Queensland Country Bank

Annual Report

2020-21

Contents

Group financial highlights

Measure	2021	2020	Change
Net Assets	$275.3M	$260.8M	5.6% growth
Total Assets	$2.71B	$2.44B	11.1% growth
Gross Loan Balances	$2.04B	$1.88B	9.0% growth
Total Deposits	$2.33B	$2.10B	11.0% growth
Capital Adequacy	15.33%	15.73%	0.4% decrease
Profit Before Tax	$19.0M	$9.2M	$9.8M growth
Profit After Tax	$13.3M	$6.5M	

Chair and CEO report

The 2020-21 financial year has been surprising in many ways. Although COVID-19 cast the shadow of uncertainty over the Queensland economy, limited cases and short lockdown periods in Queensland saw a buoyant economy that underpinned a very strong performance for Queensland Country Bank.

Intrinsic in our core purpose is to help regional Queensland communities thrive and we did this in a number of ways this year. In March, we successfully completed a transfer of banking business with Maleny Credit Union (MCU), a small credit union based in Maleny that has a proud history of supporting that community. The amalgamation will enable that support to continue, including a refurbished branch for continued access to face-to-face service and banking.

We launched our next round of grants through the Queensland Country Good for Good Community Grants program. We proudly made donations to eight local community groups ranging from Mount Isa to Jimboomba with an investment of $120,000, taking our community donations to $2.5 million since the grants program was introduced.

Queensland Country expanded its services available to Members with the establishment of a new branch in Rockhampton. The local community has enjoyed this new branch as it has been impacted with the closure of other bank branches.

We made other investments in regional communities with branch refurbishments completed in Jimboomba and Ipswich, including opening our new flagship branch at the Riverlink Shopping Centre.

We continue to recognise the unique banking needs of Queensland communities and have committed to delivering face-to-face service alongside market leading digital services. Our online services and mobile banking application continue to receive significant investment to ensure they meet the needs of Members.

From a financial and performance perspective, Queensland Country Bank has delivered its best year ever, supported by our dedicated staff and loyal membership base. We achieved the milestone of funding over $500 million in new lending, helping thousands of Queenslanders purchase new homes and cars during the year. Queensland Country was one of a select group of financial institutions to offer the Government First Home Loan Deposit Scheme, making home ownership more affordable for first home buyers.

These lending activities saw the loan book grow by nine per cent to a total of $2.0 billion, and total assets of the Group increased to $2.7 billion. The Queensland Country group (which includes the Health Fund subsidiary) posted a Net Profit After Tax (NPAT) of $13.3 million (an increase of $6.8 million on the previous year).

Our strong loan book growth, that saw net interest income increase and net interest margin stabilise with no further Reserve Bank cash rate change, was a positive contribution to our 2020-21 result.

During the lockdown period in the previous financial year, we saw 800 Members request loan repayment relief. After the initial repayment pause provided to assist them during this difficult time, we are pleased these Members have now been able to resume normal repayments. The bank made the decision to increase a Loan Provision in the past financial year anticipating losses due to the pandemic and pleasingly these losses did not eventuate. Therefore, some of the provision was released in the 2020-21 financial year contributing positively to the profit result.

Our staff commitment to delivering quality service continues to resonate with consumers, with 9,838 new Members joining the Bank during the year, which is also a record for Queensland Country Bank.

In summary, our staff continue to focus on living our purpose of helping people live better lives through better health and financial wellbeing, and this focus has delivered a record result for the group.

We would like to acknowledge the dedication of the Board in supporting management to quickly respond to the changing environment over the past year and assisting our Members to pursue their financial goals. We would also like to acknowledge the trust our Members have shown us, and we will continue to repay this trust through market leading products and services and a commitment to putting our Members first.

Profit and Loss
at a glance

The 2020–21 Financial Year

	Bank		Group	
	2021 $'000	2020 $'000	**2021 $'000**	2020 $'000
Interest Income	76,503	85,326	73,032	82,976
Interest Expense	- 24,224	- 36,533	- 19,680	- 32,673
Net Interest Income	52,279	48,793	53,352	50,303
Other Income	33,865	31,584	155,971	145,701
Impairment Loss	714	- 505	714	- 505
Operating Expenses	- 76,620	- 72,052	- 191,018	- 186,253
Profit Before Income Tax	10,238	7,820	19,019	9,246
Income Tax Expense	- 3,077	- 2,252	- 6,408	- 2,521
Profit for the Year	7,161	5,568	12,611	6,725
Other comprehensive income/(loss) net of income tax	704	- 252	704	- 252
Profit after tax	7,865	5,316	13,315	6,473

	Group		
	2020-21	**2019-20**	**2018-19**
Net Interest Income	$53.4m	$50.3m	$50.8m
Profit (after tax)	$12.6m	$6.7m	$7.8m

Profit and Loss commentary

Operating Profit

This year saw very strong performance from both our Bank and Health Fund, with Profit before income tax for the Bank increasing from $7.8 million to $10.2 million and the Group's increasing from $9.2 million to $19.0 million. Although a very interesting year, navigating the COVID-19 pandemic, the Bank continued to invest in its future and put our Members needs first.

Interest Margin

Net interest margin finished the 12 months at 1.80%. Managing interest margin continued to be challenging this year following the five Reserve Bank of Australia (RBA) rate cuts last financial year and another one in November 2020, bringing the official cash rate to a record low of 0.10%. With interest rates at such low levels it can be difficult to find a balance between the interests of borrowers and depositors, however we endeavour to offer market competitive rates for all our Members. We are pleased that we have been able to maintain our margin against our budget in this competitive environment.

Non-Interest Income

Non-interest income for the Bank increased from $31.6 million to $33.9 million, mostly from commission income and the Health Fund management fee.

Overall, the Group's non-interest income increased by $10.3 million. This was mostly due to the growth in Contribution income earned by the Health Fund of $8.2 million, following good membership growth.

Operating Expenses

Operating Expenses for the Bank, excluding impairment costs, increased from $72.1 million to $76.6 million. Increases were mostly a result of Employee costs and Information Technology expenditure. We continue to invest in technology that will allow the business to implement more efficient business processes and introduce new products and services, particularly in the digital space.

Operating Expenses for the Group increased by almost the same amount - total of $4.7m million, the same variances as the Bank and only a small increase to Health Fund benefits paid of $0.75 million this year.

Impairment Cost of Loans

Following a conservative approach to providing for loans relating to COVID-19 in the 2020 financial year, the quality of the underlying loan portfolio has meant a decrease to impairment costs this year, as those losses from COVID-19 loans did not eventuate and a portion of the provision has been written back.

Balance Sheet
at a glance

The 2020–21 Financial Year

	Bank		Group	
	2021 $'000	2020 $'000	**2021 $'000**	2020 $'000
Cash and Investments	957,132	969,828	609,988	509,201
Property, plant and equipment	17,804	17,176	44,996	45,367
Loans to Members (net of provision)	2,044,370	1,873,924	2,044,370	1,873,924
Other assets	12,188	11,103	13,864	14,614
Total Assets	3,031,494	2,872,031	2,713,218	2,443,106
Deposits from Members	2,351,584	2,114,032	2,332,500	2,101,288
Payables and Provisions	491,411	578,533	105,406	80,982
Total Liabilities	2,842,995	2,692,565	2,437,906	2,182,270
Net Assets	188,499	179,466	275,312	260,836

	Group		
	2020-21	**2019-20**	**2018-19**
Gross Loans to Members	$2048.7m	$1,879.4m	$1,836.3m
Deposits from Members	$2332.5m	$2,101.3m	$1,991.6m
Total Assets	$2713.2m	$2,443.1m	$2,294.4m
Net Assets	$275.3m	$260.8m	$254.8m
Capital Adequacy	15.33%	15.73%	16.16%

Balance Sheet commentary

The Total Assets for the Bank increased by 5.6% to $3.0 billion, which included a downgrade to our Internal Securitisation program of $65 million. The Group's Total Assets increased by 11.1% to $2.7 billion.

Total loans grew by 9.1% to $2.0 billion. This represented strong growth for the Bank and was particularly pleasing given the uncertainty surrounding the pandemic, and its impact on the economy.

Queensland Country's funding is sourced primarily from Members. Of Member deposits, approximately 31% were held in fixed term deposits, 68% in at-call deposits and 1% from Retirement Savings Accounts. Member deposits for the Group increased by 11% from $2.1 billion to $2.3 billion during the year.

Total Equity for the Group increased by $14.5 million to $275.3 million.

With the increased levels of Member deposits, liquidity levels remained well above prudential requirements, averaging 16.84% of adjusted liabilities and finishing at 17.61% at 30 June 2021. The Bank continues to have access to an Internal Securitisation Trust, a facility established to be used as an emergency liquidity backstop. After a significant increase to the program last year, this year the regulator allowed institutions to reduce their Internal Securitisation Programs. Our program decreased from $565 million to $500 million. This arrangement enables the Bank to raise funds from the RBA if required, utilising its loans and advances as the underlying security.

Queensland Country's capital, which is comprised of reserves that have been accumulated from past profits and a business combination reserve (being the reserves of previous merged entities), increased to $188.5 million. Total capital adequacy percentage was 15.33%. This percentage is well above the regulator's minimum requirements and provides sufficient capital resources to support business activities and operating requirements while providing a strong buffer for the future.

50 years of Queensland Country

On 23 February 1971, the Isa Mine Employees Credit Union was registered under the Co-operative and Other Services Act, with 235 Members, one branch, $262,202 in assets and a deficit. While those numbers have grown to more than 100,000 Members, assets of over $3 billion, a health fund and branches all across Queensland, the heart of the Isa Mine Employees Credit Union beats strong in Queensland Country Bank.

We've never lost sight of our mission to make the Member proud, our purpose to improve the lives of our Members and our responsibility to support the communities that support our Members.

Today, Queensland Country Bank represents 30 credit unions, societies and cooperatives having completed our 30th amalgamation in 2021 when Maleny Credit Union transferred their banking business to us in March. Through these mergers we have gained Members and retained the small community focus they've come to expect.

Our financial achievements in the past half century are extraordinary. Through financial turmoil of the 1980s and early 90s, a global recession in 2008 and the worst pandemic in living memory, we've posted an operating profit every year since 1972. Our loan book has grown by nearly 100,000% in the past 50 years, allowing our Members to manage their money, live in their dream homes, enjoy a new car or take a well-deserved holiday.

We believe this success is in the strength of our products, which are designed with Members front of mind. Through our branch network, our Member engagement activities and our connection to the community, we have a solid understanding of what our Members need and we're able to quickly adapt to changing economic conditions, such as the collapse of QNI in Townsville in 2016 or the impacts of various extreme weather events including Cyclone Yasi in 2011 which devastated so many of our Members' communities.

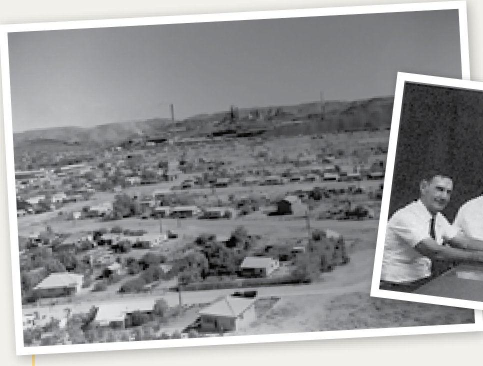
Technological advances have far out-paced even the most outlandish expectations, but we've been at the forefront of ensuring our Members' have the best technology can offer in terms of convenience, while protecting them against the worst of technology's dangers.

Of our 50 years in operation, the past five have probably been the hardest for the sector. The national spotlight shone on the culture and practices of the financial services sector and as result, major regulatory reform is being implemented. Queensland Country is proud that the member-owned culture and focus on Members that we uphold, was highlighted through the Royal Commission scrutiny and we are steadfastly focused on implementing the new regulations designed to further protect our Members.

That culture is best exhibited through our community grants program, which has delivered $2.5m to community services since its inception. We've partnered with Ronald McDonald House Charities North Australia, as we understand the geographic challenges of many of the communities we serve when faced with the heartbreak of needing specialist medical care not available remotely.

The stewards of our achievements and culture are our staff. Our membership growth and retention is a credit to the commitment and compassion of our staff in branches, the call centre and those behind the scenes making sure our products, systems and policies are all Member-focused.

We're immensely proud of our history from a single branch in Mount Isa to a Queensland-wide network of like-minded Members in thriving communities, but retaining our founding values.



16 February 1971
Formation Meeting

23 February 1971
Isa Mine Employees' Credit Union Registered

28 February 1971
First day of business

29 August 1971
First AGM

February 1973
Member records converted to computer

December 1975
Saturday trading introduced

July 1985
Membership eligibility extended to all residents living north of the Tropic of Capricorn

July 1985
Cheque books introduced

January 1986
First ATM installed in Mount Isa

July 1989
Membership eligibility extended to all residents in Queensland

July 1989
Name changed to Queensland Country Credit Union Ltd

Late 1991
Visa Cards introduced

July 1993
Independent Credit Society merged with Queensland Country Credit Union

1995
Phone Service introduced

6 August 1996
First enterprise bargaining agreement registered

1 July 1998
Stafford Parish Credit Union Ltd. merged with Queensland Country Credit Union Ltd.

1 January 1999
MIM Employees' Health Society transferred to Queensland Country Health

September 2000
Internet banking packaged, CU Online introduced

2004
Community Grants Scheme introduced

2005
Introduced Financial Planning for Members

February 2005
Rebranded to new 'Lotus' design logo

1 June 2005
South East Community Credit Society merged with Queensland Country Credit Union

October 2009
Community Partnership Program introduced

December 2009
Queensland Country Health Fund units, (Roy Harris Place) opened in Townsville

October 2010
Granted a Credit Licence by ASIC

30 June 2011
Assets in excess of $1 billion

2012
Contact Centre for Credit Union was established

1 February 2013
Mobile banking service operational

December 2014
Construction of new head office finished

January 2015
Dental practice opened

2015
BillPay went digital and rebranded to SmartBudget

September 2016
Core Banking Conversion took place

April 2017
ECU Merged with Queensland Country Credit Union

6 March 2018
NPP went live

1 April 2018
Queenslanders Credit Union merged with Queensland Country Credit Union

2018
Assets well over $2 billion

28 February 2020
Announcement of naming rights sponsorship of Townsville's new stadium Queensland Country Bank Stadium

1 April 2020
Rebranded as Queensland Country Bank

March 2021
Maleny Credit Union transferred banking business to Queensland Country Bank

Queensland Country Bank 50th ANNIVERSARY 1971 – 2021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Business Growth

We had strong annual Member growth this year, with 9,838 new Members joining our community, including approximately 1,500 from Maleny Credit Union. Our total Membership is now 110,538.

Our Member growth can be attributed to the attractiveness of our products, the dedication of our staff to meeting our Members' needs, improved brand recognition through community sponsorship programs and to our expansion into new markets.

This year, we opened a branch in Rockhampton, our 28th branch in Queensland. Despite there being a 25% reduction in branch business across the sector, we know many of our Members still prefer face-to-face service and part of our strength comes from being in, and understanding, our Members' communities. The Rockhampton branch also includes a retail desk for our health fund.

As part of the Maleny Credit Union transfer of banking business, we also opened a new branch in Maleny in April 2021 to ensure we continued to build and maintain Member relationships and engage with the Maleny community. This is our first physical presence in the Sunshine Coast region.

We became an approved panel lender as part of the Federal Government's First Home Loan Deposit Scheme and New Home Guarantee. These programs were announced as part of the Government's economic response to the COVID-19 pandemic, and having been chosen as an approved lender shows we're committed to providing better banking products that help people achieve their personal goals, such as owning their own home sooner.

In further recognition of our Member-focused home loan products, we won two categories in the 2021 Mozo Experts Choice Awards for Home Loans. Mozo awards judge Peter Marshall said the awards showed "Queensland Country Bank is dedicated to providing low cost mortgage options with different features for its diverse [Member] base."

$502

million loans issued

28

branches

We want our Members to achieve all their personal financial goals, so we ensure our personal loan products are also practical and value for money. For the fourth year running, our New Car Loan was awarded Canstar's 5-star rating for outstanding value, and we also won best New Car Loan in Mozo's Expert Choice Awards. Our Members took advantage of our award-winning New Car Loans this year, with record personal lending of $10m in one month.

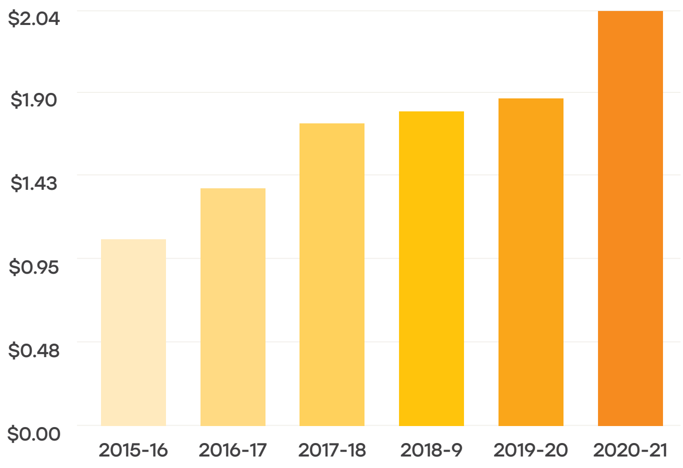
We also saw an expansion in business banking this year, and our Business Online Saver Account won the 2021 Mozo Experts Choice Award for Bank Accounts and Savings. Our business savings account recognises small businesses need uncomplicated products for day to day use, with competitive interest rates. We also began training branch staff on business banking services to assist small business owners who are short on time, and often need in-person support, sometimes on a Saturday when our branches are still open.

The recognition of our valued products extends beyond industry awards. This year, we increased our focus on using digital channels to have our Members' review our products, providing social proof of their value to others who may be looking for a suitable bank or health fund. Queensland Country Bank had the highest product review ranking in the sector, with 4.6/5, and the Health Fund was the top rated health fund with 4.8/5. Our home loans and car loans were both rated 4.8/5. Most notable was the growth in Members' providing reviews, with a 2000% increase from 2019-20.

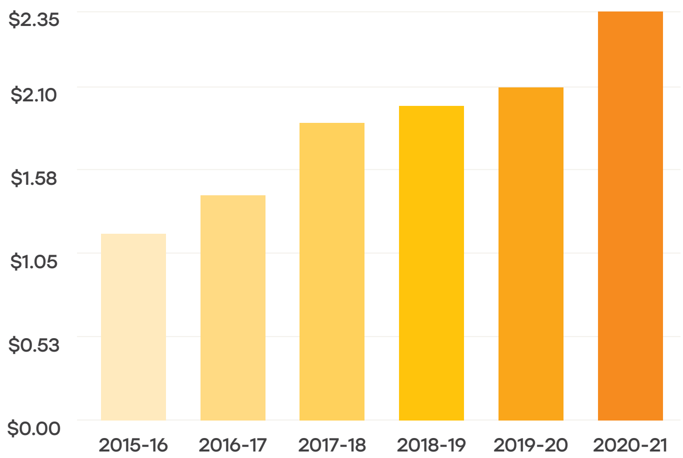
We're incredibly pleased with the growth of our business, despite the challenges faced by so many in our community from the impact of the COVID-19 pandemic and we thank our staff for their unwavering focus on ensuring our Members' are supported through difficult times.

New Car Loan awarded Canstar's 5-star rating for outstanding value **4 years** in a row

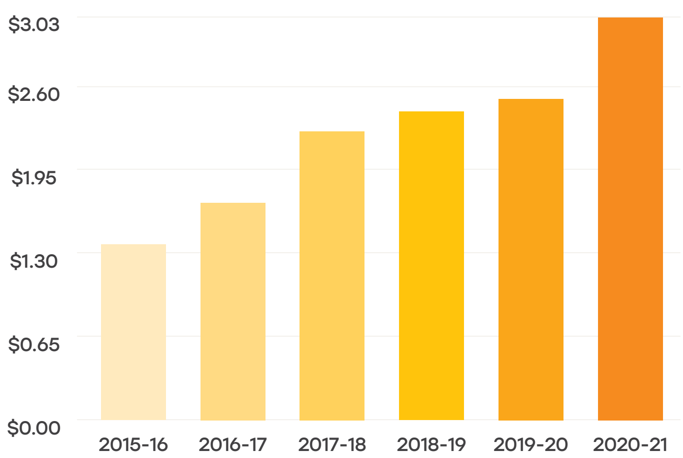
Total Loans ($billion)



Total Deposits ($billion)



Total Assets ($billion)



Member and community

With our new Members, come new communities for us to participate in and support. We expanded into the Sunshine Coast region through the Maleny Credit Union transferring their banking business to us, and welcomed approximately 1,500 new Members. We also opened a new branch in Rockhampton. Overall, we welcomed nearly 10,000 new Members this year, and we were very pleased with our Net Promoter Score of 9.3, beating our target of 8.5. The Net Promoter Score measures how Members feel about our service and the likelihood they'd recommend us.

The growth we've experienced allows us to reinvest in our communities. This year, eight not-for-profit organisations shared in more than $120,000 through Queensland Country's Good for Good Community Grants. The grants were used by Mackay Netball to purchase a new ice machine, to help treat injuries and provide cool drinks to their players. The Jimboomba and District Sporting Association bought a new floor scrubber to ensure the local basketballers, gymnasts and karate kids can play on clean surfaces. The Burdekin BMX Club can now host larger events, as their grant went towards a major refurbishment of their toilet block, as will Mount Isa AFL who have put their grant towards an upgrade of their canteen.

Two 100-year old buildings on Magnetic Island will be restored with the support of a Good for Good Community Grant and lawn bowls in Charters Towers will become a night-time sport with the installation of new flood lights. Townsville and Citizens Brass Band will try to attract budding brass instrument musicians with the addition of new cornets.

These projects, and the many before them, help these groups continue to serve our Members and their communities, and we're very proud to make such a meaningful difference to their services and facilities.

We are also proud to have our community contribution recognised by being inducted into the Ronald McDonald House Charities Hall of Fame in November 2020.

9.3/10
Average NPS score

110,538
Members

We're a long-time partner of Ronald McDonald House Charities North Australia and our staff actively volunteer their time to events, fundraising and cooking meals for families in Townsville and Brisbane, who are a long way from home supporting ill family members.

