Annual Report **2020**

FIRST OPTIONbank

Chairman's Report

On behalf of the Board of Directors, I am pleased to present the Annual Report for 2020 to members of First Option Bank Limited.

Overview

The 2019/20 financial year has been an extraordinary year, comprising of three distinctive periods in which First Option operated:

- firstly, in the initial stage of the year, media talk of a looming recession combined with historically low interest rates and declining consumer confidence provided First Option with many financial and operational challenges. Despite this, solid growth in profit and assets was being achieved during this period.

- secondly, during summer, catastrophic bush fires impacted major areas of the eastern Australian seaboard providing a huge challenge to Governments, local communities and businesses generally. Interaction with bank members affected by this disaster was of a high priority.

- finally, in February 2020, the COVID-19 pandemic reached Australia, having a profound impact on all our lives. The virus required First Option to quickly adapt to new ways of doing business, along with the implementation of plans to ensure the safety of our staff. Action taken during the ongoing pandemic has seen the majority of staff working remotely from home, along with a shift away from face to face member contact and the reliance on technology to provide a high level of customer service.

Federal and State governments are providing unprecedented levels of financial assistance to employers, employees and communities in an attempt to stimulate the economy to avoid the development of a deep recession. As unemployment levels climbed to record levels, all financial institutions experienced increased levels of loan arrears, particularly in their mortgage loan book. A number of banks, including First Option, implemented APRA's approved loan repayment deferral program designed to provide flexibility to allow the institution to better support individual members. First Option is in regular contact with all affected members and will continue to review and discuss each member's particular circumstances in order to ensure the best outcome for the member is achieved.

Despite these unprecedented events, First Option achieved strong growth in net assets and recorded a creditable operating profit after tax. Prudential capital and liquidity ratios are comfortably above statutory requirements.

Financial Highlights

FY20 was another very successful year, with the achievement of strong growth and pleasing financial performance in all areas.

Total Assets grew to $246.0 million, up $25.1 million (+11.4%), Total Loans increased by $3.5 million (+2.0%) to $178.7 million and Total Deposits reached $224.1 million, up $20.2 million (+9.9%).

Although total loans only grew by 2.0% this was a solid result considering the strong competition, the economic shocks that occurred during the period and the unprecedented level of mortgage loan payouts relating to property sales. Had mortgage loan payout activity matched previous years' amounts, total loan growth would have exceeded 11%.

Operating profit after income tax for the full year was $354,257, slightly down from FY19 result of $360,059. The major reason for this lower profit was that at year-end, directors decided to set aside a provision of $134k relating to potential bad debts associated with COVID-19. Although

directors do not expect bad debts to reach this amount, this conservative approach has been deemed appropriate.

Operating costs continue to be difficult to control, with First Option suffering under the burden of increasing compliance, technology and third party costs, which are becoming more of a fixed cost and impacting profit.

Members' Equity increased by $0.354 million to $15.0 million.

At year-end, First Option's financial position was sound, with a capital adequacy ratio of 14% (minimum regulatory requirement 8%) and a level of liquidity at 26% (minimum regulatory requirement 9%).

Operational Highlights

We took further steps towards being a digital bank as we closed the last of our branches and removed cash from the business. Our members have indicated that they prefer to bank with us via the many digital channels on offer. This step has proven to be invaluable as the COVID-19 pandemic hit and our operations were able to continue seamlessly – ensuring that the high level of member service continued.

Operationally the year has seen many changes:

- branch closure in Victoria – Ringwood
- the Sydney office at Granville closed following the requirement of the office space by Tabcorp Holdings Pty Ltd
- discontinued the availability of cash at the Melbourne office
- new internet website
- implementation of a new Risk Management System to assist in managing the never ending increase in compliance requirements
- implementation of a new Call Centre System to improve member and staff interaction.

Security

During these stressful times, fraud activity by unscrupulous scammers or hackers has increased. Internet/real time fraud has been a real issue during the year bringing with it unwanted expense. These "professionals" are getting smarter and more resourceful in dealing with the community.

First Option continues to invest substantial amounts of funds to strengthen online security and the safety of members' funds.
It is also pleasing to see the Federal Government has announced a $1.35 billon Cyber security package to be spent over the next 10 years, thus recognising that cyber crime is a major threat to governments, business and individuals.

Where to Next

The Australian financial markets are now predicting that the official cash rate of 0.25% is unlikely to rise for a number of years, while deposit returns from savings and term deposit accounts will also remain low for a long time to come.

For First Option the continuation of low interest rates (hence lower interest rate margin), strong competition in the mortgage loans area and the ongoing impact on business from the economic consequences of COVID-19 will place financial pressure on the organisation during FY20/21.

To ease the pressures on businesses and to offset the decline in private sector spending, both Federal and State governments will need to continue stimulating the economy to a level necessary to support growth and the recovery out of recession.

An ACCC initiative – Open Banking - will be implemented during FY21 with the exchange of product data between financial organisations due to commence from October 2020, and the exchange of member data due to occur from February 2021. This seamless sharing of data between participants is likely to improve competition by making it a lot simpler for a customer to move between organisations. However, concerns exist relating to the security of data being shared.

Sadly to date there have been no real changes made to the banking industry following the release of the Royal Commission's recommendations. It remains to be seen what major changes will come of the review and if there are changes, are they likely to be delayed due to COVID-19.

Recently, First Option has entered into an agreement with like-minded ADI's to enable the funding of loans fully, or partially, off-balance sheet. This new initiative allows ADI's to expand their loan book with minimum risk and prudently manage their capital and liquidity ratios. This initiative is a win-win for all parties involved.

Your directors will continue to review operations, technology, business strategy and objectives during these difficult times to ensure the continued growth and financial sustainability of the bank.

Appreciations

I, along with my fellow directors, would like to offer sincere thanks to Dean and our staff for their outstanding level of member service and contribution to the continuing success of First Option.

On behalf of the Directors and Management, I would like to express our gratitude to our industry hosts for their ongoing support.

I also thank my fellow directors for their dedication and contribution to what has been a challenging but very successful and rewarding year.

Finally, I thank all members for supporting First Option, as without this continuing support, the financial strength, quality member services and competitive products offered by your Bank could not be maintained.

Graeme Yeo
Chairman
September 2020

Directors' Report

Your Directors present their report on First Option Bank for the financial year ended 30 June 2020. The Bank is a company registered under the Corporations Act 2001.

Information on Directors

Name	Qualifications	Experience	Responsibilities
Graeme John Yeo	BBus (Acc), CPA	Director for 12 years (previously 25 years) Chairperson 11 years	Chairperson of the Board
Cathryn Mary Garrigan	BSpThy, MBA, Graduate Australian Institute of Company Directors, Associate Australasian Compliance Institute	Director for 19 years	Member of the Risk Committee, Member of the Audit Committee
Dharmendra Kumar	BA, MBA, Diploma in Financial Planning, Graduate Australian Institute of Company Directors Member Australian Institute of Company Directors, Senior Associate Financial Institute of Australasia, Member of Professional Risk Managers Association	Director for 11 years	Member of the Risk Committee, Member of the Audit Committee
Annette Susan Mathews	BAppSc (Comp), Graduate Australian Institute of Company Directors, Member Australian Institute of Company Directors, Organisational Coaching Certificate, Alumni Member Institute of Executive Coaching	Director for 25 years	Chairperson of the Risk Committee, Member of the Audit Committee
Timothy Matthews	BBusSt, FCPA, Graduate Australian Institute of Company Directors	Director for 13 years (EECC for 16 years)	Chairperson of the Audit Committee, Member of the Risk Committee
Gregory Noel Moore		Director for 21 years	
Anthony McAvaney	BE (Chem) Hons, BComm, Member Australian Institute of Company Directors, Director of OC Connections, Trustee of the Gus Theobald Foundation	Director for 9 years	
Lorna Clerkin	BSc (Hons), MBA	Director for 4 years (OGCU for 11 years)	

Note: EECC denotes Ericsson Employees Credit Co-operative, OGCU denotes Old Gold Credit Union Co-Operative

Company Secretary

Name	Qualifications	Experience
Dean Jepsen	Bachelor of Economics (Acctg), AFAMI, FCPA	Chief Executive Officer for 6 years

Directors' Meeting Attendance

Director	Board		Audit Committee		Risk Committee	
	Eligible	Attended	Eligible	Attended	Eligible	Attended
Graeme Yeo	11	10	-	-	-	-
Cathryn Garrigan	11	11	4	4	4	4
Dharmendra Kumar	11	7	4	3	4	3
Annette Mathews	11	10	4	3	4	3
Timothy Matthews	11	11	4	4	4	4
Gregory Moore	11	10	-	-	-	-
Anthony McAvaney	11	10	-	-	-	-
Lorna Clerkin	11	9	-	-	-	-

Periods of Appointment

Graeme Yeo	2020 AGM	Timothy Matthews	2022 AGM
Cathryn Garrigan	2022 AGM	Gregory Moore	2020 AGM
Dharmendra Kumar	2021 AGM	Anthony McAvaney	2020 AGM
Annette Mathews	2022 AGM	Lorna Clerkin	2022 AGM

Directors' Benefits

No Director has received or become entitled to receive during, or since the financial year, a benefit because of a contract made by the Bank, controlled entity, or a related body corporate with a Director, a firm of which a Director is a member or an entity in which a Director has a substantial financial interest, other than that disclosed in note 33 of the complete set of financial statements.

Director and Officer Insurances and Indemnities

Insurance premiums have been paid to insure each of the Directors and Officers of the Bank, against any costs and expenses incurred by them in defending any legal proceeding arising out of their conduct while acting in their capacity as an officer of the Bank. In accordance with normal commercial practice disclosure of the premium amount and the nature of the insured liabilities is prohibited by a confidentiality clause in the contract.

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

Principal Activities

The principal activities of the Bank during the year were the provision of retail financial services to members in the form of taking deposits and giving financial accommodation as prescribed by its Constitution.

No significant changes in the nature of these activities occurred during the financial year.

Operating Results

The operating profit of the Bank for the year after providing for income tax was $354,247 [2019: $360,059].

Dividends

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

Review of Operations

The results of the Bank's operations from its activities of providing financial services to its members did not change significantly from those of the previous year. The Bank's performance during the financial year ended 30 June 2020 has not been significantly impacted by the COVID-19 pandemic. COVID-19 has changed the way the Bank is delivering its services to members through increased remote interactions however there has been no major change to the service or products offered to members during this period.

Significant Changes in State Of Affairs

There were no significant changes in the state of the affairs of the company during the financial year.

Events Occurring after Balance Date

No other matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations, or state of affairs of the Bank in subsequent financial years.

Likely Developments and Results

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

- The operations of the Bank;
- The results of those operations; or
- The state of affairs of the Bank

in the financial years subsequent to this financial year. There are no likely developments in the Bank's operations in the future financial years.

Environmental legislation

First Option Bank's operations are not subject to any particular or significant environmental regulations under a law of the Commonwealth or of a State or Territory in Australia.

Auditors' Independence

The auditors have provided the declaration of independence to the board as prescribed by the Corporations Act 2001.

Mr Graeme Yeo
Chairman of the Board

Mr Timothy Mathews
Chairman of the Audit Committee

Signed and dated this 22nd September 2020

Grant Thornton

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Auditor's Independence Declaration

To the Directors of First Option Bank Limited

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the audit of First Option Bank Limited for the year ended 30 June 2020, I declare that, to the best of my knowledge and belief, there have been:

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

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

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Grant Thornton Audit Pty Ltd
Chartered Accountants

Darren Scammell

D M Scammell
Partner – Audit & Assurance

Melbourne, 22 September 2020

Grant Thornton

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Independent Auditor's Report

To the Members of First Option Bank Limited

Report on the audit of the financial report

Opinion

We have audited the financial report of First Option Bank Limited (the Company), which comprises the statement of financial position as at 30 June 2020, the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the Directors' declaration.

