RESIMAC GROUP LTD

Financial Report

for the year ended 30 June 2020

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DIRECTORS' REPORT
RESIMAC GROUP LTD AND ITS CONTROLLED ENTITIES

The Directors of Resimac Group Ltd ("Resimac" or "the Company") and its controlled entities ("the Group") submit herewith the financial report for the financial year ended 30 June 2020. In order to comply with the provisions of the *Corporations Act 2001*, the Directors' Report as follows:

Information about the Directors

The names and particulars of the Directors of the Company during or since the end of the financial year are:

Mr Warren McLeland
Chairman since 28 February 2020 - Non-Executive Director

Warren is a former stockbroker and investment banker with over 35 years of experience in domestic and international financial services. In addition, Warren acts as an adviser in funds management and business strategy to companies operating in the Asia Pacific region. Warren is the former Executive Chairman of Resimac Limited.

Other listed directorships (last three years)

- Interim Chairman of Thorn Group Limited (appointed Director August 2019)
- Chairman of Somers Limited incorporated in Bermuda (since 2010)
- Non-executive director of UIL Limited (resigned September 2019)

Special responsibilities

- Chairman of Resimac Group Ltd (appointed 28 February 2020)
- Chair of the Risk and Compliance Committee (since February 2017)
- Member of the Remuneration and Nomination Committee (since November 2016)
- Member of the Audit Committee (since August 2017)

Mrs Susan Hansen
Independent Non-Executive Director since October 2016

Susan is a Chartered Accountant and holds a Bachelor of Commerce degree and an MBA from the University of Cape Town. Susan has 35 years of experience including a Big Four Accounting firm and an investment bank (financial analysis and risk assessment). Susan is a Principal of a financial training organisation based in New Zealand.

Other listed directorships (last three years)

- Non-Executive director of Utilico Emerging Markets Limited (since 2013)

Special responsibilities

- Chair of the Audit Committee (since November 2016)
- Member of the Remuneration and Nomination Committee (since November 2016)
- Member of the Risk and Compliance Committee (since November 2016)
- Chair of Resimac NZ Home Loans Limited

Mr Wayne Spanner
Independent Non-Executive Director since 28 February 2020

Wayne is currently a Partner and the former Managing Partner (2012-2020) of Norton Rose Fulbright Australia. Wayne has extensive experience in executive management and corporate governance at Board level. Wayne is currently a Board member and former Chairman of the University of Cape Town Trust Australia, a Board member of the Asia Society Australia, a member of the Business Council of Australia and a Councillor of the Australian British Chamber of Commerce.

Other listed directorships (last three years)

- Nil

Special responsibilities

- Chair of the Remuneration and Nomination Committee (appointed February 2020).
- Member of the Risk and Compliance Committee (appointed July 2020)
- Member of the Remuneration and Nomination Committee (appointed July 2020)

Mr Duncan Saville
Non-Executive Director since November 2017

Duncan is a Chartered Accountant, an experienced non-executive director and currently chairman of ICM Limited, an international fund manager. Duncan is a fellow of the Institute of Chartered Accountants Australia and New Zealand, the Australian Institute of Company Directors and the Financial Services Institute of Australasia.

Other listed directorships (last three years)

- Non-Executive director of West Hamilton Holdings, incorporated in Bermuda (since 2012)
- Former Non-Executive director of Somers Limited (retired 5 September 2018), incorporated in Bermuda.
- Former Non-Executive director of Cue Energy Resources Limited and New Zealand Oil and Gas Limited, incorporated in New Zealand (resigned from both on 14 December 2017).

Special responsibilities

- Member of the Remuneration and Nomination Committee (appointed 21 February 2018; stepped down on 29 January 2020).

Company Secretary

Mr Peter Fitzpatrick
Since October 2016

Peter is a Chartered Accountant who worked for a chartered accounting firm and oil explorer prior to joining Resimac Limited in 1987. Peter is a member of the Governance Institute of Australia and the Financial Services Institute of Australasia.

The abovenamed directors held office during the financial year or date of appointment except for:

- Mr Cholmondelay (Chum) Darvall – resigned 28 February 2020
- Mr Michael Jefferies – resigned 26 November 2019

Directors' shareholdings

The following table sets out each director's relevant interest in shares and rights of the company or in a related body corporate as at 30 June 2020:

Directors	Fully paid ordinary shares	Number of rights over ordinary shares
Susan Hansen	199,941	Nil
Wayne Spanner	-	Nil
Warren McLeland	12,159,222	Nil
Duncan Saville	254,468,487	Nil

Remuneration of Key Management Personnel

Information about the remuneration of Key Management Personnel (KMP) is set out in the Remuneration Report section of this Directors' Report. The term 'KMP' refers to those persons having authority and responsibility for planning, directing and controlling the activities of the Company and its controlled entities or indirectly, including any director whether executive or otherwise of the consolidated entity.

Shares options or rights granted to Directors and senior management

An aggregate of 3,900,000 share options (900,000 allocated to CEO and 375,000 for each eligible Executive), and a cash component of up to $2.4m were granted on 15 August 2019.

Directors' meetings

The following table sets out the number of Directors' meetings (including meetings of committees of Directors) held during the financial year and the number of meetings attended by each director (while they were a director or committee member).

During the year, 9 Board meetings, 3 Audit, 4 Risk and Compliance and 5 Remuneration and Nomination Committee meetings were held.

			Committees					
	Board Meetings		Audit		Risk and Compliance		Remuneration and Nomination	
Director	(A)	(B)	(A)	(B)	(A)	(B)	(A)	(B)
Chum Darvall[1]	6	6	-	-	2	2	3	3
Susan Hansen	9	9	3	3	4	4	5	5
Michael Jefferies[2]	4	4	2	2	-	-	2	2
Warren McLeland	9	9	3	3	4	4	5	5
Duncan Saville	9	9	-	-	-	-	3	3
Wayne Spanner[3]	3	3	-	-	-	-	2	2

(A) Number of meetings eligible to attend.

(B) Number of meetings attended.

1. Resigned as Chairman on 28 February 2020.
2. Resigned as Independent Non-Executive Director on 26 November 2019.
3. Appointed Independent Non-Executive Director on 28 February 2020.

DIRECTORS' REPORT
RESIMAC GROUP LTD AND ITS CONTROLLED ENTITIES

Results and dividends

The information appearing on pages 7 to 11 forms part of the Directors' Report for the financial year ended 30 June 2020 and is to be read in conjunction with the following information:

	FY20	FY19
	$'000	$'000
Profit		
Profit attributable to ordinary equity holders of the parent	**55,908**	47,185
Dividends		
The following dividends have been paid by the Company or declared by the Directors since the commencement of the financial year ended 30 June 2020:		
(a) out of the profits for the year ended 30 June 2019 and retained earnings on the fully-paid ordinary shares:	**6,087**	3,594
• fully-franked final dividend of 1.00 cents (FY18: 0.90 cents) per share paid on 30 September 2019.		
• fully-franked one off special dividend of 0.50 cents (FY18: Nil) per share paid on 30 September 2019.		
(b) out of the profits for the half-year ended 31 December 2019 and retained earnings on the fully-paid ordinary shares:		
• fully-franked interim dividend of 1.20 cents (HY19: 1.00 cents) per share paid on 27 March 2020.	**4,879**	4,001
(c) out of the profits for the full year ended 30 June 2020 and retained earnings on the fully-paid ordinary shares:	**7,334**	6,087
• fully-franked final dividend of 1.8 cents (FY19: 1.00 cents) per share declared on 25 August 2020		
• fully-franked one off special dividend of nil cents (FY19: 0.50 cents) per share.		
The Company's Dividend Reinvestment Plan (DRP) was applied to the interim and final dividend.		

DIRECTORS' REPORT
RESIMAC GROUP LTD AND ITS CONTROLLED ENTITIES

Principal activities

The Group is a residential mortgage lender and multi-channel distribution business specialising in Prime and Specialist lending. The Group operates in targeted market segments and asset classes in Australia and New Zealand.

As a non-bank financial institution, the Group has developed a high quality loan portfolio, loan servicing capability, and funding platform through a combination of organic growth and the Resimac/Homeloans merger in 2016.

The Group's core capabilities include:

- *Product manufacturing*: Expertise in residential mortgages gives the Group flexibility in providing a range of products with attractive risk-return profiles in Australia and New Zealand. The Group applies its detailed knowledge of borrowers to develop new products that address untapped demand;
- *Distribution:* Distributing loans in Australia and New Zealand through relationships with accredited brokers, wholesale partners, and a direct-to-consumer channel;
- *Treasury and funding expertise*: Strong long-term relationships with global funding partners, the Group is an experienced issuer in the global and domestic term securitisation markets;
- *Risk management*: Operating a holistic enterprise risk management and governance framework utilising the three lines of defence model; and
- *Collections management:* Specialised collections processes based on deep experience, analytical capabilities and a solution-based approach to customer management.

Debt funding

The Group maintains access to a diversified funding platform supported by established funding relationships and the Board approved funding strategy.

The following funding channels are used to support the Group's lending activities:

- *Corporate debt facility*: Utilised for investment in business growth;
- *Warehouse facilities*: Third-party funders provide limited-recourse financing to special purpose vehicles established by the Group. At 30 June 2020, the Group had four onshore and four offshore warehouse funders;
- *Term securitisations*: Loans that are initially funded via a warehouse facility, are pooled and refinanced by being sold to new funding vehicles that issue limited-recourse independently rated asset-backed securities to institutional investors in multiple jurisdictions; and
- *Wholesale funding partners*: Provide white-label funding with the Group receiving net interest margin.

Principal risks

The Group's key risks include, but are not limited to:

- *Funding risk:* The funding platform currently comprises a mix of warehouse facilities, term securitisations and corporate debt. The Group depends on these sources to fund mortgage originations;
- *Capital and liquidity requirements:* The Group is required to maintain sufficient liquidity levels under Australian Financial Services Licence requirements;

  A risk exists that the Group could be required to contribute additional 'first loss' equity capital to support the credit position of senior ranking note holders in the warehouse facilities and term securitisations which could impact the Group's profitability, ability to grow and/or could force it to raise additional capital;

- *Regulatory and licence compliance*: The Group is subject to extensive regulation in each of the jurisdictions in which it conducts business. The Group holds seven Australian Credit Licences. Changes in laws or regulations in a market in which the Group operates could impact the business. The Group is licensed and/or registered to operate a number of its services across a range of jurisdictions. Changes to these licensing regimes, the revocation of existing licences, an inability to renew or receive necessary licences or a change in capital requirements could have a material adverse effect on the Group's business, operating and financial performance; and

- *Macroeconomic environment:* A material downturn, a sustained outbreak of higher inflation, shocks to the financial system, a material increase in unemployment, decreases in house prices, higher interest rates, general reduction in demand for credit and/or a reduction in borrowers' ability to service their debt (credit risk).

- *COVID-19* - The extent of the economic impact of the pandemic is unclear however is certain to have significant impact on the macroeconomic environment in the foreseeable future. An effective risk management framework prior to COVID-19 has assisted the Group manage the current uncertainty through a stable funding program, conservative credit policies and low arrears rates. The Group will continue to monitor the effects of COVID-19 on business performance and take action as required.

  Bushfires - In December 2019, parts of Australia were impacted by bushfires. The Group included a collective provision for potential economic loss as a result of this event in the half year accounts. The impacted customers will be provided ongoing assistance where required, however a loss provision related directly to bushfire impacted customers is not required at 30 June.

Business strategy

The Group is focused on a number of growth strategies to continue to drive revenue and profitability.

1. Organic lending growth

The Group is well-positioned to continue to build upon strong volume growth, driven by:

- Capitalising on the Group's position as a non-bank lender with customers favourably viewing the Group as an alternative to the major lenders;

- Opportunity to grow volume in the Specialist and Prime segments of the residential mortgages market;

- Launch of the new direct to consumer digital channel *homeloans.com.au*;

- Continuing development of Broker and Wholesale relationships;

- Further investment in the Group's brand positioning;

- Pursuing diversification opportunities in Australia and New Zealand.

2. Growth through acquisition

- Management has demonstrated an ability to identify and execute profit accretive acquisitions in targeted markets consistent with the Group's strategy;

- On 1 January 2020 Resimac acquired 60% of International Acceptance Investment Pty Ltd and its controlled entities ("IA Group"), a finance company participating in both secured commercial and consumer lending. The investment aligns with Resimac's diversification strategy and facilitates expansion into new secured asset classes.

DIRECTORS' REPORT
RESIMAC GROUP LTD AND ITS CONTROLLED ENTITIES

Review of operations

The Group generated a net profit after tax (NPAT) of $56,007,000 for the year ended 30 June 2020. To reflect the Group's normalised earnings the NPAT has been adjusted to separate one-off items. Management believe the disclosure of the normalised NPAT provides additional insight into the underlying performance for the year, by excluding one off, non-recurring revenue items

The following table reconciles the unaudited normalised earnings to the statutory NPAT for the year in accordance with International Financial Reporting Standards (IFRS).

Unaudited non-IFRS information	FY20 $'000
Statutory NPAT	**56,007**
Non-recurring other income – rebate[1]	**(385)**
Tax effect of normalised items	**116**
Normalised NPAT	**55,738**

Total interest and other income of $471,303,000 increased 1% on prior year.

Net interest income of $188,625,000 increased 60% on prior year.

Operating expenses of $62,244,000 increased 1% on prior year.

Loan impairment expense increased to $22,012,000, driven by management overlay for potential future economic loss from the impact of COVID-19.

Total home loan settlements across the Group's direct and third party distribution channels were $4.7 billion, up 30% on prior year.

The Group's assets under management at 30 June 2020 comprise:

- On balance sheet home loans and advances to customers of $12.4 billion[2], up 21% compared to 30 June 2019; and
- White label portfolio of $2.5 billion, down 23% compared to 30 June 2019 in line with the Group's strategy to cease originating white label loans;
- Combined these make up the total assets under management of $14.9 billion.

The Group's net assets increased 23% from 30 June 2019, driven by growth in our assets under management.

COVID-19

The ongoing impact of COVID-19 continues to present challenges to the Group's customers and the workforce globally. Resimac's conservative approach to credit risk and strong funding relationships have insulated the impacts of COVID-19. Resimac's key priority remains the safety of employees, and supporting customers and the broader community through the ongoing challenges COVID-19 poses.

Resimac implemented a companywide work from home environment from March 2020, supported by remote working capabilities. The Group's ongoing investment in IT infrastructure enabled seamless continuity of operations and high-quality customer service was maintained. As employees transition to an office working environment, a broad range of measures to protect the health and wellbeing of the individuals have been considered. These include staged returns by groups, regular office deep cleaning and strict social distancing protocols. The Group also offers employees confidential access to an employee assistance program (EAP).

Resimac will continue to support customers throughout their home loan journey, particularly during this unprecedented period. Resimac provided financial assistance to customers impacted by COVID-19 in the form of hardship payment moratoriums and repayment flexibility.

During the year, the Group utilised the following Federal/State tax concessions:

1. Delayed PAYG Company Tax Instalments for FY20 until 1st December 2020: $12.2m
2. Victorian Payroll Tax relief: $0.07m

[1] RMBS Rebate Singapore MSA Grant Scheme

[2] On balance sheet home loans AUM excludes c$100m of Non Core loans held at 30 June 2020, which are included in the consolidated financial statements

Funding programmes

- The RESIMAC Premier Series 2019-2 transaction was settled on 29 August 2019 and is a multi-currency prime issue with a total issuance size of $1 billion equivalent.
- The RESIMAC Bastille Series 2019-1 NC transaction was settled on 24 October 2019 and is a multi-currency non-conforming issue with a total issuance size of $1 billion equivalent.
- The Avoca Series 2019-1 transaction was settled on 15 November 2019 and is a domestic prime issue with a total issuance size of $472.5 million.
- The RESIMAC Triomphe Trust – Warehouse Series No.8 was settled on 20 February 2020 and is a domestic prime warehouse with a total facility size of $500 million.
- The RESIMAC Premier Series 2020-2 transaction was settled on 3 June 2020 and is a domestic prime issue with a total issuance size of $500 million.

Indemnification of officers and auditors

During the financial year, the Company paid a premium in respect of a contract insuring the Directors of the Company, the Company Secretary and all executive officers of the Company against a liability incurred as such a Director, Secretary or executive officer to the extent permitted by the *Corporations Act 2001*. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

The Company has not otherwise, during or since the financial year, except to the extent permitted by law, indemnified or agreed to indemnify an officer or auditor of the Company against a liability incurred.

Subsequent events

Final dividend declared

The Board of Resimac Group Ltd has declared a fully-franked final dividend of $0.018 per share. The Record Date is 28 August 2020. The payment date will be 25 September 2020. The dividend has not been provided for in this financial report.

Non-audit services

Details of amounts paid or payable to the auditor for non-audit services provided during the year by the auditor are outlined in Note 28 to the financial report.

The Directors are satisfied that the provision of non-audit services during the year, by the auditor is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001.*

The Directors are of the opinion that the services as disclosed in Note 28 to the financial report do not compromise the external auditor's independence, based on advice received from the Audit Committee, for the following reasons:

- All non-audit services have been reviewed and approved to ensure that they do not impact the integrity and objectivity of the auditors; and
- None of the services undermine the general principles as set out in APES *Code of Ethics for Professional Accountants* issued by the Accounting Professional and Ethical Standards Board, including reviewing or auditing the auditor's own work, acting in a management or decision making capacity for the Company, acting as advocate for the Company or jointly sharing economic risks and rewards.

Auditor's independence declaration

The auditor's independence declaration is included on page 125 of this financial report.

Rounding off amounts

Unless otherwise indicated, the Company has rounded off amounts in this Directors' Report and the accompanying financial statements to the nearest thousand dollars in accordance with *ASIC Corporations Instrument 2016/191*.

REMUNERATION REPORT 2020 (AUDITED)

Contents

1. Executive summary

This Remuneration Report sets out the remuneration strategy and framework that applies to Resimac KMPs, Directors and employees for the year ended 30 June 2020.

Resimac's mission is to be Australia's leading non-bank lender. This mission is facilitated by promoting a culture of transparency, and establishing a responsible remuneration framework that provides positive outcomes for our customers, shareholders and employees.

The Board's remuneration strategy is aligned to the following objectives:

- To attract and retain talented employees;
- To provide fair and equitable remuneration to all employees in line with the company's Diversity & Inclusion Policy;
- To promote and reward behaviours within the business that are in the interest of customers and shareholders;
- To reinforce a culture of continual employee development;
- To ensure Resimac operates within industry best practice.

2. Remuneration Principles

The following principles provide the basis of the remuneration framework at Resimac:

- Total remuneration for KMP is achieved by a balance of fixed and variable components
- Key Performance measures for Resimac management are linked to both financial and non-financial measures, and designed to be in the best interest of customers and shareholders
- Fixed and variable remuneration for KMP are periodically benchmarked to ensure remuneration is in line with the external market
- Fair and equitable remuneration is applied to all employees regardless of gender, sexual identity, age, religion, ethnicity or disability.