We've also invested in our communities through sponsorship programs that support key programs and events. The Queensland Country Bank Stadium was very pleased to host Game I in the 2021 State of Origin series, a massive, prime-time televised event which welcomed tens of thousands of visitors to Townsville and improved our brand recognition across Queensland and into New South Wales. Sadly, the game's result did not go Queensland's way but the economic and social benefits of the event were definitely felt by North Queenslanders. We also continued our support for the North Queensland Cowboys, this year welcoming our innovative marketing tool – Flip Jerseys. A standard supporter jersey on the outside, Flip Jersey includes a reversible front bib that becomes a wearable sign, with Queensland Country Bank branding alongside the supporters' message. We're encouraged by the marketing potential of this new product – a concept of our marketing teams' brought to life by local Queensland supplier Get Branded – and hope the Cowboys can score many tries next season, now for many reasons.

We continued to fund the CQUniCares Queensland Country Bank scholarship, this year providing Bachelor of Science student Jacqueline Garrigan $10,000 to continue her university studies.

This year we supported the first Centrecare NQ School Savvy pop up shops in Townsville and Ayr. The School Savvy initiative provides upcycled school uniforms and supplies at an affordable cost for families most in need. Our staff also supported the initiative through our Corporate Volunteer Program, where they're entitled to two days volunteer leave annually.

The COVID-19 pandemic continues to wreak havoc on live events throughout our communities, so Queensland Country Bank has committed to honouring any sponsorship or funding arrangements for events that had to be postponed due to the pandemic.

$120,000
in community grants provided

Operational efficiency and innovation

In line with community and Member expectations, this year we began to introduce Open Banking, the first element of the Australian Government's Consumer Data Right legislation. Open Banking allows our Members to control who can access their data, and to improve competitiveness to make it easier for our Members to compare products, and simplify the process of changing banks. We've made our savings, transactions, term deposit and credit card products available through Open Banking, and home, personal and business loan products will be made available subsequently.

Queensland Country Bank's Open Banking system ensures the safe and secure transfer of our Members' data, with their permission only, to approved third parties.

In our 50th year, we're committed to being a bank of the future and ensuring our Members' can access all the benefits of technology for their financial needs. We created a digital roadmap to outline our Members' priorities in the digital environment, and identify what the bank of the future actually looks like. We've also increased resources in the online team during COVID-19 as more and more Members' are forced to rely on technology through lockdowns.

We've also increased resources in our broker team and commenced a review of a new loan origination system to further simplify the process of applying for loans.

As part of future-proofing our systems and business, we completed a review of how our Members use our branch network and what their needs will likely be in the future. The review found significant opportunity to improve service delivery for our Ipswich based Members by amalgamating the Winston Glades and Brassall branches to create a better resourced branch at Riverlink Shopping Centre, a location with much more convenience for existing Members and more opportunity to attract new Members. We also consolidated our two Brisbane city branches into one at Post Office Square on Adelaide Street.


honey from our Back yard Bees.
home grown fruit and honey
seedlings $2
Lemons 50c


Feast
with
Friends
Ronald McDonald
House Charities
North Australia

People, culture and engagement

Each year we recognise the top three performing branches across the areas of Member growth, net promoter score (NPS), mystery shopper experience, SmartBudget, insurances and lending, but this year we had four top performing branches – Earlville, Charters Towers, Stanthorpe and Mount Isa.

While all four branches had excellent loan results, what stands out most is the service they provide our Members. These branches had NPS scores of 9.6-9.7 (out of 10), each exceeding the Bank's combined average score of 9.3.

We thank the staff in those branches and acknowledge their dedication to our Members and their communities.

This year, we changed our Department of the Year award to be Team of the Year and broadened the criteria now encompassing internal service, community volunteering, contribution to organisational goals and a people's choice question.

The top three teams for this year were the Health Fund team, SmartBudget team and the winner was Member Support team. These teams showed very high internal service scores, and the highest number of other staff voting for them in the people's choice question.

In presenting the awards, CEO Aaron Newman said, "the performance of the organisation and Member outcomes achieved in the last year were outstanding."

While all our staff are committed to our values, these awards are an opportunity to acknowledge the above and beyond efforts of our teams to meet our priorities and support our Members.

In response to the uncertain nature of the COVID-19 pandemic and to ensure our compliance requirements, we shifted all staff training to online format this year. This allowed our staff to maintain their training credentials, and maximise professional development opportunities, regardless of their location or the pandemic.

Queensland Country Health Fund

This year we welcomed Karen Read as the new Chair of the Queensland Country Health Fund, and Greg Nucifora as Deputy Chair.

Karen has a long history with Queensland Country Group, having served on the Queensland Country Bank and Health Fund boards since 2005, including 12 years as Deputy Chair of the Bank. Greg was appointed a director of Queensland Country Bank and Queensland Country Health Fund in 2017, having joined the group as part of the merger with ECU Australia. Both bring a wealth of knowledge and expertise to Queensland Country Health Fund.

The health fund received a 95% satisfaction rating in the January 2021 Satisfaction Survey, with 63% of 1,494 respondents saying they were very satisfied.

We increased the benefits payable for remedial massage and myotherapy, and included online gym memberships in the Healthy Living Benefit as most gyms were forced to close during COVID-19 lockdowns, shifting their services online. Also in response to the COVID-19 pandemic, we expanded benefits payable for telehealth consultations to include dietician, psychology, podiatry and chiropractor consultations.

We also introduced our new phase 2 Cardiac Rehab Program, in partnership with Cardihab, to provide home-based rehabilitation for eligible Members over 45 who have had a cardiac-related hospital admission. The program includes education and support to improve Members' heart health through exercise, diet and other lifestyle factors from the comfort of their home. Cardihab is a weekly, personalised program delivered by accredited exercise physiologists, physiotherapists and dieticians. It's delivered to Members by our Care Navigation team.

In addition to the retail desk at the new Rockhampton branch, we also opened a new kiosk in the Gateway Shopping Centre in Darwin under our Territory Health Fund brand. The Territory Health Fund kiosk opened in September 2020.

95%

Member satisfaction rating

Directors' report 2020-21

Your Directors present their report on the affairs of the Group for the financial year ended 30 June 2021.

The Parent Entity is a company registered under the Corporations Act 2001.

Christine Flynn BA; DipEd; FAICD; MAMI
Chair (since 1 April 2020) and Independent Non-Executive Director

Term of office: Appointed 1 April 2018

Skills & Experience:
Christine is an experienced Board Chair and Director, and executive leader, recognised for her capabilities in Board governance, organisational strategy, strategic risk, and leadership. Christine is an accredited facilitator for the Australian Institute of Company Directors and also serves as a Director on the Board of Queensland Country Health Fund Ltd. Christine has held roles as a senior executive in the public service and on Boards including as President of Institute of Public Administration Australia (Queensland), Director of the International Research Society for Public Management, Member of the Audit and Risk Committee of the Queensland Audit Office, and the QUT School of Business Advisory Board. Christine was formerly the Chair of the Board of Queenslanders Credit Union until 2018 when it merged with Queensland Country Credit Union (now Queensland Country Bank.)

Lewis Ramsay B Bus (Com); MBA; GAICD
Deputy Chair (since 1 July 2020) and Independent Non-Executive Director

Term of office: Appointed 1 February 2020

Skills & Experience:
A fifth-generation Townsville resident, Lewis is a former General Manager of the Townsville Bulletin and surrounding regional newspapers. Lewis has also worked for the Federal Government in Canberra (Tourism portfolio), served as the Commercial Manager for the North Queensland Cowboys and the Brisbane Broncos Rugby League Clubs, and spent nearly two years as Director, Commercial of Brisbane Marketing (Brisbane's Office of Economic Development.) Lewis is a Director of Queensland Country Health Fund Ltd and Queensland Country Care Navigation Pty Ltd and holds other non-executive Directorships with North Queensland Cowboys (Chair) and the Cowboys Leagues Club.

Gregory (Greg) Nucifora B Com; CA; GAICD
Independent Non-Executive Director

Term of office: Appointed 1 April 2017

Skills & Experience:
Greg is a private client advisor with Bell Potter Securities in Cairns. Greg has extensive Board experience, including current appointments as Deputy Chair of Queensland Country Health Fund Ltd, Director and Finance & Performance Committee Chair of the Cairns and Hinterland Hospital and Health Board, Independent Chair of the Audit Committee for Cairns Regional Council, Chair of St Michael's Parish Finance Committee, Gordonvale, Chair of the Catholic Development Fund for Diocese of Cairns, and Chair of the Finance and Audit Risk Management Committee for Tourism Tropical North Queensland. Greg was formerly Chair of ECU Australia Ltd, which merged with Queensland Country in April 2017.

Directors' report 2020-21

Patricia O'Callaghan B Com; GAICD
Independent Non-Executive Director

Term of office: Appointed 1 November 2015

Skills & Experience:
Patricia is the Chief Executive Officer of Destination Gold Coast and is also a Director of Queensland Country Health Fund Ltd. Patricia's diverse career includes four years heading up the Mount Isa Chamber of Commerce, four years as the General Manager of Tourism and Events at Townsville Enterprise, and five years as the CEO of Townsville Enterprise. In 2013, Patricia was awarded the Young Manager of the Year through the Australian Institute of Management and in 2018 was awarded the Australian Financial Review Young BOSS Executive of the Year. In 2020, Patricia was appointed to the Australian-American Young Leadership Dialogue.

Karen Read B Bus; FCPA; GAICD; MAMI
Independent Non-Executive Director (Deputy Chair from 6 April 2006 – 31 March 2018, and from 1 April 2020 – 1 July 2020)

Term of office: Appointed 15 April 2005

Skills & Experience:
Karen is a senior finance and commercial executive and has extensive experience within the mining and resources sector with a career spanning 30 years. From 2014 to 2017, Karen was employed as the Chief Financial Officer for Premise (formerly known as 02UDP Group Pty Ltd), a consulting, engineering, and project practice with offices across Queensland and in PNG. Karen has extensive Board experience including the following current positions: Chair of Queensland Country Health Fund Ltd, Director on the Mount Isa Water Board, Member of the North Queensland Sustainable Resources Corridor Regional Reference Group, and Chair of NQ Branch Council of CPA Australia.

John Weier Dip FS; GAICD; FAMI
Independent Non-Executive Director

Term of office: Appointed 1 April 2018

Skills & Experience:
John is an Ipswich local who began his career in the credit union industry at the Coal Miners Credit Union (later Discovery Credit Union) in 1980, before being appointed General Manager in 1981 and holding that position for 27 years. Discovery Credit Union merged with Queenslanders Credit Union in December 2007, and John led Queenslanders Credit Union as Chief Executive Officer from January 2008 until the merger of that organisation with Queensland Country Credit Union in April 2018. John remains actively involved in the Ipswich community and acts as the patron of a number of sporting and community groups.

Directors' report 2020-21

Anthony (Tony) Williamson B Com; FAICD
Independent Non-Executive Director

Term of office: Appointed 1 April 2017

Skills & Experience:
Tony is the Chief Executive Officer of the Far North Queensland Hospital Foundation (FNQHF), based in Cairns. In this role, Tony manages and administers the operations of FNQHF including its commercial operations, investment activities, fundraising and distribution of funds, in support of the Foundation's objectives to help twelve Regional Hospitals from Tully to Thursday Island. Tony is also a licenced Real Estate Agent and Auctioneer and has extensive experience in this industry. Tony is a Fellow of the Australian Institute of Company Directors.

Brian (Bruno) Cullen AM FAICD; FAMI
Independent Non-Executive Director
Term of office: 27 April 2001 – 21 November 2020

The name of the Company Secretary in office at the end of the year is:

Jill Cason BA LLB (Hons); Grad Dip Legal Prac; Grad Dip Applied Corporate Governance; MAICD; AGIA; ACIS.

Committee Memberships

1 July 2020 – 10 June 2021
Audit: Greg Nucifora (Chair), Patricia O'Callaghan, Lewis Ramsay, Tony Williamson
Remuneration and Governance: Christine Flynn (Chair), Greg Nucifora (until 17 December 2020), Patricia O'Callaghan, Lewis Ramsay, Tony Williamson (from 17 December 2020)
Risk Management: John Weier (Chair), Bruno Cullen (until 19 November 2020), Christine Flynn, Lewis Ramsay (from 17 December 2020), Karen Read
Strategic Projects and ICT: Karen Read (Chair), Bruno Cullen (until 19 November 2020), Greg Nucifora (from 17 December 2021), John Weier, Tony Williamson
Merger Strategy: Greg Nucifora (Chair), Karen Read, John Weier
Nominations: Christine Flynn (Chair), Sean Kelly (Independent Representative), Bill O'Toole (Independent Representative)

10 June 2021 – 30 June 2021
Audit: Greg Nucifora (Chair), Patricia O'Callaghan, Lewis Ramsay, Tony Williamson
Remuneration and Governance: Christine Flynn (Chair), Patricia O'Callaghan, Lewis Ramsay, Tony Williamson
Risk Management: John Weier (Chair), Christine Flynn, Greg Nucifora, Lewis Ramsay
Strategic Projects and ICT: Greg Nucifora (Acting Chair), Christine Flynn, John Weier, Tony Williamson
Merger Strategy: Greg Nucifora (Chair), Christine Flynn, John Weier
Nominations: Christine Flynn (Chair), Sean Kelly (Independent Representative), Bill O'Toole (Independent Representative)

Directors' report 2020-21

Directors' Meeting Attendance

The table below shows the attendance record for the number of meetings Board members were eligible to attend.

	Board	COMMITTEES: Audit	Remuneration and Governance	Risk Management	Strategic Projects and ICT	Merger Strategy	Nominations
No. of Meetings held	**13**	**4**	**3**	**4**	**15**	**5**	**1**
Christine Flynn	13/13		3/3	4/4	1/1		1/1
Lewis Ramsay	13/13	3/4	3/3	2/2			
Karen Read	11/11			4/4	13/14	5/5	
Greg Nucifora	13/13	4/4	2/2		11/13	5/5	
Patricia O'Callaghan	13/13	4/4	3/3				
John Weier	13/13			4/4	15/15	4/5	
Tony Williamson	12/13	4/4	1/1		11/15		
Bruno Cullen	6/6			1/1	1/2		

*Director Karen Read took a leave of absence commencing 10 June 2021.

Directors' report 2020-21

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 Group, a subsidiary, 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.

Indemnification of Officers or Auditor
The Company has agreed to indemnify the following current Directors of the Company: C Flynn, L Ramsay, G Nucifora, P O'Callaghan, K Read, A Williamson, and J Weier, the Company Secretary and all executive officers of the Company and of any related body corporate, against any liability that may arise from their positions within the Company to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of the nature of the liability indemnified. The Company has paid premiums in respect of Directors' and Officers' liability insurance during the financial year. The contract of insurance does not include details of premiums paid in respect of individual officers of the Company and prohibits disclosure of the amount of the premium paid. Except as noted above, the Company has not, during or since the Financial Year, indemnified or agreed to indemnify an officer or auditor of the Company, or of any related entity, against a liability incurred in their capacity as an officer or auditor.

Principal Activities
The principal activities of the Group during the year were the provision of financial services to Members in the form of lending and taking deposits, as prescribed by the Constitution; the provision of health insurance to health insurance policy holders including the acceptance of contributions and payment of benefits and the provision of dental facilities to its Health Fund policy holders. The Health Fund has established a subsidiary company, Queensland Country Care Navigation Pty Ltd to provide care coordination services to the Health Fund's policy holders.

Operating Results
The net profit of the Group for the year after providing for income tax was $13,315,000 (2020: $6,473,000).

The capital adequacy ratio measured for prudential purposes as at reporting date decreased to 15.33% (2020: 15.73%).

Options
No options over unissued shares or interests in the Parent Entity or a controlled entity were granted during or since the end of the financial year and there were no options outstanding at the date of this report.

No shares have been issued as a result of the exercise of an option.

Review of Operations
The results of the Bank's operations from its activities of providing financial services to its members, increased from those of the previous year from $5,316,000 to $7,865,000. Net operating income increased from $80,377,000 to $86,144,000, with the majority of that increase attributable to net interest income. Operating expenses increased from $72,577,000 to $75,906,000 resulting mainly from increased information technology costs and employee related costs.

Total Assets of the Bank increased by 5.6%, which also included a downgrade to the Internal Securitisation program of $65,000,000. Total Loans increased by 9.1%. The capital adequacy ratio decreased to 15.33%.

The results of the Group's operations from its activities of providing financial services to its members and health insurance to its policy holders increased from those of the previous year. Net operating income increased by $13,319,000, resulting mostly from an increase in Health Fund contribution income. This was partially offset by an increase in total operating expenses of $3,546,000 with the main contributors being an increase in Health Fund benefits paid.

Total Assets of the Group increased by 11.1%.

Significant Changes in State of Affairs
Apart from disclosures elsewhere in this report, there were no significant changes in the state of the affairs of the Group during the year.

Events Subsequent to the End of the Reporting Period
There are no matters or circumstances that have arisen since the end of the financial year which have significantly affected or may significantly affect the operations, or state of affairs of the Bank or the Group in subsequent financial years.

Likely Developments and Results
Looking ahead in a competitive, challenging environment the Board has determined that it will make the appropriate decisions to enable the Group to continue to deliver financial services

and health insurance to its members and policy holders.

Queensland Country will continue to build on its financial strength and invest for the future by investing in technology that will allow the business to introduce new products and services, particularly digital and more efficient business processes.

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

(i) The operations of the Group;
(ii) The results of those operations; or
(iii) The state of affairs of the Group
in the financial years subsequent to this financial year.

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

Proceedings
No person has applied for leave of the Court to bring proceedings on behalf of the Group or interfere in any proceedings to which the Group is a party for the purpose of taking responsibility on behalf of the Group for all or any part of those proceedings. The Group was not a party to any such proceedings during the year.

Rounding
The amounts contained in the financial statements have been rounded to the nearest one thousand dollars in accordance with ASIC Corporations Instrument 2016/191. The Parent Entity and Group are permitted to round to the nearest one thousand dollars ($'000) for all amounts except prescribed disclosures that are shown in whole dollars.

Regulatory Disclosures
The disclosures required by Prudential Standard APS 330 Public Disclosure (namely the Common disclosure in Attachment A and the Regulatory Capital reconciliation) may be seen on the website at https://www.queenslandcountry.bank/help-info/about-us/governance-reporting/.

Auditor's Independence Declaration
The auditor's independence declaration for the year ended 30 June 2021 forms part of this report and a copy of this declaration is attached.

Directors' report 2020-21

CORPORATE GOVERNANCE DISCLOSURES

Board
The Board of Queensland Country Bank Limited has responsibility for the overall management and strategic direction of the Bank. All Directors are independent of Management and appointed pursuant to the provisions of the company Constitution.

Five (5) of seven (7) Board members are elected by members on a 3-yearly rotational basis. Two (2) of seven (7) Board members are appointed pursuant to clause 50A.1 of the Constitution, which allows for the Board to appoint a person as a Director if the Board considers the person has skills or expertise of particular benefit to the Board.

Each Director must be eligible to act under the Company Constitution and in accordance with Corporations Act 2001 criteria. The Directors also need to satisfy APRA Fit and Proper requirements.

The Board has established policies to govern conduct of Board meetings, Director conflicts of interest, and 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 each year at the AGM and out of pocket expenses. Directors receive no other benefits from the Bank.

Board Committees
An Audit Committee, Merger Strategy Committee, Remuneration & Governance Committee, Risk Management Committee, and Strategic Projects & ICT Committee have been formed to assist the Board in relevant matters of corporate governance. Only Directors are members of these committees with participation of Management as required.

A Nominations Committee has also been established to assist the Board in assessing persons for election or appointment as a Director. In accordance with the company Constitution, the Committee comprises one Director and two persons independent of the Board and Executive Management.

Audit Committee
The responsibilities of the Audit Committee include:
- Ensuring effectiveness of systems for monitoring compliance with laws, statutory requirements, and Board policies
- Overseeing the Bank's audit function and providing a forum for communication between the Board, external auditor, and internal auditor
- Reviewing significant accounting and reporting issues and annual audited financial statements to ensure integrity and completeness of information to external parties
- Ensuring any Related Party Transactions are appropriate, and
- Ensuring a Whistleblower Policy is established, maintained, and communicated.

Merger Strategy Committee
The Merger Strategy Committee is established to support the Board and Management with the identification, analysis and execution of merger opportunities which align with Queensland Country's Strategic Plan, and make recommendations to the Board as to whether a proposed merger is in the best interests of Members.

Remuneration and Governance Committee
The responsibilities of the Remuneration and Governance Committee include, in relation to Remuneration:
- Initiating and overseeing the annual process of reviewing performance and remuneration of the Chief Executive Officer and the Chief Executive Officer's direct reports
- Each year, reviewing and providing recommendations in relation to appropriate Executive and Director Remuneration and generally reviewing remuneration strategies, practices, and disclosures
- Reviewing and proposing revisions to the Bank's governance policies and practices, including the Board Charter
- Reviewing and proposing revisions to the Bank's Constitution
- Initiating and overseeing the evaluation of Board and Director Performance as required by the Board Charter, and
- Co-ordinating the process of Director orientation.

Risk Management Committee
The responsibilities of the Risk Management Committee include:
- Ensuring the Board is aware of the risks to which the organisation is exposed to and that management operate within an appropriate 'risk management control framework'

Directors' report 2020-21

- Assisting the Board to set risk limits and parameters appropriate to the Board's appetite for risk and ensuring adequate management reporting against set limits
- Ensuring Board policies reflect the Board's risk appetite
- Ensuring adequacy of Business Continuity Management, and
- Ensuring adequacy and effectiveness of the Bank's compliance program and actions to address identified compliance weaknesses.

Strategic Projects and ICT Committee
The Strategic Projects and ICT Steering Committee assists the Board in monitoring the management of strategic projects, cyber security, and progress against the digital roadmap for the Queensland Country Group.

Risk, Legal and Compliance
The Bank has a Risk, Legal and Compliance department responsible for maintaining the awareness of staff for all changes in compliance obligations and responding to staff inquiries on compliance matters. The Legal and Compliance department also monitors compliance with the Australian Financial Services and Australian Credit Licence obligations, AML/CTF and other regulatory obligations.

External Audit
For the 2020/2021 Financial Year, External Audit is performed by PwC, a leading international accounting body.

Internal Audit
There is an established Internal Audit function which deals with the areas of internal control.

Internal audit matters are also examined by the external auditors. The work performed by the external auditors is examined by the Audit Committee to ensure that it is consistent with the current external audit reporting role and does not impair their independence.

Dispute Resolution
The Internal Dispute Resolution officer responds to all internal and external dispute resolution matters.

Regulation
The Bank is regulated by:

- Australian Prudential Regulation Authority (APRA) for the Prudential risk management of the Bank and the Health Fund; and
- ASIC for adherence to the disclosure requirements in the Corporations Act, Accounting Standards disclosures in the financial report and Australian Financial Services Licence (AFSL) and Australian Credit Licence (ACL).

