ANNUAL REPORT 2021

Great Southern Bank

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Annual highlights

$49.10m
Net profit after tax

420k
Customers

1,700
First time buyers supported through the Home Loan Deposit Scheme

$11.26b
Total deposits

Launched lowest ever fixed home loan

$0 monthly account fees on Everyday accounts

54%
Women in senior leadership positions

99% of customers off financial assistance post-COVID

$1.30m
invested in community

7,600t
of CO2 offset

A message from our CEO & Chairman

There is no doubt that fiscal year 2021 was a year of significant challenges for our customers, our team members, and the communities in which we live.

Against a backdrop of economic uncertainty, the pandemic and natural disasters including floods, we have stood side by side with our customers through both the good and the tough times.

This year we continued to invest in improving and safeguarding the customer experience. We launched some of our most competitive ever products, invested in cyber resilience to protect our customers, and rebranded from CUA to Great Southern Bank to encourage more Australians to discover customer-owned banking.

More people are joining us, attracted by a vibrant, compelling alternative to the biggest banks, and where customer service is valued and profits are reinvested into building a better bank for our customers.

We are privileged to present this report in a year where we continued our progress towards building a resilient bank that is capable, competitive and relevant for all Australians.

“More people are joining us, attracted by a vibrant, compelling alternative to the biggest banks, and where customer service is valued and profits are reinvested into building a better bank for our customers.

Delivering for customers

Many Australians – particularly younger generations – feel uncertain or pessimistic about their ability to own their own homes. That is why we are providing unprecedented support for their needs, last year helping three times as many first-time buyers as we did in 2018.

We simplified our home loan applications process while reducing the average time to agree a loan by a full day, helped build a savings culture among young Australians with high interest paying accounts, and launched our lowest ever rate for a fixed home loan.

We are also big supporters of Government schemes to help with home ownership. Through the First Home Loan Deposit Scheme alone we have helped over 1,700 Australians purchase their first home with - total lending exceeding $525 million.

We recognise that home ownership doesn't just start with a home loan, and are very conscious of the need to support our many customers holding deposit products. That's why we embed a strong savings culture in our customer offering through clever new products and online options including Save to Own, The Boost, The Vault, Home Saver and Home Saver Bundle.

During the year interest rates for our core eSaver accounts were consistently among the top five most competitive in the market compared to comparable accounts, including our Youth eSaver which offers market leading rates for under 18s. These efforts were acknowledged with the bank receiving awards including the Best Kids Savings Account and Best Regular Savings Account at the 2021 RateCity Awards.

Our most important technology launch was our scalable cloud-based Lendfast system last October which makes it easier and faster to get a home loan. Built to be the IT backbone of our future growth, by June Lendfast was processing a 60 per cent increase in applications. Over the same period the average time to agree a loan reduced by a full day.

Our Net Promoter Score measures the loyalty of our customers - perhaps the purest expression of customer advocacy – and remains far ahead of the big banks. To further improve our customer service we engaged with over 25,000 customers as part of our Voice of the Customer reviews, taking their feedback and making it part of our ongoing customer service commitments.

Cyber security threats continued to evolve throughout the year. To safeguard our customers, we have been improving our cyber defence and resilience through a multi-year program with strengthened governance and assurance frameworks across our partners and suppliers. We also improved our capability to detect and respond rapidly to new and emerging threats.

We also commenced a major transformation program as we transition from traditional data centres to the cloud. This is benefitting our customers through faster and simpler services, while accelerating our speed-to-market.

Responsible banking

Great Southern Bank became carbon neutral in 2021. We offset the estimated 7,600 tonnes of carbon emitted during the year through partnerships with organisations like First Nations' Cool Fire, and other renewable energy projects.

Our community support over the past 12 months was centred on financial wellbeing. Under our Financial Inclusion Action Plan, we focused our efforts on three key areas: housing affordability, family violence and digital exclusion. We dedicated $1.3 million during the year to ensure better social and economic outcomes at a time where many issues have been exacerbated by COVID-19.

Our work on the Connected Futures project with the Australian Red Cross and Infoxchange also won a global Shared Value Award for improving the digital and financial capability of people being excluded in an increasingly digital world.

We also continued to extend support to communities and customers impacted by natural disasters and the pandemic. While 99 per cent of the almost 5,400 members we helped during the peak of the crisis have now rolled off financial assistance, volumes are still 30 per cent higher than pre-pandemic levels. We remain well provisioned to provide further pandemic related financial help.

Strong financial results

Our strong financial performance and profits enable us to deliver more value for customers.

Over the last year we welcomed a further 33,000 active bank customers while growing our deposits.

Following a first half in which we focused on maintaining sustainable margins and looking after customers, growth accelerated sharply in the latter half of the year. Our Group Net Profit After Tax was $49.1 million, up 31.6 per cent thanks to strong revenue growth, lower funding costs, and our strategic focus on helping more Australians to own their own home. CUA Health contributed $9.3 million in NPAT for the year, up from $6.1 million.

We finished the year with growth in total income (up 9.6 per cent to $328.3 million), consolidated assets (up 0.9 per cent closing at $16.30 billion), retail deposits (up 1.6 per cent to $11.26 billion) and a further improved capital adequacy ratio (up from 14.38 per cent to 14.58 per cent). Our strategic focus on growing transactional banking boosted retail deposits and attracted more younger customers.

While there remain uncertainties in the global and national economy, including the impact of further pandemic outbreaks, we are well provisioned for future headwinds.

Building a bank for today and tomorrow

Many of the investments and changes we have made over the last year ensure we are well positioned for growth.

The proceeds from the sale of CUA Health to HBF together with the option to raise capital, means we are well placed to seek opportunities to achieve scale and greater efficiencies. We are exploring this through partnering, acquisitions or other collaboration opportunities with a view to driving better customer experiences for more Australians.

At the same time, rebranding as a bank helped us address one of the key obstacles to our growth. It is helping us reach more Australians than ever before, especially those who hadn't known what it meant to be part of a customer-owned bank – and they were delighted when they found out.

Our results are the outcome of the incredible hard work from our Great Southern Bank team, who throughout this testing year have shown flexibility, strength and determination. We are proud of their dedication, and the way they have turned to face each challenge while continuing to support our customers and we would like to thank them for everything they have contributed.

In our 75th year, we know there are considerable challenges in front of us, and indeed in front of all Australians. We also know that, together, we can build a better future with you, our customers, at the heart of everything we do.

Nigel Ampherlaw
Great Southern Bank Chairman

Paul Lewis
CEO

‘Forever Home’ 2021 Sustainability Strategy

Recognising the growing importance of sustainability to our customers, our communities and the world, last year we became certified carbon neutral under the Government’s Climate Active program and joined the UN Global Compact.

This is a significant step for us that sits alongside our work addressing financial vulnerability and helping people find a safe place to call home. Our approach is holistic, forward looking and purpose driven.

Our sustainability work – and our business itself - will be informed by our thinking across three strategic pillars and related environmental, social and governance issues that are critical to our members and bank.

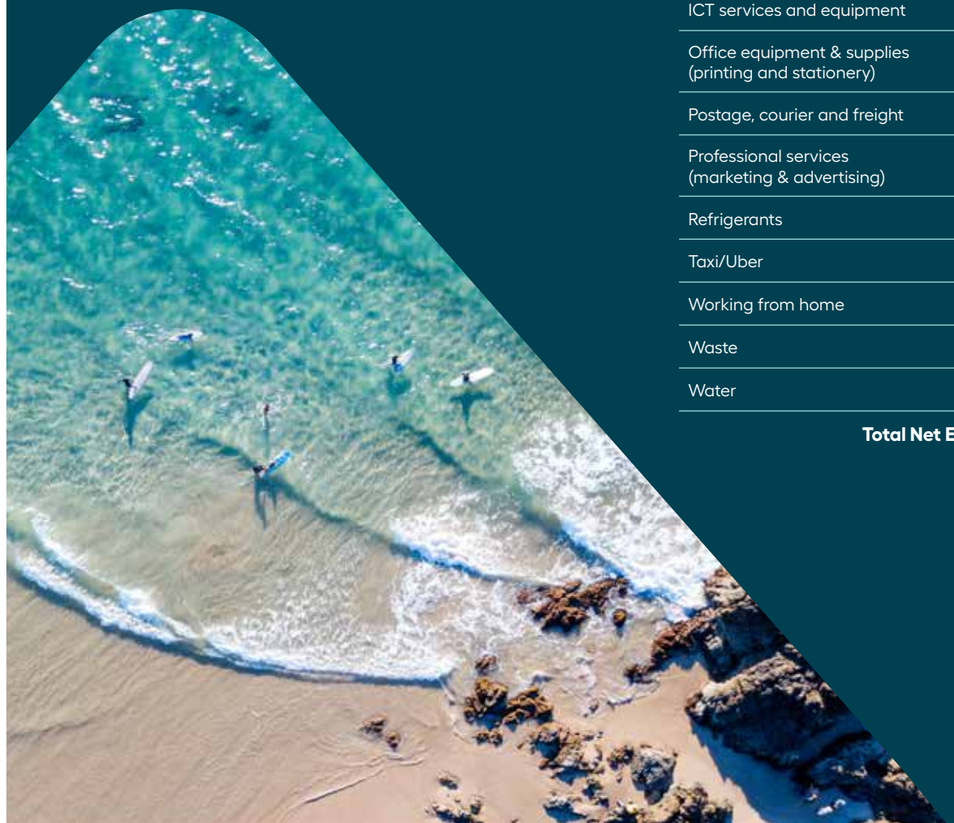
Strategic pillar	Why is it important?	Related material ESG Issues	Related Sustainable Development Goal
A home for all Australians	Our profits are generated for the benefit of our customers and communities who are at the heart of everything we do. We are driven by our social purpose – to help all Australians own their own home.	1. Member experience and wellbeing. 2. Financial vulnerability and resilience. 3. Financial wellbeing for Indigenous Australians. 4. Fair and accessible products.	1 NO POVERTY 8 DECENT WORK AND ECONOMIC GROWTH
An Australia for future generations	We recognise our role in creating an economy and financial system that is equipped to address global challenges for the next decades. Amongst them, climate change and the transition to a low carbon economy are some of the most significant challenges impacting the prosperity of our customers, society and the economy and a source of both risk and opportunity.	5. Climate action and disaster support. 6. Responsible banking and sustainable profits.	13 CLIMATE ACTION
A bank for today and tomorrow	Since inception in 1946, we have challenged the banking status quo by providing responsible, affordable, and accessible services. We continue to stand for integrity and purpose providing transparent information on how we conduct our business.	7. Governance, risk, and ethical conduct. 8. Financial crime, cybersecurity and privacy. 9. Team member experience and wellbeing.	16 PEACE, JUSTICE AND STRONG INSTITUTIONS

To Great Southern Bank, sustainability means doing business in a way that benefits our customers and communities today and tomorrow, while supporting the United Nations’ Sustainable Development Goals (SDGs).

We are in the process of creating a three-year implementation roadmap to update our governance, identify our targets and establish commitments and actions. More information will be provided throughout FY22.

Carbon emissions FY21

Emission source category	Tonnes CO^2-e
Accommodation	36.4
Base building	971.1
Company vehicles	91.9
Data centre electricity	369.4
Electricity	1,151.7
Employee commuting	1,086.8
Flights	93.8
ICT services and equipment	61.4
Office equipment & supplies (printing and stationery)	899.8
Postage, courier and freight	691.3
Professional services (marketing & advertising)	1,293.5
Refrigerants	55.2
Taxi/Uber	0.6
Working from home	259.7
Waste	42.9
Water	20.3
Total Net Emissions	**7,125.7**



Directors' report and financial statements

CREDIT UNION AUSTRALIA LTD
(trading as Great Southern Bank)

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2021

ABN 44 087 650 959

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Directors' report

The Directors have pleasure in presenting their report together with the financial statements of Credit Union Australia Ltd (trading as Great Southern Bank) (the Bank) and of the Group, being the Bank and its controlled entities, for the year ended 30 June 2021 and the auditor's report thereon.

Directors and Company Secretaries

Directors

The names and details of the Directors of the Bank in office during the financial year and until the date of this report are as follows. Directors were in office for this entire period unless otherwise stated.

Nigel Ampherlaw
Paul Bedbrook
Paul Lewis
Kyle Loades
Louise McCann
Deborah O'Toole
Andrew Reeves (resigned on 31 May 2021)
Wayne Stevenson

Nigel Ampherlaw
B.Com., FCA, MAICD
Chairman and Independent Non-Executive Director

Nigel joined the Board in March 2011. He has been the Chairman since 15 November 2017. He is a member of the Board Remuneration and Nominations Committee and was Chair of the Board Growth Opportunities Committee and a member of the Board Strategy Committee until 10 February 2021.

Nigel has extensive experience in risk management, technology, consulting and auditing for financial services institutions in Australia and the Asia-Pacific region. He is a chartered accountant by profession. He was a Partner of PricewaterhouseCoopers for 22 years where he held a number of leadership positions, including heading the financial services audit, business advisory services and consulting businesses. He also held a number of senior client Lead Partner roles.

Nigel is a Director of the Australian Red Cross Blood Service, and Elanor Investors Group.

Paul Bedbrook
B.Sc., AICD, F Fin
Independent Non-Executive Director

Paul joined the Board in July 2011. He is the Chairman of the Board Remuneration and Nominations Committee, the Chairman of CUA Health Limited (CUA Health) and a member of the CUA Health Board Audit and Board Risk Committees as well as the Chairman of Credicorp Insurance Pty Ltd (Credicorp Insurance) Board and a member of the Credicorp Insurance Board Audit and Board Risk Committees.

Paul has over 40 years' experience in financial services, specifically across the areas of banking, insurance and investment management. He is a former long-term senior executive with ING (the Dutch global banking, insurance and investment group) and held CEO positions in ING DIRECT Canada, ING Australia and ING Asia Pacific.

Paul is also the Chairman of Zürich Financial Services Australia and Elanor Investors Group, and a Director of the National Blood Authority.

Paul Lewis
BA, MBA
Managing Director and the Chief Executive Officer

Paul was appointed to the Board on 1 November 2019, coinciding with his commencement in the role of CEO.

He is also the Chairman of Credicorp Finance Pty Ltd (Credicorp Finance) and a Director of CUA Health, Credicorp Insurance and CUA Management Pty Ltd (CUA Management).

Directors and Company Secretaries (continued)

Paul first joined Great Southern Bank in February 2018 as the Chief Sales Officer with responsibility for leading Great Southern Bank's distribution channels.

With over 20 years' experience in financial services leadership positions, Paul has held numerous retail banking executive roles in Australia, New Zealand and Malaysia.

Prior to joining Great Southern Bank, Paul was the Senior Head of Strategy and Transformation at Westpac, where his role included leading the Consumer banking strategy development for the Group. He held a variety of senior executive roles within ANZ in Australia, New Zealand and South East Asia, including three years as General Manager of the ANZ Australian Retail Branch Network. In this role, Paul was responsible for leading more than 800 branches and 7,000 employees before being seconded to Malaysia for two years as the Managing Director, Retail Banking for AmBank with responsibility for 6,500 staff and 2.5 million retail customers.

Paul's professional qualifications include an MBA and BA from Massey University, NZ. He is an alumnus of the London Business School's Senior Executive Programme and is currently a Director of the Business Council of Co-operatives and Mutuals (BCCM) Ltd.

Kyle Loades
MBA, FAICD, FTL
Independent Non-Executive Director

Kyle joined the Board on 1 December 2017. He is a member of the Board Risk Committee, Board Audit Committee (from 4 May 2021) and was a member of the Board Strategy Committee until 10 February 2021. He is also a Director of the CUA Health Board and member of the CUA Health Board Audit and Board Risk Committees as well as a Director of the Credicorp Insurance Board and a member of the Credicorp Insurance Board Audit and Board Risk Committees.

Kyle is a Chairman, Non-Executive Director and Advisor with more than two decades of experience across the commercial, community and public sectors. He has a particular interest and experience in the transformation of business facing disruption.

Kyle is currently Chair of Hunter Medical Research Institute and Active Super and a Non-Executive Director of AMA Group. He is a Conjoint Professor in the Faculty of Business and Law at the University of Newcastle. Kyle completed a three-and-a-half year term as the Chairman of the NRMA where he directed a period of significant cultural and operational change requiring considerable strategy and risk expertise.

In an executive capacity he established, grew and managed an independent car broking business that disrupted the motor vehicle retail industry. The company was purchased by ASX listed A.P Eagers.

Kyle is a Fellow of the AICD and AUSTTA, has completed an MBA at University of Newcastle, a Harvard Business School Certificate in Disruptive Strategy and a Transformation Leadership Program at ANU.

Louise McCann
MM MGSM, FAICD, FAIM, FRSA
Independent Non-Executive Director

Louise joined the Board in November 2015 and is a member of the Board Risk and Board Remuneration and Nominations Committees and was a member of the Board Strategy Committee until 10 February 2021.

Louise has a diverse portfolio including technology, media, health, education, personal transport, accounting and professional services. Louise's executive career was as a CEO and senior executive in the media, commercial market research, brand and communications sectors in Australia, New Zealand and across Asia. From April 2011 until August 2015 Louise was a Non-Executive Director with iiNet Limited and Chaired the Remuneration and Nominations Committee. iiNet was sold to TPG to form Australia's second largest telecommunications company in August 2015.

Louise's current Non-Executive Director portfolio comprises Chair of Grant Thornton Australia Limited, University of Notre Dame and A2B Limited where she is also Chair of the Remuneration and Nomination Committee.

Directors and Company Secretaries (continued)

Deborah O'Toole
LLB, MAICD
Independent Non-Executive Director

Deb joined the Board in March 2014. She is the Chairman of the Board Risk Committee and a member of the Board Audit Committee and was a member of the Board Growth Opportunities Committee until 10 February 2021.

Deb is a qualified lawyer and has more than 30 years' experience in mining, resources and rail freight industries, many of which have been focused in the finance function including as CFO at Aurizon, Queensland Cotton and MIM Holdings. She served as Chairman of the Audit Committee for CSIRO, the Norfolk Group and Pacific Aluminium. Deb was also a member of the former Workers' Compensation Board of Queensland and a former Board member of Queensland Country Health Society.

Deb has recently been appointed Chair of Transurban Qld Finance Pty Limited and is a Director of Sims Metal Management Limited, Pacific National Rail, Boral Limited and Alumina Limited. Deb is a graduate of the Harvard Business School's Advanced Management Program.

Andrew Reeves
BA (Economics), AMP
Independent Non-Executive Director (resigned on 31 May 2021)

Andrew joined the Board on 1 September 2017. He was a member of the Board Growth Opportunities Committee until 10 February 2021, the Board Audit and Board Risk Committees.

Andrew is an experienced consumer goods executive who has 40 years' experience with major Australian consumer brands. His career included a variety of marketing and product development roles, before moving into a variety of managing director and CEO roles over the past 20 years. Andrew took on his first Managing Director role at The Smith's Snackfood Company in 1993. He subsequently held Managing Director roles with Coca-Cola Amatil and Lion Nathan's Australian brewing business and dairy and drinks business. Most recently, Andrew was the CEO of George Weston Foods for six years.

At the time of his resignation Andrew was a Non-Executive Director of Keytone Dairy Corporation Ltd and Inghams Group Limited.

Wayne Stevenson
B.Com., CA, FAICD
Independent Non-Executive Director

Wayne joined the Board in February 2014. He is the Chairman of the Board Audit Committee and a member of the Board Risk Committee.

Wayne's executive background was largely in banking and financial services with ANZ where he held several senior positions across Australia, New Zealand and Asia. Wayne brings strong expertise of the financial services industry including 15 years in CFO roles at ANZ involving a broad range of disciplines including the undertaking of significant acquisitions, restructures and divestments. His roles included Group General Manager, Group Strategy, and prior to that he held the role of CFO Asia Pacific, Europe and America.

Wayne's current independent Non-Executive Director portfolio includes BigTinCan Holdings Ltd (ASX listed), Cuscal Limited, MediaWorks Holdings Ltd, and ANZ Lenders Mortgage Insurance Ltd.

Company Secretaries

The names and details of the Company Secretaries of the Bank during the financial year and until the date of this report are as follows. The Company Secretaries were in office for this entire period unless otherwise stated.

Nicole Pedwell
Alexander Ong (resigned 27 November 2020)

Directors and Company Secretaries (continued)

Nicole Pedwell
B.IntBus., FGIA, FCIS, GAICD
Company Secretary

Nicole joined the company in November 2014 and was appointed a Company Secretary of the Bank in December 2014. She is also a Company Secretary to CUA Health, Credicorp Insurance Pty Ltd, CUA Management and Credicorp Finance.

Nicole is a qualified Company Secretary, corporate governance and communications professional. Nicole has over 20 years' investor and stakeholder relations experience in both global and domestic financial services entities. Nicole holds a Bachelor of International Business from Griffith University, a Graduate Diploma in Applied Corporate Governance from the Governance Institute of Australia and is a graduate of the Australian Institute of Company Directors.

Nicole is a director of the Financial Basics Foundation, the Financial Basics Community Foundation and ESSI Money Pty Ltd.

Alexander Ong
LL.B(Hons), B.Com.
General Counsel and Company Secretary (resigned 27 November 2020)

Alex joined the Bank in March 2013 as General Counsel and Company Secretary, and resigned on 27 November 2020. He was also a Company Secretary to CUA Health, Credicorp Insurance Pty Ltd, and Credicorp Finance.

Alex is a financial services lawyer and compliance professional. His experience spans roles as a government regulator, in-house counsel and a private practitioner. Prior to the Bank, Alex held senior roles leading the legal, compliance and risk management departments of leading financial services organisations, focused on developing and implementing legal and compliance strategy, driving the development of a culture of compliance and overseeing strategies to reduce and manage enterprise risk. He has extensive company secretarial experience and regularly advises on general corporate law, directors' duties and corporate governance. Alex holds a Bachelor of Laws (Hons) and Bachelor of Commerce (in accounting and finance) from the University of Sydney.

Directors' meetings

The number of meetings of Directors and meetings of Board Committees held during the year and the number of meetings attended by each Director was as follows:

A = Number of meetings eligible to attend.
B = Number of meetings attended.

	Board		Board Audit Committee		Board Risk Committee		Board Remuneration Committee		Combined Board Remuneration & Risk Committee Meeting[1]		Board Strategy Committee		Board Growth Opportunities Committee	
	A	**B**	**A**	**B**	**A**	**B**	**A**	**B**	**A**	**B**	**A**	**B**	**A**	**B**
N. Ampherlaw	12	12					6	6	2	2	3	3	1	1
P. Bedbrook	12	12					6	6	2	2				
K. Loades	12	11			4	4			2	2	3	3		
P. Lewis	12	12												
L. McCann	12	12			1	1	6	6	2	2	3	3		
D. O'Toole	12	11	4	4	4	4			2	2			1	1
A. Reeves	11	10	4	4	3	3			2	1			1	1
W. Stevenson	12	12	4	4	4	4			2	2				

[1] The Board Remuneration Committee and the Board Risk Committee held two combined meetings during the year to consider key risks relating specifically to remuneration issues

The above table relates to the Bank's Directors' meetings. The subsidiaries have their own Boards and Board Committee meetings attended by the respective subsidiary Board members.

Directors and Company Secretaries (continued)

Remuneration of non-executive directors and other key management personnel

The bank's remuneration policy aims to remunerate personnel competitively in line with comparable financial services organisations in order to attract and retain the talent necessary to meet organisational objectives. In addition, the remuneration policy and framework are designed to ensure Great Southern Bank's long term financial soundness and to support an effective risk management framework.

Non-executive directors' fees

Non-executive directors receive fees to recognise their contribution to the work of the Board and Board Committees on which they serve. Non-executive directors do not receive any performance-related remuneration. Non-executive directors who participate on Board Committees do not receive additional remuneration.

A market benchmarking review of directors' fees is undertaken periodically. In determining the appropriate level of remuneration, external consultants are engaged to provide independent advice to ensure that the compensation is set competitively compared to the market. Periodically, external remuneration specialists are engaged to assist the organisation in benchmarking Non-executive directors remuneration. In the interim years, CPI adjustments are made.

Other key management personnel (KMP)

Remuneration comprises total fixed remuneration (TFR) and elements of at-risk pay, including a short term incentive (STI) and a long term incentive (LTI). These elements have been designed to attract and retain talent and are comprised of the following:

- TFR is intended to recognise the delivery of individual roles and responsibilities and is reviewed annually by the Board Remuneration Committee and the Board. The review considers individual performance and market remuneration data.
- The STI provides an 'above and beyond' reward for contribution aligned to customer interests, annual business performance and collective success and is based on individual and organisational targets. The Board may apply its discretion in determining any STI awards to reflect performance during the year. A portion of the STI is deferred for certain roles to encourage effective risk management in accordance with APRA requirements.
- The LTI is designed to attract future talent as well as to motivate and retain current executives, focusing on sharing the Bank's successes as a team rather than rewarding individual performance. It also aims to balance short-term, in-year performance with the longer term sustainable creation of value for the Bank and its customers. Any LTI award is paid following the end of a four-year performance period.

