Queensland Country
Bank | Health Fund

# Annual
2019-2020
# Report

# Contents


Queensland Country Centre
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Queensland Country

# Group financial highlights

| Measure | 2020 | 2019 | Change |
|---|---|---|---|
| Net Assets | $260.8M | $254.8M | 2.37% Growth |
| Total Assets | $2.44B | $2.29B | 6.48% Growth |
| Gross Loan Balances | $1.88B | $1.84B | 2.35% Growth |
| Total Deposits | $2.10B | $1.99B | 5.51% Growth |
| Capital Adequacy | 15.73% | 16.16% | -0.43% Decrease |
| Net Profit Before Tax | $9.2M | $11.5M | $2.3M Decrease |

# Chair and CEO Report

Aaron Newman

Queensland Country Bank's focus on our Members, staff, and communities has continued in 2019-20 and has, in some respects, been amplified through the challenges of managing the impacts of COVID-19. The pandemic has forced us to pivot during the past six months, to reassess priorities, and increase our focus on supporting Members and staff through financial and wellbeing concerns.

We announced a range of relief measures to Members in April, which included a six-month loan repayment holiday for those impacted by COVID-19. Our relief packages have been actively utilised, with more than 800 Members taking up our loan repayment holiday initially. Pleasingly, more than 250 Members have now returned to making normal repayments through improved job certainty.

The Health Fund has also seen a strong response to the relief package, which included the option of one month financial assistance and six-month policy suspensions. We saw more than 300 Members take up these support initiatives.

The good news is these relief packages are doing what they are meant to, providing financial relief at a difficult time for many people.

## Financial Performance

Over the past year, a record number of new Members joined Queensland Country with a net increase of 7,500 Members across banking and health – more than any other year.

Strong balance sheet growth for the year saw Queensland Country exceed our 2018-19 results across consolidated assets (up 6.48% to $2.44 billion); loans under management (up 2.35% to $1.88 billion); and retail deposits (up 5.51% to a record $2.1 billion). The Queensland Country Group posted a Net Profit After Tax (NPAT) of $6.48 million (a decrease of $1.6 million on the previous year).

Our 2019-20 NPAT result was impacted by economic conditions which have been challenging not just for Queensland Country, but all financial institutions. Low levels of consumer confidence due to the pandemic, volatile investment markets and a subdued property market have dampened our financial performance. Elevated funding costs through the year and five Reserve Bank of Australia (RBA) cash rate cuts placed pressure on Queensland Country's already tight margins, which impacted profitability. However, even against this economic background, we kept our Member's needs front-of-mind, ensuring our lending and deposit rates remained competitive and continued with important digital investments.

The success of our organisation is tied directly to our talented and dedicated staff who supported the organisation to keep all of our 28 branches open during the pandemic. Our 200 administration and management staff moved quickly to working from home in response to the State Government's direction, and ensured our services continued for Members.

We were also quick to communicate to staff that all jobs were safe and there would be no reduction in hours. We felt we had a responsibility as an employer to provide job security which enabled staff to focus on supporting our Members through a difficult time.

Despite the challenges we faced through 2019-20, the organisation made some important changes and progressed a number of strategic initiatives.

As a member-owned financial institution, we are regularly looking for ways to give back to the communities that support us, and investing in those things which our Members care about most.

We do this through a range of activities including education, grants, charity partnerships, and sponsoring sporting teams like the North Queensland Cowboys. This has now extended to being the naming rights sponsor of the North Queensland Stadium, now known as Queensland Country Bank Stadium.

We are extremely proud that this significant piece of infrastructure carries the name of our locally-owned and operated business that has been providing support to Queensland communities for almost 50 years.

Our commitment to the naming rights for Queensland Country Bank Stadium coincided with another significant milestone in our organisation's history: the announcement that we would transition to become a member-owned bank in February 2020.

Our change to a member-owned bank has been a significant step as an organisation. There has been a notable uplift in the perception of the organisation in terms of our capability, our safety and security. We have really matured as an organisation in a short time, which includes the achievement of an external credit rating through Standard and Poors Ratings Agency, which has demonstrated publicly the real financial strength of our organisation.

Our contributions to our communities have been highlighted by our donation to the Queensland Rural Fire Service. During December, as bushfires raged through communities in South East Queensland, local fire brigades received new equipment and supplies to assist them with firefighting and prevention due to a $20,000 donation to the Rural Fire Service (RFS) from Queensland Country Bank. We wanted the firefighters and support personnel to know just how much we appreciate the amazing job they do, and to ensure they had the equipment and financial support needed.

Following on from the success of our Townsville and Mount Isa dental practices, a new practice in Mackay was opened in March to provide Members of both the Health Fund and the Bank access to top quality dental care with no or low out of pocket expenses. This aligns with our strategic objectives of increasing services to Members and supporting their communities.

In summary, although the COVID-19 pandemic resulted in a significant decrease in demand for financial services products during the lock-down period, we did see a strong increase in business activity towards the end of the financial year. The Queensland Country group finished the year with positive results, including record lending to Members for the purchase of new homes and cars, and sound financial performance. Our sincere thanks to all of our Members who continue to trust Queensland Country to help you achieve your financial goals.

**Christine Flynn**

# Profit and Loss
## at a glance

### The 2019–2020 Financial Year

| | Bank | | Group | |
|---|---|---|---|---|
| | **2020 $'000** | 2019 $'000 | **2020 $'000** | 2019 $'000 |
| Interest Income | 85,326 | 93,474 | 82,976 | 90,492 |
| Interest Expense | - 36,533 | - 44,519 | - 32,673 | - 39,742 |
| Net Interest Income | 48,793 | 48,955 | 50,303 | 50,750 |
| Other Income | 35,389 | 33,615 | 145,701 | 139,762 |
| Impairment Loss | - 505 | - 1,183 | - 505 | - 1,183 |
| Operating Expenses | - 75,857 | - 73,936 | - 186,253 | - 177,781 |
| Profit Before Income Tax | 7,820 | 7,451 | 9,246 | 11,548 |
| Income Tax Expense | - 2,252 | - 2,239 | - 2,521 | - 3,756 |
| **Profit for the Year** | 5,568 | 5,212 | 6,725 | 7,792 |
| Other comprehensive income/(loss) net of income tax | - 252 | 253 | - 252 | 253 |
| **Profit after tax** | 5,316 | 5,465 | 6,473 | 8,045 |

## Profit and Loss commentary

### Operating Profit

The Bank saw an increase in Profit before income tax from $7.5 million to $7.8 million. However, after other comprehensive income/loss and income tax our profit was less than last year at $5.3 million compared to $5.5 million. The Group's overall profit decreased from $8 million to $6.5 million. Although a challenging year, the Bank continued to invest in its future and put our Members' needs first.

### Interest Margin

Net interest margin has been challenging to manage this year, with five Reserve Bank of Australia (RBA) rate cuts, reducing the official cash rate from 1.50% to a record low of 0.25%. With interest rates at such low levels it can be difficult to find a balance between the interests of borrowers and depositors. Although our profitability was impacted by our interest margin, which reduced from 2.04% to 2.00%, we were pleased with the results in a difficult environment.

### Non-Interest Income

Non-interest income for the Bank increased from $33.6 million to $35.4 million, mostly from commission income.

Overall, the Group's non-interest income increased by $5.9 million. Contribution income earned by the Health Fund grew by $5.6 million, following sound membership growth. This was more than offset, however, by a $6.2 million increase in operating expenses as a result of an increase in the amount of benefits paid out by the Fund.

### Operating Expenses

Operating Expenses for the Bank, excluding impairment costs, increased from $73.9 million to $75.9 million. Increases were mostly a result of Information Technology expenditure. These costs continue to increase as we 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 in total by $7.8 million, with an increase to Health Fund benefits paid of $6.2 million, in addition to the Bank variances detailed above.

### Impairment Cost of Loans

Impairment costs decreased this year from $1.2 million to $0.5 million, despite a conservative approach to providing for loans relating to COVID-19, demonstrating the quality of the underlying loan portfolio.

# Balance Sheet
## at a glance

### The 2019–2020 Financial Year

| | Bank | | Group | |
|---|---|---|---|---|
| | **2020 $'000** | 2019 $'000 | **2020 $'000** | 2019 $'000 |
| Cash and Investments | 969,828 | 550,541 | 509,201 | 411,443 |
| Property, Plant and Equipment | 17,176 | 8,861 | 45,367 | 37,391 |
| Loans to Members (net of provision) | 1,873,924 | 1,830,213 | 1,873,924 | 1,830,213 |
| Other Assets | 11,103 | 13,985 | 14,614 | 15,344 |
| **Total Assets** | 2,872,031 | 2,403,600 | 2,443,106 | 2,294,391 |
| Deposits from Members | 2,114,032 | 2,003,706 | 2,101,288 | 1,991,576 |
| Payables and Provisions | 578,533 | 225,369 | 80,982 | 48,019 |
| **Total Liabilities** | 2,692,565 | 2,229,075 | 2,182,270 | 2,039,595 |
| **Net Assets** | 179,466 | 174,525 | 260,836 | 254,796 |

| | | **Group** |
|---|---|---|
| | **2019/2020** | **2018/2019** |
| Gross Loans to Members | $1,879.4m | $1,836.3m |
| Deposits from Members | $2,101.3m | $1,991.6m |
| Total Assets | $2,443.1m | $2,294.4m |
| Net Assets | $260.8m | $254.8m |
| Capital Adequacy | 15.73% | 16.16% |

## Balance Sheet commentary

The Total Assets for the Bank increased by 19.5% to $2.9 billion, which included an upgrade to our Internal Securitisation Program of $345 million. The Group's Total Assets increased by 6.5% to $2.4 billion.

Total loans grew by 2.4% to $1.9 billion. This growth was particularly pleasing given the challenging Queensland economic environment and the impact of the pandemic on the economy.

Queensland Country's funding is sourced from Members. Of Member deposits, approximately 37% were held in fixed term deposits, 61% in at-call deposits and 2% from Retirement Savings Accounts. Member deposits increased by 5.5% from $2.0 billion to $2.1 billion during the year.

Total Equity for the Group increased by $6 million to $260.8 million.

Liquidity levels remained well above prudential requirements, averaging 16.37% of adjusted liabilities and finishing at 17.52% at 30 June 2020. The Bank continues to have access to an Internal Securitisation Trust, a facility established to be used as an emergency liquidity backstop. This year the regulator requested institutions increase their Internal Securitisation Programs. Our Program increased from $220 million to $565 million. This arrangement enables the Bank to raise funds from the RBA 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 $179.5 million. Total capital adequacy was 15.73%. 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.

# Our history and our future

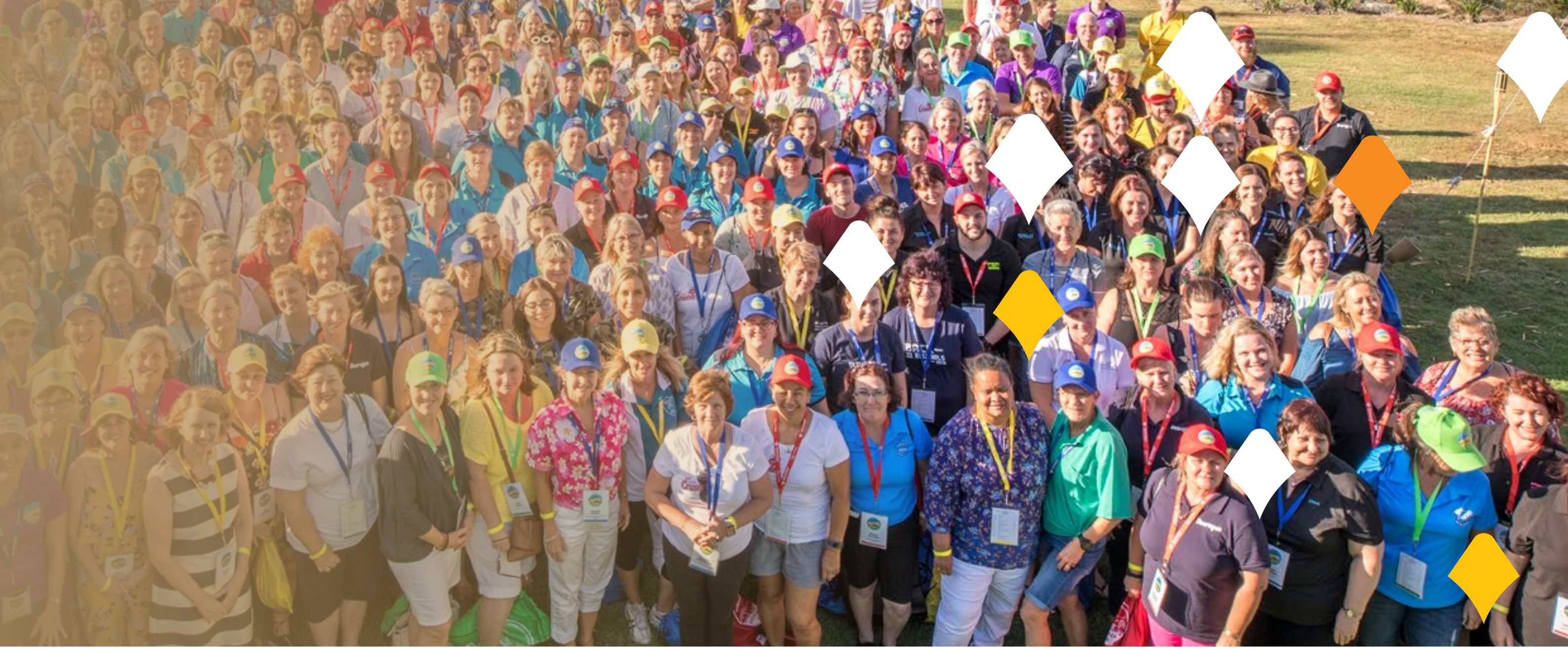
1971 – 1984

1984 – 1989

1989 – 2004

2005 – 2008

2009 – 2019



Queensland Country
Bank | Health Fund

## Our Members

The first element of the logo represents our Members.

We start the logo with our Members to represent that they are at the core of everything we do – they are our purpose for being.

Members are at the centre of the new logo because they are central to our organisation - our past and future success.

We are here for our Members through every up and down they experience in life. We're committed to helping them live better lives through better banking and health outcomes.

We couldn't develop a new logo without starting with our Members and putting them at the centre of the logo – because they are at the centre of everything we do and what the organisation stands for.

## Our Communities

At the foundation of our logo are our communities.

They sit as the steady base to the logo, acknowledging that we can't be successful as an organisation without the support of the communities we serve.

The presence of the "community layer" is also a reminder of the many ways we support our communities – through sponsorships, our Good For Good Community Grants scheme, the Community Volunteering Program and much more.

## Our Organisation

As our logo builds, the second layer we add represents our organisation. It sits below our Members and in the middle of our communities.

It sits here to demonstrate the support we provide Members in achieving their banking and health related goals.

Strong and supportive, we are the steady grounding from which Members can build their dreams

Importantly, this layer also represents all the great things about our organisation – our culture, our values, our internal service standards and the relationships we hold with our Members.