Under the AFSL all staff who deal with the public are required to be trained and certified to a level of skill commensurate with the services provided.

APRA conduct periodic inspections. The external auditors report to both authorities on an annual basis regarding compliance with respective requirements.

The external auditors also report to ASIC on FSR compliance and APRA on Prudential policy compliance.

Workplace Health & Safety
The nature of the finance industry is such that the risks of injury to staff and the public are less apparent than in other high-risk industries. Nevertheless, our two most valuable assets are our staff and our Members, and steps need to be taken to maintain their security and safety when circumstances warrant.

WH&S policies have been established for the protection of both Members and staff, and are reviewed annually for relevance and effectiveness.

Staff are trained in armed holdup procedures and offices are designed to mitigate risk of such incidents by:

- Minimising the amount of cash held in accessible areas; and
- Installing cameras to assist detection and identification of unauthorised persons.

Office premises are examined regularly to ensure that the electrical safety and physical safety measures are appropriate to the needs of the public and staff. Independent security consultants report periodically on the areas of improvement that may be considered.

The Bank has established a WH&S policy and has contracted independent consultants to review our WH&S policy and procedures and to recommend any improvements that may be considered. All matters of concern are reported for actioning by management. Secure cash handling policies are in place, and injury from RSI and lifting heavy weights 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 workplace.

Directors' report 2020-21

Environmental Statement

Climate change is one of the most significant challenges the world faces and sustained global action will be required to protect the prosperity of society and the economy. It is a source of significant risk for the Queensland Country Group (Queensland Country) and the communities we operate in.

Queensland Country acknowledges that sustained global action is required to reduce the risks of human-induced climate change. We support a measured transition to a low emissions global economy with Australia participating in global agreements such as the Paris Agreement that include greenhouse gas emission reduction commitments.

An orderly approach to the low-carbon transition is critical to ensure communities have access to secure, reliable, and affordable energy and to ensure the transition is fair for everyone. This includes how we provide financial services, support communities, operate our facilities and contribute to industry initiatives.

Climate change is one area where Queensland Country will play its part, as a responsible corporate citizen. Queensland Country is evolving its business to help manage the effects of climate change and support the transition to a low-carbon economy. Critically, Queensland Country is doing this whilst mindful of the challenges and opportunities of our Members, and the potential impacts on the communities where many Queenslanders are employed in mining and agricultural industries. There is more that Queensland Country needs to do, and our initial focus is on reducing our carbon footprint and becoming a more efficient and a less resource consuming organisation.

Following are the key environmental impacts Queensland Country is taking steps to improve:

- Generation of greenhouse emissions contributing to climate change
- Ozone depletion through emissions from air conditioning
- Increase in landfill
- Degradation of water quality

The objectives of Queensland Country's environmental agenda are as follows:

- Developing an understanding of, and management of, environmental risks and opportunities
- Developing products and services to help Members respond to environmental challenges
- Leading through actions; that is, reducing Queensland Country's own carbon footprint and
- Engaging and assisting Queensland Country personnel in their personal contribution to environmental sustainability

Our environmental strategy has been developed with the above objectives in mind and the key strategies are outlined below:

- Develop climate change knowledge and insights
- Invest in organisational capability to identify and respond to climate change risks and opportunities
- Continue to reduce greenhouse gas emissions
- Improve resource efficiency in line with environmental performance targets
- Continue engaging employees and foster positive environmental behaviours
- Continue to embed environmental conscious purchasing decisions
- Create tailored products and services that encourage Members to make positive environmental financial decisions

Signed for and on behalf of the Directors in accordance with a resolution of the Board:

C. Flynn
Chair
Signed and dated this 23rd day of September 2021

G. Nucifora
Director

pwc

Auditor's Independence Declaration

As lead auditor for the audit of Queensland Country Bank Limited for the year ended 30 June 2021, 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.

This declaration is in respect of Queensland Country Bank Limited and the entities it controlled during the period.

Ben Woodbridge
Partner
PricewaterhouseCoopers

Brisbane
23 September 2021

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Statements of profit or loss

and other comprehensive income for the year ended 30 June 2021

	NOTE	Bank 2021 $'000	Bank 2020 $'000	Group 2021 $'000	Group 2020 $'000
Interest income	3	76,503	85,326	73,032	82,976
Interest expense	3	(24,224)	(36,533)	(19,680)	(32,673)
Net interest income		52,279	48,793	53,352	50,303
Other revenue and income	4	33,865	31,584	155,971	145,701
Net operating income		86,144	80,377	209,323	196,004
Impairment (loss)/recovery on loans and advances	5,30	714	(505)	714	(505)
Employee benefits expense	5	(36,555)	(34,722)	(36,555)	(34,722)
Occupancy expense	5	(3,344)	(3,205)	(2,816)	(2,656)
Depreciation and amortisation expense	5	(5,761)	(5,811)	(5,779)	(5,910)
Other expenses	5	(30,960)	(28,314)	(145,868)	(142,965)
Total operating expenses	5	(75,906)	(72,557)	(190,304)	(186,758)
Profit before income tax		10,238	7,820	19,019	9,246
Income tax expense	6	(3,077)	(2,252)	(6,408)	(2,521)
Profit for the year		7,161	5,568	12,611	6,725
Other comprehensive income/(loss) for the year, net of income tax					
Items that will not be subsequently reclassified to profit or loss					
Net change in fair value on financial assets (equity instruments) designated at fair value through other comprehensive income (**FVOCI**)		1,006	(360)	1,006	(360)
Income tax attributable to other comprehensive income/(loss)	6	(302)	108	(302)	108
Other comprehensive income/(loss) for the year, net of income tax		704	(252)	704	(252)
Total comprehensive income/ for the year		7,865	5,316	13,315	6,473

The accompanying notes should be read in conjunction with these financial statements.

Statements of financial position

as at 30 June 2021

	NOTE	Bank 2021 $'000	Bank 2020 $'000	Group 2021 $'000	Group 2020 $'000
ASSETS					
Cash and cash equivalents	9	63,336	41,359	69,879	45,092
Financial assets at fair value through profit or loss	10	-	-	37,220	33,395
Other receivables	11	3,445	2,126	5,512	4,048
Income tax receivable	12	448	188	579	-
Debt instruments at amortised cost	13	887,468	922,463	496,561	424,708
Loans and advances at amortised cost	14	2,044,370	1,873,924	2,044,370	1,873,924
Property, plant and equipment	15	8,580	8,810	32,312	33,609
Right-of-use assets	15	8,394	7,906	7,919	7,368
Intangible assets	16	483	833	538	952
Investment property	17	830	460	4,765	4,390
Equity instruments at FVOCI	18	9,020	8,014	9,020	8,014
Deferred tax assets	19	3,274	4,304	2,697	5,964
Other assets	20	1,846	1,644	1,846	1,642
TOTAL ASSETS		3,031,494	2,872,031	2,713,218	2,443,106
LIABILITIES					
Other borrowings	21	464,369	550,698	46,208	20,011
Deposits from Members	22	2,351,584	2,114,032	2,332,500	2,101,288
Other payables	23	13,962	15,712	34,929	33,149
Income tax payable	24	-	-	-	822
Lease liabilities	15	8,730	8,304	8,319	7,834
Provisions	25	4,350	3,819	15,950	19,166
TOTAL LIABILITIES		2,842,995	2,692,565	2,437,906	2,182,270
NET ASSETS		188,499	179,466	275,312	260,836
EQUITY					
Reserves	26	108,767	107,018	108,767	107,018
Retained earnings		79,732	72,448	166,545	153,818
TOTAL EQUITY		188,499	179,466	275,312	260,836

The accompanying notes should be read in conjunction with these financial statements.

Statements of changes in equity

for the year ended 30 June 2021

Bank ($'000)	Redeemed Preference Shares $'000	FVOCI Reserve $'000	Other Reserves $'000	Retained Earnings $'000	Total $'000
Balance at 1 July 2019	914	3,515	103,760	65,966	174,155
Total comprehensive income for year					
Profit for the year	-	-	-	5,568	5,568
Other comprehensive income, net of income tax	-	(252)	-	-	(252)
Total comprehensive income for the year	-	(252)	-	5,568	5,316
Transfers					
Other	-	-	(5)	-	(5)
Transactions with owners in their capacity as owners					
Transfers to redeemed preference share capital	(914)	-	-	914	-
Balance at 30 June 2020	-	3,263	103,755	72,448	179,466
Change on adoption of new accounting standards	-	-	-	123	123
Restated balance at 1 July 2020	-	3,263	103,755	72,571	179,589
Total comprehensive income for year					
Profit for the year	-	-	-	7,161	7,161
Other comprehensive income/(loss), net of income tax	-	704	-	-	704
Total comprehensive income/(loss) for the year	-	704	-	7,161	7,865
Transfers					
Transfer of reserves on merger	-	-	1,045	-	1,045
Balance at 30 June 2021	-	3,967	104,800	79,732	188,499

The accompanying notes should be read in conjunction with these financial statements.

Statements of changes in equity

for the year ended 30 June 2021

Group ($'000)	Redeemed Preference Shares $'000	FVOCI Reserve $'000	Other Reserves $'000	Retained Earnings $'000	Total $'000
Balance at 1 July 2019	914	3,515	103,755	146,184	254,368
Total comprehensive income for year					
Profit for the year	-	-	-	6,725	6,725
Other comprehensive income, net of income tax	-	(252)	-	-	(252)
Total comprehensive income for the year	-	(252)	-	6,725	6,473
Transfers					
Other	-	-	-	(5)	(5)
Transactions with owners in their capacity as owners					
Transfers to redeemed preference share capital	(914)	-	-	914	-
Balance at 30 June 2020	-	3,263	103,755	153,818	260,836
Change on adoption of new accounting standards	-	-	-	123	123
Restated balance at 1 July 2020	-	3,263	103,755	153,941	260,959
Total comprehensive income for year					
Profit for the year	-	-	-	12,611	12,611
Other comprehensive income/(loss), net of income tax	-	704	-	-	704
Total comprehensive income/(loss) for the year	-	704	-	12,611	13,315
Transfers					
Transfer of reserves on merger	-	-	1,045	-	1,045
Other	-	-	-	(7)	(7)
Balance at 30 June 2021	-	3,967	104,800	166,545	275,312

The accompanying notes should be read in conjunction with these financial statements.

Statements of cash flows

for the year ended 30 June 2021

	NOTE	Bank **2021 $'000 Inflows/ (Outflows)**	Bank 2020 $'000 Inflows/ (Outflows)	Group **2021 $'000 Inflows/ (Outflows)**	Group 2020 $'000 Inflows/ (Outflows)
CASH FLOWS FROM OPERATING ACTIVITIES					
Interest received		76,745	85,709	73,319	83,409
Dividends received		30	267	30	267
Other income		20,585	21,676	5,240	6,632
Fees and commissions received		13,386	12,744	13,469	12,884
Contributions received – Queensland Country Health Fund		-	-	139,157	131,038
Interest paid		(26,172)	(39,235)	(21,622)	(35,381)
Interest paid on leases		(535)	(587)	(496)	(511)
Payments to suppliers and employees		(76,461)	(67,675)	(80,711)	(66,754)
Benefits paid – Queensland Country Health Fund		-	-	(112,331)	(113,475)
Income taxes (paid)/received		(2,608)	1,039	(4,845)	(1,259)
Net movement in loans and advances		(143,753)	(44,217)	(143,753)	(44,216)
Net movement in deposits from members		188,660	113,028	182,313	112,420
Net cash provided by/(used in) operating activities	27(c)	49,877	82,749	49,770	85,054
CASH FLOWS FROM INVESTING ACTIVITIES					
Net movement in financial assets		61,800	(427,626)	(48,880)	(107,504)
Payments for property, plant and equipment		(1,444)	(2,550)	(1,466)	(3,382)
Payments for intangible assets		-	-	-	(12)
Proceeds from sale of property, plant and equipment		566	987	507	970
Net cash provided by/(used in) investing activities		60,922	(429,189)	(49,839)	(109,928)
CASH FLOWS FROM FINANCING ACTIVITIES					
Net movement in borrowings		(86,329)	344,045	26,198	20,011
Payment for lease liabilities		(3,674)	(3,572)	(2,523)	(2,510)
Repayment of member investment shares		(1,091)	-	(1,091)	-
Net cash provided by/(used in) financing activities		(91,094)	340,473	22,584	17,501
Net increase/(decrease) in cash held		19,705	(5,967)	22,515	(7,373)
Cash at the beginning of the financial year		41,359	47,326	45,092	52,465
Cash received from merger		2,272	-	2,272	-
Cash at the end of the financial year	27(a)	63,336	41,359	69,879	45,092

The accompanying notes should be read in conjunction with these financial statements.

Notes to the financial statements

for the year ended 30 June 2021

NOTE 1 Summary of significant accounting policies

These financial statements were authorised for issue on September 23, 2021 by the Board of Directors. The following is a summary of the material accounting policies adopted by the Group in the preparation of the financial statements. The accounting policies have been consistently applied to all the years presented, unless otherwise stated.

(a) Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board and the *Corporations Act 2001*. The financial statements cover Queensland Country Bank Limited as an individual entity, and Queensland Country Bank Limited and Subsidiaries as a Group. Queensland Country Bank Limited is a public company limited by shares, incorporated and domiciled in Australia. For the purposes of preparing the financial statements, Queensland Country Bank Limited is a for-profit entity.

(i) Compliance with IFRS
The financial statements of Queensland Country Bank Limited as an individual entity and the consolidated financial statements of the Group also comply with International Financial Reporting Standards (**IFRS**) as issued by the International Accounting Standards Board (**IASB**).

(ii) Historical cost convention
The financial statements have been prepared on a historical cost basis, except for investment property and certain financial assets that have been measured at fair value. The presentation currency of the financial statements is Australian Dollars.

(iii) New and amended standards adopted by the Group
There are no new and amended accounting standards that became effective as of 1st July 2020 that have a material impact to the Group.

(iv) New standards and interpretations not yet adopted
Certain new accounting standards have been published that are not yet mandatory for 30 June 2021 reporting periods and have not been early adopted by the Group. The Group's assessment of the impact of these new standards and interpretations is set out below.

1. AASB 17 *Insurance Contracts*
AASB 17 Insurance Contracts was issued July 2017. This will replace AASB 4 Insurance Contracts, AASB 1023 General Insurance Contracts and AASB 1038 Life Insurance Contracts.

The Group will apply AASB 17 for the financial year commencing 1 July 2023. The financial statements for the year ending 30 June 2024 will include the prior year positions in accordance with the standard.

The Group is currently monitoring developments in AASB 17, and the industry, and is formulating a plan for implementation of the standard. The Group plans to use the simplified premium allocation approach under AASB 17 for all insurance contracts, which is similar in effect to the Group's current measurement basis under AASB 1023.

Quantitative analysis is yet to be performed on the impacts of AASB 17, however, the Group expects a reduction in both assets and liabilities, with impact on net assets expected to be relatively small. The standard is expected to cause variations in individual years' profits, but due to the short-term nature of the Group's insurance liabilities, changes are likely to be offset in subsequent periods. The expected average profit impact for future years following implementation of the standard is minimal, as the standard will not change the underlying performance of the Group.

There are expected changes to presentation of financial statements and disclosures.

(b) Consolidated financial statements

(i) Basis of consolidation
The consolidated financial statements incorporate the assets and liabilities of all Subsidiaries of Queensland Country Bank Limited ('the Company', 'Parent Entity' or 'the Bank) as at 30 June 2021 and the results of all subsidiaries for the year then ended. The Bank and its subsidiaries together are referred to in these financial statements as the Group.

(ii) Subsidiaries
Subsidiaries are all entities, including special purpose entities, over which the Group has control. The Group has control over an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity, and has the ability to use its power to affect these returns. A reporting entity has power when it has rights that give it the current ability to direct the activities that

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significantly affect the investee's returns. The Group not only has to consider its holdings and rights but also the holdings and rights of other shareholders in order to determine whether it has the necessary power for consolidation purposes.

The existence and effect of potential voting rights where the Group has the practical ability to exercise them are considered when assessing whether the Group controls another entity.

The acquisition of subsidiaries is accounted for using the acquisition method of accounting. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases. Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of Subsidiaries have been changed where necessary to ensure consistencies with those policies applied by the Group.

The names of the subsidiaries are contained in note 29. All subsidiaries have a 30 June financial year-end and are accounted for at cost in the separate financial statements of Queensland Country Bank Limited less any impairment charge.

(c) Income tax

The income tax expense for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction, adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax base of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred tax assets and liabilities are recognised for all temporary differences between carrying amounts of assets and liabilities in the consolidated financial statements and their respective tax bases. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are only recognised for deductible temporary differences and unused tax losses if it is probable that future taxable amounts will be available to utilise those temporary differences and losses. The amount of deductible temporary differences brought to account as deferred tax assets is based on the assumption that no adverse change will occur in income tax legislation and the anticipation that the Group will derive sufficient future assessable income to enable the deferred tax asset to be realised and comply with the conditions of deductibility imposed by the law.

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

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

(d) Financial assets and financial liabilities

(i) Measurement methods

Amortised cost and effective interest rate:

The amortised cost is the amount at which the financial asset or financial liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount and, for financial assets, minus any reduction for impairment.

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The effective interest rate is the rate that exactly discounts the estimated future cash payments or receipts over the expected life of the financial asset or financial liability to the gross carrying amount of the financial asset (i.e. its amortised cost before any impairment provision) or to the amortised cost of a financial liability. The calculation does not consider expected credit losses and includes transaction costs, premiums or discounts and fees and points paid or received that are integral to the effective interest rate, such as origination fees.

When the Group revises estimates of future cash flows, the carrying amount of the respective financial asset or financial liability is adjusted to reflect the new estimate discounted using the original effective interest rate. Any changes are recognised in profit or loss.

<u>Interest income:</u>
Interest income is calculated by applying the effective interest rate to the gross carrying amount of financial assets, except where they have subsequently become credit impaired (or ‘stage 3’), for which interest revenue is calculated by applying the effective interest rate to their amortised cost (i.e. net of the expected credit loss provision).

<u>Initial recognition and measurement:</u>
Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument. Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset.

At initial recognition, the Group measures a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are incremental and directly attributable to the acquisition or issue of the financial asset or financial liability, such as fees and commissions. Transaction costs of financial and assets and financial liabilities carried at fair value through profit or loss are expensed in profit or loss. Immediately after initial recognition, an expected credit loss provision (**ECL**) is recognised for financial assets measured at amortised cost, as described in note 30(b), which results in an accounting loss being recognised in profit or loss when an asset is newly originated.

<u>Offsetting:</u>
Financial assets and financial liabilities are set off and the net amount presented in the Statements of Financial Position when, and only when, the Group has a legally enforceable right to set off the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

(ii) Financial assets
<u>Classification and subsequent measurement of financial assets – overview:</u>
The Group classifies its financial assets in the following measurement categories:

- Fair value through profit or loss (**FVPL**);
- Fair value through other comprehensive income (**FVOCI**); or
- Amortised cost.

<u>Classification and subsequent measurement of financial assets that are debt instruments:</u>
For debt instruments, the classification and subsequent measurement depends on the Group’s business model for managing the financial assets and the contractual terms of the cash flows. Based on these factors, the Group classifies its debt instruments into one of the following three measurement categories:

A) Amortised Cost
These assets are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest (**SPPI**) and that are not designated at FVPL, are measured at amortised cost. The carrying amount of these assets is adjusted by any ECL provision recognised and measured as described in note 30(b). Any gain or loss arising on derecognition is recognised directly in profit or loss.

Financial assets (debt instruments) classified by the Group as subsequently measured at amortised cost in the current period include:

- **Cash and cash equivalents** – these include cash on hand, unrestricted balances held in ADIs, settlement account balances due from banks, and highly liquid financial assets, which are subject to insignificant risks of changes in their value, and are used by the Group in the management of its short-term commitments.
- **Trade debtors** – these are short term receivables due to the Group from other parties.
- **Investment securities** – these include bank bills of exchange, some floating rate notes and some deposits with other financial institutions. The Group’s business model for the liquidity portfolio is to collect contractual cash flows, with sales of these financial assets only arising if they no longer meet the Group’s investment policy or in a stressed liquidity scenario.

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- **Loans and receivables** – these are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Group does not intend to sell immediately or in the near term. The Group's business model for the loan book is to collect contractual cash flows, with sales of loans only being made internally to a consolidated SPV for the purpose of collatoralising notes issued, with no resulting derecognition by the Group.

B) FVOCI
Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent SPPI are measured at FVOCI. Movements in the carrying amount are taken to OCI, except for the recognition of impairment gains or losses and interest income which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss.

In the current period the Group does not hold any financial assets (debt instruments) classified as subsequently measured at FVOCI.

C) FVPL
Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. A gain or loss on a debt instrument that is subsequently measured at FVPL is recognised in profit or loss and presented net with other gains/(losses) in the period in which it arises.

Financial assets (debt instruments) classified by the Group as subsequently measured at FVPL in the current period include:

- **Investment securities** – these include managed funds, capital notes, some floating rate notes, and some deposits with other financial institutions, where the securities are managed within a portfolio that is held for short-term profit-making purposes (i.e. held for trading purposes).

Interest income from financial assets that are debt instruments assets is calculated using the effective interest rate method and recognised in profit or loss.

The Group reclassifies debt instruments when and only when its business model for managing those assets changes. Such changes are expected to be very infrequent and none occurred during the period.

<u>Classification and subsequent measurement of financial assets that are equity instruments:</u>
For equity instruments, these are classified and subsequently measured at FVPL, unless the Group has elected at initial recognition to irrevocably designate an equity investment at FVOCI. The Group's policy is to designate equity instruments as FVOCI when those investments are held for purposes other than to generate investment returns. When this election is used, fair value gains and losses are recognised in OCI and are not subsequently reclassified to profit or loss, including on disposal. Impairment losses (and reversal of impairment losses) are not reported separately from other changes in fair value.

Dividends, when representing a return on equity investments, continue to be recognised in profit or loss as other income when the Group's right to receive payments is established. Gains and losses on equity investments at FVPL are recognised in profit or loss and presented net with other gains/(losses) in the period in which they arise.

Financial assets (equity securities) classified by the Group as subsequently measured at FVOCI in the current period include:

- **Unlisted equity securities** – these relate to shareholdings in unlisted entities which are not held to enable the Group to receive essential banking services.

<u>Impairment of financial assets:</u>
The Group assesses on a forward-looking basis the ECL associated with its debt instrument assets carried at amortised cost and FVOCI and with the exposure arising from loan commitments. The impairment methodology applied depends on whether there has been a significant increase in credit risk (**SICR**).

