value of properties, the highest and best use of the properties is their current use.
The Directors do not believe there has been a material movement in fair value since the valuation date.

There is an element of uncertainty in the property market at present, with the effects of the global COVID-19 pandemic relatively unknown at this early stage. It is too soon to quantify the extent of this impact. Property markets are less volatile than financials markets, and past cycles indicate there is a lag for when property markets react to economic events.

Refer to Note 30 for further information on fair value measurement.

Notes to the Financial Statements
For the Year Ended 30 June 2020

12 Property, plant and equipment (continued)

(b) Movements in carrying amounts

	Land $	Buildings $	Leasehold imp. $	Plant & equipment $	Work in progress $	Total $
Current year (2020)						
Carrying amount at beginning of year	2,400,000	1,749,317	719,318	1,427,005	272,572	6,568,212
Additions	-	-	-	-	768,552	768,552
Transfers between property, plant & equipment	-	(124)	12,352	279,259	(291,487)	-
Transfers from/(to) investment property	(95,000)	(95,000)	-	-	-	(190,000)
Transfers to intangibles	-	-	-	-	(738,470)	(738,470)
Revaluation increment/(decrement)	(205,000)	186,950	-	-	-	(18,050)
Disposals	-	-	(496)	(498)	-	(994)
Depreciation and amortisation expense	-	(44,836)	(84,676)	(313,028)	-	(442,540)
Carrying amount at end of year	2,100,000	1,796,307	646,498	1,392,738	11,167	5,946,710

	Land $	Buildings $	Leasehold imp. $	Plant & equipment $	Work in progress $	Total $
Prior year (2019)						
Carrying amount at beginning of year	2,400,000	1,794,133	324,287	1,325,450	596,636	6,440,506
Additions	-	-	-	-	1,386,336	1,386,336
Transfers between property, plant & equipment	-	-	442,618	432,306	(874,924)	-
Transfers from/(to) investment property	-	-	-	-	-	-
Transfers to intangibles	-	-	-	-	(835,476)	(835,476)
Revaluation increment/(decrement)	-	-	-	-	-	-
Disposals	-	-	-	(12,366)	-	(12,366)
Depreciation and amortisation expense	-	(44,816)	(47,587)	(318,382)	-	(410,785)
Carrying amount at end of year	2,400,000	1,749,317	719,318	1,427,008	272,572	6,568,215

Notes to the Financial Statements
For the Year Ended 30 June 2020

13 Investment property

At fair value

	2020 $	2019 $
Balance at beginning of year	2,945,001	2,945,001
Transfers from property, plant & equipment	190,000	-
Revaluation increment	365,000	-
Balance at end of year	3,500,001	2,945,001

The fair value model is applied to all investment property. Investment properties are revalued by the Directors annually and adjustments recorded where material. Values are based on an active liquid market and formal valuations are received by a registered independent valuer at least triennially. Details of the most recent independent valuations are contained in Note 12.
The fair value was determined based on the market comparable approach that reflects recent transaction prices for similar properties in the same location and condition, subject to similar leases and takes into consideration occupancy rates and returns on investments. In estimating the fair value of the properties, the highest and best use of the properties is their current use. There has been no change to the valuation technique during the year. See Note 21 for further information. Refer to Note 30 for further information on fair value measurement.

There is an element of uncertainty in the property market at present, with the effects of the global COVID-19 pandemic relatively unknown at this early stage. It is too soon to quantify the extent of this impact. Property markets are less volatile than financials markets, and past cycles indicate there is a lag for when property markets react to economic events.

14 Intangible assets

	2020 $	2019 $
Computer software		
At cost	3,705,587	2,967,117
Accumulated amortisation	(2,521,545)	(2,044,175)
	1,184,042	922,942

Movement in carrying amount

	2020 $	2019 $
Balance at beginning of year	922,942	450,594
Transfer from work in progress (in property, plant & equipment)	738,470	835,476
Amortisation expense	(477,370)	(363,128)
Carrying amount at end of the year	1,184,042	922,942

Notes to the Financial Statements
For the Year Ended 30 June 2020

15 Deposits from wholesale investors

	2020 $	2019 $
Term deposits	143,698,343	157,566,548
	143,698,343	157,566,548

16 Deposits from customers

	2020 $	2019 $
Call deposits	364,646,774	325,702,493
Term deposits	537,549,247	428,282,981
	902,196,021	753,985,474

Concentration of deposits

	2020 $	2019 $
Tasmanian residents	868,917,261	723,730,029
Other	33,278,760	30,255,445
	902,196,021	753,985,474

The deposits above do not include any deposits from individual clients representing 10% or more of total liabilities.

17 Trade and other payables

	2020 $	2019 $
Creditors and other liabilities	2,166,233	1,744,634
Accrued interest	3,118,968	5,197,870
	5,285,201	6,942,504

18 Employee benefits

	2020 $	2019 $
Accrued employee entitlements	755,662	638,622
Annual leave	654,006	569,838
Long service leave	449,345	409,502
	1,859,013	1,617,962

Included in employee benefits is a non-current amount of $285,787 (2019: $265,232) relating to long service leave.

19 Long term borrowings

	2020 $	2019 $
RBA Term Funding Facility:		
Balance at the beginning of the year	-	-
Add: Funding obtained	14,980,570	-
Less: Repayments	-	-
Balance at the end of the year	14,980,570	-

Notes to the Financial Statements
For the Year Ended 30 June 2020

19 Long term borrowings (continued)

Recognition and measurement

RBA Term Funding Facility (TFF)

On 19 March 2020, the RBA announced it was establishing a Term Fund Facility (TFF) for ADIs to reinforce the benefits to the economy of a lower RBA cash rate and encourage ADIs to support businesses. The facility provides three-year funding via repurchase transactions with the RBA at a cost of 0.25% and is available to be drawn through to the end of March 2021. On 30 March 2020, APRA announced that the benefit from the Initial Allowance of the TFF could be included in the reporting of Minimum Liquidity Holdings (MLH) from 31 March 2020 subject to having the necessary unencombered collateral to access the facility. On 16 April 2020, APRA extended this treatment to include the Additional Allowance of the TFF.

The Group's Initial Allowance was $26,606,480 on 20 May 2020, and an Additional Allowance of $13,172,857 giving a total Funding Allowance of $39,779,337 at 30 June 2020. An amount of $14,980,570 was drawn on 20 May 2020 (purchase date). The collateral used to access the facility is $17,800,000 Class A notes for the Tamar Trust. The company has $24,798,767 remaining Funding Allowance available at balance date.

The TFF is measured at amortised cost and recognised as the aggregate amount of money owing to the Reserve Bank of Australia (RBA) as part of the reciprocal purchase transaction. The amount of interest accrued at balance date is $4,104 and is shown as part of the accrued interest payable balance at Note 17.

The repurchase price is $15,092,924 and the repurchase date is 22 May 2023.

20 Tax

	2020 $	2019 $
(a) Liabilities		
Current years tax payable	138,662	140,380
Current year tax payable comprises:		
Opening balance	140,380	8,531
Under/(Over) Provision for tax in prior year	(54,265)	(13)
Less payments made in current year	(1,143,607)	(795,536)
Liability for income tax in current year	1,196,154	927,398
	138,662	140,380
Deferred tax liability comprises:		
Property, plant & equipment	497,527	346,950
Investments - Equity	75,619	68,480
	573,146	415,430
(b) Asset		
Deferred tax assets comprise:		
Provision for impairment	280,443	19,156
Accrued expenses not deductible until paid	200,272	201,533
Leases (net impact)	30,581	-
Employee entitlements provisions	303,421	269,319
Securitisation and other	58,707	58,133
	873,424	548,141

Notes to the Financial Statements

For the Year Ended 30 June 2020

21 Leases

The Group has applied AASB 16 *Leases* using the modified retrospective (cumulative catch -up) method from 1 July 2019, and therefore the comparative information has not been restated and continues to be reported under AASB 117 *Leases* and related Interpretations.