Directors' benefits

During, or since the end of the financial year, no Director has received, or become entitled to receive, a benefit by reason of a contract entered into by the Bank, or its controlled entities, with the Director, a firm of which the Director is a customer, or an entity in which the Director has a substantial financial interest, other than a benefit to which the Director is entitled as a customer of the Bank. All transactions with entities associated with Directors are at arm's length and on commercial terms.

Indemnification of directors and officers

During the financial year, the Bank paid an insurance premium in respect of an insurance policy for the benefit of directors, secretaries, executive officers and employees of the Bank and related entities. The insurance policy grants indemnification in respect of certain liabilities for which the *Corporations Act 2001* allows indemnification. The insurance policy does not permit the disclosure of the nature of the liabilities insured nor the amount of the premium. No insurance cover or indemnification has been provided for the benefit of the auditor of the Bank.

Financial performance disclosures

Principal activities

The principal activities of the Bank during the financial year comprised the raising of funds by deposit and the provision of loans and associated services to customers. Through its controlled entities, the Group was also involved in private health insurance, general insurance and securitisation activities.

Financial performance disclosures (continued)

Significant changes in the state of affairs

There was no significant change in the state of affairs of the Group during the year ended 30 June 2021 not otherwise contained in the director's report or the financial statements.

Dividends

The Constitution of the Bank does not allow for the payment of dividends on any member shares currently on issue.

Review of operations

The Group reported a net profit after tax for the financial year ended 30 June 2021 of $49.1 million (2020: $37.3 million).

A deliberate approach was undertaken early in the year to stabilise and maintain margins whilst supporting our customers through the uncertainty of COVID-19. As confidence returned and the Group successfully commenced the roll out of the new home lending origination system, focus moved to building momentum in growing the portfolio. This saw a growth in net interest income of 10.9% to $297.7 million (2020: $268.2 million), together with growth in deposits of 1.8% to $11.3 billion (2020: $11.1 billion) and a small decrease in gross loans and advances of 0.7% to $13.5 billion (2020: $13.6 billion) during the year.

Other net operating income decreased by $6.1 million to $4.1 million for the year ended 30 June 2021 (2020: $10.2m). This was driven primarily by decreased net fee and commission income of $4.6 million as the Group focussed on driving customer value as well as reduced investment income of $1.9 million owing to the continuing impact of COVID-19 on strategic investments.

Net insurance income for the year ended 30 June 2021 increased slightly by $0.3 million to $2.8 million (2020: $2.5 million) as some conservatism built into the provisioning for claims was released as the initial uncertainty of COVID-19 gave way to improving economic conditions.

Underlying expenses for the Group increased by 9.6% over the course of the year. The Group continues to invest heavily in technology to deliver an improved banking experience for customers focused on delivering simple, competitive and effortless products and services. Over the past five years, the Group has invested an average of $15.7 million per annum (2020: $15.2 million) in technology systems and software including implementation of a new home lending origination system, upgrades to the core banking platform, the cloud migration program, real time credit card payments, mobile banking enhancements, and enhanced data and analytics capability to support regulatory requirements.

This continued investment is reflected in the intangible assets held on the Group's balance sheet and also the associated amortisation charge of $21.0 million that is reflected in the Group's net profit after tax.

The increase in administrative expenses of $0.8 million to $22.2 million (2020: $21.4 million) and other expenses of $10.2 million to $29.4 million (2020: $19.2 million) were driven largely by the rebranding ($6.1 million) to support our renewed purpose, additional support required for the investments in technology ($1.4 million) as well as regulatory and compliance activities such as open banking and anti-money laundering ($2.8 million).

Underlying asset quality remains strong, as the Group continued to invest in risk management and lending practices. This, together with a release of $4.8 million from the provisions held for the increase in applications for financial assistance owing to COVID-19, resulted in a reduction in credit and other financial asset impairment charges.

The growth in the profit from the discontinued Health business reflects the increase in premium revenue of $4.6 million from strong customer acquisition activities and product positioning, improvements to the customer experience and a quick response to COVID-19 impacts, including a premium increase pause. Customer benefits increased by $5.2 million, as the utilisation and cost of health care services returned to relatively normal levels. An additional claims provision amount has been taken up to support the expected catch-up of claims. Investment income reflected the market recovering from the impact of COVID-19.

Financial performance disclosures (continued)

Review of operations (continued)

The Banking Group remains well capitalised with a total capital ratio of 14.58% (2020: 14.38%).

The Bank formally changed its trading name on 3 February 2021 from Credit Union Australia Ltd to Great Southern Bank supporting its evolution as Australia's largest customer owned banking organisation.

Risk management

The Group's strategic and operational outcomes are underpinned by the effective management of key risks through the three lines of accountability. This model articulates the key layers of risk management including roles, accountabilities and responsibilities of each layer.

During the year, the Group continually evaluated and responded to emerging risks in accordance with its defined Risk Management Strategy. This, along with the supporting policies and standards, has helped management to deliver on the business strategy within a comprehensive framework for managing risk. The enterprise wide risk management activities enable the Group to aggregate the individual classes of material risk to form a Group wide view of risks and to support better, more customer focused decision making.

Management continues to invest in improvements to risk management processes, people and systems to protect customers and meet increasing regulatory obligations.

Climate risk

The changing climate poses a risk in the future due to extreme climate events, while customers, communities and other stakeholders are increasingly expecting greater engagement with sustainability issues. It is also driving changes in regulation and supervisory expectations of banks. This year, the Group assessed its own practice against the recommendations of the Taskforce on Climate-related Financial Disclosures (TCFD) and is working on an implementation plan. The Group continuously monitors the regulators' climate-related agenda and engages in industry-wide developments through its membership in COBA.

On the back of the guidance by the Climate Measurement Standards Initiative for Australian banks, general insurers, and asset owners, the Group has worked with an external party to identify the natural hazards and the resulting climate risk for its mortgage portfolio across three scenarios to 2030, 2050 and 2100, to gain a deeper understanding of exposures and risks. The findings will be worked through to determine if and how they can shape the Group's services to customers in the future.

Other matters

Capital and Remuneration Prudential Disclosures

For Australian Prudential Regulation Authority's (APRA) Authorised Deposit-taking Institution (ADI) Prudential Standard APS 330 *Public Disclosure*, refer to the Prudential Disclosures section of the Bank's website (http://www.gsb.com.au/about-us/corporate-governance/prudential-disclosures).

Carbon neutral

The Group became certified carbon neutral during the year ended 30 June 2021 under the Australian Government's Climate Active Standard for Organisations. Climate Active is the Australian Department of Industry, Science, Energy and Resources' corporate climate action program, enabling businesses to account for their Greenhouse Gas Emissions and seek independent verification and certification. The carbon the Group emits through its footprint of offices, branches and team members was 7500 tonnes C02-e. Further information can be found in the Group's Public Disclosure Statement on the Department's website. This carbon impact has been fully offset through a savannah burning project by the West Arnhem Land Fire Abatement (WALFA) and an Indian wind project. The Group considers addressing operational GHG emissions as the first step to mitigate the impacts of climate change which will be further enabled by the newly released sustainability strategy published in the Annual Report for the year ended 30 June 2021.

Directors' report

Other matters (continued)

Supporting our team members and customers through COVID-19

The Group continues to provide additional support to team members through the pandemic, offering 2 weeks additional paid special pandemic leave. Additionally, the Group did not take up government support (such as JobKeeper) during the pandemic. The Group is proud that the Call Centre and Branches have remained fully open and team members are there to support customers with all their financial needs through these challenging times. That support includes financial assistance packages such as deferral of home loan payments, fee-free redraw of excess repayments, reduction of home loan repayments, temporary switch to interest only repayments, repayment relief on credit cards, and temporary suspension of health policy payments.

Events subsequent to reporting date

New securitisation trust

On 16 August 2021, the Bank established a new capital effective securitisation trust: Series 2021-1 Harvey Trust. The Bank completed the issuance of $750 million of residential mortgage-backed securities to external investors at a weighted average margin of 72 basis points above the one-month bank bill swap rate, which was the lowest margin achieved for a capital effective securitisation issuance by any ADI in Australia since the global financial crisis.

COVID-19 pandemic

There continues to be uncertainty regarding how the COVID-19 pandemic will evolve. Consideration was given to the wider impact of varying levels of pandemic development and restrictions across states, border closures and the extension of government support measures including further regulatory support for loans impacted by COVID-19 announced by APRA on 19 July 2021. The Group has not identified COVID-19 subsequent events that would require adjustments to the amounts or disclosures in the financial statements.

Dividend receivable

The Bank has an investment in the shares of an unlisted entity, refer to Note 3.2. On 24 August 2021, the entity announced that a final dividend of 2.1 cents and a special dividend of 13.4 cents have been declared by its Board. These dividends will be fully franked and will be paid on 5 October 2021. The financial effects of these dividends have not been brought to account in the financial statements for the year ended 30 June 2021 and will be recognised in the following year.

There are no other matters or circumstances not otherwise dealt with in the Financial Report that have significantly or may significantly affect the Group.

Likely developments

Sale of CUA Health Limited

On 13 May 2021, the Bank entered into an agreement to sell its wholly owned subsidiary, CUA Health. Settlement of the transaction is expected to take place on or after 30 September 2021. As part of the sale, the Bank entered into a distribution agreement on 12 May 2021 with the buyer to offer health insurance products through its branch network and digital channels after the completion of the transaction.

COVID-19 pandemic

While it is expected that the pandemic will eventually be controlled, the Group remains well positioned to respond quickly and effectively in adapting its business and operational requirements in a challenging and volatile environment. For further impact assessment, refer to Note 1.2(c).

In addition to the above likely developments, any further information about likely developments in the operations of the Group and the expected results of those operations in future financial years has not been included in this report because disclosure of the information would be likely to result in unreasonable prejudice to the Group.

Directors' report

Other matters (continued)

Environmental regulation

The Group's operations are not subject to any significant environmental regulations under either Commonwealth or State legislation. The Board believes that the Group is not aware of any breach of environmental requirements as they apply to the Group.

Rounding

Except where indicated, the amounts contained in this report and in the financial statements have been rounded to the nearest million dollars in accordance with ASIC Corporations Instrument 2016/191.

Lead auditor's independence

The Directors have obtained a copy of the Lead auditor's independence declaration as required under section 307C of the *Corporations Act 2001*, refer to page 20.

Authorisation by Directors

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

Nigel Ampherlaw
Chairman

Wayne Stevenson
Director

Brisbane
25 August 2021

KPMG

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

To the Directors of Credit Union Australia Ltd (trading as Great Southern Bank) (the Bank)

I declare that, to the best of my knowledge and belief, in relation to the audit of the Bank for the financial year ended 30 June 2021 there have been:

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

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

KPMG

KPMG

Martin Wardle
Partner
Brisbane
25 August 2021

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2021

Income statements

For the year ended 30 June 2021

	Note	Group 2021 $m	Group 2020 $m	Bank 2021 $m	Bank 2020 $m
Net interest income					
Interest income	2.1	**439.6**	511.2	**439.6**	511.2
Interest expense	2.1	**(141.9)**	(243.0)	**(141.9)**	(243.0)
Total net interest income		**297.7**	268.2	**297.7**	268.2
Other net operating income	2.1	**4.1**	10.2	**15.1**	22.2
Net insurance income					
Premium revenue		**2.4**	3.8	**-**	-
Claims (expense) / recovery		**0.4**	(1.5)	**-**	-
Other insurance income		**-**	0.2	**-**	-
Total net insurance income	4.1	**2.8**	2.5	**-**	-
Share of net loss of a joint venture		**(2.4)**	(2.6)	**(2.4)**	(2.6)
Total net operating income		**302.2**	278.3	**310.4**	287.8
Expenses					
Personnel		**(125.9)**	(119.3)	**(125.5)**	(118.7)
Occupancy		**(2.5)**	(3.2)	**(2.5)**	(3.2)
Depreciation	2.2	**(20.6)**	(23.3)	**(20.6)**	(23.3)
Amortisation of intangible assets		**(21.0)**	(17.4)	**(21.0)**	(17.4)
Information technology		**(20.0)**	(16.8)	**(20.0)**	(16.8)
General administrative expenses	2.2	**(22.2)**	(21.4)	**(23.6)**	(22.5)
Other expenses	2.2	**(29.4)**	(19.2)	**(33.7)**	(18.9)
Total operating expenses		**(241.6)**	(220.6)	**(246.9)**	(220.8)
Profit before impairment and income tax		**60.6**	57.7	**63.5**	67.0
Software asset impairment	5.3	**(0.9)**	-	**(0.9)**	-
Credit and other financial asset impairment	2.2	**(2.7)**	(18.8)	**(2.7)**	(18.8)
Profit before income tax		**57.0**	38.9	**59.9**	48.2
Income tax expense	2.3(a)	**(16.4)**	(11.3)	**(15.2)**	(11.7)
Profit from continuing operations		**40.6**	27.6	**44.7**	36.5
Income from discontinued operations	5.13	**8.5**	9.7	**-**	1.0
Profit for the year		**49.1**	37.3	**44.7**	37.5
Profit for the year is attributable to:					
Members of the Bank		**49.1**	37.3	**44.7**	37.5

The income statements should be read in conjunction with the accompanying notes.

Statements of comprehensive income

For the year ended 30 June 2021

	Note	Group 2021 $m	Group 2020 $m	Bank 2021 $m	Bank 2020 $m
Profit for the year		**49.1**	37.3	**44.7**	37.5
Other comprehensive income					
Items that will be reclassified to profit or loss					
Cash flow hedges:					
Transferred to profit and loss		**(0.1)**	0.4	**(0.1)**	0.4
		(0.1)	0.4	**(0.1)**	0.4
Items that will not be reclassified to profit or loss					
Cash flow hedges:					
Revaluation taken to members' funds		**8.3**	4.5	**8.3**	4.5
Revaluation of debt instruments - fair value through other comprehensive income		**-**	-	**1.0**	(0.4)
Revaluation of equity instruments - fair value through other comprehensive income		**4.6**	-	**4.6**	-
		12.9	4.5	**13.9**	4.1
Income tax on other comprehensive income	2.3(d)	**(3.8)**	(1.5)	**(4.1)**	(1.4)
Other comprehensive income after tax		**9.0**	3.4	**9.7**	3.1
Total comprehensive income		**58.1**	40.7	**54.4**	40.6
Total comprehensive income for the period is attributable to:					
Members of the Bank		**58.1**	40.7	**54.4**	40.6
Total comprehensive income for the period attributable to members of the Bank arises from:					
Continuing operations		**49.6**	31.0	**54.4**	39.6
Discontinued operations	5.13	**8.5**	9.7	**-**	1.0
		58.1	40.7	**54.4**	40.6

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

Balance sheets

As at 30 June 2021

	Note	Group 2021 $m	Group 2020 $m	Bank 2021 $m	Bank 2020 $m
Assets					
Cash and cash equivalents	3.1	**466.3**	317.7	**459.7**	308.7
Financial assets - fair value through profit or loss	3.2	**3.0**	79.9	**-**	-
Financial assets - amortised cost	3.2	**2,001.0**	1,981.6	**4,574.8**	5,403.9
Derivative financial instruments	3.3(a)	**2.1**	2.2	**2.1**	2.2
Loans and advances	3.4	**13,547.0**	13,576.4	**13,547.0**	13,576.4
Financial assets - fair value through other comprehensive income	3.2	**47.3**	42.9	**70.1**	72.1
Other assets	5.1	**17.8**	19.7	**17.7**	9.0
Investments in controlled entities	5.9(b)	**-**	-	**1.5**	1.5
Investments in a joint venture	5.10	**3.0**	2.2	**3.0**	2.2
Deferred tax asset	2.3(c)	**11.1**	13.3	**10.6**	11.0
Property, plant and equipment	5.2	**10.4**	14.2	**10.4**	14.2
Intangible assets	5.3	**58.4**	59.6	**58.4**	59.5
Right-of-use assets	5.4	**29.0**	36.5	**29.0**	36.5
Assets classified as held for sale[1]	5.13	**102.9**	-	**-**	-
Total assets		**16,299.3**	16,146.2	**18,784.3**	19,497.2
Liabilities					
Deposits	3.6	**11,256.7**	11,076.0	**11,263.4**	11,078.7
Derivative financial instruments	3.3(a)	**4.3**	13.0	**4.3**	13.0
Borrowings[2]	3.7	**3,751.0**	3,830.4	**6,349.7**	7,286.3
Other liabilities[2]	5.5	**25.8**	61.4	**28.0**	29.4
Lease liabilities	5.6	**31.3**	39.6	**31.3**	39.6
Provisions	5.7	**26.9**	25.1	**26.9**	23.9
Liabilities directly associated with assets classified as held for sale	5.13	**44.5**	-	**-**	-
Total liabilities		**15,140.5**	15,045.5	**17,703.6**	18,470.9
Net assets		**1,158.8**	1,100.7	**1,080.7**	1,026.3
Members' funds					
Reserves	5.8	**31.0**	23.5	**31.4**	23.2
Retained earnings		**1,127.8**	1,077.2	**1,049.3**	1,003.1
Total members' funds		**1,158.8**	1,100.7	**1,080.7**	1,026.3

[1] Included in assets classified as held for sale at the Bank level is the investment in the subsidiary held for sale. Refer to Note 5.9(b) and 5.13.
[2] The prior year balances have been adjusted for consistency with the current year disclosures that reflect updated information.

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

Statements of changes in members' funds

For the year ended 30 June 2021

	Group Reserves $m	Group Retained earnings $m	Group Total members' funds $m	Bank Reserves $m	Bank Retained earnings $m	Bank Total members' funds $m
Balance at 1 July 2019	30.7	1,026.6	1,057.3	30.7	952.3	983.0
Adoption of new accounting standards	-	2.7	2.7	-	2.7	2.7
Restated balance as at 1 July 2019	30.7	1,029.3	1,060.0	30.7	955.0	985.7
Profit for the year after tax	-	37.3	37.3	-	37.5	37.5
Other comprehensive income after tax:						
Cash flow hedges:						
Revaluation taken to members' funds	3.1	-	3.1	3.1	-	3.1
Transferred to profit and loss	0.3	-	0.3	0.3	-	0.3
Revaluation of debt instruments - fair value through other comprehensive income	-	-	-	(0.3)	-	(0.3)
Total comprehensive income for the period	3.4	37.3	40.7	3.1	37.5	40.6
Redemption of member shares	0.1	(0.1)	-	0.1	(0.1)	-
Appropriation of retained earnings for credit losses reserve	(10.7)	10.7	-	(10.7)	10.7	-
Balance at 30 June 2020	23.5	1,077.2	1,100.7	23.2	1,003.1	1,026.3
Balance at 1 July 2020	**23.5**	**1,077.2**	**1,100.7**	**23.2**	**1,003.1**	**1,026.3**
Profit for the year after tax	**-**	**49.1**	**49.1**	**-**	**44.7**	**44.7**
Other comprehensive income after tax:						
Cash flow hedges:						
Revaluation taken to members' funds	**5.9**	**-**	**5.9**	**5.9**	**-**	**5.9**
Transferred to profit and loss	**(0.1)**	**-**	**(0.1)**	**(0.1)**	**-**	**(0.1)**
Revaluation of debt instruments - fair value through other comprehensive income	**-**	**-**	**-**	**0.7**	**-**	**0.7**
Revaluation of equity instruments - fair value through other comprehensive income	**3.2**	**-**	**3.2**	**3.2**	**-**	**3.2**
Total comprehensive income for the period	**9.0**	**49.1**	**58.1**	**9.7**	**44.7**	**54.4**
Redemption of member shares	**0.1**	**(0.1)**	**-**	**0.1**	**(0.1)**	**-**
Appropriation of retained earnings for credit losses reserve	**(1.6)**	**1.6**	**-**	**(1.6)**	**1.6**	**-**
Balance at 30 June 2021	**31.0**	**1,127.8**	**1,158.8**	**31.4**	**1,049.3**	**1,080.7**

The statements of changes in members' funds should be read in conjunction with the accompanying notes.

Statements of cash flows

For the year ended 30 June 2021

	Note	Group 2021 $m	Group 2020 $m	Bank 2021 $m	Bank 2020 $m
Cash flows from operating activities					
Interest received		**445.6**	529.2	**445.5**	527.4
Interest paid		**(140.6)**	(242.1)	**(140.7)**	(242.3)
Fees and commissions received		**29.4**	30.8	**29.7**	32.1
Fees and commissions paid		**(26.4)**	(25.0)	**(25.1)**	(23.3)
Contributions/premiums received		**153.8**	148.9	**-**	-
Benefits/claims paid		**(124.6)**	(121.6)	**-**	-
Dividends received		**0.4**	1.8	**7.1**	9.7
Other non-interest income received		**13.7**	2.5	**17.3**	6.1
Payments to suppliers and employees		**(221.1)**	(202.0)	**(219.1)**	(182.6)
Income tax paid		**(22.7)**	(23.1)	**(15.3)**	(20.5)
Change in loans and advances		**15.1**	(169.2)	**15.1**	(169.2)
Change in financial assets		**(14.7)**	(113.8)	**(14.7)**	(116.0)
Change in deposits		**180.7**	495.2	**184.7**	491.2
Net cash provided by operating activities	3.1(a)	**288.6**	311.6	**284.5**	312.6
Cash flows from investing activities					
Payments for plant, equipment and intangible assets		**(24.0)**	(25.1)	**(24.0)**	(25.1)
Proceeds from sale of property, plant and equipment		**0.4**	-	**0.4**	-
Net cash (used in) investing activities		**(23.6)**	(25.1)	**(23.6)**	(25.1)
Cash flows from financing activities					
Net repayments to borrowings		**(92.3)**	(172.7)	**(93.8)**	(171.3)
Net repayments to lease liabilities		**(16.1)**	(16.7)	**(16.1)**	(16.7)
Net cash (used in) financing activities	3.1(b)	**(108.4)**	(189.4)	**(109.9)**	(188.0)
Change in cash and cash equivalents		**156.6**	97.1	**151.0**	99.5
Cash at the beginning of the year		**317.7**	220.6	**308.7**	209.2
Cash at the end of the year	3.1	**474.3**	317.7	**459.7**	308.7

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

Notes to the financial statements

For the year ended 30 June 2021

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Notes to the financial statements

For the year ended 30 June 2021

1. Basis of preparation

1.1 Corporate information

The financial report of Credit Union Australia Ltd (trading as Great Southern Bank) (the Bank) as an individual entity, and the Bank and its subsidiaries as a Group (the Group) for the year ended 30 June 2021 was authorised for issue in accordance with a resolution of the Directors on 25 August 2021.

The Bank is a for-profit company incorporated and domiciled in Australia.

The controlling entity of the Group is Credit Union Australia Ltd. The registered office and principal place of business is:

Credit Union Australia Ltd
Level 23
145 Ann Street
Brisbane QLD 4000

1.2 Basis of accounting

(a) Basis of preparation

The financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards and the Corporations Act 2001.

The financial report has been prepared on a historical cost basis, unless the application of fair value measurements is required by the relevant accounting standards.

The financial report is presented in Australian dollars and all values are rounded to the nearest million dollars ($m) unless otherwise stated under the option available to the Bank under the ASIC Corporations Instrument 2016/191. The Bank is an entity to which the Corporations Instrument applies.

(b) Statement of compliance

The financial report complies with International Financial Reporting Standards (IFRS) which are applicable to the Group as issued by the International Accounting Standards Board.

(c) COVID-19 Impact assessment

First reported in late December 2019 by the World Health Organisation (WHO), the COVID-19 outbreak developed rapidly in 2020 and continued into 2021, with a significant number of infections globally. Measures taken to contain the virus after the WHO declared the outbreak as a global pandemic in March 2020 have affected economic activity, which in turn has had implications on financial reporting.

The impact of COVID-19 resulted in additional judgement being applied within those areas identified in Note 1.3. The Group's processes to determine the impact of COVID-19 for these financial statements are consistent with the processes disclosed and applied in the previous year. Other than information that provides 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.

Impact of COVID-19 on the macro-economic outlook

Forward-looking information, including consideration of various scenarios and probabilities in determining the Group's forward-looking assumptions for the purpose of expected credit loss (ECL), has been provided in Note 3.5. While there are a wide range of possible scenarios and macro-economic outcomes including the uncertainty of how COVID-19 and its financial and economic impacts will evolve, the scenarios and assumptions applied represent reasonable and supportable forward-looking views at the reporting date.

Notes to the financial statements

For the year ended 30 June 2021

1.2 Basis of accounting (continued)

(c) COVID-19 Impact assessment (continued)

Management considerations

As a result of COVID-19, management applied the following processes and considerations in preparing the 30 June 2021 financial statements:

- Applied COVID-19 guidance from regulators, accounting standard bodies and publications from accounting firms
- Progressively updated its economic outlook for new developments, primarily to assess impairment analysis for financial and non-financial assets and to input into the ECL provision calculation
- Reviewed published economic information and COVID-19 developments to consider their impacts
- Considered trends and economic data from previous downturns and internal stress test calculations and scenarios used for the capital adequacy assessment processes.