REMUNERATION REPORT 2020 (AUDITED)

3. Remuneration Activities

A number of activities were carried out during FY20 to ensure KMPs and employees' remuneration were in line with the Board's remuneration strategy and the external market.

These activities included:

- Employee Diversity & Inclusion survey and analysis
- Pay parity reporting and analysis
- Introduction of a new LTI plan, established for KMPs and Executives
- Fixed remuneration review which resulted in a freeze for Directors and all employees in response to the COVID-19 pandemic.

4. Key Management Personnel

The KMP are the people who have the authority and responsibility for planning, directing, implementing and controlling the activities of the Resimac business. The KMP are:

Name	Position	Term as KMP
Current		
Scott McWilliam	Chief Executive Officer (CEO)	Full Term
Jason Azzopardi	Chief Financial Officer (CFO)	Full Term
Andrew Marsden	General Manager Treasury and Securitisation	Full Term
Danielle Corcoran	General Manager Governance, Change and Culture	Full Term
Former		
Mary Ploughman	Joint Chief Executive Officer (Joint CEO)	Ceased 17 July 2019[1]

1 Mary Ploughman ceased being Joint CEO on 18 January 2019, however remained employed until 17 July 2019.

The Directors classified as KMP and required to be disclosed as part of this report are:

Name	Position	Term as KMP
Current		
Warren McLeland	Chairman, Non-Executive Director	Full Term
Susan Hansen	Independent Non-Executive Director	Full Term
Duncan Saville	Non-Executive Director	Full Term
Wayne Spanner	Independent Non-Executive Director	Appointed 28 February 2020
Former		
Chum Darvall	Chairman, Independent Non-Executive Director	Ceased 28 February 2020
Michael Jefferies	Independent Non-Executive Director	Ceased 26 November 2019

5. KMP Remuneration Policy (excluding Non-Executive Directors)

The total remuneration of the KMP comprise a fixed component and an at-risk variable component. The at-risk variable component is comprised of a short-term incentive and a long-term incentive.

Remuneration is based on the:

- role in which the person is performing (i.e. accountability, responsibility, qualifications, skills and experience required); and
- market benchmarking.

The KMP remuneration arrangements are as follows:

5.1 Fixed Remuneration

The fixed component includes base salary and superannuation and is known as Total Fixed Remuneration (TFR). This amount is subject to an annual review by the Remuneration and Nomination Committee.

5.2 Short-Term Incentive (STI)

The STI is assessed by way of financial and non-financial measures at the end of each performance period (i.e. 1 July to 30 June). Performance is measured against predetermined Key Performance Indicators (KPIs) set by the Remuneration and Nomination Committee at the beginning of the performance period.

KPIs include:

- Strategic;
- Financial metrics;
- Innovation and technology initiatives and enhancements to allow for scale and digitalisation;
- Operational efficiency and effectiveness;
- People and culture; and
- Risk and compliance ensuring appropriate controls, attestations and obligations adherence.

5.3 Long-Term Incentive (LTI)

The LTI is a combination of an equity arrangement of options over ordinary shares and a cash component (pursuant to the Resimac Group Ltd Employee Share Option and Rights Plan Rules) where an allocation is considered each year.

The aim of the LTI is:

- to retain key senior talent;
- to align long term company performance with shareholders expectations; and
- to ensure continual regulatory and compliance adherence.

6. Long-Term and Short-Term Incentive plans

6.1 Long-Term Incentive Plan (LTI)

FY18 LTI Plan: CEO

The CEO, Scott McWilliam, was offered an LTI in FY18. The details of the offer are as follows:

- Granted 900,000 Options pursuant to the Resimac Group Employee Share Options and Rights Plan;
- Grant Date 18 August 2017;
- Exercise price of $0.55 per option;
- Options vest in equal tranches of 300,000 on each anniversary of the Grant Date;
  - First tranche of 300,000 vested on 1 July 2018 and is exercisable,
  - Second tranche of 300,000 vested on 1 July 2019 and is exercisable,
  - Third tranche of 300.000 vested on 1 July 2020 and is exercisable,
- Exercise period is 3 years for every tranche vesting;
- Vesting condition is 100% tenure.

FY20 LTI Plan: KMPs and Executives

Pursuant to the Resimac Group Limited Employee Share Option & Rights Plan Rules the CEO, CFO and eligible Executives received options over ordinary shares, and a combined total cash component of up to $2.4m was offered. 3,900,000 options were granted on 15 August 2019 (900,000 allocated to the CEO and 375,000 for each eligible Executive).

The vesting date for all options is 31 August 2022, subject to the Group achieving Net Profit After Tax (NPAT) performance hurdles, digital transformation hurdles, compliance hurdles and remaining employed with the Group until the vesting date.

6.2 Short-Term Incentive Plan (STI)

Both executive KMPs have a contractual short-term incentive (STI) whereby they have an opportunity to earn up to a capped percentage of their TFR.

Effective 1 July 2018 Mr McWilliam became eligible for a STI up to 75% of their TFR. Mr McWilliam's performance against predetermined KPIs will be assessed by the Remuneration and Nomination Committee at the end of each performance period. Any STI awarded will be paid in cash; 66.7% at the end of the performance period with the remaining 33.3% in cash deferred for 12 months subject to a look back being undertaken by the Remuneration and Nominations Committee.

Mr Azzopardi, Mr Marsden and Ms Corcoran are eligible to be awarded a STI and his performance against predetermined KPIs is assessed by the CEO and the Remuneration and Nomination Committee at the end of each performance period. Any STI awarded will be paid 100% in cash at the end of the performance period.

In determining the STI payable to the KMP for FY20, the Remuneration and Nomination Committee undertook a review of each person's performance against their individual KPIs for the FY20 performance period in July 2020.

KPIs and relevant measurements will be set at the commencement of the performance period and will be assessed by the Remuneration and Nomination Committee at the end of each performance period.

7. FY20 Outcomes

Remuneration for KMPs is benchmarked against both the external market and internal relativities. The Remuneration and Nominations Committee have determined that KMPs will not receive an increase in fixed remuneration for FY21 however will remain eligible to participate in the short-term incentive plan for FY20 and FY21. The long-term incentive plan granted to eligible executives remains in place.

7.1 Overview of company performance

The table below summarises details of Resimac's performance for key financial measures over the past four financial years post merger between Resimac and Homeloans.

REMUNERATION REPORT 2020 (AUDITED)

7. FY20 Outcomes (continuation)

Financial year ended 30 June	FY20	FY19	FY18	FY17
NPAT ($'000)	**56,007**	47,185	25,332	15,780
Total dividends per share (cents)	**2.70**	1.90	1.65	2.75[2]
Dividend payout ratio (%)	**19.6**	16.1	25.9	62.6
Closing share price (cents as at 30 June)	**101.0**	64.0	57.0	43.0
Basic earnings per share (cents)	**13.75**	11.75	6.37	4.39
Return on equity (ROE) (%) [3]	**25.5**	17.3	17.2	11.2
Return on assets (%) [1]	**4.3**	4.4	2.8	2.3

1 ROA based on statutory NPAT and total assets. As a result of the requirement under AASB 10 – *Consolidated Financial Statements*, the parent company exercises control over the Special Purpose Vehicles (SPVs) and securitisation trusts, therefore significant assets have been added to the consolidated statement of financial position without any appreciable increase in net profit.

2 In October 2016, the Board of Resimac Group Ltd (formerly Homeloans Ltd) paid a final dividend of 2.0 cents per share to existing Homeloans Ltd shareholders prior to the completion of the merger with Resimac Limited.

3 ROE based on normalised NPAT and average shareholders' equity per consolidated statement of financial position.

REMUNERATION REPORT 2020 (AUDITED)

8. Statutory remuneration

The table set out below provides a summary of the actual remuneration awarded to KMP in respect of the full year ended 30 June 2020.

	Short-term benefits			Post-employment benefits	Long-term benefits		Share-based payments[5]	Total		
	Salary ($)	STI awarded ($)	Non-monetary benefits ($)	Super-annuation ($)	Leave[4] ($)	Termination benefits ($)	Option rights ($)	($)	Percentage performance related[6] (%)	Percentage rights related (%)
CURRENT KMP										
Scott McWilliam										
FY20	**550,000**	**409,688**	**-**	**25,000**	**9,167**	**-**	**171,023**	**1,164,878**	**35.2**	**14.7**
FY19	479,754	335,168	-	25,000	37,443	-	22,441	899,806	37.2	2.5
Jason Azzopardi										
FY20	**330,000**	**130,000**	**-**	**25,000**	**6,116**	**-**	**58,635**	**549,751**	**23.6**	**10.7**
FY19[1]	288,630	100,000	-	25,000	4,764	-	-	418,394	23.9	-
Andrew Marsden										
FY20[2]	**303,570**	**140,000**	**10,000**	**25,000**	**5,396**	**-**	**58,635**	**542,601**	**25.8**	**10.8**
FY19[2]	262,686	35,000	10,000	25,000	7,316	-	-	340,002	10.3	-
Danielle Corcoran										
FY20[3]	**376,920**	**150,000**	**-**	**25,000**	**6,786**	**-**	**58,635**	**617,341**	**24.3**	**9.5**
FY19[3]	370,979	150,000	-	25,000	6,509	-	-	552,488	27.1	-

1 FY19 includes a period of leave without pay

2 Includes a period of leave without pay

3 Includes a period of leave without pay

REMUNERATION REPORT 2020 (AUDITED)

8. Statutory remuneration (continuation)

	Short-term benefits			Post-employment benefits	Long-term benefits	Termination benefits	Share-based payments[5]	Total		
	Salary	STI awarded	Non-monetary benefits	Super-annuation	Leave[4]				Percentage performance related[6]	Percentage rights related
	($)	($)	($)	($)	($)	($)	($)	($)	(%)	(%)
FORMER KMP										
Mary Ploughman (ceased as KMP on 17 July 2019)										
FY20	**21,964**	**-**	**-**	**2,087**	**283,130**	**-**	**-**	**307,181**	**-**	**-**
FY19	435,727	110,000	-	27,138	35,495	302,058	22,441	932,859	11.8	2.4
TOTAL										
FY20	**1,582,454**	**829,688**	**10,000**	**102,087**	**310,595**	**-**	**346,928**	**3,181,752**		
FY19	1,837,776	730,168	10,000	127,138	91,527	302,058	44,882	3,143,549		

4 Long-term benefits relate to long service leave accrued during the year. FY20 Long-term benefits paid to Mary Ploughman include Annual Leave and Long Service Leave loading.

5 Share based payment expense related to options granted to KMP on 18 August 2017 and 15 August 2019.

6 The percentage performance related column is the STI divided by the total remuneration, reflecting the actual percentage of remuneration at risk for the year.

9. Non-Executive Director Remuneration

9.1 Overview of Non-Executive Directors' Remuneration Arrangements

9.1.1 Policy objectives

- **To be market competitive**: aim to set Directors' fees competitive with Non-Executive Directors in comparable companies;
- **To ensure complementary skills**: aim to ensure that the mix of Directors at any one time is diverse and adequate to carry out the objectives of the business; and
- **To safeguard independence**: to exclude any performance related element in order to preserve the independence of the Non-Executive Directors.

9.1.2 Aggregate fees approved by shareholders

At the Annual General Meeting (AGM) of shareholders held on 25 November 2016, the shareholders approved the maximum aggregate fee pool per annum for non-executives of $550,000. This amount is the current pool and the Board is not intending to increase this pool at the AGM to be held in November 2020.

9.1.3 Regular reviews of Directors' fees

The Board reviews the level of Directors' fees annually to ensure the fees are in line with market and are suitable for the level of skill and expertise required to carry out the duties of directors in a listed environment and with an Australian Financial Services Licence and several Australian Credit Licences.

The agreed fee structure is that a fee is paid to reflect the Chairman's responsibilities. Each Director receives a base fee and if a Director chairs a Board committee, an additional fee is applied. Superannuation is payable in addition to the base fee where a Director is paid via the Resimac employee payroll system. No fee is paid for committee membership.

In June 2020 the Remuneration and Nominations Committee assessed the current level of fees paid to Directors and resolved not to increase fees. The 2020 fee levels inclusive of superannuation where applicable were as follows:

Name	Position	Maximum Fee ($)
Warren McLeland[1]	Chairman and Risk and Compliance Chair	131,400 p.a
Susan Hansen	Independent Non-Executive Director, Audit Chair and New Zealand Chair	135,131 p.a
Wayne Spanner[2]	Independent Non-Executive Director and Remuneration and Nomination Chair	82,125 p.a
Duncan Saville[3]	Non-Executive Director	70,000 p.a

1. Warren McLeland's FY20 fee reflects the going forward increased fee of additional $45,000 from 28 February 2020 (appointed Chairman).
2. Wayne Spanner's commenced on 28 February 2020.
3. Duncan Saville's fee is exclusive of superannuation.

9.1.4 Board skills and performance review

The Board undertakes from time to time a review of the skills that each director holds and is then summarised in a skills matrix. In addition, the Board carries out an assessment of the performance of the Board as a whole and of each committee. The last review was conducted in March 2018. These assessments are conducted in-house however, if any Board member wishes to have an independent review, the appropriate consultant will be appointed.

9.1.5 Non-Executive Director Remuneration

The fees paid or payable to the Non-Executive Directors in relation to the 2020 financial year are set out below:

	Short-term benefits	Post-employment benefits		
Current	**Fees $**	**Superannuation [1]**	**Total**	**Proportion performance related**
	$	**$**	**$**	**%**
Warren McLeland [2]				
FY20	**90,000**	**8,550**	**98,550**	**-**
FY19	75,000	7,125	82,125	-
Susan Hansen				
FY20	**127,056**	**8,075**	**135,131**	**-**
FY19	112,399	9,342	121,741	-
Wayne Spanner [3]				
FY20	**25,288**	**2,283**	**27,571**	**-**
FY19	-	-	-	-
Duncan Saville				
FY20	**70,000**	**-**	**70,000**	**-**
FY19	70,000	-	70,000	-
Former				
Chum Darvall [4]				
FY20	**80,000**	**7,600**	**87,600**	**-**
FY19	131,400	5,700	137,100	-
Michael Jefferies [5]				
FY20	**28,359**	**2,694**	**31,053**	**-**
FY19	70,000	6,650	76,650	-
Total remuneration				
FY20	**420,703**	**29,202**	**449,905**	**-**
FY19	458,799	28,817	487,616	-

1. Australian superannuation is paid where applicable. New Zealand Kiwisaver is not paid.
2. Appointed Chairman on 28 February 2020, fee reflects a prorated increase received from this date.
3. Appointed Independent Non-Executive Director on 28 February 2020, FY20 fee is prorated.
4. Resigned as Chairman on 28 February 2020.
5. Resigned as Independent Non-Executive Director on 26 November 2019.

10. Other Remuneration Information

10.1 Remuneration governance

10.1.1 Remuneration Governance and Responsibility

The Resimac Board of Directors has responsibility for setting and overseeing the Company's remuneration policies, practices and structure. The Board considers recommendations made by the Remuneration and Nomination Committee.

The remuneration framework and matters considered by the Remuneration and Nomination Committee and the Board include:

- Review of Board size and composition (mix of skills, qualifications, experience and other competencies);
- Identification and recommendation of candidates to the Board for nomination as members of the Board or its Committees;
- Development and implementation process for induction and orientation of new Directors;
- Review and approval of Company objectives and appropriate KPIs relevant to the KMP annual short-term incentive arrangement, and evaluate KMP performance in light of those KPIs;
- Review and approval of the remuneration of KMP, Directors and senior management (including total fixed remuneration, short-term incentives and long-term incentives);
- Approval of executive recruitment practices;
- Succession planning; and
- Diversity and inclusion in the workplace.

10.1.2 Remuneration and Nomination Committee

The Board has established a Remuneration and Nomination Committee. This Committee has a formal charter and is available on the Company's website www.resimac.com.au.

The Remuneration and Nomination Committee members are:

- Wayne Spanner – Chair; and
- Susan Hansen
- Warren McLeland

Committee changes:

- Chum Darvall resigned 28 February 2020,
- Duncan Saville stepped down 29 January 2020 and;
- Michael Jefferies resigned 26 November 2019 as members.

The Remuneration and Nomination Committee reviews and makes recommendations to the Board on remuneration governance, policies, practices and structure which will apply to the KMP, senior management and the non-executive directors. The Committee also makes recommendations to the Board on the Company's overall remuneration framework. The Remuneration and Nomination Committee receives regular reports from Human Resources and ensures it is abreast of all regulatory change. The Committee meets at least 4 times per year.

10.1.3 Services from remuneration consultants

The Remuneration and Nomination Committee may request advice from independent external consultants where appropriate. These consultants will be engaged directly by the Remuneration and Nomination Committee.

The Company did not engage any remuneration consultants during the year.

10.1.4 KMP share ownership

The table below sets out the number of shares held directly, indirectly or beneficially by the current and former KMP (including their related parties):

Name	Held at 1 July 2019	Net change	Held at 30 June 2020
Non-Executive directors			
Warren McLeland	11,996,695	**162,527**	**12,159,222**
Susan Hansen	107,023	**92,918**	**199,941**
Wayne Spanner	-	**-**	**-**
Duncan Saville	253,913,646	**554,841**	**254,468,487**
	266,017,364	**810,286**	**266,827,650**
Senior executives			
Scott McWilliam	1,001,600	**-**	**1,001,600**
Jason Azzopardi	25,000	**165,000**	**190,000**
Andrew Marsden	-	**-**	**-**
Danielle Corcoran	8,152	**82,199**	**90,351**
	1,034,752	**247,199**	**1,281,951**
Former			
Chum Darvall[1]	1,787,078	**NA**	**NA**
Michael Jefferies[2]	1,714,691	**NA**	**NA**
Mary Ploughman[3]	NA	**NA**	**NA**
	3,501,769	**NA**	**NA**
	270,553,885	**1,057,485**	**268,109,601**

1. Resigned as Chairman on 28 February 2020.
2. Resigned as Independent Non-Executive Director on 26 November 2019.
3. Ceased as KMP on 17 July 2019.

10.1.5 Share trading restrictions

Resimac Securities Trading Policy reflects the *Corporations Act 2001* prohibition on KMP and their closely related parties entering into any arrangement that would have the effect of limiting the KMP's exposure to risk relating to an element of their remuneration that remains subject to restrictions on disposal.

Resimac Directors, management team, and certain members of their immediate family and controlled entities are also required to obtain consent and clearance in writing for security trading during trading windows from the Chairman or another Director. All other employees must adhere to the Securities Trading Policy and are restricted from trading within the blackout periods.

The policy is available on the Corporate Governance section of the Company's website at www.resimac.com.au. Breaches of the policy are subject to disciplinary action, which may include termination of employment.

10.1.6 Further information on remuneration

10.1.6.1 Service agreements

Each KMP has entered into an employment contract with the Company. These contracts have unlimited duration however may be terminated with relevant notice.