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

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

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

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Company 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* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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

Information other than the financial report and auditor's report thereon

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

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

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

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

Responsibilities of the Directors for the financial report

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

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

Auditor's responsibilities for the audit of the financial report

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

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/auditors_responsibilities/ar4.pdf. This description forms part of our auditor's report.

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Grant Thornton Audit Pty Ltd
Chartered Accountants

Darren Scammell

D M Scammell
Partner – Audit & Assurance

Melbourne, 22 September 2020

Directors' Declaration

In the opinion of the directors of First Option Bank Ltd:

1. The financial statements and accompanying notes of the company are in accordance with the Corporations Act 2001, including:

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

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

2. There are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

3. The financial statements comply with International Financial Reporting Standards as stated in Note 2.

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

Chairman

Mr Graeme Yeo

Dated this 22nd day of September 2020.

Statement of Profit or Loss and Other Comprehensive Income
for the year ended 30th June 2020

	Note	2020 $	2019 $
Interest revenue	7.a	6,944,588	7,715,608
Interest expense	7.c	2,558,767	3,220,183
Net interest income		4,385,822	4,495,425
Other income	7.b	707,754	684,497
Net Income		5,093,575	5,179,922
Non interest expenses			
Impairment losses on loans and advances	7.d	178,729	51,821
General administration			
- Employees compensation and benefits		1,767,354	1,860,765
- Depreciation and amortisation		219,659	79,063
- Information technology		1,357,378	1,270,848
- Office occupancy		93,818	200,700
- Other administration		331,248	449,400
Total general administration		3,769,457	3,860,776
Other operating expenses		702,002	694,813
Total non interest expenses		4,650,188	4,607,410
Operating Profit before Income Tax		443,388	572,512
Income tax expense	8	89,141	212,453
Operating Profit after Income Tax		354,247	360,059
Other Comprehensive Income		-	-
Total Comprehensive Income		354,247	360,059

This statement should be read in conjunction with the attached notes

Statement of Financial Position
as at 30 June 2020

	Note	2020 $	2019 $
ASSETS			
Cash	9	11,863,280	12,883,307
Liquid investments	10	54,396,739	31,696,739
Receivables	11	256,796	476,008
Loans and advances to members	12 & 13	178,686,900	175,216,407
Right-of-use assets	14	215,160	-
Property, plant and equipment	15	202,497	262,883
Deferred Tax Assets	16	226,818	213,075
Intangible assets	17	104,524	120,925
Total Assets		245,952,714	220,869,344
LIABILITIES			
Deposits from members	19	224,108,773	203,895,948
Short term borrowings	18	1,000,000	-
Creditors	20	1,433,781	1,635,806
Current Tax Liabilities	21	36,802	4,444
Lease liabilities	14	228,880	-
Provisions	22	597,805	674,766
Long term borrowings	18	3,534,046	-
Total Liabilities		230,940,087	206,210,964
Net Assets		15,012,627	14,658,380
MEMBERS' EQUITY			
Capital reserve	23	28,848	28,024
Reserve for credit losses	24	458,158	424,486
General Reserve	25	14,525,621	14,205,870
Total Members' Equity		15,012,627	14,658,380

This statement should be read in conjunction with the attached notes

Statement of Changes in Member Equity
for the year ended 30 June 2020

	Redeemed Capital Reserve $	Reserve for Credit Losses $	General Reserves $	Retained Profits $	Total $
Total at 1 July 2018	26,346	401,534	13,870,441	-	14,298,321
Profit for the year	-	-	-	360,059	360,059
Totals brought forward	26,346	401,534	13,870,441	360,059	14,658,380
Transfers to (from) Reserves	1,678	22,952	335,429	(360,059)	-
Total as at 30 June 2019	28,024	424,486	14,205,870	-	14,658,380
Total at 1 July 2019	28,024	424,486	14,205,870	-	14,658,380
Profit for the year	-	-	-	354,247	354,247
Totals brought forward	28,024	424,486	14,205,870	354,247	15,012,627
Transfers to (from) Reserves	824	33,672	319,751	(354,247)	-
Total as at 30 June 2020	28,848	458,158	14,525,621	-	15,012,627

This statement should be read in conjunction with the attached notes

Statement of Cash Flows
for the year ended 30 June 2020

	Note	2020 $	2019 $
OPERATING ACTIVITIES			
Interest received		7,152,704	7,500,199
Interest paid		(2,885,391)	(3,156,239)
Other income		701,258	1,069,127
Income Tax Paid		(70,526)	(141,053)
Cash Paid to Suppliers & Employees		(4,463,322)	(4,619,933)
Net cash used in (from) revenue operations	37.b	434,723	652,101
Other operating activities			
Net increase in deposits and other borrowings		20,442,180	14,989,666
Net increase in loans and advances		(3,601,827)	(12,203,233)
Total cash from operations		17,275,076	3,438,534
INVESTING ACTIVITIES			
Increase in deposits with other ADIs		(22,699,999)	(120,001)
Purchase of equipment and software		(19,924)	(150,372)
Net cash used in investing activities		(22,719,923)	(270,373)
FINANCING ACTIVITIES			
Funds received from borrowings		4,534,046	-
Repayment of borrowings		-	(2,000,000)
Lease principal payments		(109,227)	-
Net cash used in financing activities		4,424,819	- (2,000,000)
Net increase / (decrease) in cash held		(1,020,027)	1,168,161
Cash at the beginning of reporting period		12,883,307	11,715,146
Cash at the End of the Reporting Period	37.a	11,863,280	12,883,307

This statement should be read in conjunction with the attached notes

Notes to the Financial Statements

1. Nature of operations

First Option Bank's principal activities include the provision of retail financial services to members in the form of deposit-taking and provision of financial loans to members.

2. General information and statement of compliance

This financial report is prepared for First Option Bank Ltd for the year ended 30 June 2020. The general purpose financial statements of the bank have been prepared in accordance with the requirements of the Corporations Act 2001, Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board (AASB). Compliance with Australian Accounting Standards ensures compliance with the International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

First Option Bank Ltd is a for-profit entity for the purpose of preparing the financial statements.

First Option Bank Ltd is a Public Company incorporated and domiciled in Australia. The address of its registered office and its principal place of business is Level 6, 437 St Kilda Rd, Melbourne VIC 3004.

The report was authorised for issue on 22nd September 2020 in accordance with a resolution of the board of Directors. The financial report is presented in Australian dollars.

3. Basis of measurement

The financial statements have been prepared on an accruals basis, and are based on historical costs.

The accounting policies are consistent with the prior year unless otherwise stated.

4. Changes in Significant Accounting Policies – New Standards applicable for the Current Year

a) AASB 16 Leases

The standard replaces AASB 117 Leases and has for lessees removed the distinction between operating and finance leases. The standard requires recognition of an asset (the right to use the leased item) and a financial liability to pay rentals for virtually all lease contracts. An optional exemption exists for short-term and low-value leases.

The new standard has been applied as at 1 July 2019 using the retrospective approach but has not restated comparatives for the 2019 reporting period, as permitted under the specific transition provisions in the standard. The reclassifications and the adjustments

arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 July 2019. The new accounting policies are disclosed below.

The bank has elected to apply the practical expedient to grandfather the assessment of which transactions are leases. As such the bank has relied on its assessment made applying AASB 117 and Interpretation 4 Determining whether an Arrangement contains a Lease for contracts entered into before the transition date and has applied AASB 16 to those contracts. Contracts not previously identified as leases under AASB 117 and Interpretation 4 have not been reassessed for whether there is a lease under AASB 16. Therefore the definition of a lease under AASB 16 has only been applied to contracts entered into or changed on or after 1 July 2019.

The bank has elected not to include initial direct costs in the measurement of the right-of-use asset for operating leases in existence at the date of initial application of AASB 16, being 1 July 2019. At this date, the bank has also elected to measure the right-of-use assets at an amount equal to the lease liability adjusted for any prepaid or accrued lease payments that existed at the date of transition.

Instead of performing an impairment review on the right-of-use assets at the date of initial application, the company has relied on its historic assessment as to whether leases were onerous immediately before the date of initial application of AASB 16.

On transition, for leases previously accounted for as operating leases with a remaining lease term of less than 12 months and for leases of low-value assets the company has applied the optional exemptions to not recognise right-of-use assets but to account for the lease expense on a straight-line basis over the remaining lease term.

The bank has benefited from the use of hindsight for determining the lease term when considering options to extend and terminate leases.

On adoption of AASB 16, the bank recognised lease liabilities in relation to leases which had previously been classified as ‘operating leases’ under the principles of AASB 117. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee’s incremental borrowing rate as of 1 July 2019. The weighted average lessee’s incremental borrowing rate applied to the lease liabilities on 1 July 2019 was 5.69%.

Measurement of lease liabilities

	2019 $
Operating lease commitments disclosed as at 30 June 2019	512,565
Discounted using the lessee's incremental borrowing rate at the date of initial application	434,157
Add: finance lease liabilities recognised as at 30 June 2019	
(Less): short-term leases not recognised as a liability	(92,188)
(Less): low-value leases not recognised as a liability	(3,861)
Lease liability recognised as at 1 July 2019	**338,108**
Of which:	
Current lease liabilities	109,228
Non-current lease liabilities	228,880
Total	**338,108**

Adjustments recognised in the balance sheet on 1 July 2019

The change in accounting policy affected the following items in the balance sheet on 1 July 2019:

	Carrying amount at 30 June 2019 **$**	**Adjustment** **$**	**AASB 16 carrying amount at 1 July 2019** **$**
Right-of-use assets	-	338,108	338,108
Lease liabilities	-	(338,108)	(338,108)
Total	**-**	**-**	**-**

The net impact on retained earnings on 1 July 2019 is nil.

b) Interpretation 23 (Int 23) – Uncertainty over Income Tax Treatments

Int 23 clarifies the application of AASB 112 to accounting for income tax treatments that have yet to be accepted by tax authorities, in scenarios where it may be unclear how tax law applies to a particular transaction or circumstance, or whether a taxation authority will accept an entity's tax treatment. There was no effect from the adoption of Int 23 in relation to accounting for uncertain tax positions.

5. Significant Accounting Policies

a) Interest income

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

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

Credit cards –interest is calculated initially on the basis of the daily balance outstanding and is charged in arrears to a member's account on the last day of each month, on cash advances and purchases in excess of the payment due date. Purchases are granted up to 45 days interest free until the due date for payment.

Non-accrual loan interest – while still legally recoverable, interest is not brought to account as income where the Bank is informed that the member has deceased, or the loan is impaired.

Loan origination fees and discounts – Loan establishment fees and discounts are initially deferred as part of the loan balance, and are brought to account as income over the expected life of the loan as interest revenue.

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

b) Non-interest revenue

Loan and account fees – The fees charged on loans after origination of the loan are recognised as income when the service is provided or costs are incurred.

The Bank's performance obligation is to provide ongoing services related to account maintenance, a service from which the customer benefits as the service is provided and is recognised over time. Due to the nature of the services, they are recognised as a series of services comprising a single performance obligation. Unless otherwise discounted and included in the initial measurement of a loan, fees are charged at their stand-alone selling price and recognised as revenue in the period for which services are delivered. Where fees are discounted due to other relationships, the fees are estimated and recognised as a contract liability measured at the estimated value of the promised services, based on their stand-alone selling price and estimated period of delivery.

Insurance commissions – Upfront commission – revenue in the form of a fixed rate commission generated on successful placement or renewal of an insurance application is recognised at a point in time on inception or renewal of the policy.

c) Cash and cash equivalents

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 call accounts with other Authorised Deposit-taking Institutions (ADIs) and other short-term, highly liquid investments that are readily convertible and subject to insignificant risk of changes in value.