The Group recognises an impairment provision for such losses at each reporting date. The measurement of ECL reflects:

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- The time value of money; and
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions, and forecasts of future economic conditions.

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For trade debtors, the Group applies the simplified approach permitted by AASB 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

Note 30(b) provides more detail on how the expected credit loss provision is measured.

Modification of loans:

The Group sometimes renegotiates or otherwise modifies contractual cash flows of loans to customers. When this happens, the Group assesses whether or not the new terms are substantially different to the original terms.

If the terms are substantially different, the Group derecognises the original financial asset and recognises a 'new' asset at fair value and recalculates a new effective interest rate for the asset. The date of renegotiation is subsequently considered to be the date of initial recognition for impairment calculation purposes, including for the purpose of determining whether a SICR has occurred. However, the Group also assesses whether the new financial asset recognised is deemed to be credit-impaired at initial recognition, especially in circumstances where the renegotiation was driven by the debtor being unable to make the originally agreed payments. Differences in the carrying amount are also recognised in profit or loss as a gain on derecognition.

If the terms are not substantially different, the renegotiation or modification does not result in derecognition, and the Group recalculates the gross carrying amount based on the revised cash flows of the financial asset and recognises a modification gain or loss in profit or loss. The new gross carrying amount is recalculated by discounting the modified cash flows at the original effective interest rate (or credit-adjusted effective interest for credit-impaired financial assets).

Derecognition of financial assets (other than on a modification):
Financial assets are derecognised when the contractual rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

Securitisation arrangements:
The Group enters into transactions where it retains the contractual rights to receive cash flows from assets but assumes a contractual obligation to pay those cash flows to other entities and transfers substantially all of the risks and rewards. These transactions are accounted for as 'pass through' transfers that result in derecognition if the Group:

- Has no obligation to make payments unless it collects equivalent amounts from the assets;
- Is prohibited from selling or pledging the assets; and
- Has an obligation to remit any cash it collects from the assets without material delay.

Where these criteria are not met, then the assets are not de-recognised.

Where the assets are derecognised, the Group also recognises separately as assets or liabilities any rights and obligations created or retained in the transfer. In addition to this, the Group may receive any residual income of the securitisation program once all associated costs have been met. The residual income is recognised as revenue when received. The timing and amount of cash flows and any residual income to be earned cannot be reliably measured because of the significant uncertainties inherent in estimating future repayment rates on the related mortgage loans and the associated loan interest margins. Consequently, any residual income receivable has not been recognised as an asset and no gain is recognised on sale of the housing mortgage loans. Any associated income or expenditure is recognised when receivable or payable.

The Trustee of the securitisation program has funded the purchase of housing mortgage loans through the issue of securities. The securities issued by the Trust do not represent deposits or liabilities of the Group. The Group does not guarantee the capital value or performance of the securities, or the assets of the Trust. The Group does not guarantee the payment of interest or the repayment of principal due on the securities. The Group is not obliged to support any losses incurred by investors in the Trust and does not intend to provide such support. The Group has no right to repurchase any of the securitised loans.

Loan commitments:
Loan commitments provided by the Group are measured as the amount of the impairment provision (calculated as described in note 30(b)A(iv)). The Group has not provided any commitment to provide loans at a below-market

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interest rate, or that can be settled net in cash or by delivering or issuing another financial instrument.

For loan commitments, the impairment provision is recognised as a provision. However, for contracts that include both a loan and an undrawn commitment and the Group cannot separately identify the expected credit losses on the undrawn commitment component from those on the loan component, the expected credit losses on the undrawn commitment are recognised together with the impairment provision for the loan. To the extent that the combined ECL exceed the gross carrying amount of the loan, the ECL are recognised as a provision.

(iii) Financial liabilities

Financial liabilities are classified as subsequently measured at amortised cost, except for financial liabilities at fair value through profit or loss, which is applied to financial liabilities held for trading and other financial liabilities designated as such at initial recognition.

All financial liabilities are measured at amortised cost in the current and comparative periods, and include:

- **Deposits from members** - interest on deposits is recognised on an accrual basis. Interest accrued at the end of the reporting date is shown as a part of deposits.
- **Trade payables** – these are short term payables due to the Group from other parties.
- **Borrowings** – these relate to the Group's securitisation vehicle and a Term Funding Facility with the Reserve Bank of Australia (RBA).

Financial liabilities are derecognised when they are extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires). The exchange between the Group and its original lenders of debt instruments with substantially different terms, as well as substantial modifications of the terms of existing financial liabilities, are accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability.

If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

(e) Revenue

Fees and charges:

Unless included in the effective interest rate, fees and charges earned from members are recognised at the point in time that the underlying transaction is completed. Fees charged for providing ongoing services are recognised as income over the period the service is provided, in line with the performance obligation delivered to the members.

Commission revenue:

Commissions are earned by the Group on the sale of third party products and services to members. Unless included in the effective interest rate, commissions are recognised at the point in time when the Group's performance obligation in respect of this income is considered to be met. Where there is variable consideration (e.g. trail commissions and renewals), this is only recognised to the extent it is highly probable it will not reverse in future periods, at its net present value.

Management fees:

Under the terms of a management agreement between the Bank and the Health Fund, a fee is paid to reimburse all costs incurred by the Bank relating to the operation of the Health Fund. In addition, the agreement specifies that the management fee may include a charge per Health Fund member, payable to the Bank. Management fee revenue is recognised over time, in line with the period the services are provided.

(f) Contribution income

Contribution income for the Health Fund comprises contributions received from Policy holders, inclusive of any Government Rebate.

Contribution income is recognised when earned over the period of the membership. Contributions in advance amounts are recognised as revenue as the income is earned.

(g) Fair value measurement

Fair values may be used for financial and non-financial asset and liability measurements as well as sundry disclosures. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It is

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based on the presumption that the transaction takes place either in the principal market for the asset or liability or, in the absence of a principal market, in the most advantageous market.

The principal or most advantageous market must be accessible to, or by, the Group.

Fair value is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their best economic interest.

The fair value measurement of a non-financial asset takes into account the market participant's ability to generate economic benefits by using the asset at its highest and best use or by selling it to another market participant that would use the asset at its highest and best use.

In measuring fair value, the Group uses valuation techniques that maximise the use of observable inputs and minimise the use of unobservable inputs. This is described further in note 31.

(h) Property, plant and equipment

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

Depreciation

The depreciable amount of all property, plant and equipment including buildings and capitalised leased assets but excluding freehold land, is depreciated over their useful lives to the Group commencing from the time the asset is held ready for use. Leasehold improvements are depreciated over the shorter of either the unexpired term of the lease or the estimated useful life of the improvements.

The following are the minimum rates of depreciation applied on a straight line basis:
- Buildings 5.0%
- Plant & Equipment 2.5% - 33.3%
- Leasehold Improvements 10.0%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each year end date. Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are included in profit or loss.

(i) Impairment of non-financial assets

The carrying amounts of the Group's non-financial assets, other than investment property, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. An impairment loss is recognised if the carrying amount of an asset exceeds its recoverable amount.

The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments that reflect the time value of money and the risks specific to the asset.
Impairment losses are recognised in the profit or loss. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(j) Investment property

Investment property held for rental is initially measured at cost including transaction costs. Subsequent to initial recognition, investment property is carried at fair value, which reflects market conditions at the reporting date. Gains and losses arising from changes in fair values of investment properties are included in profit or loss as part of other income in the year in which they arise. Fair value is determined based on an annual valuation performed by an accredited external, independent valuer, applying a valuation model appropriate for the investment property.

Transfers are made to or from investment property only when there is a change in use. For a transfer from investment property to owner-occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.

(k) Intangible assets

(i) Computer software:
Items of computer software which are not integral to the computer hardware owned by the Group are classified as an intangible asset. Computer software acquired by the Group is measured at cost less accumulated amortisation and

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accumulated impairment losses, if any. Amortisation is calculated on a straight-line basis over the expected useful life of the software. These lives are currently five years. Subsequent expenditure on computer software is capitalised only when it increases the future economic benefits of the computer software. All other expenditure is expensed as incurred.

Costs incurred in configuring or customising Software as a Service (SaaS) arrangements can only be recognised as intangible assets if the implementation activities create an intangible asset that the entity controls and the intangible asset meets the recognition criteria. Those costs that do not result in intangible assets are expensed as incurred, unless they are paid to the suppliers of the SaaS arrangements to significantly customise the cloud-based software for the group, in which case the costs are recorded as a prepayment for services and amortised over the expected renewable term of the arrangement."

(ii) Goodwill
Goodwill arises on the acquisition of a business. Goodwill is not amortised. Instead, goodwill is tested annually for impairment, or more frequently if events or changes in circumstances indicate that it might be impaired and is carried at cost less accumulated impairment losses. Impairment losses on goodwill are taken to profit or loss and are not subsequently reversed.

(l) Leases

(i) Lessee accounting
Leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- Fixed payments (included in-substance fixed payments), less any lease incentives receivable
- Variable lease payments 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 Group under residual value guarantees
- The exercise price of a purchase option if the Group is reasonably certain to exercise that option, and
- Payments of penalties for terminating the lease, if the lease term reflects the Group exercising that option.

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

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Group, the lessee's incremental borrowing rate is used, being the rate that the individual lessee 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 Group:
- Where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions, and
- Makes adjustments specific to the lease, e.g. term, security.

The Group is exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjustment against the right-of-use asset.

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

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

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

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Payments associated with short-term leases of equipment and vehicles and all leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months of less. Low-value assets comprise IT equipment and small items of furniture and equipment.

Extension and termination options are included in property and equipment leases across the Group. These are used to maximise operational flexibility in terms of managing the assets used in the Group's operations. The extension and termination options held are exercisable only by the Group and not by the respective lessor.

(ii) Lessor accounting

The Group is a lessor of office facilities and accommodation. The investment properties are leased to tenants under operating leases. Office facilities require rental payable monthly, and accommodation rentals require rental payable based on length of occupancy. Lease payments for some contracts include CPI increases or depend on an index or rate. Where considered necessary to reduce credit risk, the group may obtain bank guarantees for the term of the lease.

The Group retains the leased asset, and accounts for operating leases by recognising income received (net of lease incentives provided to the lessee) on a straight-line basis over the term of the lease. Contingent rentals are recognised at the point in time that the underlying transaction is completed.

Although the group is exposed to changes in the residual value at the end of the current leases, the group typically enters into new operating leases and therefore will not immediately realise any reduction in residual value at the end of these leases. Expectations about the future residual values are reflected in the fair value of the properties where relevant.

(m) Employee benefits

Provision is made for the liability for employee benefits arising from services rendered by employees to the end of the reporting period.

Short-term employee benefits:

Liabilities for wages, salaries and bonuses and the value of fringe benefits received (including non-monetary benefits) that are expected to be settled wholly within twelve months of the end of the reporting period are recognised in Other Liabilities in respect of employee services provided to the end of the reporting period and are measured at the amounts expected to be paid when the liability is settled, plus related on-costs.

Long-term employee benefits:

Liabilities for long service leave and annual leave that are not expected to be settled within twelve months of the end of the reporting period are recognised as provisions for employee benefits and are measured at the present value of the expected future payments to be made in respect of services provided to the end of the reporting period using the projected unit credit method. Consideration is given to expected future salary and wage increases, experience of employee departures and periods of service. Expected future payments are discounted using a standardised set of discount rates specifically available for the purpose of discounting employee benefit liabilities, at the end of the reporting period with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

Regardless of when settlement is expected to occur, liabilities for long service leave and annual leave are considered as current liabilities if the Group does not have an unconditional right to defer settlement for at least twelve months after the end of the reporting period.

Contributions are made by the Group to employee superannuation funds and are recognised in the profit and loss when incurred.

(n) Contributed equity

Ordinary shares are classified as equity. Mandatorily redeemable preference shares are classified as liabilities. Costs directly attributable to the issue of new shares or options are shown as a deduction from the equity proceeds, net of any income tax benefit. Costs directly attributable to the issue of new shares or options associated with the acquisition of a business are included as part of the purchase consideration.

(o) Goods and services tax (GST)

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

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NOTE 1 cont

(p) Assets backing private health insurance liabilities

The Health Fund manages its financial investments to ensure it has sufficient funds to meet all private health insurance liabilities, such as members' claims and operational expenses as they fall due. To ensure that the risks inherent in the Health Fund's investments are appropriately managed, the Board has endorsed a strategy of placing no more than 25% of the total term deposits with any one financial institution, while ensuring that there is reasonable spread of maturity dates. Central to the management of the Health Fund's liquidity is the forecasting of daily cash flows. The Board is regularly advised about the extent of surplus funds available based on historical records and latest projections of cash flows, including expectations of contributions and risk equalisation funds and claims to be paid out. As at 30 June 2021 and 2020, the Board determined that private health insurance liabilities are reasonably backed by financial assets.

(q) Insurance contracts

Insurance contracts for the Health Fund are defined as those containing significant insurance risk at the inception of the contract, or those where, at the inception of the contract, there is a scenario with commercial substance in which the level of insurance risk may be significant over time. The significance of insurance risk is dependent on both the probability of an insurance event and the magnitude of its potential effect. Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during this period.

(r) Outstanding claims provision

The provision for outstanding claims for the Health Fund provides for claims received but not assessed, claims assessed but not yet paid, and claims incurred but not received.
The provision is based on actuarial assessment taking into account historical patterns of claim incidence and processing. No discounting is applied to the provision due to the generally short time period between claim incidence and settlement. The provision also provides for the expected payment to or receipt from the Risk Equalisation Trust Fund in relation to an amount provided for unpresented and outstanding claims. Under AASB 1023, risk margin has been applied in the calculation as capital for prudential purposes.

(s) Deferred claims liability

A provision is made for deferred claims at the reporting date for the Health Fund, measured with regard to the claims that were expected to occur but did not eventuate at the reporting date due to reduced access to surgeries and other procedures as a result of COVID-19. The Group believes they have a responsibility for the claims that would have ordinarily incurred under normal circumstances and that will ultimately be paid to members. The expected future payments include those in relation to deferred claims which are likely to materialise in the next 12 months, together with allowances for Risk Equalisation Policy Levy (REPL) consequences and risks and uncertainties. Refer further information in Note 2(f) Critical accounting estimates and judgements.

(t) Actuarial assumptions and methods

(i) Outstanding claims and risk margin

The outstanding claims estimate is derived based on three valuation classes, namely hospital, medical and general treatment services.

In calculating the estimated cost of unpaid claims, a chain ladder method is used, this assumes that the development pattern of the current claims will be consistent with historical experience. Where deemed necessary, manual adjustments were made to the outstanding claims by service month to produce an appropriate estimate of incurred claims for the service month.

As the run-off of health insurance claims is relatively rapid, the claims to be paid in the future were not discounted.

Notes to the financial statements

for the year ended 30 June 2021

NOTE 1 cont

Actuarial assumptions:
The following assumptions have been made in determining the outstanding claims liability based on inputs from management and advice from the Appointed Actuary.

Variables	**2021** Hospital %	**2021** Medical %	**2021** General treatment %	2020 Hospital %	2020 Medical %	2020 General treatment %
Proportion paid to date	93.00	95.00	98.00	94.00	95.00	98.00
Expense rate	4.00	4.00	4.00	4.40	4.40	4.40
Discount rate	Nil	Nil	Nil	Nil	Nil	Nil
Risk equalisation rate	11.06	11.06	N/A	15.76	15.76	Nil
Risk margin	6.00	6.00	6.00	6.00	6.00	6.00

The risk margin was determined from the assumption that there is a normal distribution of differences between the calculated provisions required for past periods and the finally determined requirements of those periods. A probability of sufficiency of 75% is intended to be achieved through the adoption of the risk margin of 6% (2020: 6.00%) at the end of the reporting period.

Process used to determine assumptions:
A description of the processes used to determine these assumptions is provided below:

(i) Proportion paid to date
The proportion paid to date summarises the application of the chain ladder method (over the 12 months to 30 June 2021) described above to determine the total expected incurred in each service month. The proportion paid to date has been determined with one month's paid claims hindsight.

(ii) Discount rate
As claims for health funds are generally settled within one year, no discounting of claims is usually applied as the difference between the undiscounted value of claims payments and the present value of claims payments is not likely to be material. An increase in the proportion assumed paid to date, would lead to more claims being paid earlier and therefore a decrease in the liability.

(iii) Expense rate
Claims handling expenses were calculated by reference to past experience of total claims handling costs as a percentage of total past payments. An increase or decrease in this expense would have a corresponding effect on the claims expense.

(iv) Risk equalisation rate
In simplified terms, each private health insurer is required to contribute to the risk equalisation pool or is paid from the pool to equalise their hospital claims exposure to members aged over 55 years of age and in respect of high cost claims. This is an allowance made in respect of the claims incurred but not yet paid. An increase or decrease in this expense would have a corresponding effect on the claims expense.

(v) Risk margin
The risk margin has been based on an analysis of the past experience of the Health Fund. This analysis examined the volatility of past payments that has not been explained by the model adopted to determine the central estimate. This past volatility has been assumed to be indicative of the future volatility and has been set at a level estimated to equate to a probability of adequacy greater than 75% (2020: 75%). An increase or decrease in this margin would have a corresponding effect on the outstanding claims liability.

Notes to the financial statements

for the year ended 30 June 2021

NOTE 1 cont

Sensitivity analysis – Insurance contracts:

Summary
The Appointed Actuary conducts sensitivity analyses to quantify the exposure risk of changes in the key underlying variables and assumptions. The movement in any key variable will impact the performance and equity of the Group.

The tables below describe how a change in each assumption will affect the health insurance liabilities and hence the profit or loss and the equity of the Group.

	Profit 2021 $'000	**Equity 2021 $'000**
Recognised amounts in the financial statements	13,315	275,312

Variables	Movement in variable %	Adjustments on surplus $'000	Adjusted amount included in profit or loss $'000	Adjustments in Equity $'000	Adjusted amount included in Statements of Financial Position $'000
% development	+1%	(69)	13,246	(69)	275,243
% development	-1%	69	13,384	69	275,381
Expense rate	+1%	(66)	13,249	(66)	275,246
Expense rate	-1%	66	13,381	66	275,378
Risk equalisation rate	+1%	(57)	13,258	(57)	275,255
Risk equalisation rate	-1%	57	13,372	57	275,369
Risk margin	+1%	(65)	13,250	(65)	275,247
Risk margin	-1%	65	13,380	65	275,377

	Profit 2020 $'000	**Equity 2020 $'000**
Recognised amounts in the financial statements	6,473	260,836

Variables	Movement in variable %	Adjustments on surplus $'000	Adjusted amount included in profit or loss $'000	Adjustments in Equity $'000	Adjusted amount included in Statement of Financial Position $'000
% development	+1%	(17)	6,456	(17)	260,819
% development	-1%	17	6,490	17	260,853
Expense rate	+1%	(59)	6,414	(59)	260,777
Expense rate	-1%	59	6,532	59	260,895
Risk equalisation rate	+1%	(48)	6,425	(48)	260,788
Risk equalisation rate	-1%	48	6,521	48	260,884
Risk margin	+1%	(58)	6,415	(58)	260,778
Risk margin	-1%	58	6,531	58	260,894

Notes to the financial statements

for the year ended 30 June 2021

NOTE 1 cont

(ii) Deferred claims liability (DCL)

The approach to determine the deferred claims estimate between 1 July 2020 and 31 March 2021 had been developed in line with APRA and ASIC guidelines issued in June 2020 to provide at least 75% probability of sufficiency.

If cover remains in place, a responsibility exists to provide for these claims that have been deferred and health fund members with continuing cover would have had an expectation to use and therefore claim on hospital, medical and ancillary services had the pandemic not arisen.

Actuarial assumptions
The following assumptions have been made in determining the deferred claims liability based on inputs from management and advice from the Appointed Actuary.

- Estimating the reduction in claims due to the national response to the COVID-19 pandemic. This was done by comparing the forecast before the pandemic of the expected claims for the period to the actual claims incurred to estimate the financial impact.
- Estimating net risk equalisation costs to be zero based on modelling of calculated and gross deficit payments based on the Group's recent experience.
- Although APRA issued new guidance in March 2021, the Group continued to apply APRA's more conservative guidance from June 2020, therefore the following rates were applied:
    - 100% of hospital and medical claims which did not occur; and
    - 85% on ancillary claims which did not occur

Sensitivity analysis – insurance contracts
The table below describes how a change in each assumption will affect the health insurance liabilities and hence the profit or loss and the equity of the Group.

	Profit 2021 $'000	**Equity 2021** $'000
Recognised amounts in the financial statements	13,315	275,312

Variables	Movement in variable %	Adjustments on surplus $'000	Adjusted amount included in profit or loss $'000	Adjustments in Equity $'000	Adjusted amount included in Consolidated Statement of Financial Position $'000
recent claims forecast prior to the pandemic	+1%	131	13,446	131	275,443
	-1%	(131)	13,184	(131)	275,181
deferral rate for hospital deferred claims	+1%	45	13,360	45	275,357
	-1%	(45)	13,270	(45)	275,267
deferral rate for ancillary deferred claims	+1%	18	13,333	18	275,330
	-1%	(18)	13,297	(18)	275,294
Risk equalisation	+1%	N/A	N/A	N/A	N/A
	-1%	N/A	N/A	N/A	N/A

Notes to the financial statements

for the year ended 30 June 2021

NOTE 1 cont

(u) Rounding of amounts

The Group and Parent Entity have applied the relief available under ASIC Corporations (Rounding in Financial/Directors' Report) Instrument 2016/191 and accordingly, amounts in the financial statements have been rounded off to the nearest thousand dollars ($'000) unless otherwise stated.

(v) Comparatives

Comparatives have been adjusted to reflect a change in classification of Receivables due from other financial institutions to Cash and Cash Equivalents – refer Statement of Financial Position, Note 9 and Note 30. Comparatives have also been adjusted to reflect changes in presentation of the Health Fund Management Fee paid to the Bank, eliminating the transaction from other revenue and income and other expenses, as an internal transaction. Refer to Statements of Profit or Loss, Statements of Cash Flows, Note 4 and Note 5.

(w) Business Combination

The acquisition method of accounting is used to account for all business combinations, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the

- fair values of the assets transferred
- liabilities incurred
- equity interests issued by the group
- fair value of any asset or liability resulting from a contingent consideration arrangement, and
- fair value of any pre-existing equity interest in the subsidiary.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. The group recognises any non-controlling interest in the acquired entity on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets.
Acquisition-related costs are expensed as incurred.