Consideration of key balance sheet items and areas of disclosures

Financial investments

Insurance assets backing insurance liabilities are designated at fair value through profit or loss and are assessed in accordance with the categorisation outlined in Note 3.9. Most of these investments are high quality investment grade financial assets which are predominantly valued based on level 1 quoted market prices and level 2 observable inputs which have taken into consideration recent market movements.

Equity Investment at fair value through other comprehensive income:

The fair value of these investments has been assessed against the most recently transacted prices for the shares, net asset value per share of the underlying investment and an earnings and trading multiples valuation methodology. The assumptions applied in the valuation include earnings multiples ranging from 14.6 times to 18.9 times, referencing market transactions of companies with similar sized turnovers and those that operate in the same industry.

Derivative assets and liabilities

The Group reviewed the appropriateness of the inputs to the valuation of its derivatives, including credit valuation adjustments (CVA) and debit valuation adjustments (DVA). The impact of changes of inputs to the valuations have been found to be immaterial.

Hedge accounting

The hedge forecasted cash flows were determined to remain highly probable and hedge accounting continues to be applied on the Group's hedges.

Loans receivable, due from subsidiaries and other financial assets

The Group undertook a review of loan portfolios, amounts due from subsidiaries, financial assets at amortised cost and their respective ECLs. The review considered the forward-looking macroeconomic outlook, customer credit quality, collateral held, exposure at default, and the effect of the payment deferral option at reporting date. Refer to Note 3.5 for ECL considerations.

Property, plant and equipment, right-of-use assets and intangible assets

These assets were assessed for impairment using a discounted cash flow analysis with a range of discount rates of 5.7% to 10.0% to consider market and specific risks, and earnings multiples ranging from 5.0 times to 9.6 times, referencing companies with similar sized turnovers and those that operate in the same industry. The outcome of the testing was that no impairment was required.

Investment in subsidiaries and joint venture

These investments were assessed for impairment and the outcome of the testing has determined that no impairment was required.

Notes to the financial statements

For the year ended 30 June 2021

1.2 Basis of accounting (continued)

(c) COVID-19 Impact assessment (continued)

Consideration of key balance sheet items and areas of disclosures (continued)

Borrowings (covenants)

The Group assessed its debt-related covenants to determine whether there were any breaches. None were identified as at 30 June 2021 and up to the date on which these financial statements were authorised for issue.

Insurance liabilities

As a result of COVID-19 related disruptions caused by restrictions on elective medical procedures, the Group recognised an additional amount of outstanding claims liability for the backlog in respect of its health insurance products.

Risk management

The Group applies its risk management framework and pandemic plan to monitor and manage the COVID-19 financial and non-financial risks. The processes include, but are not limited to, the identification, assessment, management and governance on staff health and wellbeing, remote working processes and working arrangements with customers, suppliers, counterparties and other stakeholders.

1.3 Significant accounting judgements and estimates

In the process of applying the Group's accounting policies, management has used its judgement and made estimates in determining the amounts recognised in the financial statements. The most significant use of judgements and estimates has been applied to the areas outlined below and incorporate the impact of COVID-19, in particular on the Group's provisioning processes. Refer to the respective notes for additional details.

	Reference
Expected credit losses and impairment of loans and advances and financial assets	Note 3.2, Note 3.5 and Note 3.10
Fair value of financial instruments	Note 3.9
Outstanding insurance claims liabilities	Note 4.1 and Note 4.2
Provision for remediation costs	Note 5.7 and Note 5.13
Impairment of intangible assets	Note 5.3
Determining lease terms and estimating the incremental borrowing rate	Note 5.4

Notes to the financial statements

For the year ended 30 June 2021

2. Financial performance

2.1 Income

	Group		Bank	
	2021 $m	2020 $m	**2021 $m**	2020 $m
Net interest income				
Interest income calculated using the effective interest method				
Loans and advances to customers	**412.5**	476.9	**412.5**	476.9
Other financial assets	**27.1**	34.3	**27.1**	34.3
	439.6	511.2	**439.6**	511.2
Interest expense calculated using the effective interest method				
Deposits from customers	**(78.3)**	(148.3)	**(78.3)**	(148.3)
Borrowings	**(38.6)**	(46.7)	**(38.6)**	(46.7)
Debt securities	**(11.4)**	(23.9)	**(11.4)**	(23.9)
Wholesale funding	**(3.9)**	(13.3)	**(3.9)**	(13.3)
Other	**(9.7)**	(10.8)	**(9.7)**	(10.8)
	(141.9)	(243.0)	**(141.9)**	(243.0)
Total net interest income	**297.7**	268.2	**297.7**	268.2
Other operating income				
Fees and commissions income from contracts with customers				
Commissions	**13.3**	13.0	**14.0**	13.7
Account services	**12.6**	11.3	**12.6**	11.3
Transactional	**2.3**	3.0	**2.3**	3.0
Other	**0.8**	3.5	**0.8**	3.5
	29.0	30.8	**29.7**	31.5
Fee, brokerage and commission expense				
Brokerage	**(21.8)**	(19.8)	**(21.8)**	(19.8)
Commissions	**(1.5)**	(1.7)	**(1.5)**	(1.7)
Other expense	**(1.7)**	(1.7)	**(1.7)**	(1.7)
	(25.0)	(23.2)	**(25.0)**	(23.2)
Total net fee and commission income	**4.0**	7.6	**4.7**	8.3
Finance cost - other				
Interest expense - lease liabilities	**(0.7)**	(1.0)	**(0.7)**	(1.0)
Interest expense - site restoration provision	**-**	(0.1)	**-**	(0.1)
	(0.7)	(1.1)	**(0.7)**	(1.1)
Dividends revenue	**0.4**	1.8	**7.1**	9.7
Net gain/(loss) on derivative financial instruments	**(0.1)**	0.4	**(0.1)**	0.4
Net gain/(loss) on fixed assets	**0.4**	-	**0.4**	-
Net (loss) on financial assets designated at amortised cost	**-**	(0.3)	**-**	(0.3)
Other income	**0.1**	1.8	**3.7**	5.2
Total net other operating income	**4.1**	10.2	**15.1**	22.2

Notes to the financial statements

For the year ended 30 June 2021

2.1 Income (continued)

Recognition and measurement

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Separate specific recognition criteria must also be met, as outlined below.

Interest income and expense

Interest income and expense on financial assets and liabilities at amortised cost are recognised in profit or loss using the effective interest method. The effective interest method calculates the amortised cost using the effective interest rate of a financial asset or liability. The effective interest rate is the rate that exactly discounts the estimated future cash receipts or payments over the expected life of the financial assets or liabilities to the gross carrying amount or amortised cost of the financial asset or liability. Within net interest income, there are no amounts that relate to assets or liabilities held at fair value through profit or loss. If an asset is assessed as credit impaired, a lifetime expected credit loss (ECL) provision is recognised and interest revenue is calculated on a net basis (gross carrying amount less provision).

The Bank has elected to offset the benefit arising from the utilisation of the RBA Term Funding Facility (TFF) against related interest expense from borrowings. Refer to Note 3.8 for further details of the TFF.

Fee, brokerage and commission revenue and expense

Fee, brokerage and commission revenue are brought to account on an accruals basis over the period that they cover, once a right to receive consideration has been attained and the performance obligation in respect of this income is met. Fee and commission expense relates mainly to transaction and service fees which are expensed when services are received.

Other fee revenue and expense from contracts with customers

Other fee income includes fees earned on a range of products and services platforms and are brought to account on an accruals basis over the period that they cover, once a right to receive consideration has been attained and the performance obligation in respect of this income is considered to be met. Other fee expense includes ATM, card and transaction fees which are expensed when services are received.

Interest expense on lease liabilities

The finance cost portion of lease payments are charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. Refer to recognition and measurement section in Note 5.4.

Losses arising from derecognition of financial assets measured at amortised cost

During the year ended 30 June 2021, the Bank did not sell any corporate investment securities measured at amortised cost. The carrying amounts of the financial assets sold during the year ended 30 June 2020 were $148.4 million and the losses arising from derecognition were $0.3 million. These sales were made in order to comply with the credit limits in the Bank's Financial Risk Policy.

Notes to the financial statements

For the year ended 30 June 2021

2.2 Expenses

	Group		Bank	
	2021 $m	2020 $m	**2021 $m**	2020 $m
Depreciation				
Property, plant and equipment	**(5.2)**	(5.1)	**(5.2)**	(5.1)
Right-of-use assets	**(15.4)**	(18.2)	**(15.4)**	(18.2)
	(20.6)	(23.3)	**(20.6)**	(23.3)
General administrative expenses				
Administrative expenses	**(20.9)**	(19.7)	**(22.3)**	(20.8)
Community	**(1.3)**	(1.7)	**(1.3)**	(1.7)
	(22.2)	(21.4)	**(23.6)**	(22.5)
Other expenses				
Advertising	**(7.1)**	(8.4)	**(7.1)**	(8.4)
Professional services	**(16.2)**	(9.6)	**(20.5)**	(9.3)
Brand	**(6.1)**	-	**(6.1)**	-
Remediation costs	**-**	(1.2)	**-**	(1.2)
	(29.4)	(19.2)	**(33.7)**	(18.9)
Credit and other financial asset impairment[1]				
Impairment of loans and advances	**3.0**	(13.1)	**3.0**	(13.1)
Bad debts written off - loans and advances	**(7.4)**	(6.5)	**(7.4)**	(6.5)
Bad debts recovered - loans and advances	**1.7**	1.3	**1.7**	1.3
Impairment of financial assets	**-**	(0.5)	**-**	(0.5)
	(2.7)	(18.8)	**(2.7)**	(18.8)

[1] Refer to Note 3.5 for recognition and measurement information.

Notes to the financial statements

For the year ended 30 June 2021

2.3 Income tax

(a) Amounts recognised in income statements

The components of income tax expense are:

	Group		Bank	
	2021 $m	2020 $m	**2021 $m**	2020 $m
Income tax expense	**16.4**	11.3	**15.2**	11.7
	16.4	11.3	**15.2**	11.7
Current tax				
Current income tax	**19.8**	14.7	**18.8**	15.1
Adjustments in respect of current income tax of previous year	**0.2**	0.2	**0.1**	0.2
Deferred tax				
Reclassification to assets held for sale / discontinued operations	**-**	3.5	**-**	-
Relating to origination and reversal of temporary differences	**(2.8)**	(7.0)	**(2.9)**	(3.5)
Adjustments in respect of deferred income tax of previous year	**(0.8)**	(0.1)	**(0.8)**	(0.1)
Income tax expense on continuing operations	**16.4**	11.3	**15.2**	11.7

Deferred tax assets and liabilities of CHL have been classified as held for sale at 30 June 2021. Refer to Note 5.13 which provides further disclosure relating to CHL.

(b) Reconciliation of tax expense

A reconciliation between the tax expense and the accounting profit before income tax multiplied by the Group's applicable income tax rate is as follows:

	Group		Bank	
	2021 $m	2020 $m	**2021 $m**	2020 $m
Accounting profit before tax from continuing operations	**57.0**	38.9	**59.9**	48.2
At Australia's statutory income tax rate of 30% (2020: 30%)	**17.1**	11.7	**18.0**	14.5
Adjust for tax effect of:				
Non-deductible expenses	**(0.1)**	-	**(0.1)**	-
Fully franked dividends received	**-**	(0.5)	**(2.1)**	(2.9)
Under/(over) provision in prior year	**(0.6)**	0.1	**(0.6)**	0.1
Income tax expense	**16.4**	11.3	**15.2**	11.7

Notes to the financial statements

For the year ended 30 June 2021

2.3 Income tax (continued)

(c) Deferred tax balances

Deferred income tax on the balance sheets relates to the following:

	Group		Bank	
	2021 $m	2020 $m	**2021 $m**	2020 $m
Deferred tax assets comprise temporary differences attributable to:				
Derivative financial instruments	**0.6**	3.1	**0.6**	3.1
Deferred acquisition costs	**0.1**	(0.5)	**-**	-
Provision for impairment of loans and advances	**9.2**	10.0	**9.2**	10.0
Employee benefits	**6.1**	4.6	**6.1**	4.6
Provisions and accruals	**4.0**	6.4	**3.9**	4.0
Remediation costs[1]	**-**	0.4	**-**	-
Lease assets and liabilities	**0.7**	0.3	**0.7**	0.3
Other	**0.9**	0.8	**0.8**	0.8
Total deferred tax assets	**21.6**	25.1	**21.3**	22.8
Deferred tax liabilities comprise temporary differences attributable to:				
Plant and equipment and intangible assets	**2.7**	5.4	**2.7**	5.4
Financial assets - Fair value through profit or loss	**-**	(0.6)	**-**	-
Financial assets - Fair value through other comprehensive income	**7.8**	6.5	**8.0**	6.4
Receivables and other assets	**-**	0.5	**-**	-
Total deferred tax liabilities	**10.5**	11.8	**10.7**	11.8
Net deferred tax asset	**11.1**	13.3	**10.6**	11.0

[1] Relates to the tax effect of the provision for remediation costs, refer to Note 5.7 and 5.13 for more details.

Notes to the financial statements

For the year ended 30 June 2021

2.3 Income tax (continued)

(d) Movement in deferred tax

	Group		Bank	
	2021 $m	2020 $m	**2021 $m**	2020 $m
Increase/(decrease) in deferred tax on adoption of new accounting standards[1]	**-**	(1.1)	**-**	(1.1)
Reclassification to assets held for sale / discontinued operations	**(2.0)**	-	**-**	-
Deferred income tax (expense)/credit included in income tax expense comprises:				
(Decrease)/increase in deferred tax assets	**1.0**	3.4	**1.0**	1.5
Decrease/(increase) in deferred tax liabilities	**2.6**	3.7	**2.7**	2.1
	3.6	7.1	**3.7**	3.6
Deferred income tax related to items charged or credited to other comprehensive income during the year as follows:				
Net (gain)/loss on cash flow hedges	**(2.5)**	(1.5)	**(2.5)**	(1.5)
Net (gain)/loss on fair value through other comprehensive income	**(1.3)**	-	**(1.6)**	0.1
	(3.8)	(1.5)	**(4.1)**	(1.4)
Total deferred tax movement	**(2.2)**	4.5	**(0.4)**	1.1

[1] June 2020 results reflect the adoption of AASB 16 *Leases*.

(e) Unused tax losses and franking account

	Group		Bank	
	2021 $'000	2020 $'000	**2021 $'000**	2020 $'000
Unused tax losses for which no deferred tax asset has been recognised	**0.9**	0.9	**-**	-
Potential tax benefit @ 30%	**0.3**	0.3	**-**	-

All unused tax losses were incurred by Credicorp Finance Pty Ltd, an Australian entity that is not part of a tax consolidated group.

	Group		Bank	
	2021 $m	2020 $m	**2021 $m**	2020 $m
Franking account balance	**360.4**	327.1	**349.7**	321.7

The ability to use these franking credits is restricted by the Constitution of the Bank which does not permit the payment of dividends on any member shares currently on issue.

Notes to the financial statements

For the year ended 30 June 2021

2.3 Income tax (continued)

Recognition and measurement

Income tax expense comprises current and deferred tax. It is recognised in profit or loss except to the extent that it relates to items recognised directly in members' funds or in other comprehensive income.

Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year and any adjustments to the tax payable or receivable in respect of previous years.

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

Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible temporary differences to the extent it is probable that future taxable profits will be available against which they can be used. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Unrecognised deferred tax assets are reassessed at each reporting date and recognised to the extent that it has become probable that future taxable profits will be available against which they can be used.

3. Balance sheet and risk management

3.1 Cash and cash equivalents

	Group		Bank	
	2021 $m	2020 $m	**2021 $m**	2020 $m
Cash at bank and on hand	**3.9**	3.6	**3.9**	3.6
Deposits on call	**462.4**	314.1	**455.8**	305.1
	466.3	317.7	**459.7**	308.7

Cash and cash equivalents include restricted balances of $198.1 million (2020: $201.5 million) in the Group which represent deposits held in securitisation trust collection accounts which are not available to the Group.

Total cash and cash equivalents at the end of the financial year for continuing and discontinued operations are as follows:

		Group		Bank	
	Note	**2021 $m**	2020 $m	**2021 $m**	2020 $m
Continuing operations		**466.3**	317.7	**459.7**	308.7
Discontinued operations	5.13	**8.0**	-	**-**	-
		474.3	317.7	**459.7**	308.7

Cash and cash equivalents of CHL have been classified as held for sale at 30 June 2021. Refer to Note 5.13 which provides further disclosure relating to CHL.

Recognition and measurement

Cash and cash equivalents include notes and coins on hand, unrestricted balances held with the Reserve Bank of Australia (RBA) and cash on deposits and at call accounts with other Authorised Deposit-taking Institutions (ADIs) and Approved Deposit Funds.

Cash and cash equivalents are carried at amortised cost on the balance sheet.

Notes to the financial statements

For the year ended 30 June 2021

3.1 Cash and cash equivalents (continued)

Notes to the statements of cash flows

(a) Reconciliation of profit for the year to net cash provided by/(used in) operating activities:

		Group		Bank	
	Note	**2021 $m**	2020 $m	**2021 $m**	2020 $m
Profit after tax for the year					
Continuing operations		**40.6**	27.6	**44.7**	36.5
Discontinued operations	5.13	**8.5**	9.7	**-**	1.0
Adjustments for:					
Depreciation and amortisation		**41.7**	41.0	**41.6**	40.8
Credit and other financial asset impairment		**4.8**	20.1	**4.8**	20.1
Net interest on loans and advances		**11.7**	11.6	**11.7**	11.6
Net gain/(loss) on financial assets - fair value through profit or loss		**(2.7)**	2.6	**-**	-
Derivative financial instruments (unrealised)		**(2.8)**	(1.6)	**(2.8)**	(1.6)
Software impairment		**0.9**	-	**0.9**	-
Other non-cash items		**(0.1)**		**(0.1)**	-
Changes in:					
Change in loans and advances		**15.1**	(169.2)	**15.1**	(169.2)
Change in financial assets		**(14.7)**	(113.8)	**(14.7)**	(116.0)
Change in deferred tax liability		**(2.7)**	(5.3)	**(1.3)**	(1.9)
Change in other assets		**(12.6)**	1.6	**(11.4)**	5.4
Change in deposits		**180.7**	495.2	**184.7**	491.2
Change in insurance policy liabilities		**3.3**	2.5	**-**	-
Change in income tax payable		**2.2**	(1.2)	**3.7**	(5.1)
Change in provisions		**4.6**	(9.3)	**4.6**	(0.6)
Change in other liabilities		**10.1**	0.1	**3.0**	0.4
Net cash provided by operating activities		**288.6**	311.6	**284.5**	312.6

Notes to the financial statements

For the year ended 30 June 2021

3.1 Cash and cash equivalents (continued)

Notes to the statements of cash flows (continued)

(b) Reconciliation of cash flows from financing activities:

Group	**1 July 2020 $m**	**Cash flows $m**	**Non-cash changes $m**	**30 June 2021 $m**
Liabilities				
Borrowings	**3,830.4**	**(92.3)**	**12.9**	**3,751.0**
Lease liabilities	**39.6**	**(16.1)**	**7.8**	**31.3**
Total liabilities from financing activities	**3,870.0**	**(108.4)**	**20.7**	**3,782.3**

Group	1 July 2019 $m	Cash flows $m	Non-cash changes $m	30 June 2020 $m
Liabilities				
Borrowings	4,001.2	(172.7)	1.9	3,830.4
Lease liabilities	44.3	(16.7)	12.0	39.6
Total liabilities from financing activities	4,045.5	(189.4)	13.9	3,870.0

Bank	**1 July 2020 $m**	**Cash flows $m**	**Non-cash changes $m**	**30 June 2021 $m**
Liabilities				
Borrowings	**7,286.3**	**(93.8)**	**(842.8)**	**6,349.7**
Lease liabilities	**39.6**	**(16.1)**	**7.8**	**31.3**
Total liabilities from financing activities	**7,325.9**	**(109.9)**	**(835.0)**	**6,381.0**

Bank	1 July 2019 $m	Cash flows $m	Non-cash changes $m	30 June 2020 $m
Liabilities				
Borrowings	5,782.4	(171.3)	1,675.2	7,286.3
Lease liabilities	44.3	(16.7)	12.0	39.6
Total liabilities from financing activities	5,826.7	(188.0)	1,687.2	7,325.9

Notes to the financial statements

For the year ended 30 June 2021

3.2 Financial assets

	Group		Bank	
	2021 $m	2020 $m	**2021 $m**	2020 $m
Fair value through profit or loss				
Term deposits	**3.0**	10.5	**-**	-
Mortgage-backed securities	**-**	1.5	**-**	-
Australian listed equities	**-**	6.3	**-**	-
Investment in unlisted unit trusts:				
Fixed interest and other debt securities	**-**	51.5	**-**	-
Property	**-**	3.2	**-**	-
International equities	**-**	6.9	**-**	-
	3.0	79.9	**-**	-
Amortised cost				
Deposits	**351.3**	451.5	**351.3**	451.5
Fixed coupon bonds	**146.5**	-	**146.5**	-
Floating rate notes	**1,503.7**	1,530.6	**1,503.7**	1,530.6
Residential mortgage-backed securities	**-**	-	**2,573.8**	3,422.3
Impairment provision[1]	**(0.5)**	(0.5)	**(0.5)**	(0.5)
	2,001.0	1,981.6	**4,574.8**	5,403.9
Fair value through other comprehensive income				
Debt instruments - residential mortgage-backed securities	**-**	-	**22.8**	29.2
Equity instruments - shares in an unlisted entity	**47.3**	42.9	**47.3**	42.9
	47.3	42.9	**70.1**	72.1

[1] Refer to Note 3.5 for consideration of asset credit quality and ECL.

Financial assets of CHL have been classified as held for sale at 30 June 2021. Refer to Note 5.13 which provides further disclosure relating to CHL.

Recognition and measurement

Initial recognition of financial assets

On initial recognition, financial assets are measured at fair value. For an asset that is not at fair value through profit or loss, the fair value includes transaction costs that are directly attributable to the acquisition of that financial asset. The fair value of a financial instrument at initial recognition is generally its transaction price.

Fair value through profit or loss

Financial assets in this category relate to investments backing insurance liabilities (refer to Note 4.1 for further details). This group of financial assets is managed and its performance is evaluated on a fair value basis because related liabilities are also managed on this basis. Realised and unrealised gains and losses arising from changes in the fair value of these assets are included in the income statement in the period in which they arise.

Amortised cost

Financial assets are classified at amortised cost when they are held to solely collect contractual cash flows and the contractual terms of the financial assets give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI). Amortised cost is calculated by taking into account any discount or premium on the issue of the asset and costs that are an integral part of the effective interest rate.

Gains and losses are recognised in the profit or loss statement when the financial assets are derecognised or impaired.

Notes to the financial statements

For the year ended 30 June 2021

3.2 Financial assets (continued)

Recognition and measurement (continued)

Fair value through other comprehensive income

Financial assets are classified at fair value through other comprehensive income when they are held for both collecting contractual cash flows and selling the financial assets; and the contractual terms of the financial assets give rise on specified dates to cash flows that are SPPI.

All financial assets not classified as at amortised cost or fair value through other comprehensive income are classified as fair value through profit or loss. In certain circumstances, on initial recognition, the Bank may irrevocably designate a financial asset as measured at fair value through profit or loss if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

The fair value through the reserve includes the change in the fair value of investments in debt instruments. The changes recognised in other comprehensive income are transferred to profit or loss when the asset is derecognised or impaired.

Equity instruments at fair value through other comprehensive income include unlisted shares. These equity securities represent investments that the Group intends to hold for the long term. Amounts in the reserve are subsequently transferred to retained earnings, and not profit or loss, when the asset is derecognised. Dividends on such investments are recognised in profit or loss unless the dividend represents a recovery of the cost of the investment.

Assessment of classification

The classification of financial assets is determined by:

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

The assessment is made at a portfolio level as this best reflects the way the business is managed and information is prepared and reported.

Contractual cash flows assessment

In assessing whether the cash flows are SPPI, the Group will consider the contractual terms of the instrument, including contractual terms that could change the timing or amount of contractual cash flows.

Impairment of financial assets

Refer to Note 3.5.

Modified financial assets

Where the modification to the contractual terms of a loan is substantial, the existing loan is derecognised and a new renegotiated loan is recognised at a new effective interest rate. Where the modification is not substantial and does not result in derecognition, the gross carrying amount of the loan is calculated by discounting the modified cash flows using the original effective interest rate. Credit risk is assessed by comparing the remaining lifetime probability of default (PD) at the reporting date based on the modified terms with the remaining lifetime PD at initial recognition and based on the original terms.

Notes to the financial statements

For the year ended 30 June 2021

3.3 Derivative financial instruments

(a) Fair value of derivatives

The Bank is exposed to interest rate risk arising from changes in market interest rates.

The following table summarises the fair value and notional amounts of the Bank's commitments to derivative financial instruments at reporting date. The fair value of derivative financial instruments is determined on a present value basis.