(a) Group as a lessee

Nature of the leasing activities

The Group leases 7 sites in Tasmania which are used as retail stores. These are at Devonport, Ulverstone, Burnie, Wynyard, Hobart, Glenorchy and Rosny. The other leases are at Hobart and relate to a the Coporate Centre, 2 x car parks and signage rights, also at Hobart.

Terms and conditions of leases

The leases have initial terms of between 2 and 10 years. Some of the leases include extension options – as detailed in a below section.

The leases contains an annual pricing mechanism based on CPI movements at each anniversary of the lease inception, or a fixed rate designed to estimate a CPI movement. There are no non-index (i.e. CPI) related variable lease payments associated with these property leases.

There are no leases not yet commenced to which the lessee is committed.

Right-of-use assets	**2020 $**
At cost	5,094,987
Accumulated depreciation	(412,025)
Balance at the end of the year	4,682,962

Reconciliation of the carrying amount of each class of right-of-use assets is set out below:

	Land & buildings $	**Total $**
Balance at 1 July 2019	4,935,710	4,935,710
Depreciation charge	(412,025)	(412,025)
Additions to right- of-use assets	40,466	40,466
Changes in right-of-use assets due to changes in lease liability	118,811	118,811
Balance at 30 June 2020	4,682,962	4,682,962

Lease liabilities	**2020 $**
Current	
Not later than 1 year	331,674
Non-current	
Later than 1 year	4,462,492
Total	4,794,166

Notes to the Financial Statements
For the Year Ended 30 June 2020

21 Leases (continued)

(a) Group as a lessee (continued)

The maturity analysis of leases liabilities based on contractual undiscounted cash flows is shown in the table below.

	2020 $
Not later than 1 year	563,250
Later than 1 year and not later than 5 years	2,110,472
Later than 5 years	3,993,704
Total	6,667,426

The Group does not face a significant liquidity risk with regards to its lease liabilities. Lease liabilities are monitored within the Group's finance function.

Extension options

A number of the building leases contain extension options which allow the Group to extend the lease term beyond the non-cancellable period. These option periods range from 5 years to 15 years across these leases.

The Group includes options in the leases to provide flexibility and certainty to the Group operations and reduce costs of moving premises, and the extension options are at the Group's discretion.

At commencement date and each subsequent reporting date, the Group assesses where it is reasonably certain that the extension options will be exercised.

There is no potential future lease payments not included in the lease liabilities, as the Group has assessed that the exercise of each option is reasonably certain as at balance date.

Income statement and Cash Flow Statement

The amounts recognised in the Statement of Profit or Loss and Other Comprehensive Income relating to leases where the Group is a lessee are shown below:

	2020 $
Income Statement Items	
Interest expense on lease liabilities	(241,361)
Rental expense relating to short-term leases	(6,846)
Rental expense relating to low-value assets	(28,857)
Income from sub-leasing right-of-use assets	18,740
Statement of Cash Flows Items	
Cash outflow for lease liability reduction (excluding interest)	320,593

Exemptions applied

The Group has applied the exemptions relating to short-term leases and leases of low-value assets, as described at Note 1(k).

As at 30 June 2020, the Group is not committed to any short-term leases.

Notes to the Financial Statements

For the Year Ended 30 June 2020

21 Leases (continued)

Key assumptions used in calculations

The calculation of the right-of-use assets and lease liabilities are dependent on the following critical accounting judgements:

- **Assessment of lease term** – as discussed above, this considers consideration of extension options on a lease by lease basis.

- **Determination of the appropriate rate to discount the lease payments** – AASB 16 requires lessees to discount lease payments using the rate implicit in the lease or, if that rate is not available, the incremental borrowing rate which is the rate of interest that a lessee would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment. As the Group has no implicit rates within its leases, the Group has used an incremental borrowing rate determined based on consideration of reference rates for commercial lending, lease terms and a lease specific adjustment considering the 'secured borrowing' element of the leases. As at 1 July 2019 on adoption, the Group's assessed incremental borrowing rate was 5.1%. The incremental borrowing rate has been reassessed and determined as relevant without change as at 30 June 2020.

(b) Group as a lessor

OPERATING LEASES

Nature of leasing activities

The Group receives rental income from various tenants who lease a portion of the land and buildings owned by the Group in Tasmania. These leases have been classified as operating leases for financial reporting purposes and the assets are included as investment properties in the Statement of Financial Position (refer Note 13).

Terms and conditions of leases

These operating lease contracts contain extension options at the right of the lessee. All contracts contain market review clauses in the event that the lessee exercises its options to renew. The lessee does not have an option to purchase the property at the expiry of the lease period.

The Group manages the risk associated with the underlying investment property via appropriate insurance coverage and use of real estate agents where appropriate.

Income statement

The amounts recognised in the Statement of Profit or Loss and Other Comprehensive Income relating to operating leases where the Group is a lessor (i.e. investment properties) are shown below:

Item	2020 $	2019 $
Lease/rental income (excluding variable lease payments not dependent on an index or rate)	146,616	143,397
Total lease/rental income relating to investment properties	146,616	143,397
Direct operating expenses (including repairs & maintenance) arising from investment property that generated rental income during the period	42,492	36,759
Total direct operating expenses relating to investment properties	42,492	36,759

Maturity analysis of lease payments receivable showing the undiscounted lease payments to be received after reporting date for operating leases:

Time bucket	2020 $	2019 $
< 1 year	175,182	177,966
1 - 2 years	79,500	144,749
2 - 3 years	67,898	68,723
Total undiscounted lease payments receivable	**322,580**	**391,438**

Notes to the Financial Statements

For the Year Ended 30 June 2020

21 Leases (continued)

(b) Group as a lessor (continued)

FINANCE LEASES

Nature of the leasing activities

The Group is not the lessor in any arrangements assessed as a finance lease.

22 Reserves

(a) Asset revaluation reserve

The asset revaluation reserve records revaluations of land and buildings.

(b) General reserve

The general reserve records funds set aside for future expansion of the Group.

(c) Credit asset impairment reserve

In addition to the expected credit loss provision (refer Note 10), the Board has recognised the need to make an allocation from retained earnings to ensure there is adequate protection for members against the prospect that some members will experience loan repayment difficulties in the future. The reserve is based on estimation of potential risk in the loan portfolio based upon the level of security taken as collateral.

(d) Financial asset reserve

The financial asset reserve relates to the revaluation of equity investments (other financial assets) classified as fair value through other comprehensive income.