# Farewell Bruno

**We will bid farewell to a long-standing member of the Queensland Country family, Bruno Cullen, at the conclusion of the 2020 Annual General Meeting. Bruno has been an integral part of our organisation since being the 677th Member to join what was then, The Isa Mine Employees Credit Union (IMECU) on 20 April 1971.**

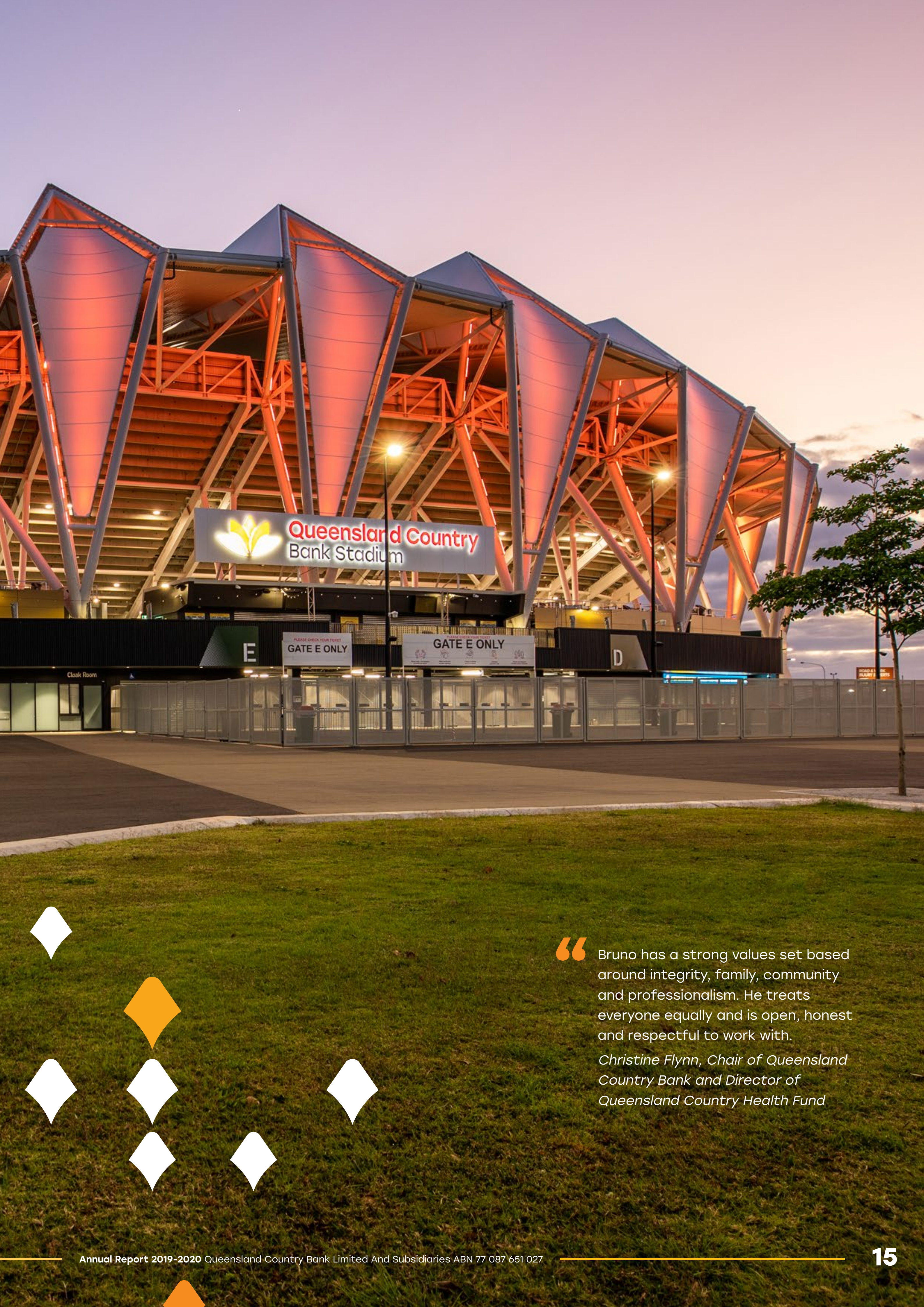
After six years of banking with the organisation as a Member, Bruno took the next step on his Queensland Country journey, joining us as an employee, on 8 April 1977. His first role was that of Senior Loans Officer in the Mount Isa branch. He progressed to the position of Assistant General Manger before assuming the role of Chief Executive Officer of North Queensland Credit Union in August 1989. He held that role for 14 years before stepping down to assume the Managing Director role at the Brisbane Broncos National Rugby League team. During his time at the Broncos, he remained a member of the Queensland Country Board and served as Chair from 2006 until earlier this year.

During his time with Queensland Country, Bruno has made a significant contribution to the culture and success of the organisation. Under his leadership and guidance, the organisation has grown from a humble operation with 6,200 Members and two branches to become a modern banking organisation with over 100,000 Members and 28 branches across the state. A key element in his personal success, and that of the organisation, has been his unwavering commitment to putting the needs of our Members and communities at the forefront of everything we do.

In addition to his work in leading our organisation, Bruno has also been a significant contributor to local sporting and community organisations. He played and coached rugby league and touch football in Mount Isa for many years before making the move to Brisbane to lead the Broncos. He has given freely of his time to assist numerous community groups and acted as a mentor to many sportspeople, aspiring business owners and even fellow company directors.

His significant contribution to the member-owned banking sector and broader communities were recognised with an Order of Australia award in the 2020 Queen's Birthday honours list. The award was a fitting close to Bruno's career with Queensland Country and we wish he and his wife Judy all the very best for the future.

> “I will always be grateful for Bruno's guidance in my directorship and his support of my aspirations in this sector and particularly Queensland Country. Bruno's leadership style and his personal values have always been a perfect fit for a mutual organisation and especially Queensland Country. As always, I thank Bruno for his contribution to the sector, his unwavering leadership, and Chairmanship of Queensland Country Bank. All the best in retirement!
>
> *Karen Read, Director of Queensland Country Bank and Deputy Chair of Queensland Country Health Fund*




> “Bruno has a strong values set based around integrity, family, community and professionalism. He treats everyone equally and is open, honest and respectful to work with.
>
> *Christine Flynn, Chair of Queensland Country Bank and Director of Queensland Country Health Fund*

# Business Growth

**As discussed in the Chair and CEO's Report, the organisation completed a number of significant projects during the year that will position us for further growth in the future. The conversion to a member-owned bank; obtaining an external credit rating; and obtaining naming rights for Queensland Country Bank Stadium were all significant projects that came to fruition during the year.**

A total of $324 million in new lending was approved to assist our Members achieve their financial goals during the year. This result was achieved despite a significant reduction in demand for lending during April and May due to the COVID-19 pandemic. With the immediate threat of COVID-19 reducing in a majority of the communities covered by our branch network during June, the organisation posted a record $49 million in new loans issued during the last month of the financial year. This strong rebound in post-COVID lending demand was in a large part driven by our award-winning New Car Loan product.

Another key driver of our overall lending growth during the year was our participation in the Federal Government's First Home Loan Deposit Scheme (FHLDS). In December 2019, Queensland Country was one of only 25 lenders appointed to the panel that offers this scheme, which alleviated the need for first home buyers to purchase lenders mortgage insurance if the deposit they had saved for their first home was less than 20%. Our participation in the scheme allowed us to assist 73 new and existing Members achieve their first home ownership dream during the past year and we look forward to assisting a second allocation of borrowers from June 2020 onwards.

**$324m**
loans issued

**73**
**people bought their first home** using FHLDS

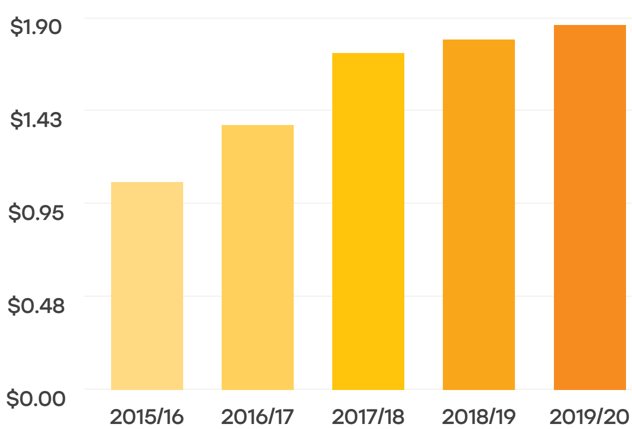
**3,473**
**cars and houses** protected with a general insurance policy

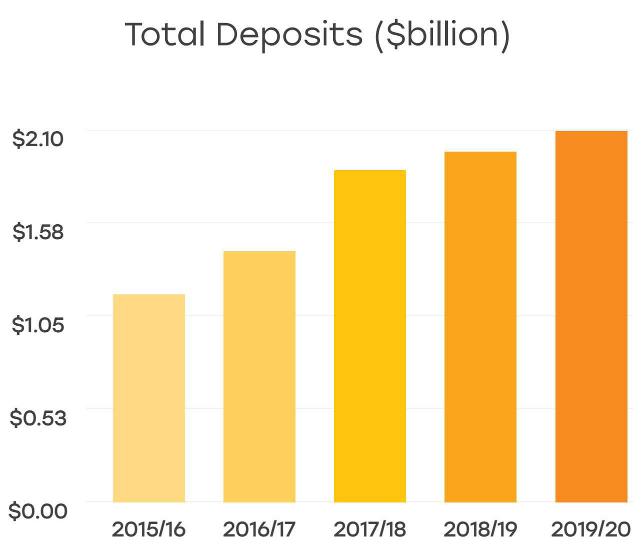

In terms of delivering value to Members, we are proud to celebrate again after being recognised within the finance industry for the great things we strive to deliver for our Members. During the year, we received three Canstar Awards. Our Pension Plus Account received a 5 Star award, and an Innovation Excellence award was received for our SmartBudget Account. For the third year running, we were awarded a "5 Star Rating for Car Loans," which means we are the proud award recipients within the category of personal loans.

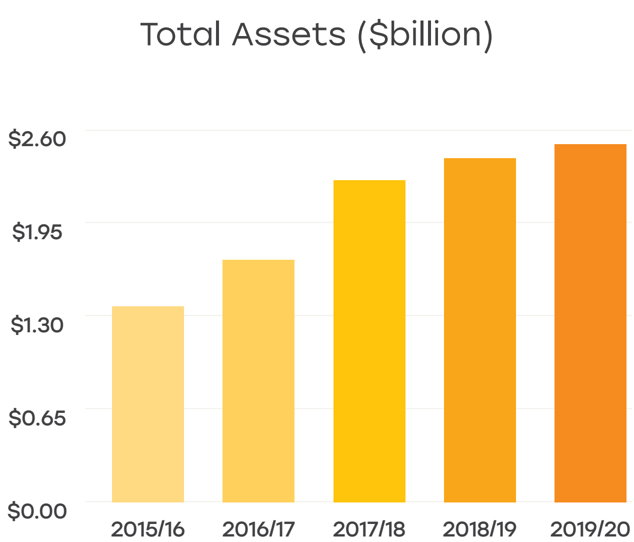
Our commitment to further expanding our services in the South East of the state will continue in the new financial year, with plans to open a new branch in the Riverlink Shopping Centre in Ipswich. Riverlink is a centrally located centre that offers significantly higher exposure and foot traffic when compared to our existing branches in Ipswich. The new branch will open in September 2020, with our existing Brassall and Winston Glades branches amalgamating into the new location at that time.

An ongoing project to enhance our ability to serve the small business community with their banking needs was further progressed during the year and we will more actively promote how our genuine approach to banking is suited to the needs of small business owners during the coming twelve months.

Total Loans ($billion)




Total Deposits ($billion)
$2.10
$1.58
$1.05
$0.53
$0.00
2015/16
2016/17
2017/18
2018/19
2019/20


Total Assets ($billion)
$2.60
$1.95
$1.30
$0.65
$0.00
2015/16
2016/17
2017/18
2018/19
2019/20


# Member and community

**9/10**
**Average NPS score**

**106,585**
**Members**

**800**
**Members assisted** with a COVID relief package


**In making the conversion to a member-owned bank, we reaffirmed our unique focus of putting Members and their communities at the centre of everything we do. This commitment was brought to life visually through the creation of our revised, three-tiered logo.**

The centre tier of the logo represents our Members. In the logo, and on a daily basis, our Members are at the heart of everything we do at Queensland Country, and remain our purpose for being as an organisation.

The second tier of the logo represents Queensland Country - the organisation itself and the staff that assist you in realising your financial goals.

Finally, the outer tier of the logo represents the communities from which we draw our Members and the support we provide to those communities through our various sponsorships, grants, community partnership and volunteering programs.

The placement of the tier representing our organisation between our Members and our communities is symbolic of what it means to be a member-owned banking organisation – the relationship between providing banking and health fund services to Members and returning profits to our communities rather than external shareholders.

Based on feedback from Members that budgeting remains a skill that many people in the community require assistance with, we have further developed our Money Mentor program. This free service allows Members to sit with a qualified specialist to create an easy to follow budget that is tailored to their personal situation. Our Money Mentors then assist the Member in setting up the accounts, payments and budgeting tools needed to put their plan into practice. This implementation of the budget is often made more convenient through the use of our unique SmartBudget product, which helps Members easily manage the payment of their regular bills by smoothing out nominated payments across the course of the year. By providing Members with advice on how to plan their budget, and a unique product that assists in implementing their plan, Queensland Country Bank is uniquely placed to deliver on our organisational purpose of helping Members live better lives by helping them achieve their financial goals.

We remain committed to providing banking services to our Members the way they chose to deal with us. This includes ensuring face to face services are available through our branch network. We see the growing trend of banks closing branches in regional areas and believe this not a path that will deliver the best outcome for our Members.

We also continued our support of many local community organisations such as our official charity partner, Ronald McDonald House North Australia, and the nine not-for-profit organisations that shared in over $110,000 as a result of our annual Queensland Country Good For Good Community Grants scheme.

**$50,000**
**in fees waived**
to assist Members during the COVID-19 pandemic

**$110,000**
in **community grants** provided

**211**
**staff**
working from home during the pandemic

**257**
**days p.a.**
That's the processing time saved by digitising processes

Almost
**$50,000**
**in cost savings**
achieved by digitising processes

# Operational efficiency and innovation

**The range of payment options available to Members was significantly enhanced during the year with the introduction of Apple Pay and Google Pay. These mobile wallet options are an easy and secure way to make purchases using a mobile device in stores, apps and on websites. Both services are available on Queensland Country credit and debit cards.**

Like many organisations, the emergence of the COVID-19 pandemic saw a need for Queensland Country to make some significant changes to the way our employees completed their roles and the way we communicate internally. While our dedicated team of front-line employees continued to work in our branches to ensure service delivery for our Members, the majority of back-office staff were relocated to work-from-home offices to limit possible spread of to the virus.

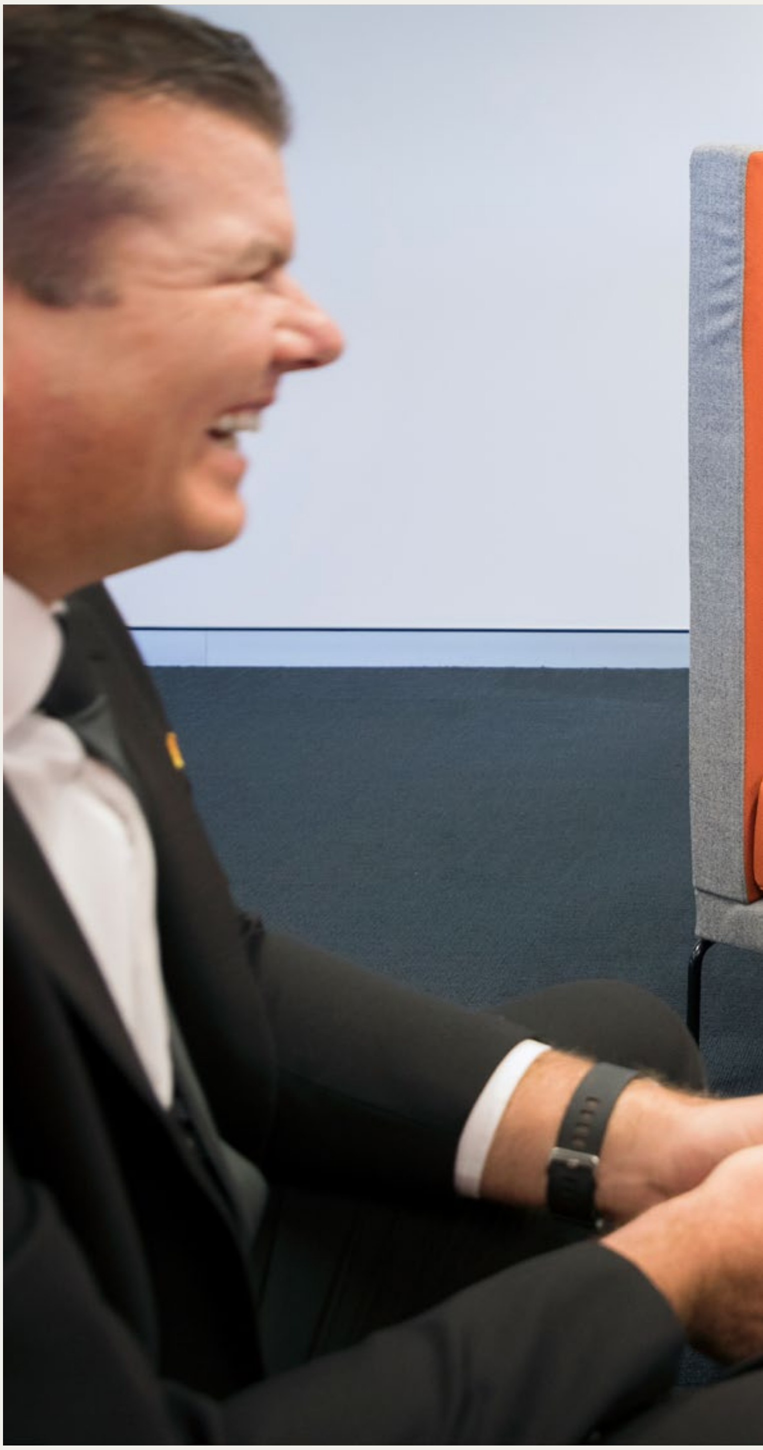
The relocation of 211 staff out of their usual working environment was a significant project for the organisation in terms of not only the physical working environment, but the review and adaptation of how roles could be completed efficiently and effectively by staff not physically located in their usual office. Our previous investment in technologies such as a new intranet, instant messaging software, and video conferencing proved invaluable during this time, both in terms of helping staff complete their role and in maintaining a sense of connectivity amongst teams. A survey of staff conducted after the return to work of back-office staff indicated our use of technology and the organisation's willingness to adapt the way staff work resulted in 50% of respondents indicating they actually felt more productive as a result of the changes made during the pandemic.