Cash and cash equivalents are carried at amortised cost in the statement of financial position. Interest is brought to account using the effective interest method.

d) Classification of financial assets

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

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

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

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

Classifications are determined by both:

- the entity's business model for managing the financial asset; and
- the contractual cash flow characteristics of the financial assets.

Subsequent measurement of financial assets

Financial assets at amortised costs

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

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

After initial recognition, these are measured at amortised cost using the effective interest method. Discounting is omitted where the effect of discounting is immaterial. The bank's cash and cash equivalents and receivables fall into this category of financial instruments as well as NCDs, Bonds and Term Deposits.

Financial assets at Fair Value through Profit or Loss (FVPL)

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

Fair Value through Other Comprehensive Income (FVOCI)

Investments in equity instruments that are not held for trading are eligible for an irrevocable election at inception to be measured at FVOCI. Subsequent movements in fair value are recognised in other comprehensive income and are never reclassified to profit or loss. Dividends from these investments continue to be recorded as other income within the profit or loss unless the dividend clearly represents return of capital.

e) Loans and advances

Loans and advances' captions in the statement of financial position include loans and advances measured at amortised cost; they are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method.

When the bank purchases a financial asset and simultaneously enters into an agreement to resell the asset (or a substantially similar asset) at a fixed price on a future date (reverse repo or stock borrowing), the arrangement is accounted for as a loan or advance, and the underlying asset is not recognised in the bank's financial statements.

Interest earned

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

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

Non accrual loan interest – while still legally recoverable, interest is not brought to account as income where the bank is informed that the member has deceased, or loan is impaired.

Loan origination fees and discounts

Loan establishment fees and discounts are initially deferred as part of the loan balance, and are brought to account as income over the expected life of the loan as interest revenue.

Transaction costs

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

Fees on loans

The fees charged on loans after origination of the loan are recognised as income when the service is provided or costs are incurred.

f) Impairment of loans and advances

Provision for impairment of loans and advances reflects Expected Credit Losses (ECL) measured using the three-stage approach prescribed under AASB 9 Financial Instruments as further described in Note 13.

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

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

The critical assumptions used in the calculation are as set out below. Note 38(d)(i) details the credit risk management approach for loans.

g) Property, plant and equipment

Property, plant and equipment are depreciated on a straight line basis so as to write-off the net cost of each asset over its expected useful life to the Bank. The useful lives are adjusted if appropriate at each reporting date. Estimated useful lives as at the reporting date are as follows:

- Leasehold Improvements - up to 10 years
- Plant and Equipment - 3 to 7 years
- Assets less than $1,000 are not capitalised

h) Intangible Assets

Items of computer software which are not integral to the computer hardware owned by the Bank are classified as intangible assets. All intangible assets are accounted for using the cost model whereby capitalised costs are amortised on a straight-line basis over their estimated useful lives, as these assets are considered finite. These useful lives range from 2 to 5 years. Residual values and useful lives are reviewed at each reporting date.

When an intangible asset is disposed of, the gain or loss on disposal is determined as the difference between the proceeds and the carrying amount of the asset, and is recognised in profit or loss within other income or other expenses.

i) Leaseholds

At inception of a contract, the company assesses whether the contract is, or contains, a lease. A contract is, or contains a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To apply this definition the Bank assesses whether the contract meets three key evaluations which are whether:

- the contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the Bank;
- the Bank has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract; and
- the Bank has the right to direct the use of the identified asset throughout the period of use. The Bank assesses whether it has the right to direct 'how and for what purpose' the asset is used throughout the period of use.

Company as lessee

Contracts may contain both lease and non-lease components. At the commencement or modification of a contract that contains a lease component, the company allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices. However, for leases of property, the company has elected not to separate lease and non-lease components and instead accounts for these as a single lease component.

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

The right-of-use asset is subsequently depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis, unless the lease transfers ownership of the underlying asset to the company at the end of the lease term or the company is reasonably certain to exercise a purchase option. In that case, the right-of-use asset is depreciated over the underlying asset's useful life, which is determined on the same basis as those of property, plant and equipment. In addition, the right of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain re-measurements of the lease liability.

The lease liability is initially measured at present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease. If that rate cannot be readily determined the company's incremental borrowing rate is used, being the rate that the company would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the company obtains interest rates from various external financing sources and makes certain adjustments to reflect the terms of the lease and the type of the asset leased (security).

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

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payment that are based on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable by the company under residual value guarantees;
- the exercise price of a purchase option if the company is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease unless the company is reasonably certain not to terminate the lease early.

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.

The lease liability is measured at amortised cost using the effective interest rate method. It is re-measured when:

- there is a change in future lease payments arising from a change in an index or rate;
- if there is a change in the estimate of the amount expected to be payable under a residual value guarantee;
- if there is a change in the company's assessment of whether it will exercise a purchase, extension or termination option: or
- if there is a revised in-substance fixed lease payment.

When the lease liability is re-measured in this way, a corresponding adjustment is made to the carrying value of the right-of–use asset, unless the right-of-use asset has been reduced to zero in which case the adjustment is recorded in profit or loss.

Short-term leases and leases of low-value assets

The company has not elected to recognised right-of-use assets and leases liabilities for leases of low-value assets and short-term leases. Payments associated with short-term leases of equipment and all leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss over the lease term. Short-term leases are leases with a lease term of 12 months or less. Low-value assets generally comprise IT equipment.

j) Receivables

Receivables are recognised and accounted for as financial assets classified as amortised cost. Interest on receivables due from other financial institutions is recognised on an effective yield basis.

k) Taxation

Goods and services tax (GST)

As a financial institution the Bank is input taxed on all income except for income from commissions and some fees. An input taxed supply is not subject to GST collection, and similarly the GST paid on related or apportioned purchases cannot be recovered. As some income is charged GST, the GST on purchases are generally recovered on a proportionate basis. In addition, certain prescribed purchases are subject to reduced input tax credits (RITC), of which 75% of the GST paid is recoverable.

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

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or current liability in the statement of financial position. Cash flows are included in the cash flow statement on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the Australian Taxation Office are classified as operating cash flows.

Current and deferred tax assets

Tax expense recognised in profit or loss comprises the sum of deferred tax and current tax not recognised in other comprehensive income or directly in equity.

Current income tax assets and / or liabilities comprise those obligations to, or claims from, the Australian Taxation Office (ATO) and other fiscal authorities relating to the current or prior reporting periods that are unpaid at the reporting date. Current tax is payable on taxable profit, which differs from profit or loss in the financial statements. Calculation of current tax is based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period.

Deferred income taxes are calculated using the liability method on temporary differences between the carrying amounts of assets and liabilities and their tax bases. However, deferred tax is not provided on the initial recognition of goodwill or on the initial recognition of an asset or liability unless the related transaction is a business combination or affects tax or accounting profit. Deferred tax on temporary differences associated with investments in subsidiaries and joint ventures is not provided if reversal of these temporary differences can be controlled by the Bank and it is probable that reversal will not occur in the foreseeable future.

Deferred tax assets and liabilities are calculated, without discounting, at tax rates that are expected to apply to their respective period of realisation, provided they are enacted or substantively enacted by the end of the reporting period, currently 27.5% (2019: 27.5%).

Deferred tax assets are recognised to the extent that it is probable that they will be able to be utilised against future taxable income, based on the Bank's forecast of future operating results which is adjusted for significant non-taxable income and expenses and

specific limits to the use of any unused tax loss or credit. Deferred tax liabilities are always provided for in full.

Deferred tax assets and liabilities are offset only when the Bank has a right and intention to set off current tax assets and liabilities from the same taxation authority.

Changes in deferred tax assets or liabilities are recognised as a component of tax income or expense in profit or loss, except where they relate to items that are recognised in other comprehensive income (such as the revaluation of land) or directly in equity, in which case the related deferred tax is also recognised in other comprehensive income or equity, respectively.

The Bank undertakes transactions in the ordinary course of business where the income tax treatment requires the exercise of judgement. The Bank estimates the amount to be paid to / (recovered from) taxation authorities based on the Bank's understanding and interpretation of law, including case law. Where the Bank considers it probable that the tax treatment applied in the current or historic periods is not probable to be accepted by the taxation authority, it is included within current or deferred taxes, as appropriate.

l) Borrowings

All short term 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, interest bearing borrowings are subsequently measured at amortised cost using the effective interest method.

m) Provisions

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

Employee benefits

Employee provisions comprise liabilities for employee benefits arising from services rendered by employees to balance date. Employee benefits have maturities of both less than one year and greater than one year and have been measured at present value of the estimated future cash outflows to be made for those benefits discounted using high quality corporate bond rates.

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

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

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

Leasehold make good

The Bank is required to restore the lease premises of its office building to their original condition at the end of the respective lease terms. A provision has been recognised for the present value of the estimated expenditure required to remove any leasehold improvements. The provision is assessed at each balance date for new, amended and expired leases. The estimate of the costs have been calculated using historical costs.

Increases in the provision in future years due to the unwinding of the interest charge, is recognised as part of the interest expense.

n) Accounting estimates and judgements

Management have made judgements when applying the Bank's accounting policies with respect to:

- Recognition of credit losses based on "Stage 1" 12 month expected losses and "Stage 2" and "Stage 3" lifetime expected credit losses, and determining criteria for significant increase in credit risk – refer to Note 13
- Determination of lease term – refer to Note 14

6. New or Emerging Standards not yet Mandatory

Certain standards have been issued by the Australian Accounting Standards Board that are not yet effective. The Bank has considered these accounting standards and determined that their impact on the Bank and its consolidated financial statements will be immaterial.

7.	Statement of Profit or Loss and Other Comprehensive Income	2020 $	2019 $
a.	**Analysis of interest revenue**		
	Cash – deposits at call	133,899	202,860
	Receivables from financial institutions	246,534	216,179
	Investment Securities	351,325	613,993
	Loans and advances to members	6,212,830	6,682,576
	Total interest revenue	**6,944,588**	**7,715,608**
b.	**Other Income**		
	Fee income	333,304	352,369
	Insurance commissions	93,360	103,379
	Other commissions	173,934	189,095
	Bad debts recovered	21,639	22,213
	Miscellaneous revenue	85,517	17,441
	Total other income	**707,754**	**684,497**
c.	**Analysis of interest expense**		
	Deposits from members	2,536,450	3,189,170
	Borrowings	6,441	31,013
	Lease interest	15,876	-
	Total interest expense	**2,558,767**	**3,220,183**
d.	**Impairment losses**		
	Net increase in provision for impairment	178,729	51,821
	Total impairment losses	**178,729**	**51,821**
e.	**Prescribed expense disclosures**		
	General Administration - employees costs include:		
	Net movement in provisions for annual leave	(58,408)	9,224
	Net movement in provisions for LSL	8,496	15,694
	General Administration - depreciation expense:		
	Plant and equipment	65,493	67,006
	Amortisation of software	31,218	12,057
	Depreciation of right-of-use assets	122,948	-
	Lease expenses		
	- Expense related to leases of low-value assets	3,861	-
	- Expense related to variable lease payments	75,801	-
	Other Operating expenses include:		
	Defined contribution superannuation expenses	152,979	136,740
	Net movement in provisions for other liabilities	(5,310)	33,475
	Auditor's remuneration (excluding GST)		
	- Audit fees - Grant Thornton	55,700	53,700
	Total auditor's remuneration	**55,700**	**53,700**

