Australian Unity Bank Limited

ABN 30 087 652 079

Annual report
for the year ended 30 June 2020

Australian Unity Bank Limited ABN 30 087 652 079
Annual report - 30 June 2020

Directors' report

Your directors present their report on Australian Unity Bank Limited, referred to hereafter as the Company, for the year ended 30 June 2020.

Directors
The following persons were directors of Australian Unity Bank Limited during the whole of the financial year and up to the date of this report, unless otherwise stated:

Peter Promnitz, Chair
Rohan Mead, Group Managing Director
Lisa Chung, Non-Executive Director
Paul Kirk, Non-Executive Director
Darren Mann, Group Executive, Finance and Strategy, and Chief Financial Officer (appointed on 17 July 2020)
Su McCluskey, Non-Executive Director
Greg Willcock, Non-Executive Director
Christine Yates, Chief Executive Officer, Retail (appointed as Chief Executive Officer, Retail and Director on 17 August 2020)
Esther Kerr-Smith, Chief Executive Officer, Wealth & Capital Markets (resigned on 17 July 2020)
Matthew Walsh, Chief Executive Officer, Retail (resigned 30 June 2020)

Company secretaries
Melinda Honig and Catherine Visentin were company secretaries of Australian Unity Bank Limited at 30 June 2020.

Principal activities
The principal continuing activities of the Company were the provision of mortgage and personal loan finance to customers ordinarily resident in Australia. These activities were funded by the raising of deposits from customers.

Review of operations
The Company recorded a profit after income tax for the year ended 30 June 2020 of $1,857,000 (2019: $2,512,000). Net interest income increased by $773,000 to $19,449,000 for the current financial year. Operating expenses increased by $1,476,000 to $19,329,000, which was mainly due to the increase in the provision for loan impairment losses as a result of adjustments made to the forward-looking estimates for the impact of the COVID-19 pandemic. Total loans were $911,793,000 as at 30 June 2020, an increase of $175,328,000 from the previous year. The deposits portfolio increased by $244,829,000 to $1,055,989,000 at the end of the financial year. Total assets increased to $1,133,863,000 (2019: $886,022,000).

At 30 June 2020, the Company's prudential capital adequacy ratio was 14.43% (2019 16.07%).

The Company's issuer credit rating from Standard & Poor’s in June 2020 remained unchanged from prior year and assessed as BBB+/Stable/A-2.

Matters subsequent to the end of the financial year
The board is not aware of any matter or circumstance arising since 30 June 2020 which has significantly affected or may significantly affect the financial status or results of the Company and which has not been separately disclosed in this report.

Likely developments and expected results of operations
The board is not aware of any developments which may affect the Company's operations and expected results of operations which can be disclosed without prejudicing unreasonably their likelihood of success or violating commercial confidences.

The Company is subject to a wide variety of markets, particularly financial markets and property markets. Note 12 contains an explanation of the Company's approach to market risk management.

Environmental regulation
No significant environmental regulations apply to the Company.

Directors' interests and benefits
Since the end of the previous financial year and to the date of signing this report, no director of the Company has received or become entitled to receive any benefit (other than a benefit included in the aggregate amount of emoluments received or due and receivable by directors or related party transactions shown in the Company's financial report) by reason of a contract made by the Company with the director or with a firm of which the director is a member, or with a company in which the director has a substantial interest except as disclosed in the details of related party transactions in note 16.

Insurance and indemnification of directors and officers
During the financial year, the Company paid a premium for a contract insuring the directors, company secretaries and executives of the Company to the extent permitted by the *Corporations Act 2001*. In accordance with common commercial practice the insurance policy prohibits disclosure of the nature of the liabilities covered and the amount of the premium.

Insurance and indemnification of directors and officers (continued)
In accordance with the constitution of the Company and under a separate deed, the directors and officers are indemnified to the extent permitted by law against any liability incurred by them in connection with the proper discharge of their duties, other than for conduct involving a lack of good faith.

Auditor's independence declaration
A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 3.

Rounding of amounts
The Company is of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191, issued by the Australian Securities and Investments Commission. Unless otherwise stated, amounts in the directors' report and financial statements have been rounded off in accordance with that Corporations Instrument to the nearest thousand dollars, or in certain cases, to the nearest dollar.

This report is made in accordance with a resolution of directors.

Peter Promnitz
Director

Rohan Mead
Director

Melbourne
8 September 2020

Auditor's Independence Declaration

As lead auditor for the audit of Australian Unity Bank Limited for the year ended 30 June 2020, I declare that to the best of my knowledge and belief, there have been:

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

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

CJ Heath
Partner
PricewaterhouseCoopers

Melbourne
8 September 2020

PricewaterhouseCoopers, ABN 52 780 433 757
2 Riverside Quay, SOUTHBANK VIC 3006, GPO Box 1331, MELBOURNE VIC 3001
T: 61 3 8603 1000, F: 61 3 8603 1999, www.pwc.com.au

Australian Unity Bank Limited ABN 30 087 652 079
Financial report - 30 June 2020

The financial statements cover Australian Unity Bank Limited as an individual entity. The financial statements are presented in the Australian currency.

Australian Unity Bank Limited is a company limited by shares. The company is incorporated and domiciled in Australia. Its registered office and principal place of business is:

271 Spring Street
Melbourne VIC 3000

A description of the nature of the entity's operations and its principal activities is included in the directors' report on page 1 which is not part of these financial statements.

The financial statements were authorised for issue by the directors on 8 September 2020.

	Notes	**2020 $'000**	2019 $'000
Interest income:			
Effective interest		**28,179**	28,196
Other		**2,950**	3,254
		31,129	31,450
Interest expense	1	**(11,680)**	(12,774)
Net interest income		**19,449**	18,676
Other banking income	2	**2,547**	2,779
Total income		**21,996**	21,455
Operating expenses	2	**(19,329)**	(17,853)
Profit before income tax		**2,667**	3,602
Income tax expense	3	**(810)**	(1,090)
Profit after income tax		**1,857**	2,512
Other comprehensive income			
Cash flow hedge	9(c)	**-**	47
Income tax relating to cash flow hedge	9(c)	**-**	(14)
Other comprehensive income for the year, net of tax		**-**	33
Total comprehensive income for the year		**1,857**	2,545
Profit for the year is attributable to:			
Owners of Australian Unity Bank Limited		**1,857**	2,512
Total comprehensive income for the year is attributable to:			
Owners of Australian Unity Bank Limited		**1,857**	2,545

The above statement of comprehensive income should be read in conjunction with the accompanying notes.

	Notes	2020 $'000	2019 $'000
ASSETS			
Cash and cash equivalents	4	**31,080**	11,439
Trade and other receivables		**2,579**	1,964
Financial assets at fair value through profit or loss	5	**143,669**	78,489
Other financial assets at amortised cost	6	**39,246**	52,075
Loans and advances	7	**911,793**	736,465
Deferred tax assets		**5,482**	5,559
Intangible assets		**14**	31
Total assets		**1,133,863**	886,022
LIABILITIES			
Trade and other payables		**2,111**	8,825
Interest bearing liabilities	8	**1,055,989**	811,160
Provisions		**304**	374
Other liabilities		**454**	515
Total liabilities		**1,058,858**	820,874
Net assets		**75,005**	65,148
EQUITY			
Contributed equity	9(a)	**20,500**	12,500
Reserves	9(c)	**40,630**	40,630
Retained earnings	9(d)	**13,875**	12,018
Total equity		**75,005**	65,148

The above balance sheet should be read in conjunction with the accompanying notes.

	Notes	Contributed equity $'000	Reserves $'000	Retained earnings $'000	Total equity $'000
Balance at 1 July 2018		12,500	40,597	9,506	62,603
Profit for the year		-	-	2,512	2,512
Other comprehensive income		-	33	-	33
Total comprehensive income		-	33	2,512	2,545
Balance at 30 June 2019		12,500	40,630	12,018	65,148
Balance at 1 July 2019		**12,500**	**40,630**	**12,018**	**65,148**
Profit for the year		**-**	**-**	**1,857**	**1,857**
Other comprehensive income		**-**	**-**	**-**	**-**
Total comprehensive income		**-**	**-**	**1,857**	**1,857**
Transactions with owners in their capacity as owners:					
Contributions of equity	9(b)	**8,000**	**-**	**-**	**8,000**
Balance at 30 June 2020		**20,500**	**40,630**	**13,875**	**75,005**

The above statement of changes in equity should be read in conjunction with the accompanying notes.