These changes complimented existing projects aimed at streamlining our operations and building a more efficient workplace. Projects that digitised expense and corporate card management, along with the process required for staff to book travel, are estimated to deliver savings of over 257 days of staff processing time and almost $50,000 on an annual basis.

In May, our SmartBudget product was awarded an Innovation Excellence Award by leading research agency Canstar. Canstar described SmartBudget, which allows Members to smooth out all their nominated bills into equal payments over the course of the year, as "special" and providing the ability to "have a positive impact on customers and their lifestyles". SmartBudget was further developed during the year, with three upgrades completed to improve functionality and overall Member experience.

We continue to see a move towards Members utilising digital channels such as our website and banking app to fulfil their banking needs. While we are committed to our traditional branch banking model, a number of projects will be commenced in the new financial year with a view to ensuring we are able to replicate the high levels of service delivered through our branches via our digital channels. Specifically, we will work to streamline our online loan application process and make it easier for new Members to join us via our website. We will also continue to develop our banking app to ensure it provides a simple, easy to use option for the growing number of Members who prefer to transact via this method.

# People, culture and engagement



**We remain committed to building and retaining a motivated, highly talented workforce that is well-equipped to meet the needs of our Membership.**

In September 2019 we conducted a Staff Engagement Survey that encouraged all staff to provide confidential feedback on a variety of topics including the leadership of the organisation, internal communication, teamwork and their job satisfaction. The overall staff satisfaction rating of 75% exceeded the banking industry benchmark by 8% and is significantly higher than when the survey was last conducted in 2017. 90% of respondents indicated that they believe Queensland Country is a "truly great place to work". Staff were also encouraged to submit ideas regarding improvements the organisation could make and a number of these suggestions have already been implemented.

We strive to provide learning and development opportunities for staff at all levels of the organisation to ensure their continued growth in their roles.

At the entry-level, we employed four trainees across our network, two of which were dedicated roles available to people of indigenous heritage. We believe that our workforce should be representative of the communities that we serve and will continue to offer career opportunities to young people and people from diverse backgrounds.

**55 virtual** coaching sessions conducted during the COVID pandemic

Over **1,000 self-development** modules available via online learning

**25 new employees** completed Tier 2, formal banking qualifications

**4**
**Money Mentors**
completed Tier 1 qualifications to allow the provision of detailed budgeting advice to Members

**424**
**hours volunteered**
by staff as part of our Community Volunteer Program

In line with fostering the development of our young people, we continued to support an informal committee of aspiring Queensland Country employees that are passionate about their personal and professional development. The group meet regularly to discuss various topics, hear from guest speakers and identify opportunities for personal and company growth. They are also provided an opportunity to be involved in various projects that fall outside the scope of their day-to-day role, which provides the organisation invaluable insights into how new initiatives might be perceived by people of a similar age demographic.

Two of our senior leadership team, Dr Sarah Wilkinson and Leann Pilcher, participated in the Townsville Enterprise Emerging Leaders Program. Sarah, who is our Head of Dental Services, was also recognised as the Corporate Business Woman of the Year at Townsville Business Women's Circle awards in September.

During the COVID-19 pandemic, the organisation supported staff working remotely with regular check-ins from management, training on the use of remote communication technologies such as chat and video conferencing and general wellbeing tips for those not used to working in isolation.

With travel throughout our network heavily restricted, we also moved away from face to face training in favour of virtual coaching sessions and conducted our annual manager's forum remotely for the first time.

Our staff continue to actively support the organisation's commitment to the communities in which we operate, with our Workplace Giving Program raising over $18,000 that was shared amongst four charities selected by staff. The program, which sees staff donate $1 from their fortnightly pay and Queensland Country make a matching donation, distributed funds to Cancer Council Queensland, Drought Angels, Children's Medical Research Institute and R U OK.

While the emergence of the COVID-19 pandemic limited our ability to assist during the second half of the year, staff were also encouraged to take up to two days of additional leave to assist a variety of community groups via our Community Volunteer Program. A highlight of this program was in February, when our head office team took to the kitchen to provide over 1,500 sandwiches for the Townsville launch of Eat Up, a not-for-profit that provides school lunches to the most vulnerable children in the community.

# Health Fund

Over **300**

**Members provided** one month financial assistance during the COVID-19 pandemic

**93%**

**Member satisfaction** score

**89%**

**of premiums returned** to Members as benefits paid

**Queensland Country Health Fund continues to deliver quality, competitively prices private health insurance products that help people in Queensland and Northern Territory live better lives through better health.**

Our commitment to putting our Members at the centre of everything we do was highlighted during the course of the COVID-19 pandemic, with our annual premium increase delayed from the usual April 2020 timeframe to October 2020 to provide Members relief from the financial challenges associated with the virus.

We also worked closely with over 380 Members whose income had been reduced by providing one month of financial assistance on their policies and offered a six month suspension of policies for over 300 Members. Members who requested a policy suspension, and who subsequently reinstated their policies, were not required to serve any of the usual waiting periods that would have applied had their policy lapsed completely, ensuring that claims for treatments could be paid for Members as quickly as possible once the policy was reinstated.

The Fund also looked for more ways to return value to Members during the course of the year, with the removal of percentage limits on claims for a number of high cost benefits such as hearing aids and orthodontics and the introduction of Extended Family Cover and Single Parent Pricing on our mid-level covers. During the pandemic, we also expanded our telehealth consultations to include a much wider selection of Providers and added the ability to claim online gym memberships as part of our Healthy Living benefit. We were also pleased to expand our network of Queensland Country Dental practices, with a new client being opened in Mackay.

Our strong commitment to Members was reflected in our annual Member Satisfaction Survey, with 93% of Members indicating they were satisfied or very satisfied regarding the service they receive from the Fund.

Despite the impacts of COVID-19, the Fund recorded Membership growth of over 2% during the year. While this result was lower than previous years, it compared favourably to the overall industry, with many funds reporting a decline in memberships during the year. It was also pleasing to note that our growth was driven by new Members in younger ages groups. There has been significant media attention in the past year regarding the perceived value that health insurance provides younger consumers, and we are pleased that some of the policy innovations we introduced during the year have assisted in demonstrating that Queensland Country Health Fund is well equipped to deliver value to this important segment of the market.

The deferment of premium increases by six months; making financial assistance available to Members facing affordability concerns during the pandemic and a requirement to raise a provision to cover claims on elective surgeries that were deferred during the pandemic led to a decrease in before tax profit to $1.76 million. As a well-capitalised, member-owned fund, we were fortunate to be in a position to absorb a reduced level of profitability in 2020 in order to protect the needs of our valued Members.

Looking to the future, we will boost the level of service available to our Members in the Northern Territory when we open a new retail outlet in Gateway Shopping Centre, Darwin in late 2020. Our Territory Health Fund brand has previously operated as an online-only offering and we anticipate having a presence in one of Darwin's premier shopping centres will assist in providing increased Member service levels and good growth opportunities in this relatively new market for our Fund.

The long-servicing Chair of the Health Fund Board, Michael Beard, will be farewelled in November when he steps down from the Board. Michael, who was also a previous Director of the Bank, has been Chair of our Health Fund since 2006 and a member of the Board since 2001. He has overseen significant growth in the Fund and we thank him for his significant contribution to our organisation.

**New app launched!**

**2%**

**Membership growth**

**New dental practice for Mackay**

# Directors' Report 2019-2020

Your Directors present their report on the affairs of the Group for the financial year ended 30 June 2020.

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

**Information on the Board of Directors**

**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, organisation strategy, strategic risk, and leadership. Christine is an accredited facilitator for the Australian Institute of Company Directors, serves as a Director on the Queensland Country Health Fund Ltd Board, and has held roles as a senior executive in the public service and on Boards including roles as President of IPAA Qld; Director on the IRSPM Board; Director of the Audit and Risk Committee of the Queensland Audit Office; and 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.)

**Karen Read** B Bus; FCPA; GAICD; MAMI
**Deputy Chair (since 1 April 2020) and Independent Non-Executive Director**

**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: Deputy Chair of Queensland Country Health Fund Ltd; Director, North West Hospital and Health Service; Director, and Finance & Audit Committee Chair, of Mount Isa Water Board; Member of the North Queensland Sustainable Resources Corridor Regional Reference Group; and Chair of NQ Branch Council of CPA Australia.

**Brian (Bruno) Cullen AM** FAICD; FAMI
**Independent Non-Executive Director**

**Term of office:** Appointed 27 April 2001

**Skills & Experience:**
Bruno commenced his career with Queensland Country Credit Union, then the Isa Mine Employee's Credit Union, in 1977. Bruno held various management positions with the organisation until 2003, progressing from Loans and Finance Manager and Assistant General Manager through to Managing Director, a position he held for 14 years. Bruno is the most recent past Chair of Queensland Country Bank Limited, stepping down from that role in April 2020 after 14 years. Bruno was also Managing Director of the Brisbane Broncos for over eight years (2003-2011), and Chair/Director of the Queensland Academy of Sport for six years (2011-2017). Bruno is the Board Chair of Krause Health and Safety Pty Ltd. Recognising his significant contribution to the Mutual Banking sector, Bruno was awarded an Order of Australia in the 2020 Queen's Birthday Honours List.

# Directors' Report 2019-2020

**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 Director 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 Audit Committee for Cairns Indigenous Art Fair. Greg was Chair of ECU Australia Ltd which merged with Queensland Country in April 2017.

**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 Townsville Enterprise, North Queensland's peak economic and tourism body 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 and three years as the General Manager of Tourism and Events at Townsville Enterprise. As a born and bred North Queenslander, Patricia has a deep understanding of the issues and opportunities facing the North. 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.

**Lewis Ramsay** B Bus (Com); MBA; GAICD
**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.

# Directors' Report 2019-2020

**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.

**Anthony (Tony) Williamson** B Com; CA; 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. As a Fellow of the Australian Institute of Company Directors, Tony has considerable Board experience including in the current position of Chairman of the Northern Pride – ISC QRL Club since 2016.

**Michael Beard** B Com; FAMI; CA
**Independent Non-Executive Director**
**Term of office:** 1 February 1985 – 22 November 2019

**Richard Kennerley** GAICD; INED Diploma; ACT (UK); ACIB (UK)
**Independent Non-Executive Director**
**Term of office:** 1 May 2017 – 22 November 2019

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 2019 – 30 June 2020)**

**Audit:** Greg Nucifora (Chair), Richard Kennerley (until 22 November 2019), Patricia O'Callaghan (from 1 December 2019), Lewis Ramsay (from 1 February 2020), John Weier (from 1 December 2019 until 31 January 2020), Tony Williamson (from 1 December 2019)
**Remuneration and Governance:** Bruno Cullen (Chair) (until 31 March 2020), Christine Flynn (Chair) (From 1 April 2020), Greg Nucifora (from 1 March 2020), Patricia O'Callaghan (from 1 July 2019 to 30 November 2019 and recommencing from 1 March 2020), Karen Read (from 11 December 2019), Tony Williamson (until 30 November 2019)
**Risk Management:** Michael Beard (Chair) (until 22 November 2019), John Weier (Chair) (from 1 December 2019), Bruno Cullen (from 1 December 2019), Christine Flynn (from 1 January 2019), Richard Kennerley (until 22 November 2019), Karen Read (from 1 December 2019)
**Strategic Projects and ICT:** Karen Read (Chair), Bruno Cullen, Greg Nucifora (until 30 November 2019), John Weier, Tony Williamson (from 1 December 2019)

# Directors' Report 2019-2020

**Merger Strategy (formed 21 November 2019):** Greg Nucifora (Chair), Karen Read, John Weier
**Mutual Bank (dissolved 20 February 2020):** Karen Read (Chair), Patricia O'Callaghan, John Weier, Tony Williamson
**Nominations:** Bruno Cullen (Chair), Sean Kelly (Independent Representative), Bill O'Toole (Independent Representative)

### Directors' Meeting Attendance

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

| | | COMMITTEES | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Board | Audit | Remuneration and Governance | Risk Management | Strategic Projects and ICT | Merger Strategy | Mutual Bank | Nominations |
| **No. of Meetings held** | **17** | **5** | **4** | **6** | **4** | **2** | **6** | **1** |
| **Christine Flynn** | 17/17 | | 4/4 | 6/6 | | | | |
| **Karen Read** | 17/17 | | 2/2 | 6/6 | 4/4 | 2/2 | 6/6 | |
| **Bruno Cullen** | 17/17 | 1/1 | 3/3 | 3/3 | 4/4 | | | 1/1 |
| **Greg Nucifora** | 17/17 | 5/5 | 2/2 | | 1/1 | 2/2 | | |
| **Patricia O'Callaghan** | 16/17 | 5/5 | 3/3 | | | | 6/6 | |
| **Lewis Ramsay** | 9/9 | 1/1 | | | | | | |
| **John Weier** | 17/17 | 4/4 | | 3/3 | 4/4 | 2/2 | 6/6 | |
| **Tony Williamson** | 15/17 | 2/2 | 2/2 | | 2/3 | | 5/6 | |
| **Michael Beard** | 6/6 | | | 3/3 | | | | |
| **Richard Kennerley** | 4/6 | 0/2 | | 1/3 | | | | |

# Directors' Report 2019-2020

### 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, A Williamson, P O'Callaghan, K Read, 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 $6,473,000 (2019: $8,045,000).

The capital adequacy ratio measured for prudential purposes as at reporting date increased to 15.73% (2019: 16.16%).

### 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
Members of the Company passed a special resolution on 30 January 2020 to amend the Constitution of Queensland Country Credit Union Limited. The amendments supported the Board's recommendation that the Company change its name to "Queensland Country Bank Limited" and rebrand as a member-owned (mutual) bank. The Company formally changed its name on 19 February 2020. As this was only a name change to the company, with its mutual structure unaltered, there will be no fundamental change to the organisation's operation or philosophy.

The results of the Bank's operations from its activities of providing financial services to its members, decreased from those of the previous year from $5,465,000 to $5,316,000. Net operating income increased from $82,570,000 to $84,182,000, with the majority of that increase attributable to other revenue and income. Operating expenses increased from $75,119,000 to $76,362,000 resulting mainly from increased information technology costs.

Total Assets of the Bank increased by 19.5%, which included an upgrade to the Internal Securitisation program of $345 million. Total Loans increased by 2.4%. The capital adequacy ratio decreased to 15.73%.

The results of the Group's operations from its activities of providing financial services to its members and health insurance to its policy holders decreased from those of the previous year. Net operating income increased by $5,492,000, resulting mostly from an increase in Health Fund contribution income. This was more than offset by an increase in total operating expenses of $7,794,000, with the main contributors being an increase in Health Fund benefits paid.