Notes to the Financial Statements
For the Year Ended 30 June 2020

23 Cash flow information

(a) Operating cash flows reconciliation

Net profit after income tax is reconciled to net cash flows from operations as follows:

	2020 $	2019 $
Net profit	2,781,208	2,302,355
Non-cash flows in profit		
Depreciation and amortisation of property, plant & equipment	854,565	410,785
Amortisation of intangibles	477,370	363,128
Loss on disposal of property, plant & equipment and investment properties	994	(15,634)
Loss on revaluation of property, plant & equipment	18,050	-
(Gain) on revaluation of investment properties	(365,000)	
Impairment expense	1,271,829	291,250
Changes in assets and liabilities		
Trade and other receivables	210,467	58,960
Prepayments	2,057	(26,906)
Deferred tax	(167,567)	19,601
Employee benefits	241,051	187,730
Trade and other payables	316,870	837,690
Accrued interest - deposits	(2,078,902)	1,259,866
Current tax payable	(1,718)	131,849
	3,561,274	5,820,674
Net increase in loans and advances	(79,460,493)	(145,761,065)
Net movement in wholesale deposits	(13,868,205)	39,955,286
Net movement in customer deposits	148,315,276	107,463,093
Net movement in deposits to other financial institutions	(61,064,031)	(8,971,400)
Net cash flow from operating activities	(2,516,179)	(7,314,086)

(b) Credit standby arrangements

As at the reporting date, the Group does not have any standby credit arrangements in place. There was an overdraft facility that was closed during the period (2019: $1.5 million overdraft facility).

(c) Cash flows presented on a net basis

Cash flows arising from the following activities are presented on a net basis in the Statement of Cash Flows:

(i) customer deposits to and withdrawals from deposit accounts;

(ii) borrowings and repayments on loans, advances and other receivables: and

(iii) movements in investment securities.

24 Segment information

The Group operates in predominantly one business and geographical segment, being the finance industry in Australia, primarily in the State of Tasmania.

Notes to the Financial Statements

For the Year Ended 30 June 2020

25 Transfer of financial assets

The Company has established arrangements for the transfer of loan contractual benefits of interest and repayments to support ongoing liquidity facilities. These arrangements are with the Tamar Trust for securing the ability to obtain liquid funds from the Reserve Bank of Australia ('RBA') in the event of a liquidity crisis. These loans are not de-recognised as the Company retains the benefits of the Trust until such time as a drawing is required. The Trust was created on the 25 July 2018 and was approved by the RBA on the 24 July 2018.

Only residential mortgage-backed securities (RMBS) that meet specified criteria, are eligible to be transferred to the Trust.

Securitised loans retained on the Consolidated Statement of Financial Position (not de-recognised)
The values of securitised loans which are not qualifying for de-recognition as the conditions do not meet the criteria in the accounting standards are set out below. At least 98% of the loans must be variable interest rate loans, hence the book value of the loans transferred equates to the fair value of these loans.

The associated liabilities are equivalent to the book value of the loans reported.

	2020 $	2019 $
Consolidated Statement of Financial Position values		
Cash at bank	8,769,856	6,899,482
Intercompany receivable (securitised loans)	250,514,098	166,779,141
Other receivables	411	62
RMBS Class A & B Notes	(258,500,000)	(173,038,808)
Other liabilities	(784,245)	(639,757)
Net	120	120
Carrying amount of the loans as at the time of the transfer	258,110,340	200,739,048

Repurchase obligations Tamar Trust

The Tamar Trust is a trust established by the Company to facilitate liquidity requirements of APRA's prudential standards. The trust has an independent Trustee. In the case of the Tamar Trust, the Company receives notes eligible to be sold to the Reserve Bank Australia should the liquidity needs not be satisfied by normal operational liquidity. The notes are secured over residential mortgage-backed securities (RMBS).

The Company has financed the loans and receives the net gains or losses from the Trust after trustee expenses. The Company has an obligation to manage the portfolio of the loans in the trust and to maintain the pool of eligible secured loans at the value equivalent to the value of the notes received. The Company retains the credit risk of losses arising from the loan default or security decline and the interest rate risk from movements in market interest rates.

If a portion of the value of the portfolio in the Tamar Trust fails to meet the Trust's criteria, the Company is obliged to repurchase those loans and may substitute equivalent qualifying loans into the trust.

Notes to the Financial Statements
For the Year Ended 30 June 2020

26 Financial risk management

(a) Risk management objectives and policies

The Group's activities expose it to a variety of financial risks including; market and interest rate risk, credit risk, liquidity risk, capital and operational risk. The Group uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate risk and ageing analysis for credit risk. The independent risk control process does not include business risk such as changes in the environment, technology and industry. The Group's policy is to monitor those business risks through the Group's strategic planning process.

The Group manages these risks on a daily basis through the operational responsibilities of Executives and Senior Management. The Board of Directors has overall responsibility for the establishment and oversight of the risk management framework. The Board has established the Risk Committee, which is responsible for developing and monitoring risk management policies. The Committee reports regularly to the Board of Directors on its activities.

Risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherences to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Risk Committee oversees how management monitors compliance with the Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group.

(b) Capital management

Capital is the cornerstone of an Authorised Deposit-taking Institutions ('ADI') financial strength.
The primary role of capital is to:

- Maintain a cushion against loss to enable the Group to trade through difficult times.
- Absorb unanticipated losses from activities.

Ensure safety of deposits thereby maintaining public confidence in the financial soundness and stability of the Group.

The Group is bound by the prudential standards as set by the prudential regulator, APRA. Under the standards governing capital, ADIs are required to hold capital equivalent to 8% of its risk weighted assets as measured under the relevant prudential standards. The Board has established a target capital ratio with a preferred range of 14% - 18%.

The Group has to date sourced capital from profits generated from the business, general reserves, asset revaluation reserves, general reserve for credit losses and subordinated debt. In an organic environment, the Group will endeavour to manage its capital ratio via normal operating conditions. Those will include initiatives such as:

- Improving the Group's profitability;
- Managing the Group's asset portfolio to ensure that the Group is not over exposed in higher risk weighted assets; and
- Prudent management of the Group's interest rates to ensure products are priced adequately to reflect the various levels of risk associated with the product.

Notes to the Financial Statements

For the Year Ended 30 June 2020

26 Financial risk management (continued)

(b) Capital management (continued)

- Ensure that the Group is adequately protected from market risk;
- Ensure that other risks facing the Group are effectively monitored and managed; and
- Managing the rate of growth.

The Group prepares an annual budget together with a three year financial plan. The plan includes planned growth, projected projects and financial projections for the next three years and predicts capital adequacy for each of these periods.

The annual budget contains financial forecasts which provide management and the Board with an indication of the financial estimates for the coming 12 months of the Group's strategies and operations. Included in the financial report is a forecast of the Group's capital adequacy ratio. Management review the budgeted profit levels to ensure the Group receives a return on assets which keeps capital adequacy above internal limits.

On a monthly basis, management review actual accounting results against budgeted results. Management will also review the capital adequacy ratio on a monthly basis. Such results are provided to the Board each month.

For capital adequacy purposes, Authorised Deposit-taking Institutions must hold a minimum amount of Tier 1 capital. In addition they may include an amount of Tier 2 capital as part of their required capital holdings, up to the limits specified in the Prudential Standard (APS 110 Capital Adequacy).

The Prudential Standard sets out the essential characteristics that an instrument must have to qualify as Tier 1 or Tier 2 capital for inclusion in the capital base for assessing Level 1 and Level 2 capital adequacy.

Tier 1 Capital

The Majority of Tier 1 capital comprises:

- Retained profits
- General reserve
- Asset revaluation reserves on property

Deductions from Tier 1 capital are made for intangible assets, certain capitalised expenses, deferred tax assets and equity investments in other Authorised Deposit-taking Institutions (ADI's).

Tier 2 Capital

Tier 2 capital consists of capital instruments that combine the features of debt and equity in that they are structured as debt instruments, but exhibit some of the loss absorption and funding flexibility feature of equity, together with other components of equity. There are a number of criteria that capital instruments must meet for inclusion in Tier 2 capital resource as set down by APRA.

Tier 2 capital mainly comprises:

- Subordinated debt
- Credit asset impairment reserve

For capital adequacy purposes, the capital base is defined as the sum of Tier 1 and Tier 2 capital after all specified deductions and adjustments, subject to various limits that apply.