8.	Income Tax Expense	2020 $	2019 $
a.	**Income tax expense comprises amounts set aside as:**		
	Provision for income tax - current year	110,318	126,424
	Decrease / (Increase) in deferred tax	(13,743)	86,029
	Under provision from the previous year	(7,434)	-
	Income tax expense attributable to profit	**89,141**	**212,453**

b.	**The prima facie tax payable on profit is reconciled to the income tax expense in the accounts as follows:**		
	Prima facie tax payable on profit before tax at 27.5%	121,932	157,441
	Add/(less) tax effect of:		
	Non assessable income	(17,188)	-
	Other deductible expenses	(8,210)	-
	Non-deductible expenses	41	286
	Adjustment to deferred tax asset	-	54,726
	Under provision from the previous year	(7,434)	-
	Income tax expense attributable to profit	**89,141**	**212,453**

		2020	2019
9.	**Cash**	**$**	**$**
	Cash on hand	-	237,288
	Deposits at call	11,863,280	12,646,019
		11,863,280	**12,883,307**

10.	**Liquid Investments**		
a.	**Investments at amortised cost**		
	Held to maturity – Negotiable Certificates of Deposit	13,500,000	9,000,000
	Held to maturity – Bonds	16,200,000	10,000,000
	Receivables – Term Deposits / Other Deposits	24,696,739	12,696,739
		54,396,739	**31,696,739**
b.	**Dissection of receivables**		
	Deposits with banks	18,120,000	7,620,000
	Deposits with credit unions	6,576,739	5,076,739
		24,696,739	**12,696,739**

11.	**Receivables**		
	Interest receivable	178,025	388,725
	Prepayments	53,557	87,283
	Other receivables	25,214	-
		256,796	**476,008**

12.	**Loans to Members**		
a.	**Amount due comprises**		
	Overdrafts and revolving credit	673,032	500,112
	Credit cards	1,483,868	1,855,152
	Term loans	176,755,248	172,951,206
	Subtotal	178,912,148 -	175,306,470
	Less:		
	Unearned Income	5,947	2,096
	Subtotal	178,906,201	175,304,374
	Less:		
	Provision for impaired loans (note 13)	219,301	87,967
		178,686,900	**175,216,407**

12. Loans to Members - continued	2020 $	2019 $
b. Credit quality - security held against loans		
Secured by mortgage over business assets	2,872,176	3,706,883
Secured by mortgage over real estate or cash	170,189,260	164,700,341
Partly secured by goods mortgage	3,057,936	3,352,009
Wholly unsecured	2,792,776	3,547,237
	178,912,148	**175,306,470**

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

Loan to valuation ratio of less than 80%	163,230,714	159,721,421
Loan to valuation ratio of more than 80% but mortgage insured	6,282,073	4,539,880
Loan to valuation ratio of more than 80% and not mortgage insured	553,595	553,862
	170,066,382	**164,815,163**

c. Concentration of loans

(i) Total of loans to individual or related groups of members which exceed 10% of member funds in aggregate	-	-

(ii) Loans to members are concentrated to individuals employed in the gaming, leisure, hospitality, telecommunications and energy industries.

(iii) Geographical concentrations		
New South Wales	85,525,348	84,387,834
Victoria	82,052,207	81,677,885
Queensland	7,973,595	5,009,472
South Australia	1,549,803	1,895,502
Western Australia	100,711	683,722
Tasmania	208,911	783,285
Northern Territory	12,829	3,199
Australian Capital Territory	1,263,496	775,508
	178,686,900	**175,216,407**

(iv) Loans by customer type		
Residential loans and facilities	168,840,462	164,331,358
Personal loans and facilities	6,410,995	6,994,898
Business loans and facilities	3,435,443	3,890,151
	178,686,900	**175,216,407**

13. Provision on Impaired Loans

Amounts arising from Expected Credit Losses (ECL)

The loss allowance as of the year end by class of asset are summarised in the table below. Comparative amounts for 2019 represent allowance account for credit losses and reflect measurement basis under AASB 139.

	2020 Gross Carrying Value $	**2020** ECL Allowance $	**2020** Carrying Value $	**2019** Gross Carrying Value $	**2019** ECL Allowance $	**2019** Carrying Value $
Mortgage	172,632,372	(46,787)	172,585,585	168,405,922	-	168,405,922
Personal	4,122,876	(141,057)	3,981,819	4,545,284	(60,991)	4,484,293
Credit cards	1,483,868	(25,738)	1,458,130	1,855,152	(23,600)	1,831,552
Overdrafts	673,032	(5,719)	667,313	500,112	(3,376)	496,736
Total	**178,912,148**	**(219,301)**	**178,692,847**	**175,306,470**	**(87,967)**	**175,218,503**

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

Analysis of loans that are impaired or potentially impaired based on age of repayments outstanding

	2020 Stage 1 12 month ECL $	**2020** Stage 2 Lifetime ECL $	**2020** Stage 3 Lifetime ECL $	**2020** Total $
Mortgage	-	(46,787)	-	(46,787)
Personal	(44,701)	(76,793)	(19,562)	(141,057)
Credit cards	(9,662)	(10,387)	(5,689)	(25,738)
Overdrafts	(4,317)	(1,361)	(41)	(5,719)
Loss allowance	(58,681)	(135,328)	(25,292)	(219,301)
Gross Carrying Amount	174,970,527	3,781,146	160,475	178,912,148

	2019 Stage 1 12 month ECL $	**2019** Stage 2 Lifetime ECL $	**2019** Stage 3 Lifetime ECL $	**2019** Total $
Mortgage	-	-	-	-
Personal	(44,332)	(2,526)	(14,133)	(60,991)
Credit cards	(11,018)	(552)	(12,030)	(23,600)
Overdrafts	(3,175)	(39)	(162)	(3,376)
Loss allowance	(58,525)	(3,117)	(26,325)	(87,967)
Gross Carrying Amount	172,408,738	2,109,061	788,671	175,306,470

13. Provision on Impaired Loans continued

Impairment allowance reconciliation

The reconciliation from the opening to the closing balance of the allowance for impairment is shown in the table below:

	2020 Stage 1 12 month ECL $	**2020** Stage 2 Lifetime ECL $	**2020** Stage 3 Lifetime ECL $	**2020** Overlays $	**2020** Total $
Loans to members					
Balance at 1 July per AASB 9	(58,525)	(3,116)	(26,325)	-	(87,967)
Changes in the loss allowance:					
- Transfer to stage 1	(13,285)	-	-	-	(13,285)
- Transfer to stage 2	-	419	-	(133,664)	(133,245)
- Transfer to stage 3	-	-	(29,433)	-	(29,433)
- Write-offs	12,990	1,033	27,850	-	41,874
- Recoveries of amounts previously written off	139	-	2,615	-	2,754
Balance at 30 June 20	**(58,681)**	**(1,664)**	**(25,292)**	**(133,664)**	**(219,301)**

	2019 Stage 1 12 month ECL $	**2019** Stage 2 Lifetime ECL $	**2019** Stage 3 Lifetime ECL $	**2019** Overlays $	**2019** Total $
Loans to members					
Balance at 1 July per AASB 139	-	-	-	-	(62,669)
Adjustment on initial application of AASB 9	-	-	-	-	(30,519)
Balance at 1 July per AASB 9	(62,589)	(4,458)	(26,141)	-	(93,188)
Changes in the loss allowance					
- Transfer to stage 1	(37,469)	-	-	-	(37,469)
- Transfer to stage 2	-	1,342	-	-	1,342
- Transfer to stage 3	-	-	(29,634)	-	(29,634)
- Net movement due to change in credit risk	-	-	-	-	-
- Write-offs	41,532	-	7,238	-	48,770
- Recoveries of amounts previously written off	-	-	22,213	-	22,213
Balance at 30 June 19	**(58,525)**	**(3,116)**	**(26,325)**	**-**	**(87,967)**

Impact of movements in gross carrying amount on impairment of loans and advances

Overall, the total impairment of loans and advances increased by $131,334 (2019: $25,298). This net increase is due to a management overlay for the COVID-19 impact. Collective provisioning

Stage 1: 12 months ECL not credit impaired – increased $155 impacted by changes to collective

Stage 2: Lifetime ECL not credit impaired – decreased $1,452 due to collective provision attached

Stage 3: Lifetime ECL Credit impaired – decreased by $1,033 due to:
- loans and advances experiencing movement in underlying loan balances or migrated to stage 3
- offset by collective provision attached to existing loans and advances exiting Stage 3 either

Overlay provision - COVID-19

Included within provisions for impairment is a $133,664 overlay in recognition for the expected impact of COVID-19 on loans known to be at risk as at 30 June 2020. This overlay is consistent with the outcomes from the review of at risk loans performed by the Bank in response to APRA's Financial Services Industry preparedness review over the COVID-19 outbreak. The review assessed the probability of default and the likelihood of the individual debts being written off, based on a range of social and economic factors existing at 30 June 2020 and forward-looking scenarios. The review required significant management judgement.

13. Provision on Impaired Loans continued

Key assumptions in determining the ECL

Measurement of ECL

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

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

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

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

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

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

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

Grouping of similar assets

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

- instrument type
- credit risk grading
- collateral type
- LVR ratio for retail mortgages

13. Provision on Impaired Loans continued

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

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

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

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

Significant increase in credit risk

In assessing significant increases in credit risk where a loan or group of loans must move to Stage 2 the following factors have been considered in the Bank's current model:

- Loans more than 30 days past due
- Probability of default - based on historical loans in stage 2 proceeding to stage 3
- Loss given default - based on historical data for loans written off
- Probability of default or loss on loans impacted by Covid-19 pandemic

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

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

Incorporation of forward-looking information

The approach to determining the ECL includes forward-looking information. The Bank has performed historical analysis and identified the key economic variables impacting credit risk and expected credit losses for each portfolio segment. Given the lack of loss experience by the Bank and across the wider industry, more emphasis has been applied to the historical data available as opposed to forward looking information. Consideration has also been given to the level of undue cost and effort involved in utilising complex statistical models, which is not considered appropriate for the size and complexity of the portfolio.

The Bank has considered other forward-looking considerations such as the impact of future unemployment rates, property prices, regulatory change and external market risk factors, which are not deemed to have a material impact and therefore no adjustment has been made to the ECL for such factors. This is reviewed and monitored for appropriateness on a quarterly basis. The Bank considers the ECL to represent its best estimate of the possible outcomes and is aligned with information used by the Bank for other purposes such as strategic planning and budgeting. Periodically the Bank carries out stress testing of more extreme shocks to calibrate its determination of other potential scenarios.

		2020
14.	**Leases**	**$**
a.	**Right of use assets**	
	Property leases	338,108
	Less: provision for depreciation	(122,948)
		215,160

Movement in asset balances during the year:

	Property
	$
Balance 1 July 2019	-
Changes on initial application of AASB 16	338,108
Amended balance 1 July 2019	**338,108**
Additions	-
Revaluations	-
Disposals	-
Impairment	-
Depreciation	**(122,948)**
Balance 30 June 2020	**215,160**

The Bank has a Property lease and some IT equipment under lease. With the exception of short-term leases and leases of low-value underlying assets (all IT equipment), leases are reflected on the balance sheet as a right-of-use asset and a lease liability. Variable lease payments which do not depend on an index or are excluded from the initial measurement of the lease liability and asset.

The Property lease agreement does not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

The Property lease is subject to an extension option and termination options which are exercisable by the Bank.

The entity has not committed to any further lease assets that would otherwise commence subsequent to reporting date.