Total Assets of the Group increased by 6.5%.

### 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.

# Directors' Report 2019-2020

**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 athttps://www.qccu.com.au/help-info/about-us/governance-reporting/.

**Auditor's Independence Declaration**

The auditor's independence declaration for the year ended 30 June 2020 forms part of this report and a copy of this declaration is attached.

## CORPORATE GOVERNANCE DISCLOSURES

**Board**
The Board of Queensland Country Bank Limited has responsibility for the overall management and strategic direction of the Bank. All Board members are independent of management and, subject to the Bank’s Constitution, are elected by members on a 3-yearly rotational basis.

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 and Governance Committee, Risk Management Committee, and Strategic Projects and 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 Executive staff as required.

*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’;
- 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.

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.

**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 2019/2020 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.

**Environmental Statement**
As a responsible corporate citizen, Queensland Country supports its communities and their efforts to care for the environment, while seeking to balance economic outcomes and non-detrimental environmental outcomes by:

# Directors' Report 2019-2020

- Ongoing sponsorship of events that promote environmental sustainability;
  In FY2020, Queensland Country awarded a "Good for Good" grant to a community kindergarten to purchase water tanks, which will be used to educate children about the value of water as a resource.

- Providing a discount on our normal interest rates for personal loans for the purchase of hybrid or electric vehicles;
  Members of Queensland Country are able to access interest rate concessions on personal loans for the purchase, or refinance, of a hybrid or electric vehicle.

Queensland Country will reduce the impact its operations have on the environment by:

- Reducing the amount of Members receiving paper statements by 31 December 2020 (target = 15 per cent);
  In FY2020, approximately 13,000 Members of Queensland Country were successfully converted from paper to electronic statements.

- Installing solar panels to reduce energy consumption on all Queensland Country-owned buildings;
  In FY2020, solar installations were completed on Queensland Country-owned buildings in Cairns City, Home Hill, Mount Isa, and Stanthorpe.

- Introducing the option for Members to sign any and all documents electronically by 31 December 2020 therefore reducing the amount of paper used by the organisation;
  Queensland Country's response to the COVID-19 pandemic has led to greater flexibility regarding obtaining Member signatures, and we are concurrently reviewing all documents to identify those which will be targeted for digitisation.

- By 31 December 2020, reduce annual power usage in all locations by 10 per cent, through the use of energy efficient lighting, white goods, and computer hardware;
  Amendments to internal policy and procedure in FY2020 now ensure that energy efficiency is a consideration in all new material purchases.

- All corporate-owned cars to use E10 fuel or equivalent where possible
  As at the end of financial year 2020, all Queensland Country-owned vehicles are utilising E10 fuel where possible.

Queensland Country will be consistent in monitoring and communicating to Members, via the Annual Report, efforts to achieve these initiatives.

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

C. Flynn
Chair

G. Nucifora
Director

Signed and dated this 23rd day of September, 2020

# *Auditor's Independence Declaration*

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

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

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

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 2020

***PricewaterhouseCoopers, ABN 52 780 433 757***
*480 Queen Street, BRISBANE QLD 4000, GPO Box 150, BRISBANE QLD 4001*
*T: +61 7 3257 5000, F: +61 7 3257 5999, www.pwc.com.au*

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# Statements of profit or loss

## and other comprehensive income for the year ended 30 June 2020

| | NOTE | Bank<br>**2020**<br>**$'000** | <br>2019<br>$'000 | Group<br>**2020**<br>**$'000** | <br>2019<br>$'000 |
|---|---|---|---|---|---|
| Interest income | 3 | 85,326 | 93,474 | 82,976 | 90,492 |
| Interest expense | 3 | (36,533) | (44,519) | (32,673) | (39,742) |
| Net interest income | | 48,793 | 48,955 | 50,303 | 50,750 |
| Other revenue and income | 4 | 35,389 | 33,615 | 145,701 | 139,762 |
| Net operating income | | 84,182 | 82,570 | 196,004 | 190,512 |
| Impairment loss on loans and advances | 5,31 | (505) | (1,183) | (505) | (1,183) |
| Employee benefits expense | 5 | (34,722) | (34,257) | (34,722) | (34,257) |
| Occupancy expense | 5 | (3,205) | (7,022) | (2,656) | (5,337) |
| Depreciation and amortisation expense | 5 | (5,811) | (2,456) | (5,910) | (3,619) |
| Other expenses | 5 | (32,119) | (30,201) | (142,965) | (134,568) |
| Total operating expenses | 5 | (76,362) | (75,119) | (186,758) | (178,964) |
| Profit before income tax | | 7,820 | 7,451 | 9,246 | 11,548 |
| Income tax expense | 6 | (2,252) | (2,239) | (2,521) | (3,756) |
| **Profit for the year** | | 5,568 | 5,212 | 6,725 | 7,792 |
| **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**) | | (360) | 361 | (360) | 361 |
| Income tax attributable to other comprehensive income/(loss) | 6 | 108 | (108) | 108 | (108) |
| **Other comprehensive income/(loss) for the year, net of income tax** | | (252) | 253 | (252) | 253 |
| **Total comprehensive income/ for the year** | | 5,316 | 5,465 | 6,473 | 8,045 |

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

# Statements of financial position

as at 30 June 2020

| | NOTE | Bank 2020 $'000 | Bank 2019 $'000 | Group 2020 $'000 | Group 2019 $'000 |
|---|---|---|---|---|---|
| ASSETS | | | | | |
| Cash and cash equivalents | 9 | 39,351 | 47,326 | 43,084 | 52,465 |
| Receivables due from financial institutions | 10 | 2,008 | - | 2,008 | - |
| Financial assets at fair value through profit or loss | 11 | - | - | 33,395 | 33,015 |
| Other receivables | 12 | 2,126 | 3,464 | 4,048 | 5,538 |
| Income tax receivable | 13 | 188 | 3,390 | - | 2,053 |
| Debt instruments at amortised cost | 14 | 922,463 | 494,836 | 424,708 | 317,589 |
| Loans and advances at amortised cost | 15 | 1,873,924 | 1,830,213 | 1,873,924 | 1,830,213 |
| Property, plant and equipment | 16 | 8,810 | 8,111 | 33,609 | 33,141 |
| Right-of-use assets | 16 | 7,906 | - | 7,368 | - |
| Intangible assets | 17 | 833 | 1,568 | 952 | 2,235 |
| Investment property | 18 | 460 | 750 | 4,390 | 4,250 |
| Equity instruments at FVOCI | 19 | 8,014 | 8,379 | 8,014 | 8,374 |
| Deferred tax assets | 20 | 4,304 | 4,286 | 5,964 | 4,242 |
| Other assets | 21 | 1,644 | 1,277 | 1,642 | 1,276 |
| **TOTAL ASSETS** | | 2,872,031 | 2,403,600 | 2,443,106 | 2,294,391 |
| LIABILITIES | | | | | |
| Other borrowings | 22 | 550,698 | 206,654 | 20,011 | - |
| Deposits from Members | 23 | 2,114,032 | 2,003,706 | 2,101,288 | 1,991,576 |
| Other payables | 24 | 15,712 | 15,328 | 33,149 | 35,918 |
| Income tax payable | 25 | - | - | 822 | - |
| Lease liabilities | 16 | 8,304 | - | 7,834 | - |
| Provisions | 26 | 3,819 | 3,387 | 19,166 | 12,101 |
| **TOTAL LIABILITIES** | | 2,692,565 | 2,229,075 | 2,182,270 | 2,039,595 |
| **NET ASSETS** | | 179,466 | 174,525 | 260,836 | 254,796 |
| EQUITY | | | | | |
| Redeemed preference share capital account | 27 | - | 914 | - | 914 |
| Reserves | 27 | 107,018 | 107,275 | 107,018 | 107,270 |
| Retained earnings | | 72,448 | 66,336 | 153,818 | 146,612 |
| **TOTAL EQUITY** | | 179,466 | 174,525 | 260,836 | 254,796 |

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

# Statements of changes in equity

for the year ended 30 June 2020

| Bank ($'000) | Redeemed Preference Shares $'000 | Credit Loss Reserve $'000 | FVOCI Reserve $'000 | Other Reserves $'000 | Retained Earnings $'000 | Total $'000 |
|---|---|---|---|---|---|---|
| Balance at 30 June 2018 | 856 | 4,911 | - | 100,547 | 60,648 | 166,962 |
| Change on adoption of new accounting standards | - | (4,911) | 3,262 | 2,675 | - | 1,026 |
| Restated balance at 1 July 2018 | 856 | - | 3,262 | 103,222 | 60,648 | 167,988 |
| *Total comprehensive income for year* | | | | | | |
| Profit for the year | - | - | - | - | 5,212 | 5,212 |
| Other comprehensive income, net of income tax | - | - | 253 | - | - | 253 |
| *Total comprehensive income for the year* | - | - | 253 | - | 5,212 | 5,465 |
| *Transfers* | | | | | | |
| Transfer of reserves on merger | - | - | - | 536 | - | 536 |
| Other | - | - | - | 2 | 534 | 536 |
| *Transactions with owners in their capacity as owners* | | | | | | |
| Transfers to redeemed preference share capital | 58 | - | - | - | (58) | - |
| Balance at 30 June 2019 | 914 | - | 3,515 | 103,760 | 66,336 | 174,525 |
| **Change on adoption of new accounting standards (see note 1(v))** | - | - | - | - | (370) | (370) |
| **Restated 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/(loss), net of income tax** | - | - | (252) | - | - | (252) |
| ***Total comprehensive income/(loss) 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 |

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

# Statements of changes in equity

for the year ended 30 June 2020

| Group ($'000) | Redeemed Preference Shares $'000 | Credit Losses Reserve $'000 | FVOCI Reserve $'000 | Other Reserves $'000 | Retained Earnings $'000 | Total $'000 |
|---|---|---|---|---|---|---|
| Balance at 30 June 2018 | 856 | 4,911 | - | 101,079 | 138,341 | 245,187 |
| Change on adoption of new accounting standards | - | (4,911) | 3,262 | 2,675 | - | 1,026 |
| Restated balance at 1 July 2018 | 856 | - | 3,262 | 103,754 | 138,341 | 246,213 |
| *Total comprehensive income for year* | | | | | | |
| Profit for the year | - | - | - | - | 7,792 | 7,792 |
| Other comprehensive income, net of income tax | - | - | 253 | - | - | 253 |
| *Total comprehensive income for the year* | - | - | 253 | - | 7,792 | 8,045 |
| *Transfers* | | | | | | |
| Transfer of reserves on merger | - | - | - | 536 | - | 536 |
| Other | - | - | - | (535) | 537 | 2 |
| *Transactions with owners in their capacity as owners* | | | | | | |
| Transfers to redeemed preference share capital | 58 | - | - | - | (58) | - |
| Balance at 30 June 2019 | 914 | - | 3,515 | 103,755 | 146,612 | 254,796 |
| **Change on adoption of new accounting standards (see note 1(v))** | - | - | - | - | (428) | (428) |
| **Restated 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/(loss), net of income tax** | - | - | (252) | - | - | (252) |
| ***Total comprehensive income/(loss) 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 |

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

# Statements of cash flows

for the year ended 30 June 2020

| | NOTE | Bank 2020 $'000 Inflows/ (Outflows) | Bank 2019 $'000 Inflows/ (Outflows) | Group 2020 $'000 Inflows/ (Outflows) | Group 2019 $'000 Inflows/ (Outflows) |
|---|---|---|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | | | |
| Interest received | | 85,709 | 93,567 | 83,409 | 90,683 |
| Dividends received | | 267 | 184 | 267 | 184 |
| Other income | | 21,520 | 17,848 | 6,632 | 5,651 |
| Fees and commissions received | | 16,704 | 16,202 | 12,884 | 12,543 |
| Contributions received – Queensland Country Health Fund | | - | - | 131,038 | 125,350 |
| Interest paid | | (39,235) | (43,983) | (35,381) | (39,207) |
| Interest paid on leases | | (587) | - | (511) | - |
| Payments to suppliers and employees | | (71,479) | (71,641) | (66,754) | (63,988) |
| Benefits paid – Queensland Country Health Fund | | - | - | (113,475) | (106,833) |
| Income taxes paid | | 1,039 | (2,989) | (1,259) | (3,685) |
| Net movement in loans and advances | | (44,217) | (86,995) | (44,216) | (86,996) |
| Net movement in deposits from members | | 113,028 | 110,495 | 112,420 | 109,829 |
| Net cash provided by/(used in) operating activities | 28(c) | 82,749 | 32,688 | 85,054 | 43,531 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | | | |
| Net movement in financial assets | | (427,626) | (140,730) | (107,504) | (40,031) |
| Payments for property, plant and equipment | | (2,550) | (507) | (3,382) | (1,420) |
| Payments for intangible assets | | - | (145) | (12) | (299) |
| Proceeds from sale of property, plant and equipment | | 987 | 176 | 970 | (239) |
| Net cash provided by/(used in) investing activities | | (429,189) | (141,206) | (109,928) | (41,989) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | | | |
| Net movement in borrowings | | 344,045 | 106,600 | 20,011 | - |
| Payment for lease liabilities | | (3,572) | - | (2,510) | - |
| Net cash provided by/(used in) financing activities | | 340,473 | 106,600 | 17,501 | - |
| Net increase/(decrease) in cash held | | (5,967) | (1,918) | (7,373) | 1,542 |
| Cash at the beginning of the financial year | | 47,326 | 48,708 | 52,465 | 50,387 |
| Cash received from merger | | - | 536 | - | 536 |
| Cash at the end of the financial year | 28(a) | 41,359 | 47,326 | 45,092 | 52,465 |

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

# Notes to the financial statements

for the year ended 30 June 2020

**NOTE 1 Summary of significant accounting policies**

These financial statements were authorised for issue on September 23, 2020 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*
The Group has applied the following standards and amendments for the first time for their annual reporting period commencing 1 July 2019:

1. AASB 16 *Leases*
The Group had to change its accounting policies and make certain retrospective adjustments following the adoption of AASB 16. This is disclosed in note 1(v).

*(iv) New standards and interpretations not yet adopted*
Certain new accounting standards have been published that are not yet mandatory for 30 June 2020 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. It will become mandatory for the Group in the financial year commencing 1 July 2023.

AASB 17 introduces new measurement approaches to be used in valuing insurance contract liabilities. Under the new model, insurance contract liabilities will represent the present value of future cash flows including a provision for risk. The potential effects of this standard for the Group are yet to be determined.

**(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 2020 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 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

# Notes to the financial statements

for the year ended 30 June 2020

**NOTE 1 cont**

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 30. 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.

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

**NOTE 1 cont**

original effective interest rate. Any changes are recognised in profit or loss.

Interest income:
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).

Initial recognition and measurement:
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 31(b), which results in an accounting loss being recognised in profit or loss when an asset is newly originated.

Offsetting:
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*
Classification and subsequent measurement of financial assets – overview:
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.

Classification and subsequent measurement of financial assets that are debt instruments:
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 31(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 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.
- **Receivables due from other financial institutions** – these are primarily settlement account balances due from banks, building societies and other credit unions, and exclude call and term deposits with other Authorised Deposit-taking Institutions (ADI's). They are brought to account at the gross value of the outstanding balance. Interest is recognised in profit or loss when earned.
- **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.
- **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

**NOTE 1 cont**

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.

Classification and subsequent measurement of financial assets that are equity instruments:

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.

Impairment of financial assets:

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.

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

**NOTE 1 cont**

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 31(b)A(iv)). The Group has not provided any commitment to provide loans at a below-market 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

**NOTE 1 cont**

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.
- **Payables due to other financial institutions** – these are primarily settlement account balances due to other financial institutions.
- **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 Credit Union and the Health Fund, a fee is paid to reimburse all costs incurred by the Credit Union 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 Credit Union. 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 based on the presumption that the transaction takes place either in the principal market for the

# Notes to the financial statements

for the year ended 30 June 2020

**NOTE 1 cont**

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 32.

### (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 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

**NOTE 1 cont**

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.

(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

As explained in Note 1(a) above, the Group has changed its accounting policy for leases where the Group is the lessee. The impact of the change in Note 1(v).