Notes to the Financial Statements
For the Year Ended 30 June 2020

26 Financial risk management (continued)

(b) Capital management (continued)

During the past year the Group has complied in full with all its externally imposed capital requirements. The relevant amounts at 30 June, were:

Capital adequacy ratio calculation

	2020 $	2019 $
Tier 1 capital		
Common equity tier 1 capital		
Retained earnings	2,781,208	2,302,355
General reserve	68,070,615	65,760,653
Asset revaluation reserve	2,532,715	2,545,350
	73,384,538	70,608,358
Less prescribed deductions	(1,855,443)	(1,055,653)
Net tier 1 capital	71,529,095	69,552,705
Tier 2 capital		
Credit asset impairment reserve	1,714,331	1,504,129
Net tier 2 capital	1,714,331	1,504,129
Total capital	73,243,426	71,056,834

The capital ratio as at the end of the financial year and over the past 5 years is as follows:

2020	2019	2018	2017	2016
14.54%	15.87%	17.51%	19.05%	18.66%

The level of capital ratio can be affected by growth in assets relative to growth in reserves and by changes in the mix of assets.

To manage the capital ratio, the Group reviews the ratio monthly and monitors major movements in the asset levels. The capital ratio is also reported to the Board on a monthly basis for their review.

(c) Market risk

Market risk arises from the possibility that changes in interest rates will affect future cash flows or the fair value of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

The Group is primarily exposed to market risk arising from changes in market interest rate due to mismatches between repricing terms of financial assets and liabilities. The Group predominantly maintains an 'on book' strategy by ensuring the net difference between asset and liability maturities are not excessive. Financial instruments held by the Group do not give rise to any material direct exposure to currency or equity price risk.

The management of market risk is the responsibility of the ALCO, which reports directly to the Board.

Notes to the Financial Statements
For the Year Ended 30 June 2020

26 Financial risk management (continued)

(c) Market risk (continued)

Value at risk model

The Group monitors its interest rate risk exposure by the use of the value at risk model (VaR). VaR is a simulation model used to assess changes in the market value of financial instruments based on historical data from the past six years. It should be noted that because the VaR is driven by actual historical observations, it is not an estimate of the maximum loss that the Group could experience from an extreme market event. As a result of this limitation, the Group utilises a number of other risk measures (e.g. stress testing) and risk sensitivity limits to measure and manage interest rate risk.

VaR is a widely used statistical risk measure. It is defined as the minimum economic loss expected to be incurred on current holdings over a given holding period with a certain confidence interval due to changes in market conditions. It indicates the ability of a business to absorb future loss and is typically represented as a percentage of capital.

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

VaR is an integral part of the Group's interest rate risk management and is monitored on a monthly basis with results assessed against board approved limits. The following table shows the VaR for the Group over different holding periods at a 99% confidence level.

2020

Holding Period	VaR at 99% confidence level	99% as a Proportion of Capital
1 Day	(120,181)	-0.16%
10 Days	(380,045)	-0.51%
20 Days	(537,465)	-0.72%
1 Year	(1,861,833)	-2.51%

2019

Holding Period	VaR at 99% confidence level	99% as a Proportion of Capital
1 Day	(109,762)	-0.16%
10 Days	(347,099)	-0.50%
20 Days	(490,872)	-0.71%
1 Year	(1,700,429)	-2.44%

Using the above parameters, at 30 June 2020 the VaR was 0.16% (30 June 2019: 0.16%) of capital. The Group's risk appetite statement states that as a percentage of capital the Group's preferred VaR is <2%.

Interest rate exposure

The Group’s policy is to manage its finance costs using a mix of fixed and variable rate debt. Management periodically reviews its interest rate exposure and consideration is given to potential renewals of existing positions, alternative financing and the mix of fixed and variable interest rates.

The interest rate risk is managed by:

- Continuously monitoring the 'gap' between yield on loans and investments and the cost of funds;
- Projecting the interest spread forward to future periods; and
- Amending interest rates on loans and/or deposits to ensure that an appropriate spread is maintained.

The Board has approved a policy to use interest rate swaps in order to hedge exposures should the need arise.

Notes to the Financial Statements
For the Year Ended 30 June 2020

26 Financial risk management (continued)

(d) Credit risk

Credit risk is the risk of financial loss to the Group if a borrower, customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivable from customers and investment securities.

The Group has established a risk management framework that is consistent with the Group's strategic objectives and business plan. It has been developed to assist the Group to identify, analyse and manage credit risk within the organisation. The risk management framework provides information that appropriately supports decision-making and oversight at each level of the credit risk assessment. The risk management framework also ensures that there is compliance with the credit risk policy and the Board's stated appetite for risk.

The Board approved risk appetite statement sets out the level of risk tolerance the business is willing to take across its operations including credit risk. The Group also operates within a Board approved risk management strategy that describes the key elements of the risk management framework that give effect to the Group's approach to managing risk.

The Group's risk appetite statement is expressed in the form of high-level qualitative statements that clearly captures the attitude and level of acceptance of credit risk. In setting the Group's risk appetite the Board takes into consideration a number of factors including:
- Strategic goals;
- Business plan;
- Risk profile relating to loan mix, loan concentration both geographic and large exposures, liquidity, delinquency, available capital and other factors;
- The regulatory environment;
- Quantitative data; and
- Other material factors available to assist in decision making.

The Board's objective in setting the credit risk appetite is to reduce risk to as low as reasonably practicable to achieve the desired strategic goals. The Board's risk appetite is incorporated in the Risk Appetite Statement and reflected in the Credit Risk Policy and the procedures and controls implemented to support the policy in each business unit.

The Group's credit risk management practices are organised into three distinct lines of risk ownership, risk review and oversight and independent assurance. This ensures a segregation of duties between (first line) units that enter into business transactions with customers or otherwise who expose the Group to risk, (second line) units in charge of risk oversight and control and (third line) the internal audit function.

Credit risk - loans

The method of managing credit risk is by way of strict adherence to the credit assessment policies before the loan is approved and close monitoring of defaults in the repayment of loans thereafter on a weekly basis. The credit policy has been endorsed by the Board to ensure that loans are only made to clients that are creditworthy (capable of meeting loan repayments).

The Group has established policies over the:

- Credit assessment and approval of loans and facilities covering acceptable risk assessment and security requirements;
- Limits of acceptable exposure over the value to individual borrowers, non mortgage secured loans, commercial lending and concentrations to geographic and industry groups considered at high risk of default;

- Reassessing and review of the credit exposures on loans and facilities;
- Establishing appropriate provisions to recognise the impairment of loans and facilities;
- Debt recovery procedures; and
- Review of compliance with the above policies.

Notes to the Financial Statements
For the Year Ended 30 June 2020

26 Financial risk management (continued)

(d) Credit risk (continued)

The Company entered into a commitment deed with SocietyOne, a peer to peer lender of personal loans, on the 16th June 2017. The commitment deed states that the Company has committed to provide $5,000,000 in loan funds to be called in $250,000 parcels as required. This was subsequently amended by the Board to $8,000,000 on 17th September 2018.

Effective 31st March SocietyOne changed their investment model such that the original investment model allowing for fractionalised loans was no longer available. The Board reviewed the investments models available and determined that from 31 March 2019 the $8,000,000 investment with SocietyOne would be allowed to run down through the return of principal and interest repaid (previously reinvested).