Group & Bank - 2021	Fair value		Weighted average fixed interest rate	Notional amount	Maturity of notional amount		
	Assets	Liabilities			Within 1 year	1 to 3 years	Over 3 years
	$m	$m	%	$m	$m	$m	$m
Derivative financial instruments							
Interest rate swaps	2.1	4.3	0.53%	1,733.6	955.0	443.6	335.0

Group & Bank - 2020	Fair value		Weighted average fixed interest rate	Notional amount	Maturity of notional amounts		
	Assets	Liabilities			Within 1 year	1 to 3 years	Over 3 years
	$m	$m	%	$m	$m	$m	$m
Derivative financial instruments							
Interest rate swaps	2.2	13.0	1.83%	993.6	540.0	328.6	125.0

By using interest rate swaps to hedge exposures to changes in interest rates, the Bank also exposes itself to the credit risk of the derivative counterparty, which is not offset against the hedged item. The Bank manages this risk by entering into transactions with high-quality counterparties whose credit rating is grade 1 (refer to Note 3.10(c) for grade definitions).

Notes to the financial statements

For the year ended 30 June 2021

3.3 Derivative financial instruments (continued)

(b) Accounting for derivatives

Recognition and measurement

Interest rate swaps are initially recognised at fair value on the date the contract is entered into and are subsequently remeasured at fair value.

For interest rate swaps which do not qualify for hedge accounting, changes in fair value are recorded at fair value through profit or loss.

Interest earned or incurred is accrued in interest income or expense respectively, according to the terms of the contract.

Hedge accounting for cash flow hedges

For the purposes of hedge accounting, the Bank continues to apply the hedge accounting requirements under AASB 139 *Financial Instruments: Recognition and Measurement* as permitted under AASB 9 *Financial Instruments*. Hedging instruments are classified as cash flow hedges where they are used to hedge the exposure to variability in cash flows that is attributable to either a particular risk associated with a recognised asset or liability, or a highly probable forecast transaction.

In assessing hedge effectiveness, the Bank determines whether an economic relationship exists between the cash flows of the hedged item and hedging instrument based on an evaluation of the qualitative characteristics of these items and the hedged risk that is supported by quantitative analysis. The Bank considers whether the critical terms of the hedged item and hedging instrument closely align when assessing the presence of an economic relationship.

The Bank evaluates whether the cash flows of the hedged item and the hedging instrument respond similarly to the hedged risk, such as the benchmark interest rate. The Bank further supports this qualitative assessment by using regression analysis to assess whether the hedging instrument is expected to be and has been highly effective in offsetting changes in the present value of the hedged item.

The quantitative analysis involves the use of the hypothetical derivative method, which creates a derivative instrument to serve as a proxy for the hedged item. The terms of the hypothetical derivative match the critical terms of the hedged item and it has a fair value of zero at inception. The hypothetical derivative and the actual derivative are regressed to establish the statistical significance of the hedge relationship. The Bank assesses whether the derivative designated in each hedging relationship is expected to be and has been highly effective in offsetting changes in cash flows of the hedged item (prospectively and retrospectively) using this regression analysis.

Hedging relationships are considered to be highly effective if all the following criteria are met:

- The regression co-efficient (R squared), which measures the correlation between variables in the regression, is at least 80%;
- The slope of regression is within an 80%-125% range; and
- The confidence level of the slope is at least 95%.

In the Bank's hedging relationships, the main sources of ineffectiveness are:

- The effect of the counterparty's and the Bank's credit risks on the fair value of the swap, which is not reflected in the fair value of the hedged item; and
- Differences in maturities or timing of cash flows of the interest rate swaps and the hedged item.

There were no other sources of ineffectiveness in the Bank's hedging relationships. The Bank's policy is to de-designate ineffective hedges.

For designated and qualifying cash flow hedges, the change in fair value of the effective portion of the hedging instrument is initially recognised directly in members' funds in the cash flow hedge reserve. The ineffective portion is recognised immediately in the income statement.

Notes to the financial statements

For the year ended 30 June 2021

3.3 Derivative financial instruments (continued)

(b) Accounting for derivatives (continued)

Cash flow hedges (continued)

When the hedged cash flow affects the income statement, the gain or loss on the hedging instrument is recorded in the corresponding income or expense line of the income statement. When a hedging instrument expires or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in the cash flow hedge reserve at that time remains in the reserve and is recognised when the hedged forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in the cash flow hedge reserve is immediately transferred to the income statement.

The following table provides information regarding the determination of hedge ineffectiveness at 30 June 2021 and 30 June 2020[1]:

Group & Bank - 2021	**Changes in fair value used for calculating hedge ineffectiveness**	**Changes in the value of the hedged item used for calculating ineffectiveness [2]**	**Hedge ineffectiveness recognised in income statement**	**Line item in income statement that includes hedge ineffectiveness**	**Amount reclassified from the cash flow hedge reserve to income statement**	**Line item in income statement affected by the reclassification**
Interest rate risk	**$m**	**$m**	**$m**		**$m**	
Derivative financial instruments						
Interest rate swaps	**5.9**	**5.9**	**-**	**Other net operating income**	**(0.1)**	**Other net operating income**

Group & Bank - 2020	Changes in fair value used for calculating hedge ineffectiveness	Changes in the value of the hedged item used for calculating ineffectiveness [2]	Hedge ineffectiveness recognised in income statement	Line item in income statement that includes hedge ineffectiveness	Amount reclassified from the cash flow hedge reserve to income statement	Line item in income statement affected by the reclassification
Interest rate risk	$m	$m	$m		$m	
Derivative financial instruments						
Interest rate swaps	3.1	3.1	-	Other net operating income	0.3	Other net operating income

[1] Balances presented in the table are net of tax. There is $nil (2020: $nil) remaining in the hedging reserve from hedging relationships for which hedge accounting is no longer applied.
[2] This amount is recognised in other comprehensive income as part of the cash flow hedge reserve.

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For the year ended 30 June 2021

3.4 Loans and advances

	Group		**Bank**	
	2021	2020	**2021**	2020
	$m	$m	**$m**	$m
Term loans	**13,450.9**	13,476.9	**13,450.9**	13,476.9
Credit cards and overdrafts	**103.1**	112.2	**103.1**	112.2
Gross loans and advances	**13,554.0**	13,589.1	**13,554.0**	13,589.1
Impairment provision	**(30.6)**	(33.6)	**(30.6)**	(33.6)
Net deferred origination cost and fee revenue	**23.6**	20.9	**23.6**	20.9
Net loans and advances	**13,547.0**	13,576.4	**13,547.0**	13,576.4

Recognition and measurement

Loans and advances are financial assets with fixed or determinable payments that are not quoted in an active market. They are not entered into with the intention of immediate or short term resale. Loans and advances are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method, net of any credit impairment. Losses arising from credit impairments are recognised in the profit or loss income statement in credit and other financial asset impairment.

3.5 Impairment of financial assets

The provision for impairment of loans and advances reflects ECLs measured using the three-stage approach as detailed below. The tables below show the movements in the impairment provisions by ECL stage.

Group & Bank - 2021	**Stage 1**	**Stage 2**	**Stage 3**		
	Collective provision $m	**Collective provision $m**	**Collective provision $m**	**Individual provision $m**	**Total provision $m**
Balance at 30 June 2020	**23.2**	**3.0**	**7.2**	**0.2**	**33.6**
Changes due to financial assets recognised in the opening balance that have:					
Transferred from Stage 1	**(0.5)**	**0.4**	**0.1**	**-**	**-**
Transferred from Stage 2	**1.0**	**(1.5)**	**0.5**	**-**	**-**
Transferred from Stage 3	**1.4**	**0.9**	**(2.3)**	**-**	**-**
Charge to income statement	**(3.9)**	**1.3**	**(0.5)**	**0.1**	**(3.0)**
Securitisation insurance receivable	**-**	**-**	**-**	**-**	**-**
Balance at 30 June 2021	**21.2**	**4.1**	**5.0**	**0.3**	**30.6**

Group & Bank - 2020	Stage 1	Stage 2	Stage 3		
	Collective provision $m	Collective provision $m	Collective provision $m	Individual provision $m	Total provision $m
Balance at 30 June 2019	12.1	4.0	4.2	-	20.3
Changes due to financial assets recognised in the opening balance that have					
Transferred from Stage 1	(0.6)	0.2	0.3	-	(0.1)
Transferred from Stage 2	1.4	(2.4)	1.0	-	-
Transferred from Stage 3	0.6	0.3	(0.9)	-	-
Charge to income statement	9.7	0.9	2.3	0.2	13.1
Securitisation insurance receivable	-	-	0.3	-	0.3
Balance at 30 June 2020	23.2	3.0	7.2	0.2	33.6

Notes to the financial statements

For the year ended 30 June 2021

3.5 Impairment of financial assets (continued)

Movements in gross carrying amount of loans and advances

The following tables shows the movements in the gross carrying amount of loans and advances in different stages during the financial year.

Group & Bank - 2021	**Stage 1 $m**	**Stage 2 $m**	**Stage 3 $m**	**Total $m**
Loans and advances (gross) as at 1 July 2020	**13,430.9**	**112.7**	**45.5**	**13,589.1**
Transfers				
Transferred from Stage 1 Loans	**(132.3)**	**115.3**	**17.0**	**-**
Transferred from Stage 2 Loans	**38.0**	**(42.8)**	**4.8**	**-**
Transferred from Stage 3 Loans	**12.1**	**8.5**	**(20.6)**	**-**
Balance of new loans and advances originated during the year	**3,056.7**	**6.3**	**0.3**	**3,063.3**
Loans and advances derecognised during the period including write-offs	**(3,054.1)**	**(30.4)**	**(13.9)**	**(3,098.4)**
Loans and advances (gross) as at 30 June 2021	**13,351.3**	**169.6**	**33.1**	**13,554.0**

Group & Bank - 2020	Stage 1 $m	Stage 2 $m	Stage 3 $m	Total $m
Loans and advances (gross) as at 1 July 2019	13,268.6	147.1	18.3	13,434.0
Transfers				
Transferred from Stage 1 Loans	(108.0)	80.3	27.7	-
Transferred from Stage 2 Loans	73.9	(86.2)	12.3	-
Transferred from Stage 3 Loans	2.9	1.7	(4.6)	-
Balance of new loans and advances originated during the year	2,522.2	4.9	0.5	2,527.6
Loans and advances derecognised during the period including write-offs	(2,328.7)	(35.1)	(8.7)	(2,372.5)
Loans and advances (gross) as at 30 June 2020	13,430.9	112.7	45.5	13,589.1

Recognition and measurement

The ECL model used for impairment under AASB 9 *Financial Instruments* applies to financial assets measured at amortised cost, fair value through other comprehensive income, amounts receivable from contracts with customers as defined in AASB 15 *Revenue from Contracts with Customers,* loan commitments and financial guarantee contracts.

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

- Stage 1: Where there has been no significant increase in credit risk (SICR) since initial recognition or the asset is not credit impaired upon origination, a portion (12 month ECL) of the lifetime ECLs associated with the probability of default events occurring within the next 12 months is recognised. Debt investment securities that are determined to have a low credit risk at the reporting date and Other financial instruments on which the credit risk has not increased significantly since their initial recognition are measured as 12 month ECL.
- Stage 2: Where there has been a SICR since initial recognition but the asset is not credit impaired, the lifetime ECL is recognised.
- Stage 3: When a financial asset is assessed as credit impaired (including exposures that are greater than 90 days past due), the lifetime ECL is recognised. Interest revenue is calculated on a net basis (gross carrying amount less provision).

ECLs are estimated on a collective basis for exposures in Stage 1 and Stage 2, and on either a collective or individual basis when transferred to Stage 3.

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For the year ended 30 June 2021

3.5 Impairment of financial assets (continued)

Recognition and measurement (continued)

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

The Group considers a debt investment security to have a low credit risk when its credit rating is equivalent to the globally understood definition of "investment grade". The Group does not apply this approach to any other financial instruments.

Model inputs

The ECL is calculated based on the Probability of Default (PD), Loss Given Default (LGD) and the Exposure at Default (EAD) discounted at the effective interest rate:

- PD is the estimate of the likelihood that a borrower will default over a given period. The ECL model uses probability of default taking into account the prior status of the loans.
- LGD is the amount of expected loss in the event of the borrower defaulting.
- EAD is the expected balance sheet exposure at default.

Forward-looking information

Forward-looking information is used in the measurement of ECLs through unbiased, probability weighted scenarios and includes macroeconomic variables that influence credit losses such as gross domestic product (GDP) data, unemployment rates and changing house prices.

Significant increase in credit risk

The Bank will assess whether there has been a significant increase in credit risk (SICR) for financial assets by comparing the risk of a default occurring over the remaining life of a financial asset at the reporting date to the corresponding risk of default at origination. In assessing whether there has been a SICR, the Bank considers reasonable and supportable information that is relevant and available without undue cost or effort. The credit risk assessment is carried out on an individual and collective basis. The Bank considers contractual payments that are 30 days past due, financial hardship or default events (e.g. 90 days past due) as primary indicators of SICR. The determination of SICR also takes into consideration various qualitative and quantitative factors, including past due arrears information, hardship and watch-list status.

Model review

The model and macro-economic forward-looking factors are reviewed semi-annually under the Bank's model governance framework including an annual formal review of the model through the Bank's risk committees.

COVID-19 considerations

The impact of the Bank's COVID-19 Financial Assistance Packages on the assessment of SICR is summarised below.

The Bank's ECL methodology, SICR thresholds and definition of default remains consistent with prior periods. Model inputs and forward-looking information have been revised to reflect current conditions.

During the financial year, the Bank offered eligible lending customers the ability to defer loan repayments to support customers impacted by the COVID-19 pandemic. Where a deferral was granted the Bank would pause the accrual of arrears. This arrangement ceased from 31 March 2021 and all accounts are again following the Bank's normal application of arrears and the raising of provisions.

Notes to the financial statements

For the year ended 30 June 2021

3.5 Impairment of financial assets (continued)

The Bank also has considered the impact of COVID-19 loan repayment deferrals through the existing forward-looking economic adjustments to address the uncertainty of the future performance of these loans.

Forward-looking macroeconomic adjustments

The Bank incorporates forward-looking information through probability weighted scenarios to evaluate and measure ECLs.

The scenarios and assumptions considered for the forward-looking macroeconomic adjustments are summarised below:

Scenario	Assumption applied
Base case	This scenario sees the economy continue to improve following the pandemic-induced recession, which is largely aligned with the Reserve Bank of Australia's latest projections. Economic output continues to grow above trend in the near term, easing to 3% growth in the medium term. Unemployment continues to push lower, bolstered by monetary policy objectives to achieve full employment. House prices continue to reach new heights but the pace of price appreciation begins to slow and reverts to trend.
Downside	This scenario sees the strong economic recovery falter in the near term through a combination of macro-prudential limits, further pro-longed lockdowns, and a partial unwinding of monetary and/or fiscal policy support. House price growth slows and moves negative in some key markets, dragging housing investment and household expenditure lower which slows the pace of GDP growth to sub-trend levels. Unemployment increase and/or the participation rate declines.
Major stress	This scenario represents a major economic downturn with a prolonged contraction in GDP peaking in 2023 but subsequently improving. Unemployment more than doubles and house prices experience a steady and material decrease over each of the next 3 years.

The existing ECL macro-economic model is based on historical relationships between macro-economic factors and credit losses. The current unique economic conditions and response from the public and private sectors undermine those historical relationships, including, for example, the effect of extraordinary monetary policy and forward interest rate guidance from the Reserve Bank of Australia, and continued fiscal support from State and Federal Governments. Recognising this changing dynamic, the Bank recognised the need to support the ECL calculation with management judgement in the form of overlays, as was the case in the prior financial year.

The Bank has reviewed the overlays specifically raised in the previous financial year associated with the impacts of COVID-19. This included an overlay for the portfolio of loans that were provided a COVID-19 repayment deferral. The overlay has been reduced to the extent that these loans have subsequently incurred higher provisions or incurred an actual loss. The remaining overlay is being retained for further increases in provisions or actual losses associated with these loans in the current financial year.

An additional overlay was raised in the previous financial year on the expectation that loans that were already in arrears prior to the onset of COVID-19 would perform markedly worse than the Bank's historical experience with loans in arrears. This overlay has also been reviewed and substantially released.

Notes to the financial statements

For the year ended 30 June 2021

3.5 Impairment of financial assets (continued)

Sensitivity analysis

Given the continued uncertainty and need for management judgement, sensitivity analysis was conducted to understand the impact of changes in certain variables on the ECL.

The table below shows the impact on the total ECL by adjusting the specified input and leaving all other inputs unchanged.

Sensitivity measure	2021 $m
If 1% of stage 1 facilities were included in stage 2	**3.4**
If 1% of stage 2 facilities were included in stage 1[1]	**-**
If the LGD of the home loan portfolio increased by 1%[2]	**0.9**
If the LGD of the home loan portfolio decreased by 1%[2]	**(0.9)**

[1] Impact of $40,063 when not rounded to millions.
[2] Sensitivity shown for home loans, which represents 97% of loans by balance as at 30 June 2021.

Climate change considerations

The impact of climate change has the potential to affect loan repayments and the value of the associated collateral held to secure those loans. These impacts include changes in climatic conditions, extreme weather events and actions or initiatives by the government or regulators.

At present, the risk of climate change is assessed at loan origination and ongoing reviews as part of the Bank's credit risk processes. As at 30 June 2021, management has assessed no material risk of loss due to climate change risk in our customers' exposures. Management are in the process of evaluating and enhancing the Bank's processes to consider climate risk exposures and the potential ways to manage those risks.

Write-off

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

Use of judgements and estimates

The Group individually reviews loans and advances that have triggered certain criteria to assess whether an impairment loss should be recorded in the income statement. Judgement is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. In estimating these cash flows, the Group makes judgements about the borrower's financial situation and the net realisable value of collateral. These estimates are based on assumptions about a number of factors including forward-looking information available at the time. Actual results may differ, resulting in future changes to the allowance.

Given the continued uncertainty and volatility around forward looking economic conditions, including the breakdown in the historical relationship between economic variables and credit losses, management judgement has been applied and additional overlays recognised for specific forward-looking risks and model risk considerations.

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For the year ended 30 June 2021

3.6 Deposits

	Group		Bank	
	2021 $m	2020 $m	**2021 $m**	2020 $m
Members' shares	**3.1**	3.2	**3.1**	3.2
Customers' call deposits	**8,309.5**	7,406.7	**8,316.2**	7,409.4
Customers' term deposits	**2,944.1**	3,666.1	**2,944.1**	3,666.1
	11,256.7	11,076.0	**11,263.4**	11,078.7

No customer or industry groups represent a significant portion of total deposit liabilities.

Recognition and measurement

All deposits and borrowings are initially recognised at cost, being the fair value of the consideration received net of direct incremental issue costs associated with the borrowings. After initial recognition, deposits and borrowings are subsequently measured at amortised cost using the effective interest method.

3.7 Borrowings

	Group		Bank	
	2021 $m	2020 $m	**2021 $m**	2020 $m
Securitisation trust borrowings	**945.1**	1,227.0	**3,518.9**	4,649.3
Securitisation warehouse borrowings	**607.7**	808.9	**629.8**	838.6
Term borrowings[1]	**2,198.2**	1,794.5	**2,201.0**	1,798.4
	3,751.0	3,830.4	**6,349.7**	7,286.3

[1] Included in term borrowings is the TFF drawn down, refer to Note 3.8. The prior year Term borrowings balance has been adjusted for consistency with the current year disclosures that reflect updated information.

For recognition and measurement details, refer to Note 3.6.

Notes to the financial statements

For the year ended 30 June 2021

3.8 Standby borrowing facilities

In the normal course of business, the Bank enters into various types of contracts which give rise to the following standby and overdraft facilities:

	Group		Bank	
	2021 $m	2020 $m	**2021 $m**	2020 $m
(i) Australia and New Zealand Banking Group				
Approved limit	**500.0**	500.0	**500.0**	500.0
Committed limit[1]	**315.0**	375.0	**315.0**	375.0
Amount utilised	**254.6**	340.6	**254.6**	340.6
(ii) Deutsche Capital Markets Australia Limited				
Approved limit	**-**	32.8	**-**	32.8
Committed limit[1]	**-**	32.2	**-**	32.2
Amount utilised	**-**	27.4	**-**	27.4
(iii) Gryphon Capital Investments Pty Limited				
Approved limit	**-**	10.0	**-**	10.0
Amount utilised	**-**	10.0	**-**	10.0
(iv) One Managed Investment Funds Limited as trustee of the Gryphon Capital Income Trust				
Approved limit	**60.0**	-	**60.0**	-
Committed limit[1]	**42.2**	-	**42.2**	-
Amount utilised	**28.2**	-	**28.2**	-
(v) National Australia Bank Limited				
Approved limit	**690.0**	690.0	**690.0**	690.0
Committed limit[1]	**425.0**	456.3	**425.0**	456.3
Amount utilised	**324.6**	430.4	**324.6**	430.4
(vi) Overdraft				
Approved limit	**10.0**	10.0	**10.0**	10.0
Amount utilised	**-**	-	**-**	-
(vii) RBA (internal securitisation)				
Approved limit	**1,196.8**	2,599.7	**1,196.8**	2,599.7
Amount utilised	**-**	-	**-**	-
(viii) RBA Term Funding Facility (TFF)				
Initial allowance				
Approved limit	**406.6**	406.6	**406.6**	406.6
Amount utilised	**406.6**	50.0	**406.6**	50.0
Supplementary allowance				
Approved limit	**270.9**	-	**270.9**	-
Amount utilised	**270.9**	-	**270.9**	-

[1] The committed limit is utilised as the base in determining unused limit fees.

The RBA announced on 19 March 2020 the establishment of a TFF to offer three-year funding to ADIs at a fixed rate of 25 basis points in response to COVID-19. The Bank, being an eligible ADI, was granted an initial allowance of $406.6 million. On 1 September 2020, the RBA announced a further supplementary allowance, of which the Bank was granted $270.9m. From 4 November 2020, the supplementary allowance is provided at an interest rate of 10 basis points, fixed for the term of the funding.

Of the total funding allowance of $677.5 million issued to date, the Bank has utilised $677.5 million (2020: $50.0 million) of the facility as at 30 June 2021. $853.3 million (2020: $61.3 million) of mortgage backed securities that have a fair value of $863.5 million (2020: $60.8 million) were pledged as collateral for the amount utilised.

Notes to the financial statements

For the year ended 30 June 2021

3.9 Fair value of financial instruments

The following tables provides the fair value measurement hierarchy of the Group's financial assets and liabilities at the reporting date.

Group - 2021	Fair value				Carrying amount
	Level 1	Level 2	Level 3	Total	
	$m	$m	$m	$m	$m
Financial assets measured at fair value					
Derivative financial instruments	-	2.1	-	2.1	2.1
Financial assets - fair value through profit or loss: Insurance assets[2]	7.1	78.2	-	85.3	85.3
Financial assets - fair value through other comprehensive income: Investment in shares in unlisted entity and Mortgage backed securities	-	-	47.3	47.3	47.3
Financial assets not measured at fair value					
Loans and advances	-	-	13,460.9	13,460.9	13,547.0
Financial assets - amortised cost	-	-	1,981.9	1,981.9	2,001.0
Financial liabilities measured at fair value					
Derivative financial instruments	-	4.3	-	4.3	4.3
Financial liabilities not measured at fair value					
Deposits	-	11,256.2	-	11,256.2	11,256.7
Borrowings[1]	-	1,585.6	2,189.0	3,774.6	3,751.0

[1]The amount utilised from the RBA TFF has been included in borrowings. Refer to Note 3.8 for further details.
[2]The amount comprises $82.3 million relating to sale of CHL. Refer to Note 5.13. This fair value is categorised within Level 1 of $7.1 million and Level 2 of $75.2 million of the fair value hierarchy.

Group - 2020	Fair value				Carrying amount
	Level 1	Level 2	Level 3	Total	
	$m	$m	$m	$m	$m
Financial assets measured at fair value					
Derivative financial instruments	-	2.2	-	2.2	2.2
Financial assets - fair value through profit or loss: Insurance assets	6.3	73.6	-	79.9	79.9
Financial assets - fair value through other comprehensive income: Investment in shares in unlisted entity	-	-	42.9	42.9	42.9
Financial assets not measured at fair value					
Loans and advances	-	-	13,539.9	13,539.9	13,576.4
Financial assets - amortised cost	-	-	1,971.5	1,971.5	1,981.6
Financial liabilities measured at fair value					
Derivative financial instruments	-	13.0	-	13.0	13.0
Financial liabilities not measured at fair value					
Deposits	-	11,073.6	-	11,073.6	11,076.0
Borrowings[1]	-	2,074.4	1,733.1	3,807.5	3,830.4

[1]The amount has been adjusted for consistency with the current year disclosures that reflect updated information. The amount utilised from the RBA TFF has been included in borrowings. Refer to Note 3.8 for further details.