Pre-1 July 2019

Until 30 June 2019, leases of property, plant and equipment where the Group, as lessee, had substantially all the risk and rewards of ownership were classified as finance leases, and leases in which a significant portion of the risks and rewards of ownership were not transferred to the Group as lessee were classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

Post-1 July 2019

From 1 July 2019, 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.

**NOTE 1 cont**

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.

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

# Notes to the financial statements

for the year ended 30 June 2020

**NOTE 1 cont**

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.

**(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 2020 and 2019, 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, 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 during April to June 2020 but did not eventuate at the reporting date. This was due to the national COVID-19 response leading to the reduced access to surgeries and other procedures. 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.

# Notes to the financial statements

for the year ended 30 June 2020

**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.

| | **2020** | | | 2019 | | |
|---|---|---|---|---|---|---|
| Variables | **Hospital %** | **Medical %** | **General treatment %** | Hospital % | Medical % | General treatment % |
| Proportion paid to date | 94% | 95% | 98% | 93% | 93% | 98% |
| Expense rate | 4.40% | 4.40% | 4.40% | 4.22% | 4.22% | 4.22% |
| Discount rate | Nil | Nil | Nil | Nil | Nil | Nil |
| Risk equalisation rate | 15.76% | 15.76% | Nil | 17.50% | 17.50% | 17.50% |
| Risk margin | 6.0% | 6.0% | 6.0% | 6.0% | 6.0% | 6.0% |

The risk margin of 6% (2019: 6%) of the underlying liability has been estimated to equate to a probability of adequacy greater than 75% (2019: 75%).

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 2020) 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% (2019: 75%). An increase or decrease in this expense would have a corresponding effect on the claims expense.

# Notes to the financial statements

for the year ended 30 June 2020

**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 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 Statements 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 |

| | Profit 2019 $'000 | Equity 2019 $'000 |
|---|---|---|
| Recognised amounts in the financial statements | 8,045 | 254,260 |

| 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% | (25) | 8,020 | (25) | 254,235 |
| % development | -1% | 25 | 8,070 | 25 | 254,285 |
| Expense rate | +1% | (58) | 7,987 | (58) | 254,202 |
| Expense rate | -1% | 58 | 8,103 | 58 | 254,318 |
| Risk equalisation rate | +1% | (50) | 7,995 | (50) | 254,210 |
| Risk equalisation rate | -1% | 50 | 8,095 | 50 | 254,310 |
| Risk margin | +1% | (60) | 7,985 | (60) | 254,200 |
| Risk margin | -1% | 60 | 8,105 | 60 | 254,320 |

# Notes to the financial statements

for the year ended 30 June 2020

**NOTE 1 cont**

*(ii)Deferred claims liability (DCL)*

The approach to determine the deferred claims estimate has 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. The provision is management's estimate of the percentage of claims which did not occur in the 2020 financial year, that are anticipated to be deferred to the 2021 financial year.

*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.

- Estimating the reduction in claims due to the national response to the COVID-19 pandemic. This was done by comparing the most recent forecast before the pandemic of the expected claims for the period April to June 2020 to the actual claims incurred during this period to estimate the financial impact.
- Estimating risk equalisation gross deficit payments as 40.00% of hospital and medical deferred claims (at the 75% probability of sufficiency). The 40.00% reflects the historical average gross deficit payment divided by the hospital direct benefits over the Group's recent experience.
- Applying a deferral rate on claims which did not occur to adjust the provision to claims that are expected to occur. Consistent with APRA's guidance on these assumptions to provide at least 75% probability of sufficiency the following rates were applied:
    - 100% of hospital and medical claims which did not occur; and
    - 85% on ancillary claims which did not occur

QCHF has allowed for risk in the estimation of the DCL by holding the reserves assuming 100.00% catch-up of Hospital claims and 85.00% catch-up of General Treatment claims, which is the best estimate of the expected catch-up and incorporates an 18.00% risk margin.

*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 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 Consolidated Statement of Financial Position $'000 |
|---|---|---|---|---|---|
| recent claims forecast prior to the pandemic | +1% | 123 | 6,596 | 123 | 260,959 |
| | -1% | (123) | 6,350 | (123) | 260,713 |
| deferral rate for hospital deferred claims | +1% | 50 | 6,523 | 50 | 260,886 |
| | -1% | (50) | 6,423 | (50) | 260,786 |
| deferral rate for ancillary deferred claims | +1% | 22 | 6,495 | 22 | 260,858 |
| | -1% | (22) | 6,451 | (22) | 260,814 |
| Risk equalisation | +1% | (1) | 6,472 | (1) | 260,835 |
| | -1% | 1 | 6,474 | 1 | 260,837 |

**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) Changes in accounting policies

The Group adopted AASB 16 from 1 July 2019. The impact of the adoption of this standard on the Group's financial statements is described below. There are no other new and amended accounting standards and interpretations that became effective as of 1 July 2019 that have a material impact to the Group.

(i) AASB 16 – Leases
This note explains the impact of the adoption of AASB 16 Leases on the Group's financial statements.

As indicated in Note 1(l) above, the Group has adopted AASB 16 Leases retrospectively from 1 July 2019 but has not restated comparatives for the 2019 reporting period, as permitted under the specific transition provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening Statements of Financial Position on 1 July 2019. The new accounting policies are disclosed in Note 1(l).

On adoption of AASB 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of AASB 17 *Leases*. These liabilities were measured at the present value of the remaining lease payments, discounted using the incremental borrowing rate as of 1 July 2019. The weighted average incremental borrowing rate applied to the lease liabilities on 1 July 2019 was between 4% and 6%.

<u>Practical expedients applied</u>

In applying AASB 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- applying a single discount rate to a portfolio of leases with reasonably similar characteristics;
- accounting for operating leases with a remaining lease term of no more than 12 months at 1 July 2019 as short-term leases;
- excluding initial direct costs for the measurement of the right-of-use assets at the date of initial application; and
- using hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Group has also elected not to reassess whether a contact is, or contains a lease at the date of initial application, instead, for contracts entered into before the transition date, the Group relied on its assessment made applying AASB 117 and Interpretation 4 *Determining whether an Arrangement contains a Lease*.

# Notes to the financial statements

for the year ended 30 June 2020

**NOTE 1 cont**

Measurement of lease liabilities

| | Bank $'000 | Group $'000 |
|---|---|---|
| Operating lease commitments disclosed as at 30 June 2019 | 13,801 | 7,319 |
| Discounted using the lessee's incremental borrowing rate at the date of initial application | (1,671) | (1,604) |
| Add: Equipment leases not recognised in Operating lease commitments | 256 | 256 |
| Less: Short-term leases not recognised as a liability | (1) | (40) |
| Less: Adjustments as a result of different treatment of extension options and reviews | (734) | 4,189 |
| Lease liability recognised as at 1 July 2019 | 11,651 | 10,120 |

Measurement of Right-of-Use Assets

The associated right-of-use assets for property leases were measured on a retrospective basis as if the new rules had always been applied. Other right-of-use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the Statements of Financial Position as at 30 June 2019.

Adjustments recognised in the Statements of Financial Position on 1 July 2019

The change in accounting policy affected the following items in the Statements of Financial Position on 1 July 2019:

| | | Bank $'000 | Group $'000 |
|---|---|---|---|
| Right of Use Asset | Increase | 11,399 | 9,811 |
| Lease Liability | Increase | 11,651 | 10,120 |
| Property, Plant & Equipment | Decrease | 323 | 323 |
| Lease Incentives | Decrease | 434 | 434 |
| Deferred Tax Asset | Decrease | 120 | 120 |
| Retained Earnings | Decrease | 370 | 428 |

The net impact on retained earnings on 1 July 2019 was $370,613 for the Bank and $428,204 for the Group.

Lessor Accounting

The Group did not need to make any adjustments to the accounting for assets held as lessor under operating leases (see Note 1(l)) as a result of the adoption of AASB 16.

## 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 31(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 behavior.

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 31(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 32(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 32(b)(vii).

**(d) Outstanding claims liability**

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.

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.

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.

# Notes to the financial statements

for the year ended 30 June 2020

**NOTE 2 cont**

**(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 2020 amounting to $2,776,478 (2019: $2,315,236).

A risk margin of 4.00% (2019: 4.00%) has been applied in the calculation of the unexpired risk liability as at 30 June 2020. 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 based on the most recent forecast before the pandemic during April to June 2020 but did not eventuate at the reporting date under private health insurance contracts issued by the company.

The Group applied deferral rates consistent with APRA's guidance to provide at least 75% probability of sufficiency in the estimation of the DCL by holding the reserves assuming 100.00% catch-up of hospital claims and 85.00% catch-up of general treatment claims, which is the best estimate of the expected catch-up and incorporates an 18.00% risk margin.

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 provision of $6,401,600 for deferred 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.

The deferred claims liability is expected to be unwound as deferred claims materialise and claims are paid.

# Notes to the financial statements

for the year ended 30 June 2020

| | | Bank | | Group | |
|---|---|---|---|---|---|
| | | **2020 $'000** | 2019 $'000 | **2020 $'000** | 2019 $'000 |
| **NOTE 3 Interest income and interest expense** | | | | | |
| **(a)** | **Interest income** | | | | |
| | Cash and cash equivalents | 120 | 342 | 120 | 342 |
| | Debt instruments at amortised cost | 7,907 | 11,279 | 4,804 | 7,463 |
| | Financial assets at FVPL | - | - | 753 | 834 |
| | Loans and advances at amortised cost | 77,299 | 81,853 | 77,299 | 81,853 |
| | Total interest income | 85,326 | 93,474 | 82,976 | 90,492 |
| **(b)** | Interest expense | | | | |
| | Borrowings | 13 | - | 13 | - |
| | Borrowings – securitisation | 3,946 | 4,766 | 260 | 163 |
| | Deposits from financial institutions | 672 | 616 | 672 | 616 |
| | Deposits from members | 31,315 | 39,137 | 31,217 | 38,963 |
| | Lease liability interest | 587 | - | 511 | - |
| | Total interest expense | 36,533 | 44,519 | 32,673 | 39,742 |

| | Bank | | Group | |
|---|---|---|---|---|
| | **2020 $'000** | 2019 $'000 | **2020 $'000** | 2019 $'000 |
| **NOTE 4 Other revenue and income** | | | | |
| - Dividends received – other corporations | 267 | 184 | 267 | 184 |
| - Fees and commissions | 16,117 | 15,709 | 11,907 | 11,603 |
| - Bad debts recovered | 99 | 62 | 99 | 62 |
| - Net gain on disposal of property, plant and equipment | 26 | 42 | 26 | 42 |
| - Rental income from investment property | - | - | 620 | 624 |
| - Rental income from operating leases | 581 | 634 | 99 | 152 |
| - Management fee | 18,589 | 16,984 | - | - |
| - Contribution income – Queensland Country Health Fund | - | - | 131,006 | 125,351 |
| - Net gain on financial assets at FVPL | - | - | 664 | 625 |
| - Fair value movement on investment property | (290) | - | 140 | - |
| - Dental income – Queensland Country Health Fund | - | - | 873 | 1,119 |
| Total other revenue and income | 35,389 | 33,615 | 145,701 | 139,762 |

# Notes to the financial statements

for the year ended 30 June 2020

| | Bank | | Group | |
|---|---|---|---|---|
| | **2020 $'000** | 2019 $'000 | **2020 $'000** | 2019 $'000 |
| **NOTE 5 Operating expenses** | | | | |
| - Fees and commissions | 1,200 | 1,171 | 1,200 | 1,171 |
| - Depreciation - buildings | 347 | 286 | 1,091 | 1,002 |
| - Depreciation - plant and equipment | 532 | 661 | 765 | 905 |
| - Depreciation – right of use asset | 3,598 | - | 2,549 | - |
| - Amortisation - leasehold improvements | 598 | 728 | 625 | 754 |
| - Amortisation - software | 736 | 781 | 880 | 958 |
| - Impairment losses - loans and advances | 505 | 1,183 | 505 | 1,183 |
| - Rental expense on operating leases | 579 | 4,459 | 282 | 3,003 |
| - Employee benefits - superannuation | 2,621 | 2,550 | 2,621 | 2,550 |
| - Employee benefits - other | 32,101 | 31,707 | 32,101 | 31,707 |
| - General administration | 8,908 | 8,340 | 5,485 | 5,113 |
| - Direct property expenditure from investment property generating rental income | 212 | 198 | 212 | 198 |
| - Benefits paid - Queensland Country Health Fund | - | - | 113,804 | 107,515 |
| - Loss on disposal of property, plant and equipment | 61 | 371 | 526 | 411 |
| - Fair value movement on investment property | - | 200 | - | 240 |
| - Information technology costs | 8,858 | 7,183 | 8,858 | 7,183 |
| - Transaction processing costs | 6,983 | 6,657 | 6,983 | 6,657 |
| - Other operating expenses | 8,523 | 8,644 | 8,271 | 8,414 |
| Total Expenses | 76,362 | 75,119 | 186,758 | 178,964 |

# Notes to the financial statements

for the year ended 30 June 2020

| | Bank | | Group | |
|---|---|---|---|---|
| | **2020** | 2019 | **2020** | 2019 |
| | **$'000** | $'000 | **$'000** | $'000 |
| **NOTE 6 Income tax** | | | | |
| (a) Numerical reconciliation of income tax expense to prima facie tax payable: | | | | |
| Profit before income tax | 7,820 | 7,451 | 9,246 | 11,548 |
| Tax at the Australian tax rate of 30% (2019: 30%) | 2,346 | 2,235 | 2,774 | 3,464 |
| **Add Tax effect of:** | | | | |
| Investment property expenses | | - | 122 | 246 |
| Commission expense | | - | 14 | 55 |
| Other assessable income | 34 | - | 103 | 29 |
| Non-deductible expenses | 34 | 33 | 168 | 45 |
| | 2,414 | 2,268 | 3,181 | 3,839 |
| **Less Tax effect of:** | | | | |
| Tax offset for franked dividends | (114) | (55) | (368) | (96) |
| Tax building depreciation/building allowance | (34) | (22) | (34) | (22) |
| Other non-assessable items | (16) | (9) | (16) | (9) |
| | 2,250 | 2,182 | 2,763 | 3,712 |
| Adjustment recognised for prior periods | 2 | 57 | (242) | 44 |
| Income tax expense | 2,252 | 2,239 | 2,521 | 3,756 |
| (b) Major components of tax expense/(income): | | | | |
| - Current tax | 2,294 | 1,577 | 4,522 | 2,927 |
| - Deferred tax relating to the origination and reversal of temporary differences | (44) | 605 | (1,759) | 785 |
| - Adjustment recognised for prior periods | 2 | 57 | (242) | 44 |
| | 2,252 | 2,239 | 2,521 | 3,756 |
| (c) Major components of tax expense/(income) recognised in Other Comprehensive Income: | | | | |
| - Deferred tax relating to the origination and reversal of temporary differences | (108) | 108 | (108) | 108 |
| | (108) | 108 | (108) | 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 30% (2019: 30%) | 44,251 | 45,501 | 49,082 | 48,108 |

| | Bank 2020 $ | Bank 2019 $ | Group 2020 $ | Group 2019 $ |
|---|---|---|---|---|
| **NOTE 7 Auditor's remuneration** | | | | |
| Auditor Remuneration PricewaterhouseCoopers Australia: | | | | |
| Auditing of financial statements | 212,000 | 209,590 | 267,000 | 248,510 |
| Other assurance services | | | | |
| – audit and review of prudential returns | 40,000 | 24,200 | 79,000 | 36,930 |
| – other assurance services | 95,537 | 19,020 | 101,537 | 20,660 |
| Taxation services | 23,464 | 30,835 | 40,414 | 42,835 |
| | 371,001 | 283,645 | 487,951 | 348,935 |

**NOTE 8 Key management personnel**

**(a) Remuneration of key management personnel (KMP)**

| Compensation of KMPs in total and for each of the following categories was as follows | Bank 2020 $ | Bank 2019 $ | Group 2020 $ | Group 2019 $ |
|---|---|---|---|---|
| - short term employee benefits | 2,105,049 | 2,281,852 | 2,423,328 | 2,615,598 |
| - post-employment benefits – superannuation contributions | 199,660 | 198,365 | 229,897 | 230,070 |
| - other long-term benefits – net increase/(decrease) in long service leave provision | 31,255 | (47,066) | 31,255 | (47,066) |
| - terminations | - | 368,124 | - | 368,124 |
| Total | 2,335,964 | 2,801,275 | 2,684,480 | 3,166,726 |