	Notes	**2020 $'000**	2019 $'000
Cash flows from operating activities			
Interest received		**31,068**	32,347
Interest paid		**(12,319)**	(12,179)
Commission and other income received		**3,240**	3,352
Net funds advanced to customers for loans		**(177,987)**	(85,999)
Net receipts from customer deposits		**244,829**	102,567
Payments to suppliers and employees		**(24,449)**	(17,394)
Net cash inflow from operating activities	10	**64,382**	22,694
Cash flows from investing activities			
Proceeds from sale of investments		**321,763**	217,301
Payments for investments		**(374,504)**	(238,580)
Net cash outflow from investing activities		**(52,741)**	(21,279)
Cash flows from financing activities			
Receipts from shares issuance		**8,000**	-
Net cash inflow from financing activities		**8,000**	-
Net increase in cash and cash equivalents		**19,641**	1,415
Cash and cash equivalents at the beginning of the year		**11,439**	10,024
Cash and cash equivalents at the end of the year	4	**31,080**	11,439

The above statement of cash flows should be read in conjunction with the accompanying notes.

Notes to the financial statements

How numbers are calculated

This section provides additional information about those individual line items in the financial statements that the directors consider most relevant in the context of the operations of Australian Unity Bank Limited, referred to hereafter as the Company.

1 Net interest income

Year ended 30 June 2020	Average balance[1] $'000	Interest $'000	Average rate[1] %
Interest income			
Cash equivalents	**16,049**	**95**	**0.59**
Financial assets at fair value through profit or loss	**90,872**	**2,182**	**2.40**
Other financial assets at amortised cost	**52,543**	**673**	**1.28**
Loans and advances[2]	**735,719**	**28,179**	**3.83**
	895,183	**31,129**	**3.48**
Interest expense			
Interest bearing liabilities[3]	**813,258**	**11,680**	**1.44**
	813,258	**11,680**	**1.44**
Net interest income		**19,449**	

Year ended 30 June 2019	Average balance[1] $'000	Interest $'000	Average rate[1] %
Interest income			
Cash equivalents	**13,419**	**193**	**1.44**
Financial assets at fair value through profit or loss	**60,510**	**1,878**	**3.10**
Other financial assets at amortised cost	**52,644**	**1,183**	**2.25**
Loans and advances[2]	**618,624**	**28,196**	**4.56**
	745,197	**31,450**	**3.80**
Interest expense			
Interest bearing liabilities[3]	**752,035**	**12,774**	**1.70**
	752,035	**12,774**	**1.70**
Net interest income		**18,676**	

(1) The average balance and average rate are non-AASB disclosures. The average balance is calculated based on the month-end balances during the relevant period. The average rate represents the interest divided by the average balance.

(2) Net of the average balance of mortgage offset account that is reported under Interest bearing liabilities.

(3) Exclude the average balance of mortgage offset account.

2 Non-interest income and other operating expenses

	2020 $'000	2019 $'000
Non-interest income		
Commission income	**1,927**	1,382
Other income	**620**	1,397
	2,547	2,779
Other operating expenses		
Computer and equipment costs	**1,936**	1,869
Custodian and transaction fees	**1,796**	1,559
Employee benefits expense	**6,354**	6,976
Impairment losses on loans (note 7(d))	**2,659**	508
Legal and professional fees	**496**	734
Marketing expenses	**730**	727
Occupancy costs	**502**	483
Shared service costs charged by related entities	**3,804**	3,436
Other expenses	**1,052**	1,561
	19,329	17,853

3 Income tax expense

(a) Income tax expense

	2020 $'000	2019 $'000
Current tax	**875**	1,518
Deferred tax	**78**	(428)
Adjustments for current tax of prior periods	**(143)**	-
Income tax expense	**810**	1,090

(b) Reconciliation of income tax expense to prima facie tax payable

	2020 $'000	2019 $'000
Profit before income tax	**2,667**	3,602
Tax at the Australian tax rate of 30% (2019: 30%)	**800**	1,081
Non-deductible expenditure	**10**	9
Income tax expense	**810**	1,090

Financial assets and liabilities

4 Financial assets - Cash and cash equivalents

	2020 $'000	2019 $'000
Cash at bank and on hand	**6,131**	4,416
Deposits at call	**24,949**	7,023
	31,080	11,439

4 Financial assets - Cash and cash equivalents (continued)

Fair value and risk exposures

Due to the short term nature of the cash and cash equivalents, their carrying amount is assumed to approximate their fair value. Information about the Company's exposure to risk and the credit quality in relation to cash and cash equivalents is provided in note 12.

5 Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss consist of the following:

	2020 $'000	2019 $'000
Floating rate notes	**143,669**	78,489

Information about the fair value measurement and risk exposure is provided in note 12.

6 Financial assets - Other financial assets at amortised cost

	2020 $'000	2019 $'000
Bank bills and term deposits	**39,246**	52,075

Information about risk exposure is provided in note 12.

7 Financial assets - Loans and advances

	2020 $'000	2019 $'000
Mortgage loans	**919,161**	743,115
Personal loans	**9,083**	8,049
Provision for impairment	**(16,451)**	(14,699)
	911,793	736,465

(a) Mortgage loans

The mortgage loans are secured on real property. The loans mature at various dates up to 30 June 2050 and earn interest at annual rates between 2.54% and 6.98% (2019: between 3.59% and 7.00%).

(b) Personal loans

These represent secured and unsecured personal loans. The loans mature at various dates up to 30 November 2025 and earn interest at annual rates between 4.57% and 15.18% (2019: between 4.57% and 16.58%).

7 Financial assets - Loans and advances (continued)

(c) Geographic concentration

The above mortgage and personal loans create exposure to particular geographic segments as follows:

	2020 $'000	2019 $'000
Victoria	**267,762**	248,093
Western Australia	**225,497**	189,889
Queensland	**129,457**	115,710
New South Wales	**217,336**	119,782
South Australia	**65,067**	57,545
Other	**23,125**	20,145
	928,244	751,164

(d) Provision for impairment of loans

The provision for impairment is calculated based on an expected credit loss (ECL) model.

A summary of the assumptions underpinning the ECL model is as follows:

Category	Company's definition of category	Basis for recognition of expected credit loss (ECL) provision
Stage 1	Customers have a low risk of default and a strong capacity to meet contractual cash flows.	12-month ECL. Where the expected lifetime of an asset is less than 12 months, expected losses are measured at its expected lifetime.
Stage 2	Loans for which there is a significant increase in credit risk that is presumed if interest and/or principal repayments are 30 to 89 days past due or a specific loan is assessed to have a high credit risk but not impaired.	Lifetime ECL.
Stage 3	Interest and/or principal repayments are 90 days past due or a specific loan is assessed as credit impaired or the debtor is in the event of bankruptcy.	Lifetime ECL.

In calculating the ECL, the Company considers historical losses for each category of customers, loan collaterals, and adjusts for forward looking macroeconomic data. The Company uses reasonable and supportable forecasts of future economic conditions and how changes in these factors will affect ECL. The economic forecast includes house price index, unemployment rate and external data on impairment, commentary from the Reserve Bank of Australia (RBA) and other subjective factors. The Company uses three alternative scenarios to reflect an unbiased probability-weighted range of possible future outcomes in estimating the ECL:

- Baseline scenario: This scenario considers RBA and other financial institutions forecasts for unemployment and the Company’s base case assumptions.
- Downside scenario: This scenario is set to the baseline scenario and represent plausible but less likely alternatives than the baseline scenario.
- Upside scenario: This scenario represents the potential impact of less likely, more favourable macro-economic conditions.

7 Financial assets - Loans and advances (continued)

(d) Provision for impairment of loans (continued)

In March 2020, the World Health Organisation declared COVID-19 a world-wide pandemic. COVID-19 and the measures to mitigate the spread of the virus have significantly impacted the economy and financial markets. In response to this, the Company undertook a review of its loan portfolios and the ECL, taking into consideration the macroeconomic outlook, customer credit quality, the type of collateral held, exposure at default, and the effect of payment deferral options as at the reporting date. In measuring the ECL, methodology and threshold in determining significant increase in credit risk and the definition of default remained consistent with prior periods. However, the model inputs, including forward-looking information, scenarios and associated weightings, as well as the determination of the staging of exposures were adjusted. These resulted in several customers being downgraded due to the increasing risk of default following the weakening macroeconomic environment due to the impact of COVID-19, and consequently the ECL provision increased. The impact of COVID-19 on the credit risk management, notably in relation to credit quality was also considered and this is disclosed in note 12(b).

The Company introduced a number of measures to support the customers impacted by the adverse economic conditions arising from COVID-19. These measures included loan deferrals totalling to $76.9 million. Approximately 40% of the exposures subject to COVID-19 related modifications are in Stage 1 and 60% are in Stage 2.