NOTE 2 Critical accounting estimates and judgments

The preparation of financial statements requires the use of accounting estimates which, by definition, will seldom equal the actual results. Management also needs to exercise judgment in applying the Group's accounting policies.

COVID-19 impact on the use of estimates and judgments

On 11 March 2020, the World Health Organisation declared COVID-19 a global pandemic. The Group has considered the impact of COVID-19 when preparing the consolidated financial statements and related note disclosures. COVID-19 has resulted in increased estimation uncertainty and application of further judgment specifically around loan impairment. See Note 30(b) A(iv) for further information.

The following areas involve a higher degree of judgment or complexity, and major sources of estimation uncertainty that have a significant risk of resulting in a material adjustment within the next financial year. Detailed information about each of these estimates and judgments is included in the related notes together with information about the basis of calculation for each affected line item in the financial statements:

(a) Measurement of the expected credit loss provision
The measurement of the ECL provision for loans and advances at amortised cost is an area that requires use of complex models and significant assumptions about future economic conditions and credit behaviour.

Judgment is required by management in the estimation of the amount and timing of future cash flows when determining the criteria for SICR, and when determining an impairment loss for individual borrowers in respect of loans and advances. In estimating these cash flows, the Group makes judgments about the borrower's financial situation and the net realisable value of collateral. These estimates are based on assumptions about a number of factors including forward looking information available at the time. As actual results may differ, future changes to the impairment provision may be required.

Refer to note 30(b)A(iv) for further details on the judgments and estimates and how they have been applied.

(b) Estimated fair values of certain financial assets
The fair value of financial instruments that are not traded in an active market is determined using valuation techniques. The Group uses its judgment to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period. For details of the key assumptions used and the impact of changes to these assumptions see note 31(b)(ii).

(c) Estimated fair values of investment property
The fair value of investment property is determined using valuation techniques. The Group uses its judgment to select assumptions that are based on market conditions at the end of each reporting period. For details of the key assumptions used and the impact of changes to these assumptions see note 31(b)(vii).

(d) Outstanding claims liability and risk margin
The provision is made at the period end for the liability for outstanding claims which is measured as the central estimate of the expected payments against claims incurred but not settled at the reporting date under private health insurance contracts issued by the company. This 'central estimate' of outstanding claims is an estimate which is intended to contain no intentional over or under estimation. For this reason the inherent uncertainty in the central estimate must also be considered and a risk margin is added. Actual results could differ from the estimate.

Outstanding claims liability risk margins are determined on a basis that reflects the company's business. Regard is made to the robustness of the valuation models, the reliability and volume of available data, past experience of the company and the industry and the characteristics of the classes of business written. The expected future payments include those in relation to claims reported but not yet paid and claims incurred but not yet reported, together with an allowance for the RESA consequences and claims handling expenses.

The provision for outstanding claims liability is determined after taking into account claims paid in July of the following financial year, that relate to services provided in the current financial year.

Notes to the financial statements

for the year ended 30 June 2021

NOTE 2 cont

Refer to Note 1(t) for the accounting estimates and judgements used in determining the outstanding claims liability at the end of the reporting period.

(e) Unexpired risk reserve
A Liability Adequacy Test (LAT) is required to be performed for the period over which the insurer is "on risk" in respect of premiums paid in advance. At each reporting date, the LAT is performed to ensure that unearned premiums and premiums expected to be received based on a current policyholder's option to renew their existing contract is adequate to cover the expected liabilities arising from the policyholder's existing rights and obligations. The expected liabilities include benefits, member servicing costs and a margin for risk. The period of the projections is up until the next price review or change in contractual benefits.

The liability adequacy test has been performed collectively for hospital and general treatment contracts up to 1 April of the following calendar year, the next premium adjustment opportunity allowed by the Department of Health. An unexpired risk reserve was required at 30 June 2021 amounting to $786,734 (2020: $2,776,478).

A risk margin of 4.00% (2020: 4.00%) has been applied in the calculation of the unexpired risk liability as at 30 June 2021. As with outstanding claims, the overall risk margin is intended to achieve a 75.00% probability of adequacy.

(f) Deferred claims liability
The provision is made at the period end for the liability due to the uncertainty around the impact of COVID-19 related restrictions on hospital, medical and ancillary services. It is measured with regard to the claims that were expected to occur but did not eventuate at the reporting date under private health insurance contracts issued by the company.

This estimate of deferred claims is an estimate which is intended to contain no intentional over or under estimation. Actual results could differ from the estimate. Refer to Note 1(t)(ii) for further details on the assumptions.

The Deferred claims liability at 30 June 2021 is $3,961,272 (2020: $6,401,600) determined in accordance with the accounting policy as disclosed in Note 1.

Notes to the financial statements

for the year ended 30 June 2021

NOTE 3 Interest income and interest expense

		Bank 2021 $'000	Bank 2020 $'000	Group 2021 $'000	Group 2020 $'000
(a)	**Interest income**				
	Cash and cash equivalents	7	120	7	120
	Debt instruments at amortised cost	5,776	7,907	1,825	4,804
	Financial assets at FVPL	-	-	480	753
	Loans and advances at amortised cost	70,720	77,299	70,720	77,299
	Total interest income	76,503	85,326	73,032	82,976
(b)	Interest expense				
	Borrowings	33	13	33	13
	Borrowings – securitisation	4,769	3,946	345	260
	Deposits from financial institutions	307	672	307	672
	Deposits from members	18,580	31,315	18,492	31,217
	Lease liability interest	535	587	503	511
	Total interest expense	24,224	36,533	19,680	32,673

NOTE 4 Other revenue and income

	Bank 2021 $'000	Bank 2020 $'000	Group 2021 $'000	Group 2020 $'000
- Dividends received – other corporations	30	267	30	267
- Fees and commissions	12,898	12,312	12,441	11,907
- Bad debts recovered	78	99	78	99
- Net gain on disposal of property, plant and equipment	34	26	34	26
- Rental income from investment property	-	-	656	620
- Rental income from operating leases	552	581	89	99
- Management fee	19,903	18,589	-	-
- Contribution income – Queensland Country Health Fund	-	-	139,187	131,006
- Net gain on financial assets at FVPL	-	-	1,794	664
- Fair value movement on investment property	370	(290)	375	140
- Dental income – Queensland Country Health Fund	-	-	1,287	873
Total other revenue and income	33,865	31,584	155,971	145,701

Notes to the financial statements

for the year ended 30 June 2021

	Bank		Group	
	2021 **$'000**	2020 $'000	**2021** **$'000**	2020 $'000
NOTE 5 Operating expenses				
- Fees and commissions	1,705	1,200	1,705	1,200
- Depreciation - buildings	359	347	1,164	1,091
- Depreciation - plant and equipment	621	532	871	765
- Depreciation - right of use asset	3,734	3,598	2,606	2,549
- Amortisation - leasehold improvements	697	598	724	625
- Amortisation - software	350	736	414	880
- Impairment losses/(recoveries) - loans and advances	(714)	505	(714)	505
- Rental expense on operating leases	593	579	317	282
- Employee benefits - superannuation	2,815	2,621	2,815	2,621
- Employee benefits - other	33,740	32,101	33,740	32,101
- General administration	5,880	5,103	6,233	5,485
- Direct property expenditure from investment property generating rental income	233	212	233	212
- Benefits paid - Queensland Country Health Fund	-	-	114,553	113,804
- Loss on disposal of property, plant and equipment	98	61	98	526
- Information technology costs	9,817	8,858	9,817	8,858
- Transaction processing costs	7,245	6,983	7,245	6,983
- Other operating expenses	8,733	8,523	8,483	8,271
Total Expenses	75,906	72,557	190,304	186,758

Notes to the financial statements

for the year ended 30 June 2021

		Bank		Group	
		2021	2020	**2021**	2020
		$'000	$'000	**$'000**	$'000
NOTE 6 Income tax					
(a)	Numerical reconciliation of income tax expense to prima facie tax payable:				
	Profit before income tax	10,238	7,820	19,019	9,246
	Tax at the Australian tax rate of % (2020: 30%)	3,071	2,346	5,706	2,774
	Add Tax effect of:				
	Investment property expenses	-	-	819	122
	Commission expense	-	-	(6)	14
	Other assessable income	4	34	71	103
	Non-deductible expenses	52	34	62	168
		3,127	2,414	6,652	3,181
	Less Tax effect of:				
	Tax offset for franked dividends	(13)	(114)	(237)	(368)
	Tax building depreciation/building allowance	(37)	(34)	(36)	(34)
	Other non-assessable items	-	(16)	-	(16)
		3,077	2,250	6,379	2,763
	Adjustment recognised for prior periods	-	2	29	(242)
	Income tax expense	3,077	2,252	6,408	2,521
(b)	Major components of tax expense/(income):				
	- Current tax	2,226	2,294	3,300	4,522
	- Deferred tax relating to the origination and reversal of temporary differences	851	(44)	3,079	(1,759)
	- Adjustment recognised for prior periods	-	2	29	(242)
		3,077	2,252	6,408	2,521
(c)	Major components of tax expense/(income) recognised in Other Comprehensive Income:	-	-	-	-
	- Deferred tax relating to the origination and reversal of temporary differences	302	(108)	302	(108)
		302	(108)	302	(108)
(d)	Balance of franking account at year end adjusted for franking credits or debits arising from payment of the provision for income tax or receipt of dividends receivable at the end of the reporting date based on a tax rate of % (2020: 30%)	46,489	44,251	52,638	49,082

Notes to the financial statements

for the year ended 30 June 2021

	Bank		Group	
	2021	2020	**2021**	2020
	$	$	**$**	$
NOTE 7 Auditor's remuneration				
Auditor Remuneration PricewaterhouseCoopers Australia:				
Auditing of financial statements	225,000	212,000	283,000	267,000
Other assurance services				
– audit and review of prudential returns	42,000	40,000	82,000	79,000
– other assurance services	60,540	95,537	69,540	101,537
– due diligence services	13,000	-	13,000	
Taxation services	15,848	23,464	27,998	40,414
	356,388	371,001	475,538	487,951

NOTE 8 Key management personnel

(a) Remuneration of key management personnel (KMP)

	Bank 2021 $	Bank 2020 $	Group 2021 $	Group 2020 $
Compensation of KMPs in total and for each of the following categories was as follows				
- short term employee benefits	2,122,944	2,105,049	2,426,120	2,423,328
- post-employment benefits – superannuation contributions	202,848	199,660	231,650	229,897
- other long-term benefits – net increase/(decrease) in long service leave provision	60,754	31,255	60,754	31,255
- terminations	30,790	-	30,790	-
Total	2,417,336	2,335,964	2,749,314	2,684,480

(b) Loans to KMPs and their close family members

The Bank's policy for lending to KMPs is that all loans are approved, and deposits accepted on the same terms and conditions that applied to Members for each class of loan or deposit. There are no benefits or concessional terms and conditions applicable to the close family members of the KMPs. There are no loans that are impaired in relation to the loan balances with KMPs. There are also no loans that are impaired in relation to the loan balances with close family relatives of KMPs.

	Bank 2021 $	Bank 2020 $	Group 2021 $	Group 2020 $
The aggregate value of loans at year end	8,151,664	8,645,709	9,810,043	10,322,770
The aggregate value of other credit facilities at year end	137,500	136,000	139,500	138,000
Amounts drawn down included in the aggregate value	(57,688)	(51,146)	(57,766)	(51,146)
Net balance available	79,812	84,854	81,734	86,854

Notes to the financial statements

for the year ended 30 June 2021

NOTE 8 cont

	Bank 2021 $	Bank 2020 $	Group 2021 $	Group 2020 $
During the year, the aggregate value of loans disbursed amounted to:				
- Term loans	807,681	887,683	807,681	887,683
	807,681	887,683	807,681	887,683
Interest and other revenue earned on loans and revolving credit facilities	238,398	303,558	306,180	376,473

(c) Other transactions with KMPs and their close family members

KMPs have received interest on deposits with the Bank during the financial year. Interest has been paid on terms and conditions no more favourable than those available on similar transactions to members of the Bank.

	Bank 2021 $	Bank 2020 $	Group 2021 $	Group 2020 $
Total value of deposits at year end	2,084,220	2,565,921	3,091,379	2,986,548
Total interest paid on these deposits during the year	7,800	6,014	13,583	8,486

The Bank's policy for receiving deposits from other related parties, and in respect of other related party transactions, is that all transactions are approved and deposits accepted on the same terms and conditions that apply to members for each type of deposit. There are no other benefits paid or payable to the close family members of the KMPs. There are no service contracts to which KMPs, or their close family members are an interested party.

NOTE 9 Cash and cash equivalents

	Bank 2021 $'000	Bank 2020 $'000	Group 2021 $'000	Group 2020 $'000
Cash on hand at amortised cost	4,828	4,726	4,829	4,727
Deposits with ADI's at amortised cost	55,816	34,625	62,358	38,357
ADI receivables	2,692	2,008	2,692	2,008
	63,336	41,359	69,879	45,092

The effective interest rate on short-term bank deposits was 0.00% (2020: 0.00%); these deposits are available at-call. Refer to note 27 for a detailed reconciliation of cash and cash equivalents, note 30(b) for further information relating to the credit risk of cash and cash equivalents, and note 31(b) for information relating to their fair values.

Notes to the financial statements

for the year ended 30 June 2021

	Bank		Group	
	2021 $'000	2020 $'000	**2021 $'000**	2020 $'000
NOTE 10 Financial assets at FVPL				
Financial assets, at fair value				
- Managed funds	-	-	10,409	8,804
- Interest bearing notes	-	-	26,811	24,591
- Floating rate notes		-	-	-
Total	-	-	37,220	33,395
Movement in fair value – Managed funds				
- Opening balance	-	-	8,804	10,829
- Acquisition	-	-	1,000	1,500
- Redemption	-	-	-	(4,057)
- Net distribution	-	-	109	-
- Changes in market conditions	-	-	496	532
Closing balance	-	-	10,409	8,804
Movement in fair value – Interest bearing capital notes				
- Opening balance	-	-	24,591	22,186
- Acquisition	-	-	6,888	7,574
- Redemption	-	-	(5,630)	(5,085)
- Gain/(Loss) on redemption	-	-	8	12
- Net distribution	-	-	-	-
- Changes in market conditions	-	-	954	(96)
Closing balance	-	-	26,811	24,591

Financial assets at fair value through profit and loss expected to mature more than 12 months after the reporting date for the Bank amounted to $nil (2020: $nil), for the Group amounted to $24,571,000 (2020: $23,584,000). Refer to note 31(b) for information on how fair values are determined.

All financial assets at FVPL are mandatorily measured at FVPL. During the year, the Group recognised $1,794,000 (2020: $664,000) of fair value gains/losses on financial assets at FVPL in profit or loss (other income – refer to note 4).

NOTE 11 Other receivables

Accrued interest	160	395	223	504
Trade debtors	2,162	1,978	598	524
Sundry debtors	1,123	(247)	4,691	3,020
	3,445	2,126	5,512	4,048

Trade debtors are classified and measured at amortised cost, and all expected to mature within 12 months after the reporting date for the Bank and the Group in both periods presented. Refer to note 30(b) for further information relating to the credit risk of trade debtors and note 31(b) for information relating to their fair values.

NOTE 12 Income tax receivable

Current income tax receivable	448	188	579	-

Notes to the financial statements

for the year ended 30 June 2021

	Bank		Group	
	2021 $'000	2020 $'000	**2021 $'000**	2020 $'000
NOTE 13 Debt instruments at amortised cost				
Bank bills of exchange and certificates of deposit	217,437	185,324	217,437	185,324
Deposits with ADI's	98,471	104,074	196,314	160,369
MTG QCB Trust – Class A floating rate notes [(a)]	451,200	516,200	-	-
MTG QCB Trust – Class B floating rate notes [(a)]	48,800	48,800	-	-
Other floating rate notes	71,560	68,065	82,810	79,015
	887,468	922,463	496,561	424,708

Amounts of debt instruments at amortised cost expected to mature more than 12 months after the reporting date for the Bank amounted to $52,459,000 (2020: $45,515,000), for the Group amounted to $57,209,000 (2020: $54,465,000). Refer to note 30(b) for further information relating to the credit risk of debt instruments at amortised cost and note 31(b) for information relating to their fair values.

Queensland Country Bank Limited has transferred loans and advances to a securitisation entity known as The MTG QCB Trust Repo Series No. 1 (The Trust). This Trust has been established to support the on-going liquidity management framework of Queensland Country Bank Limited. The Bank has purchased the floating rate notes issued by the Trust. The senior notes held by the Bank are eligible to be utilised as collateral in repurchase arrangements with the Reserve Bank of Australia (RBA). The total floating rate notes as at 30 June 2021 amounted to $500,000,000 (2020: $565,000,000), split between Class A and Class B notes. For further information on securitisation arrangements refer to note 32.

NOTE 14 Loans and advances at amortised cost

Loans and advances outstanding				
– Overdrafts	30,254	32,510	30,254	32,510
– Term loans	2,004,899	1,833,729	2,004,899	1,833,729
– Credit cards	13,536	13,200	13,536	13,200
Gross loans and advances	2,048,689	1,879,439	2,048,689	1,879,439
Provision for impairment	(4,319)	(5,515)	(4,319)	(5,515)
Net loans and advances	2,044,370	1,873,924	2,044,370	1,873,924

Amounts of loans and advances expected to be recovered more than 12 months after the reporting date for the Bank amounted to $1,953,087,000 (2020: $1,735,855,000), and for the Group amounted to $1,953,087,000 (2020: $1,735,855,000). Refer to note 30(b) for further information relating to the credit risk of loans and advances and note 31(b) for information relating to their fair values.

Notes to the financial statements

for the year ended 30 June 2021

	Bank		Group	
	2021	2020	**2021**	2020
	$'000	$'000	**$'000**	$'000
NOTE 15 Property, plant and equipment				
(a) Carrying amounts				
Land				
- At cost	1,969	1,969	8,042	8,042
Buildings				
- At cost	7,300	7,286	28,392	28,354
- Accumulated depreciation	(4,668)	(4,307)	(9,328)	(8,162)
	2,632	2,979	19,064	20,192
Leasehold improvements				
- At cost	9,740	9,149	10,010	9,420
- Accumulated amortisation	(8,426)	(7,811)	(8,506)	(7,865)
	1,314	1,338	1,504	1,555
Plant and equipment				
- At cost	6,579	6,300	9,098	8,848
- Accumulated depreciation	(3,914)	(3,776)	(5,396)	(5,028)
	2,665	2,524	3,702	3,820
Total property, plant and equipment	8,580	8,810	32,312	33,609

NOTE 15 cont

(b) Movements in carrying amounts

Reconciliations of the carrying amounts of each class of property, plant and equipment between the beginning and end of the financial year are set out below.

	Land $'000	Buildings $'000	Leasehold Improvements $'000	Plant & Equipment $'000	Total $'000
Bank					
Balance at 1 July 2020	1,969	2,979	1,338	2,524	8,810
- Additions	-	12	720	818	1,550
- Disposals	-	-	(47)	(56)	(103)
- Depreciation expense	-	(359)	(697)	(621)	(1,677)
Balance at 30 June 2021	1,969	2,632	1,314	2,665	8,580
Balance at 1 July 2019	1.969	3,231	1,219	1,692	8,111
- Additions	-	107	1,047	1,396	2,550
- Disposals	-	(12)	(330)	(32)	(374)
- Depreciation expense	-	(347)	(598)	(532)	(1,477)
Balance at 30 June 2020	1,969	2,979	1,338	2,524	8,810
Group					
Balance at 1 July 2020	8,042	20,192	1,555	3,820	33,609
- Additions	-	36	720	818	1,574
- Disposals	-	-	(47)	(65)	(112)
- Depreciation expense	-	(1,164)	(724)	(871)	(2,759)
Balance at 30 June 2021	8,042	19,064	1,504	3.702	32,312
Balance at 1 July 2019	7,854	20,712	1,464	3,111	33,141
- Additions	188	633	1,047	1,514	3,382
- Disposals		(62)	(331)	(40)	(433)
- Depreciation expense	-	(1,091)	(625)	(765)	(2,481)
Balance at 30 June 2020	8,042	20,192	1,555	3,820	33,609

(c) Valuations

Independent valuations were performed by Certified Practicing Valuers: S Butterworth (AAPI); C Balsdon (AAPI); L Searston (AAPI) T Munn (AAPI) J Searston (AAPI) S Quinn (AAPI); and A. Dickinson (AAPI) as at 30th June 2019. The valuations were obtained in accordance with an internal policy to value land and buildings every three years. The increase in value over cost has not been brought to account. The valuations have been based on the current market value of freehold land and buildings, taking into consideration the sales of similar land and buildings in the area, and are categorised as Level 3 in the fair value hierarchy (refer note 31). The directors are satisfied that the outcome of these valuations adequately support the carrying values above.

Notes to the financial statements

for the year ended 30 June 2021

NOTE 15 cont

		Bank		Group	
		2021	2020	**2021**	2020
		$'000	$'000	**$'000**	$'000
(d) Leases					
This note provides information for leases where the Group is a lessee.					
(i) Amounts recognised in the Statements of Financial Position					
Right-of-use Assets					
Buildings		8,258	7,725	7,783	7,187
Equipment		136	181	136	181
		8,394	7,906	7,919	7,368
Lease Liabilities					
Payable within 12 Months		2,706	2,620	2,170	2,150
Payable > 12 Months		6.024	5,684	6,149	5,684
		8,730	8,304	8,319	7,834

Additions to the Right-of-use Assets during the 2021 financial year were $1,529,000 (2020: $32,000)

		Bank		Group	
		2021	2020	**2021**	2020
		$'000	$'000	**$'000**	$'000
(ii) Amounts recognised in the Statements of Profit or Loss					
Depreciation charge of Right-of-use Assets					
Buildings		3,648	3,508	2,520	2,459
Equipment		86	90	86	90
	5	3,734	3,598	2,606	2,549
Interest expenses	3	535	587	503	511
Expense relating to short-term leases (included in occupancy expenses)	5	54	48	107	94
Expenses relating to variable lease payments not included in lease liabilities (included in occupancy expenses)	5	17	20	17	-

The total cash outflow for leases in 2021 was $4,123,000 (Group: $3,057,000).

Notes to the financial statements

for the year ended 30 June 2021

NOTE 16 Intangible Assets

		Bank		Group	
		2021 $'000	2020 $'000	**2021 $'000**	2020 $'000
(a)	**Carrying amounts**				
	Computer Software				
	- At cost	4,115	4,115	4,778	4,778
	- Accumulated amortisation	(3,632)	(3,282)	(4,240)	(3,826)
	Total computer software	483	833	538	952

(b) Movements in carrying amounts

Reconciliations of the carrying amounts of each class of intangible assets between the beginning and end of the financial year are set out below.