As at 30 June 2020 $4,055,975 in funds remain as personal loans (30 June 2019: $7,068,125), a further $193,985 (30 June 2019: $265,340) in funds remain as a cash balance with SocietyOne earning interest at 0% for a total commitment as at 30 June 2020 of $4,249,960 (30 June 2019: $7,333,465). Funds allocated to personal loans have been recognised as personal loans (refer Note 10) while funds held with SocietyOne have been recognised as an investment (refer Note 9).

The commitment deed outlines the risk profile of loans the Group has determined as acceptable and within the Group's risk appetite.

Past due and impaired

A financial asset is past due when the counterparty has failed to make a payment when contractually due. As an example, a member enters into a lending agreement with the Group that requires interest and a portion of the principal to be paid every month. On the first day of the next month, if the agreed repayment amount has not been paid, the loan is past due. Past due does not mean that a counterparty will never pay, but it can trigger various actions such as renegotiation, enforcement of covenants, or legal proceedings.

Daily reports monitor the loan repayments to detect delays in repayments and recovery action is undertaken after 7 days. For loans where repayments are doubtful, external consultants are engaged to conduct recovery action once the loan is over 90 days in arrears. The exposures to losses arise predominantly in the personal loans and facilities not secured by registered mortgages over real estate.

COVID-19

COVID-19 presents potential increases in credit risk through a deteriorated economic environment, with major industry shut-downs affecting customer's serviceability and potential reductions in housing prices. The containment of COVID-19 has been effective within Tasmania, with the Tasmanian economy performing comparatively well to the other states.

Refer Note 1 (g) and Note 10 for additional disclosure regarding the expected credit loss provisioning (including the impact of COVID-19) used by the Group.

Bad Debts

Amounts are written off when collection of the loan or advance is considered to be remote. All write offs are on a case by case basis, taking account of the exposure at the date of the write off.

On secured loans, the write off takes place on ultimate realisation of collateral value, or from claims on any lenders mortgage insurance.

A reconciliation in movement of both past due and impaired exposure provision is provided in Note 10.

Notes to the Financial Statements

For the Year Ended 30 June 2020

26 Financial risk management (continued)

(d) Credit risk (continued)

Collateral Securing Loans

A sizeable portfolio of the loan book is secured on residential property in Australia. Therefore, the Group is exposed to risks in the reduction of the Loan to Value (LVR) cover should the property market be subject to a decline.

The risk of losses from the loans undertaken is primarily reduced by the nature and quality of the security taken.

The Board policy is to maintain at least 65% of the loans in well secured residential mortgages which carry an 80% loan to valuation ratio or less. Note 10 describes the nature and extent of the security held against the loans held as at the reporting date.

Concentration risk - individuals

Concentration risk is a measurement of the Group's exposure to an individual counterparty (or group of related parties). If prudential limits are exceeded as a proportion of the Group's regulatory capital (10.5%) a large exposure is considered to exist. No capital is required to be held against these but APRA must be informed. APRA may impose additional capital requirements if it considers the aggregate exposure to all loans over the 10% capital benchmark, to be higher than acceptable.

The Group holds no significant concentrations of exposures to members. Concentration exposures to counterparties are closely monitored with annual reviews being prepared for all exposures over 5% of the capital base.

Concentration risk -industry

There is no concentration of credit risk with respect to loans and receivables as the Group has a large number of customers dispersed in areas of employment.

Credit Risk - Liquid investments

Credit risk is the risk that the other party to a financial instrument will fail to discharge their obligation resulting in the Group incurring a financial loss. This usually occurs when debtors fail to settle their obligations owing to the Group.

The risk of losses from the liquid investments undertaken is reduced by the nature and quality of the independent rating of the investee and the limits to concentration on one entity. The Board policy is to maintain counterparty limits with A1+, A1 and A2 rated institutions to maximum of 50% of capital and other A3 or unrated institutions to a maximum of 25% of capital.

Refer to Note 9 with regards to credit quality of placements with other financial institutions.

Notes to the Financial Statements
For the Year Ended 30 June 2020

26 Financial risk management (continued)

(d) Credit risk (continued)

Maximum exposure to credit risk

The Group's maximum exposure to credit risk, including both on balance sheet and off-balance sheet exposure is:

	2020 $	2019 $
On-balance sheet exposure		
Customer loans and advances (amortised cost)	927,521,201	848,441,747
Investment securities	140,858,708	79,794,677
Trade receivables	262,109	472,576
	1,068,642,018	928,709,000

Information on the credit quality and collateral obtained in relation to these on balance sheet credit exposures is detailed in Notes 9 & 10.

	2020 $	2019 $
Off-balance sheet exposures		
Loans approved not yet funded	48,500,060	48,543,936
Undrawn overdraft and revolving credit limits	4,009,739	2,624,570
Undrawn credit card limits	7,310,740	6,362,113
Redraw facilities on term loans	76,311,304	54,927,867
Undrawn line of credit	2,084,667	2,500,632
	138,216,510	114,959,118
Maximum exposure to credit risk	1,206,858,528	1,043,668,118
Security held against off-balance sheet exposures		
Secured by mortgage over residential property	125,379,473	105,983,930
Partly secured by goods mortgage	266,844	19,196
Secured by funds	27,750	33,696
Unsecured	12,542,443	8,922,296
	138,216,510	114,959,118

(e) Operational Risk

Operational risk is the risk of loss arising from systems failure, human errors, fraud or external event. When controls fail to perform, operational risk can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Group manages these risks on a daily basis through the operational responsibilities of Executives and Senior Management functioning under policies approved by the Board after recommendations from the Risk Committee covering specific areas such as risk, fraud risk and business continuity risk.

Notes to the Financial Statements
For the Year Ended 30 June 2020

26 Financial risk management (continued)

(f) Liquidity Risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group manages liquidity risk by:
- continuously monitoring actual daily cash flows and longer term forecast cash flows;
- monitoring the maturity profiles for financial assets and liabilities;
- maintaining adequate reserves, liquidity support facilities and reserve borrowing facilities; and
- monitoring the prudential liquidity ratio daily.

The Group is required to maintain at least 9% of total adjusted liabilities as liquid assets (Minimum Liquidity Holdings 'MLH') capable of being converted to cash within 48 hours under the APRA prudential standard 'APS 210 Liquidity'. In order to ensure compliance with the requirements of APS 210 the Group became a non-transaction RITS (Reserve Bank Information and Transfer System) member with the RBA. RITS is Australia's high-value payment system which is used by authorised deposit taking institutions (ADI's) to settle payment obligations on a real time gross settlement basis. This membership also enables the Group to enter into a repurchase (or repo) agreement with the RBA. A repo agreement is the purchase or sale of securities with an agreement to sell or buy back the securities at an agreed date and price in the future. This facility therefore ensures that the Group has the ability to liquidate MLH assets within 48 hours as required by APS 210.

The Group's policy is to apply a minimum of 10.5% of funds as MLH assets to maintain adequate funds for meeting client withdrawal requests. The ratio is checked daily. Should the liquidity ratio fall below this level Management and the Board are to address the matter and ensure that additional MLH funds are obtained from new deposits and available borrowing facilities.

In accordance with the Group's policy, the liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general and specifically to the Group.

The liquidity ratio at 30 June 2020 was 19.29% (2019: 12.81%). The MLH ratio as at 30 June 2020 was 19.02% (2019: 12.81%).

Refer Note 16 for details regarding concentration of deposits.

Maturity Analysis of Financial Instruments

This table details the Group's remaining contractual maturity for its non-derivative financial instruments. Contractual cash flows are based on the undiscounted total payment, including both principal and interest, on the earliest possible date on which the Group may be required to be paid.