The following table shows the movement in the gross carrying amount for each category of loans during the financial years ended 30 June 2020 and 2019:

	Stage 1 (12-month ECL)	Stage 2 (Lifetime ECL not credit impaired)	Stage 3 (Lifetime ECL credit impaired)	Total
Gross carrying amount	**$'000**	**$'000**	**$'000**	**$'000**
Opening gross carrying amount at 1 July 2019	712,874	30,923	7,367	751,164
Transfers from Stage 1 category	(49,303)	48,213	1,090	-
Transfers from Stage 2 category	1,999	(2,937)	938	-
Transfers from Stage 3 category	199	-	(199)	-
Balance movements, derecognition or written-off	(116,610)	(2,635)	(2,760)	(122,005)
New loans originated during the period	299,085	-	-	299,085
Closing gross carrying amount at 30 June 2020	**848,244**	**73,564**	**6,436**	**928,244**

	Stage 1 (12-month ECL)	Stage 2 (Lifetime ECL not credit impaired)	Stage 3 (Lifetime ECL credit impaired)	Total
Gross carrying amount	**$'000**	**$'000**	**$'000**	**$'000**
Opening gross carrying amount at 1 July 2018	623,936	33,577	8,368	665,881
Transfers from Stage 1 category	(3,977)	2,038	1,939	-
Transfers from Stage 2 category	1,985	(3,495)	1,510	-
Transfers from Stage 3 category	2,963	-	(2,963)	-
Balance movements, derecognition or written-off	(85,106)	(1,197)	(1,487)	(87,790)
New loans originated during the period	173,073	-	-	173,073
Closing gross carrying amount at 30 June 2019	**712,874**	**30,923**	**7,367**	**751,164**

7 Financial assets - Loans and advances (continued)

(d) Provision for impairment of loans (continued)

The movements of expected credit loss provision for the financial years ended 30 June 2020 and 2019 are as follows:

Expected credit loss (ECL) provision	Stage 1 (12-month ECL) $'000	Stage 2 (Lifetime ECL not credit impaired) $'000	Stage 3 (Lifetime ECL credit impaired) $'000	Total $'000
Opening ECL provision at 1 July 2019	**5,343**	**5,986**	**3,370**	**14,699**
Transfers from Stage 1 category	(4,315)	3,979	336	-
Transfers from Stage 2 category	331	(447)	116	-
Transfers from Stage 3 category	84	-	(84)	-
Balance movements, derecognition or written-off	2,352	(1,833)	(1,045)	(526)
New loans originated during the period	2,278	-	-	2,278
Closing ECL provision at 30 June 2020	**6,073**	**7,685**	**2,693**	**16,451**

Expected credit loss (ECL) provision	Stage 1 (12-month ECL) $'000	Stage 2 (Lifetime ECL not credit impaired) $'000	Stage 3 (Lifetime ECL credit impaired) $'000	Total $'000
Opening ECL provision at 1 July 2018	**4,122**	**7,046**	**3,739**	**14,907**
Transfers from Stage 1 category	(27)	14	13	-
Transfers from Stage 2 category	333	(636)	303	-
Transfers from Stage 3 category	531	-	(531)	-
Balance movements, derecognition or written-off	(998)	(438)	(154)	(1,590)
New loans originated during the period	1,382	-	-	1,382
Closing ECL provision at 30 June 2019	**5,343**	**5,986**	**3,370**	**14,699**

The following table summarises the movements in the expected credit loss provision during the year:

	2020 $'000	2019 $'000
Balance at the beginning of the financial year	**14,699**	14,907
Amounts charged to profit or loss	**2,659**	508
Amounts written-off	**(907)**	(716)
Balance at the end of the financial year	**16,451**	14,699

(e) Past due but not impaired

At 30 June 2020, loans and advances of $10,174,000 (2019: $26,935,000) were past due but not credit impaired. These consist of loans in delinquency, but under 90 days in arrears. They relate to a number of borrowers for whom there is no recent history of default.

7 Financial assets - Loans and advances (continued)

(e) Past due but not impaired (continued)

The ageing of these loans and advances are as follows:

	2020 $'000	2019 $'000
Less than 30 days		
Mortgage loans	**7,772**	24,689
Personal loans	**19**	33
30 to 89 days		
Mortgage loans	**2,352**	2,212
Personal loans	**31**	1
	10,174	26,935

(f) Fair values

The carrying amounts and fair values of loans and advances are as follows:

	2020 Carrying amount $'000	**2020 Fair value $'000**	2019 Carrying amount $'000	2019 Fair value $'000
Mortgage loans	**902,710**	**902,974**	728,416	728,761
Personal loans	**9,083**	**9,083**	8,049	8,049
	911,793	**912,057**	736,465	736,810

(g) Risk exposure

Information about the Company's exposure to risk in relation to loans and advances is provided in note 12.

8 Financial liabilities - Interest bearing liabilities

	2020 $'000	2019 $'000
Unsecured		
Call deposits	**503,578**	424,207
Term deposits	**423,613**	291,459
Mortgage offset savings accounts	**128,798**	95,494
Total borrowings	**1,055,989**	811,160

(a) Call deposits

Call deposits are repayable on demand and accrue interest on a daily basis. At 30 June 2020 this ranged between 0.01% and 1.65% (2019: between 0.01% and 2.45%).

(b) Term deposits

Term deposits are repayable on maturity and accrue interest on a monthly basis with annual interest rates at 30 June 2020 ranging between 0.25% and 3.25% (2019: between 1.25% and 4.10%).

During the financial year, the Reserve Bank of Australia offered three-year funding facilities to authorised deposit-taking institutions (ADI) to reinforce the benefits to the economy of a lower cash rate and to encourage ADI to support businesses during a difficult period. The amount of this facility the Company had received as at 30 June 2020 was $25,193,000 with interest at 0.25% per annum.

8 Financial liabilities - Interest bearing liabilities (continued)

(c) Mortgage offset savings accounts

The amounts represent customer savings accounts with the interest offsetting the interest of the respective mortgage loan accounts.

(d) Fair value

The carrying amounts and fair values of interest bearing liabilities at the end of the reporting period are:

	2020 Carrying amount $'000	**2020** Fair value $'000	2019 Carrying amount $'000	2019 Fair value $'000
Call deposits	**503,578**	**503,578**	424,207	424,207
Term deposits	**423,613**	**423,518**	291,459	291,289
Mortgage offset savings accounts	**128,798**	**128,798**	95,494	95,494
	1,055,989	**1,055,894**	811,160	810,990

Equity and cash flow information

9 Equity

(a) Share capital

	2020 Shares	2019 Shares	**2020 $'000**	2019 $'000
Ordinary shares - fully paid	**20,500,000**	12,500,000	**20,500**	12,500

Ordinary shares have the right to receive dividends as declared and, in the event of a winding up of the Company, to participate in the proceeds from the sale of all surplus assets in proportion to the number of and amounts paid up on shares held.

The section below shows the movement in the share capital during the year.

(b) Movements in ordinary share capital

	Number of shares	**$'000**
2020		
Balance at the beginning of the financial year	**12,500,000**	**12,500**
Shares issued during the year	**8,000,000**	**8,000**
Balance at the end of the financial year	**20,500,000**	**20,500**

(c) Reserves

	2020 $'000	2019 $'000
General reserve	**10,998**	10,998
Business combination reserve	**29,632**	29,632
	40,630	40,630

There were no movements in the above Reserve accounts during the financial year.

9 Equity (continued)

(d) Retained earnings

Movements in retained earnings were as follows:

Balance at the beginning of the financial year	**12,018**	9,506
Profit for the year	**1,857**	2,512
Balance at the end of the financial year	**13,875**	12,018

10 Cash flow information

Reconciliation of profit after income tax to net cash outflow from operating activities

	2020 $'000	2019 $'000
Profit after income tax for the year	**1,857**	2,512
Depreciation and amortisation expense	**17**	148
Impairment losses on mortgage and personal loans	**2,659**	508
Net investment loss	**390**	(143)
Changes in operating assets and liabilities:		
Decrease/(increase) in trade and other receivables	**(615)**	13
Increase in loans and advances	**(177,987)**	(85,999)
Decrease/(increase) in deferred tax assets	**77**	(428)
Increase/(decrease) in trade and other payables	**(6,714)**	3,471
Increase in interest bearing liabilities	**244,829**	102,567
Decrease in provisions	**(70)**	(396)
Increase/(decrease) in other operating liabilities	**(61)**	441
Net cash inflow from operating activities	**64,382**	22,694

Risk Management

This section of the notes discusses the Company's exposure to various risks and shows how these could affect the Company's financial position and performance.

11 Critical accounting estimates and judgements

The preparation of financial statements in conformity with Australian Accounting Standards requires the use of certain critical accounting estimates. It also requires management to exercise their judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in this section. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

11 Critical accounting estimates and judgements (continued)

(a) Estimated impairment of loans and advances

The accounting policy, as explained in note 19(n), relating to measuring the impairment of loans and advances, requires the Company to assess impairment at least at the end of each reporting period. The provisions raised (individual and collective) represent management's best estimate of the losses incurred in the loan portfolio at balance date based on experienced judgement. Individual provisioning is applied when the full collectability of a loan is identified as being doubtful. The collective provision is estimated on the basis of historical loss experience for assets with credit characteristics similar to those in the collective pool. The historical loss experience is adjusted based on current observable data and events and an assessment of the impact of model risk. The provision also takes into account the impact of large concentrated losses within the portfolio and the economic cycle. The use of such judgements and reasonable estimates is considered by management to be an essential part of the process and does not impact on reliability.