All KMPs are entitled to receive payment in lieu of notice of any accrued statutory entitlement (i.e. annual and long service leave) on cessation of their employment.

Set out below are the notice periods for each KMP.

Name	Notice period/termination payment
Scott McWilliam	Six months' notice (or payment in lieu) May be terminated immediately for serious misconduct
Jason Azzopardi	Three months' notice (or payment in lieu) May be terminated immediately for serious misconduct
Andrew Marsden	One months' notice (or payment in lieu) May be terminated immediately for serious misconduct
Danielle Corcoran	One months' notice (or payment in lieu) May be terminated immediately for serious misconduct

10.1.7 Related party transactions

Loans to KMP and their related parties are secured residential mortgage loans provided in the ordinary course of the Resimac Group Ltd mortgage lending business. All loans have normal commercial terms. No amounts have been written down or recorded as specific provisions as the balances are considered fully collectable.

Details regarding loans outstanding at the reporting date to KMP and their related parties, where the aggregate loan balance exceeded $100,000 at any time during the reporting period, are outlined below.

Name	Balance 1 July 2019 $	**Balance 30 June 2020 $**	**Interest payable for the year[1] $**	**Highest Balance during the year $**
Non-Executive director				
Duncan Saville	5,211,424	**9,548,343**	**257,496**	**9,759,652**
Executive director				
Scott McWilliam[2]	-	**1,500,000**	**3,494**	**1,503,375**
Jason Azzopardi[2]	-	**1,577,079**	**37,403**	**1,652,412**
Danielle Corcoran	398,897	**379,201**	**13,850**	**400,119**
	5,610,321	**13,004,623**	**312,243**	**13,315,558**

1. Interest charged on an arm's-length basis
2. Loan originated during FY20

10.1.7.1 Other transactions and balances with KMP

From time to time, Directors of the Company or its controlled entities, or their Director-related entities, may purchase goods or services from the Group. These purchases are on the same terms and conditions as those entered into by other group employees or customers and are trivial or domestic in nature.

This Directors' report, including the remuneration report, is signed in accordance with a resolution of the Directors made pursuant to s.298 (2) of the *Corporations Act 2001*.

On behalf of the Directors of Resimac Group Ltd

Warren McLeland
Chairman

Sydney
25 August 2020

CONSOLIDATED STATEMENT OF PROFIT OR LOSS
FOR THE YEAR ENDED 30 JUNE 2020

	Note	**FY20 $'000**	FY19 $'000
Interest income	1	**459,305**	445,233
Interest expense	2	**(270,680)**	(327,380)
Net interest income		**188,625**	117,853
Fee and commission income	1	**11,340**	18,982
Fee and commission expense	2	**(36,088)**	(31,515)
De-recognition of investment in Associate (Finsure)		**-**	5,810
Gain on disposal of subsidiary (Paywise)		**-**	13,104
Other income	1	**658**	4,540
Employee benefits expense	2	**(35,886)**	(37,658)
Other expenses	2	**(26,358)**	(24,208)
Loan impairment expense	2	**(22,012)**	(2,966)
Profit before tax		**80,279**	63,942
Income tax expense	3	**(24,272)**	(16,757)
PROFIT AFTER TAX		**56,007**	47,185
Attributable to:			
Owners of the parent		**55,908**	47,185
Non-controlling interest		**99**	-
		56,007	47,185

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2020

	Note	FY20 $'000	FY19 $'000
PROFIT AFTER TAX		**56,007**	47,185
Other comprehensive income, net of income tax			
Items that will not be reclassified subsequently to profit or loss:			
Reversal of prior year reserve on trust wind up		**-**	(39)
Fair value movement on investment in BNK Banking Corporation Limited ("BNK") through OCI, net of tax		**(657)**	(2,065)
Items that may be reclassified subsequently to profit or loss:			
Changes in fair value of cash flow hedges		**522**	(3,995)
Tax effect		**(157)**	1,199
Currency translation differences		**(508)**	669
Other comprehensive income, net of tax		**(800)**	(4,231)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**55,207**	42,954
Attributable to:			
Owners of the parent		**55,112**	42,954
Non-controlling interest		**95**	-
		55,207	42,954

		FY20 cents per share	FY19 cents per share
Earnings per share			
Basic	21	**13.75**	11.75
Diluted	21	**13.72**	11.75

Notes to the consolidated financial statements are included on pages 31 to 123.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2020

	Note	FY20 $'000	FY19 $'000
ASSETS			
Cash and cash equivalents	4	**365,987**	224,790
Trade and other receivables	5	**5,974**	10,699
Loans and advances	6	**12,506,012**	10,341,913
Contract assets	1	**41,954**	48,648
Other financial assets	7	**7,181**	5,120
Derivative financial assets	23	**52,592**	56,575
Other assets	10	**3,627**	3,145
Plant and equipment	9	**2,192**	2,110
Right-of-use assets	8	**12,279**	-
Goodwill and intangible assets	11	**28,893**	23,457
		13,026,691	10,716,457
LIABILITIES			
Trade and other payables	12	**25,891**	25,294
Current tax payable	3	**24,293**	6,690
Provisions	17	**4,630**	4,050
Interest-bearing liabilities	13	**12,685,616**	10,450,621
Lease liabilities	14	**13,622**	-
Other financial liabilities	15	**20,797**	22,901
Derivative financial liabilities	23	**3,277**	1,565
Other liabilities	16	**3,339**	2,907
Deferred tax liabilities	3	**3,540**	6,305
		12,785,005	10,520,333
NET ASSETS		**241,686**	196,124
EQUITY			
Share capital	20	**181,895**	180,548
Reverse acquisition reserve	20	**(61,541)**	(61,541)
Total issued capital	20	**120,354**	119,007
Reserves	20	**(7,556)**	(7,197)
Retained earnings	20	**128,694**	84,314
Equity attributable to owners of the parent		**241,492**	196,124
Non-controlling interest		**194**	-
		241,686	196,124

Notes to the consolidated financial statements are included on pages 31 to 123.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED JUNE 2020

	Share capital	Reverse acquisition reserve[1]	Total issued capital	Reserves[2]	Retained earnings	Attributable to owners of the parent	Non-controlling interest	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Balance as at 1 July 2019	**180,548**	**(61,541)**	**119,007**	**(7,197)**	**84,314**	**196,124**	**-**	**196,124**
Adoption of AASB 16, net of income tax	**-**	**-**	**-**	**-**	**(339)**	**(339)**	**-**	**(339)**
Adjusted Balance as at 1 July 2019	**180,548**	**(61,541)**	**119,007**	**(7,197)**	**83,975**	**195,785**	**-**	**195,785**
Profit for the year	**-**	**-**	**-**	**-**	**55,908**	**55,908**	**99**	**56,007**
Other comprehensive income, net of income tax	**-**	**-**	**-**	**(796)**	**-**	**(796)**	**(4)**	**(800)**
Total comprehensive income for the year	**-**	**-**	**-**	**(796)**	**55,908**	**55,112**	**95**	**55,207**
Transactions with owners in their capacity as owners								
Acquisition of non-controlling interest	**-**	**-**	**-**	**-**	**-**	**-**	**99**	**99**
Option to acquire the shares of subsidiary	**-**	**-**	**-**	**(188)**	**-**	**(188)**	**-**	**(188)**
Issue of shares under the Dividend Reinvestment Plan	**1,017**	**-**	**1,017**	**-**	**-**	**1,017**	**-**	**1,017**
Exercise of share options	**330**	**-**	**330**	**-**	**-**	**330**		**330**
Equity dividends	**-**	**-**	**-**	**-**	**(10,966)**	**(10,966)**	**-**	**(10,966)**
Share-based payments	**-**	**-**	**-**	**402**	**-**	**402**	**-**	**402**
Reallocation	**-**	**-**	**-**	**223**	**(223)**	**-**	**-**	**-**
Balance at 30 June 2020	**181,895**	**(61,541)**	**120,354**	**(7,556)**	**128,694**	**241,492**	**194**	**241,686**

1 As a result of reverse acquisition accounting, an equity account was created as a component of equity. This account called 'Reverse acquisition reserve' is similar in nature to share capital. The Reverse acquisition reserve is not available for distribution.

2 Comprises cash flow hedge reserve, foreign currency translation reserve, fair value reserve, share-based payment reserve and other reserve. Refer to Note 20 for more detail.

Notes to the consolidated financial statements are included on pages 31 to 123.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED JUNE 2020

	Share capital	Reverse acquisition reserve[1]	Total issued capital	Reserves[2]	Retained earnings	Attributable to owners of the parent	Non-controlling interest	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Balance as at 1 July 2018	177,340	(61,541)	115,799	(3,011)	49,937	162,725	-	162,725
Adoption of AASB 9, net of income tax	-	-	-	-	(5,213)	(5,213)	-	(5,213)
Adjusted balance as at 1 July 2018	177,340	(61,541)	115,799	(3,011)	44,724	157,512	-	157,212
Profit for the year	-	-	-	-	47,185	47,185	-	47,185
Other comprehensive income, net of income tax	-	-	-	(4,231)	-	(4,231)	-	(4,231)
Total comprehensive income for the year	-	-	-	(4,231)	47,185	42,954	-	42,954
Transactions with owners in their capacity as owners								
Issue of shares under the Dividend Reinvestment Plan	3,208	-	3,208	-	-	3,208	-	3,208
Equity dividends	-	-	-	-	(7,595)	(7,595)	-	(7,595)
Share-based payments	-	-	-	45	-	45	-	45
Balance at 30 June 2019	180,548	(61,541)	119,007	(7,197)	84,314	196,124	-	196,124

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2020

	Note	FY20 $'000	FY19 $'000
Cash flows from operating activities			
Interest received		**471,027**	452,335
Interest paid		**(263,991)**	(318,583)
Receipts from loan fees and other income		**46,728**	51,674
Payments to suppliers and employees		**(154,961)**	(150,270)
Payments of net loans to borrowers		**(3,573,593)**	(1,713,838)
Income tax paid		**(9,079)**	(9,736)
Net cash used in operating activities	4	**(3,483,869)**	(1,688,418)
Cash flows from investing activities			
Payment for plant, equipment and intangible assets		**(279)**	(2,456)
Repayment of loans to related parties		**(2,408)**	(6)
Payments for new investments		**(3,000)**	(2,000)
Acquisition of subsidiary (IA Group)		**(6,000)**	-
Cash acquired on acquisition of subsidiary (IA Group)		**1,087**	-
Proceeds on disposal of Paywise		**250**	12,000
Cash on disposal of Paywise		**-**	(9,994)
Net cash used in investing activities		**(10,350)**	(2,456)
Cash flows from financing activities			
Proceeds from borrowings		**9,560,872**	8,748,825
Repayment of borrowings		**(7,364,980)**	(7,027,463)
Proceeds of loans sold to external party (Athena)		**1,453,212**	-
Proceeds from exercise of options		**330**	-
Payment of lease liabilities		**(1,671)**	-
Swap payments		**(2,090)**	(949)
Payment of dividends		**(9,949)**	(4,387)
Payment of finance lease		**-**	(252)
Net cash provided by financing activities		**3,635,724**	1,715,774
Net increase in cash and cash equivalents		**141,505**	24,900
Cash and cash equivalents at the beginning of the financial year (1 July)		**224,790**	198,905
Effects of exchange rate changes on cash balances held in foreign currencies		**(308)**	985
Cash and cash equivalents at end of year	4	**365,987**	224,790

Notes to the consolidated financial statements are included on pages 31 to 123.

About this report

Resimac Group Ltd ("Resimac" or "the Company") is a for-profit company limited by shares incorporated and domiciled in Australia whose shares are publicly traded on the Australian Securities Exchange. The nature of the operations and principal activities of Resimac and its entities that it controls (referred to as "the Group") are described in the segment information.

The consolidated general purpose financial report of the Group for the year ended 30 June 2020 was authorised for issue in accordance with a resolution of the Directors on 25 August 2020. The Directors have the power to amend and reissue the financial report.

The financial report is a general purpose financial report which:

- has been prepared in accordance with the requirements of the *Corporations Act 2001*, Australian Accounting Standards (AAS) and other authoritative pronouncements of the Australian Accounting Standards Board (AASB) and International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB);
- has been prepared on a historical cost basis, except for investments held by associates and certain financial instruments which have been measured at fair value. The carrying values of recognised assets and liabilities that are the hedged items in fair value hedge relationships, which are otherwise carried at amortised cost, are adjusted to record changes in the fair values attributable to the risks that are being hedged;
- is presented in Australian dollars with all values rounded to the nearest thousand dollars ($'000) unless otherwise stated, in accordance with ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191;
- presents reclassified comparative information where required for consistency with the current year's presentation;
- adopts all new and amended Accounting Standards and Interpretations issued by the AASB that are relevant to the Group and effective for reporting periods beginning on or before 1 July 2019. Refer to Note 32 for further details;

Key judgements and estimates

In the application of the Group's accounting policies, the Directors are required to make judgements, estimates and assumptions about the carrying value of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgements. Actual results may differ from these estimates.

Judgements and estimates which are material to the financial report are found in the following notes:

Note	Relates to
1	Recognition of revenue from contracts with customers
1&15	Net present value ("NPV") of future trail commission: recognition of future commissions receivable and payable
7	Impairment of other financial assets
11	Goodwill impairment
17	Provisions – long service leave
22&23	Impairment of financial assets

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Group. A list of controlled entities (subsidiaries) at year end is contained in Note 24.

The financial statements of subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

Subsidiaries are consolidated from the date on which control is obtained to the date on which control is disposed.

The Group controls an investee if and only if the Group has:

- power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- exposure, or rights, to variable returns from its involvement with the investee; and
- the ability to use its power over the investee to affect its return.

In preparing the consolidated financial statements, all inter-company balances and transactions, income and expenses and profits and losses resulting from intra-Group transactions have been eliminated.

The acquisition of subsidiaries is accounted for using the acquisition method.

Refer to Note 24 for detail on the consolidation of special purpose vehicles.

COVID-19 impact

COVID-19 has significantly impacted equity, debt, commodity markets and the overall global economy. The Group has considered the impact of COVID-19 and other market volatility in preparing its financial statements.

While the specific areas of judgement as noted on the previous page remain unchanged, COVID-19 resulted in the application of further judgement within those identified areas. Given the rapidly evolving nature of COVID-19 and the subsequent economic impact, changes to the estimates and outcomes applied in the measurement of the Group's assets and liabilities may arise in the future. Other than adjusting events that provide evidence of provisions that existed at the end of the reporting period, the impact of events that arise after the reporting period will be accounted for in future reporting periods.

As a consequence of COVID-19 and in preparing financial statements, management:

- Considered the financial impact on the Group and areas of the financial statements affected to determine the disclosures required, and evaluate if any additional areas of judgement or estimation uncertainty beyond what has been disclosed existed;
- Updated forward-looking information (including macroeconomic information) when measuring expected credit losses to assess any significant increase in credit risk, and for the impairment analysis of financial and non-financial asset classes and disclosures;
- Assessed the measurement of assets and liabilities and determined the impact thereon as a result of market inputs and variables impacted by COVID-19;
- Evaluated information available after the reporting date but before the issuance of the financial statements (e.g. decisions regarding COVID-19) and updated the disclosures in the financial statements;
- Reviewed external market communications to identify other COVID-19 related impacts;
- Reviewed public forecasts and experience from previous downturns.

Basis of consolidation (continuation)

Key statements of financial position items and related disclosures impacted by COVID-19 were:

Loans and advances

The Group granted COVID-19 hardship payment moratoriums to 10% of home loan customers. In line with regulatory guidance, these loans were not deemed in arrears during the moratorium period. Therefore, management have raised a COVID-19 overlay based on forward looking macroeconomic environment. This provision is in addition to the AASB 9 Expected Credit Loss (ECL) model provision at each reporting period. Refer to note 6 and note 23.

Intangible assets

The Group conducted impairment testing on goodwill at the reporting date to assess whether the impact of COVID-19 has led to an asset impairment. This testing requires an estimation of the recoverable amount of the affected cash generating unit to which the goodwill is allocated using a value in use discounted cash flow methodology. Refer to note 11.

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

Property, plant and equipment and right-of-use assets were subject to impairment testing. Management concluded no impairment was required.

Derivative assets and liabilities

Given recent market volatility, the Group reviewed the appropriateness of credit valuation adjustment to its valuations. The impact of changes of inputs to the valuations is also considered in terms of the classification of exposures in the fair value hierarchy and transfers within the fair value hierarchy.

Hedge accounting

An assessment considering if forecasted cash flows in cash flow hedge relationships remain highly probable at the reporting date. At 30 June 2020, the modelling of the hedged future cash flows determined cash flow hedge relationships remained highly probable and hedge accounting remains appropriate.

Investment in other financial assets

When assessing the fair value of equity investments at 30 June 2020, the impact of COVID-19 on each of the investments operating model was considered.

Foreign currency

As at the reporting date, assets and liabilities of overseas subsidiaries are translated into Australian dollars at the rate of exchange at the balance sheet date and the income statements are translated at the average exchange rates for the year. The exchange differences arising on the retranslation are taken directly to a separate component of equity.

Transactions in foreign currencies are initially recorded in the functional currency at the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet date. Exchange differences arising from the application of these procedures are taken to the income statement, with the exception of differences on foreign currency borrowings that provide a hedge against a net investment in a foreign entity, which are taken directly to equity until the disposal of the net investment, and then recognised in the income statement. Tax charges and credits attributable to exchange differences on those borrowings are also recognised in equity.

Other accounting policies

Significant and other accounting policies that summarise the measurement basis relevant to an understanding of the financial statements are provided throughout the notes to the financial statements.

Basis of consolidation (continuation)

The notes to the financial statements

The notes include information required to understand the financial statements and is material and relevant to the operations, financial position and performance of the Group. Information is considered material and relevant if, for example:

- the amount in question is significant because of its size or nature;
- it is important for understanding the results of the Group;
- it helps to explain the impact of significant changes in the Group's business – for example, acquisitions and impairment write-downs; or
- it relates to an aspect of the Group's operations that is important to its future performance.

The notes are organised into the following sections:

Key numbers: provides a breakdown of individual line items in the financial statements that the Directors consider most relevant and summarises the accounting policies, judgements and estimates relevant to understanding these line items;

Capital: provides information about the capital management practices of the Group and shareholder returns for the year;

Risk: details the Group's exposure to various financial risks, explains how these affect the Group's financial position and performance, and what the Group does to manage these risks;

Group structure: explains the Group structure and how changes have affected the financial position and performance of the Group;

Unrecognised items: provides information regarding items not recognised in the financial statements but could potentially have an impact on the Group's financial position and performance; and

Other: provides information on items which require disclosure to comply with AAS and other regulatory pronouncements however, are not considered critical in understanding the financial performance or position of the Group.

Segment Information

AASB 8 *Operating Segments* requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the Board and executive management team (the chief operating decision makers (CODM)) in order to allocate resources to the segment and to assess its performance.