		2020
b.	**Lease liabilities**	**$**
	Current	120,742
	Non-current	108,138
		228,880

14. Leases - continued

b. Lease liabilities

	$
Balance 1 July 2019	-
Changes on initial application of AASB 16	338,108
Amended balance 1 July 2019	**338,108**
Additions	-
Payments for leases	**(125,104)**
Interest expense	**15,876**
Modifications	-
Balance 30 June 2020	**228,880**

Future minimum lease payments

	Within 1 year	Between 2 - 5 years	After 5 years	Total
30 June 2020				
Lease payments	130,108	110,479	-	240,587
Finance charges	(9,364)	(2,343)	-	(11,707)
Net present values	120,744	108,136	-	228,880
30 June 2019				
Lease payments	125,104	240,587	-	365,691
Finance charges	(15,876)	(11,707)	-	(27,583)
Net present values	109,228	228,880	-	338,108

c. Short-term and low value leases

	2020 $	2019 $
Short-term leases	-	92,188
Leases of low value assets	3,861	3,861
Variable lease payments	-	-
	3,861	**96,049**

15. Property, Plant and Equipment

	2020 $	2019 $
Total property, plant and equipment		
Plant and equipment - at cost	508,563	503,457
Less: provision for depreciation	(306,066)	(240,574)
	202,497	**262,883**

Movement in the assets balances during the year were:

	2020 Plant & equipment $	2020 Total $	2019 Plant & equipment $	2019 Total $
Opening balance	262,883	262,883	298,110	298,110
Purchases	5,107	5,107	31,779	31,779
Less				
Assets disposed	-	-	-	-
Depreciation charge	65,493	65,493	67,006	67,006
Closing balance	**202,497**	**202,497**	**262,883**	**262,883**

		2020	2019
16.	**Taxation Assets**	**$**	**$**
	Deferred tax asset comprise the tax effect of the following balances:		
	Accrued expenses not deductible until incurred	40,079	48,726
	Provisions for impairment on loans	60,308	24,191
	Provisions for employee benefits	126,431	140,158
		226,818	**213,075**

17.	**Intangible Assets**		
	Computer software	587,624	572,806
	Less provision for amortisation	(483,100)	(451,881)
		104,524	**120,925**
	Movement in the assets balances during the year were:		
	Opening balance	120,925	14,389
	Purchases	14,817	118,593
	Less		
	Assets disposed	-	-
	Amortisation charge	31,218	12,057
	Balance at the end of the year	**104,524**	**120,925**

18.	**Borrowings**		
	Short Term Borrowings		
	Term deposits - Credit Unions	1,000,000	-
	Long Term Borrowings		
	RBA Term Funding Facility	3,534,046	-
	Total Borrowings	**4,534,046**	**-**

19.	**Deposits from Members**		
a.	**Total deposits comprises:**		
	Member Deposits		
	- At Call	140,089,051	116,608,985
	- Term	84,001,850	87,268,783
	Member withdrawable shares	17,872	18,180
	Total deposits and shares	**224,108,773**	**203,895,948**

b. Concentration of member deposits

(i) Total of significant individual member deposits which in aggregate represent more than 10% of the total liabilities:	-	-

(ii) Member deposits at balance date were received from individuals living and / or employed in Australia and principally in metropolitan Victoria and New South Wales

		2020	2019
19.	**Deposits from Members - continued**	**$**	**$**
b.	**Concentration of member deposits - continued**		
	(iii) Geographical Concentrations		
	New South Wales	128,787,963	108,018,456
	Victoria	80,762,045	83,087,649
	Queensland	8,020,247	8,517,792
	South Australia	1,071,747	667,663
	Western Australia	2,254,496	1,844,026
	Tasmania	1,451,139	419,148
	Northern Territory	276,831	259,038
	Australian Capital Territory	1,484,305	1,082,176
		224,108,773	**203,895,948**

20.	**Creditors**		
	Creditors and accruals	322,181	426,936
	Settlement and Clearing Accounts	617,476	202,019
	Interest payable on borrowings	5,340	-
	Interest payable on deposits	486,082	812,707
	Overdraft clearing	2,702	194,144
	Total amounts payable	**1,433,781**	**1,635,806**

21.	**Taxation Liabilities**		
	Current income tax liability	36,802	4,444
		36,802	**4,444**
	Current income tax liability comprises:		
	Balance – previous year	4,444	19,073
	Less paid / refund received	(4,444)	(19,073)
	Over/(under) provision for year	-	-
	Liability for income tax in current year	110,318	162,367
	Less instalments paid in current year	(73,516)	(157,923)
		36,802	**4,444**

22.	**Provisions**		
	Annual leave	139,297	197,706
	Long service leave	320,453	311,958
	Provisions – other	138,055	165,102
	Total provisions	**597,805**	**674,766**

		2020	2019
23.	**Capital Reserve**	**$**	**$**
	Balance at the beginning of the financial year	28,024	26,346
	Transfer from retained earnings on share redemptions	824	1,678
	Balance at the end of financial year	**28,848**	**28,024**

Share redemption

The accounts represent the amount of redeemable preference shares redeemed by the Bank since 1 July 1999. The Law requires that the redemption of the shares be made out of profits. Since the value of the shares has been paid to members in accordance with the terms and conditions of the share issue, the account represents the amount of profits appropriated to the account.

24.	**Reserve for Credit Losses**		
	General reserve for credit losses	458,158	424,486
	Total reserves	**458,158**	**424,486**

General reserve for credit losses

This reserve records amount previously set aside as a General provision and is maintained to comply with the Prudential Standards set down by APRA

	Balance at the beginning of the financial year	424,486	401,534
	Increase transferred from retained earnings	33,672	22,952
	Balance at the end of the financial year	**458,158**	**424,486**

25.	**General Reserves**		
	Balance at the beginning of the financial year	14,205,870	13,900,960
	Adjustment for AASB 9	-	(30,519)
	Adjusted balance at the beginning of the financial year	14,205,870	13,870,441
	Operating profit transferred from retained earnings	354,247	360,059
	Transfer from/(to) General Reserve for Credit Losses	(33,672)	(22,952)
	Transfer from/(to) Capital Reserve for Share redemption	(824)	(1,678)
	Balance at the end of the financial year	**14,525,621**	**14,205,870**

26. Interest Rate Change Profile of Financial Assets and Liabilities

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

2020	Within 1 month	1-3 months	3-12 months	1-5 years	After 5 years	Non interest bearing	Total
	$	$	$	$	$	$	$
Assets							
Cash	11,863,280	-	-	-	-	-	11,863,280
Advances to other financial institutions	17,620,000	20,500,000	76,739	16,200,000	-	-	54,396,739
Receivables	-	-	-	-	-	256,796	256,796
Loans & Advances	158,292,626	558,814	5,587,942	13,779,575	693,191	-	178,912,148
Total Financial Assets	187,775,906	21,058,814	5,664,681	29,979,575	693,191	256,796	245,428,963
Liabilities							
Borrowings	1,000,000	-	-	3,534,046	-	-	4,534,046
Deposits from members	150,491,440	26,998,736	42,887,944	3,730,653	-	-	224,108,773
Creditors	-	-	-	-	-	1,433,781	1,433,781
Total Financial Liabilities	151,491,440	26,998,736	42,887,944	7,264,699	-	1,433,781	230,076,600

2019	Within 1 month	1-3 months	3-12 months	1-5 years	After 5 years	Non interest bearing	Total
	$	$	$	$	$	$	$
Assets							
Cash	12,646,019	-	-	-	-	237,288	12,883,307
Advances to other financial institutions	9,120,000	12,500,000	10,076,739	-	-	-	31,696,739
Receivables	-	-	-	-	-	476,008	476,008
Loans & Advances	165,259,696	35,983	6,332,386	2,771,932	906,473	-	175,306,470
Total Financial Assets	187,025,715	12,535,983	16,409,125	2,771,932	906,473	713,296	220,362,524
Liabilities							
Borrowings	-	-	-	-	-	-	-
Deposits from members	125,115,100	19,813,539	51,088,683	7,878,626	-	-	203,895,948
Creditors	-	-	-	-	-	849,120	849,120
Total Financial Liabilities	125,115,100	19,813,539	51,088,683	7,878,626	-	849,120	204,745,068

27. Maturity Profile of Financial Assets and Liabilities

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

2020	**Within 1 month** $	**1-3 months** $	**3-12 months** $	**1-5 years** $	**Greater than 5 years** $	**No maturity** $	**Total** $
Assets							
Cash	11,972,701	-	-	-	-		11,972,701
Advances to other financial institutions	17,626,740	20,518,078	77,372	16,749,623	-	-	54,971,813
Receivables	-	-	-	-	-	256,796	256,796
Loans & Advances	1,032,379	2,043,144	8,957,167	43,810,353	191,214,082	-	247,057,125
Total Financial Assets	30,631,820	22,561,222	9,034,539	60,559,976	191,214,082	256,796	314,258,435
Liabilities							
Borrowings	1,004,238	-	-	3,560,648	-	-	4,564,886
Deposits from members	150,598,992	27,245,727	43,468,533	3,852,197	-	-	225,165,449
Creditors	1,177,791	-	-	-	-	-	1,177,791
On balance sheet total	152,781,021	27,245,727	43,468,533	7,412,846	-	-	230,908,127
Undrawn Commitments	-	-	-	-	-	26,095,536	26,095,536
Total Financial Liabilities	152,781,021	27,245,727	43,468,533	7,412,846	-	26,095,536	257,003,663

2019	**Within 1 month** $	**1-3 months** $	**3-12 months** $	**1-5 years** $	**Greater than 5 years** $	**No maturity** $	**Total** $
Assets							
Cash	12,646,019	-	-	-	-	237,287	12,883,306
Advances to other financial institutions	9,122,310	12,522,208	10,888,545	-	-	-	32,533,063
Receivables	-	-	-	-	-	476,008	476,008
Loans & Advances	2,355,264	3,252,348	9,507,401	45,252,989	199,367,629	-	259,735,631
Total Financial Assets	24,123,593	15,774,556	20,395,946	45,252,989	199,367,629	713,295	305,628,008
Liabilities							
Borrowings	-	-	-	-	-	-	-
Deposits from members	121,636,769	20,134,913	52,282,552	8,300,819	-	-	202,355,052
Creditors	849,120	-	-	-	-	-	849,120
On balance sheet total	122,485,889	20,134,913	52,282,552	8,300,819	-	-	203,204,172
Undrawn Commitments	-	-	-	-	-	22,362,519	22,362,519
Total Financial Liabilities	122,485,889	20,134,913	52,282,552	8,300,819	-	22,362,519	225,566,691

28. Financial Assets and Liabilities Maturing Within 12 Months

The table below represents the above maturity profile summarised at discounted values. The contractual arrangements best represents the estimated minimum amount of repayment on the loans, liquid investments and on the member deposits within 12 months. While the liquid investments and member deposits are presented in the table below on a contractual basis, as part of our normal banking operations we would expect a large proportion of these balances to roll over. Loan repayments are generally accelerated by members choosing to repay loans earlier. These advance repayments are at the discretion of the members and not able to be reliably estimated.

	2020			2019		
	Within 12 months	After 12 months	Total	Within 12 months	After 12 months	Total
	$	$	$	$	$	$
Financial assets						
Cash	11,863,280	-	11,863,280	12,883,307	-	12,883,307
Liquid assets	38,196,739	16,200,000	54,396,739	21,696,739	10,000,000	31,696,739
Loans & Advances	164,439,382	14,472,766	178,912,148	171,628,065	3,678,405	175,306,470
Receivables	256,796	-	256,796	476,008	-	476,008
Total Financial Assets	214,756,197	30,672,766	245,428,963	206,684,119	13,678,405	220,362,524
Financial liabilities						
Borrowings	1,000,000	3,534,046	4,534,046	-	-	-
Deposits from members	220,378,120	3,730,653	224,108,773	196,017,322	7,878,626	203,895,948
Creditors	1,433,781	-	1,433,781	849,120	-	849,120
Total Financial Liabilities	222,811,901	7,264,699	230,076,600	196,866,442	7,878,626	204,745,068

29. Fair Value of Financial Assets and Liabilities

A review of the fair value calculation indicated that there were no significant variances between the book and fair values for the Bank. As a result the fair value details have not been included. Fair value has been determined on the basis of the present value of expected future cash flows under the terms and conditions of each financial asset and financial liability.