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3.9 Fair value of financial instruments (continued)

Bank - 2021	Fair value				Carrying amount
	Level 1	Level 2	Level 3	Total	
	$m	$m	$m	$m	$m
Financial assets measured at fair value					
Derivative financial instruments	-	2.1	-	2.1	2.1
Financial assets - fair value through other comprehensive income: Investment in shares in unlisted entity and Mortgage backed securities	-	22.8	47.3	70.1	70.1
Financial assets for which fair values are disclosed					
Loans and advances	-	-	13,460.9	13,460.9	13,547.0
Financial assets - amortised cost	-	2,604.8	1,981.9	4,586.7	4,574.8
Financial liabilities measured at fair value					
Derivative financial instruments	-	4.3	-	4.3	4.3
Financial liabilities for which fair values are disclosed					
Deposits	-	11,262.9	-	11,262.9	11,263.4
Borrowings[1]	-	4,212.8	2,191.9	6,404.7	6,349.7

[1]The amount utilised from the RBA TFF has been included in borrowings. Refer to Note 3.8 for further details.

Bank - 2020	Fair value				Carrying amount
	Level 1	Level 2	Level 3	Total	
	$m	$m	$m	$m	$m
Financial assets measured at fair value					
Derivative financial instruments	-	2.2	-	2.2	2.2
Financial assets - fair value through other comprehensive income: Investment in shares in unlisted entity and Mortgage backed securities	-	29.2	42.9	72.1	72.1
Financial assets for which fair values are disclosed					
Loans and advances	-	-	13,539.9	13,539.9	13,576.4
Financial assets - amortised cost	-	3,393.0	1,971.5	5,364.5	5,403.9
Financial liabilities measured at fair value					
Derivative financial instruments	-	13.0	-	13.0	13.0
Financial liabilities for which fair values are disclosed					
Deposits	-	11,076.3	-	11,076.3	11,078.7
Borrowings[1]	-	5,496.8	1,737.0	7,233.8	7,286.3

[1]The amount has been adjusted for consistency with the current year disclosures that reflect updated information. The amount utilised from the RBA TFF has been included in borrowings. Refer to Note 3.8 for further details

There were no transfers between levels during the period.

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For the year ended 30 June 2021

3.9 Fair value of financial instruments (continued)

Recognition and Measurement

The fair values of financial assets and liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments, the Group determines fair values using other valuation techniques.

For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgement depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific financial instruments.

All financial assets and liabilities are initially recognised on the settlement date.

The Group measures fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements:

- Level 1 – the fair value is calculated using quoted prices in active markets;
- Level 2 – the fair value is estimated using inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices); and
- Level 3 – the fair value is estimated using inputs for the asset or liability that are not based on observable market data.

The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date. The following methods and assumptions are used to determine the net fair values of financial assets and liabilities.

Valuation techniques used to determine fair value

Derivative financial instruments

The fair value for derivative financial instruments is derived from a combination of quoted closing market prices at balance date, discounted cash flow models and option pricing models. Where there is no market value, the fair value is determined using inputs which are observable either directly or indirectly. The fair values of derivative financial instruments take into account both credit valuation adjustments (CVA) and debit valuation adjustments (DVA).

Financial assets – fair value through profit or loss

These assets are insurance assets backing insurance liabilities and are therefore designated at fair value through profit or loss to reduce the accounting mismatch between assets and related liabilities. These assets are valued based on quoted market prices; where these are not available the following alternative valuation techniques are used:

- Floating rate notes – indicative external broker valuations;
- Mortgage-backed securities - external broker valuations;
- Term deposits - the amortised cost is deemed to represent fair value, due to their short term nature (all mature within 12 months of balance date) and the lack of fluctuations in the market interest rates or credit quality of the counterparties since their inception;
- Australian listed equities – are valued using quoted market price (unadjusted current bid price) on the Australian Securities Exchange (ASX); and
- Investment in unlisted unit trusts – are valued at the redemption price quoted by the trust managers as at the reporting date.

The Group has an established control framework with respect to the measurement of fair values when third party information, such as external broker quotes or valuations are used to measure fair value, which includes:

- Verification of observable pricing;
- Re-performance of the market valuation, for example Australian listed equities are agreed to closing market price listed on the ASX as at the reporting date; and
- Understanding how the fair value has been derived, the extent to which it represents actual market transactions and whether it represents a quoted price in an active market for an identical instrument.

Significant valuation issues are reported to the Board Audit Committee.

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3.9 Fair value of financial instruments (continued)

Financial assets – fair value through other comprehensive income

Equity instruments at fair value through other comprehensive income (OCI)

These assets represent an investment that the Bank intends to hold for long term for strategic purposes and are not actively traded. These shares were measured at fair value on initial recognition. Where their value cannot be measured reliably, the assets are subsequently measured at the carrying amount determined at the last date on which the fair value could be determined reliably.

Level 3 fair value measurement

In the current financial year, the fair value of these assets has been estimated taking into consideration the most recently transacted prices for the shares, earnings multiples of other similar entities and the net asset value per share of the underlying investment. This asset is categorised at Level 3 in the fair value hierarchy given the lack of visibility of these valuation variables.

The following table shows a reconciliation from the opening balance to the closing balance.

	Group & Bank	
	2021	2020
	$m	$m
Balance at beginning of financial year	**42.9**	42.9
Fair value movement recognised in OCI	**4.4**	-
Balance at end of financial year	**47.3**	42.9

The summary below contains information about the significant unobservable inputs used in the level 3 valuation of the equity shares and the valuation technique used to measure fair value. The range of inputs represents the highest and lowest inputs used in the valuation technique:

- Valuation technique – Market comparables method
- Significant unobservable inputs – Price to earnings multiples
- Range of inputs – 14.6 times to 18.9 times
- Fair value measurement sensitivity to unobservable inputs – Increase / (decrease) in these inputs will result in higher / (lower) fair values outlined in the table below

Sensitivity analysis	**-1x multiple 2021 $m**	**+1x multiple 2021 $m**
Changes in fair value and impact to OCI	**(3.2)**	**3.2**
% change	**(6.8%)**	**6.8%**

Debt instruments at fair value through other comprehensive income

These notes are internal residential mortgage-backed securities held by the Bank and are not quoted or traded on an active market and are accordingly categorised at Level 2 in the fair value hierarchy. These assets are measured at fair value on initial recognition and are subsequently measured by means of discounted cash flows and other valuation techniques that are commonly used by market participants.

Loans and advances

The carrying value of loans and advances are net of provisions for impairment.

For variable rate loans, excluding impaired loans, the amortised cost is a reasonable estimate of the net fair value. The net fair value for fixed rate loans was calculated by utilising a discounted cash flow model. The discount rates applied were based on the current benchmark rate for fixed rate loans being offered on terms with a similar remaining period.

Notes to the financial statements

For the year ended 30 June 2021

3.9 Fair value of financial instruments (continued)

Loans and advances (continued)

Level 3 fair value measurement

As observable market transactions are not available to estimate the fair value of loans and advances, the fair value is estimated using valuation models such as a discounted cash flow model.

There are no transfers to or from Level 3 of the fair value hierarchy.

Financial assets – amortised cost

Financial assets – amortised cost comprise of investments and securities where cash flows arise on specified contractual dates, underlying terms can range anywhere from short to long term. They are categorised across Level 2 and Level 3 in the fair value hierarchy. The fair value is estimated using a discounted cash flow model based on current market rates as at balance date, and observable market data on capital pricing for similar instruments.

Level 3 fair value measurement

Where observable market transactions are not available to estimate the fair value of these assets – amortised cost, the fair value is estimated using a discounted cash flow model.

Deposits

The net fair value for deposits was calculated by utilising a discounted cash flow model. The discount rates applied were based on the current benchmark rate offered for the actual remaining term of the portfolio as at balance date.

The net fair value of non-interest bearing, call and variable rate deposits repriced within twelve months is the carrying value as at balance date.

Borrowings

Borrowings are categorised across Level 2 and Level 3 in the fair value hierarchy. Fair value is estimated utilising a discounted cash flow model based on current market rates as at balance date, and observable market data on capital pricing for similar instruments.

Level 3 fair value measurement

Where observable market transactions are not available to estimate the fair value of borrowings, the fair value is estimated using a discounted cash flow model.

Financial instruments where fair value not separately disclosed – carrying amount approximates fair value

Cash and cash equivalents

The carrying amount approximates the fair value as they are short term in nature or are receivable on demand.

Use of judgements and estimates

Where the fair values of financial assets and financial liabilities recorded in the balance sheet cannot be derived from active markets, they are determined using a variety of valuation models. The inputs to these models are derived from observable market data where possible, but where observable market data is not available these assets are valued using valuation techniques based on non-observable data.

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3.10 Risk management

Overview

The Group manages risk to fulfil its commitments to customers whilst providing a positive customer experience and delivering on strategic objectives. The Group's Board of Directors has overall responsibility for the establishment and oversight of the Group's Risk Management Framework. The Risk Management Framework is a key component of the Group's strategy for managing risk and is comprised of structures, policies and processes designed to enable the purpose of "help all Australians own their own home". The overarching principles for this framework are outlined in the sections below.

The key pillars which are reviewed and approved annually by the Board and subsequently provided to APRA include:

- The Risk Appetite Statement – which outlines, through qualitative and quantitative terms, the degree of risk the Group is willing to take in order to meet strategic objectives; and
- The Risk Management Strategy – which provides the method for identifying and managing risk including approach, responsibilities, policies and systems.

The Group applies the Three Lines of Defence model for the approach to managing risk across the business. The responsibilities for each line of defence are as follows:

Line of defence	Responsibilities
First	Under the first line of defence, operational management (including each member of staff) is responsible for identifying and managing risks in a way that is consistent with the risk management framework and risk appetite set by the Board.
Second	The second line of defence is the Risk Management function, headed by the Chief Risk Officer (CRO), which contributes toward the progressive development and monitoring of the implementation of the Group's risk management framework. The risk management function also maintains the regulatory compliance framework in line with regulatory expectations.
Third	Internal Audit forms the third line of defence and provides independent assurance over the performance of both first and second lines in managing risk.

In addition to the lines of defence within the Group, external audit provides an independent audit opinion on the organisation's financial report and an audit/review opinion on certain aspects of the Group's compliance with its APRA regulatory compliance requirements.

Risk management policies have been established to identify and analyse the risks, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. The risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. Training, standards and procedures, aim to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

Formal governance structures enable the management of risk at the Board and Executive level. Three key committees are in place to achieve this including: (i) the Board Risk Committee (BRC); (ii) the Board Audit Committee (BAC) and; (iii) the Board Remuneration and Nominations Committee (BRem), each responsible for overseeing management of specific categories of risks for the Group. The BRC is assisted in its oversight role by the Risk Management function. The BAC is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the BAC and the Board. Key risk issues are captured and considered during every Board meeting including the presentation of the CRO Report.

The Bank maintains five key management committees for monitoring and reporting risk across the Group: (i) Enterprise Risk Committee (ERCO), responsible for the Group's enterprise-wide risk management framework; (ii) Asset and Liability Committee (ALCO), responsible for balance sheet risk; (iii) Operational Risk and Compliance Committee (ORCC), responsible for the operational risk and compliance framework; (iv) Credit Risk Committee (CRC) responsible for providing credit risk oversight and; (v) Breach Committee (BreachCo) responsible for assessing regulatory incidents.

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3.10 Risk management (continued)

The Group's approach to managing interest rate, price, credit, liquidity and funding risks is further detailed below.

(a) Interest rate risk

Interest rate risk is the risk that changes in interest rates result in losses for a financial institution. The Group is exposed to interest rate risk due to an underlying mismatch in the timing of interest rate repricing across all financial products.

The tables below show the value of financial instruments grouped by interest rate repricing period:

Group - 2021	At call/ variable	Fixed interest rate maturing			Non interest bearing	Total
		Within 1 year	1 to 5 years	Over 5 years		
	$m	$m	$m	$m	$m	$m
Assets						
Cash and cash equivalents[1]	471.3	-	-	-	3.0	474.3
Financial assets - fair value through profit or loss	-	3.0	-	-	-	3.0
Financial assets - amortised cost	1,593.7	342.9	64.4	-	-	2,001.0
Derivative financial instruments	-	-	2.1	-	-	2.1
Loans and advances (gross)	8,775.9	1,305.9	3,312.3	159.9	-	13,554.0
	10,840.9	1,651.8	3,378.8	159.9	3.0	16,034.4
Liabilities						
Deposits	8,309.5	2,764.0	180.1	-	3.1	11,256.7
Derivative financial instruments	-	2.4	1.9	-	-	4.3
Borrowings[2]	2,465.4	608.1	677.5	-	-	3,751.0
Commitments (Note 5.11)	404.5	-	31.5	0.9	-	436.9
	11,179.4	3,374.5	891.0	0.9	3.1	15,448.9

[1]The amount comprises $8.0 million relating to discontinued operations. Refer to Note 5.13. These are classified as At call/variable.
[2]The amount utilised from the RBA TFF has been included in borrowings. Refer to Note 3.8 for further details.

Group - 2020	At call/ variable	Fixed interest rate maturing			Non interest bearing	Total
		Within 1 year	1 to 5 years	Over 5 years		
	$m	$m	$m	$m	$m	$m
Assets						
Cash and cash equivalents	314.1	-	-	-	3.6	317.7
Financial assets - fair value through profit or loss	1.5	10.5	-	-	-	12.0
Financial assets - amortised cost	1,620.6	361.0	-	-	-	1,981.6
Derivative financial instruments	-	0.5	1.7	-	-	2.2
Loans and advances (gross)	9,361.9	1,462.3	2,580.5	184.4	-	13,589.1
	11,298.1	1,834.3	2,582.2	184.4	3.6	15,902.6
Liabilities						
Deposits	7,406.7	3,254.6	411.5	-	3.2	11,076.0
Derivative financial instruments	-	5.0	8.0	-	-	13.0
Borrowings[1]	2,896.0	884.4	50.0	-	-	3,830.4
Commitments (Note 5.11)	346.0	0.7	14.4	0.9	-	362.0
	10,648.7	4,144.7	483.9	0.9	3.2	15,281.4

[1]The amount has been adjusted for consistency with the current year disclosures that reflect updated information. The amount utilised from the RBA TFF has been included in borrowings. Refer to Note 3.8 for further details.

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For the year ended 30 June 2021

3.10 Risk management (continued)

(a) Interest rate risk (continued)

Bank - 2021	At call/ variable	Fixed interest rate maturing			Non interest bearing	Total
		Within 1 year	1 to 5 years	Over 5 years		
	$m	$m	$m	$m	$m	$m
Assets						
Cash and cash equivalents	456.7	-	-	-	3.0	459.7
Financial assets - amortised cost	4,167.5	342.9	64.4	-	-	4,574.8
Derivative financial instruments	-	-	2.1	-	-	2.1
Loans and advances (gross)	8,775.9	1,305.9	3,312.3	159.9	-	13,554.0
Financial assets - fair value through other comprehensive income	22.8	-	-	-	-	22.8
	13,422.9	1,648.8	3,378.8	159.9	3.0	18,613.4
Liabilities						
Deposits	8,316.2	2,764.0	180.1	-	3.1	11,263.4
Derivative financial instruments	-	2.4	1.9	-	-	4.3
Borrowings[1]	5,061.3	610.9	677.5	-	-	6,349.7
Commitments (Note 5.11)	404.5	-	31.5	0.9	-	436.9
	13,782.0	3,377.3	891.0	0.9	3.1	18,054.3

[1]The amount utilised from the RBA TFF has been included in borrowings. Refer to Note 3.8 for further details.

Bank - 2020	At call/ variable	Fixed interest rate maturing			Non interest bearing	Total
		Within 1 year	1 to 5 years	Over 5 years		
	$m	$m	$m	$m	$m	$m
Assets						
Cash and cash equivalents	305.1	-	-	-	3.6	308.7
Financial assets - amortised cost	5,042.9	361.0	-	-	-	5,403.9
Derivative financial instruments	-	0.5	1.7	-	-	2.2
Loans and advances (gross)	9,361.9	1,462.3	2,580.5	184.4	-	13,589.1
Financial assets - fair value through other comprehensive income	29.3	-	-	-	-	29.3
	14,739.2	1,823.8	2,582.2	184.4	3.6	19,333.2
Liabilities						
Deposits	7,409.4	3,254.6	411.5	-	3.2	11,078.7
Derivative financial instruments	-	5.0	8.0	-	-	13.0
Borrowings[1]	6,348.0	888.3	50.0	-	-	7,286.3
Commitments (Note 5.11)	346.0	0.7	14.4	0.9	-	362.0
	14,103.4	4,148.6	483.9	0.9	3.2	18,740.0

[1]The amount has been adjusted for consistency with the current year disclosures that reflect updated information. The amount utilised from the RBA TFF has been included in borrowings. Refer to Note 3.8 for further details.

The Bank's exposure to interest rates is through earnings and valuation risk. Earnings risk is measured through Net Interest Income Sensitivity (NIIS), while valuation risk is measured through Present Value Sensitivity (PVS) and Value at Risk (VaR). The Board has responsibility for ensuring compliance with these limits and is assisted by the monitoring activities implemented by management under the broader risk management process.

NIIS is used for determining the potential volatility in our net interest income over the short term. NIIS is reported based on a 1% movement in interest rates across the yield curve to determine the potential adverse change in net interest income in the ensuing 12-month period.

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3.10 Risk management (continued)

(a) Interest rate risk (continued)

The below table represents the average, maximum and minimum potential adverse change in NIIS.

Net interest income sensitivity	2021 $m	2020 $m
Average exposure	**2.0**	1.7
Maximum exposure	**4.0**	4.1
Minimum exposure	**0.2**	0.5

VaR and PVS are used as complementary metrics for determining the potential volatility in longer term economic value. VaR measures historically observed interest rate changes, whilst PVS measures pre-defined rate movements across the yield curve.

The VaR methodology is a statistical technique used to measure and quantify the valuation risk over a specific holding period at a given confidence level. The Bank's approach is based on a historical interest rate simulation which uses a 1500-day observation period and consists of a 99% confidence level within a 20-day holding period.

The below table represents the average, maximum and minimum VaR as a percentage of equity as measured at the end of each month over the financial year:

	2021		2020	
Value at risk	**$m**	**%**	$m	%
Average	**3.8**	**0.36%**	3.0	0.31%
Maximum	**7.7**	**0.71%**	4.5	0.41%
Minimum	**1.2**	**0.11%**	1.8	0.18%

PVS measures the sensitivity of the present value of the balance sheet based on a 1% movement in interest rates across the yield curve. The following table represents the average, maximum and minimum potential change in PVS since implementation of the enhanced framework:

Present value sensitivity	2021 $m	2020 $m
Average exposure	**11.1**	6.9
Maximum exposure	**20.5**	10.2
Minimum exposure	**2.4**	3.5

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For the year ended 30 June 2021

3.10 Risk management (continued)

(b) Equity price risk

Equity price risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices, whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

The Group is exposed to equity price risk on investments in Australian listed equities and from investments in unlisted unit trusts. These investments are backing insurance liabilities and are held by the wholly owned subsidiary, CUA Health Limited (CHL), which are currently classified as discontinued operations. Refer to Note 5.13. To manage the risk of a decline in the value of the investments, the specialist asset manager is required to follow the investment guidelines as approved by the Board of CHL.

Risk management techniques are used in the selection of investments, including derivatives, which are only acquired if they meet specified investment criteria. Daily monitoring of trade restrictions and derivative exposure against limits is undertaken with any breach of these restrictions reported to the Board of CHL. Additionally, the Group is exposed to equity price risk on its investment in unlisted securities, see Note 3.2 and 3.9 for further detail.

The following sensitivity analysis is based on the equity price risk exposures on average balances at balance date. It shows the effect on equity and profit after tax if market prices had moved, with all other variables held constant.

Group	2021		2020	
Judgments of reasonably possible movements	**10% $m**	**-10% $m**	10% $m	-10% $m
Australian listed equities	**0.5**	**(0.5)**	0.4	(0.4)
Investment in unlisted unit trusts	**5.3**	**(5.3)**	4.3	(4.3)
Investment in unlisted securities	**3.3**	**(3.3)**	3.0	(3.0)
	9.1	**(9.1)**	7.7	(7.7)

(c) Credit risk

Credit risk is the risk that a counterparty will default on its contractual obligations resulting in financial loss. Credit risk arises from the Bank's lending activities, which includes residential mortgages, consumer loans, overdrafts and credit cards (Credit quality – lending portfolios) and from the financial instruments held for liquidity management purposes and to hedge interest rate risk (Credit quality - investment with counterparties).

The Group has an established Credit Risk Management Framework that encompasses:

- Risk appetite for lending;
- Strategies, policies and governance for managing credit risk; and
- Processes for continually monitoring credit quality for impairment and the adequacy of provisions.

Maximum credit exposure

Credit exposures are capped to the carrying value reported on the balance sheets for the related assets. The table below (refer to Credit quality – investment with counterparties) presents the Group's maximum credit exposure to the respective asset classes at the reporting dates. The amounts are presented gross of provisions for impairment and before taking account of any collateral held or other credit enhancement.

Credit quality – investment with counterparties

Counterparty concentration risk is monitored daily by Treasury and the Risk Management Division, and monthly by the ALCO. Management establishes counterparty limits based on maximum exposure limits set by the Board and our internal credit assessment of a counterparty. The exposure is limited to the carrying amount in the balance sheet and is classified according to APRA's APS 112 *Capital Adequacy: Standardised Approach to Credit Risk (Attachment E, paragraph 13, Table 6)* which are broadly aligned to external long term credit rating agencies such as Standard & Poor's, Moody's and Fitch.

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For the year ended 30 June 2021

3.10 Risk management (continued)

(c) Credit risk (continued)

Credit quality – investment with counterparties (continued)

The following tables summarise the counterparty concentration risk exposure by rating grades:

Group - 2021	**Credit rating Grade 1 $m**	**Credit rating Grade 2 $m**	**Credit rating Grade 3 $m**	**Unrated $m**	**Total $m**
Assets					
Cash and cash equivalents[1]	**355.1**	**115.7**	**0.9**	**2.6**	**474.3**
Financial assets - fair value through profit or loss	**-**	**3.0**	**-**	**-**	**3.0**
Financial assets - amortised cost					
Stage 1: 12-month ECL - not credit impaired	**1,082.5**	**652.8**	**265.7**	**-**	**2,001.0**
Derivative financial instruments	**2.1**	**-**	**-**	**-**	**2.1**
	1,439.7	**771.5**	**266.6**	**2.6**	**2,480.4**

[1]The amount comprises $8.0 million relating to sale of discontinued operations. Refer to Note 5.13. $2.3 million is classified as Credit Rating Grade 1, and $5.6 million classified as Credit Rating Grade 2.

Group - 2020	Credit rating Grade 1 $m	Credit rating Grade 2 $m	Credit rating Grade 3 $m	Unrated $m	Total $m
Assets					
Cash and cash equivalents	226.6	86.7	0.8	3.6	317.7
Financial assets - fair value through profit or loss	4.5	7.5	-	-	12.0
Financial assets - amortised cost					
Stage 1: 12-month ECL - not credit impaired	1,048.9	687.5	245.2	-	1,981.6
Derivative financial instruments	2.2	-	-	-	2.2
	1,282.2	781.7	246.0	3.6	2,313.5

Bank - 2021	**Credit rating Grade 1 $m**	**Credit rating Grade 2 $m**	**Credit rating Grade 3 $m**	**Unrated $m**	**Total $m**
Assets					
Cash and cash equivalents	**346.1**	**110.1**	**0.9**	**2.6**	**459.7**
Financial assets - amortised cost					
Stage 1: 12-month ECL - not credit impaired	**3,441.9**	**652.8**	**265.7**	**214.4**	**4,574.8**
Financial assets - fair value through other comprehensive income					
Stage 1: 12-month ECL - not credit impaired	**-**	**-**	**-**	**22.8**	**22.8**
Derivative financial instruments	**2.1**	**-**	**-**	**-**	**2.1**
	3,790.1	**762.9**	**266.6**	**239.8**	**5,059.4**

Bank - 2020	Credit rating Grade 1 $m	Credit rating Grade 2 $m	Credit rating Grade 3 $m	Unrated $m	Total $m
Assets					
Cash and cash equivalents	222.3	82.0	0.8	3.6	308.7
Financial assets - amortised cost					
Stage 1: 12-month ECL - not credit impaired	4,256.8	687.5	245.2	214.4	5,403.9
Financial assets - fair value through other comprehensive income					
Stage 1: 12-month ECL - not credit impaired	-	-	-	29.2	29.2
Derivative financial instruments	2.2	-	-	-	2.2
	4,481.3	769.5	246.0	247.2	5,744.0

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3.10 Risk management (continued)

(c) Credit risk (continued)

Credit quality – lending portfolios

All loans and advances are subject to continuous management review to assess whether there is any objective evidence that any loan or group of loans is impaired. The Bank sets aside provisions for impairment in accordance with its internal policies and procedures, which comply with AASB 9 *Financial Instruments: Recognition and Measurement* and APRA's APS 220 *Credit Quality*.