The Group has identified three reportable segments based on the nature of the products and services provided, the type of customers for those products and services, the geographies where the business operates and the existence of discrete and separate reporting and management teams. The following summary describes the operations in each of the Group's reportable segments.

The Group's reportable segments under AASB 8 are:

1. Australian Lending business

Represents the distribution and lending businesses currently captured under the Resimac and State Custodians brands.

The segment contains the bulk of the Australian based income and expense. It incorporates the new business settled through the Australian distribution channels, the margin net of funding costs of the on balance sheet home loan portfolios, and the upfront and trail commission on the white label loan portfolio.

On 1 January 2020, Resimac purchased a controlling stake in IA Group who specialise in both Australian based secured commercial and consumer lending. The income and expenses of IA Group from 1 January 2020 to 30 June 2020 are included in the FY20 consolidated financial statements.

Management have assessed the impact of IA Group on its Group results as not material, and therefore does not represent a reportable segment for the year ended 30 June 2020, notwithstanding IA Group is considered an operating segment.

2. New Zealand Lending business

Whilst the nature of the customers and products are similar to the Australian Lending segment, given the different jurisdiction and market conditions, management believe it is appropriate to distinguish the result of New Zealand from Australia.

Separating the Australian and New Zealand trading business is supported by the operation of a dedicated NZ board, NZ segment monthly management reporting, separate regulatory requirements/oversight, and staff solely accountable for the NZ business including a locally based Head of NZ.

3. Paywise business

On 24 May 2019, the Group sold its 100% equity stake in its wholly owned subsidiary Paywise Pty Limited for total cash consideration of $14 million in a management buyout agreement. The economic effective date of this transaction is 30 April 2019. The income and expenses of Paywise up to 30 April 2019 are included in the comparative column below.

Information regarding these segments is presented below. The accounting policies of the reportable segments are consistent with the Group's accounting policies.

The following is an analysis of the Group's revenue and results by reportable operating segments:

	AUSTRALIAN LENDING		NEW ZEALAND LENDING		PAYWISE[1]		CONSOLIDATED	
	FY20	FY19	**FY20**	FY19	**FY20**	FY19	**FY20**	FY19
	$'000	$'000	**$'000**	$'000	**$'000**	$'000	**$'000**	$'000
Revenue from external customers	**447,982**	439,646	**23,321**	22,056	**-**	7,053	**471,303**	468,755
Total segment revenue	**447,982**	439,646	**23,321**	22,056	**-**	7,053	**471,303**	468,755
Segment results before tax, depreciation, amortisation, finance costs and impairment	**106,740**	69,498	**3,227**	2,834	**-**	432	**109,967**	72,764
Depreciation and amortisation	**(1,021)**	(1,090)	**(11)**	(11)	**-**	(158)	**(1,032)**	(1,259)
Loan impairment	**(21,653)**	(3,041)	**(359)**	75	**-**	-	**(22,012)**	(2,966)
Finance costs	**(6,283)**	(4,334)	**(361)**	(263)	**-**	-	**(6,644)**	(4,597)
Segment results before income tax	**77,783**	61,033	**2,496**	2,635	**-**	274	**80,279**	63,942
Income tax expense [2]							**(24,272)**	(16,757)
PROFIT AFTER TAX							**56,007**	47,185

1. FY19 includes Paywise segment for the period from 1 July 2018 to 30 April 2019.

2. Income tax expense is grouped on a consolidated basis, not by reportable operating segment.

The following is an analysis of the Group's assets and liabilities by reportable operating segment:

	AUSTRALIAN LENDING		NEW ZEALAND LENDING		PAYWISE		CONSOLIDATED	
	FY20	FY19	**FY20**	FY19	**FY20**	FY19	**FY20**	FY19
	$'000	$'000	**$'000**	$'000	**$'000**	$'000	**$'000**	$'000
Segment assets	**12,444,285**	10,210,822	**582,406**	505,635	**-**	**-**	**13,026,691**	10,716,457
	12,444,285	10,210,822	**582,406**	505,635	**-**	**-**	**13,026,691**	10,716,457
Segment liabilities	**(12,201,825)**	(10,019,239)	**(555,347)**	(488,099)	**-**	**-**	**(12,757,172)**	(10,507,338)
Net assets excl. tax	**242,460**	191,583	**27,059**	17,536	-	-	**269,519**	209,119
Tax liabilities [3]							**(27,833)**	(12,995)
NET ASSETS							**241,686**	196,124

3. Tax liabilities are grouped on a consolidated basis, not by reportable operating segment.

1. Revenue

1.1 Revenue streams

The Group generates revenue primarily from net interest margin on principally funded loans, annuity trail income on non-principally funded loans and other fee income.

	FY20	FY19
	$'000	$'000
Revenue from contracts with customers	**11,340**	18,982
Interest income		
Loans and advances	**454,962**	438,895
Bank deposits	**1,625**	3,152
Discount unwind on NPV of trail commission	**2,718**	3,186
	459,305	445,233
Other income	**658**	4,540
Total revenue	**471,303**	468,755

Recognition & Measurement

Interest income - loans and advances

Revenue arising from issuing residential loans are initially recognised at the fair value of the consideration received or receivable when it is probable that future economic benefits will flow to the Group and these benefits can be measured reliably.

Loans and advances are initially recognised at fair value. Subsequent to initial recognition, the loans are measured at amortised cost using the effective interest method over the estimated actual (but not contractual) life of the mortgage loan, taking into account all income and expenditure directly attributable to the loan.

Interest income on loans and advances is recognised as it accrues using the effective interest method. The rate at which revenue is recognised is referred to as the effective interest rate, and is equivalent to the rate that effectively discounts estimated future cash flows throughout the estimated life of the net carrying value of the loan. Acquisition costs are also spread across the estimated life of the loan.

Loans and advances in arrears or under a COVID-19 hardship payment moratorium at 30 June 2020 do not impact interest income. Interest income continues to accrue on loans in arrears or under hardship payment moratoriums. Consideration for potential future credit losses on loans in arrears or under hardship payment moratoriums is reflected in Note 23.

Interest income - bank deposits

This comprises interest income on funds invested. Interest income is recognised as it accrues, using the effective interest method.

Other income

Other income includes various items including but not limited to:

- changes in fair value of interest rate swaps through profit or loss; and
- payment received under operating leases as income on a straight-line basis over the lease (office sub-lease).

1. Revenue (continuation)

Revenue from contracts with customers

Revenue is based on the consideration specified in a contract with a customer. The Group recognises revenue when it transfers control over a good or service to a customer.

The following table provides information about the nature and timing of the satisfaction of performance obligations in contracts with customers, including significant payment terms, and the related revenue recognition policies.

CLASSIFICATION & MEASUREMENT OF REVENUE			
Timing	**Type of service**	**Nature, timing of satisfaction of performance obligations, significant payment terms, significant judgements used**	**Revenue recognition policy under AASB 15**
At a point in time	Mortgage origination revenue	Commission from originating white label loans. The performance obligations are satisfied at the point in time the loan is settled. Non-ongoing performance conditions are attached to the upfront fee.	Once the Group has referred a successful loan application to the lender, its performance obligations have been met. As such, revenue is recognised at the point in time the loan is settled. The expected value is estimated based on historic experience. Provisions for clawback of the upfront fee are recognised within a period of time post-settlement and is a variable consideration.
At a point in time	Loan management revenue	Trail commission income on white label loans, based on the individual monthly loan balance outstanding each month. Trail ceases once the loan is discharged. The contracts with the funders include performance obligations which must be satisfied in order to be paid trail commission (eg the loan not being in arrears).	Revenue is recognised at the point in time the loan is being settled and performance obligations are satisfied according to the contracts with the funders. The present value of the trailing commission receivable is recognised as a contract asset and measured using the expected value method with variable consideration at a point in time.

1. **Revenue** (continuation)

CLASSIFICATION & MEASUREMENT OF REVENUE			
Timing	**Type of service**	**Nature, timing of satisfaction of performance obligations, significant payment terms, significant judgements used**	**Revenue recognition policy under AASB 15**
At a point in time	Net loan fees	Loan fees paid by the borrower such as application, discharge, settlement fees etc. The performance obligation for these fees is met at a point in time (settlement, discharge etc) when the fee is charged to the borrower.	Revenue is recognised when the transaction is completed and the performance obligations are met.

1.2 Disaggregation of revenue from contracts with customers

In the following table, revenue from contracts with customers is disaggregated by primary geographical market, major service lines and timing of revenue recognition. The table also includes a reconciliation of the disaggregated revenue with the Group's reportable segments (See "Segment Information" on page 36).

1. **Revenue** (continuation)

	AUSTRALIAN LENDING		NEW ZEALAND LENDING		PAYWISE		CONSOLIDATED	
	FY20	FY19	**FY20**	FY19	**FY20**	FY19	**FY20**	FY19
	$'000	$'000	**$'000**	$'000	**$'000**	$'000	**$'000**	$'000
Primary geographical markets								
Australia	**10,934**	13,130	**-**	-	**-**	5,557	**10,934**	18,687
New Zealand	**-**	-	**406**	295	**-**	-	**406**	295
	10,934	13,130	**406**	295	**-**	5,557	**11,340**	18,982
Major service lines								
Mortgage origination	**-**	2,532	**-**	-	**-**	-	**-**	2,532
Loan management	**7,307**	7,150	**-**	-	**-**	-	**7,307**	7,150
Salary packaging	**-**	-	**-**	-	**-**	2,679	**-**	2,679
Vehicle financing commission	**-**	-	**-**	-	**-**	2,878	**-**	2,878
Net loan fees	**3,627**	3,448	**406**	295	**-**	-	**4,033**	3,743
	10,934	13,130	**406**	295	**-**	5,557	**11,340**	18,982
Timing of revenue recognition								
Service transferred at a point in time	**10,934**	13,130	**406**	295	**-**	5,557	**11,340**	18,982
Revenue from contracts with customers	**10,934**	13,130	**406**	295	**-**	5,557	**11,340**	18,982
Interest income	**434,497**	422,305	**24,808**	22,756	**-**	172	**459,305**	445,233
Other income	**2,551**	4,211	**(1,893)**	(995)	**-**	1,324	**658**	4,540
External revenue as reported in segment information	**447,982**	439,646	**23,321**	22,056	**-**	7,053	**471,303**	468,755

1. Revenue (continuation)

Recognition and measurement

1.3 Assets related to contract with customers

The Group has recognised the following assets related to contracts with customers.

	FY20	FY19
	$'000	$'000
Contract assets – present value of future trail commission receivable		
Current	**11,587**	14,940
Non-current	**30,367**	33,708
	41,954	48,648

Contract assets - present value of future trail commission receivable

The contract assets primarily relate to the Group's rights to consideration for trail commission. The Group receives trail commissions from lenders on white label settled loans over the life of the loan based on the loan balance outstanding. The contract assets are transferred to receivables when the rights become unconditional.

Initial recognition

Expected value of future trail commission receivable is recognised on the origination of white label settlements. This represents the NPV of the expected future trail commission receivable under the origination and management agreement, less ongoing servicing costs not covered by transaction fees.

The initial expected value of trail commission receivable is determined by using the discounted cash flow valuation technique.

Subsequent measurement

Subsequent to initial recognition, the future trail commission receivable is measured at expected value.

The carrying amounts of the trail commissions receivable are adjusted to reflect actual and revised estimated cash flows by recalculating the carrying amount through computing the present value of estimated future cash flows at the effective interest rates. The resulting adjustment is recognised as income or expense in the statement of comprehensive income.

A remeasurement of the underlying cash flows relating to the trail commission receivable occurs at each reporting date.

1. Revenue (continuation)

Key estimates and assumptions

The key estimates and assumptions underlying the remeasurement of the estimated future cash flows include the:

- prepayment rate; and
- discount rate.

	FY20	FY19
Weighted average loan life (years)	**3.5**	3.1
Discount rate	**6%**	6%

Weighted average loan life

The methodology in calculating the weighted average loan life uses the commonly accepted Standard and Poor's definition.

Key judgements

The recognition of the future trail commission receivable and payable (and resulting revenue/expense) is an area of management judgment due to the different recognition criteria existing within the accounting standards. Decisions around key inputs potentially have a material impact on the balances.

Management judgment is required with respect to the determination of:

- **Prepayment rate**

Of all the key inputs for NPV modelling, it is prepayment or run-off rates to which the model is most sensitive. In observing prior years' actual run-off performance, there can be variations over time of up to 25% on individual seasoning bands and variations of over 10% for year-on-year overall run-off.

In order to manage both volatility of rates over time and the uncertainty associated with this modelling, a conservative run-off buffer of 25% is included in the valuation by management.

- **Discount rates**

For the purposes of the valuation technique required by the standard, the discount rate is set each year and remains unchanged for that tranche of loans for the remainder of the loan's life.

The discount rate is currently set at 6%, incorporating risk free rates and estimates of the credit risk associated with the counterparties providing the trail income, and remains unchanged compared with FY19.

Given trail income receivables are due from strongly rated major financial institutions, this credit risk is regarded as appropriate.

2. Expenses

	FY20 $'000	FY19 $'000
Interest		
Bond and warehouse facilities	**259,467**	317,198
Amortisation – bond issue costs	**8,517**	6,987
Discount unwind on NPV of trail commission	**1,311**	1,525
Corporate facility	**767**	1,670
Interest on lease liabilities	**618**	-
	270,680	327,380
Fee and commission		
Mortgage origination	**434**	1,788
Loan management	**22,898**	19,353
Borrowing costs	**6,730**	5,777
Other financing costs	**6,026**	4,597
	36,088	31,515
Employee benefits		
Remuneration, bonuses, superannuation and on-costs	**35,305**	37,614
Share-based payments	**581**	44
	35,886	37,658
Other		
Marketing	**3,277**	3,570
IT	**6,561**	4,826
Audit and other professional fees	**5,719**	3,745
Rent and occupancy costs	**1,395**	4,011
Insurance	**1,369**	1,017
Depreciation and amortisation	**1,032**	1,259
Depreciation charge of right-of-use assets	**1,920**	-
Other	**5,085**	5,780
	26,358	24,208
Loan impairment	**22,012**	2,966
	391,024	423,727

2. Expenses (continuation)

Recognition and measurement

2.1 Interest

Bond and warehouse facilities

Borrowing costs are recognised in the profit or loss in the period in which they are incurred. Borrowing costs include:

- interest on deposits;
- coupon payments on notes issued; and
- other interest paid on non-securitised funding facilities and are recognised under the effective interest rate method. See further detail under Note 1.

Deferred costs

Transaction costs representing mortgage insurance premiums and upfront broker commissions related to originating on balance sheet loans are capitalised on the statement of financial position of the Group. These costs are amortised to the statement of profit or loss over the period over which the Group is expected to receive interest income.

The amortisation rate closely aligns with the rate of reduction of the underlying mortgage portfolio. The rate of reduction of the outstanding mortgage portfolio is calculated based on the historical behaviour of the portfolio over the past 10 years.

On a consolidated basis these transaction costs are included as part of the amortised cost of the loans per Note 6.

Amortisation – bond issue costs

Transaction costs incurred by the Group in facilitating the issue of debt securities by the special purpose vehicles, are capitalised on the statement of financial position of the parent entity as bond issue costs. These costs are amortised to the statement of profit or loss over the average expected life of the debt securities using the effective interest method.

On a consolidated basis, these costs are included as part of the amortised cost of the debt securities.

2.2 Fee and commission

Mortgage origination

Upfront commission payments for white label home loans to mortgage originators, are recognised at settlement as the services performed by the originator are principally performed upfront.

Loan management

For white label home loans, trail commission payments to brokers and commissioned staff based on the loan book balance outstanding.

Borrowing costs

Fees directly related to public RMBS deals.

Other financing costs

Other financing costs include trustee and servicer fees, liquidity fees, rating agency fees, and other financing related fees.

2. Expenses (continuation)

2.3 Employee benefits

Employee benefits expense includes remuneration, bonuses, superannuation, and associated on-costs as incurred.

The policy relating to share-based payments is set out in Note 31.

2.4 Other

This mainly comprises bank fees, general administration expenses and unrecoverable GST. These items are expensed when incurred.

2.5 Loan impairment

Loan impairment expenses relates to the movement in the:

- specific provision;
- collective provision movements for loan impairment; and
- direct loan write-offs recognised during the year.

See Note 6 for detail on impairment of loans and advances.

3. Income tax

3.1 Income tax recognised in profit or loss

	FY20	FY19
	$'000	$'000
Current tax		
In respect of the current year	**26,754**	15,368
In respect of prior years	**35**	(175)
Translation loss on foreign currency assets and liabilities	**22**	(14)
	26,811	15,179
Deferred tax		
In respect of the current year	**(2,494)**	2,368
In respect of prior years	**(45)**	(790)
	(2,539)	1,578
Total income tax expense recognised in the current year	**24,272**	16,757
The income tax expense for the year can be reconciled to the accounting profit as follows:		
Profit before tax	**80,279**	63,942
Income tax expense calculated at 30% (FY19: 30%)	**24,084**	19,183
Effect of expenses that are not deductible in determining taxable profit	**344**	98
Effect of different tax rates of subsidiaries operating in other jurisdictions	**1**	(8)
Share-based payments	**(54)**	-
Difference in tax and accounting treatment of Paywise disposal	**-**	(1,609)
Other items	**(93)**	58
	24,282	17,722
Adjustments recognised in the current year in relation to the deferred tax of prior years	**(45)**	(790)
Adjustments recognised in the current year in relation to the current tax of prior years	**35**	(175)
Income tax expense recognised in profit or loss	**24,272**	16,757

The tax rate used for FY20 and FY19 reconciliations above is the corporate tax rate of 30% payable by corporate entities in Australia on taxable profits under tax law in that jurisdiction.