Internal securitisation and RBA repurchase

Securitisation risk is the risk of potential loss associated with securitisation activities.

The Group maintains an internal securitisation facility to enable it to secure funds from the Reserve Bank of Australia ('RBA'), if required, to meet emergency liquidity requirements. As at 30 June 2020, the Group held $258,500,000 (2019: $173,038,808) of securities available to be used for RBA repurchase to meet emergency liquidity requirements.

In accordance with APS 120 *Securitisation* , no additional capital will be held for the risks posed by the securitisation activity, as this is an internal securitisation activity. The Group remains exposed to the credit risk arising from the assets (securitised loans).

Notes to the Financial Statements
For the Year Ended 30 June 2020

26 Financial risk management (continued)

(f) Liquidity risk (continued)

Maturity analysis of financial instruments

Monetary assets and liabilities have differing maturity profiles depending on the contractual term and in the case of loans the repayment amount and frequency. The table below shows the period in which different monetary assets and liabilities held will mature and be eligible for renegotiation or withdrawal. In the case of loans, the table shows the period over which the principal outstanding will be repaid based on the remaining period to the repayment date assuming contractual repayments are maintained, and is subject to change in the event that current repayment conditions are varied. Financial assets and liabilities are at the undiscounted values (including future interest expected to be earned or paid). Accordingly these values will not agree to the statement of financial position.

	Carrying amount $	Contractual cash flows $	Within 1 month $	1-3 months $	3-12 months $	1-5 years $	Later than 5 years $	No maturity $
2020								
Financial liabilities								
Call deposits	364,646,774	364,646,774	364,646,774	-	-	-	-	-
Term deposits	684,366,558	687,450,753	174,930,577	263,714,254	235,866,354	12,939,568	-	-
Long term borrowings	14,980,570	15,092,924	-	-	-	15,092,924	-	-
Trade and other payables	2,166,233	2,166,233	2,166,233	-	-	-	-	-
On balance sheet	1,066,160,135	1,069,356,684	541,743,584	263,714,254	235,866,354	28,032,492	-	-
Undrawn credit commitments	138,216,510	138,216,510	138,216,510	-	-	-	-	-
Total financial liabilities	1,204,376,645	1,207,573,194	679,960,094	263,714,254	235,866,354	28,032,492	-	-
Financial assets								
Cash	63,424,151	63,424,151	63,424,151	-	-	-	-	-
Trade and other receivables	132,566	132,566	132,566	-	-	-	-	-
Investment securities	140,988,251	141,193,985	34,000,000	45,000,000	6,000,000	56,000,000	-	193,984
Customer loans and advances	927,228,035	1,318,008,794	5,527,261	11,034,490	49,403,278	255,751,434	996,292,331	-
Other investments	371,123	371,123	-	-	-	-	-	371,123
Total financial assets	1,132,144,126	1,523,130,619	103,083,978	56,034,490	55,403,278	311,751,434	996,292,331	565,107

** Interest receivable or interest payable is included as part of the fair value of the various financial instruments.*

Notes to the Financial Statements
For the Year Ended 30 June 2020

26 Financial risk management (continued)

(f) Liquidity risk (continued)

Maturity analysis of financial instruments (continued)

	Carrying amount $	Contractual cash flows $	Within 1 month $	1-3 months $	3-12 months $	1-5 years $	Later than 5 years $	No maturity $
2019								
Financial liabilities								
Call deposits	325,702,493	325,702,493	325,702,493	-	-	-	-	-
Term deposits	591,047,399	597,481,335	100,489,159	203,737,948	277,123,542	16,130,686	-	-
Trade and other payables	1,744,634	1,744,634	1,744,634	-	-	-	-	-
On balance sheet	918,494,526	924,928,462	427,936,286	203,737,948	277,123,542	16,130,686	-	-
Undrawn credit commitments	114,959,118	114,959,118	114,959,118	-	-	-	-	-
Total financial liabilities	1,033,453,644	1,039,887,580	542,895,404	203,737,948	277,123,542	16,130,686	-	-
Financial assets								
Cash	52,048,905	52,048,905	52,048,905	-	-	-	-	-
Trade and other receivables	223,633	223,633	223,633	-	-	-	-	-
Investment securities	80,043,620	82,295,673	20,500,000	37,000,000	2,043,745	22,486,588	-	265,340
Customer loans and advances	849,039,371	1,288,116,903	5,388,113	10,675,024	47,690,859	251,046,441	973,316,466	-
Other investments	345,164	345,164	-	-	-	-	-	345,164
Total financial assets	981,700,693	1,422,764,938	78,160,651	47,675,024	49,734,604	273,533,029	973,316,466	610,504

** Interest receivable or interest payable is included as part of the fair value of the various financial instruments.*

Notes to the Financial Statements
For the Year Ended 30 June 2020

26 Financial risk management (continued)

(f) Liquidity risk (continued)

Effective interest rates and repricing analysis

Interest rate risk in the statement of financial position arises from the potential for a change in interest rates to have an adverse affect on the net interest earnings in the current reporting period and in future years. Interest rate risk arises from the structure and characteristics of the Group's assets, liabilities and equity, and in the mismatch in repricing dates of its assets and liabilities. The tables for both the 2020 and 2019 financial years detail the exposure of the Group's assets and liabilities to interest rate risk. The amount shown represents the face vale of assets and liabilities. Term Deposits and investment securities include interest accrued to the reporting date.

The interest rate shown is the effective interest rate or weighted average effective interest rate in respect of a class of assets for liabilities. For floating rate instruments the rate is the current market rate; for fixed rate instruments the rate is a historical rate. The bandings reflect the earlier of the next contractual repricing date or the maturity date of the asset or liability.

	Weighted avg interest %	Carrying amount $	Within 1 month $	1-3 months $	3-12 months $	1-5 years $	Later than 5 years $	Non-interest bearing $
2020								
Financial liabilities								
Call deposits	0.11%	364,646,774	364,646,774	-	-	-	-	-
Term deposits	1.57%	684,366,558	174,820,975	263,081,272	234,056,210	12,403,997	-	-
Long term borrowings	0.25%	14,980,570	-	-	-	14,980,570	-	-
Trade and other payables	N/A	2,166,233	-	-	-	-	-	2,166,233
		1,066,160,135	539,467,749	263,081,272	234,056,210	27,384,567	-	2,166,233
Financial assets								
Cash	0.28%	63,424,151	63,424,151	-	-	-	-	-
Trade and other receivables	N/A	132,566	-	-	-	-	-	132,566
Investment securities	0.75%	140,988,251	56,207,408	69,274,127	15,502,612	-	-	-
Customer loans and advances	3.58%	927,228,035	842,693,691	6,033,889	38,998,484	39,501,971	-	-
Other investments	N/A	371,123	-	-	-	-	-	371,123
		1,132,144,126	962,325,250	75,308,016	54,501,096	39,501,971	-	503,689

Notes to the Financial Statements
For the Year Ended 30 June 2020

26 Financial risk management (continued)

(f) Liquidity risk (continued)

Effective interest rates and repricing analysis (continued)

	Weighted avg interest %	Carrying amount $	Within 1 month $	1-3 months $	3-12 months $	1-5 years $	Later than 5 years $	Non-interest bearing $
2019								
Financial liabilities								
Call deposits	0.39%	325,702,493	325,702,493	-	-	-	-	-
Term deposits	2.56%	591,047,399	100,384,469	202,904,464	272,819,472	14,938,994	-	-
Trade and other payables	N/A	1,744,634	-	-	-	-	-	1,744,634
		918,494,526	426,086,962	202,904,464	272,819,472	14,938,994	-	1,744,634
Financial assets								
Cash	1.17%	52,048,905	52,048,905	-	-	-	-	-
Trade and other receivables	N/A	223,633	-	-	-	-	-	223,633
Investment securities	2.21%	80,043,620	29,240,193	50,803,427	-	-	-	-
Customer loans and advances	4.31%	849,039,371	745,518,684	2,587,212	36,894,688	64,038,788	-	-
Other investments	N/A	345,164	-	-	-	-	-	345,164
		981,700,693	826,807,782	53,390,639	36,894,688	64,038,788	-	568,797

Notes to the Financial Statements

For the Year Ended 30 June 2020

26 Financial risk management (continued)

(g) Financial instruments fair value

AASB 13 'Fair Value Measurement' states that fair value is a price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the principal or most advantageous market at measurement date.