Following the weakening macroeconomic environment due to COVID-19 impacts, the Company reevaluated the judgements and assumptions used in estimating the loan impairment provision. While the specific areas of judgement did not change, the impact of COVID-19 resulted in an application of further judgement within those identified areas. Given the dynamic and evolving nature of COVID-19, limited recent experience of the economic and financial impacts of such a pandemic, further changes to the estimates and outcomes that have been applied in the estimation of the loan impairment provision may arise in future periods. Other than adjusting events that provide evidence of conditions that existed at the end of the reporting period, the impact of events that arise after the reporting period will be accounted for in future reporting periods.

(b) Income taxes

The Company is subject to income taxes in Australia. There are certain transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The Company estimates its tax liabilities based on the Company's understanding of the tax law. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

(c) Fair value of financial instruments

In the measurement of financial instruments, the best evidence of fair value is a quoted price in an active market. In the event that there is no active market for the instrument, the fair value is measured based on present value estimates or other market accepted valuation techniques. The valuation models incorporate the impact of bid/ask spread, counterparty credit spreads and other factors that would influence the fair value determined by a market participant. The majority of valuation techniques employ only observable market data. However, in the case where market observable data for certain valuation component is not available, the fair value is determined using data derived and extrapolated from market data and tested against historic transactions and observed market trends. These valuations are based upon assumptions established by application of professional judgement to analyse the data available to support each assumption. Changing the assumptions may change the resulting estimate of fair value.

(d) Recovery of deferred tax assets

Deferred tax assets are recognised for deductible temporary differences. The Company considers it probable that future taxable profits will be available within the tax consolidation group to utilise these temporary differences.

12 Financial risk management

Risk management is co-ordinated centrally by the Board of Australian Unity Limited, the ultimate parent entity of the Australian Unity Group (the Group Board), which has overall responsibility for the establishment and oversight of the risk management framework. The Group Board has established the Group's Risk and Compliance Committee, which is responsible for developing and monitoring risk management policies. The Group's Risk and Compliance Committee reviews the adequacy of the risk management framework in relation to the risks faced by the Company. The activities of this Committee are reported regularly to the Company's board and the Group Board.

The Group's Risk Management Framework (RMF) is based upon a top-down policy approach and a bottom-up process for identifying risks. It sets out the risk management principles, mandatory requirements and minimum standards that are to be applied to risk management practices across the Group. The RMF is consistent with AS/NZS ISO 31000 2009: Risk Management in identifying, assessing, controlling and treating its material risks. This analysis is recorded in business unit Risk Registers, which are fully reviewed annually by the Group's Risk and Compliance Committee. Senior Management are required to keep their business unit Risk Register current and to report regularly, including against any treatment or action plans recorded in the Risk Register. Senior Management are also required to provide regular attestations of compliance with the RMF and other applicable Group policies.

12 Financial risk management (continued)

Risk management policies are established to identify and analyse the risks faced by the Company to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities. The Company, 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.

In addition, the Group Board has established the Group's Investment Committee to oversee the particular activities and risks associated with the Company's investment responsibilities.

The Audit Committee, in consultation with the Risk & Compliance Committee, oversees the internal controls, policies and procedures that the Group uses to identify and manage business risks. The Committees are assisted in their roles by Group Audit, Group Risk & Compliance and Finance & Strategy. Group Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, Group Risk & Compliance oversees risk management and compliance and Finance & Strategy measures the quantitative aspects of the controls. The results of these reviews are reported to the Risk & Compliance Committee, the Audit Committee and the Company's board.

In the second half of the 2020 financial year, the unprecedented economic challenges associated with the COVID-19 pandemic had wide-ranging impacts upon the financial markets. In response to this, the Group continues to strengthen its prudency in managing the risks and improving financial risk management to build resilience to future economic problems. In light of the current volatility in the financial markets, the sensitivity analyses discussed below are based on higher amounts of possible movements in currencies, securities prices and interest rates.

(a) Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: foreign currency risk, price risk and interest rate risk. Market risk is managed and monitored using sensitivity analysis, and minimised through ensuring that all investment activities are undertaken in accordance with established mandates and investment strategies.

(i) Foreign exchange risk

Foreign exchange risk is the risk that the fair value of future cash flows of an overseas financial investment will fluctuate as a result of movements in international exchange rates. The Company does not operate internationally and is not exposed to any material foreign exchange risk.

(ii) Price risk

Price risk is the risk that the fair value of future cash flows of a financial instrument may fluctuate because of changes in market prices. The Company is not exposed to any material price risk.

(iii) Cash flow and fair value interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's main interest rate risk arises from assets and liabilities at variable interest rates. Borrowings issued at variable rates expose the Company to cash flow interest rate risk. Borrowings issued at fixed rates expose the Company to fair value interest rate risk. The Company analyses variable interest rate exposures and will hedge at a fixed rate using interest rate swaps where this is in line with current management view of potential benefit. During the years ended 30 June 2020 and 2019, the Company's borrowings at variable rate were denominated in Australian Dollars.

As at the end of each reporting period, the Company had the following financial assets and liabilities exposed to variable interest rate risk:

	2020 $'000	2019 $'000
Financial assets		
Cash and cash equivalents	**31,080**	11,439
Financial assets at fair value through profit or loss	**143,669**	78,489
Loans and advances	**700,719**	555,714
	875,468	645,642
Financial liabilities		
Call deposits	**496,092**	419,882
	496,092	419,882
Net financial assets exposed to cash flow interest rate risk	**379,376**	225,760

12 Financial risk management (continued)

(a) Market risk (continued)

The Company analyses its interest rate exposure on a dynamic basis. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions, alternative financing and hedging. Based on these scenarios, the Company calculates the impact on profit or loss of a defined interest rate shift. The scenarios are run only for liabilities that represent the interest bearing positions. The simulation is done on a quarterly basis to verify that the maximum loss potential is within the limit given by the Board and monitored by management.

As at the end of the reporting period, if interest rates had increased/decreased by 1.00% (2019: 0.50%), with all other variables held constant, the impact would have been as follows:

	Impact on post-tax profit		**Impact on equity**	
	2020	2019	**2020**	2019
Judgements of reasonably possible movements:	**$'000**	$'000	**$'000**	$'000
Interest rates +1.00% (2019: +0.50%)	**2,262**	908	**2,262**	908
Interest rates -1.00% (2019: -0.50%)	**(2,262)**	(908)	**(2,262)**	(908)

The movements in profit are due to higher / lower interest costs from variable rate debt and higher / lower interest income from cash equivalents and other interest bearing investments.

The assumptions used in the sensitivity analysis are based upon an analysis of published economic data.

(b) Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Credit risk is managed on a Group basis to ensure that this risk is minimised. Credit risk arises from credit exposures to customers, including outstanding receivables and committed transactions. For banks and financial institutions, only independently rated parties with a minimum rating of 'BBB' are accepted. If a customer is independently rated, this rating is used. Otherwise, an internal assessment on the credit quality of the customer is made, taking into account its financial position, past experience and other available information. For financial investments, only those securities assessed as being of at least a satisfactory grade are accepted. The Board approved credit risk appetite statement has established limits to manage credit risk in relation to loan amount and counter parties.

The Company considers the probability of default upon initial recognition of the financial assets and whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period. To assess whether there is a significant increase in credit risk, the Company compares the risk of a default occurring on the assets as at the reporting date with the risk of default as at the date of initial recognition. It considers available reasonable and supportive forward-looking information. Regardless of the analysis, a significant increase in credit risk is presumed if a debtor or borrower is more than 30 days past due in making a contractual payment. An account is assumed to be in default once it reaches 90 days past due or when the debtor or borrower is in the event of bankruptcy.

Loans to customers
Loans to customers are largely secured by physical property and advanced on conservative LVR (Loan Value Ratio). The Company holds collateral when required, as security for its residential, commercial and personal loans, thus reducing the amount of financial loss that may arise from any defaults. The maximum exposure to credit risk at the end of each reporting period is the carrying amount of loans and advances, net of any provisions for impairment. Loan mortgage insurance is generally taken out for any residential mortgages with a LVR in excess of 80%. Accordingly, the financial effect of these measures is that remaining credit risk on loans receivable is very low. Some lending products will be mostly unsecured (e.g. personal loans). Loans impairment experience supports the assignment of a credit risk rating of satisfactory or better. Individual risk limits are set based on internal or external ratings in accordance with limits set by the Group Board and adopted by the Company's directors. The compliance with credit limits by wholesale customers is regularly monitored by management.