	Computer software $'000	Goodwill $'000	Total $'000
Bank			
Balance at 1 July 2020	833		833
- Additions	-	-	-
- Disposals	-	-	-
- Amortisation expense	(350)	-	(350)
Balance at 30 June 2021	483	-	483
Balance at 1 July 2019	1,568	-	1,568
- Additions	-	-	-
- Disposals	-	-	-
- Amortisation expense	(735)	-	(735)
Balance at 30 June 2020	833	-	833
Group			
Balance at 1 July 2020	952	-	952
- Additions	-	-	-
- Disposals	-	-	-
- Amortisation expense	(414)	-	(414)
Balance at 30 June 2021	538	-	538
Balance at 1 July 2019	1,820	415	2,235
- Additions	12	-	12
- Disposals	-	-	-
- Amortisation expense	(880)	-	(880)
- Impairment expense	-	(415)	(415)
Balance at 30 June 2020	952	-	952

Notes to the financial statements

for the year ended 30 June 2021

	Bank		Group	
	2021	2020	**2021**	2020
	$'000	$'000	**$'000**	$'000
NOTE 17 Investment property				
Movements				
Opening balance	460	750	4,390	4,250
Capital expenditure	-	-	-	-
Net gain/(loss) from fair value adjustments	370	(290)	375	140
Closing balance	830	460	4,765	4,390

The fair value model is applied to all investment property. Investment properties are independently valued annually. Values are based on an active liquid market value and are performed by a registered independent valuer. The independent valuations were carried out by Ian Brosnan, registered valuer no. 66523 of Valuations Qld on 21 June 2021; Alexander Dickinson, registered valuer no. 2278 and Matthew Morton, registered valuer no. 2697 of Opteon on 15 June 2021; Stephen Bourne, registered valuer no. 3504 and David Notley, registered valuer no. 3159 of Herron Todd White on 14 June 2021. The revaluations have been based on the current market value of freehold land and buildings, taking into consideration the sales of similar land and buildings in the area. Refer to note 31 for further disclosure on fair value measurement.

NOTE 18 Equity instruments at FVOCI

Shares in unlisted entities	9,020	8,014	9,020	8,014

Refer to note 30(a) for further information relating to the market risks associated with these investments and note 31(b) for further information relating to the determination of fair values.

During the year, the Group recognised $704,000 (2020: ($252,000)) of fair value gains/(losses) on equity instruments at FVOCI in the Statements of Profit or Loss and Other Comprehensive Income, net of tax.

During the year, the Group recognised $30,000 (2020: $267,000) of dividends from equity instruments at FVOCI in profit or loss (other income – refer note 4).

The shares in unlisted entities relate to shareholdings in Indue Limited and Cuscal Limited. These companies were created to supply services to the member credit unions and do not have an independent business focus. The Group has designated these investments at FVOCI from 1 July 2019, because the investments are held to enable the Group to receive essential banking services, rather than with a view to profit on subsequent sale, and there are no plans to dispose of these investments during the short term. These shares are not publicly traded and are not redeemable.

	Bank		Group	
	2021	2020	**2021**	2020
	$'000	$'000	**$'000**	$'000
NOTE 19 Deferred tax assets				
(a) Deferred tax assets comprise temporary differences attributable to:				
- provision for impairment	1,296	1,654	1,296	1,654
- provision for outstanding claims	-	-	74	74
- employee benefits	1,976	1,842	1,976	1,842
- depreciation	1,000	1,471	1,818	2,296
- land and buildings	385	464	(1,868)	(1,059)
- deferred claims liability	-	-	1,188	1,920
- other	317	271	(87)	635
	4,974	5,702	4,397	7,362
Amounts recognised in other comprehensive income				
- equity interests	(1,700)	(1,398)	(1,700)	(1,398)
Net deferred tax assets	3,274	4,304	2,697	5,964

NOTE 19 cont

	Bank		Group	
	2021 $'000	2020 $'000	**2021 $'000**	2020 $'000
(b) The movement in deferred tax assets for each temporary difference during the year is as follows:				
Provision for impairment				
Opening balance	1,654	1,822	1,654	1,822
Restatement due to accounting standard	-	-	-	-
Change recognised in profit or loss	(358)	(168)	(358)	(168)
Closing balance	1,296	1,654	1,296	1,654
Provision for outstanding claims				
Opening balance	-	-	74	73
Over-provision in prior year	-	-	-	-
Change recognised in profit or loss	-	-	-	1
Closing balance	-	-	74	74
Employee benefits				
Opening balance	1,842	1,645	1,842	1,645
Change recognised in profit or loss	134	197	134	197
Closing balance	1,976	1,842	1,976	1,842
Depreciation				
Opening balance	1,471	1,562	2,296	2,181,
Change recognised in profit or loss	(459)	(91)	(458)	115
Adjustment recognised for prior periods	(12)	-	(20)	-
Closing balance	1,000	1,471	1,818	2,296
Land and buildings				
Opening balance	464	334	(1,059)	(804)
Change recognised in profit or loss	(78)	145	(808)	(240)
Adjustment recognised for prior periods	(1)	(15)	(1)	(15)
Closing balance	385	464	(1,868)	(1,059)
Deferred claims liability				
Opening balance	-	-	1,920	-
Change recognised in profit or loss	-	-	(732)	1,920
Closing balance	-	-	1,188	1,920

Notes to the financial statements

for the year ended 30 June 2021

NOTE 19 cont

	Bank 2021 $'000	Bank 2020 $'000	Group 2021 $'000	Group 2020 $'000
Equity Interests				
Opening balance	(1,398)	(1,506)	(1,398)	(1,506)
Restatement due to accounting standard	-	-	-	-
Change recognised in profit or loss	(302)	108	(302)	108
Closing balance	(1,700)	(1,398)	(1,700)	(1,398)
Other				
Opening balance	271	429	635	831
Restatement due to accounting standard	123	(120)	123	(120)
Overprovision in prior year	-	1	(1)	(12)
Change recognised in profit or loss	(77)	(39)	(844)	(64)
Closing balance	317	271	(87)	635

NOTE 20 Other assets

Prepayments	1,846	1,644	1,846	1,642

NOTE 21 Other borrowings

RBA Term Funding Facility	46,208	20,011	46,208	20,011
MTG QCB Trust Repo Series No. 1	418,161	530,687	-	-
	464,369	550,698	46,208	20,011

Borrowings for the RBA Term Funding Facility are for a three-year term. Eligible collateral for this funding consists of all collateral currently eligible for the Reserve Bank's domestic market operations. This includes self-securitised asset backed securities. Refer to note 32 (ii) for details regarding collateral pledged for the RBA Term Funding Facility. Other borrowings are on an at-call basis. Refer to note 30 for further information relating to the financial risk management of borrowings and note 31(b) for information relating to their fair values.

NOTE 22 Deposits from members

Member call deposits (including withdrawable shares)	1,587,383	1,289,683	1,574,303	1,283,949
Member term deposits (including accrued interest)	726,959	783,163	720,955	776,153
Member retirement savings account deposits (including accrued interest)	37,242	41,186	37,242	41,186
	2,351,584	2,114,032	2,332,500	2,101,288

Amounts of deposits from members expected to be settled more than 12 months after reporting date for the Bank amounted to $2,498,000 (2020: nil), for the Group amounted to $2,498,000 (2020: nil).

There are no deposits from an individual member, or association groups of members which exceed 10% of total liabilities of the Bank or Group in the current or prior year.

Refer to note 30 for further information relating to the financial risk management of deposits from members and note 31(b) for information relating to their fair values.

Notes to the financial statements

for the year ended 30 June 2021

	Bank		Group	
	2021 $'000	2020 $'000	**2021 $'000**	2020 $'000
NOTE 23 Other payables				
Accrued expenses	3,321	2,435	3,321	2,435
Contributions in advance – Queensland Country Health Fund	-	-	18,347	16,124
Employee entitlements	3,328	3,136	3,328	3,136
Trade Payables	854	845	944	956
Other liabilities	6,459	9,296	8,989	10,498
	13,962	15,712	34,929	33,149

Trade payables are classified and measured at amortised cost, and all expected to mature within 12 months after the reporting date for the Bank and the Group in both periods presented. Refer to note 30 for further information relating to the financial risk management of trade payables and note 31(b) for information relating to their fair values.

NOTE 24 Income tax payable

Current income tax payable	-	-	-	822

NOTE 25 Provisions

Long service leave	3,260	3,003	3,259	3,003
Make good provision	1,090	816	1,075	816
Outstanding claims provision	-	-	6,868	6,169
Deferred claims liability	-	-	3,961	6,402
Unexpired risk liability reserve	-	-	787	2,776
	4,350	3,819	15,950	19,166

(a) Make good provision

The movements in the make good provision were as follows:

– Carrying amount – opening balance	816	670	816	670
– Additional provisions raised during the year	370	146	355	146
– Amounts used	(96)	-	(96)	-
– Carrying amount – closing balance	1,090	816	1,075	816

The Group is required under the terms of their leases to restore the leased premises at the end of the lease to its original condition. A provision has been recognised for the present value of the estimated expenditure required to demolish any leasehold improvements at the end of the lease. These costs have been capitalised as part of the cost of the leasehold improvements and are amortised over the shorter of the term of the lease or the useful life of the assets.

(b) Outstanding claims provision

– Carrying amount – opening balance	-	-	6,169	6,399
– Additional provisions required	-	-	699	-
– Reduction in provisions required	-	-	-	(230)
– Carrying amount – closing balance	-	-	6,868	6,169

The provision for outstanding claims relates to Queensland Country Health Fund Ltd, it provides for claims received but not assessed and claims incurred but not received. The provision is based on actuarial assessment taking into account historical patterns of claim incidence and processing. The provision also provides for the expected payment to the Risk Equalisation Trust Fund and claims handling costs.

Notes to the financial statements

for the year ended 30 June 2021

NOTE 25 cont

	Bank 2021 $'000	Bank 2020 $'000	Group 2021 $'000	Group 2020 $'000
(c) Deferred claims liability				
The movements in the deferred claims liability were as follows:				
– Carrying amount – opening balance	-	-	6,402	-
– Additional provisions raised during the year	-	-	1,953	6,402
– Amounts used	-	-	(4,394)	-
– Carrying amount – closing balance	-	-	3,961	6,402

The deferred claims liability relates to Queensland Country Health Fund Ltd, it provides for claims that were expected to occur but did not eventuate due to the impact of COVID-19 related restrictions on hospital, medical and ancillary services.

	Bank 2021 $'000	Bank 2020 $'000	Group 2021 $'000	Group 2020 $'000
(d) Unexpired risk liability reserve				
– Carrying amount – opening balance	-	-	2.776	2,315
– Additional provisions required	-	-	-	461
– Reduction in provisions required	-	-	(1,989)	-
– Carrying amount – closing balance	-	-	787	2,776

The unexpired risk liability reserve relates to Queensland Country Health Fund Ltd, it provides for a deficiency between future premium income and future claims and expenses. The provision is based on actuarial liability adequacy testing performed on hospital and general treatment contracts up to 1 April 2021.

NOTE 26 Reserves

(a) FVOCI reserve

The Group has elected to recognise changes in the fair value of certain investments in equity securities in OCI, as explained in note 1. These changes are accumulated within the FVOCI reserve within equity. The group transfers amounts from this reserve to retained earnings when the relevant equity securities are derecognised.

(b) Other reserves

The nature and movements in other reserves are shown below:

(i) Business combination reserve

The business combination reserve recognises the net assets acquired on merger. See note 36 Business Combination for further details regarding the merger with Maleny Credit Union.

	Bank 2021 $'000	Bank 2020 $'000	Group 2021 $'000	Group 2020 $'000
The movements in the business combination reserve were as follows:				
– Carrying amount – opening balance	59,498	59,503	59,498	59,498
– Transfer of reserves on merger	2,136	-	2,136	-
– Repayment of member investment shares	(1,091)	-	(1,091)	-
– Other	-	(5)	-	-
Carrying amount – closing balance	60,543	59,498	60,543	59,498

(ii) General reserve

The general reserve records funds set aside for future expansion of the Bank. There were no movements in the general reserve at $44,257,000 (2020: $44,257,000).

Notes to the financial statements

for the year ended 30 June 2021

	Bank		Group	
	2021	2020	**2021**	2020
	$'000	$'000	**$'000**	$'000

NOTE 27 Statements of cash flows

(a) Reconciliation of cash

For the purposes of the statements of cash flows, cash includes cash on hand and "at call" deposits, net of overdrafts with other financial institutions. Cash at the end of the financial year as shown in the Statements of Cash Flows is reconciled to the related items in the Statements of Financial Position as follows:

	Bank 2021	Bank 2020	Group 2021	Group 2020
Cash and cash equivalents	63,336	41,359	69,879	45,092

(b) Cash flows presented on a net basis

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

- Member deposits in and withdrawals;
- Sales and purchases of maturing certificates of deposit;
- Receivables due from other financial institutions;
- Other borrowings; and
- Provision of member loans and the repayment of such loans.

(c) Reconciliation of cash flow from operations with profit after income tax

	Bank 2021	Bank 2020	Group 2021	Group 2020
Profit after income tax	7,865	5,316	13,315	6,473
– (Gain)/loss on sale of property, plant and equipment	(34)	(26)	(34)	(26)
– Depreciation and amortisation	1,491	1,626	2,703	2,850
– Impairment loss – intangible assets	-	-	-	415
– Depreciation – right of use asset	3,735	3,598	2,580	2,549
– Decrease/(increase) in investment property	(370)	290	(375)	(140)
– Decrease/(increase) in fair value of equities	(1,006)	360	(1,006)	360
– Provision for loan impairment	(714)	505	(714)	505
Changes in operating assets and liabilities:				
– (Increase)/decrease in loans and advances	(143,753)	(44,217)	(143,753)	(44,216)
– Increase/(decrease) in member deposits	188,660	113,029	182,313	112,421
– Increase/(decrease) in interest payable	(1,948)	(2,702)	(1,942)	(2,708)
– (Increase)/decrease in interest receivable	242	383	288	433
– (Increase)/decrease in prepayments	(196)	(367)	(203)	(367)
– (Increase)/decrease in sundry debtors	(1,510)	955	(1,695)	1,057
– (Increase)/decrease in deferred tax assets	1,030	(19)	3,266	(1,722)
– Increase/(decrease) in income tax payable	(260)	3,202	(1,401)	2,875
– Increase/(decrease) in provisions	496	432	(3,252)	7,065
– Increase/(decrease) in payables and other liabilities	(3,851)	384	(320)	(2,770)
Net cash provided by/(used in) operating activities	49,877	82,749	49,770	85,054

Notes to the financial statements

for the year ended 30 June 2021

	Bank		Group	
	2021	2020	**2021**	2020
	$'000	$'000	**$'000**	$'000
NOTE 28 Commitments				
(a) Future capital commitments	-	-	-	-
(b) Operating lease commitments Commitments for minimum lease payments in relation to non-cancellable leases are payable as follows:				
– Not longer than 1 year	3	126	22	186
– Longer than 1 and not longer than 5 years	-	592	-	636
– Longer than 5 years	-	13	-	13
	3	731	22	835

The group leases various sites for branch or office operations under non-cancellable operating leases expiring within four months to five years. Leases have varying terms and renewal rights.
From 1 July 2019, the group has recognised right-of-use assets for these leases, except for short-term and low-value leases, and leases committed to but not yet commenced. See Note 1(v) and Note 15 for further information.

	Bank 2021 $'000	Bank 2020 $'000	Group 2021 $'000	Group 2020 $'000
(c) Outstanding loan commitments Loans and credit facilities approved but not funded or drawn at the end of the financial year:				
– Loans approved but not funded	60,826	40,735	60,826	40,735
– Undrawn overdraft, line of credit and VISA facilities	67,634	66,797	67,634	66,797
(d) Operating leases receivable Commitments for minimum lease payments in relation to non-cancellable leases are payable as follows:				
– Not longer than 1 year	87	77	517	455
– Longer than 1 and not longer than 5 years	136	189	1,562	1,946
– Longer than 5 years	-	-	-	-
	223	266	2,079	2,401

Operating lease receivables relate to property leases of excess space within Branch and Head Office premises, and lease of Investment properties to third parties. Leases are non-cancellable and are of varying terms up to 5 years with option periods of up to 5 years.

NOTE 29 Subsidiaries and other entities

The parent entity is Queensland Country Bank Limited. Particulars in relation to Subsidiaries and Other Entities:

Name	**Country of incorporation**	**Ownership interest held by group**	
		2021	**2020**
Queensland Country Health Fund Ltd	Australia	100%	100%
MTG QCB Trust Repo Series No.1	Australia	100%	100%
Queensland Country Care Navigation Pty Ltd	Australia	100%	100%

NOTE 29 cont

Queensland Country Health Fund Ltd is a registered “for profit” health insurer and is operated by the Bank under a contract of management. The Health Fund changed its status to “for profit” on 1st January 2016 and has the capacity to pay dividends to Queensland Country Bank. In February 2011, Queensland County Health Fund Ltd changed its constitution to make Queensland Country Bank Limited its only member.

The MTG QCB Trust Repo Series No. 1 is a structured entity that has been established to support the ongoing liquidity management framework of Queensland Country Bank Limited. The Bank has purchased the Floating Rate Notes issued by the Trust which are able to be sold to and repurchased from the Reserve Bank of Australia if required. However, this is only expected to occur in the event of a stressed liquidity scenario. Queensland Country Bank Limited is the residual income unit holder of the Trust. Refer to note 32 for further details on securitisation.

Queensland Country Care Navigation Pty Ltd was established on the 4th January 2016 and is a subsidiary company of Queensland Country Health Fund Ltd. This company has an agreement with the Health Fund to provide care coordination services to Members of the Health Fund and there is a management agreement in place with the Bank.

NOTE 30 Financial risk management

The Board of Directors (the Board) has endorsed a strategy of compliance and risk management to suit the risk profile of the Bank.

Key risk management policies encompassed in the overall risk management framework include:
- Risk Management Strategy
- Interest Rate (Market) Risk Management
- Liquidity and Funding Risk Management
- Credit Risk Management
- Capital Management

(a) Market risk

The objective of the Group’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, foreign exchange rates or other prices and other volatilities will have an adverse effect on the Group’s financial condition or results. The Group does not have any material exposure to market risk other than interest rate risk and equity price risk. As such disclosures have not been made for foreign currency risks. The management of market risk is the responsibility of the ALCO Committee.

(i) Interest rate risk

Interest rate risk is the risk of variability of the fair value of future cash flows arising from financial instruments due to the changes in interest rates. Most ADIs are exposed to interest rate risk within their treasury operations. The Group’s exposure to interest rate risk is measured and monitored using interest rate sensitivity models. There has been no change to the Group’s exposure to interest rate risk or the way the Group manages and measures interest rate risk in the reporting period.

The policy of the Bank is to maintain a balanced ‘on book’ strategy by ensuring the net interest rate gaps between assets and liabilities are within Board approved risk appetite. . The gap is measured monthly to identify any large exposures to the interest rate movements and to rectify the excess through targeted fixed rate interest products available through investment assets, and term deposit liabilities to rectify the imbalance to within acceptable levels.

Notes to the financial statements

for the year ended 30 June 2021

NOTE 30 cont

The Health Fund's interest rate risk arises from financial assets. Financial instruments held at variable rates including cash and cash equivalents, notes and managed funds, expose the company to interest rate risk. The expected volatility of interest rates is monitored using market data and forecasts. To manage interest rate risk, the Health Fund has adopted an investment strategy which delivers a diversified portfolio with heavier weighting towards defensive assets.

The Bank's exposure to interest rate risk at the end of the reporting period was as follows:

Bank Repricing Period: 30 June 2021	Floating Interest Rate $'000	Fixed interest rate maturing: 1 year or less $'000	1 to 5 years $'000	Non Interest Sensitive $'000	Total $'000
Financial Assets					
- Cash and cash equivalents	55,816	-	-	7,520	63,336
- Trade debtors	-	-	-	2,162	2,162
- Debt instruments at amortised cost	500,000	335,009	52,459	-	887,468
- Loans and advances at amortised cost	1,193,882	198,473	652,015	-	2,044,370
- Equity instruments at FVOCI	-	-	-	9,020	9,020
	1,749,698	533,482	704,474	18,702	3,006,356
Financial Liabilities					
- Other borrowings	418,161	-	46,208	-	464,369
- Deposits from members	1,626,049	723,038	2,497	-	2,351,584
- Trade payables	-	-	-	854	854
	2.044,210	723,038	48,705	854	2,816,807
Repricing Period: 30 June 2020					
Financial Assets					
- Cash and cash equivalents	34,625	-	-	6,734	41,359
- Trade debtors	-	-	-	1,978	1,978
- Debt instruments at amortised cost	565,000	311,948	45,515	-	922,463
- Loans and advances at amortised cost	1,278,260	251,521	344,143	-	1,873,924
- Equity instruments at FVOCI	-	-	-	8,014	8,014
	1,877,885	563,469	389,658	16,726	2,847,738
Financial Liabilities					
- Other borrowings	530,687	-	20,011	-	550,698
- Deposits from members	1,334,167	779,865	-	-	2,114,032
- Trade payables	-	-	-	845	845
	1,864,854	779,865	20,011	845	2,665,575

Based on calculations at 30 June 2021 the net profit impact to the Bank of a 1% (2020:1%) movement in interest rates would be $3,826,000 (2020: $1,362,000). This represents 2.16% (2020: 0.71%) of the current regulatory capital base of $177,704,000 (2020: $169,687,000).