Significant assumptions used in determining the cash flows are that they will be consistent with the contracted cash flows under the respective contracts.

The information is only relevant to circumstances at balance date and will vary depending on the contractual rates applied to each asset and liability, relative to market rates and conditions at the time. No assets held are regularly traded by the Bank and there is no active market to assess the value of the financial assets and liabilities. Assets where the fair value is lower than the book value have not been written down in the accounts of the Bank on the basis that they are to be held to maturity, or in the case of loans, all amounts due are expected to be recovered in full.

The fair value estimates were determined by the following methodologies and assumptions:

Liquid assets and receivables from other financial institutions

The carrying values of cash and liquid assets and receivables due from other financial institutions redeemable within 3 months approximate their fair value as they are short term in nature or are receivable on demand.

29. Fair Value of Financial Assets and Liabilities - continued

Loans and advances

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

The carrying value is not significantly different from fair value due to the majority of First Option's loans being variable rate loans.

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

Deposits from members

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

The carrying value is not significantly different from the fair value due to the majority of the fixed rate deposits maturing in less than six months.

Borrowings

The carrying value of payables due to other financial institutions approximate their fair value as they are short term in nature and reprice frequently.

The Reserve Bank of Australia has established a Term Funding Facility (TFF) to offer three year fixed rate funding to authorised deposit-taking institutions (ADIs). This facility aims to ensure that ADIs are in a position to continue offering credit to the market throughout the COVID-19 pandemic. The Bank has obtained funding from this scheme as shown in note 18.

		2020	2019
30.	**Financial Commitments**	**$**	**$**
a.	**Outstanding loan commitments**		
	Loans approved but not funded	5,859,271	2,236,840
b.	**Loan redraw facilities**		
	Loan redraw facilities available	15,685,735	16,063,068
c.	**Undrawn loan facilities**		
	Loan facilities available to members for overdrafts and line of credit loans are as follows:		
	Total value of facilities approved	6,707,430	6,417,875
	Less: Amount advanced	(2,156,900)	(2,355,264)
	Net undrawn value	**4,550,530**	**4,062,611**

These commitments are contingent on members maintaining credit standards and ongoing repayment terms on amounts drawn.

d. Future capital commitments

The Bank has entered into a contract to purchase (computer equipment and software) for which the amount is to be paid over the following periods:-

Within 1 year	9,550	1,496
1 to 2 years	13,640	2,992
2 to 5 years	13,640	2,992
	36,831	**7,480**

e. Lease expense commitments for low-value leases

Not later than one year	3,861	-
Later than one year but not later than five years	11,323	-
Over five years	-	-
	15,184	**-**

31. Standby Borrowing Facilities

The Bank has a borrowing facility with Credit Union Services Corporation (Australia) Limited (CUSCAL) of:

	2020		
	Gross	**Current borrowing**	**Net available**
	$	**$**	**$**
Overdraft facility	500,000	-	500,000
Total standby borrowing facilities	500,000	-	500,000

	2019		
	Gross	**Current borrowing**	**Net available**
	$	**$**	**$**
Overdraft facility	500,000	-	500,000
Total standby borrowing facilities	500,000	-	500,000

Withdrawal of the overdraft facility is subject to the availability of funds at CUSCAL.

Secured by cash on deposit with Cuscal.

32. Contingent Liabilities

Liquidity support scheme

The Bank is a member of the Credit Union Financial Support Scheme Limited (CUFSS) a Company limited by guarantee, established to provide financial support to member Credit Unions / Mutuals in the event of a liquidity or capital issue. As a member, the Bank is committed to maintaining 3% of its total assets as either deposits with CUSCAL or investments held within the Austraclear system.

Under the terms of the Industry Support Contract (ISC), the maximum call for each participating credit union/mutual bank would be 3% of that credit union/mutual bank's total assets. This amount represents the participating credit union/mutual bank's irrevocable commitment under the ISC. At the balance date there were no loans issued under this arrangement.

Guarantees

The Bank has issued guarantees on behalf of members for the purpose of security bond. The guarantee is payable only on the member defaulting on the contractual repayments to the Lessor / supplier. The guarantees are fully secured against registered first mortgages or cash deposits. The total value of guarantees as at 30 June 2020 was $388,000 (2019: $388,000).

33. Disclosures on Directors and Other Key Management Personnel

a. Remuneration of key management persons [KMP]

KMP are those persons having authority and responsibility for planning, directing and controlling the activities of the Bank, directly or indirectly, including any Director (whether executive or otherwise) of that entity. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

KMP have been taken to comprise the Directors and the 3 (2019: 3) members of the executive management responsible for the day to day financial and operational management of the Bank.

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

		2020 $	2019 $
(i)	Short-term employee benefits	622,945	483,821
(ii)	Director fees	65,035	63,967
(iii)	Other long-term benefits – net increases in long service leave provision	17,883	16,198
	Total compensation	**705,863**	**563,986**

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

All remuneration to Directors was approved by the members at the previous Annual General Meeting of the Bank.

b. Loans to Directors and KMP

2020	Mortgage Secured $	Other Term Loans $	Credit Cards /Revolving Credit $
Funds available to be drawn (redraws, overdrafts, credit cards, LOC)	279,759	588	37,951
Balance as at end of year	2,701,740	15,017	5,797
Amounts disbursed or facilities increased during the year	620,000	-	-
Interest and other revenues earned	86,930	1,477	235

2019	Mortgage Secured $	Other Term Loans $	Credit Cards /Revolving Credit $
Funds available to be drawn (redraws, overdrafts, credit cards, LOC)	225,881	250	58,587
Balance as at end of year	2,348,867	34,583	11,682
Amounts disbursed or facilities increased during the year	1,404,944	-	-
Interest and other revenues earned	85,149	2,586	655

33. Disclosures on Directors and Other Key Management Personnel - continued

b. Loans to Directors and KMP - continued

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

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

Staff may have received a concessional rate of interest on their loans and facilities. There are no benefits or concessional terms and conditions applicable to the close family members of the KMP. There are no loans which are impaired in relation to the loan balances with close family relatives of Directors and other KMP.

Other transactions between related parties include deposits from Directors and other KMP:

	2020 $	2019 $
Total value term and savings deposits from Directors/KMP	1,153,032	1,225,660
Total Interest paid on deposits to Directors/KMP	21,712	17,866

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

c. Transactions with related parties

Other transactions between related parties include deposits from Director related entities or close family members of Directors and other KMP.

The Bank's policy for receiving deposits from related parties is that all transactions are approved and deposits accepted on the same terms and conditions which applied to members for each type of deposit.

There are no benefits paid or payable to the close family members of the KMP.

There are no service contracts to which KMP or their close family members are an interested party.

34. Outsourcing Arrangements

The Bank has arrangements with other organisations to facilitate the supply of services to members.

a. Cuscal Limited

CUSCAL is an Approved Deposit Taking Institution registered under the Corporations Act 2001 and the Banking Act. This entity:

(i) Acts as the Bank's banker

(ii) Provides the licence rights to Visa Card in Australia and settlement with other financial institutions for ATM, Visa card, direct entry and cheque transactions, as well as the production of Visa cards for use by members;

(iii) Provides treasury and money market facilities to the Bank. The Bank has invested sufficient liquid assets to comply with the Liquidity Support Scheme requirements; and

(iv) Operates the computer network used to link Visa cards operated through RediATMs and other approved ATM suppliers to the Bank's EDP systems.

b. Ultradata Australia Pty Limited

Provides and maintains the application software utilised by the Bank.

c. Transaction Solutions Limited

This entity operates the computer facility on behalf of the Bank in conjunction with other Banks. The Bank has a management contract with the company to supply computer support staff and services to meet the day to day needs of the Bank and compliance with the relevant Prudential Standards.

d. ETOS Australia

This entity acts as a Proxy Settlement service for settling transactions in the Austraclear system on behalf of the Bank.

35. Superannuation Liabilities

The Bank mainly contributes to the NGS Super Plan for the purpose of superannuation guarantee payments and payment of other superannuation benefits on behalf of employees. The plans are administered by independent corporate trustees.

The Bank has no interest in the superannuation plans (other than as a contributor) and is not liable for the performance of the plans, or the obligations of the plans.

36. Loan Sharing Scheme

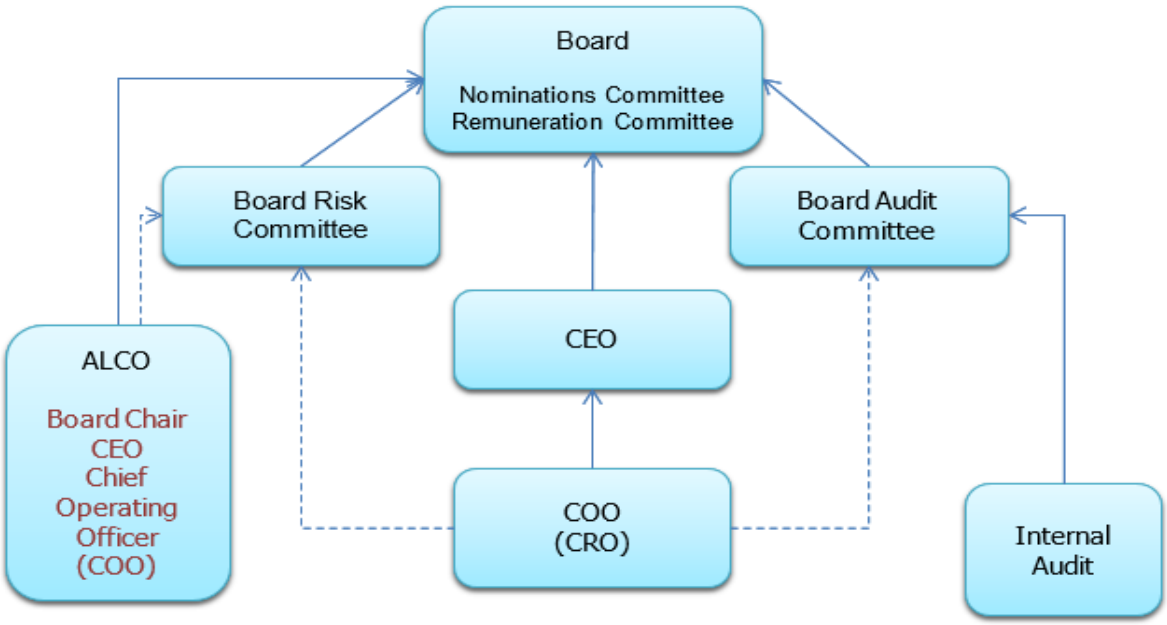
The Credit Union is also participating in a Loan Sharing Scheme with a joint syndicate of small ADIs in the customer owned banking sector. This is to facilitate shared funding of mortgage secured loans

		2020	2019
37.	**Notes to Consolidated Statement of Cash Flows**	**$**	**$**
a.	**Reconciliation of cash**		
	Cash includes cash on hand, and deposits at call with other financial institutions and comprises:		
	Cash on hand	-	237,288
	Deposits at call	11,863,280	12,646,019
	Total Cash	**11,863,280**	**12,883,307**
b.	**Reconciliation of cash from operations to accounting profit**		
	Operating Profit after income tax	354,246	360,059
	Non-cash movements:		
	Provision for Impairment	131,334	(5,221)
	Depreciation & Amortisation of fixed assets	96,711	79,064
	AASB 16 liability adjustments (int & principal payments)	122,947	-
	Changes in assets and liabilities:		
	Receivables	114,456	24,461
	Taxation assets	(13,743)	86,029
	Payables	(326,625)	63,945
	Taxation liabilities	32,358	(14,629)
	Provisions for employee entitlements	(49,913)	24,917
	Other provisions	(27,048)	33,476
	Total operating cash flows	**434,723**	**652,101**

38. Financial Risk Management Objectives and Policies

a. Introduction

The Board has endorsed a framework of compliance and risk management to suit the risk profile of the Bank. The Bank's risk management focuses on the major areas of liquidity risk, market risk, credit risk, operational risk and governance risk. Authority flows from the Board of Directors to the Risk Committee and to the Audit Committee which are integral to the management of risk. The following diagram gives an overview of the risk management structure:



The main elements of risk governance are as follows:

Board of Directors

This is the primary governing body. It approves the level of risk which the Bank is exposed to and the framework for reporting and mitigating those risks.