At each reporting date, the Company makes an assessment whether there is a significant increase in credit risk since origination. The Company considers historical loss experience and adjust this with the current observable data and reasonable forecast of future economic condition which includes macroeconomic factors to detect any indication of a significant increase in credit risk. An analysis to estimate the expected credit loss is performed on each portfolio of accounts with shared risk characteristics. As disclosed in the accounting policy note, the Company applies a three-stage approach to distinguish the categories of loans which reflect their credit risk and how the loan loss provision is determined for each of those categories. The increase in credit loss provision by $1,752,000 during the current financial year (2019: decrease by $208,000) was driven by model assumptions on forward looking scenarios, including the trends of loans in arrears and management's view on macro-economic condition in the foreseeable future.

12 Financial risk management (continued)

(b) Credit risk (continued)

Trade and other receivables
The Company trades only with recognised, creditworthy third parties, and as such collateral is not requested nor is it the Company's policy to securitise its trade and other receivables.

In relation to any other individually material debtors, it is the Company's policy that any customers who are likely to have material balances owing and wish to trade on credit terms are subject to credit verification procedures including an assessment of their independent credit rating, financial position, past experience and industry reputation. Risk limits are set for each individual customer in accordance with parameters set by the Group Board and adopted by the Company's directors. These risk limits are regularly monitored. In addition, debtor balances are monitored on an ongoing basis and as a result the Company's exposure to bad debts is not significant.

The following table represents the credit quality of financial assets:

	Neither past due nor impaired		Past due but not impaired	Impaired	Total
	High grade	Other grade			
	$'000	$'000	$'000	$'000	$'000
At 30 June 2020					
Cash and cash equivalents	**31,080**	**-**	**-**	**-**	**31,080**
Trade receivables	**480**	**2,099**	**-**	**-**	**2,579**
Financial assets at fair value through profit or loss	**143,669**	**-**	**-**	**-**	**143,669**
Other financial assets at amortised cost	**39,246**	**-**	**-**	**-**	**39,246**
Loans and advances:					
Mortgage loans	**812,354**	**90,263**	**10,124**	**6,420**	**919,161**
Personal loans	**-**	**9,018**	**50**	**15**	**9,083**
	1,026,829	**101,380**	**10,174**	**6,435**	**1,144,818**
At 30 June 2019					
Cash and cash equivalents	11,439	-	-	-	11,439
Trade receivables	419	1,545	-	-	1,964
Financial assets at fair value through profit or loss	78,489	-	-	-	78,489
Other financial assets at amortised cost	52,075	-	-	-	52,075
Loans and advances:					
Mortgage loans	609,963	98,897	26,901	7,354	743,115
Personal loans	-	8,002	34	13	8,049
	752,385	108,444	26,935	7,367	895,131

12 Financial risk management (continued)

(b) Credit risk (continued)

The credit quality of the above loans and advances per category is as follows:

At 30 June 2020	**Neither past due nor impaired** High Grade $'000	Other Grade $'000	**Past due but not impaired $'000**	**Impaired $'000**	**Total $'000**
Category					
Stage 1	741,579	95,667	7,791	-	845,037
Stage 2	70,775	3,614	2,383	-	76,772
Stage 3	-	-	-	6,435	6,435
Total	**812,354**	**99,281**	**10,174**	**6,435**	**928,244**

At 30 June 2019	**Neither past due nor impaired** High Grade $'000	Other Grade $'000	**Past due but not impaired $'000**	**Impaired $'000**	**Total $'000**
Category					
Stage 1	588,541	102,508	21,825	-	712,874
Stage 2	21,422	4,391	5,110	-	30,923
Stage 3	-	-	-	7,367	7,367
Total	609,963	106,899	26,935	7,367	751,164

In the credit quality assessment, loans with LVR below 80% for standard residential mortgages and below 60% for non-standard residential mortgages are categorised as high grade. Other grade loans are those that are not categorised as high grade, past due or credit impaired.

The maximum exposure to credit risk at the end of each reporting period is the carrying amount of the financial assets, net of any provisions for impairment and is shown gross before the effect of mitigation through use of collateral. Credit risk for physical securities and derivative instruments are monitored by exposure limits to counterparties. These limits are determined by reference to third party credit ratings.

Credit risk further arises in relation to irrevocable loan commitments provided to customers. The irrevocable loan commitments are binding contracts to extend credit to customers as long as there is no violation of any condition in the contracts. The maximum credit risk exposure of the loan commitments is the full amount of irrevocable approved but undrawn loans of $18,560,000 (2019: $12,426,000).

(c) Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities.

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Australian Unity Group Treasury manages liquidity risk centrally by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities across the Group. Surplus funds are generally only invested in instruments that are tradeable in highly liquid markets.

Contractual maturities of financial liabilities on an undiscounted basis

The tables below analyse the Company's financial liabilities based on the contractual maturities remaining at the end of each reporting period. The Company expects that certain liabilities will be settled at maturities which are different to their initial contractual maturities, including deposits where the Company expects as part of its normal banking operations that a large proportion of the balances will roll over.

The amounts disclosed in the table are the contractual undiscounted principal and interest cash flows and hence may differ to the amounts reported on the balance sheet. Balances due within 12 months equal their carrying amounts as the impact of discounting is not significant.

12 Financial risk management (continued)

(c) Liquidity risk (continued)

	Less than 6 months $'000	6 - 12 months $'000	1 - 5 years $'000	Over 5 years $'000	Total $'000
At 30 June 2020					
Trade and other payables	**2,111**	**-**	**-**	**-**	**2,111**
Interest bearing liabilities					
Call deposits	**503,940**	**-**	**-**	**-**	**503,940**
Term deposits	**310,345**	**75,791**	**40,044**	**-**	**426,180**
Mortgage offset savings account	**128,798**	**-**	**-**	**-**	**128,798**
	943,083	**75,791**	**40,044**	**-**	**1,058,918**
Total liabilities	**945,194**	**75,791**	**40,044**	**-**	**1,061,029**
At 30 June 2019					
Trade and other payables	8,825	-	-	-	8,825
Interest bearing liabilities					
Call deposits	424,767	-	-	-	424,767
Term deposits	205,881	70,698	18,542	-	295,121
Mortgage offset savings account	95,494	-	-	-	95,494
	726,142	70,698	18,542	-	815,382
Total liabilities	734,967	70,698	18,542	-	824,207

For the credit commitments as at 30 June 2020 (refer to note 13), as the probability and value of the obligation that may be called on is unpredictable; it is not practical to state the timing of any potential payment. However, there is a contractual obligation for the Company to provide the funds when they are called upon by the counterparties.

(d) Fair value estimation

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes by asset class, therefore information relating to the estimation of fair values is provided in the relevant note to the accounts.

AASB 13 *Fair Value Measurement* requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

(a) quoted prices (unadjusted) in active markets for identical assets 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).

As at 30 June 2020, the Company's financial assets that were recognised and measured at fair value consisted of floating rate notes amounting to $143,669,000 (2019: $78,489,000). These assets are categorised under level 2 of the fair value hierarchy. There were no liabilities measured at fair value as at 30 June 2020 and 2019.

The fair value of financial instruments that are not traded in an active market (for example, over the counter derivatives) is determined using valuation techniques. The Company uses a variety of methods and makes assumptions that are based on market conditions existing at the end of each reporting period. Quoted market prices or dealer quotes for similar instruments are used to estimate fair value for long term debt for disclosure purposes. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward exchange contracts is determined using forward exchange market rates at the end of the reporting period. These instruments are included in level 2 and comprise debt investments and derivative financial instruments.

12 Financial risk management (continued)

(d) Fair value estimation (continued)

The Company also has a number of assets and liabilities which are not measured at fair value, but for which fair values are disclosed in the notes. The carrying amounts of receivables, financial assets at amortised cost and trade payables are assumed to approximate their fair values due to their short term nature. The fair values of loans and deposits for disclosure purposes are estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Company for similar financial instruments. In measuring the fair values of loans and advances, the creditworthiness of the borrowers has also been taken into account. The fair values of loans and advances are disclosed in note 7, while the fair values of deposits are disclosed in note 8. The fair values of these assets and liabilities approximate the carrying amounts as the impacts of discounting and adjustments in relation to the borrowers' creditworthiness are not significant. These assets and liabilities are categorised under level 3 of the fair value hierarchy.

(e) Capital risk management

Capital risk management is co-ordinated centrally by the Group Board so as to maintain a strong capital base in order to maintain owners, stakeholder, creditor and market confidence and to sustain future development of the business.

Capital management plays a central role in managing risk to create owner value whilst also ensuring that the interests of all stakeholders including investors, lenders and regulators are met. Capital is utilised to finance growth, asset acquisitions and business plans and also provides support if adverse outcomes arise from investment performance or other activities.