Under AASB 13 all financial and non-financial assets and liabilities measured or disclosed at fair value are categorised into one of the following three fair value hierarchy levels:

a) quoted prices (unadjusted) in active markets for identical asset or liabilities (level 1);

b) inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (level 2); and

c) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (level 3).

The fair value of a financial instrument is required to be disclosed where the financial instruments are not measured at fair value in the statement of financial position. Disclosure of fair value is not required when the carrying amount is a reasonable approximation of fair value.

Assets where the fair value is lower than the book value have not been written down in the accounts of the Group on the basis that they are held to maturity, or in the case of loans, all amounts due are expected to be recovered in full.

Refer note 30 for additional disclosures regarding fair value of financial instruments.

27 Financial commitments

(a) Credit commitments

The Group had binding commitments to extend credit, which are reflected as off-balance sheet exposures in Note 26(d). These represent agreements to lend to a customer as long as there is no violation of any condition in the contract.

(b) Capital expenditure commitments

	2020 $	2019 $
Capital expenditure commitments contracted for purchase of:		
- Property, plant & equipment (not later than 1 year)	-	-
- Intangibles (not later than 1 year)	459,904	235,086
	459,904	235,086

Notes to the Financial Statements
For the Year Ended 30 June 2020

28 Related party disclosures

(a) Names of key management personnel

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group. Key management personnel comprise the Directors of the Group and members of the executive management listed below, who are responsible for the day to day financial and operational management of the Group.

The following were key management personnel of the Group at any time during the reporting period and unless indicated otherwise were key management personnel for the entire period.

Directors

Stephen Brown (Chairman)	
Helen Galloway	Commenced 29 October 2019
Robert King	
Scott Newton	
Mark Nugent	
Keryn Nylander	
Lyn Cox	Resigned 29 October 2019

Executives

Paul Ranson	Chief Executive Officer
Gerald White	Chief Financial Officer and Company Secretary
Susie Russell	Chief Projects Officer
Jill Jetson-Shumbusho	Chief Customer & People Officer
Natasha Whish-Wilson	Chief Risk Officer

(b) Key management personnel compensation

The aggregate compensation of key management personnel during the year comprising amounts paid, payable or provided for was as follows:

	2020 $	2019 $
Short term benefits	1,548,379	1,516,461
Post Employment benefits	164,848	142,347
Other long term benefits	17,315	18,207
	1,730,542	1,677,015

Public disclosure of remuneration

In accordance with APS 330 Public Disclosure requirements, the Group is required to include both qualitative and quantitative disclosures for senior managers and material risk takers in the Regulatory Disclosure section on their website.

Notes to the Financial Statements
For the Year Ended 30 June 2020

28 Related party disclosures (continued)

(c) Loans to key management personnel

The Group has provided loans to a number of key management personnel. The aggregate amount of transactions in relation to these loans as at balance date are:

	2020 $	2019 $
Loans advanced during the year	3,765,177	2,704,906
Loan redraws during the year	280,799	80,063
Interest revenue recognised	179,084	163,447
Loan repayments received during the year	2,352,047	1,163,602
Balance of loans outstanding at year end	6,762,838	4,889,003

The Group's policy for lending to Directors is that all loans are approved on the same terms and conditions which applied to customers of each class of loan. Key management personnel who are not Directors are entitled to the benefits package offered through the Group's staff benefits program on the same basis as available to all employees. There are no loans which are impaired in relation to the loan balances with Directors or other key management personnel.

There are no benefits or concessional terms and conditions applicable to close family members of key management personnel. There are no loans with close family members of key management personnel which are impaired.

(d) Deposits from key management personnel

The Group holds deposits from key management personnel. All transactions have been entered into on the same terms and conditions as those available to other members.

	2020 $	2019 $
Total balance of deposits	3,094,826	1,672,694
Interest expense recognised	9,590	21,169

There are no benefits or concessional terms and conditions applicable to close family members of key management personnel.

(e) Other transactions with related parties

The Group and/or borrowing clients have received services from entities related to Directors. Scott Newton is currently CEO of Knight Frank Tasmania and IPST Pty Ltd, the ownership entity controlling Knight Frank Tasmania. During the year the Group has leased premises and car parks from Nekon Pty Ltd via managing agent Knight Frank. All transactions have been entered into on terms and conditions no more favourable than those available to other suppliers. Refer also note 12 & 13 for further information on valuation services provided.

	2020 $	2019 $
Rent expense and car parking lease - Nekon Pty Ltd	270,664	244,709

As at 30 June 2020 there were no amounts owing to Nekon Pty Ltd (30 June 2019: nil).

Notes to the Financial Statements

For the Year Ended 30 June 2020

29 Auditors' remuneration

Amounts received or due and receivable by the external auditor (or related entity) of the Group (excluding GST) for:

	2020 $	2019 $
Audit of the financial statements of the Group	86,275	86,270
Other regulatory assurance services	18,255	17,900
Other services	2,500	-
	107,030	104,170

Other transactions between the external auditor (or related entity) and the Group (excluding GST):

	2020 $	2019 $
Mortgage broking commissions paid to related entity of external auditor	2,661	2,749
Lease premise rental income received from related entity of external auditor	41,889	40,291

Further, Findex Same Day Tax (formerly Pinnacle, part of the Findex/Crowe Group), leased premises from the Group during the current and previous financial year. Rental income received from Findex Same Day Tax is disclosed above.

All transactions have been entered into on terms and conditions no more favourable than those available to other customers or suppliers.

Notes to the Financial Statements
For the Year Ended 30 June 2020

30 Fair value measurement

Net fair values - financial instruments
The aggregate net fair values of financial assets and liabilities, both recognised and unrecognised, at the balance date are as follows:

Financial Instruments	Notes	Total carrying amount 2020 $	Total carrying amount 2019 $	Aggregate net fair value 2020 $	Aggregate net fair value 2019 $
Financial Liabilities					
Call deposits	16	364,646,774	325,702,493	364,646,774	325,702,493
Term deposits	25(f)	684,366,558	591,047,399	685,209,134	594,004,548
Long term borrowings	19	14,980,570	-	14,980,570	-
Trade & other payables*	17	2,166,233	1,744,634	2,166,233	1,744,634
Total Financial Liabilities		1,066,160,135	918,494,526	1,067,002,711	921,451,675
Financial Assets					
Cash	7	63,424,151	52,048,905	63,424,151	52,048,905
Trade & other receivables*	8	132,566	223,633	132,566	223,633
Investment securities	9	140,988,251	80,043,620	141,009,661	80,054,238
Loans & advances	10	927,228,035	849,039,371	923,841,917	858,933,835
Other investments	11	371,123	345,164	371,123	345,164
Total Financial Assets		1,132,144,126	981,700,693	1,128,779,418	991,605,775

** Interest receivable or interest payable is included as part of the fair value of the various financial instruments.*

The following methods and assumptions are used to determine the net fair values of financial assets and liabilities:

Recognised financial instruments

Call deposits & term deposits

The carrying amount approximates fair value for call deposits as they are at call. The fair value of term deposits are estimated using discounted cash flow analysis based on current market rates for term deposits.