**(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 2020 $ | Bank 2019 $ | Group 2020 $ | Group 2019 $ |
|---|---|---|---|---|
| The aggregate value of loans at year end | 8,645,709 | 8,619,082 | 10,322,770 | 10,851,126 |
| The aggregate value of other credit facilities at year end | 136,000 | 136,500 | 138,000 | 136,500 |
| Amounts drawn down included in the aggregate value | (51,146) | (40,469) | (51,146) | (40,469) |
| Net balance available | 84,854 | 96,031 | 86,854 | 96,031 |

# Notes to the financial statements

for the year ended 30 June 2020

| | Bank | | Group | |
|---|---|---|---|---|
| | **2020** | 2019 | **2020** | 2019 |
| | **$** | $ | **$** | $ |
| **NOTE 8 cont** | | | | |
| During the year, the aggregate value of loans disbursed amounted to: | | | | |
| - Term loans | 887,683 | 112,108 | 887,683 | 112,108 |
| | 887,683 | 112,108 | 887,683 | 112,108 |
| Interest and other revenue earned on loans and revolving credit facilities | 303,558 | 300,082 | 376,473 | 418,380 |

**(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. | | | | |
| Total value of deposits at year end | 2,565,921 | 3,217,740 | 2,986,548 | 3,267,146 |
| Total interest paid on these deposits during the year | 6,014 | 25,860 | 8,486 | 26,276 |

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 | | Group | |
|---|---|---|---|---|
| | **2020** | 2019 | **2020** | 2019 |
| | **$'000** | $'000 | **$'000** | $'000 |
| Cash on hand at amortised cost | 4,726 | 4,492 | 4,727 | 4,493 |
| Deposits with ADI's at amortised cost | 34,625 | 42,834 | 38,357 | 47,972 |
| | 39,351 | 47,326 | 43,084 | 52,465 |

The effective interest rate on short-term bank deposits was 0.00% (2019: 0.30%); these deposits are available at-call. Refer to note 28 for a detailed reconciliation of cash and cash equivalents, note 31(b) for further information relating to the credit risk of cash and cash equivalents, and note 32(b) for information relating to their fair values.

| **NOTE 10 Receivables due from other financial institutions** | Bank | | Group | |
|---|---|---|---|---|
| | **2020** | 2019 | **2020** | 2019 |
| | **$'000** | $'000 | **$'000** | $'000 |
| ADI receivables | 2,008 | - | 2,008 | - |

All receivables due from other financial institutions are expected to be recovered within 12 months from reporting date.

| | Bank | | Group | |
|---|---|---|---|---|
| | **2020 $'000** | 2019 $'000 | **2020 $'000** | 2019 $'000 |
| **NOTE 11 Financial assets at FVPL** | | | | |
| Financial assets, at fair value | | | | |
| - Managed funds | - | - | 8,804 | 10,829 |
| - Interest bearing notes | - | - | 24,591 | 22,186 |
| - Floating rate notes | | - | - | - |
| Total | - | - | 33,395 | 33,015 |
| Movement in fair value – Managed funds | | | | |
| - Opening balance | - | - | 10,829 | 10,843 |
| - Acquisition | - | - | 1,500 | - |
| - Redemption | - | - | (4,057) | - |
| - Net distribution | - | - | - | - |
| - Changes in market conditions | - | - | 532 | (14) |
| Closing balance | - | - | 8,804 | 10,829 |
| Movement in fair value – Interest bearing capital notes | | | | |
| - Opening balance | - | - | 22,186 | 18,825 |
| - Acquisition | - | - | 7,574 | 7,060 |
| - Redemption | - | - | (5,085) | (4,162) |
| - Gain/(Loss) on redemption | - | - | 12 | 26 |
| - Net distribution | - | - | - | - |
| - Changes in market conditions | - | - | (96) | 437 |
| Closing balance | - | - | 24,591 | 22,186 |
| Movement in fair value – Floating rate notes | | | | |
| - Opening balance | - | - | - | 2,018 |
| - Acquisition | - | - | - | - |
| - Redemption | - | - | - | (2,000) |
| - Net distribution | - | - | - | - |
| - Changes in market conditions | - | - | - | (18) |
| Closing balance | - | - | - | - |

Amounts of 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 (2019: $nil), for the Group amounted to $23,584,000 (2019: $21,186,000). Refer to note 32b) for information on how fair values are determined.

All financial assets at FVPL are mandatorily measured at FVPL. During the year, the Group recognised $664,000 (2019: $625,000) of fair value gains/losses on financial assets at FVPL in profit or loss (other income – refer to note 4).

**NOTE 12 Other receivables**

| | | | | |
|---|---|---|---|---|
| Accrued interest | 395 | 778 | 504 | 937 |
| Trade debtors | 1,978 | 1,743 | 524 | 481 |
| Sundry debtors | (247) | 943 | 3,020 | 4,120 |
| | 2,126 | 3,464 | 4,048 | 5,538 |

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 31(b) for further information relating to the credit risk of trade debtors and note 32(b) for information relating to their fair values.

**NOTE 13 Income tax receivable**

| | | | | |
|---|---|---|---|---|
| Current income tax receivable | 188 | 3,390 | - | 2,053 |

| | Bank | | Group | |
|---|---|---|---|---|
| | **2020 $'000** | 2019 $'000 | **2020 $'000** | 2019 $'000 |
| **NOTE 14 Debt instruments at amortised cost** | | | | |
| Bank bills of exchange and certificates of deposit | 185,324 | 126,924 | 185,324 | 126,924 |
| Deposits with ADI's | 104,074 | 82,941 | 160,369 | 117,194 |
| MTG QCB Trust – Class A floating rate notes [(a)] | 516,200 | 205,000 | - | - |
| MTG QCB Trust – Class B floating rate notes [(a)] | 48,800 | 15,000 | - | - |
| Other floating rate notes | 68,065 | 64,971 | 79,015 | 73,471 |
| | 922,463 | 494,836 | 424,708 | 317,589 |

Amounts of debt instruments at amortised cost expected to mature more than 12 months after the reporting date for the Bank amounted to $45,515,000 (2019: $48,469,000), for the Group amounted to $54,465,000 (2019: $54,969,000). Refer to note 31(b) for further information relating to the credit risk of debt instruments at amortised cost and note 32(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 2020 amounted to $565,000,000 (2019: $220,000,000), split between Class A and Class B notes. For further information on securitisation arrangements refer to note 33.

**NOTE 15 Loans and advances at amortised cost**

| | Bank 2020 | Bank 2019 | Group 2020 | Group 2019 |
|---|---|---|---|---|
| **Loans and advances outstanding** | | | | |
| – Overdrafts | 32,510 | 39,218 | 32,510 | 39,218 |
| – Term loans | 1,833,729 | 1,781,282 | 1,833,729 | 1,781,282 |
| – Credit cards | 13,200 | 15,788 | 13,200 | 15,788 |
| Gross loans and advances | 1,879,439 | 1,836,288 | 1,879,439 | 1,836,288 |
| Provision for impairment | (5,515) | (6,075) | (5,515) | (6,075) |
| Net loans and advances | 1,873,924 | 1,830,213 | 1,873,924 | 1,830,213 |

Amounts of loans and advances expected to be recovered more than 12 months after the reporting date for the Bank amounted to $1,735,855,000 (2019: $1,662,033,000), and for the Group amounted to $1,735,855,000 (2019: $1,662,033,000). Refer to note 31(b) for further information relating to the credit risk of loans and advances and note 32(b) for information relating to their fair values.

| | Bank | | Group | |
|---|---|---|---|---|
| | **2020** | 2019 | **2020** | 2019 |
| | **$'000** | $'000 | **$'000** | $'000 |
| **NOTE 16 Property, plant and equipment** | | | | |
| **(a) Carrying amounts** | | | | |
| Land | | | | |
| - At cost | 1,969 | 1,969 | 8,042 | 7,854 |
| Buildings | | | | |
| - At cost | 7,286 | 7,230 | 28,354 | 27,876 |
| - Accumulated depreciation | (4,307) | (3,999) | (8,162) | (7,164) |
| | 2,979 | 3,231 | 20,192 | 20,712 |
| Leasehold improvements | | | | |
| - At cost | 9,149 | 9,085 | 9,420 | 9,356 |
| - Accumulated amortisation | (7,811) | (7,866) | (7,865) | (7,892) |
| | 1,338 | 1,219 | 1,555 | 1,464 |
| Plant and equipment | | | | |
| - At cost | 6,300 | 5,527 | 8,848 | 7,970 |
| - Accumulated depreciation | (3,776) | (3,835) | (5,028) | (4,859) |
| | 2,524 | 1,692 | 3,820 | 3,111 |
| Total property, plant and equipment | 8,810 | 8,111 | 33,609 | 33,141 |

# Notes to the financial statements

for the year ended 30 June 2020

**NOTE 16 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 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 |
| | | | | | |
| Balance at 1 July 2018 | 1,859 | 3,516 | 1,793 | 2,245 | 9,413 |
| - Additions | 110 | 1 | 108 | 287 | 506 |
| - Disposals | - | - | 46 | (179) | (133) |
| - Depreciation expense | - | (286) | (728) | (661) | (1,675) |
| Balance at 30 June 2019 | 1,969 | 3,231 | 1,219 | 1,692 | 8,111 |
| | | | | | |
| **Group** | | | | | |
| 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 |
| | | | | | |
| Balance at 1 July 2018 | 7,745 | 21,423 | 1,793 | 3,555 | 34,516 |
| - Additions | 109 | 291 | 379 | 640 | 1,419 |
| - Disposals | - | - | 46 | (179) | (133) |
| - Depreciation expense | - | (1,002) | (754) | (905) | (2,661) |
| Balance at 30 June 2019 | 7,854 | 20,712 | 1,464 | 3,111 | 33,141 |

**(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 32). The directors are satisfied that the outcome of these valuations adequately support the carrying values above.

| | Note | Bank | | Group | |
|---|---|---|---|---|---|
| | | **2020** | 2019 | **2020** | 2019 |
| | | **$'000** | $'000 | **$'000** | $'000 |

**NOTE 16 cont**

**(d) Leases**

This note provides information for leases where the Group is a lessee.

(i) Amounts recognised in the Statements of Financial Position

| | Bank 2020 $'000 | Bank 2019 $'000 | Group 2020 $'000 | Group 2019 $'000 |
|---|---|---|---|---|
| Right-of-use Assets | | | | |
| Buildings | 7,725 | - | 7,187 | - |
| Equipment | 181 | - | 181 | - |
| | 7,906 | - | 7,368 | - |
| Lease Liabilities | | | | |
| Payable within 12 Months | 2,620 | - | 2,150 | - |
| Payable > 12 Months | 5,684 | - | 5,684 | - |
| | 8,304 | - | 7,834 | - |

In the previous year, the Group only recognised leased assets and lease liabilities in relation to leases that were classified as 'finance leases' under AASB 117 *Leases*. For adjustments recognised on adoption of AASB 16 on 1 July 2019, refer to Note 1 (v).

Additions to the Right-of-use Assets during the 2020 financial year were $32,000.

| | Note | Bank 2020 $'000 | Bank 2019 $'000 | Group 2020 $'000 | Group 2019 $'000 |
|---|---|---|---|---|---|
| (ii) Amounts recognised in the Statements of Profit or Loss | | | | | |
| Depreciation charge of Right-of-use Assets | | | | | |
| Buildings | | 3,508 | - | 2,459 | |
| Equipment | | 90 | - | 90 | |
| | 5 | 3,598 | - | 2,549 | - |
| Interest expenses | 3 | 587 | - | 511 | - |
| Expense relating to short-term leases (included in occupancy expenses) | 5 | 48 | - | 94 | - |
| Expenses relating to variable lease payments not included in lease liabilities (included in occupancy expenses) | 5 | 20 | - | - | - |

The total cash outflow for leases in 2020 was $4,159,000 (Group: $3,021,000).

## NOTE 17 Intangible Assets

| | Bank | | Group | |
|---|---|---|---|---|
| | **2020 $'000** | 2019 $'000 | **2020 $'000** | 2019 $'000 |
| **(a) Carrying amounts** | | | | |
| Computer Software | | | | |
| - At cost | 4,115 | 4,115 | 4,778 | 4,768 |
| - Accumulated amortisation | (3,282) | (2,547) | (3,826) | (2,948) |
| Total computer software | 833 | 1,568 | 952 | 1,820 |
| Goodwill | - | - | - | 415 |
| Total intangible assets | 833 | 1,568 | 952 | 2,235 |

**(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 2019 | 1,568 | - | 1,568 |
| - Additions | - | - | - |
| - Disposals | - | - | - |
| - Amortisation expense | (735) | - | (735) |
| Balance at 30 June 2020 | 833 | - | 833 |
| | | | |
| Balance at 1 July 2018 | 2,204 | - | 2,204 |
| - Additions | 145 | - | 145 |
| - Disposals | - | - | - |
| - Amortisation expense | (781) | - | (781) |
| Balance at 30 June 2019 | 1,568 | - | 1,568 |
| **Group** | | | |
| 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 |
| | | | |
| Balance at 1 July 2018 | 2,479 | - | 2,479 |
| - Additions | 299 | 415 | 714 |
| - Disposals | - | - | - |
| - Amortisation expense | (958) | - | (958) |
| Balance at 30 June 2019 | 1,820 | 415 | 2,235 |

# Notes to the financial statements

for the year ended 30 June 2020

| | Bank | | Group | |
|---|---|---|---|---|
| | **2020** | 2019 | **2020** | 2019 |
| | **$'000** | $'000 | **$'000** | $'000 |
| **NOTE 18 Investment property** | | | | |
| Movements | | | | |
| Opening balance | 750 | 950 | 4,250 | 4,490 |
| Capital expenditure | - | - | - | - |
| Net gain/(loss) from fair value adjustments | (290) | (200) | 140 | (240) |
| Closing balance | 460 | 750 | 4,390 | 4,250 |

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 Alexander Dickinson, registered valuer no. 2278 of Opteon on 18th May 2020; Alex Payne, registered valuer no. 2547 and David Notley, registered valuer no. 3159 of Herron Todd White on 22nd May 2020 and James Hayward, registered valuer no. 3759 of Herron Todd White on 25th May 2020. The directors do not believe there are any significant differences from the valuations obtained during the year to reporting date.

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 32 for further disclosure on fair value measurement.

## NOTE 19 Equity instruments at FVOCI

| | | | | |
|---|---|---|---|---|
| Shares in unlisted entities | 8,014 | 8,379 | 8,014 | 8,374 |
| | 8,014 | 8,379 | 8,014 | 8,374 |

Refer to note 31(a) for further information relating to the market risks associated with these investments and note 32(b) for further information relating to the determination of fair values.

During the year, the Group recognised ($252,000) (2019: $253,000) 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 $267,000 (2019: $184,053) 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.