3.2 Current tax assets and liabilities

	FY20	FY19
	$'000	$'000
Current tax payable	**(24,293)**	(6,690)
	(24,293)	(6,690)

3. Income tax (continuation)

3.3 Deferred tax balances

The following is the analysis of deferred tax assets (DTA) and deferred tax liabilities (DTL) presented in the consolidated statement of financial position:

	FY20	FY19
	$'000	$'000
Deferred tax assets	**20,989**	15,615
Deferred tax liabilities	**(24,529)**	(21,920)
	(3,540)	(6,305)

FY20	**Opening balance**	**Current year recognised in profit or loss**	**Previously unrecognised in profit or loss**	**Recognised directly in equity**	**Recoup tax loss against tax liability**	**Acquisition of IA Group**	**Closing balance**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
DTA in relation to:							
Doubtful debts	4,111	**5,330**	**-**	**(8)**	**-**	**149**	**9,582**
Plant, equipment and software	82	**(49)**	**-**	**-**	**-**	**(31)**	**2**
Deferred mortgage insurance	358	**(106)**	**-**	**-**	**-**	**-**	**252**
Employee entitlements	1,069	**39**	**(1)**	**-**	**-**	**23**	**1,130**
Net provision for lease make good	60	**-**	**-**	**-**	**-**	**-**	**60**
Other accrued expenses	2,142	**(164)**	**-**	**-**	**-**	**4**	**1,982**
Blackhole expenditure	437	**(203)**	**-**	**-**	**-**	**-**	**234**
Discount on loan	(1)	**-**	**-**	**-**	**-**	**-**	**(1)**
Tax losses carried forward	103	**77**	**-**	**-**	**(106)**	**342**	**416**
Trail commission payable	7,091	**(799)**	**25**	**-**	**-**	**-**	**6,317**
Lease liability	92	**40**	**7**	**145**	**-**	**35**	**319**
Shares	41	**-**	**-**	**282**	**-**	**-**	**323**
Share-based payments	-	**173**	**13**	**157**	**-**	**-**	**343**
Lease incentives	30	**-**	**-**	**-**	**-**	**-**	**30**
	15,615	**4,338**	**44**	**576**	**(106)**	**522**	**20,989**
DTL in relation to:							
Capitalised incentive commission	10,513	**1,942**	**(1)**	**(13)**	**-**	**-**	**12,441**
Loans and advances	(4,219)	**1,743**	**-**	**-**	**-**	**-**	**(2,476)**
Deferred bond issue cost	2,736	**(116)**	**-**	**(3)**	**-**	**-**	**2,617**
Derivatives	(1,663)	**170**	**-**	**156**	**-**	**-**	**(1,337)**
Unpaid superannuation	(40)	**(7)**	**-**	**-**	**-**	**(3)**	**(50)**
Trail commission receivable	14,594	**(2,001)**	**-**	**-**	**-**	**-**	**12,593**
Accrued income and other	(1)	**113**	**-**	**-**	**-**	**629**	**741**
	21,920	**1,844**	**(1)**	**140**	**-**	**626**	**24,529**
	(6,305)	**2,494**	**45**	**436**	**(106)**	**(104)**	**(3,540)**

3. Income tax (continuation)

FY19	Opening balance $'000	Current year recognised in profit or loss $'000	Previously unrecognised in profit or loss $'000	Recognised directly in equity $'000	Recoup tax loss against tax liability $'000	Disposal of Paywise $'000	Closing balance $'000
DTA in relation to:							
Doubtful debts	374	368	1,199	2,170	-	-	4,111
Plant, equipment and software	1,461	(171)	(1,196)	-	-	(12)	82
Deferred mortgage insurance	446	(88)	-	-	-	-	358
Employee entitlements	1,173	27	(3)	-	-	(128)	1,069
Net provision for lease make good	60	-	-	-	-	-	60
Other accrued expenses	2,405	(28)	(166)	-	-	(69)	2,142
Blackhole expenditure	701	(264)	-	-	-	-	437
Discount on loan	-	3	(4)	-	-	-	(1)
Tax losses carried forward	964	-	-	-	(861)	-	103
Trail commission payable	11,356	(1,598)	(2,667)	-	-	-	7,091
Lease Liability	28	64	-	-	-	-	92
Derivatives	(5)	5	-	-	-	-	-
Shares	-	(1,743)	899	885	-	-	41
Lease incentives	30	-	-	-	-	-	30
	18,993	(3,425)	(1,938)	3,055	(861)	(209)	15,615
DTL in relation to:							
Capitalised incentive commission	11,915	1,368	(2,790)	20	-	-	10,513
Loans and advances	(3,339)	(880)	-	-	-	-	(4,219)
Deferred bond issue cost	2,277	455	-	4	-	-	2,736
Derivatives	(1,176)	712	-	(1,199)	-	-	(1,663)
Unpaid superannuation	-	(40)	-	-	-	-	(40)
Trail commission receivable	17,266	(2,672)	-	-	-	-	14,594
Accrued income and other	(63)	-	62	-	-	-	(1)
	26,880	(1,057)	(2,728)	(1,175)	-	-	21,920
	(7,887)	(2,368)	790	4,230	(861)	(209)	(6,305)

Recognition and measurement

Income tax expense represents the sum of the tax currently payable and deferred tax.

3. Income tax (continuation)

3.3 Current tax

Tax payable is based on taxable profit for the year. Taxable profit differs from 'profit before tax' as reported in the consolidated statement of profit or loss and other comprehensive income due to a mix of timing and non-assessable items. The Group's current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

3.4 Deferred tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit.

Deferred tax liabilities (DTLs) are generally recognised for all taxable temporary differences.

Deferred tax assets (DTAs) are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such DTAs and DTLs are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

In addition, DTLs are not recognised if the temporary difference arises from the initial recognition of goodwill.

DTLs are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

DTAs arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of DTAs is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

DTLs and DTAs are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of DTLs and DTAs reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

3.5 Current and deferred tax for the year

Current and deferred tax are recognised in the statement of comprehensive income, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

3.6 Tax effect accounting by members of the tax consolidated group

Resimac Group Ltd and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation. The head entity Resimac Group Ltd, and the controlled entities in the tax consolidated group continue to account for their own current and deferred tax amounts. The Group has applied the group allocation approach in determining the appropriate amount of current taxes and deferred taxes to allocate to members of the tax consolidated group. The current and deferred tax amounts are measured in a systematic manner that is consistent with the broad principles in AASB 112 *Income Taxes*.

In addition to its own current and deferred tax amounts, the head entity also recognised current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the Resimac tax consolidated group.

3. Income tax (continuation)

3.7 Nature of the tax funding agreement

Members of the Group have entered into a tax funding agreement. Under the funding agreement the allocation of tax within the Group is based on a group allocation. The tax funding agreement requires payments to/from the head entity to be recognised via an inter-entity receivable (payable) which is at call.

The allocation of taxes under the tax funding agreement is recognised as an increase or decrease in the subsidiaries' intercompany accounts with the tax consolidated group head company, Resimac Group Ltd. The amounts receivable or payable under the tax funding agreement are due upon receipt of the funding advice from the head entity, which is issued as soon as practical after the end of each financial year.

Key judgement

The Group's accounting for taxation requires management's judgment in assessing whether deferred tax assets and certain deferred tax liabilities are recognised on the statement of financial position. Deferred tax assets, including those arising from unrecouped tax losses, capital losses and temporary differences, are recognised only where it is considered more likely than not that they will be recovered, which is dependent on the generation of sufficient future taxable profits.

Assumptions about the generation of future taxable profits depend on management's estimates of future cash flows. These depend on estimates of future income, operating costs, capital expenditure, dividends and other capital management transactions.

Judgments and assumptions are also required about the application of income tax legislation. These judgments and assumptions are subject to risk uncertainty, hence there is a possibility that changes in circumstances will alter expectations, which may impact the amount of deferred tax assets and deferred tax liabilities recognised on the statement of financial position and the amount of other tax losses and temporary differences not yet recognised. In such circumstances, some or all of the carrying amounts of recognised deferred tax assets and liabilities may require adjustment, resulting in a corresponding credit or charge to the consolidated statement of profit or loss and other comprehensive income.

3.8 COVID-19 Tax Relief

During the year, the Group utilised the following Federal/State COVID-19 tax concessions:

1. Delayed PAYG Company Tax Instalments for FY20 until 1st December 2020: $12.2m
2. Victorian Payroll Tax relief: $0.07m

4. Cash and cash equivalents

	Note	**FY20 $'000**	FY19 $'000
Cash at bank and on hand		**27,757**	10,566
Cash collections account [1]		**336,730**	212,723
Restricted cash [2]		**1,500**	1,501
	22	**365,987**	224,790
Reconciliation of profit after tax to the net cash flows from operating activities			
Profit after tax		**56,007**	47,185
Non-cash items			
Depreciation and amortisation	2	**1,032**	1,259
Depreciation charge of right-of-use assets	2	**1,920**	-
Amortisation of bond issue costs	2	**8,517**	6,987
Gain on derecognition of investment in Finsure, net of tax		**-**	(4,067)
Gain on disposal of Paywise		**-**	(13,104)
Fair value movement on interest rate swaps		**3,271**	(419)
Loan impairment movement	2	**22,012**	2,966
Net loss on disposal of non-current assets		**-**	59
Present value of future trail commission income		**6,694**	8,939
Present value of future trail commission expense		**(2,104)**	(4,924)
Share-based payments expense	2	**581**	44
Discount on mortgage		**(442)**	-
(Increase)/decrease in assets			
Trade and other receivables		**2,147**	(3,389)
Loans and advances		**(3,583,219)**	(1,718,453)
Other assets		**23**	(176)
Impairment allowance account		**(2,254)**	(537)
Increase/(decrease) in liabilities			
Trade and other payables		**(380)**	(7,126)
Current tax payable		**19,522**	4,133
Interest-bearing liabilities		**(13,007)**	(9,218)
Provisions		**168**	20
Deferred tax liabilities		**(4,357)**	1,403
Net cash flows used in operating activities		**(3,483,869)**	(1,688,418)

1. Cash collections account includes monies in the Special Purpose Vehicles and securitisation trusts on behalf of members in those Trusts and various clearing accounts. These funds are not available for operational use.
2. Cash held in trust as collateral.

4. Cash and cash equivalents (continuation)

Recognition and measurement

Cash comprises cash on hand and demand deposits. Cash equivalents are short-term, liquid investments readily convertible to known amounts of cash, not subject to significant risk of changes in value, and have a maturity of three months or less at the date of acquisition.

Cash at bank earns interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods of between one day and three months, depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates.

5. Trade and other receivables

	Note	**FY20** **$'000**	FY19 $'000
Current			
Fee and commission receivable		**1,050**	2,493
Prepayments		**2,088**	2,029
GST receivable		**641**	1,153
Deferred consideration for sale of Paywise		**750**	1,000
Sundry receivable		**445**	3,024
	22	**4,974**	9,699
Non-current			
Deferred consideration for sale of Paywise	22	**1,000**	1,000

Recognition and measurement

All receivables are derived from the normal course of business. No maturity dates are specified as they are normally settled within twelve months. There are no long term outstanding receivables as at the reporting date.

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less an allowance for impairment. Trade receivables are due from Australian financial institutions and management believe no risk exists to its collectability.

Fee and commission receivable

Upfront and trail commission have settlement terms of 30 days. This is initially recognised at the fair value of the consideration receivable.

Deferred consideration for sale of Paywise

Under the terms of the sale of Paywise to Howjack Holdings Pty Ltd in April 2019, deferred consideration of two $1m instalments were payable in April 2020 and April 2021. Due to cashflow impacts resulting from COVID-19, the acquirer Howjack Holdings Pty Ltd requested the $1m instalment payable in April 2020 be delayed into quarterly $250,000 instalments. This deferred arrangement was granted on the condition no repayments would be made to secured lenders prior to all deferred consideration instalments are paid to the Group. The 1st instalment of $250,000 was received during the year.

Management believe the deferred consideration remains fully collectable at 30 June 2020.

Sundry receivable

This relates to amounts received within the SPV's on the last day of the reporting period.

6. Loans and advances

	Note	**FY20 $'000**	FY19 $'000
Gross loans and advances			
Loans and advances		**12,518,394**	10,337,020
Capitalised incentive costs		**41,624**	35,263
Capitalised mortgage insurance costs		**94**	214
Deferred mortgage fee		**(17,400)**	(14,137)
Loans from related parties		**(2)**	(2)
		12,542,710	10,358,358
Less: allowance for impairment		**(36,698)**	(16,445)
	22	**12,506,012**	10,341,913
Current		**2,884,823**	2,382,422
Non-current		**9,657,887**	7,975,936
		12,542,710	10,358,358
Impairment allowances			
Collective allowance		**30,641**	10,869
Specific allowance		**6,057**	5,576
		36,698	16,445
Movement in impairment allowances			
Balance at 1 July		**16,445**	6,594
Adoption of AASB 9		**-**	7,422
Acquisition of IA Group		**495**	-
Provided for during the year			
- Specific		**1,891**	2,511
- Collective		**20,121**	455
Written off		**(2,254)**	(537)
Balance at 30 June		**36,698**	16,445

6. Loans and advances (continuation)

Recognition and measurement

All loans and advances are initially recognised at fair value plus directly attributable transaction costs, and subsequently measured at amortised cost using the effective interest method.

Amortised cost is calculated by taking into account any fees paid or received between parties to the contract that are an integral part of the effective interest rate, transactions costs, and all other premiums or discounts on acquisition, over the period to maturity.

Gains and losses are recognised in the statement of comprehensive income when the loans and advances are derecognised or impaired, as well as through the amortisation process.

Loans past due but not impaired

Payment terms of these loans have not been renegotiated, however no further advances are provided until payment is made. The Group is in direct contact with relevant borrowers to enter into payment arrangements which will bring the account fully up to date within an acceptable period.

For Prime Insured loans expected recoverable amounts are adjusted to reflect lower than 100% Lenders Mortgage Insurance (LMI) recovery where applicable e.g. due to costs associated with maintaining the security value within the terms of the LMI agreement (i.e. other than fair wear and tear). They are also reduced by the amount of higher rate (penalty) interest and fees related to loans in arrears which are not covered by LMI.

Loans with payments outstanding less than one month are generally rectified by the borrower within a short period of time, i.e. within the same month. Loans in this category are less likely to be representative of loans with underlying repayment problems.

Impairment and provisioning

AASB 9 requires an Expected Credit Loss model (ECL) at each reporting date to reflect changes in credit risk since initial recognition of the trade receivables. Impairment policy of loans and advances is included in Note 22.

6. Loans and advances (continuation)

COVID-19

The long-term impact to the mortgage portfolio of the COVID-19 pandemic remains difficult to forecast. The timeframe for the economy to return to pre pandemic levels is unknown, driving a sustained period of higher unemployment and lower GDP, which may impact property prices.

The Group discloses expected future credit losses using an expected credit loss (ECL) model, in line with AASB 9 requirements. The ECL model includes a base case macroeconomic forecast assuming the following:

- A contraction in Australian GDP of 5-6% in 2020, with GDP growth of 4-5% in 2021, in line with April and June IMF forecasts
- A decline of 10% in property prices in FY21, stabilising in FY22 and beyond
- Unemployment rate to stabilise at c10-11% by Dec 2020.

Whilst the ECL model forecasts expected credit loss incorporating macroeconomic forecasts and portfolio performance over the previous 48 months, the ECL model does not include expected delinquencies from customers on COVID-19 hardship payment moratoriums. Regulatory guidance for lenders outlines customers under COVID-19 payment moratoriums were not considered in arrears during the moratorium. Due to payment moratoriums being applied to a wide range of customers and it was not linked specifically to credit assessments, these moratoriums are not indicators of a significant increase in credit risk in isolation. Consequently, the Group had to apply overlays separately for the purposes of determining whether a significant increase in credit risk has happened.

The Group believe it prudent to raise a COVID-19 overlay given the ECL model does not fully capture credit risk of loans currently in hardship payment moratoriums related to the pandemic. The overlay at 30 June 2020 is $16.4m and is included as part of the Collective Provision in FY20. The COVID-19 provision overlay is based on the following portfolio analysis:

- Segment the portfolio by Australia and NZ
- Segment the portfolios by Prime and Specialist
- Segment the Prime book by LMI and Non LMI loans
- Segment Prime and Specialist portfolios by Dynamic LVR

The COVID-19 overlay was derived by analysing the hardship portfolio with three sequential steps:

1. Exclude mortgage insured (LMI) prime loans

   Prime loans originated at LVR 80% and above, are fully mortgage insured against default by the borrower. Mortgage insured loans who have applied for COVID-19 hardship payment moratoriums were excluded from overlay calculations as the credit risk to the Group is minimal.

2. Stressing underlying security values by 10-20%

   Given the uncertainty of the impact of the pandemic on future property prices, the Group believe it is appropriate to incorporate potential future decline in property prices. Security stress bands were determined with the assistance of the Corelogic Hedonic Tiered Home Value Index (HVI). The HVI provides 12 month rolling average of historical price movements in Australian housing based on the 25%, 50%, and 75% quartile. The HVI indicates the 75% quartile (top 25% of house values) historically realise the largest swings in property values during periods of property value growth or decline. The bands used for stressing underlying security values are outlined in Note 23.

3. Assume 33% of customers in hardship default

   For the purposes of the COVID-19 overlay, under a stressed property price scenario, the Group has assumed 33% of customers under a hardship payment moratorium at 30 June 2020 will default at some time in the future.

The disclosure of COVID-19 overlay details are included in Note 23.

6. Loans and advances (continuation)

Security properties repossessed

As at 30 June 2020, the Group had exercised their right to liquidate 41 residential properties (FY19: 46) being the security for securitised loans. The Group intends to sell these properties with the proceeds to go towards clearing the outstanding balance of the underlying loans. It is expected that the outstanding balance will be recovered in full (unless a Stage 3 specific provision has been raised against the specific loan).

7. Other financial assets

	Note	**FY20** **$'000**	FY19 $'000
Listed shares – BNK Banking Corporation Limited (ASX: BBC)	22	**1,921**	2,860
Unlisted shares – Athena	22	**2,000**	2,000
Unlisted shares – Positive Group	22	**3,000**	-
Short-term investment	22	**260**	260
		7,181	5,120
Current		**260**	260
Non-current		**6,921**	4,860
		7,181	5,120

Listed shares

BNK represents an investment the Group intends to hold for long term strategic purposes. As permitted by AASB 9, the Group designated this investment at the date of initial application as measured at fair value through other comprehensive income. The accumulated fair value reserve related to this investment will not be reclassified to profit or loss. Dividends from this investment continue to be recognised in profit or loss as other income when the Group's right to receive payment is established. At 30 June 2020, the Group held 4,468,902 shares in BNK at a share price of $0.43.

Unlisted shares

Investments that are not traded in an active market, however classified as fair value through profit or loss (FVTPL) and disclosed at fair value at the end of each reporting period.

The fair value testing conducted on the unlisted shares, included assessing the impact of COVID-19 on the current business models, and potential future impacts. The fair value assessments included comparisons against forecasted operating performance at time of investment.

Short-term investment

Term deposit with fixed or determinable payments and fixed maturity date which the Group has the intent and ability to hold to maturity.

8. Non-current assets – right-of-use assets

	FY20	FY19
	$'000	$'000
Balance at the beginning of the period	**-**	-
Additions[1]	**14,015**	-
Acquisition of IA Group	**191**	
Depreciation	**(1,920)**	-
Foreign exchange	**(7)**	
Balance at 30 June 2020	**12,279**	-
Right-of-use assets at cost	**14,256**	-
Less: accumulated depreciation	**(1,977)**	-
Total right-of-use assets	**12,279**	-

1. Includes the right-of-use assets on transition to AASB 16 *Leases* as at 1 July 2019 and the additions during the year.

Right -of-use assets

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Group expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

The right-of-use assets are presented as a separate line in the consolidated statement of financial position.

The Group applies AASB 136 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss as described in Note 9.