The Group has assessed its own credit risk in regards to the fair value of deposits, and has assessed that no material valuation adjustment is required based on the capital management system utilised by the Group as outlined in Note 26(b).

Long term borrowings

The carrying amount is the fair value of the RBA Term Funding Facility (TFF). The TFF is measured at amortised cost and recognised as the aggregate amount of money owing to the Reserve Bank of Australia (RBA) as part of the reciprocal purchase transaction.

Trade & other payables

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

Cash & cash equivalents

The carrying amount approximates fair value because they have either a short term to maturity or are receivable on demand.

Trade & other receivables

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

Investment securities

The fair value of investment securities that are not traded in an active market are determined using discounted cash flow analysis with terms to maturity that match, as closely as possible, the estimated future cash flows.

Customer loans & advances

The carrying value of customer loans is net of unearned income and impairment provision for doubtful debts. The net fair value for loans is calculated by utilising discounted cash flow models (i.e. the net present value of the portfolio of future principal and interest cash flows), based on the maturity of the loans. The discount rates applied were based on the current applicable rate offered for the average remaining term.

Notes to the Financial Statements
For the Year Ended 30 June 2020

30 Fair value measurement (continued)

Fair Value Hierarchy
The following table provides the fair value measurement hierarchy of the Group's assets and liabilities.

	Notes	Fair Value as at 30 June 2020			
		Level 1 $	Level 2 $	Level 3 $	Total $
Assets measured at fair value					
Investment property	13	-	3,500,001	-	3,500,001
Land & buildings	12	-	3,896,307	-	3,896,307
Other investments	11	-	-	371,123	371,123
Total assets measured at fair value		-	7,396,308	371,123	7,767,431
Assets for which fair value is disclosed					
Cash		-	63,424,151	-	63,424,151
Trade & other receivables		-	-	132,566	132,566
Investment securities		-	141,009,661	-	141,009,661
Customer loans and advances		-	-	923,841,917	923,841,917
Total assets for which fair value is disclosed		-	204,433,812	923,974,483	1,128,408,295
Liabilities for which fair values are disclosed					
Call deposits		-	364,646,774	-	364,646,774
Term deposits		-	685,209,134	-	685,209,134
Long term borrowings		-	14,980,570	-	14,980,570
Trade & other payables		-	-	2,166,233	2,166,233
Total liabilities for which fair values are disclosed		-	1,064,836,478	2,166,233	1,067,002,711

	Notes	Fair Value as at 30 June 2019			
		Level 1 $	Level 2 $	Level 3 $	Total $
Assets measured at fair value					
Investment property	13	-	2,945,001	-	2,945,001
Land & buildings	12	-	4,149,317	-	4,149,317
Other investments		-	-	345,164	345,164
Total assets measured at fair value		-	7,094,318	345,164	7,439,482
Assets for which fair values are disclosed					
Cash		-	52,048,905	-	52,048,905
Trade & other receivables		-	-	223,633	223,633
Investment securities		-	80,054,238	-	80,054,238
Customer loans and advances	11	-	-	858,933,835	858,933,835
Total assets for which fair value is disclosed		-	132,103,143	859,157,468	991,260,611
Liabilities for which fair values are disclosed					
Call deposits		-	325,702,493	-	325,702,493
Term deposits		-	594,004,548	-	594,004,548
Trade & other payables		-	-	1,744,634	1,744,634
Total liabilities for which fair values are disclosed		-	919,707,041	1,744,634	921,451,675

Notes to the Financial Statements
For the Year Ended 30 June 2020

30 Assets measured at fair value categorised as Level 2
Land and buildings and investment property have been valued based on similar assets, locations and market conditions.

Assets measured at fair value based on Level 3 in the Statement of Financial Position

	Other financial assets (at FVOCI) Total	
	2020 $	2019 $
Balance as at 1 July	345,164	96,146
Adjustment on initial application of AASB 9	-	353,211
Balance as at 1 July per AASB 9	345,164	449,357
Revaluation through other comprehensive income	25,959	(104,193)
Closing balance - at 30 June	371,123	345,164

The Group has estimated the fair value of the equity investments within other financial assets utilising the net assets of the underlying company from the most recent financial statements available.

Hence, the key observable input in regards to the fair value is the net asset/share amount. Any changes in the net assets of the underlying company would directly impact the net asset/share amount used by the Group and impact on the fair value estimate of the other financial assets and the Financial Assets Reserve within equity.

31 Subsequent events
Other than the ongoing impact of the COVID-19 pandemic as described in Note 1(w) and Note 1(s), there has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the Directors, to affect significantly the operations of the Group, the results of those operations, or the state of affairs of the Group in subsequent financial years.

Notes to the Financial Statements

For the Year Ended 30 June 2020

32 Parent entity disclosures

As at, and throughout the financial year, the parent of the Group was B&E Ltd.

The financial results of the parent entity are:

	2020 $	2019 $
Results of the parent entity		
Profit for the year	2,781,208	2,302,355
Other comprehensive income	6,184	(75,540)
Total comprehensive income for the year	2,787,392	2,226,815
Financial position of the parent entity		
Total assets	1,399,331,334	1,159,949,097
Total liabilities	1,324,032,988	1,087,438,383
Retained earnings	-	-
Reserves	75,298,106	72,510,714
Commitments for the acquisition of property, plant & equipment and intangibles (not later than 1 year)	459,904	235,086

The parent entity prepares its statement of financial position on a liquidity basis and therefore current assets and liabilities are not identified.

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Auditor Independence Declaration Under S307C of the *Corporations Act 2001* to the Directors of B&E Ltd

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2020 there have been no contraventions of:

1) The auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and

2) Any applicable code of professional conduct in relation to the audit.

Crowe

CROWE TASMANIA

BRADLEY D BOHUN
Partner

29 September 2020
Launceston

The title 'Partner' conveys that the person is a senior member within their respective division, and is among the group of persons who hold an equity interest (shareholder) in its parent entity, Findex Group Limited. The only professional service offering which is conducted by a partnership is the Crowe Australasia external audit division. All other professional services offered by Findex Group Limited are conducted by a privately owned organisation and/or its subsidiaries.

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B&E Ltd

Independent Auditor's Report to the Members of B&E Ltd

Opinion

We have audited the financial report of B&E Ltd (the Company and its subsidiaries, 'the Group'), which comprises the consolidated statement of financial position as at 30 June 2020, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

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

(a) 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 then ended; and

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

Basis for Opinion

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

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

Emphasis of Matter – uncertainties of COVID-19 impacts

We draw attention to Note 1(s) under the heading 'Accounting estimates and judgments' in the consolidated financial statements. This note describes the significant areas of estimation, uncertainty and critical judgments used within the financial statements, and the increased relevance in the ongoing COVID-19 pandemic environment. Our opinion is not modified in respect of this matter.

Other Information

The directors are responsible for the other information. The other information comprises the directors' report information contained in the Group's annual report for the year ended 30 June 2020, but does not include the financial report and our auditor's report thereon.

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

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

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

Responsibilities of the Directors for the Financial Report

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

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

Auditor's Responsibilities for the Audit of the Financial Report

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

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

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

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

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

Crowe

CROWE TASMANIA

BRADLEY D BOHUN
Partner

29 September 2020
Launceston