The Company is regulated by the Australian Prudential Regulation Authority (APRA) and as such is required to maintain a certain level of capital. The appropriate level of capital is determined by the Group Board and the Company's board based on both regulatory and economic considerations. The Company applies the Board approved Internal Capital Adequacy Assessment Process (ICAAP) to ensure it maintains an appropriate capital base to cover the risks inherent in the business. The plan includes addressing the capital requirements prescribed by regulators, principally the Company's strategy for managing capital resources over time, its capital target, how the required capital is to be met and actions and procedures for monitoring compliance with minimum regulatory capital adequacy requirements. The strategy primarily focuses on building accumulated reserves from earnings but may include share issues and subordinated debt raisings.

Throughout the year ended 30 June 2020, and currently, the Company has maintained capital in excess of prudential requirements at all times.

The following table presents the capital adequacy ratio at the end of each reporting period:

	2020 $'000	2019 $'000
Reserves and retained earnings	**80,888**	76,447
Less regulatory prescribed adjustments	**(5,496)**	(5,559)
Regulatory capital base	**75,392**	70,888
Risk weighted exposures	**522,574**	441,230
Capital adequacy ratio	**14.43%**	16.07%

APRA Prudential Standard APS 330 Public Disclosure sets minimum requirements for the public disclosure of information on the Company's risk profile, risk management, capital adequacy, capital instruments and remuneration practices. In line with these requirements, the Company has published the required information in its website https://www.australianunity.com.au/wealth/banking/regulatory-disclosures.

(f) Operational risk management

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This includes legal risk, and the risk of reputational loss or damage arising from inadequate or failed internal processes, people and systems, but excludes strategic risk.

12 Financial risk management (continued)

(f) Operational risk management (continued)

The Group's Risk & Compliance Committee has delegated responsibility for monitoring risk management policies and reviewing the adequacy of the risk management framework as it applies to the Company. In addition, the Company has a risk officer and risk management processes and practices which provide oversight of operational risk undertaken. There are documented risk procedures to manage and maintain oversight of operational risks. These procedures include thresholds for escalation and monitoring. Group Risk & Compliance is responsible for exercising governance over operational risk through the management of the group risk management framework, policy development, risk analysis, fraud prevention and reporting of risk matters to the Australian Unity Group's Risk & Compliance Committee.

The Company's risk framework is supported by specific policies and procedures with the effectiveness of the framework assessed through a series of independent assurance reviews conducted by Group Audit.

The Company has adopted an operational risk management process which consists of a staged approach involving establishing the context, identification, analysis, assessment, treatment and monitoring of current, emerging and potential future operational risks.

Business disruption is a critical risk to the ability to operate, so the Company has comprehensive business continuity, recovery and crisis management plans. These are intended to ensure critical business functions can be maintained, or restored in a timely fashion, in the event of material disruptions arising from internal or external events.

The Company obtains insurance cover from third party providers to cover those operational risks where cost effective premiums can be obtained, however, insurance is not treated as a guaranteed mitigation for operational risk.

Unrecognised items

This section of the notes provides information about items that are not recognised in the financial statements as they do not satisfy the recognition criteria.

13 Commitments

Credit related commitments

The Company has commitments to extend credit which are binding contracts to lend to a customer as long as there is no violation of any condition established in the contract. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements.

	2020 $'000	2019 $'000
Irrevocable approved but undrawn loans	**18,560**	12,426
Revocable loans with balances available for redraw	**45,612**	38,548
Revocable undrawn lines of credit, credit cards and overdrafts	**19,661**	19,992
	83,833	70,966

14 Contingencies

The Company had no contingent assets or liabilities at 30 June 2020 (2019: $nil).

15 Events occurring after the reporting period

The board is not aware of any matter or circumstance arising since 30 June 2020 which has significantly affected or may significantly affect the financial status or results of the Company and which has not been separately disclosed in this report.

Other information

This section of the notes includes other information that must be disclosed to comply with the accounting standards and other pronouncements, but that is not immediately related to individual line items in the financial statements.

16 Related party transactions

(a) Parent entity

Australian Unity Limited is the parent entity of Australian Unity Bank Limited and the ultimate parent entity of the Australian Unity Group.

At 30 June 2020, Australian Unity Limited owned 100% of the issued shares of Australian Unity Bank Limited (2019: 100%).

(b) Directors

The names of persons who were directors of Australian Unity Bank Limited at any time during the financial year are as follows:

Peter Promnitz, Rohan Mead, Matthew Walsh (resigned 30 June 2020), Lisa Chung, Esther Kerr-Smith, Paul Kirk, Su McCluskey and Greg Willcock.

(c) Key management personnel compensation

Key management personnel compensation for the years ended 30 June 2020 and 2019 is set out below. The key management personnel of Australian Unity Bank Limited includes the directors and those executives responsible for the strategic direction and management of the Company.

	2020	2019
	$	$
Short-term employee benefits	**607,588**	793,380
Post-employment benefits	**29,238**	28,942
	636,826	822,322

(d) Other transactions with key management personnel or entities related to them

During the year there were no new loans advanced to key management personnel (2019: $nil). As at 30 June 2020, there were no loan facilities and balances relating to key management personnel (2019: $nil).

From time to time, key management personnel may purchase or subscribe to the various products offered by the Company or its related entities. These transactions are on similar terms and conditions to those entered into by other customers or employees and are trivial or domestic in nature.

(e) Transactions with related parties

Transactions between the Company and related entities during the years ended 30 June 2020 and 2019 were as follows:

- Interest expense on deposits held for related entities, $381,941 (2019: $528,250).
- Occupancy costs charged by related entity, $300,042 (2019: $181,635).
- Shared services charged by related entities, $3,804,168 (2019: $3,436,215).

The Company reimburses Australian Unity Group Services Proprietary Ltd (AUGSPL) and Lifeplan Australia Friendly Society Limited (LAFS), both related entities, for employee benefit expenses of those AUGSPL and LAFS employees working directly for the Company. AUGSPL and LAFS also provide office space, management, investment, compliance and administrative services to the Company on a commercial basis. The charge for these services is included in the shared services costs as disclosed above.

All transactions with related entities are entered into on normal commercial terms and conditions and at market rates, except that there are no fixed terms for the repayment of unsecured balances between the parties.

16 Related party transactions (continued)

(f) Balances with related parties

Transactions with the parent entity and other related entities are settled through intercompany accounts.

The following balances with related entities were outstanding at the end of the reporting period:

	2020 **$**	2019 $
Liabilities		
Call deposits	**15,239,524**	5,034,061
Term deposits	**17,813,211**	15,700,000
	33,052,735	20,734,061

17 Concentration of assets and liabilities and other economic dependency

(a) Concentration of assets and liabilities

The Company provides financial services to members or employees of a number of companies including BHP Billiton Limited, BlueScope Steel Limited and BP Australia Pty Ltd and their related entities.

There are no individual loans or groups of loans within the Company's loan portfolio which represent 10% or more of capital.

There are no individual deposits or groups of deposits within the Company's deposits portfolio which represent 10% or more of total liabilities.

(b) Other economic dependency

Cuscal Limited
Cuscal provides the Company with services in the form of settlement with bankers for customers’ cheques, access to the direct entry system, ATM, EFTPOS and VISA transactions, and the production of Redicards and Visa cards for use by customers. In addition, Cuscal provides standby line facilities to the Company and access to the Emergency Liquidity Support Facility. Cuscal also operates the switching computer used to link Redicards and VISA cards operated through Reditellers, and other approved ATM suppliers to the Company's host computer.

TransAction Solutions Limited
This entity provides the Company with computer and related services.

Ultradata Australia Pty Limited
This entity provides and maintains the application software utilised by the Company.

18 Remuneration of auditors

During the year the following fees were paid or payable for services provided by the auditor of the Company, its related practices and non-related audit firms:

(a) Audit services

	2020 **$**	2019 $
PricewaterhouseCoopers Australia		
Audit of financial statements	**89,499**	89,499
Audit of regulatory returns	**30,140**	23,340
Total remuneration for audit services	**119,639**	112,839
Total auditors' remuneration	**119,639**	112,839

18 Remuneration of auditors (continued)

It is the Company’s policy to employ PricewaterhouseCoopers on assignments additional to their statutory audit duties only where PricewaterhouseCoopers' expertise and experience with the Company are essential to the efficient completion of the assignment. It is the Company’s policy to seek competitive tenders for all major consulting projects.

19 Summary of significant accounting policies

The principal accounting policies adopted in the preparation of the financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial statements are for the Company as an individual entity.

(a) Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and the *Corporations Act 2001*.

(i) Compliance with IFRS

The financial statements of the Company also comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

(ii) Historical cost convention

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and liabilities at fair value through profit or loss.

(b) Borrowing costs

Borrowing costs are expensed.