9. Plant and equipment

	FY20 $'000	FY19 $'000
Carrying amounts of:		
Plant and equipment	**2,192**	2,110
	2,192	2,110

	Plant and equipment at cost $'000	**Total $'000**
Balance at 1 July 2019	**2,110**	**2,110**
Additions	**211**	**211**
Acquisition of IA Group	**494**	**494**
Depreciation expense	**(622)**	**(622)**
Foreign exchange	**(1)**	**(1)**
Balance at 30 June 2020	**2,192**	**2,192**
Balance at 1 July 2018	2,625	2,625
Additions	588	588
Disposals and write-offs	(56)	(56)
Disposal of Paywise	(164)	(164)
Depreciation expense	(884)	(884)
Foreign exchange	1	1
Balance at 30 June 2019	2,110	2,110

Recognition and measurement

Plant and equipment stated at cost less accumulated depreciation and impairment losses.

Depreciation and amortisation

Depreciation is recognised to write off the cost or valuation of assets less their residual values over their useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

The following useful lives are used in the calculation of depreciation:

	Years
Leasehold improvement and office furniture	**5**
Office machines and computer equipment	**3-5**

9. Plant and equipment (continuation)

Derecognition

An item of plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of plant and equipment is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in profit or loss.

Impairment

At each reporting date, the Group reviews the carrying amounts of plant and equipment to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated to determine the extent of the impairment loss (if any).

10. Other assets

	FY20 $'000	FY19 $'000
Reinsurance claim receivable	**3,339**	2,907
Other	**288**	238
	3,627	3,145
Current	**288**	238
Non-current	**3,339**	2,907
	3,627	3,145

Recognition and measurement

Reinsurance claim receivable

Prime Insurance Group Ltd was purchased as part of the RHG Mortgage Corporation Limited (RHG) acquisition in 2014. Its sole purpose is to provide insurance service and re-insurance facilities for the RHG mortgage assets and process any shortfall claims received.

The reinsurance claim receivable is available to utilise against the reinsurance claim reserve amount in Note 16.

11. Goodwill and intangible assets

	FY20 $'000	FY19 $'000
Goodwill		
Balance at 1 July	**21,766**	21,766
Additional amounts recognised from business combinations occurring in the current year	**5,664**	-
Balance at 30 June	**27,430**	21,766
Other intangible assets		
Balance at 1 July	**1,691**	332
Additions	**68**	1,868
Disposals and write offs	**-**	(2)
Acquisition of IA Group	**114**	-
Disposal of Paywise	**-**	(132)
Amortisation for the year	**(410)**	(375)
Balance at 30 June	**1,463**	1,691
Total goodwill and other intangible assets	**28,893**	23,457

11.1 Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business (less accumulated impairment losses, if any).

Impairment testing

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (CGU's or groups of CGU's) that is expected to benefit from the synergies of the combination.

A CGU to which goodwill has been allocated is tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the CGU is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss. An impairment loss recognised for goodwill is not reversed in subsequent periods.

Recoverable amount of the asset

The recoverable amount is equal to the greater of:

- fair value less costs to sell; and
- value in use ('VIU').

It is not always necessary to determine both the fair value less cost to sell and its VIU. If either of these amounts exceed the carrying amount of the CGU, there is no impairment of the goodwill and it is not necessary to estimate the other amount.

As a result, the VIU methodology is considered to be most appropriate as there is no readily available market outside specific business sales of an equivalent sized business to the Australian Lending business segment.

The VIU calculation requires management to estimate future cash flows expected to arrive from the CGU and a suitable discount rate in order to calculate present value. For IA Group, management have determined that the fair value less cost to sell (FV) is considered most appropriate, as the controlling interest was purchased at arms-length in the current financial year.

11. Goodwill and intangible assets (continuation)

Indicators of impairment

The minimum indicators of impairment have been considered by management. These include both internal and external sources of information such as:

- significant changes (historical and future) in the market, economic, legal or technological environment which would have an adverse impact on the Group;
- interest rate changes which impact the discount rate used in modelling;
- evidence of a worsening financial position;
- plans to discontinue operations; and
- economic conditions as a result of COVID-19

Management have assessed that there are no such indicators which would impair the goodwill balance as at 30 June 2020.

Inputs to impairment calculations

Cash flow projections

For VIU calculations, cash flow projections are based on corporate plans and business forecasts prepared by management and approved by the Board. Cash flow projections are for four years and a terminal growth rate beyond this has been applied.

Impairment assessment

In assessing VIU, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the CGU.

Goodwill arising from the business combination in the prior period of $21.7m has been allocated for impairment testing purposes to the Australian Lending Business segment. This segment is considered to be the CGU that is expected to benefit from the synergies of the business combination. The IA Group goodwill of $5.7m is considered a separate CGU, and the associated goodwill has been tested for impairment accordingly.

Furthermore, each unit or group of units to which the goodwill is allocated shall:

- represent the lowest level at which the goodwill is monitored for internal management purposes; and
- not exceed the operating segments.

The allocation of goodwill to these CGU's is considered appropriate.

Key judgements and assumptions

The key assumptions used for assessing the recoverable amount of the Australian Lending Business CGU are set out below:

	FY20	FY19
Growth rate for 4 year forecast period (p.a)	**5.3%**	10.0%
Discount rate (post-tax)	**11.0%**	11.0%
Terminal growth rate	**2.0%**	2.0%

The post-tax discount rate of 11% has been determined by estimating the cost of equity that applies to the Australian lending segment, and the terminal growth rate of 2% reflects management's assumption of growth in profit before tax after four years.

11. Goodwill and intangible assets (continuation)

Management conducted the following when testing the impairment of goodwill:

- considered the macroeconomic impact of COVID-19, and considered outcomes where future cash flows are reduced or operating costs increase;
- the assumptions and cash flow forecasts used to test for impairment include the potential impact of COVID-19;
- budgets, forecasts and other assumptions from previous impairment testing have been revised to reflect the economic conditions at the balance date, especially to address increased risk and uncertainty.

In assessing the VIU for goodwill impairment assessment, the potential impact of COVID-19 on cash flows and profit growth have been considered under different scenarios:

1) Base case: Current management view of macroeconomic environment

2) Stress scenario: Assumes severe macroeconomic downturn, resulting in a sustained downturn in Resimac profitability of -5% CAGR over next 4 years. The stress scenario indicated sufficient headroom remains for goodwill impairment purposes.

The volatility in the current financial markets due to COVID-19 introduces challenges as discount rates become more unpredictable. Discount rates ranging from 10-20% were applied on the base case and stress scenarios. Management note on the stress scenario and applied a discount rate of 20%, the recoverable amount of the CGU exceeded the recorded carrying value for the Australian Lending Business segment.

For IA Group, using the Calibration methodology within the FV concept, management believe there are no indicators of impairment mainly due to the following:

- IA Group have outperformed initial NPAT expectations; and
- robust portfolio management and cost controls are embedded to protect the business in the current COVID-19 macroeconomic environment.

Therefore, management believe potential impacts of COVID-19 have been adequately considered for goodwill impairment testing purposes at 30 June 2020.

Impairment charge

Based upon the impairment testing performed, there is no impairment charge for FY20 (FY19: nil).

11.2 Other intangible assets

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over their estimated useful lives.

The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

	Useful life
Intellectual property	**7 years**
Software	**3-5 years**
IA brand name	**2 years**

12. Trade and other payables

	Note	**FY20 $'000**	FY19 $'000
Revenue collected in advance		**326**	462
Collections owed to trusts		**7,900**	8,043
Other creditors and accruals		**13,371**	11,769
Commissions		**4,294**	5,020
	22	**25,891**	25,294
Current		**25,891**	25,294

Recognition and measurement

Trade creditors and other payables, are generally settled within 30 day terms and are unsecured. Trade creditors and other payables are carried at amortised cost and represent liabilities for goods and services provided to the Group prior to the end of the financial year, are unpaid, and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services.

Collections owed to trusts

Relates to loan repayments received from borrowers that reside in clearing accounts not yet allocated to a trust at balance date.

Other creditors and accruals

Other creditors and accruals are unsecured payables relating to expenses arising in the ordinary course of business. They are usually paid within 30 days of recognition.

13. Interest-bearing liabilities

	Note	**FY20 $'000**	FY19 $'000
Debt securities on issue		**12,421,861**	10,232,170
Corporate debt facility		**5,000**	30,000
Issuance facilities		**258,755**	186,051
Debt securities on issue - related parties		**-**	2,400
	22	**12,685,616**	10,450,621
Current		**2,917,692**	2,403,643
Non-current		**9,767,924**	8,046,978
		12,685,616	10,450,621

Recognition and measurement

All borrowings are initially recognised at fair value of the consideration received less direct transaction costs, and subsequently measured at amortised cost using the effective interest method.

Amortised cost is calculated by taking into account any fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts on acquisition, over the period to maturity.

Gains or losses are recognised in the statement of profit or loss when the liabilities are derecognised and also through the amortisation process.

For further detail on the amortised cost basis of accounting see Note 1 and 2. Details of the Group's interest-bearing liabilities are set out in Note 22.

13.1 Debt securities on issue

Warehouse facilities

The warehouse facilities provide funding for the initial financing of loans and advances to customers within the warehouse Special Purpose Vehicles (SPV). Refer to Note 24 for the consolidation of the SPVs. The security for advances under these facilities is a combination of fixed and floating charges over all assets of the warehouse SPVs. If the warehouse facility is not renewed or should there be a default under the existing terms and conditions, the warehouse facility funder will not have a right of recourse against the remainder of the Group. Warehouse facilities are secured against the underlying mortgages only.

During the financial year there were no breaches to the warehouse agreements. All warehouse facilities were renewed, at equal or higher limits, on or before their maturity date.

Bonds

RMBS provide duration funding for loans and advances (securitised assets) originated by the Group. The RMBS notes generally have a legal final maturity of 31.5 years from issue, and a weighted average life of up to 6 years.

The RMBS SPV security is a combination of fixed and floating charges over all assets of the RMBS SPV. Credit losses arising from securitised assets will not result in the bondholders having a right of recourse against the Group (as Originator, Manager or Servicer).

During the year ended 30 June 2020, AUD $3.47 billion of new Residential Mortgage Backed Securities (RMBS) and Medium Term Notes (MTNS) were issued (FY19: AUD $3.35 billion and NZD $250 million). These RMBS issuance paid down warehouse facilities creating capacity to underwrite new mortgages. During the financial year, there were no breaches to the terms of the RMBS.

13. Interest-bearing liabilities (continuation)

Collateral

Certain RMBS and warehouse SPV's are supported by cash collateral reserves.

13.2 Corporate debt facility

As at 30 June 2020, the Company had a $30 million corporate facility with National Australia Bank maturing in September 2021. The Group had an undrawn balance of $25 million at 30 June 2020 (FY19: $10 million). In accordance with the terms of the Group's corporate debt facilities, the Group is required to comply with certain covenants. During the period and as at 30 June 2020, the Group was compliant with these covenants.

The corporate debt facility is secured by a first-ranking charge over the trust assets of the Group. See Note 23.7 for further detail.

13.3 Issuance facilities

The Group maintains a series of subsidiary SPV's for the purpose of raising financing for its RMBS-related credit risk retention ("CRR") obligations. CRR is a mandatory requirement for the Group's RMBS issuance activities in the U.S., European, Japanese and U.K. jurisdictions where, in general, the Group is required to hold an economic interest of at least 5% in value of an RMBS issuance. The subsidiary SPV's hold a 5% vertical strip of bonds of an individual RMBS issuance and raises secured financing from banks and credit investors.

13.4 Debt securities on issue - related parties

In line with its ordinary course of business, the Group issues debt securities to related party investors. A performance guarantee in respect to timely payment of interest and principal on these debt securities is provided. Subordinated notes in one controlled entity (SPV), which were held by a related party is nil as at 30 June 2020 (FY19: $2,400,000).

14. Lease liabilities

Lease liabilities included in the Statement of Financial Position	**FY20 $'000**	FY19 $'000
Balance as at 1 July 2019	**-**	-
Addition[1]	**14,803**	
Acquisition of IA Group	**497**	
Interest incurred	**618**	-
Payment of lease liabilities	**(2,289)**	-
Foreign exchange	**(7)**	
Balance as at 30 June 2020	**13,622**	-

1. Includes the lease liabilities on transition to AASB 16 *Leases* as at 1 July 2019 and the additions during the year.

Current	**1,566**	-
Non-current	**12,056**	
	13,622	-
Amounts recognised in Statement of Comprehensive Income		
Depreciation charge of right-of-use assets	**1,920**	-
Interest expense on lease liabilities	**618**	-
Amounts recognised in Statement of Cash Flows		
Total cash outflows for leases	**(2,289)**	-
Maturity analysis – contractual undiscounted cashflows		
Less than one year	**2,224**	-
One to five years	**10,322**	-
More than five years	**3,688**	-
Total undiscounted lease liabilities as at 30 June 2020	**16,234**	-

14.1 Leases

The Group has applied AASB 16 using the cumulative catch-up approach and therefore comparative information has not been restated and is presented under AASB 117. The details of accounting policies under both AASB 117 and AASB 16 are presented separately below.

Policies applicable from 1 July 2019

The Group assesses whether a contract is or contains a lease, at inception of the contract. The Group recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets. For these leases, the Group recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If the rate cannot be readily determined, the lessee uses its incremental borrowing rate.

14. Lease liabilities (continuation)

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

- Fixed lease payments (including in-substance fixed payments), less any lease incentives receivable;
- Variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date
- The amount expected to be payable by the lessee under residual value guarantees;
- The exercise price of purchase options, if the lessee is reasonably certain to exercise the options; and
- Payments to penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease

The lease liability is presented as a separate line in the consolidated statement of financial position.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The Group remeasures the lease liability and makes a corresponding adjustment to the related right-of-use asset whenever:

- The lease term has changed or there is a significant event or change in circumstances resulting in a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.
- The lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using an unchanged discount rate
- A lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The Group did not make any such adjustments during the year presented.

Variable rents that do not depend on an index or rate are not included in the measurement of the lease liability and the right-of-use asset. The related payments are recognised as an expense in the period in which the event or condition that triggers those payments occurs and are included in “Other expenses” in profit or loss (see note 2).

The Group has applied judgement to determine the lease term for some lease contracts in which it is a lessee that include renewal options. The assessment of whether the Group is reasonably certain to exercise such options impacts the lease term, which significantly affects the amount of lease liabilities and right-of-use assets recognised.

Policies applicable prior to 1 July 2019

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating lease.

Payments made under operating leases are recognised in the profit or loss on a straight line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

15. Other financial liabilities

	Note	**FY20 $'000**	FY19 $'000
Present value of future trail commission payable		**20,797**	22,901
	22	**20,797**	22,901
Current		**5,750**	7,032
Non-current		**15,047**	15,869
		20,797	22,901

Recognition and measurement

The Group makes trail commission payments to mortgage originators based on monthly loan balances outstanding.

Initial Recognition

Fair value of future trail commission payable is recognised on the origination of white label loans. This represents the NPV of the expected future trail commission payable under the origination and management agreement, less ongoing servicing costs not covered by transaction fees.

Subsequent payment

Subsequent to initial recognition, the future trail commission payable is measured at amortised cost.

The carrying amounts of the trail commissions payable are adjusted to reflect actual and revised estimated cash flows by recalculating the carrying amount through computing the present value of estimated future cash flows at the effective interest rates. The resulting adjustment is recognised as income or expense in the statement of comprehensive income.

A remeasurement of the underlying cash flows relating to the trail commission payable occurs at each reporting date.

Key Estimates and Assumptions

Refer to Note 1 for the key estimates and judgements underlying the remeasurement of the estimated future cash flows.

16. Other liabilities

	FY20 $'000	FY19 $'000
Reinsurance claim reserve	**3,339**	2,907
	3,339	2,907
Non-current	**3,339**	2,907

The reinsurance claim reserve offsets with the reinsurance claim receivable amount in Note 10.

17. Provisions

	FY20 $'000	FY19 $'000
Employee benefits	**4,116**	3,571
Make good	**514**	414
Other	**-**	65
	4,630	4,050
Current	**3,902**	3,305
Non-current	**728**	745
	4,630	4,050

	Employee benefits $'000	Make good $'000	Other $'000	Total $'000
Balance at 1 July 2019	**3,571**	**414**	**65**	**4,050**
Additional provisions recognised	**1,859**	**100**	**-**	**1,959**
Reductions resulting from remeasurement or settlement without cost	**(1,389)**	**-**	**(65)**	**(1,454)**
Acquisition of IA Group	**75**	**-**	**-**	**75**
Balance at 30 June 2020	**4,116**	**514**	**-**	**4,630**

Recognition and measurement

Provisions are recognised when:

- the Group has a present obligation (legal or constructive) as a result of a past event;
- it is probable that the Group will be required to settle the obligation; and
- a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material).

17. Provisions (continuation)

17.1 Employee benefits

A liability is recognised for benefits accruing to employees in respect of:

- wages and salaries;
- annual leave;
- long service leave; and
- on-costs relating to the above

where the liability can be measured reliably and payment is probable.

Liabilities recognised in respect of employee benefits expected to be settled within 12 months, are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

Liabilities recognised in respect of employee benefits which are not expected to settle within 12 months are measured at the present value of the estimated future cash outflows to be made by the Group in respect of services provided by employees up to the reporting date.

The liability for long service leave is recognised in the provision for employee benefits. It is measured as the present value of expected future payments for the services provided by employees up to the reporting date.

Expected future payments are discounted using market yields at the reporting date on high quality corporate bonds with terms to maturity that match, as closely as possible, the estimated future cash outflows.

17.2 Make good

Where a condition of the Group's lease premises is to return the property in its original condition at the end of a lease term. The Group recognises a provision for the make good as the expected cost of the refurbishment at the end of the lease.

18. Capital management

The Group's capital management objectives

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance.

The Group operates a warehouse to securitisation funding model for its lending business and as such makes decisions on the amount of capital invested in the notes or warehouses based on alternate sources of funding and the expected return on amounts invested and with regard to the company's cost of capital.

The capital structure of the Group consists of net debt (borrowings as detailed in Note 13 offset by cash and bank balances) and equity of the Group (comprising issued capital, reserves, retained earnings and non-controlling interests as detailed in Note 20).

The Group is not subject to any externally imposed capital requirements.

The Board is responsible for monitoring and approving the capital management framework within which management operates. The purpose of the framework is to prudently manage capital whilst optimising the debt and equity structure.

Equity	Note	**FY20 $'000**	FY19 $'000
Issued capital	20	**120,354**	119,007
Reserves	20	**(7,556)**	(7,197)
Retained earnings	20	**128,694**	84,314
		241,492	196,124

The Group manages its capital through various means, including:

- adjusting the amount of ordinary dividends paid to shareholders;
- maintaining a dividend reinvestment plan;
- raising or repaying capital; and
- reinvesting profits.