The following table sets out information about the overdue status of loans and advances to customers in Stage 1, Stage 2 and Stage 3 as defined in Note 3.5.

Group & Bank - 2021 **Loans and advances (gross)**	**Stage 1 $m**	**Stage 2 $m**	**Stage 3 $m**	**Total $m**
Residential mortgages				
Current	**12,818.5**	**111.2**	**-**	**12,929.7**
Overdue less than or equal to 30 days	**97.5**	**14.6**	**-**	**112.1**
Overdue more than 30 days	**-**	**33.1**	**25.8**	**58.9**
	12,916.0	**158.9**	**25.8**	**13,100.7**
Commercial lending				
Current	**26.8**	**-**	**-**	**26.8**
Overdue less than or equal to 30 days	**0.1**	**-**	**-**	**0.1**
Overdue more than 30 days	**-**	**0.2**	**0.4**	**0.6**
	26.9	**0.2**	**0.4**	**27.5**
Personal lending				
Current	**397.5**	**5.5**	**-**	**403.0**
Overdue less than or equal to 30 days	**10.8**	**1.1**	**-**	**11.9**
Overdue more than 30 days	**-**	**4.0**	**6.9**	**10.9**
	408.3	**10.6**	**6.9**	**425.8**
Total loans and advances (gross)	**13,351.2**	**169.7**	**33.1**	**13,554.0**
Total impairment provision	**21.2**	**4.1**	**5.3**	**30.6**

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For the year ended 30 June 2021

3.10 Risk management (continued)

(c) Credit risk (continued)

Credit quality – lending portfolios (continued)

Group & Bank - 2020 **Loans and advances (gross)**	Stage 1 $m	Stage 2 $m	Stage 3 $m	Total $m
Residential mortgages				
Current	12,881.6	79.1	-	12,960.7
Overdue less than or equal to 30 days	74.1	4.3	-	78.4
Overdue more than 30 days	-	21.2	36.8	58.0
	12,955.7	104.6	36.8	13,097.1
Commercial lending				
Current	24.1	-	-	24.1
Overdue less than or equal to 30 days	0.1	-	-	0.1
Overdue more than 30 days	-	-	0.2	0.2
	24.2	-	0.2	24.4
Personal lending				
Current	440.8	3.6	-	444.4
Overdue less than or equal to 30 days	10.3	0.6	-	10.9
Overdue more than 30 days	-	3.9	8.4	12.3
	451.1	8.1	8.4	467.6
Total loans and advances (gross)	13,431.0	112.7	45.4	13,589.1
Total impairment provision	23.2	3.0	7.4	33.6

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For the year ended 30 June 2021

3.10 Risk management (continued)

(c) Credit risk (continued)

Credit quality – lending portfolios (continued)

Collateral held

The Bank holds collateral against certain classes of loans and advances to customers in the form of a mortgage interest over property, other registered securities over assets and guarantees. To mitigate credit risk, the Bank can take possession of the security held against the loans and advances as a result of default.

The following table sets out the principal types of the collateral held against different types of financial assets:

Group & Bank **Types of credit exposure**	**Percentage of exposure that is subject to collateral requirements** **2021** **%**	 2020 %	 Principal type of collateral held
Financial assets - amortised cost	**-**	-	None
Derivative financial instruments	**-**	-	None
Loans and advances:			
Residential mortgages	**100**	100	Real estate property
Commercial lending	**100**	100	Real estate property
Personal lending	**40**	31	Motor vehicle
Financial assets - fair value through other comprehensive income	**-**	-	None

An estimate of the value of collateral held as security is assessed at the time of the borrowing and is generally not updated except when loans and advances are individually assessed as impaired. As at 30 June 2021 the fair value of collateral held against those loans and advances that have been individually assessed as Stage 3 credit impaired is $8.6 million (2020: $24.8 million). It has not been practicable to determine the fair value of the collateral held as security against Stage 1 and Stage 2 loans. During the year, the Bank took possession of properties valued at $0.3 million (2020: $3.1 million) which were securing loans of $0.4 million (2020: $3.1 million).

The following table shows the Bank's Loan to Value Ratios (LVR) on its residential mortgages. Valuation amounts used in these calculations are based on the security value taken at the time the loans were originated or subsequent revaluation.

Group & Bank	**2021** **$m**	2020 $m
LVR 0% - 60%	**3,853.3**	3,974.2
LVR 60.01% - 80%	**5,982.5**	6,533.9
LVR 80.01% - 90%	**2,173.6**	1,967.8
LVR 90.01% - 100%	**1,042.1**	602.0
LVR > 100%	**49.2**	19.2
	13,100.7	13,097.1

During the year the Bank participated in the Government's First Home Loan Deposit Scheme (FHLDS). The FHLDS helps first time home buyers purchase their own home by providing a partial guarantee and removing the need for the consumer to purchase lender's mortgage insurance. Loans supported by the FHLDS typically originate at loan to valuation ratios above 90% but not greater than 95%. The increase in customers taking up this scheme has shifted the Bank's LVR profile higher.

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3.10 Risk management (continued)

(c) Credit risk (continued)

Credit risk – geographical analysis (concentration risk)

The lending portfolio is heavily concentrated on residential mortgages in line with our core business and risk appetite. The concentration of exposures broadly aligns to our traditional branch network. Management undertakes periodic exercises including stress testing and geographic analysis to better understand the impact of concentration risk within the lending portfolio. Based on these exercises, management is comfortable with the level of concentration risk.

Group & Bank	2021		2020	
State	**Residential mortgages $m**	**Other loans $m**	Residential mortgages $m	Other loans $m
Queensland	**4,988.5**	**226.1**	4,829.1	244.2
New South Wales	**4,044.4**	**104.3**	4,044.2	116.8
Victoria	**2,762.3**	**88.2**	2,904.7	92.7
Western Australia	**820.7**	**21.6**	845.1	24.0
Australian Capital Territory	**202.9**	**5.4**	199.3	6.1
South Australia	**206.1**	**4.8**	211.7	5.2
Tasmania	**59.7**	**1.4**	48.2	1.5
Northern Territory	**16.1**	**1.5**	14.8	1.5
	13,100.7	**453.3**	13,097.1	492.0

Notes to the financial statements

For the year ended 30 June 2021

3.10 Risk management (continued)

(d) Liquidity and funding risk

Liquidity and funding risk is the risk that the Group is unable to meet its financial obligations as they fall due, caused by a mismatch in cash flows. The primary liquidity objective is to fund in a way that will facilitate growth in core business under a wide range of market conditions.

Liquidity risk is managed through the matching of maturity profiles of assets and liabilities on a daily basis, maintenance of committed funding facilities and, continuous forecasting of cash-flows, supplemented with liquidity scenario analysis. Funding risk is managed through a range of key metrics around diversification, duration and capacity.

The operational management of liquidity and funding is performed centrally within the Treasury Division, with oversight from the Risk Management Division, ALCO and Board. Policies are approved by the Board on the recommendation of the ALCO and are consistent with the requirements of APRA's regulatory standard APS 210 *Liquidity*. During the current and the previous year, the Bank did not breach these requirements.

The following table shows the expected cash flow liquidity analysis for different monetary liabilities and assets held. In the case of borrowings, the table shows the period in which the principal outstanding will be repaid based on the remaining period to the repayment date. For term borrowings, the below dissection is based upon the contractual conditions for each borrowing being strictly complied with and is subject to change in the event that current repayment conditions are varied.

Group - 2021	**Carrying Amount $m**	**Gross contractual inflow/(outflow) $m**	**Within 1 month $m**	**1-3 months $m**	**3-12 months $m**	**1-5 years $m**	**More than 5 years $m**
Financial liability by type							
Non-derivative financial liabilities							
Members' shares	**3.1**	**3.1**	**3.1**	**-**	**-**	**-**	**-**
Customers' call deposits	**8,309.5**	**8,309.5**	**8,309.5**	**-**	**-**	**-**	**-**
Customers' term deposits	**2,944.1**	**2,957.9**	**379.7**	**584.8**	**1,809.9**	**183.5**	**-**
Borrowings[1]	**3,751.0**	**3,854.3**	**173.8**	**533.2**	**790.7**	**2,123.4**	**233.2**
Lease liabilities	**31.3**	**32.3**	**1.4**	**2.8**	**11.8**	**15.0**	**1.3**
Total non-derivative financial liabilities	**15,039.0**	**15,157.1**	**8,867.5**	**1,120.8**	**2,612.4**	**2,321.9**	**234.5**
Derivative financial liabilities							
Interest rate swaps[2]							
Outflow	**6.3**	**6.3**	**0.6**	**1.0**	**1.0**	**3.7**	**-**
Inflow	**(2.0)**	**(2.0)**	**(0.1)**	**(0.1)**	**(0.5)**	**(1.3)**	**-**
Total derivative financial liabilities	**4.3**	**4.3**	**0.5**	**0.9**	**0.5**	**2.4**	**-**
Financial asset by type[3]							
Non-derivative financial assets							
Cash and cash equivalents[5]	**474.3**	**474.3**	**474.3**	**-**	**-**	**-**	**-**
Financial assets - fair value through profit or loss[4]	**85.3**	**85.3**	**1.6**	**-**	**1.4**	**-**	**82.3**
Financial assets - amortised cost	**2,001.0**	**2,000.8**	**160.5**	**332.7**	**324.9**	**1,182.7**	**-**
Loans and advances	**13,547.0**	**13,547.0**	**27.4**	**92.0**	**257.9**	**1,430.0**	**11,739.7**
Financials assets – fair value through other comprehensive income	**47.3**	**47.3**	**-**	**-**	**-**	**-**	**47.3**
Total non-derivative financial assets	**16,154.9**	**16,154.7**	**663.8**	**424.7**	**584.2**	**2,612.7**	**11,869.3**
Derivative financial assets							
Interest rate swaps[2]							
Outflow	**(5.1)**	**(5.1)**	**(0.1)**	**(0.2)**	**(0.8)**	**(4.0)**	**-**
Inflow	**7.2**	**7.2**	**0.1**	**0.1**	**0.6**	**6.4**	**-**
Total derivative financial assets	**2.1**	**2.1**	**-**	**(0.1)**	**(0.2)**	**2.4**	**-**

[1] The amount utilised from the RBA TFF has been included in borrowings. Refer to Note 3.8 for further details.
[2] For interest rate swaps the cash flows have been estimated using forward interest rates applicable at the end of the reporting period.
[3] The financial assets have been presented based on the remaining contractual maturities.
[4] The amount comprises $82.3 million relating to sale of discontinued operations. Refer to Note 5.13. This includes investments in unlisted unit trusts and listed and unlisted equity shares that do not have contractual maturities. These are classified as More than 5 Years as intention is to hold these investments with a long term view.
[5] The amount comprises $8.0 million relating to sale of discontinued operations. Refer to Note 5.13. These are classified Within 1 month.

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For the year ended 30 June 2021

3.10 Risk management (continued)

(d) Liquidity and funding risk (continued)

Group - 2020	Carrying Amount	Gross contractual inflow/(outflow)	Within 1 month	1-3 months	3-12 months	1-5 years	More than 5 years
	$m	$m	$m	$m	$m	$m	$m
Financial liability by type							
Non-derivative financial liabilities							
Members' shares	3.2	3.2	3.2	-	-	-	-
Customers' call deposits	7,406.7	7,406.7	7,406.7	-	-	-	-
Customers' term deposits	3,666.1	3,701.6	852.6	538.9	1,886.4	423.7	-
Borrowings[1]	3,830.4	3,951.9	225.3	406.3	717.2	1,841.6	761.5
Lease liabilities	39.6	41.2	1.5	2.8	11.8	24.6	0.5
Total non-derivative financial liabilities	14,946.0	15,104.6	8,489.3	948.0	2,615.4	2,289.9	762.0
Derivative financial liabilities							
Interest rate swaps[2]							
Outflow	13.9	13.9	1.3	2.7	7.6	2.3	-
Inflow	(0.9)	(0.9)	(0.1)	(0.1)	(0.5)	(0.2)	-
Total derivative financial liabilities	13.0	13.0	1.2	2.6	7.1	2.1	-
Financial asset by type[3]							
Non-derivative financial assets							
Cash and cash equivalents	317.7	317.7	317.7	-	-	-	-
Financial assets - fair value through profit or loss	79.9	79.9	4.5	2.6	3.4	-	69.4
Financial assets - amortised cost	1,981.6	1,981.7	105.3	319.1	403.0	1,154.3	-
Loans and advances	13,576.4	13,576.4	28.7	88.2	263.9	1,489.6	11,706.0
Financials assets – fair value through other comprehensive income	42.9	42.9	-	-	-	-	42.9
Total non-derivative financial assets	15,998.5	15,998.6	456.2	409.9	670.3	2,643.9	11,818.3
Derivative financial assets							
Interest rate swaps[2]							
Outflow	(2.0)	(2.0)	-	-	(0.1)	(1.9)	-
Inflow	4.2	4.2	0.1	0.3	0.9	2.9	-
Total derivative financial assets	2.2	2.2	0.1	0.3	0.8	1.0	-

[1] The amount has been adjusted for consistency with the current year disclosures that reflect updated information. The amount utilised from the RBA TFF has been included in borrowings. Refer to Note 3.8 for further details.
[2] For interest rate swaps the cash flows have been estimated using forward interest rates applicable at the end of the reporting period.
[3] The financial assets have been presented based on the remaining contractual maturities.

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For the year ended 30 June 2021

3.10 Risk management (continued)

(d) Liquidity and funding risk (continued)

Bank - 2021	Carrying Amount	Gross contractual inflow/(outflow)	Within 1 month	1-3 months	3-12 months	1-5 years	More than 5 years
	$m	$m	$m	$m	$m	$m	$m
Financial liability by type							
Non-derivative financial liabilities							
Members' shares	3.1	3.1	3.1	-	-	-	-
Customers' call deposits	8,316.2	8,316.2	8,316.2	-	-	-	-
Customers' term deposits	2,944.1	2,957.9	379.7	584.8	1,809.9	183.5	-
Borrowings[1]	6,349.7	6,560.0	252.7	674.3	1,336.7	3,584.0	712.3
Lease liabilities	31.3	32.3	1.4	2.8	11.8	15.0	1.3
Total non-derivative financial liabilities	17,644.4	17,869.5	8,953.1	1,261.9	3,158.4	3,782.5	713.6
Derivative financial liabilities							
Interest rate swaps[2]							
Outflow	6.3	6.3	0.6	1.0	1.0	3.7	-
Inflow	(2.0)	(2.0)	(0.1)	(0.1)	(0.5)	(1.3)	-
Total derivative financial liabilities	4.3	4.3	0.5	0.9	0.5	2.4	-
Financial asset by type[3]							
Non-derivative financial assets							
Cash and cash equivalents	459.7	459.7	459.7	-	-	-	-
Financial assets - amortised cost	4,574.8	4,574.6	161.1	332.7	324.9	1,182.7	2,573.2
Loans and advances	13,547.0	13,547.0	27.4	92.0	257.9	1,430.0	11,739.7
Financials assets – fair value through other comprehensive income	70.1	70.0	-	-	-	-	70.0
Total non-derivative financial assets	18,651.6	18,651.3	648.2	424.7	582.8	2,612.7	14,382.9
Derivative financial assets							
Interest rate swaps[2]							
Outflow	(5.1)	(5.1)	(0.1)	(0.2)	(0.8)	(4.0)	-
Inflow	7.2	7.2	0.1	0.1	0.6	6.4	-
Total derivative financial assets	2.1	2.1	-	(0.1)	(0.2)	2.4	-

[1] The amount utilised from the RBA TFF has been included in borrowings. Refer to Note 3.8 for further details.
[2] For interest rate swaps the cash flows have been estimated using forward interest rates applicable at the end of the reporting period.
[3] The financial assets have been presented based on the remaining contractual maturities.

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For the year ended 30 June 2021

3.10 Risk management (continued)

(d) Liquidity and funding risk (continued)

Bank - 2020	Carrying Amount $m	Gross contractual inflow/(outflow) $m	Within 1 month $m	1-3 months $m	3-12 months $m	1-5 years $m	More than 5 years $m
Financial liability by type							
Non-derivative financial liabilities							
Members' shares	3.2	3.2	3.2	-	-	-	-
Customers' call deposits	7,409.4	7,409.4	7,409.4	-	-	-	-
Customers' term deposits	3,666.1	3,701.6	852.6	538.9	1,886.4	423.7	-
Borrowings[1]	7,286.3	7,513.8	294.4	537.8	1,337.5	3,857.9	1,486.2
Lease liabilities	39.6	41.2	1.5	2.8	11.8	24.6	0.5
Total non-derivative financial liabilities	18,404.6	18,669.2	8,561.1	1,079.5	3,235.7	4,306.2	1,486.7
Derivative financial liabilities							
Interest rate swaps[2]							
Outflow	13.9	13.9	1.3	2.7	7.6	2.3	-
Inflow	(0.9)	(0.9)	(0.1)	(0.1)	(0.5)	(0.2)	-
Total derivative financial liabilities	13.0	13.0	1.2	2.6	7.1	2.1	-
Financial asset by type[3]							
Non-derivative financial assets							
Cash and cash equivalents	308.7	308.7	308.7	-	-	-	-
Financial assets - amortised cost	5,403.9	5,404.0	106.2	319.1	403.0	1,154.3	3,421.4
Loans and advances	13,576.4	13,576.4	28.7	88.2	263.9	1,489.6	11,706.0
Financials assets – fair value through other comprehensive income	72.1	72.1	-	-	-	-	72.1
Total non-derivative financial assets	19,361.1	19,361.2	443.6	407.3	666.9	2,643.9	15,199.5
Derivative financial assets							
Interest rate swaps[2]							
Outflow	(2.0)	(2.0)	-	-	(0.1)	(1.9)	-
Inflow	4.2	4.2	0.1	0.3	0.9	2.9	-
Total derivative financial assets	2.2	2.2	0.1	0.3	0.8	1.0	-

[1] The amount has been adjusted for consistency with the current year disclosures that reflect updated information. The amount utilised from the RBA TFF has been included in borrowings. Refer to Note 3.8 for further details.
[2] For interest rate swaps the cash flows have been estimated using forward interest rates applicable at the end of the reporting period.
[3] The financial assets have been presented based on the remaining contractual maturities.

Notes to the financial statements

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3.11 Capital management

Regulatory capital

The Group maintains an actively managed capital base to cover risks inherent in the business. The primary objectives of the Group's capital management strategies are to ensure that the Bank maintains sufficient capital resources to support the Group's business activities and operational requirements and to ensure continuous compliance with externally imposed capital ratios. The Bank uses capital to reinvest in the business to enhance products and services supplied to the customers of the Bank.

The adequacy of the Group's capital is monitored using, among other measures, the rules and ratios established by the Basel Committee on Banking Supervision and adopted by APRA in supervising the Bank. During the current and previous years, the Banking Group has not breached any capital requirements.

The elements of capital are analysed as follows:

Qualifying capital	Banking Group[1]	
	As at 30 June 2021 $m	As at 30 June 2020 $m
Common Equity Tier 1 Capital		
Retained profits, including current year profits	**1,053.7**	1,007.1
Reserves	**30.2**	20.4
Total Common Equity Tier 1 Capital	**1,083.9**	1,027.5
Regulatory Adjustments		
Intangibles	**(56.6)**	(59.5)
Equity investments	**(53.1)**	(47.9)
Other deductions	**(40.8)**	(31.4)
Total Regulatory Adjustments	**(150.5)**	(138.8)
Net Common Equity Tier 1 Capital	**933.4**	888.7
Tier 2 Capital		
General reserve for credit losses	**21.2**	18.0
Net Tier 2 Capital	**21.2**	18.0
Capital base	**954.6**	906.7
Risk weighted assets	**6,548.6**	6,304.5
Risk Weighted Capital Ratios		
Tier 1	**14.25%**	14.10%
Tier 2	**0.33%**	0.28%
Total Capital Ratio	**14.58%**	14.38%

[1] The regulatory capital requirements are measured for the Bank and all of its banking subsidiaries (known as the Banking Group).

Notes to the financial statements

For the year ended 30 June 2021

4. Insurance business

4.1 Key financial information

The following table summarises the key financial information of the insurance businesses which contributed to the income statement and balance sheet of the Group.

	Insurance Business	
	2021	2020
	$m	$m
Income statement extract		
Net premium revenue	**2.4**	3.8
Claims (expense) / recovery	**0.4**	(1.5)
Interest income - fair value through profit or loss	**-**	0.2
Net insurance income	**2.8**	2.5
Balance sheet extract		
Assets		
Investments backing insurance liabilities	**3.0**	79.9
Deferred acquisition costs	**-**	2.1
Rebate receivable from Health Insurance Commission	**-**	3.2
Receivable from Risk Equalisation Special Account	**-**	1.5
Liabilities		
Unearned insurance premiums	**2.2**	18.5
Outstanding insurance claims liabilities	**0.7**	11.9
Deferred insurance claims liabilities	**-**	8.1

The results of CHL are required to be disclosed as discontinued operations for both the year ended 30 June 2021 and 30 June 2020, however, the balance sheet for CHL is only required to be shown as held for sale for the year ended 30 June 2021 (and not for 30 June 2020).

Refer to Note 5.13 which provides further disclosure in relation to CHL.

4.2 Key insurance accounting policies

The key insurance accounting policies outlined below are applicable to both CHL and Credicorp.

Premium revenue

Premium revenue comprises premiums received from policyholders, inclusive of any Federal Government rebate. Premium revenue is recognised from attachment date in accordance with the pattern of the incidence of risk expected over the term of the insurance contracts. The proportion of premium received that has not been earned at the reporting date is recognised on the balance sheet as unearned premiums.

Claims expense

Claims expense represents claims payments during the year adjusted by the movement in the outstanding insurance claims liabilities.

Net investment income

Net investment income relates to amounts received from investments held by the insurance business. Gains or losses arising from changes in the fair value of these assets are presented in the income statement within other operating income in the period in which they arise.

Trust distributions and dividend income derived from these financial assets is recognised in the income statement within net investment income when the Group's right to receive payments is established. Interest income from these financial assets is recognised using the effective interest method.

Notes to the financial statements

For the year ended 30 June 2021

4.2 Key insurance accounting policies (continued)

Investments backing insurance liabilities

A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Investment assets backing insurance liabilities are designated at fair value through profit or loss as required by AASB 1023 *General Insurance Contracts*. Realised and unrealised gains and losses arising from changes in the fair value of these assets are included in the income statement in the period in which they arise.

Deferred acquisition costs

Acquisition costs incurred in obtaining insurance contracts are deferred and recognised as assets where they can be reliably measured and it is probable that they will give rise to premium revenue that will be recognised in the income statement in subsequent reporting periods. Deferred acquisition costs are amortised over the average expected retention period of the health insurance contracts or over the life of general insurance contracts to which they relate. The pattern of amortisation corresponds to the earning pattern of the corresponding premium revenue.

Rebate receivable from Health Insurance Commission

The Australian Government provides a rebate for premiums paid for eligible resident private health insurance policyholders. The rebate is paid directly by the Government and is recognised as a receivable when the rebate is due but not yet received at balance date.

Receivable from Risk Equalisation Special Account (RESA) (health insurance business)

Under private health insurance legislation, all private health insurers must participate in the RESA. Through the RESA, all private health insurers share a proportionate cost of the eligible claims of all persons aged 55 years and over and claims meeting the high cost claims criteria. The amount payable to or receivable from the RESA is determined by APRA after the end of each quarter. Estimated provisions are made for amounts payable or receivable at 30 June 2021, including an estimate of risk equalisation for unpresented and outstanding claims.

Outstanding insurance claims liabilities

The outstanding insurance claims liabilities provide for the estimated cost of claims incurred but not yet assessed at the reporting date, including the cost of claims incurred but not yet reported, and an allowance for claims handling expenses.

The estimation of outstanding insurance claim liabilities is based largely on the assumption that past benefit settlement patterns are an appropriate predictor of expected future benefit settlement patterns and involves a variety of actuarial techniques that analyse experience, trends and other relevant factors. The process for establishing the outstanding claims provision involves consultation with the external Appointed Actuary and internal review meetings with management.

The outstanding insurance claims liabilities comprises a central estimate and risk margin. The central estimate is an estimate of the level of claims provision that is intended to contain no intentional under or over estimation. For this reason, the inherent uncertainty in the central estimate must also be considered and a risk margin added. The risk margin is added to the central estimate of outstanding claims to achieve a desirable probability of adequacy.

The risk margins are 10% (2020: 10%) and 39.7% (2020: 19.2%) respectively for CHL and Credicorp. The risk margin has been estimated to equate to the Group's objective of achieving at least a 75% probability of adequacy (2020: at least 75%).

Deferred insurance claims liabilities

Restrictions on elective medical procedures imposed by the government as a response to COVID-19 in March 2020 have affected the pattern of claims by CHL's policyholders. It is expected that in many instances, the policyholders affected by the restrictions will defer rather than forgo those procedures, resulting in a delay in when they claim benefits from their insurance health policy.