Notes to the financial statements

for the year ended 30 June 2021

NOTE 30 cont

The Group's exposure to interest rate risk at the end of the reporting period was as follows:

Group Repricing Period: 30 June 2021	Floating Interest Rate $'000	Fixed interest rate maturing: 1 year or less $'000	 1 to 5 years $'000	Non Interest Sensitive $'000	Total $'000
Financial Assets					
- Cash and cash equivalents	62,358	-	-	7,521	69,879
- Trade debtors	-	-	-	598	598
- Debt instruments at amortised cost	81,839	357,513	57,209	-	496,561
- Loans and advances at amortised cost	1,193,882	198,473	652,015	-	2,044,370
- Equity instruments at FVOCI	-	-	-	9,020	9,020
	1,338,079	555,986	709,224	17,139	2,620,428
Financial Liabilities					
- Other borrowings	-	-	46,208	-	46,208
- Deposits from members	1,612,965	717,038	2,497	-	2,332,500
- Trade payables	-	-	-	944	944
	1,612,965	717,038	48,705	944	2,379,652
Repricing Period: 30 June 2020					
Financial Assets					
- Cash and cash equivalents	38,357	-	-	6,735	45,092
- Trade debtors	-	-	-	524	524
- Debt instruments at amortised cost	34,313	335,930	54,465	-	424,708
- Loans and advances at amortised cost	1,278,260	251,521	344,143	-	1,873,924
- Equity instruments at FVOCI	-	-	-	8,014	8,014
	1,350,930	587,451	398,608	15,273	2,352,262
Financial Liabilities					
- Other borrowings	-	-	20,011	-	20,011
- Deposits from members	1,328,423	772,865	-	-	2,101,288
- Trade payables	-	-	-	956	956
	1,328,423	772,865	20,011	956	2,122,255

Based on calculations at 30 June 2021 the net profit impact to the Group of a 1% (2020:1%) movement in interest rates would be $3,826,000 (2020: $1,362,000). This represents 2.16% (2020: 0.71%) of the current capital base of $177,704,000 (2020: $169,687,000).

NOTE 30 cont

(ii) Equity price risk
The Group's exposure to equity securities price risk arises from equity investments held by the Group and classified in the balance sheet as FVOCI. The investments consist of unlisted equity securities held by the Bank in Indue and Cuscal. (refer note 18).

The Group's maximum exposure to equity securities price risk is the carrying amounts of the investments of $9,020,000 (2020: $8,014,000). The impact of an increase/decrease of 10% on the net asset backing per share would result in an increase/decrease in fair value of $902,000 (2020: $801,000). The impact is based on the assumption that the equity indexes had increased or decreased by 10% with all other variables held constant.

(b) Credit risk

Credit risk is the risk that members, financial institutions and other counterparties will be unable to meet their obligations to the Group which may result in financial losses. Credit risk arises from contractual cash flows of debt instruments carried at amortised cost and FVPL (including cash and cash equivalents), trade debtors, and credit exposures to wholesale and retail customers, including loans and advances and outstanding receivables.

A. Loans and advances at amortised cost
(i) Risk management
Credit risk is managed by way of strict adherence to the credit assessment policies before loans are approved and close monitoring of defaults in the repayment of loans thereafter on a regular basis. The credit policy has been endorsed by the Board to ensure that loans are only made to members that are credit-worthy (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 of geographic and industry groups considered a high risk of default;
- Reassessing and review of the credit exposures on loans and facilities;
- Establishing appropriate provisions to recognise the expected credit losses for loans and facilities;
- Debt recovery procedures; and
- Review of compliance with the above policies.

Notes to the financial statements

for the year ended 30 June 2021

NOTE 30 cont

(ii) Collateral
The majority of Queensland Country Bank's loan book is secured on residential property in Australia. Therefore, the Bank is exposed to risks in the reduction of the Loan to Value Ratio (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. Where collateral is held, it is in the form of mortgage interests over property, other registered securities over assets, mortgage insurance and guarantees. The fair value of the collateral is measured at the time of providing the loan or advance and is required to be no less than 100% of the loan or advance for mortgage loans. Collateral may be less than 100% of the loan or advance on personal loans. The fair value of the collateral is generally not updated except when a loan or advance is individually assessed as impaired. Collateral is usually not held over loans and advances to, or deposits with, other financial institutions.

It is the policy of the Bank to allow members with a secured loan or advance reasonable assistance and opportunity to rectify a default prior to recovery procedures being initiated. In general, the Group does not take possession of collateral it holds as security or call on other credit enhancements that would result in recognition of an asset on the balance sheet.

The Group's policies regarding obtaining collateral have not significantly changed during the reporting period and there has been no significant change in the overall quality of the collateral held by the Group.

The Group closely monitors collateral held for financial assets considered to be credit-impaired, as it becomes more likely that the Group will take possession of collateral to mitigate potential credit losses. The following table shows the distribution of LVR ratios for the Group's mortgage and other secured credit-impaired portfolio.

	Credit-impaired (Gross carrying amount)	
Bank and Group	**2021 $'000**	2020 $'000
Mortgage and other secured portfolio – LVR Distribution at 30 June 2021		
- Lower than 50%	1,231	1,694
- 50 to 60%	-	13
- 60 to 70%	1,693	425
- 70 to 80%	311	689
- 80 to 90%	420	87
- 90 to 100%	498	372
- Higher than 100%	141	223
Total	4,294	3,503

(iii) Concentration risk
Concentrations of risk arise from financial instruments that have similar characteristics and are affected similarly by changes in economic or other conditions. Concentration exposures are closely monitored.

The Bank lends predominantly to regional Queensland, and therefore is exposed to economic conditions in this geographic region. Factors such as unemployment and property prices can impact the credit risk of loans in this region. The maximum exposure to credit risk arising from loans originated in regional areas in Queensland at 30 June 2021 is $1,710,252,000 (2020: $1,543,539,000).

NOTE 30 cont

Concentration risk can also arise from the Bank's exposure to an individual counterparty (or group of related parties). The Bank minimises this risk by undertaking transactions with a large number of customers. Concentration risk is also managed in accordance with the Prudential Standards. A large exposure is considered to exist if prudential limits are exceeded as a proportion of the Bank's regulatory capital (10 per cent). 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 per cent capital benchmark to be higher than acceptable. At 30 June 2021, the Bank did not hold any large loan exposures to individual counterparties (or groups of related parties).

(iv) Impairment

The Group applies a three-stage approach to measuring ECL on loans and advances, including loan commitments. Exposures are assessed on a collective basis in each stage unless there is sufficient evidence that one or more events associated with an exposure could have a detrimental impact on estimated future cash flows. Where such evidence exists, the exposure is assessed on an individual basis. The measurement basis for each stage is as detailed below:

- Stage 1 – 12-month ECL: For loans where there has not been a significant increase in credit risk (**SICR**) since original recognition, the portion of lifetime ECL associated with the probability of default (**PD**) events occurring within the next 12 months is recognised as the 12 month ECL, adjusted for forward looking information. Stage 1 includes facilities where the credit risk has improved, and the loan has been reclassified from Stage 2 or Stage 3.
- Stage 2 – Lifetime ECL (not impaired): Where there has been a SICR, the lifetime ECL is determined with reference to the probability of default events occurring throughout the life of a loan, adjusted for forward looking information. Stage 2 includes facilities where the credit risk has improved, and the loan has been reclassified from Stage 3.
- Stage 3 – Lifetime ECL (credit impaired): The provision is also equivalent to the lifetime ECL, but interest income is measured based on the carrying amount of the loan net of the associated ECL.

The credit risk of loans is continuously monitored by the Group. At each reporting date, the Group assesses the credit risk of exposures in comparison to the risk at initial recognition, to determine the stage that applies to the associated ECL measurement. For this purpose, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes quantitative and qualitative information and also forward looking analysis.

SICR:

The Group considers a loan to have experienced a SICR if any of the following indicators are present:
- Significant financial difficulties of the borrower
- Significant change in collateral value (secured facilities only) which is expected to increase risk of default
- The borrower is more than 30 days past due on their contractual repayments for loans, and 5 days past due for revolving credit facilities.

Default:

The Group considers a loan to be in default (which is fully aligned with the definition of credit-impaired) if any of the following indicators are present:
- It is becoming probable that the borrower will enter bankruptcy
- The borrower is more than 90 days past due on their contractual repayments for loans, and 14 days past due for revolving credit facilities.

An instrument is considered to no longer be in default (i.e. to have cured) when it no longer meets any of the default criteria for a continuous period of six months.

Notes to the financial statements

for the year ended 30 June 2021

NOTE 30 cont

Incorporation of forward-looking information:
The assessment of SICR and the calculation of ECL both incorporate forward looking information. The Group has considered the potential impact of the key economic variables impacting credit risk and expected credit losses for each portfolio, including unemployment, domestic GDP, property prices, interest rates, and the impacts of regulatory, legislative and political changes. Judgment has been applied in the process, and where applicable management adjustments or overlays are made to account for situations where known or expected risks and information have not been considered in the modelling process.

Impact of COVID-19

In response to COVID-19 and the expectations of economic impacts, key assumptions employed in the Group's ECL calculation have been revised. At the reporting date, the expected impacts of COVID-19 have been captured via the modelled outcome, along with a separate economic overlay reflecting the uncertainty of the future impact of the pandemic.

The Group has supported members experiencing financial difficulties as a result of COVID-19 via financial assistance including temporary loan repayment deferrals. In accordance with regulatory and industry guidance, temporary deferrals have been offered up to a maximum of 10 months.

As per industry guidance, a payment deferral request does not automatically result in a significant increase in credit risk, and automatically transition facilities from a Stage 1 ECL to a Stage 2 ECL. Facilities granted temporary financial assistance are not being treated as being in arrears during the deferral period, and not considered Restructured, in accordance with regulatory guidance. The Group has elected, however, to classify those facilities with temporary deferrals as Stage 2 for ECL purposes, given uncertainty associated with COVID.

The gross carrying value of loans and advances subject to COVID-19 financial assistance at the reporting date were nil. (2020: $152,542,000)

Maximum exposure to credit risk:
The following table contains an analysis of the credit risk exposure of loans for which an ECL provision is recognised. The Bank does not use a credit grading system for loans and advances, and therefore the credit grade of loans within each portfolio is considered comparable. The gross carrying amount of loans below also represents the Group's maximum exposure to credit risk on these loans:

Bank and Group	**Stage 1** 12-month ECL Collective **$'000**	**Stage 2** Lifetime ECL Collective **$'000**	**Stage 3** Lifetime ECL Specific **$'000**	**Total** **$'000**
30 June 2021				
- Commercial	59,290	510	-	59,800
- Housing	1,819,487	10,444	3,156	1,833,087
- Personal	110,751	767	494	112,012
- Overdraft	29,899	-	360	30,259
- Visa	13,139	-	392	13,531
Gross carrying amount	2,032,566	11,721	4,402	2,048,689
Impairment provision	1,170	1,136	2,013	4,319

Notes to the financial statements

for the year ended 30 June 2021

NOTE 30 cont

Bank and Group	Stage 1 12-month ECL Collective $'000	Stage 2 Lifetime ECL Collective $'000	Stage 3 Lifetime ECL Specific $'000	Total $'000
30 June 2020				
- Commercial	42,778	13,688	-	56,466
- Housing	1,533,306	152,828	6,110	1,692,244
- Personal	79,459	5,061	500	85,020
- Overdraft	32,119	-	393	32,512
- Visa	12,714	-	483	13,197
Gross carrying amount	1,700,376	171,577	7,486	1,879,439
Impairment provision	1,141	2,513	1,861	5,515

Calculation of ECL:
For expected credit loss provisions modelled on a collective basis, a grouping of exposures is performed on the basis of shared risk characteristics, such that risk exposures within a group are homogenous. Loans have been grouped by product type (commercial loans, housing loans, personal loans, overdrafts, credit cards and overdrawn savings) for the purpose of modelling ECL. Stage 3 loans have been assessed individually.

The ECL is measured on either a 12-month or lifetime basis depending on whether a SICR has occurred since initial recognition or whether an asset is considered to be credit-impaired. ECLs are the discounted product of the Probability of Default (**PD**), Exposure at Default (**EAD**), and Loss Given Default (**LGD**), defined as follows:

- The 12-month and lifetime PD represent the likelihood of a borrower defaulting on its financial obligation either over the next 12 months or over the remaining lifetime of the obligation, respectively, based on conditions existing at balance date and future economic conditions that affect credit risk.

- EAD is based on the amounts the Group expects to be owed at the time of default, taking into account the repayment of principal and interest from the balance sheet date to the default event together with any expected drawdown of a facility.

- Loss Given Default (LGD) represents the Group's expectation of the extent of loss on a defaulted exposure, taking into account the mitigating effect of collateral.

The discount rate used in the ECL calculation is the original effective interest rate or an approximation thereof.

Notes to the financial statements

for the year ended 30 June 2021

NOTE 30 cont

Provision for impairment:
The following table explains the changes in the provision for impairment between the beginning and the end of the period:

Bank and Group	**Stage 1** 12-month ECL Collective **$'000**	**Stage 2** Lifetime ECL Collective **$'000**	**Stage 3** Lifetime ECL Specific **$'000**	**Total** **$'000**
Balance at 1 July 2019	1,245	2,403	2,427	6,075
Movements with profit or loss impact				
Movements due to model enhancements and other changes	407	(1,487)	(459)	(1,539)
Transfers during the period:				
- Transfers from Stage 1 to Stage 2	(393)	393	-	-
- Transfers from Stage 1 to Stage 3	(95)	-	95	-
- Transfers from Stage 2 to Stage 3	-	(472)	472	-
- Transfers from Stage 2 to Stage 1	3	(3)	-	-
- Transfers from Stage 3 to Stage 1	1	-	(1)	
- Transfers from Stage 3 to Stage 2	-	24	(24)	-
Increase in ECL Collective/Specific	(36)	1,691	809	2,464
New financial assets originated	179	38	-	217
Financial assets derecognised	(170)	(74)	(393)	(637)
Total net profit and loss charge during the period	(104)	110	499	505
Other movements with no profit or loss impact				
Write-offs	-	-	(1,065)	(1,065)
Balance at 30 June 2020	1,141	2,513	1,861	5,515
Movements with profit or loss impact	-	-	-	-
Movements due to model enhancements and other changes	-	-	-	-
Transfers during the period:				
- Transfers from Stage 1 to Stage 2	(60)	60	-	-
- Transfers from Stage 1 to Stage 3	(143)	-	143	-
- Transfers from Stage 2 to Stage 3	39	(39)	-	-
- Transfers from Stage 2 to Stage 1	-	(138)	138	-
- Transfers from Stage 3 to Stage 1	2	-	(2)	-
- Transfers from Stage 3 to Stage 2	-	20	(20)	-
Increase/(decrease) in ECL Collective/Specific	58	(1,215)	609	(548)
New financial assets originated	253	5	344	602
Financial assets derecognised	(120)	(70)	(392)	(582)
Total net profit and loss charge during the period	29	(1,377)	820	(528)
Other movements with no profit or loss impact				
Write-offs	-	-	(668)	(668)
Balance at 30 June 2021	1,170	1,136	2,013	4,319

The modelled outcome for COVID-19 resulted in additional Stage 2 Lifetime ECL Collective of nil (2020: $484,000). A separate economic overlay reflecting the further uncertainty of $500,000 (2020: $1,000,000) was also included in Stage 2 Provision.

Notes to the financial statements

for the year ended 30 June 2021

NOTE 30 cont

Collective Provision 12 Month ECL (Stage 1) showed minimal overall movement with the reduction resulting from the deterioration in credit quality migrating loans to Stage 2 and Stage 3, offset by new loans and facilities recognised.
Collective Provision Lifetime ECL (Stage 2) reduced as a result of economic overlays being reduced, and an improvement in credit quality.
Specific Provision Lifetime ECL increased due to a deterioration in credit quality which saw some loans and facilities move to Stage 3 from both Stage 1 and Stage 2.

Write-offs:
The Group writes off financial assets, in whole or in part, when it has exhausted all practical recovery efforts and has concluded there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include (i) ceasing enforcement activity and (ii) where the Group's recovery method is foreclosing on collateral and the value of the collateral is such that there is no reasonable expectation of recovering in full.

The Group may write off financial assets that are still subject to enforcement activity. The outstanding contractual amounts of such assets written off during the year ended 30 June 2021 was Nil. The Group may seek to recover amounts it is legally owed in full, but which have been partially written off to no reasonable expectation of full recovery. A reconciliation of the impairment expense on loans and advances to members is provided below:

	Bank		Group	
	2021 $'000	2020 $'000	**2021 $'000**	2020 $'000
Impairment expense on loans and advances				
- New and increased provisions (net of releases)	(1,382)	(560)	(1,382)	(560)
- Recoveries of specific provisions	-	-	-	-
- Write-off of specific provisions	668	1,065	668	1,065
Total impairment expense/(benefit) for loans and advances	(714)	505	(714)	505

Modifications:
The Group sometimes modifies the terms of loans provided to members due to commercial renegotiations, or for distressed loans, with a view to maximising recovery. Such restructuring activities include extended payment term arrangements, payment holidays and payment forgiveness. Restructuring policies and practices are based on indicators or criteria which, in the judgment of management, indicate that payment will most likely continue. Restructuring is most commonly applied to term loans.

The risk of default of such assets after modification is assessed at the reporting date and compared with the risk under the original terms at initial recognition, when the modification is not substantial and so does not result in derecognition of the original asset (refer note 1(d)). The Group monitors the subsequent performance of these assets, and where it improves may move them from Stage 3 or Stage 2 (lifetime ECL) into Stage 1 (12-month ECL). This is only the case for assets which have performed in accordance with the new terms for six consecutive months or more. The gross carrying amount of such assets held at 30 June 2021 was $3,019,000 (2020: $2,743,000).

NOTE 30 cont

B. Debt instruments at amortised cost and FVPL (including cash and receivables due from other financial institutions)

(i) Risk management

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

The Group uses the ratings of reputable ratings agencies to assess the credit quality of all debt exposures, where applicable, using the credit quality assessment scale in APRA Prudential Standard 112. The credit ratings of the investments are monitored for credit deterioration. Individual risk limits are set based on credit ratings in line with prudential requirements, and internal board approved limits. The compliance with limits is regularly monitored by management and has been complied with during the current and previous periods.

(ii) Collateral

Collateral is usually not held against debt instruments.

(iii) Concentration risk

There is a concentration of credit risk with respect to debt instruments with the placement of investments in Indue Limited. 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 limits to concentration on one entity. Also, the relative size of the Group compared to the industry is relatively low such that the risk of loss is reduced. All other investments are limited to various percentages of the capital base depending on their external ratings as per below:

	Maximum (% of capital base)
Indue Limited	60%
Cuscal	25%
Westpac	25%
Any single/group related ADI – rated AA	25%
Any single/group related ADI – rated A	25%
Other External Parties	25%
Unrated Parties	15%

(iv) Impairment

All of the Group's investments in debt instruments at amortised cost are considered to be low credit risk, as they have a low risk of default and the issuers have a strong capacity to meet their contractual cash flow obligations in the near term. The identified impairment loss relating to these investments was assessed by the Group as immaterial, and as such no impairment losses or provisions relating to debt instruments at amortised cost have been recognised in the current or prior periods.

The maximum exposure to credit risk for debt instruments at cost and FVPL are the carrying amounts of these assets as disclosed in the Statements of Financial Position. No modifications of financial assets have occurred during the current or prior reporting periods.

C. Trade debtors

(i) Risk management

Trade debtors of the Bank consist primarily of management fees receivable from the Health Fund. Trade debtors of the Group relate to amounts receivable from leased properties. Trade debtors are generally due for settlement within 21 to 30 days. Collectability is reviewed on an ongoing basis.

(ii) Collateral

Collateral is usually not held against trade debtors.

NOTE 30 cont

(iii) Concentration risk
There are no significant concentrations of credit risk for trade debtors.

(iv) Impairment
All of the Group's trade debtors are considered to be low credit risk, as they have a low risk of default and the debtors have a strong capacity to meet their contractual cash flow obligations in the near term. The identified impairment loss relating to trade debtors was assessed by the Group as immaterial, and as such no impairment losses or provisions relating to trade debtors have been recognised in the current or prior periods.

The maximum exposure to credit risk for trade debtors are the carrying amounts of these assets as disclosed in note 10. No modifications have occurred during the current or prior reporting periods.

(c) Liquidity risk

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

The Group manages liquidity risk by:
- Continuously monitoring actual and 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.

Under the APRA Prudential Standards, the minimum requirement is to maintain at least 9% of total adjusted liabilities as liquid assets capable of being converted to cash within 24 hours. The Bank's policy is to maintain at least 11% of funds 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, the Management and Board are to address the matter and ensure that the liquid funds are obtained from new deposits and the borrowing facilities available.

The ratio of liquid funds held over the past year is set out below:

	2021	2020
Liquid funds to total adjusted liabilities:		
- As at 30 June	17.61%	17.52%
- Average for the year	16.84%	16.37%
- Minimum during the year	15.13%	14.90%
Liquid funds to total member deposits		
- As at 30 June	19.12%	18.83%

To manage liquidity risk arising from financial liabilities, the Group holds liquid assets comprising cash and cash equivalents and investments grade investment securities for which there is an active and liquid market. These assets can be readily sold to meet liquidity requirements. At the end of the reporting period, the total of such deposits held by the Group was $389,935,000 (2020: $323,570,000) and for the Bank was $389,935,000 (2020: $323,570,000). The Group also has access to an overdraft facility through Indue Limited. These facilities as shown below are floating rate, and may be withdrawn at any time without notice:

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NOTE 30 cont

	Bank 2021 $'000	Bank 2020 $'000	Group 2021 $'000	Group 2020 $'000
Overdraft facility approved	500	320	500	320
Overdraft facility used	-	-	-	-
Overdraft facility available	500	320	500	320

(d) Capital management

The Australian Prudential Regulatory Authority (APRA) sets and monitors capital requirements for the Bank under Australian Prudential Standard (APS) 110 Capital Adequacy. Under the Standard the Bank must maintain minimum levels of Tier 1 capital and may also hold Tier 2 capital up to certain prescribed limits.

Tier 1 capital comprises the highest quality components of capital that fully satisfy the following essential characteristics:

- Provide a permanent and unrestricted commitment of funds;
- Are freely available to absorb losses;
- Do not impose any unavoidable servicing charges against earnings; and
- Rank behind claims of depositors and other creditors in the event of winding up.

The Bank's Tier 1 Capital includes preference share capital, retained profits and realised reserves.

Tier 2 capital comprises capital instruments that, to varying degrees, fall short of the quality of Tier 1 capital but exhibit some of the features of equity and contribute to the overall strength of the Bank as a going concern.

The Bank's Tier 2 capital includes collective impairment allowances where the standardised approach is used (general reserve for credit losses).

Capital in the Bank is made up as follows:

	2021 $'000	2020 $'000
Tier 1 Capital		
General Reserves	108,767	107,018
Retained earnings	79,732	72,448
Less:		
Prescribed deductions	(12,778)	(13,151)
Net Tier 1 capital	175,721	166,315
Tier 2 Capital		
Reserve for credit losses	1,983	3,372
Net Tier 2 capital	1,983	3,372
Total capital	177,704	169,687

The Bank is required to maintain a minimum capital level of 8% as compared to the risk weighted assets at any given time in accordance with APRA Prudential Standards. The Bank has complied with all externally imposed capital requirements throughout the period.