19. Dividends

	FY20	FY19
	$'000	$'000
Declared and paid during the period (fully-franked at 30 percent)		
Final dividend for FY19: $0.010 (FY18: $0.009)	**4,058**	3,594
Special dividend for FY19: $0.005 (FY18: Nil)	**2,029**	-
Interim dividend for HY20: $0.012 (Interim FY19: $0.01)	**4,879**	4,001
	10,966	7,595
Proposed and unrecognised as a liability (fully-franked at 30 percent)		
Final dividend for FY20: $0.018 (FY19: $0.01)	**7,334**	4,058
Special dividend for FY20: Nil (FY19: $0.005)	**-**	2,029
	7,334	6,087
Franking credit balance		
Franking credits available for future years at 30% adjusted for the payment of income tax and dividends receivable or payable	**19,170**	17,312
Impact on the franking account of dividends proposed before the financial report was issued but not recognised as a distribution to equity holders during the period.	**(3,143)**	(2,609)

20. Issued capital and reserves

	FY20 $'000	FY19 $'000
Share capital	**181,895**	180,548
Reverse acquisition reserve [1]	**(61,541)**	(61,541)
	120,354	119,007

1. As a result of reverse acquisition accounting, an equity account was created as a component of equity. This account called 'Reverse acquisition reserve' is similar in nature to share capital. The Reverse acquisition reserve is not available for distribution.

Issued capital as at 30 June 2020 was $181,895,006 (407,449,337 ordinary shares).

During the period, the Company issued 1,059,184 shares for $1,017,019 in respect of the Resimac Dividend Reinvestment Plan (DRP), and 600,000 shares for $510,000 to satisfy exercise of employee share options.

20.1 Fully paid ordinary shares

	No. of shares – Thousands	**$'000**
Balance at 1 July 2018	399,348	177,340
Issue of shares under a dividend reinvestment plan	6,442	3,208
Balance at 30 June 2019 and 1 July 2019	405,790	180,548
Issue of shares under the DRP:		
• FY19 Dividend on 30 September 2019	**789**	**693**
• HY20 Dividend on 27 March 2020	**270**	**324**
Exercise of options – proceeds received	**600**	**330**
Balance at 30 June 2020	**407,449**	**181,895**

Fully paid ordinary shares, which have no par value, carry one vote per share and carry a right to dividends.

Treasury shares

Treasury shares held in Resimac Group Ltd by Resimac EST Pty Ltd as Trustee for the Resimac Group Limited Employee Share Trust, are for the benefit of eligible employees of the Resimac Group Employee Share Option and Rights Plan. Shares issued to employees are recognised on a first-in-first-out basis.

	No. of shares – Thousands	**$'000**
Balance at 30 June 2019 and 1 July 2019	**-**	**-**
Subscription of shares by the Trust (average price: $0.85 per share)	**600**	**510**
Allocation of shares under LTI#1	**(600)**	**(510)**
Balance at 30 June 2020	**-**	**-**

20. Issued capital and reserves (continuation)

20.2 Reserves (net of income tax) and retained earnings

		Reserves					
	Retained earnings	Cash flow hedge reserve	Foreign currency translation reserve	Fair value reserve	Share-based payment reserve	Other reserve	Non-controlling interest
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Balance at 1 July 2018	49,937	(3,041)	(13)	-	43	-	-
Adoption of AASB 9, net of income tax	(5,213)	-	-	-	-	-	-
Adjusted balance as at 1 July 2018	44,724	(3,041)	(13)	-	43	-	-
Profit after tax	47,185	-	-	-	-	-	-
Changes in fair value of cash flow hedges, net of tax	-	(2,835)	-	-	-	-	-
Currency translation differences	-	-	669	-	-	-	-
Fair value movement on investment through OCI, net of tax	-	-	-	(2,065)	-	-	-
Equity dividends	(7,595)	-	-	-	-	-	-
Share-based payments	-	-	-	-	45	-	-
Balance at 30 June 2019	84,314	(5,876)	656	(2,065)	88	-	-
Balance at 1 July 2019	**84,314**	**(5,876)**	**656**	**(2,065)**	**88**	**-**	**-**
Adoption of AASB 16, net of income tax	**(339)**	**-**	**-**	**-**	**-**	**-**	**-**
Adjusted balance as at 1 July 2019	**83,975**	**(5,876)**	**656**	**(2,065)**	**88**	**-**	**-**
Profit after tax	**55,908**	**-**	**-**	**-**	**-**	**-**	**99**
Acquisition of non-controlling interest	**-**	**-**	**-**	**-**	**-**	**-**	**99**
Changes in fair value of cash flow hedges, net of tax	**-**	**365**	**-**	**-**	**-**	**-**	**-**
Currency translation differences	**-**	**-**	**(504)**	**-**	**-**	**-**	**(4)**
Fair value movement on investment through OCI, net of tax	**-**	**-**	**-**	**(657)**	**-**	**-**	**-**
Equity dividends	**(10,966)**	**-**	**-**	**-**	**-**	**-**	**-**
Share-based payments	**-**	**-**	**-**	**-**	**402**	**-**	**-**
Option to acquire shares of subsidiary	**-**	**-**	**-**	**-**	**-**	**(188)**	**-**
Reallocation	**(223)**	**-**	**-**	**223**	**-**	**-**	**-**
Balance at 30 June 2020	**128,694**	**(5,511)**	**152**	**(2,499)**	**490**	**(188)**	**194**

20. Issued capital and reserves (continuation)

20.3 Nature and purpose of reserves

Cash flow hedge reserve

The cash flow hedging reserve represents the cumulative effective portion of gains or losses arising on changes in fair value of hedging instruments entered into for cash flow hedges. The cumulative gain or loss arising on changes in fair value of the hedging instruments will be reclassified to profit or loss only when the hedged transaction affects the profit or loss, or included as a basis adjustment to the non-financial hedged item, consistent with the Group's accounting policy.

Foreign currency translation reserve

Exchange differences relating to the translation of the results and net assets of the Group's New Zealand operations from its functional currency to the Group's presentation currency are recognised directly in other comprehensive income and accumulated in the foreign currency translation reserve.

Share-based payment reserve

The share-based payments reserve is used to recognise the value of equity-settled share-based payments provided to employees, including KMP, as part of their remuneration. Refer to Note 31 for further details of these plans.

20.4 Retained earnings

See Note 19 in respect of payment of dividends.

21. Earnings per share

	FY20	FY19
Profit attributable to ordinary equity holders of the parent ($'000)	**55,908**	47,185
WANOS [1] used in the calculation of basic EPS (shares, thousands)	**406,536**	401,433
Dilutive effect of shares options	**1,100**	241
WANOS [1] used in the calculation of diluted EPS (shares, thousands)	**407,636**	401,674
Earnings per share		
Basic (cents per share)	**13.75**	11.75
Diluted (cents per share)	**13.72**	11.75

1. Weighted average number of shares

21. Earnings per share (continuation)

Calculation of earnings per share

21.1 Basic earnings per share

Basic earnings per share is calculated as net profit attributable to the ordinary equity holders of the parent, adjusted to exclude any costs of servicing equity (other than dividends), divided by the WANOS adjusted for any bonus element.

21.2 Diluted earnings per share

Diluted earnings per share is calculated by:

- dividing the net profit attributable to ordinary equity holders of the parent; by the
- WANOS outstanding during the year; plus
- the WANOS that would be issued on the conversion of all the dilutive potential ordinary options or rights into ordinary shares.

21.3 Calculation of WANOS

Twelve months to 30 June 2020

The number of Resimac Group shares issued:

- **From 1 July 2019 to 29 September 2019 (100,893,180)**
  The number of Resimac ordinary shares on issue of 405,790,153 multiplied by the ratio of days outstanding (91/366); plus

- **From 30 September 2019 to 26 March 2020 (198,845,864)**
  - The number of Resimac shares on issue (405,790,153) at 29 September 2019; plus
  - Additional shares issued on 30 September 2019 under the DRP (788,540)

  multiplied by the ratio of days outstanding (179/366).

- **From 27 March 2020 to 11 May 2020 (51,134,070)**
  - The number of Resimac shares on issue (406,578,693) at 26 March 2020; plus
  - Additional shares issued on 27 March 2020 under the DRP (270,644)

  multiplied by the ratio of days outstanding (46/366).

- **From 12 May 2020 to 30 June 2020 (55,662,478)**
  - The number of Resimac shares on issue (406,849,337) at 11 May 2020; plus
  - Additional shares issued on 27 March 2020 under the LTI (600,000)

  multiplied by the ratio of days outstanding (50/366).

21. Earnings per share (continuation)

Twelve months to 30 June 2019

The number of Resimac Group shares issued:

- **From 1 July 2018 to 11 October 2018 (112,692,648)**
  The number of Resimac ordinary shares on issue of 399,347,732 multiplied by the ratio of days outstanding (103/365); plus

- **From 12 October 2018 to 24 March 2019 (179,788,553)**
  - The number of Resimac shares on issue (399,347,732) at 11 October 2018; plus
  - Shares issued on 12 October 2018 under the DRP (791,425)

  multiplied by the ratio of days outstanding (164/365).

- **From 25 March 2019 to 30 June 2019 (108,951,877)**
  - The number of Resimac shares on issue (400,139,157) at 24 March 2019; plus
  - Additional shares issued on 25 March 2019 under the DRP (5,650,996)

  multiplied by the ratio of days outstanding (98/365).

22. Financial assets and financial liabilities

The Group holds the following financial instruments:

Financial assets	**Basis of measurement**	Note	**FY20 $'000**	FY19 $'000
Cash and cash equivalents	Amortised cost	4	**365,987**	224,790
Trade and other receivables	Amortised cost	5	**5,974**	10,699
Loans and advances	Amortised cost	6	**12,506,012**	10,341,913
Short-term investment	Amortised cost	7	**260**	260
Investment securities – BNK	FVOCI-equity instrument	7	**1,921**	2,860
Investment securities – Athena	FVTPL	7	**2,000**	2,000
Investment securities – Positive Group	FVTPL	7	**3,000**	
Derivative financial assets	FVTPL	23	**52,592**	56,575
			12,937,746	10,639,097
Financial liabilities				
Trade and other payables	Amortised cost	12	**25,891**	25,294
Interest-bearing liabilities	Amortised cost	13	**12,685,616**	10,450,621
Present value of trail commission payable	Amortised cost	15	**20,797**	22,901
Derivative financial liabilities	FVTPL	23	**3,277**	1,565
			12,735,581	10,500,381

22.1 Fair values measurements and valuation processes

22.1.1 Fair value hierarchy

The different levels have been defined as follows:

- **Level 1**: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- **Level 2**: inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- **Level 3**: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

22. Financial assets and liabilities (continuation)

The following assets and liabilities are measured at fair value by the Group for financial reporting purposes:

	Fair value hierarchy	Valuation technique(s) and key inputs (s)	FY20	FY19
Financial assets				
Listed shares – BNK Banking Corporation Limited (ASX: BBC)	Level 1	Most recent traded price and other available market information	**1,921**	2,860
Unlisted shares - Athena	Level 3	Recent acquisition value, recent transactions and other available information	**2,000**	2,000
Unlisted shares – Positive Group	Level 3	Acquisition value within 12 months of year end and other available information	**3,000**	-
Interest rate swaps	Level 2	Discounted cash flow Forward interest rates, contract interest rates	**3,330**	2,775
Cross currency swaps	Level 2	Discounted cash flow Forward interest rates, contract interest rates	**49,262**	53,800
Financial liabilities				
Interest rate swaps	Level 2	Discounted cash flow Forward interest rates, contract interest rates	**3,277**	1,565

In the year to 30 June 2020 there has been no change in the fair value hierarchy or the valuation techniques applied to any of the balances above.

For further information on the use of derivatives refer to Note 23 Financial risk management.

22.1.2 Fair value of financial assets and liabilities that are not measured at fair value (but fair value disclosures are required)

With the exception of the future trail commission payable that is initially recognised at fair value and subsequently carried at amortised cost, management consider that the carrying amounts of financial assets and liabilities recognised in the consolidated financial statements approximate their fair values.

22.2 Financial assets and liabilities

22.2.1 Recognition and initial measurement

Loans and advances and receivables (including trade and other receivables, bank balances and cash) are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market which are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when the Group becomes a party to the contractual provisions of the instrument.

A financial asset (unless it is a trade receivable without a significant financing component) or finance liability is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

22. Financial assets and liabilities (continuation)

22.2.2 Classification and subsequent measurement

22.2.2.1 Financial assets

On initial recognition, a financial asset is classified as measured at:

- amortised cost
- fair value through other comprehensive income (FVOCI) – debt instrument
- fair value through other comprehensive income (FVOCI) – equity instrument
- fair value through profit or loss (FVTPL)

Financial assets are not reclassified subsequent to their initial recognition unless the Group changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

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

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

A debt investment is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in the investment's fair value in OCI. This election is made on an investment-by-investment basis.

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured as FVTPL. This includes all derivative financial assets and investment securities. On initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or subsequently reduces an accounting mismatch that would otherwise arise.

22.2.2.2 Financial assets – Business model assessment

The Group determines the business model at the level that reflects how groups of financial assets are managed. In determining the business model, all relevant evidence that is available at date of assessment is used including:

- how the performance of the financial assets held within that business model are evaluated and reported to the Group's KMP
- the risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way in which those risks are managed; and
- how managers of the business are compensated (for example, whether compensation is based on the fair value of the assets managed or on the contractual cash flows collected).

Financial assets that are held for trading or are managed and whose performance is evaluated on a fair value basis are measured at FVTPL.

22. Financial assets and liabilities (continuation)

22.2.2.3 Financial assets – Assessment whether contractual cash flows are solely payments of principal and interest

For the purpose of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amounts of contractual cash flows such that it would not meet this condition. In making this assessment, the Group considers:

- contingent events that would change the amount or timing of cash flows;
- terms that may adjust the contractual coupon rate, including variable-rate features;
- prepayment and extension features; and
- terms that limit the Group's claim to cash flows from specified assets (e.g. non-recourse features).

A prepayment feature is consistent with the solely payments of principal and interest criterion if the prepayment amount substantially represent unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable additional compensation for early termination of the contract. Additionally, for a financial asset acquired at a discount or premium to its contractual par amount, a feature that permits or requires prepayment at an amount that substantially represents the contractual par amount plus accrued (but unpaid) contractual interest (which may also include reasonable additional compensation for early termination) is treated as consistent with this criterion if the fair value of the prepayment feature is insignificant at initial recognition.

22.2.2.4 Financial Assets – Subsequent measurement and gains and losses

Financial assets at FVTPL	These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss. However, see Note 23.3 for derivatives designated as hedging instruments.
Financial assets at amortised cost	These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment loss. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.
Debt investments at FVOCI	These assets are subsequently measured at fair value. Interest income is calculated using the effective interest method. Other net gains and losses are recognised in OCI. On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss.
Equity investments at FVOCI	These assets are subsequently measured at fair value. Dividends are recognised as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognised in OCI and are never reclassified to profit or loss.

22. Financial assets and liabilities (continuation)

22.2.2.5 Financial liabilities – Classification, subsequent measurement and gains and losses

Financial liabilities are classified as either financial liabilities at FVPTL or other financial liabilities.

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL where the liability is either held for trading or designated at fair value through profit or loss.

A financial liability is held for trading if:

- it has been incurred principally for the purpose of repurchasing it in the near term; or
- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and AASB 9 permits the entire combined contract to be designated as at FVTPL.

Financial liabilities at FVTPL are stated at fair value with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability and is included in the 'other gains and losses' line item.

Other financial liabilities

Other financial liabilities (including borrowings and trade and other payables) are subsequently measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

22. Financial assets and liabilities (continuation)

22.2.3 Derecognition

22.2.3.1 Financial assets

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantively all of the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

The Group enters into transactions whereby it transfers assets recognised in its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets. In these cases, the transferred assets are not derecognised.

22.2.3.2 Financial liabilities

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire. The Group also derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognised at fair value.

On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognised in profit or loss.

22.2.4 Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

22.2.5 Impairment of financial assets

The Group recognises loss allowances for expected credit loss (ECL) on:

- Financial assets measured at amortised cost
- Contract assets
- Lease receivable

The Group measures loss allowances for a financial instrument at an amount equal to the lifetime ECL for stage 2 or stage 3 assets if the credit risk on that financial instrument has increased significantly since recognition, or if the financial instrument is a purchased or originated credit-impaired financial asset. If the credit risk on a financial instrument has not increased significantly since initial recognition (except for a purchased or originated credit-impaired financial asset), the Group measures the loss allowance for that financial instrument at an amount equal to a 12 month ECL for stage 1 assets. The Group applies a simplified approach for measuring the loss allowance at an amount equal to lifetime ECL for trade receivables, contract assets and lease receivable in certain circumstances.

22. Financial assets and liabilities (continuation)

Significant increase in credit risk

An asset moves to stage 2 when its credit risk has increased significantly since initial recognition. When determining whether the credit risk of a financial asset has increased significantly since the initial recognition and when estimating ECLs, the Group considers reasonable and supportable information that is relevant and available without undue cost effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information. As part of the forward-looking assessment, the Group has considered factors including macro-economic forecast and outlook, GDP growth, unemployment rates and interest rates.

Credit-impaired financial assets

The movement between stage 2 and 3 will be based on whether financial assets are credit-impaired at the reporting date. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial assets have occurred. Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower; or

- breach of contract, such us a default or delinquency in interest or principal payments; or

- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or

- past experience of collecting payments; or

- an increase in the number of delayed payments in the portfolio past the average credit period; or

- observable changes in national or local economic conditions that correlate with default on receivables

Definition of default

The Group considers that default has occurred at 90 days past due.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive). The key inputs used in measuring ECL include:

(a) probability of default: the PD is the likelihood of default, applied to each underlying exposure

(b) loss given default: the LGD is the magnitude of the expected credit loss in the event of default, taking into consideration the mitigating effect of collateral assets and time value of money

(c) exposure at default: the EAD represents the estimated exposure in the event of a default

The ECL is determined with reference to the following stages:

Stage 1: 12 month ECL

At initial recognition, for financial assets without a significant increase in credit risk (SICR), or for financial assets where an increase in credit risk is considered to be low, ECL is determined based on PD over the next 12 months, adjusted for forward looking estimates (FLE).

22. Financial assets and liabilities (continuation)

Stage 2: Lifetime ECL not credit impaired

Where there has been a SICR, the ECL is determined with reference to the financial asset's lifetime PD and the lifetime losses associated with that PD, adjusted for FLE. The Group assesses whether there has been a SICR since initial recognition based on qualitative, quantitative, and reasonable and supportable FLE that includes management judgement. Use of more alternative criteria could result in significant changes to the timing and amount of ECL to be recognised. Lifetime ECL is generally determined based on the average maturity of the financial asset.

Stage 3: Lifetime ECL credit impaired

Financial assets are classified as stage 3 where they are determined to be credit impaired, which generally matches the Group's definition of default which includes exposures that are at least 90 days past due, and where the obligor is unlikely to pay without recourse against available collateral.