(c) Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are removed from the balance sheet when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss as other income or finance costs.

(d) Cash and cash equivalents

For the purpose of presentation in the statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within liabilities in the balance sheet.

(e) Contributed equity

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

(f) Derivatives and hedging activities

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured to their fair value at the end of each reporting period. The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged and the type of hedging relationship designated.

The Company designates their derivatives as hedges of interest rate risk associated with the cash flows of recognised liabilities (cash flow hedges).

19 Summary of significant accounting policies (continued)

(f) Derivatives and hedging activities (continued)

The Company documents at the inception of the hedging transaction the economic relationship between hedging instruments and hedged items including whether the hedging instrument is expected to offset changes in cash flows of hedged items. The Company documents its risk management objective and strategy for undertaking various hedge transactions at the inception of each hedge relationship.

The fair values of derivative financial instruments used for hedging purposes are included in other assets or other liabilities as applicable. Movements in the hedging reserve are shown in the Statement of Changes in Equity. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than 12 months; it is classified as a current asset or liability when the remaining maturity of the hedged item is less than 12 months. Trading derivatives are classified as a current asset or liability.

Cash flow hedges that qualify for hedge accounting
The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income and the cash flow hedge reserve within equity, limited to the cumulative change in fair value of the hedged item on a present value basis from the inception of the hedge. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss. Amounts accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss.

When a hedging instrument expires, or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative deferred gain or loss and deferred costs of hedging in equity at that time remains in equity until the forecast transaction occurs. When the forecast transaction is no longer expected to occur, the cumulative gain or loss and deferred costs of hedging that were reported in equity are immediately reclassified to profit or loss.

If the hedge ratio for risk management purposes is no longer optimal but the risk management objective remains unchanged and the hedge continues to qualify for hedge accounting, the hedge relationship will be rebalanced by adjusting either the volume of the hedging instrument or the volume of the hedged item so that the hedge ratio aligns with the ratio used for risk management purposes. Any hedge ineffectiveness is calculated and accounted for in profit or loss at the time of the hedge relationship rebalancing.

(g) Dividends

Provision is made for the amount of any dividend declared, being appropriately authorised and no longer at the discretion of the entity, on or before the end of the reporting period but not distributed at the end of the reporting period.

(h) Employee benefits

Employees engaged in the Company's operations are employed by the Company or by related entities, Australian Unity Group Services Proprietary Limited and Lifeplan Australia Friendly Society Limited, with employee benefit expenses accounted for on the basis below.

(i) Wages and salaries, annual leave and sick leave

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave expected to be settled within 12 months after the end of each reporting period are recognised in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating sick leave are recognised when the leave is taken and measured at the rates paid or payable.

(ii) Long service leave

The liability for long service leave is measured as the present value of expected future payments to be made in respect of services provided by employees up to the end of each reporting period using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the end of each reporting period on high quality corporate bond rates with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

(iii) Termination benefits

Termination benefits are payable when employment is terminated before the normal retirement date, or when an employee accepts voluntary redundancy in exchange for these benefits. The Company recognises termination benefits when it is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after the end of each reporting period are discounted to present value.

19 Summary of significant accounting policies (continued)

(h) Employee benefits (continued)

(iv) Superannuation

The employer contributes to the complying superannuation funds nominated by employees. The employer is required to contribute to the above mentioned funds in accordance with the Superannuation Guarantee Legislation.

(i) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of associated GST except:

- When the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and

- Receivables and payables, which are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the balance sheet.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the taxation authority, are presented as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

(j) Impairment of assets

Assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period. For the loan portfolio, a general reserve for credit losses is maintained, as required under Prudential Rules, to cover risks inherent in the loan portfolio.

(k) Income tax

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the applicable income tax rate adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities based on the current period's taxable income. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the end of the reporting period.

Deferred income tax is provided on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

Deferred income tax liabilities are recognised for all taxable temporary differences except:

- When the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or

- When the taxable temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, and the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

19 Summary of significant accounting policies (continued)

(k) Income tax (continued)

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carrying forward of unused tax credits and unused tax losses can be utilised, except:

- When the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or

- When the deductible temporary difference is associated with investments in subsidiaries, associates or interest in joint ventures, in which case a deferred tax asset is only recognised to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilised.

The carrying amount of deferred income tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Unrecognised deferred income tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax assets to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset only when there is a legally enforceable right to offset current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Tax consolidation
Australian Unity Limited, the Company's parent entity, and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation. As a consequence, these entities are taxed as a single entity and the deferred tax assets and liabilities of these entities are set off in the consolidated financial statements.

Australian Unity Limited, as the head entity, and the controlled entities in the tax consolidation group continue to account for their own current and deferred tax amounts. These tax amounts are measured as if each entity in the tax consolidated group continues to be a stand-alone taxpayer in its own right. The head entity also recognises the current tax assets or liabilities, and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidation group.

The entities under the tax consolidated group entered into a tax funding agreement under which the wholly-owned entities fully compensate the head entity for any current tax payable assumed and are compensated by the head entity for any current tax receivable and deferred tax assets relating to unused tax losses or unused tax credits that are transferred to the head entity under the tax consolidation legislation. The funding amounts are determined by reference to the amounts recognised in the wholly-owned entities' financial statements.

The amounts receivable/payable under the tax funding agreement are due upon receipt of the funding advice from the head entity, which is issued as soon as practicable after the end of each financial year. The head entity may also require payment of interim funding amounts to assist with its obligations to pay tax instalments.

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as amounts receivable from or payable to other entities in the group. Any difference between the amounts assumed and amounts receivable or payable under the tax funding agreement are recognised as a contribution to (or distribution from) wholly-owned tax consolidated entities.

19 Summary of significant accounting policies (continued)

(l) Intangible assets

Computer software
Costs incurred in acquiring software and licenses that will contribute to future period financial benefits through revenue generation and/or cost reduction are capitalised as computer software. Computer software is initially recognised at cost. Following initial recognition, computer software is carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is calculated using the straight-line method to allocate the cost of software and licences over their estimated useful lives, which vary from 4 to 7 years.

(m) Interest and other income

(i) Interest income

Interest income is recognised using the effective interest method when the Company has control of the right to receive the interest payment. The effective interest rate method calculates the amortised cost of a financial asset or financial liability and allocates the interest income or interest expense over the expected life of the financial asset or financial liability so as to achieve a constant yield on the financial asset or liability.

(ii) Service fees and commission income

In addition to the interest income generated from banking activities, the Company earns service fees from its customer accounts and commission from it's services as an agent for the insurance sales. Service fees and commission income are recognised to the extent that it is probable that the economic benefits will flow to the Company and the amount can be reliably measured. They are recognised based on the delivery of performance obligations by the Company and an assessment of when the control is transferred to the customer. The income recognition is either at a point in time when the performance obligation in the contract has been completed by the Company or over time when the customer simultaneously receives the benefits from the services provided by the Company as the Company performs under the contract.

The transaction price is measured at contract inception, being the amount to which the Company expects to be entitled and to which it has rights under the contract. This includes an assessment of any variable consideration where the Company's performance may result in additional revenues based on certain achievements. Such amounts are only included based on the expected value or the most likely outcome, and only to the extent that it is highly probable that no revenue reversal will occur.

When applicable, the Company identifies the various performance obligations of the contract and allocates the transaction price to these performance obligations. The transaction price is adjusted for the time value of money where the period between the transfer of the promised services to the customers and payment made by the customers exceeds one year.

Accrued and deferred income recognised from contracts with customers
As a result of the contracts with customers, the Company recognises trade receivables and a number of contract assets and liabilities. Trade receivables are recognised when the Company has the right to consideration that is unconditional (no change in accounting policy). Contract assets are recognised when the Company has a conditional right to consideration for the services that have been provided to customers. Contract liabilities are recognised when the Company receives payments in advance for services that will be provided to customers.

Customer contracts generally include arrangements for payments dependent upon the nature and type of services being provided. Customer payments may be required at the inception of the contract (advance payment) or regular payments for ongoing service delivery or at the end of the contract (in arrears) or a combination of these with varied amounts. Accrued income is recognised as a contract asset for unbilled service revenue. Deferred income is recognised as a contract liability where a customer pays in advance or pays a deposit prior to the delivery of the contracted services. The Company did not have accrued or deferred income at the end of the reporting period.

(n) Investments and other financial assets

Classification
The Company classifies its financial assets into the following measurement categories:

- those to be measured at fair value (either through other comprehensive income, or through profit or loss), and
- those to be measured at amortised cost.

The classification depends on the Company's business model for managing the financial assets and the contractual terms of the relevant cash flows.