Risk Committee

This is a key body in the control of risk. It has representatives from the board as well as the Chief Risk Officer. The Risk Committee does not form a view on the acceptability of risks but instead reviews risks and controls that are used to mitigate those risks. This includes the identification, assessment and reporting of risks. Regular monitoring is carried out by the Risk Committee through quarterly review of operational reports and control assignments are reviewed by the Risk Committee to confirm whether risks are within the parameters outlined by the board.

The Risk Committee carries out a regular review of all operational areas to ensure that operational risks are being properly controlled and reported. It also ensures that contingency plans are in place to achieve business continuity in the event of serious disruptions to business operations.

The Risk Committee monitors compliance with the framework laid out in the policy on a quarterly basis and reports in turn to the board, where actual exposures to risks are measured against prescribed limits.

38. Financial Risk Management Objectives and Policies - continued

a. Introduction - continued

Audit Committee

Its key role in risk management is the assessment of the controls that are in place to mitigate risks. The Audit Committee considers and confirms that the significant risks and controls are to be assessed within the internal audit plan. The Audit Committee receives the internal audit reports on assessment and compliance with the controls, and provides feedback to the risk committee for their consideration.

Asset and Liability Committee (ALCO)

This committee of Senior Management and the Chair of the Board meets regularly and has responsibility for managing credit and market risk exposure. It scrutinises operational reports and monitors exposures against limits determined by the board. The ALCO also determines the credit risk of loans in the banking book, ensures provisioning is accurate and determine controls that need to be in put in place regarding the authorisation of new loans.

The ALCO Committee has responsibility for implementing policies to ensure that all large credit exposures are properly pre-approved, measured and controlled. Details concerning a prospective borrower are subject to a criteria-based decision-making process. Criteria used for this assessment include: credit references, loan-to-value ratio on security and borrower's capacity to repay which vary according to the value of the loan or facility.

All loans are managed regularly through the monitoring of the scheduled repayments. Accounts where the arrears are over 90 days or over limit facilities over 14 days, have collective provisions charged against them. Other provisions are taken up on accounts considered doubtful and the status of these loans is reported to the Board monthly.

Arrears are strictly controlled. The size of the loan book is such that it is possible to monitor each individual exposure to evaluate whether specific provisions are necessary and adequate. A collective provision is held to cover any losses where there is objective evidence that losses are present in components of the loans and advances portfolio at the statement of financial position date.

The ALCO also has responsibility for managing interest rate risk exposures and ensuring the the Finance function adheres to exposure limits as outlined in policy.

Chief Risk Officer

This person has responsibility for the daily oversight of the risk and compliance functions, including both liaising with the operational function to ensure timely production of information for the Board, Audit Committee and Risk Committee and ensuring that instructions passed down from the Board and committees are implemented.

Internal Audit

Internal audit has responsibility for implementing the controls testing and assessment as required by the Audit Committee.

Risk management policies

Key risk management policies encompassed in the overall risk management framework include:

* Market (Interest rate) risk
* Liquidity management
* Credit risk management
* Operational risk management including data risk management

38. Financial Risk Management Objectives and Policies - continued

b. Market and interest rate risk

The objective of the Bank's market risk management is to manage and control market risk exposures in order to optimise risk and return.

Market risk is the risk that changes in interest rates or other prices and volatilities that may have an adverse effect on the Bank's financial condition or results. The Bank is not exposed to currency risk, and other significant price risk. The Bank does not trade in the financial instruments it holds on its books The Bank is exposed only to interest rate risk arising from changes in market interest rates.

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

Interest rate risk

Interest rate risk is the risk of variability of the fair value or future cash flows arising from financial instruments due to the changes in interest rates. Most banks are exposed to interest rate risk within its Treasury operations. This Bank does not have a treasury operation and does not trade in financial instruments. The Bank is exposed to interest rate risk in its banking book due to mismatches between the repricing dates of assets and liabilities. The interest rate risk on the banking book is reviewed by the Board. The level of mismatch in the banking book is set out in note 26. The table set out at note 26 displays the period that each asset and liability will reprice as at the balance date. This risk is not considered significant to warrant the use of derivatives to mitigate this risk.

Method of managing interest rate risk

The Bank manages its interest rate risk by the use of interest rate sensitivity analysis, the detail and assumptions used are set out below.

Interest rate sensitivity

The Bank's exposure to market risk is measured and monitored using interest rate sensitivity models.

The policy of the Bank to manage the risk is to maintain a balanced 'on book' strategy by ensuring the net interest rate gaps between assets and liabilities are not excessive. Large exposures to interest rate movements are measured monthly with any being rectified through targeted fixed rate interest products (available through investment assets), and term deposits liabilities to rectify the imbalance to within acceptable levels. The policy of the Bank is not to undertake derivatives to match the interest rate risks. The Banks exposure to interest rate risk is set out in note 26 which details the contractual interest change profile.

The Bank performs a sensitivity analysis to measure market risk exposures.

Based on the calculations as at 30 June 2020, the pre-tax profit impact for a 1% (2019: 0.75%) change in interest rates over the next 12 months would be $203,666 (2019: $119,674).

The method used in determining the sensitivity was to evaluate the profit based on the timing of the interest repricing on the banking book of the Bank for the next 12 months. In doing the calculation the assumptions applied were that:

* the rate change would be as at the beginning of the 12 month period and no other rate changes would be effective during the period;
* the term deposits would all reprice to the new interest rate at the term maturity, or be replaced by deposit with similar terms and rates applicable;
* savings deposits would reprice in 1 month;

38. Financial Risk Management Objectives and Policies - continued

b. Market risk - continued

* fixed rate loans would all reprice to the new interest rate at the contracted date;
* mortgage loans would all reprice to the new interest rate in 3 months;
* personal loans would reprice to the new interest rate in 3 months;
* all loans would be repaid in accordance with the current average repayment rate (or contractual repayment terms);
* the value and mix of call savings to term deposits will be unchanged; and
* the value and mix of personal loans to mortgage loans will be unchanged.

There has been no change to the Bank's exposure to market risk or the way the Bank manages and measures market risk in the reporting period.

The interest rate sensitivity is not representative of the risk inherent in the financial instruments during the financial year due to the changes in asset mix of fixed rate loans and longer term deposits / investments.

c. Liquidity risk

Liquidity risk is the risk that the Bank may encounter difficulties in raising funds to meet commitments associated with financial instruments, e.g. borrowing repayments or member withdrawal demands. It is the policy of the board of Directors that the Bank maintains adequate cash reserves and committed credit facilities so as to meet the member withdrawal demands when requested.

The Bank manages liquidity risk by:

* Continuously monitoring actual daily cash flows and longer term forecasted cash flows;
* Monitoring the maturity profiles of financial assets and liabilities;
* Maintaining adequate reserves, liquidity support facilities and reserve borrowing facilities; and
* Monitoring the prudential liquidity ratio daily.

The Bank has a longstanding arrangement with the industry Liquidity Support Scheme Credit Union Financial Support Services (CUFSS) which can access industry funds to provide support to the Bank at short notice should it be necessary.

The Bank is required to maintain at least 9% of total adjusted liabilities as liquid assets capable of being converted to cash within 2 business days under the APRA Prudential standards. The Bank policy is to apply 12.5% of total adjusted liabilities as liquid assets to maintain adequate funds for meeting member withdrawal requests. The ratio is checked daily. Should the liquidity ratio fall below this level, management and Board will review the situation and act according to the Liquidity Risk Management Policy. Note 31 describes the borrowing facilities as at balance date. These facilities are in addition to the support from CUFSS.

The maturity profile of the financial assets and liabilities, based on the contractual repayment terms are set out in the specific note 27.

38. Financial Risk Management Objectives and Policies - continued

d. Credit risk

Credit risk is the risk that members, financial institutions and other counterparties will be unable to meet their obligations to the Bank which may result in financial losses. Credit risk arises principally from the Bank's loan book and investment assets.

(i) Credit risk - loans

The analysis of the Bank's loans by class, is as follows:

	2020 Carrying value $	2020 Undrawn Facilities $	2020 Maximum exposure $	2019 Carrying value $	2019 Undrawn Facilities $	2019 Maximum exposure $
Mortgage	168,840,462	20,458,020	189,298,482	164,123,280	17,324,607	181,447,887
Personal	4,562,545	688,335	5,250,880	5,022,515	504,957	5,527,472
Credit cards	1,483,868	2,900,818	4,384,686	1,855,152	2,571,175	4,426,327
Overdrafts	589,829	1,519,630	2,109,459	415,372	1,367,953	1,783,325
Total to natural persons	175,476,705	25,566,803	201,043,508	171,416,319	21,768,692	193,185,011
Corporate borrowers	3,435,443	528,733	3,964,176	3,890,151	593,827	4,483,978
Total	178,912,148	26,095,536	205,007,684	175,306,470	22,362,519	197,668,989

Carrying value is the value on the balance sheet. Maximum exposure is the value on the balance sheet plus the undrawn facilities (Loans approved not advanced, redraw facilities, overdraft facilities and credit cards limits). The details are shown in note 30 and a summary is in note 12a.

All loans and facilities are within Australia. The geographic distribution is not analysed into significant areas within Australia as the exposure classes are not considered material. Concentrations are described in note 12c.

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

The Bank has established policies over the:

* Credit assessment and approval of loans and facilities covering acceptable risk assessment, security requirements;
* Limits of acceptable exposure over the value to individual borrowers, non mortgage secured loans, commercial lending and concentrations to geographic and industry groups considered at high risk of default;
* Reassessing and review of the credit exposures on loans and facilities;
* Establishing appropriate provisions to recognise the impairment of loans and facilities;
* Debt recovery procedures; and
* Review of compliance with the above policies.

A regular review of compliance is conducted as part of the internal audit scope.

38. Financial Risk Management Objectives and Policies - continued

(i) Credit risk - loans - continued

Past due loans

A financial asset is past due when the counterparty has failed to make a payment when contractually due. As an example, a member enters into a lending agreement with the Bank that requires interest and a portion of the principle to be paid every month. On the first day of the next month, if the agreed repayment amount has not been paid, the loan is past due. Past due does not mean that counterparty will never pay, but it can trigger various actions such as renegotiation, enforcement of covenants, or legal proceedings. Once the past due exceeds 90 days the loan is regarded as impaired, unless other factors indicate the impairment should be recognised sooner.

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

If such evidence exists, the estimated recoverable amount of that asset is determined and any impairment loss, based on the net present value of future anticipated cash flows, is recognised in the statement of profit or loss and other comprehensive income. In estimating these cash flows, management makes a judgement about the counterparty's financial situation and the net realisable value of any underlying collateral.

In addition to specific provisions against individually significant financial assets, the Bank makes collective assessments for each financial asset portfolio segmented by similar risk characteristics.