To address the impact of COVID-19 on the timing of claims, CHL recognised a deferred claims liability of $14.4 million at 30 June 2021 (2020: $8.1 million) in accordance with the guidance issued by APRA to private health insurers on 22 June 2020 and 26 March 2021.

Notes to the financial statements

For the year ended 30 June 2021

4.2 Key insurance accounting policies (continued)

Deferred insurance claims liabilities (continued)

CHL's deferred claims liabilities were valued at the 98th percentile which is considered to be a prudent level of provisioning.

The value of the deferred insurance claims liability is estimated based on the following:

- Claims that did not occur in the period between March 2020 and June 2021 multiplied by the percentages determined by APRA for hospital and general treatments based on industry consultations and actuarial input.
- Claims that did not occur are estimated as the difference between:
  - The incurred claims for March 2020 to June 2021 service months from the pre-COVID projection (based on CHL's April 2020 and April 2021 pricing round submission to APRA); and
  - The latest estimate of incurred claims for that period based on the amount paid at 30 June 2021, plus the estimated outstanding claims for those service months.
- The deferred claims liability also allows for an estimate of any amount receivable or payable as a result of participation in the RESA under the Private Health Insurance Act 2007, internal and external claims handling costs incurred in connection with the negotiation and settlement of claims and any part of the general administrative costs directly attributable to the claims function.

The deferred insurance claims liability is included within the outstanding insurance claims liabilities disclosed.

Use of judgements and estimates

The Group takes all reasonable steps to ensure that it has appropriate information regarding its claim's exposures. Given the uncertainty in establishing claims provisions it is likely that the final outcome will be different from the original liability established. The provision also includes an estimate for expenses to be incurred in settling claims.

Liability adequacy

The liability adequacy test is required to be performed to determine whether the unearned premium liability (premiums in advance and unclosed premium liability) is adequate to cover the present value of expected cash flows relating to future claims arising from rights and obligations under current insurance contracts, plus an additional risk margin to reflect the inherent uncertainty in the central estimate. If the unearned premium liability is inadequate, then the deficiency must be recognised in the income statement. The Group applies a risk margin to achieve the same range of probability of adequacy for future claims as achieved by the estimate for the outstanding insurance claims liabilities.

4.3 Insurance governance

CUA Health Limited

The provision of private health insurance in Australia is governed by the Private Health Insurance Act 2007 which is premised on the fundamental principal of community rating. Community rating is a form of mandatory cross-subsidy which requires that the premium paid for a person's chosen health insurance product, and the cover available under that product, are the same regardless of the health or demographic characteristics of the individual seeking coverage. Premiums are only allowed to vary by Risk Equalisation Jurisdiction (State) which is a scheme that seeks to share the risks among all registered health insurers by averaging out the cost of hospital treatment across the industry. Premiums can only be changed annually and require the approval of the Minister for Health and products must have minimum coverage requirements.

The inability to risk rate or quickly change premiums, and the highly regulated nature of private health insurance are all included in CHL's risk management strategy. This strategy has been implemented to mitigate CHL's exposure to insurance risk and includes key policies such as the Capital Management Policy, Pricing Philosophy and Risk Appetite Statement, and controls such as actuarial models used to calculate and monitor claims patterns.

There is a concentration of private health insurance risk in the areas where CHL has a higher than average policyholder base, for example in Queensland. As a result of the community rating principle, CHL is unable to set different prices based on an individual's age or to reflect their previous claims history. As such, CHL is limited in its ability to directly mitigate this.

Notes to the financial statements

For the year ended 30 June 2021

4.3 Insurance governance (continued)

Credicorp Insurance Pty Ltd

General insurance contracts are defined as contracts under which Credicorp accepts significant insurance risk from another party by agreeing to compensate the party insured from a specified uncertain event.

The significance of insurance risk is dependent on both the probability of an insurance event and the magnitude of its potential effect. Credicorp limits the risks associated with excessive or unexpected losses resulting from poor claims experience or claims management practices. All general insurance contracts written are entered into on a standard form basis and are subject to substantially the same terms and conditions.

Credicorp's exposure to concentrations of insurance risk is mitigated by a portfolio of diversified general insurance products (personal loan protection, home loan protection and car loan gap cover) across all States of Australia. Because of the small size of the claims, the financial impact of concentrations of risk is not material to the Group.

On 17 September 2019, the Credicorp Board approved the decision of Credicorp to stop selling consumer credit insurance products.

4.4 Capital management

CUA Health Limited

The CHL Board's policy on capital management is to maintain a strong capital base so as to maintain creditor and market confidence and to sustain future development of the business. The CHL Board manages capital by assessing financial and insurance risks and adjusting its Capital Management Policy and Financial Risk Policy in response to changes in these risks. The CHL Board also manages the size of dividends to the Bank.

CHL is required to comply with APRA's Solvency and Capital Adequacy Standards and submits audited returns at the end of each financial year. During the current and previous years, CHL has not breached any capital requirements.

	2021 $m	2020 $m
Capital Adequacy Standard		
Excess assets: Quantum of Assets Test	**59.2**	51.3
Solvency standard		
Excess qualifying assets: Solvency Test	**13.0**	10.0

Credicorp Insurance Pty Ltd

Credicorp has set out in its Run-off Plan, a targeted minimum capital amount equal to the greater of $6.0 million or 150% of the sum of the prudential risk charges, calculated in accordance with the Prudential Standards. Credicorp has maintained target capital levels during the current and the previous financial year. Capital levels and the PCA coverage ratio are calculated and reported to the Credicorp Board on a regular basis. During the current and previous years, Credicorp has not breached any capital requirements.

General insurers are required to maintain a capital base in excess of the minimum Prescribed Capital Amount, which is at least $5.0 million.

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For the year ended 30 June 2021

4.4 Capital management (continued)

Credicorp Insurance Pty Ltd (continued)

	2021 $m	2020 $m
Prescribed Capital Amount per APRA	**5.0**	5.0
Targeted minimum capital amount per Run-off Plan	**6.0**	6.0
Capital base	**9.2**	7.9

5. Other notes

5.1 Other assets

	Group		Bank	
	2021 $m	2020 $m	2021 $m	2020 $m
Deferred acquisition costs	**-**	2.1	**-**	-
Rebate receivable from Health Insurance Commission	**-**	3.2	**-**	-
Receivable from Risk Equalisation Special Account	**-**	1.5	**-**	-
Sundry debtors	**6.1**	6.9	**6.0**	3.3
Prepayments	**11.7**	6.0	**11.7**	5.7
	17.8	19.7	**17.7**	9.0

All other asset balances at 30 June 2021 and 30 June 2020 are current.

Other assets of CHL have been classified as held for sale at 30 June 2021. Refer to Note 5.13 which provides further disclosure relating to CHL.

5.2 Property, plant and equipment

	Group		Bank	
	2021 $m	2020 $m	2021 $m	2020 $m
At cost/fair value (PPE)	**64.5**	67.5	**64.5**	67.5
Accumulated depreciation (PPE)	**(54.1)**	(53.3)	**(54.1)**	(53.3)
Total property, plant and equipment	**10.4**	14.2	**10.4**	14.2

All property, plant and equipment balances at 30 June 2021 and 30 June 2020 are non-current.

Recognition and measurement

Plant and equipment are measured at cost less depreciation and impairment losses.

All property, plant and equipment other than freehold land are depreciated using the straight-line method over their expected useful lives to the Group. Leasehold improvements are depreciated over the shorter of either their estimated useful life or the remaining term of the lease. The estimated useful lives have not changed from the prior year.

The estimated useful lives are as follows:

Computer hardware	4 years
Office furniture and equipment	3-5 years
Leasehold improvements	2-10 years

Notes to the financial statements

For the year ended 30 June 2021

5.3 Intangible assets

	Group		Bank	
	2021 $m	2020 $m	2021 $m	2020 $m
At cost	**142.8**	128.5	**142.8**	127.9
Accumulated amortisation	**(100.4)**	(80.0)	**(100.4)**	(79.5)
Intangible assets	**42.4**	48.5	**42.4**	48.4
Capital work in progress	**16.0**	11.1	**16.0**	11.1
Total intangible assets	**58.4**	59.6	**58.4**	59.5
Reconciliation of carrying amounts				
Carrying amount at beginning of financial year	**59.6**	59.6	**59.5**	59.3
Additions	**15.2**	9.2	**15.9**	9.2
Net movement in capital work in progress	**4.9**	8.4	**4.9**	8.4
Impairment	**(0.9)**	-	**(0.9)**	-
Amortisation	**(21.0)**	(17.4)	**(21.0)**	(17.4)
Reclassification to assets held for sale / discontinued operations	**0.6**	(0.2)	**-**	-
Carrying amount at end of financial year	**58.4**	59.6	**58.4**	59.5

All intangible asset balances at 30 June 2021 and 30 June 2020 are non-current.

Intangible assets of CHL have been classified as held for sale at 30 June 2021. Refer to Note 5.13 which provides further disclosure relating to CHL.

Recognition and measurement

Intangible assets include acquired or internally generated software. Software is amortised using the straight-line method over the expected useful life to the Group. The estimated useful lives are as follows:

Major banking infrastructure software	10 years
Loan origination system	3-10 years
Other computer software	3-7 years

Software as a services (SaaS) arrangements

SaaS arrangements are service contracts providing the Group with the right to access a cloud provider's application service software over the contractual period. The Group does not receive a software intangible asset at the contract commencement date.

Distinct configuration and customisation costs paid to the cloud provider are expensed as incurred as the software is configured or customised. Non distinct configuration and customisation costs are expensed over the SaaS contract term. Services fees or fees for use of the application software are recognised as operating expenses over the term of the service contract when services are received.

Costs incurred by the Group for the development of software code that enhances or modify, or create additional capability to, existing on-premise systems owned and controlled by the Group and meet the definition and recognition criteria for an intangible asset are recognised as intangible software assets.

Use of judgements and estimates

The Group estimates the useful life of its major banking infrastructure software to be at least 10 years based on the expected technical obsolescence of such assets and a comparison of other similar platforms. However, the actual useful life may be shorter or longer than 10 years, depending on technical innovations and competitor actions. As at 30 June 2021, the carrying amount of this software was $15.1 million (2020: $21.2 million). If the useful life was only 7 years, the carrying amount would be $nil (2020: $3.6 million) as at 30 June 2021. If the useful life was estimated to be 12 years, the carrying amount would be $23.0 million (2020: $27.7 million) as at 30 June 2021.

Notes to the financial statements

For the year ended 30 June 2021

5.3 Intangible assets (continued)

Use of judgements and estimates (continued)

Non distinct customisation activities significantly enhance or modify a SaaS cloud based application. Judgement has been applied in determining whether the degree of customisation and modification of the SaaS cloud based application is significant or not.

During the financial year, the Group recognised $1.2 million (2020: $0.7 million) as prepayments in respect of configuration and customisation activities undertaken in implementing SaaS arrangements which are not considered to be distinct from the access to the SaaS application software over the contract term.

5.4 Right-of-use assets

	Group		Bank	
	2021 $m	2020 $m	**2021 $m**	2020 $m
Buildings	**28.9**	36.2	**28.9**	36.2
Plant and equipment	**0.1**	0.3	**0.1**	0.3
Total right-of-use assets	**29.0**	36.5	**29.0**	36.5
Reconciliation of carrying amounts				
Carrying amount at beginning of financial year	**36.5**	42.3	**36.5**	42.3
Additions	**7.9**	12.7	**7.9**	12.7
Reclassification upon sublease of asset	**-**	(0.3)	**-**	(0.3)
Depreciation				
Buildings	**(15.2)**	(16.9)	**(15.2)**	(16.9)
Plant and equipment	**(0.2)**	(1.3)	**(0.2)**	(1.3)
	(15.4)	(18.2)	**(15.4)**	(18.2)
Carrying amount at end of financial year	**29.0**	36.5	**29.0**	36.5

All right-of-use (ROU) asset balances at 30 June 2021 are non-current.

The Group leases various hub offices, branch premises and vehicles. Lease contracts are typically made for periods of 1 to 10 years, excluding extension options.

Recognition and measurement

Assets and liabilities arising from a lease are initially measured on a present value basis.

ROU assets are measured at cost, which comprise the following:
- The amount of the initial measurement of the lease liability
- Any lease payments made at or before the commencement date less any lease incentives received
- Any initial direct costs, and
- Restoration costs.

ROU assets are depreciated over the shorter of the asset's useful life and the lease term, on a straight-line basis.

Lease liabilities include the following lease payments:
- Fixed payments, less any lease incentives received or receivable; and
- Variable lease payment that are based on an index or a rate, initially measured using the index or rate as at the commencement date.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

Notes to the financial statements

For the year ended 30 June 2021

5.4 Right-of-use assets (continued)

Recognition and measurement (continued)

The lease payments are discounted using the Group's incremental borrowing rates (IBR) as the rates implicit to Group's leases cannot be readily determined. The IBR is the rate that the Group would have to pay to borrow the funds necessary to obtain a similar right-of-use asset in a similar economic environment with similar terms, security and conditions.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Exemptions are available for short term leases of equipment and vehicles and leases of low-value assets. The Group did not apply these exemptions.

Use of judgements and estimates

Determining the lease term of contracts with renewal and termination options

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Group has several lease contracts that include extension and termination options. The Group considers all relevant factors that create an economic incentive in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not to exercise the option to renew or to terminate (e.g., construction of significant leasehold improvements or significant customisation to the leased asset).

Estimating the incremental borrowing rate

The Group estimates the IBR using observable inputs (such as market interest rates) when available.

5.5 Other liabilities

Except for the straight-line lease liability, all other liability balances at 30 June 2021 and 30 June 2020 are current.

Indemnity payable

There is a deed of indemnity in place between the Bank and Credicorp. This deed indemnifies Credicorp against losses and damages as a result of policyholder remediation costs which arose from previous sales practices of consumer credit insurance policies by the Bank. Refer to Note 5.7 for details.

	Group		Bank	
	2021 $m	2020 $m	**2021 $m**	2020 $m
Trade creditors and accruals[1]	**21.4**	22.0	**26.8**	30.6
Indemnity payable	**-**	-	**-**	1.3
Unearned insurance premiums	**2.2**	18.5	**-**	-
Outstanding insurance claims liabilities	**0.7**	11.9	**-**	-
Deferred insurance claims liabilities	**-**	8.1	**-**	-
Income tax payable	**1.5**	0.9	**1.2**	(2.5)
	25.8	61.4	**28.0**	29.4

[1]The prior year Trade creditors and accruals balance has been adjusted for consistency with the current year disclosures that reflect updated information.

Other liabilities of CHL have been classified as held for sale at 30 June 2021. Refer to Note 5.13 which provides further disclosure relating to CHL.

Notes to the financial statements

For the year ended 30 June 2021

5.6 Lease liabilities

	Group		Bank	
	2021 $m	2020 $m	**2021 $m**	2020 $m
Lease liabilities	**31.3**	39.6	**31.3**	39.6
Current - lease liabilities	**15.4**	15.2	**15.4**	15.2
Non-current - lease liabilities	**15.9**	24.4	**15.9**	24.4
	31.3	39.6	**31.3**	39.6
Reconciliation of carrying amounts				
Carrying amount at beginning of financial year	**39.6**	44.3	**39.6**	44.3
Additions	**7.8**	12.0	**7.8**	12.0
Lease payments				
Gross lease payments	**(16.8)**	(17.7)	**(16.8)**	(17.7)
Interest portion of lease payments	**0.7**	1.0	**0.7**	1.0
	(16.1)	(16.7)	**(16.1)**	(16.7)
Carrying amount at end of financial year	**31.3**	39.6	**31.3**	39.6

For recognition and measurement details, refer to Note 5.4.

The Bank has a bank guarantee of $2.5 million (2020: $2.5 million) in respect of one of its leased properties.

5.7 Provisions

	Group		Bank	
	2021 $m	2020 $m	**2021 $m**	2020 $m
Employee benefits	**20.2**	15.3	**20.2**	15.3
Make good provision	**4.4**	5.3	**4.4**	5.3
Other provisions	**1.1**	0.9	**1.1**	1.0
Remediation costs	**-**	1.3	**-**	-
Restructuring costs	**1.2**	2.3	**1.2**	2.3
	26.9	25.1	**26.9**	23.9
Current	**20.5**	19.3	**20.5**	18.9
Non-current	**6.4**	5.8	**6.4**	5.0
	26.9	25.1	**26.9**	23.9

Recognition and measurement

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

Provisions payable later than one year have been measured at the present value by discounting the expected future cash outflows at a rate that reflects the current market assessment of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as financing costs, excluding long term employee benefits.

Notes to the financial statements

For the year ended 30 June 2021

5.7 Provisions (continued)

Employee benefits

Employee provisions comprise liabilities for employee benefits such as annual and long service leave, short term and long term incentives plans, refer to Note 5.8(a). These arise from services rendered by employees to balance date. Employee benefits have been measured at the amounts expected to be paid when the liability is settled plus related on-costs.

Superannuation contributions are made by the Group to defined contribution superannuation funds and are charged as expenses when incurred.

Make good provision

The make good provision is the estimated present value of expenditure required to restore the leased branches and hub offices to their original condition at the end of the respective leases. The provision is assessed at each balance date for new, amended and expired leases. The estimate of the costs has been calculated using historical costs.

Remediation costs

These costs relate to refunds and compensation to past and existing customers, policyholders and clients impacted by remediation matters.

The remediation costs relate to Credicorp consumer credit insurance business where investigations indicated that the previous sales practices of consumer credit insurance policies by the Bank resulted in a small number of customers being mistakenly sold a policy.

5.8 Reserves

	Group		Bank	
	2021 $m	2020 $m	**2021 $m**	2020 $m
General reserve for credit losses	**1.2**	2.8	**1.2**	2.8
Redeemed member share reserve	**3.1**	3.0	**3.1**	3.0
Fair value through other comprehensive income reserve	**18.4**	15.2	**18.8**	14.9
Cash flow hedge reserve	**(1.3)**	(7.1)	**(1.3)**	(7.1)
Business combination reserve	**9.6**	9.6	**9.6**	9.6
	31.0	23.5	**31.4**	23.2

Nature and purpose of reserves

General reserve for credit losses

The Bank is required by APRA to maintain a general reserve for credit losses. Consistent with the requirements of APRA Prudential Standard APS 220 Credit Quality, the general reserve for credit losses represents the difference between the accounting collective provisions for impairment and the estimate of lifetime expected credit losses. The general reserve for credit losses and collective provision for impairment are aggregated for the purpose of reporting the general reserve for credit losses to APRA.

Notes to the financial statements

For the year ended 30 June 2021

5.8 Reserves (continued)

Redeemed member share reserve

Under the *Corporations Act 2001*, redeemable preference shares (member shares) may only be redeemed out of the Bank's profit or through the new issue of shares for the purpose of the redemption. The Bank therefore has transferred the value of member shares redeemed since 1 July 1999 (the date that the *Corporations Act 2001* applied to the Bank), from retained earnings to the redeemed member share reserve. The value of members' shares is disclosed as a liability in Note 3.6.

Fair value through other comprehensive income reserve

This comprises the cumulative net changes in the fair value of investments in equity and debt instruments. For equity instruments, amounts in the reserve are subsequently transferred to retained earnings, and not profit or loss, when the investment is derecognised or impaired. For debt instruments, on derecognition the amounts in the reserve are reclassified to profit or loss.

Cash flow hedge reserve

This reserve is for the portion of the cumulative net gain or loss on cash flow hedges that are determined to be an effective hedge.

Business combination reserve

This reserve is used to record mergers with other mutual entities. The reserve represents the excess of the fair value of assets taken up over liabilities assumed in a merger.

5.9 Related parties

(a) Key management personnel (KMP)

Compensation of the Bank's non-executive directors and other KMP

	Non-executive directors		**Other KMP**	
	2021 $'000	2020 $'000	**2021 $'000**	2020 $'000
The aggregate compensation of KMP during the year comprising amount paid or payable or provided for was as follows:				
- Short term employee benefits	**1,016.7**	1,029.5	**3,173.0**	4,163.3
- Post employment benefits	**141.7**	241.2	**149.9**	170.6
- Other long term benefits	**-**	-	**1,416.8**	301.2
- Termination benefits	**-**	-	**-**	426.5
	1,158.4	1,270.7	**4,739.7**	5,061.6

Compensation shown as short term benefits means (where applicable) salaries, annual and sick leave, bonuses and the value of fringe benefits received, but excludes out of pocket expense reimbursements. The Bank's Non-executive directors and other KMP are only remunerated by the Bank.

Included in post-employment benefits is superannuation contributions and compensation relating to the directors' defined benefit plan. The plan provides lump sum benefits based on years of service and the final average salary for the respective directors. Included in other long term benefits is the inaugural long term incentive plan for the CEO and Executive Committee members.

The average total compensation to each Non-executive director excluding post employment benefits is $145,636 (2020: $147,074).

Notes to the financial statements

For the year ended 30 June 2021

5.9 Related parties (continued)

(a) Key management personnel (KMP) (continued)

Loans to the Bank's Non-executive directors and other KMP

	2021 $'000	2020 $'000
Aggregate of loans as at balance date	**2,781.2**	2,935.9
Total undrawn revolving credit facilities available at balance date	**103.4**	105.3
Interest charged on loans and overdraft facilities	**41.1**	55.6

The above table includes amounts for the Bank's Non-executive directors and other KMP in office or employed by the Bank at balance date and their related parties. Non-executive directors and other KMP who resigned during the 2021 financial year are excluded from the 2021 analysis but are included in the 2020 comparative analysis.

The Bank's policy for lending to its Non-executive directors and other KMP is that all loans are approved under the same criteria applicable to customers. All loans were at lending terms and conditions applicable to customers. KMP may receive concessional rates of interest on their loans and facilities that are available to all the Bank's employees. No amounts were written down or recorded as impaired during the year (2020: $nil).

There are no benefits or concessional terms and conditions applicable to the family members of the Bank's Non-executive directors and other KMP (2020: $nil). No loan balances with family or relatives of the Bank's Non-executive directors and other KMP were written down or recorded as impaired during the year (2020: $nil).

Other transactions with the Bank's Non-executive directors and other KMP

Other transactions with the Bank's Non-executive directors and other KMP and their related parties generally relate to deposits and private health insurance.

The Bank's policy for these other transactions is that all transactions are approved on the same terms and conditions that apply to customers. Interest has been paid on terms and conditions no more favorable than those available on similar transactions to customers of the Bank. KMP may receive discounts on premiums for private health insurance that are available to all Bank employees.

Notes to the financial statements

For the year ended 30 June 2021

5.9 Related parties (continued)

(b) Controlled entities and other related parties

Controlled entities are entities where the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity.

(i) Particulars in relation to controlled entities

The Group financial statements include the financial statements of the Bank and the subsidiaries listed in the following table:

	Equity interest		Investment	
	2021	2020	**2021**	2020
Name of entity	**%**	%	**$'000**	$'000
CUA Health Limited	**100%**	100%	**-**	-
Credicorp Finance Pty Ltd	**100%**	100%	**1,500.0**	1,500.0
Credicorp Insurance Pty Ltd	**100%**	100%	**-**	-
CUA Management Pty Ltd	**100%**	100%	**-**	-
			1,500.0	1,500.0

Investments in controlled entities are carried at cost and eliminated on consolidation.

All entities are incorporated in Australia.

(ii) Securitisation

The Bank conducts an asset securitisation program through which it packages and sells asset-backed securities to investors and borrows from lenders through special purpose entities (SPE). The Group is entitled to any residual income of the SPE after all payments to investors and lenders and costs of the programs have been met. These SPEs are consolidated as the Bank has the power to govern directly or indirectly decision making in relation to financial and operating policies and receives the majority of the residual income or is exposed to the majority of the residual risk associated with the SPEs.

The following securitisation trusts are controlled by the Bank:

- Series 2012-1R Harvey Trust
- Series 2013-1 Harvey Trust
- Series 2015-1 Harvey Trust
- Series 2017-1 Harvey Trust
- Series 2018-1 Harvey Trust
- Harvey Warehouse Trust No. 4
- Harvey Warehouse Trust No. 5

Notes to the financial statements

For the year ended 30 June 2021

5.9 Related parties (continued)

(b) Controlled entities and other related parties (continued)

(ii) Securitisation (continued)

Transfer of financial assets

The following table sets out the financial assets transferred to the above Trusts that did not qualify for derecognition and associated liabilities from conducting the securitisation program.

	Group		Bank	
	2021	2020	**2021**	2020
	$'000	$'000	**$'000**	$'000
Transferred financial assets				
Loans and advances at amortised cost	**4,026,822.9**	5,366,088.8	**4,026,822.9**	5,366,088.8
Associated financial liabilities				
Securitisation liabilities - external investors	**1,552,816.8**	2,035,915.1	**1,552,816.8**	2,035,915.1
Amounts due to the Bank	**-**	-	**2,656,800.7**	3,512,799.9
	1,552,816.8	2,035,915.1	**4,209,617.5**	5,548,715.0
For those liabilities that have recourse only to transferred assets:				
Fair value of transferred assets	**4,024,115.9**	5,362,107.3	**4,024,115.9**	5,362,107.3
Fair value of associated liabilities	**(1,585,965.0)**	(2,024,373.0)	**(4,216,659.1)**	(5,507,628.1)
Net position	**2,438,150.9**	3,337,734.3	**(192,543.2)**	(145,520.8)

Collateral

The Bank has advanced $3.0 million (2020: $3.0 million) as cash collateral in relation to interest rate swaps for securitisation trusts. The funds are held in restricted interest earning accounts and will be returned at maturity of the interest rate swap contracts.