19 Summary of significant accounting policies (continued)

(n) Investments and other financial assets (continued)

Classification (continued)
A financial asset is measured at amortised cost only if both of the following conditions are met:

- it is held within a business model which objective is to hold assets in order to collect contractual cash flows, and
- the contractual terms of the financial asset represent contractual cash flows that are solely payments of principal and interest.

Recognition and derecognition
A financial asset is recognised in the balance sheet when the Company becomes a party to the contractual provisions of the instrument, which is generally at trade date. Loans and receivables are recognised when cash is advanced to the borrowers.

A financial asset is derecognised when the contractual cash flows from the asset expire or the rights to receive contractual cash flows are transferred in a transaction in which substantially all the risks and rewards of the ownership are transferred. Any interest in a transferred financial asset that is created or retained by the Company is recognised as a separate asset or liability.

Measurement
Financial assets at fair value through profit or loss are recognised initially at fair value. All other financial assets are recognised initially at fair value plus directly attributable transaction costs.

Subsequent to the initial recognition, for financial assets measured at fair value, gains and losses will either be recorded in profit or loss or other comprehensive income. For investments in debt instruments, this will depend on the business model in which the investment is held as described below. The Company reclassifies debt investments when and only when its business model for managing those assets changes. For investments in equity instruments, the fair value will be recorded in profit or loss, unless the Company has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income (FVOCI). During the reporting periods the Company did not have investment in equity instruments.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Debt instruments
Subsequent measurement of debt instruments depends on the Company's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the company classifies its debt instruments:

- Amortised cost
  Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. A gain or loss on a debt investment that is subsequently measured at amortised cost and is not part of a hedging relationship is recognised in profit or loss when the asset is derecognised or impaired. Interest income from these financial assets is included in profit or loss using the effective interest rate method.

- Fair value through other comprehensive income (FVOCI)
  Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment losses or reversal of impairment losses, interest revenue and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss. Interest income from these financial assets is included in profit or loss using the effective interest rate method.

- Fair value through profit or loss (FVPL)
  Assets that do not meet the criteria for amortised cost or FVOCI are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at FVPL and is not part of a hedging relationship is recognised in profit or loss and presented net within investment gains/(losses) in the period in which it arises. Interest income from these financial assets is included in the profit or loss using the effective interest rate method.

Impairment
The Company assesses on a forward looking basis the expected credit losses (ECL) associated with its financial assets carried at amortised cost and FVOCI. The recognition of impairment depends on whether there has been a significant increase in credit risk.

Debt investments at amortised cost are considered to be low credit risk, and thus the impairment provision is determined as 12 months ECL.

19 Summary of significant accounting policies (continued)

(n) Investments and other financial assets (continued)

For loans to customers, the Company applies a three-stage approach to measuring ECL. Assets migrate through the following three stages based on the change in credit quality since initial recognition.

- Stage 1: 12-months ECL
  For exposures where there has not been a significant increase in credit risk since initial recognition and that are not credit impaired upon origination, the portion of the lifetime ECL associated with the probability of default events occurring within the next 12 months is recognised.

- Stage 2: Lifetime ECL- not credit impaired
  For credit exposures where there has been a significant increase in credit risk since initial recognition but that are not credit impaired, a lifetime ECL is recognised.

- Stage 3: Lifetime ECL - credit impaired
  Financial assets are assessed as credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of that asset have occurred. For financial assets that have become credit impaired, a lifetime ECL is recognised and interest revenue is calculated by applying the effective interest rate to the amortised cost (net of provision) rather than the gross carrying amount.

At each reporting date, the Company assesses whether there has been a significant increase in credit risk for financial assets since initial recognition by comparing the risk of default occurring over the expected life between the reporting date and the date of initial recognition.

The Company assesses whether the credit risk on a financial asset has increased significantly on an individual or collective basis. For the purposes of a collective evaluation of significant increase in credit risk, loans are grouped on the basis of shared credit risk characteristics, taking into account the type of loans, days in arrears, loan collaterals, remaining term to maturity, geographical location of the security and other relevant factors. Regardless of the analysis, a significant increase in credit risk is presumed if a debtor or borrower is more than 30 days past due in making a contractual payment. Based on historical levels of recovery an account is assumed to be in default once it reaches 90 days past due or when the debtor or borrower is in the event of bankruptcy.

The amount of ECL is measured as the probability-weighted amount of the present value of all reasonable cash shortfalls over the expected life of the loans discounted at the effective interest rate. The cash shortfall is the difference between all contractual cash flows that are due to the Company and all the cash flows that the Company expects to receive.

The Company considers its historical loss experience and adjusts this for current observable data. In addition, the Company uses reasonable and supportable forecasts of future economic conditions including macroeconomic factors and how changes in these factors will affect ECL. The methodology and assumptions including any forecasts of future economic conditions are reviewed regularly.

The amount of ECL is recognised using a provision for doubtful debts account. If, in a subsequent period, credit quality improves and reverses any previously assessed significant increase in credit risk since origination, then the provision for doubtful debts reverts from lifetime ECL to 12-months ECL.

(o) Leases

Leases are classified at their inception as either operating or finance leases based on the economic substance of the agreement so as to reflect the risks and benefits incidental to ownership.

Operating leases
The minimum lease payments of operating leases, where the lessor effectively retains substantially all of the risks and benefits of ownership of the leased item, are recognised as an expense on a straight line basis.

Finance leases
Leases which effectively transfer substantially all of the risks and benefits incidental to ownership of the leased item to the Company are capitalised at the present value of the minimum lease payments and included in property, plant and equipment. A lease liability of equal value is also recognised.

(p) Property, plant and equipment

(i) Cost

Property, plant and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses.

19 Summary of significant accounting policies (continued)

(p) Property, plant and equipment (continued)

(ii) Depreciation

Depreciation of property, plant and equipment is calculated on a straight line basis to write off the net cost or revalued amount of each asset over its expected useful life. Estimates of remaining useful lives are reassessed annually for major items.

The expected useful lives are as follows:

Category	Useful life
Plant and equipment	5 - 20 years
Leasehold improvements	5 years

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains/(losses) on disposals are determined by comparing proceeds with carrying amount and included in the profit or loss. When revalued assets are sold, any amounts included in other reserves in respect of those assets are transferred to retained earnings.

(q) Provisions

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

(r) Trade and other payables

Trade and other payables represent liabilities for goods and services provided to the Company prior to the end of the financial year that are unpaid. These payables, which are generally settled on 30-90 day terms and are unsecured, are carried at amortised cost.

(s) Trade and other receivables

Trade and other receivables, which are generally settled on 30-90 day terms, are recognised and carried at original invoice amount less an allowance for any uncollectible amounts.

The Company applies the simplified expected credit loss approach to estimate an allowance for impairment losses. Under this approach, the Company estimates the expected lifetime losses to be recognised from initial recognition of the receivables. The amount of the impairment loss is recognised in the profit or loss within other expenses. When a trade receivable for which an impairment allowance had been recognised becomes uncollectible in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against other expenses in the profit or loss.

(t) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2020 reporting year and have not been early adopted by the Company. Where applicable, the Company will apply the new standards to the annual reporting periods beginning on or after the operative date. Based on the current assessment, the new accounting standards which have not been applied by the Company are not expected to have a material impact to the amounts reported in the Company's financial statements in the current or foreseeable future reporting periods.

(u) Comparative information

To enhance comparability with current year disclosures, certain comparative amounts in the financial statements have been reclassified.

In the directors' opinion:

(a) the financial statements and notes set out on pages 5 to 36 are in accordance with the *Corporations Act 2001*, including:
   (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
   (ii) giving a true and fair view of the Company's financial position as at 30 June 2020 and of its performance for the financial year ended on that date; and

(b) the financial statements and notes also comply with International Financial Reporting Standards as disclosed in note 19; and

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

This declaration is made in accordance with a resolution of directors.

Peter Promnitz
Director

Rohan Mead
Director

Melbourne
8 September 2020

pwc

Independent auditor's report

To the members of Australian Unity Bank Limited

Our opinion

In our opinion:

The accompanying financial report of Australian Unity Bank Limited (the Company) is in accordance with the *Corporations Act 2001*, including:

(a) giving a true and fair view of the Company's financial position as at 30 June 2020 and of its financial performance for the year then ended

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

What we have audited

The financial report comprises:

- the balance sheet as at 30 June 2020
- the statement of comprehensive income for the year then ended
- the statement of changes in equity for the year then ended
- the statement of cash flows for the year then ended
- the notes to the financial statements, which include a summary of significant accounting policies
- the directors' declaration.

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

Independence

We are independent of the Company in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional & 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.

Other information

The directors are responsible for the other information. The other information comprises the information included in the Annual Financial 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 on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the financial report

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

In preparing the financial report, the directors are responsible for assessing the ability of the Company 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 Company 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 the financial report.

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

PricewaterhouseCoopers

PricewaterhouseCoopers

CJ Heath

CJ Heath
Partner

Melbourne
8 September 2020