# Notes to the financial statements

for the year ended 30 June 2020

| | Bank | | Group | |
|---|---|---|---|---|
| | **2020** | 2019 | **2020** | 2019 |
| | $'000 | $'000 | **$'000** | $'000 |
| **NOTE 20 Deferred tax assets** | | | | |
| **(a) Deferred tax assets comprise temporary differences attributable to:** | | | | |
| - provision for impairment | 1,654 | 1,822 | 1,654 | 1,822 |
| - provision for outstanding claims | - | - | 74 | 73 |
| - employee benefits | 1,842 | 1,645 | 1,842 | 1,645 |
| - depreciation | 1,471 | 1,562 | 2,296 | 2,181 |
| - land and buildings | 464 | 334 | (1,059) | (804) |
| - deferred claims liability | - | - | 1,920 | - |
| - provision for onerous contracts | - | - | - | - |
| - other | 271 | 429 | 635 | 831 |
| | 5,702 | 5,792 | 7,362 | 5,748 |
| Amounts recognised in other comprehensive income - equity interests | (1,398) | (1,506) | (1,398) | (1,506) |
| Net deferred tax assets | 4,304 | 4,286 | 5,964 | 4,242 |

# Notes to the financial statements

for the year ended 30 June 2020

| | Bank | | Group | |
|---|---|---|---|---|
| | **2020** | 2019 | **2020** | 2019 |
| | $'000 | $'000 | **$'000** | $'000 |
| **NOTE 20** cont | | | | |
| **(b) The movement in deferred tax assets for each temporary difference during the year is as follows:** | | | | |
| Provision for impairment | | | | |
| Opening balance | 1,822 | 873 | 1,822 | 873 |
| Restatement due to accounting standard | - | 958 | | 958 |
| Change recognised in profit or loss | (168) | (9) | (168) | (9) |
| Closing balance | 1,654 | 1,822 | 1,654 | 1,822 |
| | | | | |
| Provision for outstanding claims | | | | |
| Opening balance | - | - | 73 | 52 |
| Over-provision in prior year | - | - | - | - |
| Change recognised in profit or loss | - | - | 1 | 21 |
| Closing balance | - | - | 74 | 73 |
| | | | | |
| Employee benefits | | | | |
| Opening balance | 1,645 | 1,676 | 1,645 | 1,676 |
| Change recognised in profit or loss | 197 | (31) | 197 | (31) |
| Closing balance | 1,842 | 1,645 | 1,842 | 1,645 |
| | | | | |
| Depreciation | | | | |
| Opening balance | 1,562 | 1,624 | 2,181, | 2,212 |
| Change recognised in profit or loss | (91) | (62) | 115 | (31) |
| Adjustment recognised for prior periods | - | - | - | - |
| Closing balance | 1,471 | 1,562 | 2,296 | 2,181 |
| | | | | |
| Land and buildings | | | | |
| Opening balance | 334 | 226 | (804) | (674) |
| Change recognised in profit or loss | 145 | 108 | (240) | (130) |
| Adjustment recognised for prior periods | (15) | | (15) | |
| Closing balance | 464 | 334 | (1,059) | (804) |
| | | | | |
| Deferred claims liability | | | | |
| Opening balance | - | - | - | - |
| Change recognised in profit or loss | - | - | 1,920 | - |
| Closing balance | - | - | 1,920 | - |

# Notes to the financial statements

for the year ended 30 June 2020

| | Bank | | Group | |
|---|---|---|---|---|
| | **2020** | 2019 | **2020** | 2019 |
| | $'000 | $'000 | **$'000** | $'000 |
| **NOTE 20 cont** | | | | |
| Provision for onerous contracts | | | | |
| Opening balance | - | 468 | - | 468 |
| Under provision in prior year | - | - | - | - |
| Change recognised in profit or loss | - | (468) | - | (468) |
| Closing balance | - | - | - | - |
| Equity Interests | | | | |
| Opening balance | (1,506) | - | (1,506) | - |
| Restatement due to accounting standard | - | (1,398) | - | (1,398) |
| Change recognised in profit or loss | 108 | (108) | 108 | (108) |
| Closing balance | (1,398) | (1,506) | (1,398) | (1,506) |
| Other | | | | |
| Opening balance | 429 | 640 | 831 | 824 |
| Restatement due to accounting standard | (120) | - | (120) | |
| Overprovision in prior year | 1 | (69) | (12) | 143 |
| Change recognised in profit or loss | (39) | (142) | (64) | (136) |
| Closing balance | 271 | 429 | 635 | 831 |

## NOTE 21 Other assets

| | | | | |
|---|---|---|---|---|
| Prepayments | 1,644 | 1,277 | 1,642 | 1,276 |

## NOTE 22 Other borrowings

| | | | | |
|---|---|---|---|---|
| RBA Term Funding Facility | 20,011 | - | 20,011 | - |
| MTG QCB Trust Repo Series No. 1 | 530,687 | 206,654 | - | - |
| | 550,698 | 206,654 | 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 33 (ii) for details regarding collateral pledged for the RBA Term Funding Facility. Other borrowings are on an at-call basis. Refer to note 31 for further information relating to the financial risk management of borrowings and note 32(b) for information relating to their fair values.

## NOTE 23 Deposits from members

| | | | | |
|---|---|---|---|---|
| Member call deposits (including withdrawable shares) | 1,289,683 | 1,123,033 | 1,283,949 | 1,112,907 |
| Member term deposits (including accrued interest) | 783,163 | 836,820 | 776,153 | 834,816 |
| Member retirement savings account deposits (including accrued interest) | 41,186 | 43,853 | 41,186 | 43,853 |
| | 2,114,032 | 2,003,706 | 2,101,288 | 1,991,576 |

Amounts of deposits from members expected to be settled more than 12 months after reporting date for the Bank amounted to nil (2019: $926,000), for the Group amounted to nil (2019: $926,000).

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 31 for further information relating to the financial risk management of deposits from members and note 32(b) for information relating to their fair values.

| | Bank 2020 $'000 | Bank 2019 $'000 | Group 2020 $'000 | Group 2019 $'000 |
|---|---|---|---|---|
| **NOTE 24 Other payables** | | | | |
| Accrued expenses | 2,435 | 2,414 | 2,435 | 2,414 |
| Contributions in advance – Queensland Country Health Fund | - | - | 16,124 | 15,796 |
| Employee entitlements | 3,136 | 2,765 | 3,136 | 2,765 |
| Trade Payables | 845 | 598 | 956 | 668 |
| Other liabilities | 9,296 | 9,551 | 10,498 | 14,275 |
| | 15,712 | 15,328 | 33,149 | 35,918 |

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 31 for further information relating to the financial risk management of trade payables and note 32(b) for information relating to their fair values.

## NOTE 25 Income tax payable

| | Bank 2020 $'000 | Bank 2019 $'000 | Group 2020 $'000 | Group 2019 $'000 |
|---|---|---|---|---|
| Current income tax payable | - | - | 822 | - |

## NOTE 26 Provisions

| | Bank 2020 $'000 | Bank 2019 $'000 | Group 2020 $'000 | Group 2019 $'000 |
|---|---|---|---|---|
| Long service leave | 3,003 | 2,717 | 3,003 | 2,717 |
| Make good provision | 816 | 670 | 816 | 670 |
| Outstanding claims provision | - | - | 6,169 | 6,399 |
| Deferred claims liability | - | - | 6,402 | - |
| Unexpired risk liability reserve | - | - | 2,776 | 2,315 |
| | 3,819 | 3,387 | 19,166 | 12,101 |

### (a) Make good provision

The movements in the make good provision were as follows:

| | Bank 2020 $'000 | Bank 2019 $'000 | Group 2020 $'000 | Group 2019 $'000 |
|---|---|---|---|---|
| – Carrying amount – opening balance | 670 | 669 | 670 | 669 |
| – Additional provisions raised during the year | 146 | 1 | 146 | 1 |
| – Amounts used | - | - | - | - |
| – Carrying amount – closing balance | 816 | 670 | 816 | 670 |

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

| | Bank 2020 $'000 | Bank 2019 $'000 | Group 2020 $'000 | Group 2019 $'000 |
|---|---|---|---|---|
| – Carrying amount – opening balance | - | - | 6,399 | 4,621 |
| – Additional provisions required | - | - | - | 1,778 |
| – Reduction in provisions required | - | - | (230) | - |
| – Carrying amount – closing balance | - | - | 6,169 | 6,399 |

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.

**NOTE 26 cont**

| | Bank 2020 $'000 | Bank 2019 $'000 | Group 2020 $'000 | Group 2019 $'000 |
|---|---|---|---|---|
| **(c) Deferred claims liability** | | | | |
| The movements in the deferred claims liability were as follows: | | | | |
| – Carrying amount – opening balance | - | - | - | - |
| – Additional provisions raised during the year | - | - | 6,402 | - |
| – Amounts used | - | - | - | - |
| – Carrying amount – closing balance | - | - | 6,402 | - |

The deferred claims liability relates to Queensland Country Health Fund Ltd, it provides for claims that were expected to occur during March to June 2020 but did not eventuate due to the impact of COVID-19 related restrictions on hospital, medical and ancillary services.

| | Bank 2020 $'000 | Bank 2019 $'000 | Group 2020 $'000 | Group 2019 $'000 |
|---|---|---|---|---|
| **(d) Unexpired risk liability reserve** | | | | |
| – Carrying amount – opening balance | - | - | 2,315 | 2,025 |
| – Additional provisions required | - | - | 461 | 290 |
| – Reduction in provisions required | - | - | - | - |
| – Carrying amount – closing balance | - | - | 2,776 | 2,315 |

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 27 Reserves

**(a) Credit losses reserve**

The credit losses reserve previously recorded amounts set aside as a general provision and was maintained to comply with the Prudential Standards as set down by APRA. This reserve was written back to general reserves in 2019 financial year due to the change in adoption of the accounting standard, AASB 9.

**(b) 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.

**(c) 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.

| | Bank 2020 $'000 | Bank 2019 $'000 | Group 2020 $'000 | Group 2019 $'000 |
|---|---|---|---|---|
| The movements in the business combination reserve were as follows: | | | | |
| – Carrying amount – opening balance | 59,503 | 58,965 | 59,498 | 59,497 |
| – Transfer of reserves on merger | - | 538 | - | 1 |
| – Other | (5) | - | - | - |
| Carrying amount – closing balance | 59,498 | 59,503 | 59,498 | 59,498 |

**NOTE 27 cont**

**(ii) General reserve**

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

| | Bank 2020 $'000 | Bank 2019 $'000 | Group 2020 $'000 | Group 2019 $'000 |
|---|---|---|---|---|
| The movements in the general reserve were as follows: | | | | |
| – Carrying amount – opening balance | 44,257 | 41,582 | 44,257 | 41,582 |
| – Change in adoption of new accounting standard | - | 2,675 | - | 2,675 |
| Carrying amount – closing balance | 44,257 | 44,257 | 44,257 | 44,257 |

| | Bank | | Group | |
|---|---|---|---|---|
| | **2020** | 2019 | **2020** | 2019 |
| | **$'000** | $'000 | **$'000** | $'000 |

## NOTE 28 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 2020 $'000 | Bank 2019 $'000 | Group 2020 $'000 | Group 2019 $'000 |
|---|---|---|---|---|
| Cash and cash equivalents | 39,351 | 47,326 | 43,084 | 52,465 |
| Receivables due from other financial institutions | 2,008 | - | 2,008 | - |
| | 41,359 | 47,326 | 45,092 | 52,465 |

### (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 2020 $'000 | Bank 2019 $'000 | Group 2020 $'000 | Group 2019 $'000 |
|---|---|---|---|---|
| Profit after income tax | 5,316 | 5,465 | 6,473 | 8,045 |
| – (Gain)/loss on sale of property, plant and equipment | (26) | (42) | (26) | (42) |
| – Depreciation and amortisation | 1,626 | 2,456 | 2,850 | 3,619 |
| – Impairment loss – intangible assets | - | - | 415 | - |
| – Depreciation – right of use asset | 3,598 | - | 2,549 | - |
| – Decrease/(increase) in investment property | 290 | 200 | (140) | 240 |
| – Decrease/(increase) in fair value of equities | 360 | (361) | 360 | (361) |
| – Provision for loan impairment | 505 | 1,183 | 505 | 1,183 |
| **Changes in operating assets and liabilities:** | | | | |
| – (Increase)/decrease in loans and advances | (44,217) | (86,995) | (44,216) | (86,996) |
| – Increase/(decrease) in member deposits | 113,029 | 110,495 | 112,421 | 109,829 |
| – Increase/(decrease) in interest payable | (2,702) | 536 | (2,708) | 534 |
| – (Increase)/decrease in interest receivable | 383 | 94 | 433 | 191 |
| – (Increase)/decrease in prepayments | (367) | (132) | (367) | (132) |
| – (Increase)/decrease in sundry debtors | 955 | (1,197) | 1,057 | 347 |
| – (Increase)/decrease in deferred tax assets | (19) | 1,222 | (1,722) | 1,189 |
| – Increase/(decrease) in income tax payable | 3,202 | (1,864) | 2,875 | (1,010) |
| – Decrease/(increase) in deferred tax liability | - | - | - | - |
| – Increase/(decrease) in provisions | 432 | (46) | 7,065 | 2,023 |
| – Increase/(decrease) in payables and other liabilities | 384 | 1,674 | (2,770) | 4,872 |
| Net cash provided by/(used in) operating activities | 82,749 | 32,688 | 85,054 | 43,531 |

| | Bank 2020 $'000 | Bank 2019 $'000 | Group 2020 $'000 | Group 2019 $'000 |
|---|---|---|---|---|
| **NOTE 29 Commitments** | | | | |
| (a) Future capital commitments | - | - | - | - |
| (b) Operating lease commitments<br>Commitments for minimum lease payments in relation to non-cancellable leases are payable as follows: | | | | |
| – Not longer than 1 year | 126 | 3,564 | 186 | 2,467 |
| – Longer than 1 and not longer than 5 years | 592 | 9,280 | 636 | 4,533 |
| – Longer than 5 years | 13 | 957 | 13 | 319 |
| | 731 | 13,801 | 835 | 7,319 |

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 16 for further information.

| | Bank 2020 $'000 | Bank 2019 $'000 | Group 2020 $'000 | Group 2019 $'000 |
|---|---|---|---|---|
| (c) Outstanding loan commitments<br>Loans and credit facilities approved but not funded or drawn at the end of the financial year: | | | | |
| – Loans approved but not funded | 40,735 | 30,834 | 40,735 | 30,834 |
| – Undrawn overdraft, line of credit and VISA facilities | 66,797 | 64,605 | 66,797 | 64,605 |
| (d) Operating leases receivable<br>Commitments for minimum lease payments in relation to non-cancellable leases are payable as follows: | | | | |
| – Not longer than 1 year | 77 | 85 | 455 | 504 |
| – Longer than 1 and not longer than 5 years | 189 | 306 | 1,946 | 1,333 |
| – Longer than 5 years | - | - | - | 645 |
| | 266 | 391 | 2,401 | 2,482 |

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 30 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 2020 | Ownership interest held by group 2019 |
|---|---|---|---|
| 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 30 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 33 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 31 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
- Data Risk Management
- Compliance
- Business Continuity, Fraud and Corruption.

### (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 not excessive. 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 2020

**NOTE 31 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**<br>**Repricing Period: 30 June 2020** | **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 | 34,625 | - | - | 4,726 | 39,351 |
| - Receivables due from other financial institutions | - | - | - | 2,008 | 2,008 |
| - 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 |
| **Repricing Period: 30 June 2019** | | | | | |
| **Financial Assets** | | | | | |
| - Cash and cash equivalents | 42,834 | - | - | 4,492 | 47,326 |
| - Trade debtors | - | - | - | 1,744 | 1,744 |
| - Debt instruments at amortised cost | 220,000 | 226,367 | 48,469 | - | 494,836 |
| - Loans and advances at amortised cost | 1,302,120 | 183,714 | 344,379 | - | 1,830,213 |
| - Equity instruments at FVOCI | - | - | - | 8,379 | 8,379 |
| | 1,564,954 | 410,081 | 392,848 | 14,615 | 2,382,498 |
| **Financial Liabilities** | | | | | |
| - Other borrowings | 206,654 | - | - | - | 206,654 |
| - Deposits from members | 1,172,886 | 829,894 | 926 | - | 2,003,706 |
| - Trade payables | - | - | - | 598 | 598 |
| | 1,379,540 | 829,894 | 926 | 598 | 2,210,958 |

Based on calculations at 30 June 2020 the net profit impact to the Bank of a 1% (2019:1%) movement in interest rates would be $1,362,000 (2019: $918,000). This represents 0.71% (2019: 0.56%) of the current capital base of $169,853,000 (2019: $163,940,000). The Bank is currently at risk in an increasing interest rate environment.