(iii) Significant restrictions

Cash and cash equivalents include restricted balances of $198.1 million (2020: $201.5 million) in the Group which represent deposits held in securitisation trust collection accounts which are not available to the Group.

The regulatory frameworks within which the health and general insurance subsidiaries operate, require these subsidiaries to keep certain levels of regulatory capital and liquid assets, limit their exposure to other parts of the Group and comply with various ratio requirements. The significant restrictions imposed by the regulatory frameworks are the only restrictions on the Bank transferring the cash or other assets of the subsidiaries. The net carrying amount of these subsidiaries' assets and liabilities are $107.4 million and $27.8 million respectively (2020: $99.8 million and $24.4 million respectively).

(iv) Particulars in relation to a joint venture entity

The Group has a 50% interest in Mutual Marketplace Pty Ltd (2020: 50%). For more details, refer to Note 5.10.

Notes to the financial statements

For the year ended 30 June 2021

5.9 Related parties (continued)

(b) Controlled entities and other related parties (continued)

(v) Transactions with controlled and joint venture entities

The following table provides the total amount of transactions that were entered into by the Bank with controlled and joint venture entities for the relevant financial year. These transactions were all carried out under normal commercial terms and where possible are benchmarked against industry averages.

Transactions with controlled and joint venture entities:

	Bank	
	2021 $'000	2020 $'000
Dividend revenue	**6,700.0**	7,850.0
Commission revenue	**668.1**	784.7
Net management fees	**1,777.2**	2,020.4
Net interest income/(expense)	**(33.7)**	(109.3)
Net income/(expense) Mutual Marketplace Pty Ltd[1]	**(121,352.3)**	(99,511.7)
Operating lease revenue	**353.9**	381.1

[1]Spend in ordinary course of business that would otherwise flow through the Bank.

The net amounts receivable from/(payable to) controlled and joint venture entities as at 30 June were:

	Bank	
	2021 $'000	2020 $'000
CUA Health Limited	**(11,429.2)**	(15,043.0)
Credicorp Finance Pty Ltd	**(94.8)**	(97.9)
Credicorp Insurance Pty Ltd	**(1,876.5)**	(3,650.9)
CUA Management Pty Ltd	**(1,642.2)**	(1,828.1)
Mutual Marketplace Pty Ltd	**-**	(3.8)

(vi) Indemnity arrangements

The Bank has a deed of indemnity in place between the Bank and Credicorp. Refer to Note 5.7 for details.

Notes to the financial statements

For the year ended 30 June 2021

5.10 Joint venture

The Bank has an interest in a joint venture known as Mutual Marketplace Pty Ltd which provides procurement services to the joint venture owners and other Australian mutuals. The country of incorporation and principal place of business of the joint operation is Australia.

(a) Interest in joint venture

Set out below are details of this joint venture.

Name of entity	Place of business/country of incorporation	% Ownership interest		Nature of relationship	Measurement	Carrying amount	
		2021	2020			**2021 $m**	2020 $m
Mutual Marketplace Pty Ltd	Australia	**50%**	50%	Joint Venture	Equity Method	**3.0**	2.2

Mutual Marketplace Pty Ltd has share capital consisting solely of ordinary shares, which are held directly by the Group and ownership interest is in the same proportion as the voting rights held.

(i) Commitments and contingent liabilities in respect of joint venture

	2021 $m	2020 $m
Commitments to operating expenditure	**0.8**	1.0
Commitment to provide lending if called	**-**	1.5
	0.8	2.5

The Group has commitments of $nil (2020: $nil) relating to non-cancellable operating lease contracts entered into by the Group's interest in the joint venture.

(ii) Summarised financial information for joint venture

The table below provides summarised financial information for the joint venture. The information disclosed reflects the amounts presented in the financial statements of the relevant joint venture and not the Bank's share of those amounts. They have been amended to reflect adjustments made by the Bank when using the equity method, including fair value adjustments and modifications for differences in accounting policy.

Summarised income statement	**2021 $m**	2020 $m
Revenue	**196.1**	167.9
Cost of sales	**(188.6)**	(161.5)
Gross profit	**7.5**	6.4
Operating expenses	**(4.7)**	(5.3)
Profit before income tax	**2.8**	1.1
Income tax benefit / (expense)	**(0.9)**	(0.4)
Profit for the year	**1.9**	0.7

Notes to the financial statements

For the year ended 30 June 2021

5.10 Joint venture (continued)

(a) Interest in joint venture (continued)

(ii) Summarised financial information for joint venture (continued)

Summarised balance sheet	2021 $m	2020 $m
Total assets	**14.4**	13.3
Total liabilities	**(8.4)**	(9.0)
Net assets	**6.0**	4.3
Reconciliation to carrying amounts:		
Opening net assets	**4.3**	3.6
Profit/(loss) for the period	**1.9**	0.7
Dividends paid	**(0.2)**	-
Closing net assets	**6.0**	4.3
Group's share in %	**50%**	50%
Group's share in $	**3.0**	2.2
Carrying amount	**3.0**	2.2

Recognition and measurement

The Group's investment in the joint venture is accounted for under the equity method in the Group financial statements as it has joint control over all operational decisions and activities.

Under the equity method, the investment in the joint venture is initially recognised at cost and the carrying value is subsequently increased or decreased by the Group's share of the joint venture entity's profits or losses. The Group ceases to recognise its share of losses when its share of net assets and amounts due from the joint venture entity has been reduce to nil, unless it has incurred further obligations.

Share of gains or losses resulting from transactions between the Group and the joint venture are eliminated to the extent of the interest in the joint venture.

Dividends received or receivable from the joint venture entity are recognised as a reduction to the carrying amount of the investment.

At each reporting date, the Group determines whether there is objective evidence that the investment in the joint venture is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the joint venture and it's carrying value.

Notes to the financial statements

For the year ended 30 June 2021

5.11 Commitments

(a) Outstanding loan and credit facility commitments not provided for

Loans approved but not advanced and credit facilities undrawn at the end of the financial year were as follows:

	Group		Bank	
	2021 $m	2020 $m	2021 $m	2020 $m
Loans approved not advanced	**163.5**	90.4	**163.5**	90.4
Undrawn overdrafts and credit facilities at call	**273.4**	271.6	**273.4**	271.6
	436.9	362.0	**436.9**	362.0

(b) Capital commitments

At 30 June 2021, the Group had a commitment of $nil million (2020: $0.1 million) relating to plant and equipment acquisitions.

(c) Superannuation commitments

The Bank contributes to a number of defined contribution superannuation funds, which provide benefits for employees on retirement, death or disability. Employees may contribute additional amounts of their gross income to their respective superannuation fund. The Bank has no financial interest in any of the funds and is not liable for their performance or their obligations.

5.12 Remuneration of auditor

The auditor of the Group is KPMG.

	Group		Bank	
	2021 $'000	2020 $'000	2021 $'000	2020 $'000
Amounts received or due and receivable by KPMG for:				
Audit services				
Audit of financial statements	**603.4**	541.6	**452.0**	430.5
Other regulatory and audit services	**223.2**	217.8	**146.1**	140.7
Total audit services	**826.6**	759.4	**598.1**	571.2
Audit related services	**114.0**	83.7	**82.4**	78.7
Non-audit services				
Other services	**54.1**	97.5	**54.1**	97.5
Total non-audit services	**54.1**	97.5	**54.1**	97.5
Total auditor's remuneration	**994.8**	940.6	**734.6**	747.4

The majority of other services provided are recurring agreed upon procedure engagements related to securitisation trust top up transactions.

Notes to the financial statements

For the year ended 30 June 2021

5.13 Discontinued operations

Discontinued operations consist of the disposal of a subsidiary and the remediation of a former financial planning business. The aggregate discontinued operations balance as at 30 June 2021 is $8.5 million (2020: $9.7 million) at Group level and nil (2020: $1.0 million) at Bank level.

Refer to Note 4.2 which provides disclosure in relation to relevant key insurance accounting policies including CHL for the year ended 30 June 2021.

(a) Disposal of subsidiary

Overview

On 13 May 2021, the Bank entered into an agreement to sell its wholly owned subsidiary, CHL. The associated assets and liabilities of CHL were consequently presented as held for sale in the 30 June 2021 financial statements.

Settlement of the transaction is expected to take place after 30 September 2021. CHL is reported as a discontinued operation for the year ended 30 June 2021. The associated financial information of CHL and intragroup transactions, balances and consolidation impacts are treated as discontinued operations from a financial reporting perspective are outlined below.

Financial performance information

	CUA Health Limited	
	2021 $m	2020 $m
Premium revenue	**153.1**	148.5
Claims related expenses	**(131.2)**	(126.0)
Commission expenses	**(1.6)**	(1.7)
Underwriting result	**20.3**	20.8
Net investment income	**5.8**	0.5
Expenses	**(9.7)**	(9.6)
Profit before tax	**16.4**	11.7
Income tax expenses	**(4.7)**	(3.2)
Profit after income tax	**11.7**	8.5
Transaction and separation costs net of tax	**(3.2)**	-
Profit from discontinued operations	**8.5**	8.5

Cash flow information

	CUA Health Limited	
	2021 $m	2020 $m
Net cash flow from operating activities	**19.3**	5.2
Net cash flow from investing activities	**(10.1)**	(0.8)
Net cash flow from financing activities	**(6.1)**	(7.9)
Net cash generated / (used) by subsidiary	**3.1**	(3.5)

Notes to the financial statements

For the year ended 30 June 2021

5.13 Discontinued operations (continued)

(a) Disposal of subsidiary (continued)

Balance sheet information

	CUA Health Limited	
	2021 $m	2020 $m
Assets		
Cash and cash equivalents	**8.0**	-
Financial assets at fair value through profit or loss	**82.3**	-
Receivables	**7.1**	-
Deferred acquisition costs	**1.8**	-
Intangible assets	**0.1**	-
Net deferred tax assets	**3.6**	-
Assets classified as held for sale	**102.9**	-
Liabilities		
Trade and other payables	**4.5**	-
Income tax payable	**1.7**	-
Outstanding claims liabilities	**23.8**	-
Premiums in advance	**14.5**	-
Liabilities associated with assets held for sale	**44.5**	-

(b) Remediation of former financial planning business

	Group		Bank	
	2021 $m	2020 $m	**2021 $m**	2020 $m
Other income	**-**	0.3	**-**	-
Financial planning remediation costs	**-**	1.4	**-**	1.4
Income/(loss) before income tax	**-**	1.7	**-**	1.4
Income tax benefit/(expense)	**-**	(0.5)	**-**	(0.4)
Profit from discontinued operations	**-**	1.2	**-**	1.0
Cash flow information				
Net cash used in operating activities	**-**	(8.4)	**-**	(8.4)
Net decrease in cash generated from discontinued operations	**-**	(8.4)	**-**	(8.4)

The remediation activities relating to the former financial planning business which the Bank sold in 2014 was completed in the prior financial year.

Notes to the financial statements

For the year ended 30 June 2021

5.14 Events subsequent to reporting date

New securitisation trust

On 16 August 2021, the Bank established a new capital effective securitisation trust: Series 2021-1 Harvey Trust. The Bank completed the issuance of $750 million of residential mortgage-backed securities to external investors at a weighted average margin of 72 basis points above the one-month bank bill swap rate, which was the lowest margin achieved for a capital effective securitisation issuance by any ADI in Australia since the global financial crisis.

COVID-19 pandemic

There continues to be uncertainty regarding how the COVID-19 pandemic will evolve. Consideration was given to the macro-economic impact of varying levels of restrictions across states, border closures and the extension of government support measures including further regulatory support for loans impacted by COVID-19 announced by APRA on 19 July 2021.

Dividend receivable

The Bank has an investment in the shares of an unlisted entity, refer to Note 3.2. On 24 August 2021, the entity announced that a final dividend of 2.1 cents and a special dividend of 13.4 cents have been declared by its Board. These dividends will be fully franked and will be paid on 5 October 2021. The financial effects of these dividends have not been brought to account in the financial statements for the year ended 30 June 2021 and will be recognised in the following year.

The Group has not identified any subsequent events that would require adjustments to the amounts or disclosures in the financial statements.

Notes to the financial statements

For the year ended 30 June 2021

6. Accounting policies and new accounting standards

6.1 Other accounting policies

(a) Basis of consolidation

The Group financial statements comprise the financial statements of the Bank and all of its controlled entities (the Group). Controlled entities are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

All inter-company balances and transactions between entities in the Group, including any unrealised profit or losses, have been eliminated on consolidation. Adjustments are made to bring into line any dissimilar accounting policies that may exist. The financial statements of controlled entities are prepared for the same accounting period as the Bank.

Where controlled entities have entered or left the Group during the year, their operating results have been included from the date control was obtained or until the date control ceased.

(b) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the asset. All other borrowing costs are expensed in the period in which they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

(c) Impairment of non-financial assets (intangible assets, property, plant and equipment and right-of-use assets)

The Group assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

(d) Loyalty Program

The Bank participates in a Customer Loyalty Program operated by a third party. The program allows credit card holders to accumulate points when they transact with their credit card. The third party is paid for points redeemed by the credit card holders in exchange for rewards supplied. The Bank has fulfilled its obligations to the credit card holders when the points are granted and recognises revenue from the points for fees arising from the card transactions. Revenue is measured gross of the amount payable to the third party as the Bank is collecting the revenue on its own account. The amount payable to the third party is measured based on the fair value of the points and the redemption rate estimated.

Certain accounting policies have been incorporated into relevant notes under the "Recognition and measurement" sections of those notes for ease of reference and to promote the usefulness of those disclosures.

(e) Non-current asset or disposal groups held for sale and discontinued operations

Non-current assets (or disposal groups) are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use and a sale is considered highly probable. They are measured at the lower of their carrying amount and fair value less costs to sell.

An impairment loss is recognised for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs to sell. A gain is recognised for any subsequent increases in fair value less costs to sell of an asset (or disposal group), but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale of the non-current asset (or disposal group) is recognised at the date of derecognition.

Non-current assets (including those that are part of a disposal group) are not depreciated or amortised while they are classified as held for sale. Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale continue to be recognised.

Notes to the financial statements

For the year ended 30 June 2021

6.1 Other accounting policies (continued)

(e) Non-current asset or disposal groups held for sale and discontinued operations (continued)

Non-current assets classified as held for sale and the assets of a disposal group classified as held for sale are presented separately from the other assets in the balance sheet. The liabilities of a disposal group classified as held for sale are presented separately from other liabilities in the balance sheet.

A discontinued operation is a component of the entity that has been disposed of or is classified as held for sale and, that represents a separate major line of business or geographical area of operations, and is part of a single co-ordinated plan to dispose of such a line of business or area of operations, a subsidiary acquired exclusively with a view to resale. The results of discontinued operations are presented separately in the statement of profit or loss.

6.2 New accounting standards

(a) New Australian Accounting Standards and amendments to accounting standards that are effective as of 1 July 2020

The Group has adopted the following new and amended Australian Accounting Standards and AASB Interpretations as of 1 July 2020:

- AASB 2018-6 Amendments to Australian Accounting Standards: *Definition of a Business*
- AASB 2018-7 Amendments to Australian Accounting Standards: *Definition of Material*
- Conceptual Framework for Financial Reporting
- AASB 2019-1 Amendments to Australian Accounting Standards: *References to the Conceptual Framework*
- AASB 2019-3 Amendments to Australian Accounting Standards: *Interest Rate Benchmark*
- AASB 2019-5 Amendments to Australian Accounting Standards: *Disclosure of the Effect of New IFRS Standards Not Yet Issued in Australia*
- AASB 2020-4 Amendments to Australian Accounting Standards: *COVID-19-Related Rent Concessions*

The application of these standards and amendments do not materially impact the annual consolidated financial statements.

(b) New accounting standards and amendments to accounting standards and interpretations that are not yet effective

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective and have not been early adopted by the Group for the annual reporting period ended 30 June 2021 are outlined below. Based on preliminary assessments and other than as disclosed below, management does not expect significant impacts to arise from these standards and interpretations subject to the Group's further detailed analysis and assessment process.

Standard Reference: 1060 General Purpose Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities, 2020-2 Amendments to Australian Accounting Standards – Removal of Special Purpose	Application Date: 1 July 2021 * Application Date for the Group: 1 July 2021 *
Nature of Change • AASB 1060 is a single standard containing all the disclosure requirements for an entity preparing General Purpose Financial Statements under Tier 2 (GPFS-Tier 2). • The new standard applies to all entities preparing GPFS-Tier 2 and replaces the current suite of Reduced Disclosure Regime (RDR) disclosures. Entities applying AASB 1060 are exempt from the requirements in disclosure paragraphs in other Australian Accounting Standards (AAS) and are not required to comply with presentation and disclosure specific AAS. • AASB 2020-2 removes the ability of certain for-profit private sector entities to prepare special purpose financial statements. These entities will be required to prepare a form of general purpose financial statements (GPFS), Tier 1 or Tier 2 subject to the requirements of AASB 1053 Application of Tiers of Australian Accounting Standards. **Impact to the Group** • This standard is expected to increase the disclosure requirements of the standalone financial statements of the Harvey Securitisation Trusts controlled by the Bank but will not have any financial impact on the Group.	

Notes to the financial statements

For the year ended 30 June 2021

6.2 New accounting standards (continued)

(b) New accounting standards and amendments to accounting standards and interpretations that are not yet effective (continued)

Standard Reference: 2020-7 COVID-19-Related Rent Concessions: Tier 2 Disclosures	Application Date: 1 July 2021 * Application Date for the Group: 1 July 2021 *
Nature of Change • Amends AASB 1060 to add new disclosure requirements requiring companies reporting under Tier 2 to disclose if they have applied the practical expedient for COVID-19 rent concessions permitted by AASB 2020-4. **Impact to the Group** Management are not expecting any material impact on the Group.	
Standard Reference: 2020-8 Interest Rate Benchmark Reform – Phase 2	Application Date: 1 January 2021 * Application Date for the Group: 1 July 2021 *
Nature of Change • update effective interest rates to reflect the change to alternative benchmark rates instead of adjusting or derecognising the carrying amounts of financial instruments as a result of the reform • not have to discontinue hedge accounting solely because of changes required by the reform • disclose information about new risks arising from the reform and the transition to alternative benchmark rates **Impact to the Group** • Management are not expecting any material impact on the Group.	
Standard Reference: AASB 2020-9 Tier 2 disclosures: Interest Rate Benchmark Reform (Phase 2) and Other Amendments	Application Date: 1 July 2021 * Application Date for the Group: 1 July 2021 *
Nature of Change • Amends AASB 1060 General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit. This standard provides relief to entities reporting under Tier 2 – Simplified Disclosures from disclosing the financial effects of their initial application of 2020-8. **Impact to the Group** • Management are not expecting any material impacts on the Group.	
Standard Reference: AASB 2020-6 Classification of Liabilities as Current or Non-current – Deferral of Effective Date	Application Date: 1 January 2023 * Application Date for the Group: 1 July 2023 *
Nature of Change • Clarifies the AASB 101 requirements for presentation of a financial liability as current or non-current. **Impact to the Group** • Management are not expecting any material impacts on the Group.	
Standard Reference: 2020-5 Insurance Contracts	Application Date: 1 January 2021 * Application Date for the Group: 1 July 2021 *
Nature of Change • These amendments align to amendments to IFRS 17 issued by the IASB in June 2020 and the extension of the temporary exemption from applying IFRS 9 (amendments to IFRS 4). **Impact to the Group** • Considered as part of AASB 17.	

Notes to the financial statements

For the year ended 30 June 2021

6.2 New accounting standards (continued)

(b) New accounting standards and amendments to accounting standards and interpretations that are not yet effective (continued)

Standard Reference: AASB 2020-3 Annual Improvements 2018-2020 and Other Amendments	Application Date: 1 January 2022 * Application Date for the Group: 1 July 2022 *
Nature of Change • AASB 1 – simplify the application of AASB 1 for a subsidiary that becomes a first time IFRS adopter after its parents • AASB 3 – update a reference to conceptual framework, no change to accounting requirements • AASB 9 – clarify fees to be included in the test for derecognition of financial liabilities • AASB 116 –accounting for sale proceeds arising from production before intended use in profit or loss instead of offsetting amounts received against cost of asset. • AASB 137 – clarify cost to be included in the assessment of onerous contracts • AASB 141 – exclude taxation cash flow in fair value measurements **Impact to the Group** • Management are not expecting any material impacts on the Group.	
Standard Reference: AASB 17 Insurance Contracts	Application Date: 1 January 2023 * Application Date for the Group: 1 July 2023 *
Nature of Change • AASB 17 was released by the AASB on 20 July 2017. The new standard will replace AASB 4 Insurance Contracts, AASB 1023 General Insurance Contracts and AASB 1038 Life Insurance Contracts. • AASB 17 requires all insurance contracts to be measured using a current estimate of the present value of expected cash flows to fulfil the contractual obligations. The default measurement model is based on the building blocks approach (BBA) of discounted probability-weighted cash flows, a risk adjustment and a contractual service margin (CSM) representing the unearned profit to the contract. Short duration contracts (one year or less) can apply the simplified model using premium allocation approach (PAA). **Impact to the Group** • Management are in the process of conducting a gap analysis to assess business and data requirements. Management are also carrying out an initial impact assessment of the new standard on the Group's insurance operations. Due to the complexity of the standard's requirements, evolving interpretation of the requirements and the proposed amendments to the standard, the impact of the standard to Group is still being determined.	

* Designates the beginning of the applicable annual reporting period unless the Group opt for early adoption where permitted by the standard.

Directors' declaration

In the opinion of the Directors of Credit Union Australia Ltd (trading as Great Southern Bank) (the Bank):

(a) the financial statements and notes of the Bank and of the Group as set out on pages 21 to 96, are in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the Bank's and the Group's financial position as at 30 June 2021 and of their performance for the financial year ended on that date; and

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

(b) there are reasonable grounds to believe that the Bank and the Group will be able to pay their debts as and when they become due and payable.

The Directors draw attention to Note 1.2 to the financial statements, which includes a statement of compliance with International Financial Reporting Standards.

Signed in accordance with a resolution of the Directors:

Nigel Ampherlaw
Chairman

Wayne Stevenson
Director

Brisbane
25 August 2021

KPMG

Independent Auditor's Report

To the Members of Credit Union Australia Limited (trading as Great Southern Bank) (the Bank)

Opinion

We have audited the consolidated ***Financial Report*** of Credit Union Australia Limited (trading as Great Southern Bank) (the Group Financial Report). We have also audited the Financial Report of Great Southern Bank (the Bank Financial Report).

In our opinion, each of the accompanying Group Financial Report and Bank Financial Report is in accordance with the *Corporations Act 2001*, including:

- giving a true and fair view of the ***Group's and Bank's*** financial position as at 30 June 2021 and of its financial performance for the year ended on that date; and
- complying with *Australian Accounting Standards* and the *Corporations Regulations 2001*.

The respective ***Financial Reports*** of the ***Group*** and the ***Bank*** comprise:

- Balance Sheet as at 30 June 2021;
- Income statement, Statement of comprehensive income, Statement of changes in members' funds and Statement of cash flows for the year then ended;
- Notes including a summary of significant accounting policies
- Directors' Declaration.

The ***Group*** consists of Credit Union Australia Limited (trading as Great Southern Bank) (the ***Bank***) and the entities it controlled at the year-end or from time to time during the financial year.

Basis for opinions

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

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

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

KPMG

Other Information

Other Information is financial and non-financial information in Great Southern Bank's annual reporting which is provided in addition to the Financial Reports and the Auditor's Report. The Directors are responsible for the Other Information.

The Other Information we obtained prior to the date of this Auditor's Report was the Directors' Report.

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

In connection with our audit of the Financial Reports, our responsibility is to read the Other Information. In doing so, we consider whether the Other Information is materially inconsistent with the Financial Reports or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

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

Responsibilities of the Directors for the Financial Reports

The Directors are responsible for:

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

Auditor's responsibilities for the audit of the Financial Reports

Our objective is:

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

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

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

KPMG

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

KPMG

Martin Wardle

Partner

Brisbane

25 August 2021

Credit Union Australia Ltd (trading as Great Southern Bank)

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AFSL: 238 317
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CUA Health Pty Ltd

[due to be transferred to HBF Health Ltd 30 September 2021]
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Registered office:
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Brisbane QLD 4000

Credicorp Insurance Pty Ltd

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CUA Management Pty Ltd

ABN: 60 010 003 853
AFSL: 221 896
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Great Southern Bank

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