Balance sheet provisions are maintained at a level that management deems sufficient to cover expected credit losses in the Bank's loan portfolio from homogenous portfolios of assets and individually identified loans.

A provision for expected credit losses is established on all past due loans after a specified period of repayment default where it is probable that some of the capital will not be repaid or recovered. Specific loans and portfolios of assets are provided against depending on a number of factors including deterioration in country risk, changes in a counterparties industry, and technological developments, as well as identified structural weaknesses or deterioration in cash flows.

The provisions for impaired and past due exposures relate to the loans to members.

Past due value is the 'on balance sheet' loan balances which are past due by 90 days or more. Details are as set out in note 13.

Bad debts

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

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

A reconciliation of the movement of both past due and impaired exposure provisions is provided in note 13.

38. Financial Risk Management Objectives and Policies - continued

(i) Credit risk - loans - continued

Collateral securing loans

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

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

Concentration risk – individuals

Concentration risk is a measurement of the Bank's exposure to an individual counterparty (or group of related parties). If prudential limits are exceeded as a proportion of the Bank's regulatory Tier 1 Capital (10 per cent) a large exposure is considered to exist. No capital is required to be held against these but APRA must be informed. APRA may impose additional capital requirements if it considers the aggregate exposure to all loans over the 10% capital benchmark to be higher than acceptable.

The Bank holds no significant concentrations of exposures to members. Concentration exposures to counterparties are closely monitored with annual reviews being prepared for all exposures over 5 per cent of Tier 1 Capital.

The Bank's policy on exposures of this size is to insist on an initial LVR of 80 per cent or less and annual reviews of compliance with this policy are conducted.

Concentration risk – industry

The Bank has a concentration in retail lending to members who comprise employees and family in the gaming, leisure, hospitality, telecommunications and energy industries. This concentration is considered acceptable on the basis that the Bank was formed to service these members, and the employment concentration is not exclusive. Should members leave the industry the loans continue and other employment opportunities are available to the members to facilitate the repayment of the loans. The details of the geographical and industry concentrations are set out in note 12.

38. Financial Risk Management Objectives and Policies - continued

(ii) Credit risk - liquid investments

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

The Bank's credit policy is that investments are only made to institutions that are creditworthy. Directors have established policies that enforce maximum exposure limits to different counterparties. These policies have been determined in line with APRA prudential standards.

The risk of losses from the liquid investments undertaken is reduced by the nature and quality of the independent rating of the investment body and the maximum exposure limits. Also the relative size of the Bank as compared to the industry is relatively low such that the risk of loss is reduced.

Under the Liquidity Support Scheme at least 3% of total assets must be invested in Cuscal and/or other CUFSS-approved ADI to allow the scheme to have adequate resources to meet its obligations if needed.

Board policy limits investments outside of Cuscal to Australian Authorised Deposit-Taking Institutions (ADI) with a rating of BBB- or higher. ADIs with a rating less than this may be approved at the discretion of the Board of Directors. Investments in non-ADIs may also be permitted at the discretion of the Board of Directors.

External Credit Assessment for Institution Investments

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

The exposure values associated with each credit quality step are as follows:

	2020 Carrying value $	**2020** Past due value $	**2020** Provision $	**2019** Carrying value $	**2019** Past due value $	**2019** Provision $
Cuscal (A+)	6,120,000	-	-	6,120,000	-	-
Banks (A+ and above)	6,000,000	-	-	8,000,000	-	-
Banks (between BBB and A+)	27,200,000	-	-	12,500,000	-	-
Unrated ADI	15,076,739	-	-	5,076,739	-	-
Total	54,396,739	-	-	31,696,739	-	-

38. Financial Risk Management Objectives and Policies - continued

e. Capital management

The capital levels are prescribed by Australian Prudential Regulation Authority (APRA). Under the APRA prudential standards capital is determined in three components:

* Credit risk
* Market risk (trading book)
* Operational risk

The market risk component is not required as the Bank is not engaged in a trading book for financial instruments.

Common Equity Tier 1 Capital (CET1)

Common Equity Tier 1 capital comprises:

* Retained profits
* Realised reserves

Additional Tier 1 Capital (AT1)

The Bank holds no Additional Tier 1 capital.

Tier 2 Capital (T2)

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

Tier 2 capital comprises the General Reserve for Credit Losses.

Capital in the Bank is made up as follows:

	2020 $	2019 $
Tier 1 Capital		
Common Equity Tier 1 Capital:		
General/Capital reserve	14,200,221	13,873,835
Retained earnings	354,247	360,059
	14,554,468	14,233,894
Less prescribed deductions	331,342	333,999
Net Common Equity Tier 1 Capital	14,223,126	13,899,895
Additional Tier 1 Capital	-	-
Total Tier 1 Capital	14,223,126	13,899,895
Tier 2 Capital		
General reserve for credit losses	458,158	424,486
	458,158	424,486
Less prescribed deductions	-	-
Net tier 2 Capital	458,158	424,486
Total Capital	**14,681,284**	**14,324,381**

38. Financial Risk Management Objectives and Policies - continued

e. Capital management - continued

The Bank is required to maintain a minimum capital level of 8% as compared to the risk weighted assets at any given time.

The risk weights attached to each asset are based on the weights prescribed by APRA in its Standard APS 112. The rules apply the risk weights according to the level of underlying security.

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

2020	2019	2018	2017	2016
Basel III	Basel III	Basel III	Basel III	Basel III
14.01%	14.79%	15.35%	14.54%	14.29%

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

To manage capital the Bank reviews the ratio monthly and monitors major movements in the asset levels. Policies have been implemented to require reporting to the Board and the regulator if the capital ratio falls below certain levels. Further a capital budget projection of the capital levels is maintained annually to address how strategic decisions or trends may impact on the capital level.

Pillar 2 Capital on Operational Risk

This capital component was introduced as from 1 January 2008 and coincided with changes in the asset risk weightings for specified loans and liquid investments. Previously no operational charge was prescribed.

The Bank uses the Standardised approach which is considered to be most suitable for its business given the small number of distinct transaction streams. The Operational Risk Capital Requirement is calculated by mapping the Bank's three year average net interest income and net non-interest income to the Bank's various business lines.

Operational risk requirement	2020:	$13,089,215	2019:	$11,993,758

It is considered that the Standardised approach accurately reflects the Bank's operational risk other than for the specific items set out below.

Internal capital adequacy assessment process (ICAAP)

The Bank manages its internal capital levels for both current and future activities through a combination of the various committees. The outputs of the individual committees are reviewed by the board in its capacity as the primary governing body. The capital required for any change in the Bank's forecasts for asset growth, or unforeseen circumstances, are assessed by the Board. The finance department then update the forecast capital resources models produced and the impact upon the overall capital position of the Bank is reassessed.

The Bank has assessed the need for additional capital charges under its ICAAP and has determined that prudential capital is sufficient to cover growth and unforeseen circumstances.

Additional capital charge	2020:	-	2019:	-

39. Categories of Financial Instruments

a. Financial instruments classified by measurement class

	Note	2020 $	2019 $
Financial assets - carried at amortised cost			
Cash	9	11,863,280	12,883,307
Negotiable Certificates of Deposit	10	13,500,000	9,000,000
Receivables from financial institutions	10	40,896,739	22,696,739
Receivables	11	256,796	476,008
Loans to members	12 & 13	178,686,900	175,218,503
Total Financial Assets		**245,203,715**	**220,274,557**
Financial liabilities - carried at amortised cost			
Short term borrowings	18	1,000,000	-
Long term borrowings	18	3,534,046	-
Creditors	20	1,433,781	1,635,806
Deposits from members	19	224,108,773	203,895,948
Lease Liabilities	14	228,880	-
Total Financial Liabilities		**230,305,480**	**205,531,754**

40. Events occurring after the reporting period

There are no events occurring after the reporting period that materially impact the financial statements measurement of assets and liabilities.

41. Corporate Information

The Bank is a company limited by shares, and is registered under the Corporations Act 2001.

Registered office: Level 6 437 St Kilda Road Melbourne Victoria

Principal place of business: Level 6 437 St Kilda Road Melbourne Victoria

The nature of its operations and its principal activities are the provision of deposit taking facilities and loan facilities to the members of the Bank.

Corporate Governance Disclosures

Board

The Board has responsibility for the overall management and strategic direction of First Option Bank. All Board members are independent of management and are elected by members on a rotation of every 3 years.

Each Director must be eligible to act, under the Constitution of the Bank and the Corporations Act 2001. Directors also need to satisfy the Fit and Proper policy of the Bank.

The Board has established policies to govern conduct of Board meetings, Director conflicts of interest, Director training (so as to maintain Director awareness of emerging issues) and to satisfy all governance requirements.

Board Remuneration

The Board receives remuneration from the Bank in the form of allowances agreed to by members each year at the AGM. Directors are reimbursed for any out-of-pocket expenses. Directors receive no other benefits from the Bank.

Board Committees

A Risk Committee and Audit Committee operate to assist the Board in relevant matters of financial prudence. The Directors form these committees with CEO and management participation.

A Nominations Committee has been formed to assess the fit and proper status of persons seeking to become a Director, in line with APRA's Prudential Standard CPS 520: Fit and Proper. This committee comprises all Directors who are not standing for re-election in the current year.

Policies

The Board has endorsed a framework of compliance and risk management to suit the risk profile of the Bank's ethical guidelines to staff, to reinforce the practice of providing courteous and efficient service to members and recognition of members as owners.

Compliance Function

The Bank has a Compliance Function responsible for maintaining the awareness of staff for all changes in legislation and responding to staff inquiries on compliance matters. The Compliance Function also monitors the FSR Licence obligations and responds to all member complaints and disputes should they arise.

External Audit

The external audit is performed by Grant Thornton Audit Pty Ltd, a major international accounting body. The firm utilises sophisticated Computer Assisted Audit Software to supplement compliance testing.

Internal Audit

An internal audit function has been established using the services of an independent third party to review areas of internal control compliance and regulatory compliance only. The work performed by the internal auditor is examined by the Audit Committee and Risk Committee to ensure appropriate management action is taken in relation to issues raised. The findings of the internal auditor are also made available to the external auditor.

This role is also supplemented by other external compliance reviews performed by security audits on the Data Processing centre for adequacy of the back up, disaster recovery and internet security systems.

Regulation

The Bank is regulated by:

- APRA – for the prudential risk management of the Bank.
- ASIC – for adherence to Corporations Act 2001, Accounting Standards disclosures in the financial report, Financial Services Reform (FSR) requirements. The FSR legislation requires that the Bank disclose details of products and services; maintains training for all staff that deals with the members, and provide an effective and independent complaints handling process. ASIC also oversees Responsible Lending and credit licensing requirements.

Under the financial services and credit licensing requirements, all staff who deal with the public are required to be trained and certified to a level of skill commensurate with the services provided.

Both ASIC and APRA conduct periodic inspections and the auditors report to both annually on compliance with respective requirements. The external auditor also reports to both ASIC on the FSR compliance and APRA on the Prudential policy compliance.

Workplace Health & Safety (WHS)

WHS policies have been established for the protection of both members and staff and are reviewed annually for relevance and effectiveness.

Staff are trained in robbery procedures and offices are designed to detract from such acts by:

- maintaining a cashless operation
- utilisation of security measures including monitored alarms, cameras, secure card access

Office premises are examined regularly to ensure that the electrical safety and physical safety measures are appropriate to ensure the safety of the public and staff. All matters of concern are reported to the CEO for actioning by management and reported to the Board. Secure cash handling policies are in place, and injury from lifting heavy weights and RSI are managed by proper techniques to minimise the risk of damage.

All staff have access to trauma counsellors where required following an incident which may impair their feeling of safety in the work place.

Registered Office

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