# Notes to the financial statements

for the year ended 30 June 2020

**NOTE 31 cont**

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

| Group<br>Repricing Period: 30 June 2020 | 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 | 38,357 | - | - | 4,727 | 43,084 |
| - Receivables due from other financial institutions | - | - | - | 2,008 | 2,008 |
| - 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 |
| **Repricing Period: 30 June 2019** | | | | | |
| **Financial Assets** | | | | | |
| - Cash and cash equivalents | 47,972 | - | - | 4,493 | 52,465 |
| - Trade debtors | - | - | - | 481 | 481 |
| - Debt instruments at amortised cost | - | 262,620 | 54,969 | - | 317,589 |
| - Loans and advances at amortised cost | 1,302,120 | 183,714 | 344,379 | - | 1,830,213 |
| - Equity instruments at FVOCI | - | - | - | 8,374 | 8,374 |
| | 1,350,092 | 446,334 | 399,348 | 13,348 | 2,209,122 |
| **Financial Liabilities** | | | | | |
| - Other borrowings | - | - | - | - | - |
| - Deposits from members | 1,162,756 | 827,894 | 926 | - | 1,991,576 |
| - Trade payables | - | - | - | 668 | 668 |
| | 1,162,756 | 827,894 | 926 | 668 | 1,992,244 |

Based on calculations at 30 June 2020 the net profit impact to the Group of a 1% (2019:1%) movement in interest rates would be $1,362,000 (2019: $918,000). This represents 0.71% (2019: 0.56%) of the current capital base of $169,853,000 (2019: $163,940,000). The Group is currently at risk in an increasing interest rate environment.

# Notes to the financial statements

for the year ended 30 June 2020

**NOTE 31 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 19).

The Group's maximum exposure to equity securities price risk is the carrying amounts of the investments of $8,014,000 (2019: $8,370,000). 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 $801,000 (2019: $838,000). 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.

**NOTE 31 cont**

*(ii) Collateral*
A sizeable portfolio of the 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** | **2020 $'000** | 2019 $'000 |
| **Mortgage and other secured portfolio – LVR Distribution at 30 June 2020** | | |
| - Lower than 50% | 1,694 | 1,258 |
| - 50 to 60% | 13 | - |
| - 60 to 70% | 425 | 308 |
| - 70 to 80% | 689 | 283 |
| - 80 to 90% | 87 | 810 |
| - 90 to 100% | 372 | 1,092 |
| - Higher than 100% | 223 | 339 |
| **Total** | 3,503 | 4,090 |

*(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 2020 is $1,543,539,000 (2019: 1,511,811,000).

**NOTE 31 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 2020, 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 revenue 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.

**NOTE 31 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 on a 3 month or 6 month basis.

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 total $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 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 |

# Notes to the financial statements

for the year ended 30 June 2020

**NOTE 31** 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 2019** | | | | |
| - Commercial | 57,940 | 391 | - | 58,331 |
| - Housing | 1,628,866 | 12,800 | 2,800 | 1,644,466 |
| - Personal | 76,984 | 579 | 1,030 | 78,593 |
| - Overdraft | 38,778 | 107 | 97 | 38,982 |
| - Visa | 15,219 | 313 | 384 | 15,916 |
| **Gross carrying amount** | 1,817,787 | 14,190 | 4,311 | 1,836,288 |
| **Impairment provision** | 1,245 | 2,403 | 2,427 | 6,075 |

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.

**NOTE 31 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 2018 | 1,267 | 1,927 | 2,910 | 6,104 |
| Movements with profit or loss impact | | | | |
| Transfers during the period: | | | | |
| – Transfers from Stage 1 to Stage 2 | (7) | 1,677 | - | 1,670 |
| – Transfers from Stage 1 to Stage 3 | (1) | - | 301 | 300 |
| – Transfers from Stage 2 to Stage 3 | - | (250) | 541 | 291 |
| – Transfers from Stage 2 to Stage 1 | 3 | (641) | - | (638) |
| – Transfers from Stage 3 to Stage 1 | 2 | - | (513) | (511) |
| – Transfers from Stage 3 to Stage 2 | - | 13 | (61) | (48) |
| New financial assets originated | 63 | - | 461 | 524 |
| Financial assets derecognised | (82) | (323) | - | (405) |
| Total net profit and loss charge during the period | (22) | 476 | 729 | 1,183 |
| Other movements with no profit or loss impact Write-offs | - | - | (1,212) | (1,212) |
| **Balance at 30 June 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 |

Significant changes in the provision for impairment were as follows –
ECL model enhancements and other changes resulted in a reduction to the opening balance of the Provision of $1,539,000.

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

**NOTE 31 cont**

Collective Provision 12 Month ECL (Stage 1) reduced as a result of deterioration in credit quality migrating loans to Stage 2 and Stage 3.
Collective Provision Lifetime ECL (Stage 2) increased as a result of additional economic overlays, with loans improving in credit quality being offset by those migrating to Stage 3.
Specific Provision Lifetime ECL reduced as a result of loans written off during the year, which was offset by 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 2020 was Nil. The Group may seek to recover amounts it is legally owned 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 | |
|---|---|---|---|---|
| | **2020 $'000** | 2019 $'000 | **2020 $'000** | 2019 $'000 |
| **Impairment expense on loans and advances** | | | | |
| - New and increased provisions (net of releases) | (560) | (29) | (560) | (29) |
| - Recoveries of specific provisions | - | - | - | - |
| - Write-off of specific provisions | 1,065 | 1,212 | 1,065 | 1,212 |
| Total impairment expense for loans and advances | 505 | 1,183 | 505 | 1,183 |

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 2020 was $2,743,000 (2019: $4,107,000).

**NOTE 31 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 | 35% |
| 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 31 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 11. 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:

| | **2020** | 2019 |
|---|---|---|
| Liquid funds to total adjusted liabilities: | | |
| - As at 30 June | 17.52% | 14.94% |
| - Average for the year | 16.37% | 15.47% |
| - Minimum during the year | 14.90% | 13.96% |
| | | |
| Liquid funds to total member deposits | | |
| - As at 30 June | 18.83% | 15.76% |

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 $323,570,000 (2019: $262,142,000) and for the Bank was $323,570,000 (2019: $262,142,000). 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:

**NOTE 31 cont**

| | Bank | | Group | |
|---|---|---|---|---|
| | **2020 $'000** | 2019 $'000 | **2020 $'000** | 2019 $'000 |
| Overdraft facility approved | 320 | 320 | 320 | 320 |
| Overdraft facility used | - | - | - | - |
| Overdraft facility available | 320 | 320 | 320 | 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:

| | **2020 $'000** | 2019 $'000 |
|---|---|---|
| **Tier 1 Capital** | | |
| Redeemed preference share capital account | - | 914 |
| General Reserves | 107,018 | 107,022 |
| Retained earnings | 72,448 | 66,589 |
| Less: | | |
| Prescribed deductions | (13,151) | (14,233) |
| Net Tier 1 capital | 166,315 | 160,292 |
| **Tier 2 Capital** | | |
| Reserve for credit losses | 3,372 | 3,648 |
| Net Tier 2 capital | 3,372 | 3,648 |
| Total capital | 169,687 | 163,940 |

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 31 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:

| 2020 | 2019 | 2018 | 2017 | 2016 |
|---|---|---|---|---|
| 15.73% | 16.16% | 15.82% | 14.31% | 14.00% |

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.

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** | | | | | | | | |
| **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 |
| 2019 | **Financial liabilities** | | | | | | | |
| | - Other borrowings | 206,654 | 225,952 | 4,236 | 8,238 | 33,447 | 108,254 | 71,777 |
| | - Deposits from members | 2,003,706 | 2,007,227 | 1,286,030 | 212,149 | 508,090 | 958 | - |
| | - Trade payables | 598 | 598 | 598 | - | - | - | - |
| | - Unrecognised loan commitments | 30,834 | 30,834 | 17,223 | 10,095 | 2,123 | 1,393 | - |
| | | 2,241,792 | 2,264,611 | 1,308,087 | 230,482 | 543,660 | 110,605 | 71,777 |
| **Group – Maturity profile of financial liabilities** | | | | | | | | |
| **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 | - |
| 2019 | **Financial liabilities** | | | | | | | |
| | - Other borrowings | - | - | - | - | - | - | - |
| | - Deposits from members | 1,991,576 | 1,995,089 | 1,274,896 | 211,145 | 508,090 | 958 | - |
| | - Trade payables | 668 | 668 | 668 | - | - | - | - |
| | - Unrecognised loan commitments | 30,834 | 30,834 | 17,223 | 10,095 | 2,123 | 1,393 | - |
| | | 2,023,078 | 2,026,591 | 1,292,787 | 221,240 | 510,213 | 2,351 | - |

# Notes to the financial statements

for the year ended 30 June 2020

## NOTE 32 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** | | | | | |
| **2020** | Financial assets at FVPL | - | - | - | - |
| | Equity instruments at FVOCI | - | - | 8,014 | 8,014 |
| | Investment property | - | - | 460 | 460 |
| **Total** | | - | - | 8,474 | 8,474 |
| 2019 | Financial assets at FVPL | - | - | - | - |
| | Equity instruments at FVOCI | - | - | 8,379 | 8,379 |
| | Investment property | - | - | 750 | 750 |
| **Total** | | - | - | 9,129 | 9,129 |
| **Group** | | | | | |
| **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 |
| 2019 | Financial assets at FVPL | - | 33,015 | - | 33,015 |
| | Equity instruments at FVOCI | - | - | 8,374 | 8,374 |
| | Investment property | - | - | 4,250 | 4,250 |
| **Total** | | - | 33,015 | 12,624 | 45,639 |

**NOTE 32 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 19). 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 2020 $'000 | Fair value at 30 June 2019 $'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 2020 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 2020: $381 per share 30 June 2019: $429 per share | 5,094 | 5,736 | An increase/ decrease of 10% on the net asset backing per share would result in an increase/ decrease in the fair value by $509,000 (2019: $574,000) |
| | **Cuscal** Net asset backing per share from 2020 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 2020: $1.45 per share 30 June 2019: $1.31 per share | 2,920 | 2,638 | An increase / decrease of 10% on the net asset backing per share would result in an increase/ decrease in the fair value by $292,000 (2019: $264,000) |

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 32 cont**

| | **2020** | | 2019 | |
|---|---|---|---|---|
| | **Carrying Amount $'000** | **Fair Value $'000** | Carrying Amount $'000 | Fair Value $'000 |
| **Loans and advances** | | | | |
| Bank | 1,873,924 | 1,908,826 | 1,830,213 | 1,858,653 |
| Group | 1,873,924 | 1.908,826 | 1,830,213 | 1,858,653 |

*(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.

| | | | | |
|---|---|---|---|---|
| **Deposits from members** | | | | |
| Bank | 2,114,032 | 2,115,720 | 2,003,706 | 2,006,199 |
| Group | 2,101,288 | 2,102,977 | 1,991,576 | 1,994,069 |

*(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 16. 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.

| | | | | |
|---|---|---|---|---|
| **RBA Term Funding Facility** | | | | |
| Bank | 20,011 | 20,022 | - | - |
| Group | 20,011 | 20,022 | - | - |

# Notes to the financial statements

for the year ended 30 June 2020

**NOTE 32 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 2020 $'000 | Fair value at 30 June 2019 $'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: 2020: $412,500 – $510,000 per unit. 2019: $342,000 – $490,000 per unit. | Bank: - Group: 2,870 | Bank: - Group: 2,440 | An increase/ decrease of 10% on the value per unit would result in an increase/ decrease in the fair value by $287,000 (2019: $244,000) for the Group. |
| | **1-4, 30 Cheyne Street, Pimlico** Selling price based on market value of similar properties in the area. Range: 2020: $225,000 – $301,000 per unit. 2019: $225,000 – $328,000 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 (2019: $106,000) for the Group. |
| | **8 William Street, Beaudesert** Selling price based on market value per m2 of building area. Range: 2020: $1,400 – $1,500 per m2 of lettable area 2019: $1,616 – $3,415 per m2 of lettable area | Bank: 460 Group: 460 | Bank: 750 Group: 750 | An increase/ decrease of 10% on the value per m2 of lettable area would result in an increase/ decrease in the fair value by $46,000 (2019: $75,000) for the Bank and the Group. |

**NOTE 32 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 2020 and 30 June 2019:

| | Bank | | Group | |
|---|---|---|---|---|
| | **2020 $'000** | 2019 $'000 | **2020 $'000** | 2019 $'000 |
| **Movements in level 3 of the fair value hierarchy – Unlisted equity securities** | | | | |
| Balance at the beginning of the financial year | 8,379 | - | 8,374 | - |
| Additions/(disposals) | (5) | - | - | - |
| Reclassification at 1 July 2019 upon adoption of AASB 9 | - | 3,358 | - | 3,353 |
| Remeasurement at 1 July 2019 upon adoption of AASB 9 | - | 4,660 | - | 4,660 |
| Gains/(losses) recognised in profit or loss (other income) | - | - | - | - |
| Gains/(losses) recognised in other comprehensive income | (360) | 361 | (360) | 361 |
| Transfers into/(out of) Level 3 | - | - | - | - |
| Balance at the end of the financial year | 8,014 | 8,379 | 8,014 | 8,374 |

| | Bank | | Group | |
|---|---|---|---|---|
| | **2020 $'000** | 2019 $'000 | **2020 $'000** | 2019 $'000 |
| **Movements in level 3 of the fair value hierarchy – Investment property** | | | | |
| Balance at the beginning of the financial year | 750 | 950 | 4,250 | 4,490 |
| Additions/(disposals) | - | - | - | - |
| Gains/(losses) recognised in profit or loss (other income) | (290) | (200) | 140 | (240) |
| Gains/(losses) recognised in other comprehensive income | - | - | - | - |
| Transfers into/(out of) Level 3 | - | - | - | - |
| Balance at the end of the financial year | 460 | 750 | 4,390 | 4,250 |

## NOTE 33 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 2020 amounted to $565,000,000 (2019: $220,000,000). 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 2020 amounting to $391,047,000 (2019: $134,594,000). The total assigned mortgage secured loans to the securitisation entity amounted to $530,687,000 as at 30 June 2020 (2019: $206,654,000).

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 | |
|---|---|---|---|---|
| | **2020 $'000** | 2019 $'000 | **2020 $'000** | 2019 $'000 |
| Carrying amount of transferred assets | 530,687 | 206.654 | - | - |
| Carrying amount of associated liabilities | 530,687 | 206,654 | - | - |

*(ii) RBA Term Funding Facility*

The Group obtained funding through the facility by entering into repurchase agreements with the RBA. At 30 June 2020 the Group has drawn down $20 million of the facility. Interest is charged at a fixed rate of 25 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 2020 $ $23,950,000 (2019:nil) 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 2020

**NOTE 34 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 35 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 31(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 31(b) and (c)).

**NOTE 36 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.

The aggregate amounts of revolving credit provided during the year relating to related parties of the KMP were as follows:

| Revolving credit facilities provided to KMP related entities | Value of Credit Facility $000 | Amounts drawn down $000 | Net balance available $000 | Number of facilities |
|---|---|---|---|---|
| **2020** | - | - | - | - |
| 2019 | 60 | - | 60 | 2 |

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

**NOTE 36 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 |
|---|---|---|---|---|
| **2020** | 1,431 | 1,689 | 22 | 5 |
| 2019 | 1,689 | 2,084 | 36 | 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:

| | **2020 $'000** | 2019 $'000 |
|---|---|---|
| - Balance of Queensland Country Health Fund Ltd deposit accounts held with Queensland Country Bank Limited | 12,733 | 10,625 |
| - Interest paid on deposit accounts held by Queensland Country Health Fund Ltd | 98 | 175 |
| - Management fees received by Queensland Country Bank Limited from Queensland Country Health Ltd | 18,589 | 16,984 |
| - Rental income received by Queensland Country Bank Limited from Queensland Country Health Fund Ltd | 482 | 470 |
| - Rental expense paid by Queensland Country Bank Limited to Queensland Country Health Fund Ltd | 1,282 | 1,268 |

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.

**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 2020

**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 2020 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, Chairperson
Dated this 23rd day of September 2020

# *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 2020 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 2020
- 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 a summary of significant accounting policies
- the directors' declaration.

## *Basis for opinion*

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

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

### *Independence*

We are independent of the Company 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 2020, but does not include the financial report and our auditor's report thereon.

***PricewaterhouseCoopers, ABN 52 780 433 757***
*480 Queen Street, BRISBANE QLD 4000, GPO Box 150, BRISBANE QLD 4001*
*T: +61 7 3257 5000, F: +61 7 3257 5999, www.pwc.com.au*

Liability limited by a scheme approved under Professional Standards Legislation.

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
Partner

Brisbane
23 September 2020

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