NOTE 30 cont

The level of the capital ratio can be affected by growth in assets relative to growth in reserves and by changes in the mix of assets. The capital ratios as at the end of each reporting period, for the past 5 years are as follows:

2021	2020	2019	2018	2017
15.33%	15.73%	16.16%	15.82%	14.31%

The Bank's objective is to maintain sufficient capital resources to support business activities and operating requirements and to ensure continuous compliance with externally imposed capital ratios. To manage the Bank's capital, the Bank reviews the ratio monthly and monitors major movements in asset levels. Policies have been implemented which require reporting to the Board and the regulator if the capital ratio falls below 12.90%.

The Health Fund is subject to prudential regulation prescribed in the *Private Health Insurance Act 2007* and administered by the Australian Prudential Regulation Authority (APRA). The prudential regulation includes solvency and capital adequacy requirements that are designed to protect the long-term viability of the company and the best interest of contributors. The Health Fund has capital objectives significantly exceeding the solvency and capital adequacy requirements and utilises the appointed actuary for advice in determining an appropriate target capital level for the company.

NOTE 30 cont

The maturity profile of financial liabilities based on the contractual repayment terms is set out in the following table. The table shows the periods in which the financial liabilities mature. Contractual cash flows shown in the table are at undiscounted values (including future interest expected to be paid). Accordingly, these values may not agree to the carrying amounts.

		Carrying amount $'000	Total Cash flows $'000	Within 1 month $'000	1 – 3 months $'000	3 – 12 months $'000	1 – 5 years $'000	Over 5 years $'000
Bank - Maturity profile of financial liabilities								
2021	**Financial liabilities**							
	- Other borrowings	464,369	479,473	9,020	17,520	70,912	246,227	135,794
	- Deposits from members	2,351,584	2,356,567	1,724,722	230,161	399,159	2,525	-
	- Trade payables	854	854	854	-	-	-	-
	- Unrecognised loan commitments	60,826	60,826	33,976	19,914	4,189	2,747	-
		2,877,633	2,897,720	1,768,572	267,595	474,260	251,499	135,794
2020	**Financial liabilities**							
	- Other borrowings	550,698	594,421	10,901	21,200	86,223	297,934	178,163
	- Deposits from members	2,114,032	2,117,475	1,475,410	310,521	331,544	-	-
	- Trade payables	845	845	845	-	-	-	-
	- Unrecognised loan commitments	40,735	40,735	22,754	13,336	2,805	1,840	-
		2,706,310	2,753,476	1,509,910	345,057	420,572	299,774	178,163
Group – Maturity profile of financial liabilities								
2021	**Financial liabilities**							
	- Other borrowings	46,208	46,320	-	-	-	46,320	-
	- Deposits from members	2,332,500	2,333,011	1,708,051	225,806	396,640	2,513	-
	- Trade payables	944	944	944	-	-	-	-
	- Unrecognised loan commitments	60,826	60,826	33,976	19,914	4,189	2,747	-
		2,440,478	2,441,101	1,742,972	245,720	400,829	51,580	-
2020	**Financial liabilities**							
	- Other borrowings	20,011	20,150	-	-	-	20,150	-
	- Deposits from members	2,101,288	2,104,716	1,468,674	307,511	328,531	-	-
	- Trade payables	956	956	956	-	-	-	-
	- Unrecognised loan commitments	40,735	40,735	22,754	13,336	2,805	1,840	-
		2,162,990	2,166,557	1,492,384	320,847	331,336	21,990	-

NOTE 31 Fair value measurement

(a) Fair value hierarchy

The Group measures fair values of assets and liabilities using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- Level 1: quoted market price (unadjusted) in an active market for an identical instrument. The quoted market price for financial assets is the current bid price;
- Level 2: valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes assets and liabilities valued using:
  - Quoted market prices in active markets for similar instruments;
  - Quoted prices for identical or similar instruments in markets that are considered less than active; or
  - Other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- Level 3: valuation techniques using significant unobservable inputs. This category includes all assets and liabilities where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

To the extent possible, assumptions used are based on observable market prices and rates at the end the reporting date. The Group's policy is to recognise transfers into and out of the different fair value hierarchy levels at the date the event or change in circumstances that caused the transfer occurred. There have been no significant transfers into or out of each level during the current or prior periods.

The following table classifies assets and liabilities that are recognised and measured at fair value in the financial statements on a recurring basis at the reporting date, by the level in the fair value hierarchy into which the fair value measurement is categorised. The amounts are based on the values recognised in the Statements of Financial Position.

		Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Bank					
2021	Financial assets at FVPL	-	-	-	-
	Equity instruments at FVOCI	-	-	9,020	9,020
	Investment property	-	-	830	830
Total		-	-	9,850	9,850
2020	Financial assets at FVPL	-	-	-	-
	Equity instruments at FVOCI	-	-	8,014	8,014
	Investment property	-	-	460	460
Total		-	-	8,474	8,474
Group					
2021	Financial assets at FVPL	-	37,220	-	37,220
	Equity instruments at FVOCI	-	-	9,020	9,020
	Investment property	-	-	4,765	4,765
Total		-	37,220	13,785	51,005
2020	Financial assets at FVPL	-	33,395	-	33,395
	Equity instruments at FVOCI	-	-	8,014	8,014
	Investment property	-	-	4,390	4,390
Total		-	33,395	12,404	45,799

NOTE 31 cont

(b)Valuation techniques to determine fair values

(i) Cash and cash equivalents, trade debtors, trade payables, other borrowings – securitisation, and debt instruments at amortised cost

Due to the short-term nature of these assets and liabilities, their carrying amounts are considered to be the same as their fair values as disclosed in the Statements of Financial Position and accompanying notes.

(ii) Investment securities

Equity instruments at FVOCI:

The Bank holds unlisted equity investments in Indue and Cuscal (refer note 18). The fair value measurements of the unlisted equity securities have been categorised as level 3 in the fair value hierarchy based on the inputs to the valuation techniques used. Details of the significant unobservable inputs used and relationship between unobservable inputs and fair value follow:

Valuation approach	Unobservable inputs used	Fair value at 30 June 2021 $'000	Fair value at 30 June 2020 $'000	Relationship of unobservable inputs to fair value
Measurement of the value of the shares has been made with reference to the net asset backing per share, taken from the most recent available audited financial statements from the organisations.	**Indue** Net asset backing per share from 2021 audited financial statements. The financial statements note that although the majority of assets are disclosed at cost, the cost is considered to be equivalent to fair value based on the short-term nature of the assets. 30 June 2021: $399 per share 30 June 2020: $381 per share	5,335	5,094	An increase/ decrease of 10% on the net asset backing per share would result in an increase/ decrease in the fair value by $533,000 (2020: $509,000)
	Cuscal Net asset backing per share from 2021 audited financial statements. The majority of assets are disclosed at fair value, and for those assets disclosed at amortised cost, it would be reasonable to expect the fair value would be equivalent to cost. 30 June 2021: $1.83 per share 30 June 2020: $1.45 per share	3,685	2,920	An increase / decrease of 10% on the net asset backing per share would result in an increase/ decrease in the fair value by $369,000 (2020: $292,000)

Financial assets at FVPL:

These are valued using quoted market prices or dealer quotes for similar instruments. The fair values are disclosed in the Statements of Financial position.

(iii) Loans and advances

For variable rate loans, the carrying amount value is considered to be a reasonable approximation of the fair value. The fair value for fixed rate loans was calculated by utilising discounted cash flow models based on the maturity of the loans. The discount rates applied were based on the current benchmark rate offered for the average remaining term of the portfolio as at balance date. These are classified as level 2 in the fair value hierarchy and their fair values are below:

NOTE 31 cont

	2021 Carrying Amount $'000	2021 Fair Value $'000	2020 Carrying Amount $'000	2020 Fair Value $'000
Loans and advances				
Bank	2,044,370	2,095,043	1,873,924	1,908,826
Group	2,044,370	2,095,043	1,873,924	1,908,826

(iv) Deposits
The fair value of at-call and variable rate deposits and fixed rate deposits repriced within twelve months approximates the carrying value. Discounted cash flow models based upon deposit types and related maturities were used to calculate the fair value of other term deposits. The discount rates applied were based on the current benchmark rate offered for the actual remaining term of the portfolio as at balance date. These are classified as level 2 in the fair value hierarchy and their fair values are below.

	2021 Carrying Amount $'000	2021 Fair Value $'000	2020 Carrying Amount $'000	2020 Fair Value $'000
Deposits from members				
Bank	2,351,584	2,352,268	2,114,032	2,115,720
Group	2,332,500	2,333,183	2,101,288	2,102,977

(v) Property, plant and equipment
Properties carried at historical cost are revalued every three years in accordance with internal policy. The basis of these valuations is described in note 15. They are categorised as level 3 in the fair value hierarchy.

(vi) Other borrowings – RBA Term Funding Facility
The fair value of the RBA Term Funding Facility was calculated by utilising a discounted cash flow model based on the maturity of the facility. The discount rates applied were based on the current benchmark rate offered for the remaining term of the facility. It is classified as level 2 in the fair value hierarchy and its fair value is below.

	2021 Carrying Amount $'000	2021 Fair Value $'000	2020 Carrying Amount $'000	2020 Fair Value $'000
RBA Term Funding Facility				
Bank	46,208	45,145	20,011	20,022
Group	46,208	45,145	20,011	20,022

Notes to the financial statements

for the year ended 30 June 2021

NOTE 31 cont

(vii) Investment property

The fair value measurement the investment property has been categorised as level 3 fair value based on the inputs to the valuation techniques used. Details of the significant unobservable inputs used and relationship between unobservable inputs and fair value follow:

Valuation approach	Inputs Used	Fair value at 30 June 2021 $'000	Fair value at 30 June 2020 $'000	Relationship of unobservable inputs to fair value
Direct comparison approach whereby the property is directly compared to relevant sales of similar properties within the area. Appropriate adjustments are then made for differences in property itself and such factors as movement in the market and the circumstances of each sale.	**1-6, 12 McIlwraith Street, Auchenflower** Selling price based on market value of similar properties in the area. Range: 2021: $475,000 – $485,000 per unit. 2020: $412,500 – $510,000 per unit.	Bank: - Group: 2,875	Bank: - Group: 2,870	An increase/ decrease of 10% on the value per unit would result in an increase/ decrease in the fair value by $288,000 (2020: $287,000) for the Group.
	1-4, 30 Cheyne Street, Pimlico Selling price based on market value of similar properties in the area. Range: 2021: $265,000 per unit. 2020: $225,000 – $301,000 per unit.	Bank: - Group: 1,060	Bank: - Group: 1,060	An increase/ decrease of 10% on the value per unit would result in an increase/ decrease in the fair value by $106,000 (2020: $106,000) for the Group.
	8 William Street, Beaudesert Selling price based on market value per m2 of building area. Range: 2021: $1,000 – $3,000 per m2 of lettable area 2020: $1,400 – $1,500 per m2 of lettable area	Bank: 830 Group: 830	Bank: 460 Group: 460	An increase/ decrease of 10% on the value per m2 of lettable area would result in an increase/ decrease in the fair value by $83,000 (2020: $46,000) for the Bank and the Group.

Notes to the financial statements

for the year ended 30 June 2021

NOTE 31 cont

(c)Fair value measurements using significant unobservable inputs (level 3)
The following table presents the changes in level 3 items for the periods ended 30 June 2021 and 30 June 2020:

	Bank		Group	
	2021 $'000	2020 $'000	**2021 $'000**	2020 $'000
Movements in level 3 of the fair value hierarchy – Unlisted equity securities				
Balance at the beginning of the financial year	8,014	8,379	8,014	8,374
Additions/(disposals)	-	(5)	-	-
Reclassification at 1 July 2020 upon adoption of AASB 9	-	-	-	-
Remeasurement at 1 July 2020 upon adoption of AASB 9	-	-	-	-
Gains/(losses) recognised in profit or loss (other income)	-	-	-	-
Gains/(losses) recognised in other comprehensive income	1,006	(360)	1,006	(360)
Transfers into/(out of) Level 3	-	-	-	-
Balance at the end of the financial year	9,020	8,014	9,020	8,014

	Bank		Group	
	2021 $'000	2020 $'000	**2021 $'000**	2020 $'000
Movements in level 3 of the fair value hierarchy – Investment property				
Balance at the beginning of the financial year	460	750	4,390	4,250
Additions/(disposals)	-	-	-	-
Gains/(losses) recognised in profit or loss (other income)	370	(290)	375	140
Gains/(losses) recognised in other comprehensive income	-	-	-	-
Transfers into/(out of) Level 3	-	-	-	-
Balance at the end of the financial year	830	460	4,765	4,390

Notes to the financial statements

for the year ended 30 June 2021

NOTE 32 Transfer of financial assets – securitisation

(i)Securitisation

The MTG QCCU Trust Repo Series No. 1 (The Trust) has been established to support the on-going liquidity management framework of Queensland Country Bank Limited. The Bank has purchased the floating rate notes issued by the Trust. The senior notes held by the Bank are eligible to be utilised as collateral in repurchase arrangements with the Reserve Bank of Australia (RBA). The total floating rate notes as at 30 June 2021 amounted to $500,000,000 (2020: $565,000,000). These arrangements enable the Bank to raise funds from the RBA utilising its loans and advances as the underlying security. The Bank has retained substantially all the risks and rewards of ownership of the relevant loans and advances as it has retained credit risk and interest rate risk. Due to the retention of substantially all the risks and rewards of ownership, Queensland Country Bank Limited continues to recognise the transferred assets within loans and advances and the transfer is accounted for as a secured financing transaction. Queensland Country Bank Limited assigned mortgage secured loans to the securitisation entity during 2021 amounting to $32,247,000 (2020: $391,047,000). The total assigned mortgage secured loans to the securitisation entity amounted to $418,161,000 as at 30 June 2021 (2020: $530,687,000).

Queensland Country Bank Limited collects the cash receipts relating to the loans and advances and passes these receipts on to the MTG QCCU Trust Repo Series No. 1. The Bank cannot use the transferred assets as they have been transferred to the Trust and pledged as security for securities issued by the Trust.

The following table sets out the carrying amounts of transferred financial assets and the related liabilities at the reporting date:

	Bank		Group	
	2021	2020	**2021**	2020
	$'000	$'000	**$'000**	$'000
Carrying amount of transferred assets	418,161	530,687	-	-
Carrying amount of associated liabilities	418,161	530,687	-	-

(ii) RBA Term Funding Facility

The Group obtained funding through the facility by entering into repurchase agreements with the RBA. At 30 June 2021 the Group has drawn down $46,208,000 of the facility. Interest is charged at a fixed rate of 10 basis points on the drawn down portion of the facility. The repurchase agreements entered into under the TFF, require the Group to pledge eligible collateral. This includes self securitisation asset-backed securities. As at 30 June 2021 $55,320,000 (2020: $23,950,000) of the self-securitisation floating rate notes were pledged as collateral. As the Group retains substantially all the risks and rewards of ownership, the notes are not de-recognised in the accounts.

Notes to the financial statements

for the year ended 30 June 2021

NOTE 33 Events occurring after the reporting date

There are no matters or circumstances that have arisen since the end of the financial year which have significantly affected or may significantly affect the operations, or state of affairs of the Bank or the Group in subsequent financial years.

NOTE 34 Economic dependency

The Bank has an economic dependency on the following suppliers of services:

(a) **Indue Limited**
This entity supplies the Bank rights to VISA Card in Australia and provides services in the form of settlement with Bankers for ATM and VISA Card transactions, personal and corporate cheques, and the production of VISA and Cuecards for use by members. This entity also supplies institutional banking services to the Bank. The Bank has significant liquidity investments with this entity. The Bank also has its borrowing facilities with this entity (refer to note 30(b) and (c)).

(b) **First Data International**
This company operates the switching computer used to link Cuecards and VISA cards operated through ATM and EFTPOS devices to the Bank's systems.

(c) **Data Action Pty Ltd**
This company is the current facility manager of the Bank's computer system. It also supplies the computer hardware system used by the Bank for its core banking software.

(d) **NTT Australia Pty Ltd**
This company provides Windows environment hosting, applications and support for the Bank and Health Fund.

(e) **Cuscal Limited**
This entity supplies the Bank rights to VISA Card in Australia and provides services in the form of settlement with Bankers for ATM and VISA Card transactions, personal and corporate cheques, and the production of VISA and Cuecards for use by members. This entity also supplies institutional banking services to the Bank. The Bank has liquidity investments with this entity. The Bank also has its borrowing facilities with this entity (refer to note 30(b) and (c)).

NOTE 35 Related party transactions

(i) Key management personnel
Refer note 8 for details of transactions with key management personnel.

(ii) A number of key management personnel (KMP) hold positions in other entities that result in them having control or significant influence over the financial or operating policies of those entities.

A number of these entities transacted with Queensland Country Bank Limited in the reporting period. The terms and conditions of the transactions with key management personnel related entities were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions with entities not related to key management personnel on an arm's length basis.

There were no loans provided during the year relating to related parties of the KMP.

Notes to the financial statements

for the year ended 30 June 2021

NOTE 35 cont

The aggregate amounts of deposits with Queensland Country Bank Limited during the year relating to related parties of the KMP were as follows:

Deposits from KMP related entities	Closing Balance $000	Opening Balance $000	Total deposit interest $000	Number of deposits
2021	1,342	1,431	13	5
2020	1,431	1,689	22	5

(iii) Subsidiaries

Transactions with Subsidiary

Transactions with the Subsidiaries, Queensland Country Health Fund Ltd and Queensland Country Care Navigation Pty Ltd are on normal commercial terms and conditions unless otherwise stated. Transactions during the year comprised:

	2021 $'000	2020 $'000
- Balance of Queensland Country Health Fund Ltd deposit accounts held with Queensland Country Bank Limited	19,081	12,733
- Interest paid on deposit accounts held by Queensland Country Health Fund Ltd	88	98
- Management fees received by Queensland Country Bank Limited from Queensland Country Health Ltd	19,903	18,589
- Rental income received by Queensland Country Bank Limited from Queensland Country Health Fund Ltd	463	482
- Rental expense paid by Queensland Country Bank Limited to Queensland Country Health Fund Ltd	1,304	1,282

Under the terms of a management agreement, a fee is paid to reimburse all costs incurred by the Bank relating to the operation of the Health Fund (including personnel costs, computer costs, communication costs and premises costs). In addition, the agreement specifies that the management fee may include a charge per Health Fund member, payable to the Bank.

Notes to the financial statements

for the year ended 30 June 2021

NOTE 36 Business Combination

During the year ending 30 June 2021, Queensland Country Bank Limited merged with Maleny Credit Union, (MCU Ltd), pursuant to the Financial Sector (Business Transfer and Group Reconstruction) Act of 1999. Regulatory approval was obtained from APRA for the merger effective from 1 March 2021. Maleny Credit Union's main activities was the provision of financial services to its members. The primary reason for the merger was to continue Queensland Country Bank's strong recent growth by further expanding the branch network to include the Sunshine Coast.

Identifiable assets and liabilities of Maleny Credit Union as at the date of merger were:

	Carrying Value $'000	Fair Value on Merger $'000
ASSETS		
Cash and cash equivalents	2,272	2,272
Other receivables	49	49
Debt instruments at amortised cost	26,805	26,805
Loans and advances	25,979	25,979
Other assets	7	7
TOTAL ASSETS	**55,112**	**55,112**
LIABILITIES		
Deposits from members	50,840	50,840
Other payables	2,100	2,100
Provisions	36	36
TOTAL LIABILITIES	**52,976**	**52,976**
Fair value of identifiable net assets attributable to Maleny Credit Union	**2,136**	**2,136**

At the date of merger, Maleny Credit Union had $1,090,700 Member Investment Shares, included in Equity. The Member Investment Shares were transferable, but not listed on any stock exchange, they had no maturity date and investment shareholders had no right or option to demand their repayment. During March 2021 Queensland Country Bank repaid all of the Member Investment Shareholders, leaving a nil balance at 30 June 2021.

At the date of merger, the fair value of the assets and liabilities of Maleny Credit Union were determined to be equivalent to the carrying value.

NOTE 37 Company details

The registered office of the company is:
Queensland Country Bank Limited, 333 Ross River Road, Aitkenvale, Queensland, 4814

The principal place of business of the company is:
Queensland Country Bank Limited, 333 Ross River Road, Aitkenvale, Queensland, 4814

The Bank operates in the Financial Services industry in Queensland.

Directors' Declaration

for the year ended 30 June 2021

DIRECTORS' DECLARATION

The directors of Queensland Country Bank Limited declare that:

(a) The financial statements, comprising the statements of profit or loss and other comprehensive income, statements of financial position, statements of cash flows, statements of changes in equity and accompanying notes are in accordance with the Corporations Act 2001, and:

(i) comply with Accounting Standards and the Corporations Regulations 2001; and

(ii) give a true and fair view of the financial position as at 30 June 2021 and of the performance for the year ended on that date of the Bank and of the Group;

(b) The Bank and the Group have included in the notes to the financial statements an explicit and unreserved statement of compliance with International Financial Reporting Standards; and

(c) In the directors' opinion, there are reasonable grounds to believe that Queensland Country Bank Limited will be able to pay its debts as and when they become due and payable.

Signed for and on behalf of the directors in accordance with a resolution of the Board

C. Flynn, Chair
Dated this 23rd day of September 2021

Independent auditor's report

To the members of Queensland Country Bank Limited

Our opinion

In our opinion:

The accompanying financial report of Queensland Country Bank Limited (the Company) and its controlled entities (together the Group) is in accordance with the *Corporations Act 2001*, including:

(a) giving a true and fair view of the Company's and Group's financial positions as at 30 June 2021 and of their financial performance for the year then ended

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

What we have audited

The Company and Group financial report comprises:

- the Consolidated and Company statements of financial position as at 30 June 2021
- the Consolidated and Company statements of changes in equity for the year then ended
- the Consolidated and Company statements of cash flows for the year then ended
- the Consolidated and Company statements of profit or loss and other comprehensive income for the year then ended
- the notes to the financial statements, which include significant accounting policies and other explanatory information
- the directors' declaration.

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial report* section of our report.

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

Independence

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

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report for the year ended 30 June 2021, but does not include the financial report and our auditor's report thereon. Prior to the date of this auditor's report, the other information we obtained included the Director's Report.

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

Responsibilities of the directors for the financial report

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

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

Auditor's responsibilities for the audit of the financial report

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

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

PricewaterhouseCoopers

PricewaterhouseCoopers

Ben Woodbridge

Ben Woodbridge
Partner

Brisbane
23 September 2021

Queensland Country
Bank

Queensland Country Bank Limited ABN 77 087 651 027
AFSL/Australian Credit Licence 244 533
Queensland Country Health Fund Ltd ABN 18 085 048 237