The ECL for credit impaired financial assets is generally measured as the difference between the discounted contractual and discounted expected cash flows from the individual exposure. For credit impaired exposure that are modelled collectively, ECL is measured as the product of the lifetime PD, LGD, and EAD, adjusted for FLE. Interest income is determined with reference to the financial asset's amortised cost carrying value, being the financial asset's net carrying value after the ECL provision.

Stage 3: Impaired Assets

Outside of the ECL, where assets are more than 90 days past due and a shortfall between the loan balance and the underlying security has been identified, a specific provision is raised for the shortfall.

23. Financial risk management

23.1 Financial risk management objectives

The Group's Corporate Treasury function:

- implements and executes treasury and funding strategy;
- co-ordinates access to domestic and international financial markets; and
- monitors and manages the financial risks relating to the operations of the Group through internal monitoring tools which analyse exposures by degree and magnitude of risks.

These risks include:

- market risk (including currency risk and interest rate risk);
- economic risk;
- interest rate risk;
- credit risk; and
- liquidity risk.

23.2 Derivative financial instruments

The Group seeks to minimise the effects of currency and interest rate risks by using derivative financial instruments to hedge risk exposures.

The use of financial derivatives is governed by the Group's Interest Rate Risk Management Policy approved by the board of directors, which provide written principles on:

- foreign exchange risk;
- interest rate risk;
- credit risk;
- the use of financial derivatives and non-derivative financial instruments; and
- the investment of excess liquidity.

Compliance with policies and exposure limits is reviewed by the Board on a continuous basis. The Group does not enter into or trade financial instruments, including derivative financial instruments, for speculative or proprietary purposes.

23. Financial risk management (continuation)

The table below summarises the Group's exposure to financial risks and how these risks are managed.

Risk	Exposure arising from	Measurement	Management
Market risk – currency	Recognised financial assets and liabilities not denominated in Australian dollars Foreign currency denominated profit or losses	Cash flow forecasting Sensitivity analysis	Cross currency interest rate swaps Cash flow management and matching
Market risk – interest rate	Mismatch in interest rates between assets and liabilities	Sensitivity analysis	Interest rate swaps
Market risk – equity investment valuation	Investments in equity securities	Sensitivity analysis	Equity investments not held for trading
Credit risk	Mortgage portfolio and funding SPV-level exposures, counterparty risk	Credit risk analysis Rating agency criteria and analyses	Diversification, adaptive capital structures, strong collections/portfolio management, rating agency provisions in transactions documents
Liquidity risk	Borrowings, derivative financial liabilities	Rolling cash flow forecasts	Availability of committed credit lines and borrowing facilities, securitisation, capital relief transactions, structuring terms of obligations

Recognition and measurement

Derivatives are initially recognised at fair value at the date the derivative contracts are entered into and are subsequently remeasured to their fair value at each reporting period.

The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

23.3 Hedge accounting

The Group designates certain hedging instruments, which includes derivatives in respect of foreign currency risk, as cash flow hedges.

At the inception of the hedge relationship the Group documents the relationship between the hedging instrument and hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions.

Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument that is used in a hedging relationship is effective in offsetting changes in fair values or cash flows of the hedged item attributable to the hedged risk, which is when the hedging relationships meet all of the following hedge effectiveness requirements:

- there is an economic relationship between the hedged item and the hedging instrument;
- the effect of credit risk does not dominate the value changes that result from that economic relationship; and
- the hedge value is largely reflective of the hedged item.

Note 22.1 sets out the details of the fair values of the derivative instruments used for hedging purposes.

23. Financial risk management (continuation)

23.3.1 Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income and accumulated under the heading of cash flow hedging reserve. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss and is included in the other expenses or other income line item.

Amounts previously recognised in other comprehensive income and accumulated in equity are reclassified to profit or loss, in the same line as the recognised hedged item.

Hedge accounting is discontinued when:

- the Group revokes the hedging relationship;
- the hedging instrument expires or is sold, terminated, or exercised; or
- the Group no longer qualifies for hedge accounting.

Any cumulative gain or loss recognised in other comprehensive income and accumulated in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognised immediately in profit or loss.

23.3.2 Derivative financial assets and liabilities

The carrying values are as follows:

	FY20	FY19
	$000	$000
Derivative financial assets		
Cross currency swaps	**49,262**	53,800
Interest rate swaps	**3,330**	2,775
	52,592	56,575
Derivative financial liabilities		
Interest rate swaps	**3,277**	1,565
	3,277	1,565

23.4 Market risk

Market risk is the risk of an adverse impact on the Group's earnings resulting from changes in market factors, such as interest rates and foreign exchange rates.

23.4.1 Interest rate risk

Interest rate risk is the risk that the Group will experience deterioration in its financial position as interest rates change over time.

Interest rate exposure is driven by interest rate mismatches between assets and liabilities (i.e. borrowing at floating interest rates and lending with fixed interest rates). Interest rate risk is managed by entering into interest rate swaps subject to the Group's hedging and derivatives policies.

23. Financial risk management (continuation)

23.4.2 Interest rate risk – Sensitivity analysis

The majority of the Group's liabilities are issued through warehouse facilities and term securitisations in special purpose and bankruptcy-remote entities. Under such arrangements, the repayment profile of the bonds is matched to the repayments collected from the loan assets.

The Group has calculated the impact of a potential increase or decrease in borrowing costs in limited recourse entities for the year in the event of a +/- 10bps change in interest rates as shown in the table below:

	FY20	FY19
	$000	$000
10bps +/-		
Borrowing costs	**12,669**	10,402

23.4.3 Interest rate swap contracts

Under interest rate swap contracts, the Group agrees to exchange the difference between fixed and floating rate interest amounts calculated on agreed notional principal amounts. Such contracts enable the Group to mitigate the risk of changing interest rates on the cash flow exposures on the issued variable rate debt. The fair value of interest rate swaps at the end of the reporting period is determined by discounting the future cash flows using the curves at the end of the reporting period and the credit risk inherent in the contract, and is disclosed below.

	FY20	FY19
	$000	$000
Fair value liability		
Derivative financial liabilities	**3,277**	1,565

The following table details the notional principal amounts outstanding at the end of the reporting period:

	FY20	FY19
	$000	$000
Notional principal value		
Less than 1 year	**-**	633
1 to 2 years	**24,280**	33,096
2 to 5 years	**503,503**	390,498
	527,783	424,227

The interest rate swaps settle and reset on a monthly basis. The floating rate on the interest rate swaps is the Bank Bill Swap Rate (BBSW) local interbank rate. The Group will settle the difference between the fixed and floating interest rate on a net basis.

All interest rate swap contracts exchanging floating rate interest amounts for fixed rate interest amounts are designated as cash flow hedges. The interest rate swaps and the interest payments on the loan occur simultaneously and the amount accumulated in equity is reclassified to profit or loss over the period that the floating interest rate payments on debt affect profit or loss.

23. Financial risk management (continuation)

23.4.4 Corporate interest – Sensitivity analysis

The remainder of the Group's loan portfolio and liabilities are held in corporate entities. The impact of a potential +/- 10bps change in interest rates on interest revenue and borrowing costs on balances held by the Group for the year is set out in the table below:

10bps +/-	**FY20** **$000**	FY19 $000
Impact on corporate interest revenue		
Interest rate + 10bps	**366**	225
Interest rate - 10bps	**(366)**	(225)
Impact on corporate funding costs		
Interest rate + 10bps	**(5)**	(30)
Interest rate - 10bps	**5**	30

23.4.5 Equity price risk

Equity investments in listed and unlisted shares are held for strategic rather than trading purposes. The Group does not actively trade these investments.

23.4.6 Equity investment valuation risk – sensitivity analysis

If equity prices had been 10% higher / lower:

- Net profit for the year ended 30 June 2020 would increase / decrease by $500,000 as a result of the changes in fair value of the investments in unlisted shares (FY19: $200,000); and
- Other comprehensive income would increase / decrease by $192,000 as a result of the changes in fair value of investments in listed shares (FY 19: $286,000).

23. Financial risk management (continuation)

23.5 Foreign currency risk

23.5.1 Accounting translation

As at reporting date the Group held cash assets denominated in New Zealand dollars (NZD).

Fluctuations in the NZD are not expected to have material impact on the consolidated statement of profit or loss or the consolidated statement of comprehensive income and equity of the Group.

23.5.2 Market risk – foreign exchange on monetary items

The Group obtains funding denominated in foreign currencies, consequently, exposures to exchange rate fluctuations arise. These currencies include USD. The Group manages foreign currency risk through the use of currency derivatives.

The carrying amounts of the Group's foreign currency denominated assets and liabilities are as follows:

	FY20	FY19
	$'000	$'000
Assets		
USD liabilities (disclosed in AUD)	**49,262**	53,800

23.6 Credit risk management

The Group's primary credit risk exposures relate to its lending activities in its principally-funded mortgage portfolio. The Group's primary lending activities are concentrated in the Australian and New Zealand residential mortgage market. The underlying credit risk in the Group's lending activities is commensurate with a geographically-diverse residential mortgage portfolio.

The Board of Directors is responsible for determining the Group's overall appetite for credit risk and monitoring the quality and performance of the mortgage portfolio. The credit risk management operational framework and policy is governed and managed by the Credit Committee.

The Group does not have any direct counterparty credit exposure arising from its asset financing and securitisation activities. Counterparty risk is governed, and mitigated where required, by ratings agency criteria within the bankruptcy-remote funding SPVs and trusts including exposures to banks, lender's mortgage insurance providers and derivative counterparties.

23. Financial risk management (continuation)

23.6.1 Credit risk in lending

The Group has established lending policies and procedures to manage the credit risk inherent in lending. The extent of credit risk in the Group's lending activities is managed within its two origination and funding programmes, being 'Prime' and 'Specialist Lending'. The Group maintains separate credit policies for each programme and regularly reviews and amends policies in line with economic, operating and funding conditions.

The Group's approach to credit management utilises a credit risk framework to ensure that the following principals are adhered to:

- independence from risk originators;
- recognition of the different risks in the various Group businesses;
- credit exposures are systematically controlled and monitored;
- credit exposures are regularly reviewed in accordance with current up-to-date credit procedures; and
- credit exposures include such exposures arising from derivative transactions.

Each of the divisions are responsible for managing credit risks that arise in their own areas with oversight from a centralised credit risk management team. It is the policy of the Group to monitor the policies of all divisions to ensure that the risk of the Group is monitored.

23.6.2 Exposure to credit risk

Loans and advances consist of a large number of customers, spread across diverse demographic and geographical areas. Ongoing credit evaluation is performed on the financial condition of loans and advances and accounts receivable.

There is no significant concentration of risk to any single counterparty.

The credit risk on wholesale funding and derivative financial instruments is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

23. Financial risk management (continuation)

23.6.3 Maximum exposure to credit risk

The carrying amount of the Group's financial assets represents the maximum credit exposure. The Group's exposure to credit risk at the reporting date was:

	Note	**FY20 $'000**	FY19 $'000
Cash and cash equivalents	4	**365,987**	224,790
Trade and other receivables	5	**5,974**	10,699
Short-term investment	7	**260**	260
Derivative financial assets	23	**52,592**	56,575
		424,813	292,324
Loans and advances at amortised cost – balances subject to credit risk	6	**12,518,394**	10,337,020
		12,943,207	10,629,344

As at 30 June 2020, 100% of the Group's cash and cash equivalents are held with banks or financial institutions with a credit rating of AA- or better (FY19: 100%).

23.6.3.1 Residential mortgage borrowers

The Group manages credit risk by obtaining security over residential mortgage property for each loan.

In monitoring the credit risk, loans are grouped according to their credit characteristics using credit risk classification systems. This includes the use of the Loan to Value Ratio (LVR) to assess its exposure to credit risk from loans originated through the securitisation programme.

For white label loans, some agreements with lenders contain provisions requiring the Group to pay instalments due from borrowers until securities are enforced or an insurance claim has been paid and to purchase the mortgage from the lender if the Group is in default. The Group's risk in this area is mitigated by insurance policies and a rigorous credit assessment process.

23.6.4 Financial guarantees

The Group is exposed to credit risk in relation to financial guarantees given to banks. The Group's maximum exposure in this respect is the maximum amount the Group could have to pay if the guarantees are called on. The Group does not have any financial guarantees as at 30 June 2020 (FY19: $nil).

23. Financial risk management (continuation)

23.6.5 Credit risk management

The following table summarises the movement in expected credit loss for loans and advances for the reporting period:

Maximum exposure to credit risk	Stage 1 - Collective $'000	Stage 2 - Collective $'000	Stage 3 - Collective $'000	Stage 3 - Impaired $'000	Total $'000
Balance as at 30 June 2020					
Loans and advances					
- Mortgage lending	12,433,112	45,248	22,826	16,571	12,517,757
- Commercial lending	637	-	-	-	637
Total	**12,433,749**	**45,248**	**22,826**	**16,571**	**12,518,394**
Balance as at 1 July 2019					
Loans and advances					
- Mortgage lending	10,237,618	50,406	24,334	23,170	10,335,528
- Commercial lending	676	-	-	816	1,492
Total	**10,238,294**	**50,406**	**24,334**	**23,986**	**10,337,020**
Expected credit loss					
Balance as at 30 June 2020					
Loans and advances					
- Mortgage lending	25,864	2,441	2,335	6,057	36,697
- Commercial lending	1	-	-	-	1
Total	**25,865**	**2,441**	**2,335**	**6,057**	**36,698**
Balance as at 1 July 2019					
Loans and advances					
- Mortgage lending	7,016	1,750	2,103	5,122	15,991
- Commercial lending	-	-	-	454	454
Total	**7,016**	**1,750**	**2,103**	**5,576**	**16,445**

In line with regulatory guidance, loans on a COVID-19 hardship payment moratorium at 30 June 2020 are not deemed in arrears. This includes loans in arrears prior to the commencement of payment moratoriums. For Collective Provision ECL purposes, arrears position at 31st March 2020 were used for loans in COVID-19 hardship payment moratoriums.

Collateral held

The value of the collateral held as security for loans in stage 2 and stage 3 collective at 30 June 2020 is $94.5 million (The value of collateral held as security for loans past due but not impaired at 30 Jun 2019: $102.4 million).

The value of the collateral held as security for loans in stage 3 specific loans at 30 June 2020 is $12.0 million (The value of collateral held as security for impaired loans at 30 Jun 2019: $19.8 million).

Loans are secured by the Group by having the property titles registered as a financial interest that provide the Group first priority over any proceeds becoming available from the sale of the property. For Prime insured loans, LMI policies exist to cover 100% of the principal amount at default plus interest.

23. Financial risk management (continuation)

23.6.6 Credit risk Concentrations

An analysis of the Group's credit risk concentrations on loans and advances is provided in the following table. The amounts in the table represent gross carrying amounts:

Loans and advances at amortised cost	**FY20 $'000**	FY19 $'000
Concentration by region		
• New South Wales	**4,673,307**	3,995,742
• Victoria	**3,584,565**	2,854,342
• Queensland	**2,064,167**	1,669,597
• Western Australia	**918,803**	775,892
• South Australia	**609,674**	455,629
• Tasmania	**90,275**	74,682
• Northern Territory	**48,984**	40,030
• New Zealand	**528,619**	471,106
Total	**12,518,394**	10,337,020

23.6.7 Analysis of loans and advances by past due status

Under the Group's monitoring procedures, a significant increase in credit risk is identified before the exposure has defaulted and at the latest when exposure becomes 30 days past due. The table below provides an analysis of the gross carrying amount of loans and advances by past due status that are over 30 days past due.

Loans and advances at amortised cost[1]	**FY20 $'000**	FY19 $'000
• 0 days and less than 30 days	**12,438,670**	10,242,482
• 30 days and less than 60 days	**35,313**	39,805
• 60 days and less than 90 days	**10,038**	11,995
• 90 days and less than 180 days	**14,487**	14,151
• 180 days and less than 270 days	**4,746**	6,538
• 270 days and less than 365 days	**2,145**	3,983
• 365 days and over	**12,995**	18,066
Total	**12,518,394**	10,337,020

[1] Includes loans that are collectively and specifically provided for

23. Financial risk management (continuation)

23.6.8 Movement in credit exposures

	Stage 1 - Collective $'000	Stage 2 - Collective $'000	Stage 3 - Collective $'000	Stage 3 - Impaired $'000	Total $'000
Provision for impairment losses					
Balance as at 1 July 2019	7,016	1,750	2,103	5,576	16,445
Net transfer between stages	1,143	(958)	(699)	514	-
Net re-measurement of opening balance net of transfers	(563)	1,342	1,465	1,470	3,714
Impact of transfers between stages and re-measurement	580	384	766	1,984	3,714
Net financial assets originated	2,789	112	44	-	2,945
Acquisition of IA Group	200	-	-	295	495
Movements in existing individually assessed provisions and write-backs	-	-	-	384	384
Write-offs	-	-	-	(2,254)	(2,254)
COVID-19 overlay	15,882	475	23	-	16,380
Discharges/Other	(602)	(280)	(601)	72	(1,411)
Balance as at 30 June 2020	**25,865**	**2,441**	**2,335**	**6,057**	**36,698**
Credit exposure					
Balance as at 1 July 2019	10,238,294	50,406	24,334	23,986	10,337,020
Net transfers between stages and financial assets originated	2,195,455	(5,158)	(1,508)	(5,161)	2,183,628
Write-offs	-	-	-	(2,254)	(2,254)
Balance as at 30 June 2020	**12,433,749**	**45,248**	**22,826**	**16,571**	**12,518,394**

23. Financial risk management (continuation)

COVID-19 overlay

Refer to note 6 for COVID-19 overlay methodology driving calculations in the following tables.

Table 1. CoreLogic stratified hedonic index (lower quartile, middle and upper quartile values and value movements by capital city)

		Sydney	Melbourne	Brisbane	Adelaide	Perth	Hobart
HVI Bandings ($)	Lower	$664,872	$545,552	$379,042	$336,170	$344,977	$381,910
	Mid	$885,158	$686,798	$508,386	$441,184	$443,669	$486,056
	Upper	$1,345,850	$959,515	$681,657	$584,972	$598,483	$628,860
Change in value[1], 12 months ending April 2019 (%)	Lower	(9%)	(4%)	(2%)	1%	(9%)	8%
	Mid	(11%)	(8%)	(2%)	1%	(8%)	5%
	Upper	(12%)	(14%)	(2%)	0%	(8%)	1%

1. Canberra and Darwin change in value data not available in CoreLogic Hedonic Index.

Table 2. Resimac COVID-19 underlying security stress bands (by HVI Banding and State)

		NSW	VIC	QLD	SA	WA	TAS	NT	ACT
HVI Bandings ($)	Lower	$664,872	$545,552	$379,042	$336,170	$344,977	$381,910	$283,314	$518,631
	Mid	$885,158	$686,798	$508,386	$441,184	$443,669	$486,056	$393,939	$637,279
	Upper	$1,345,850	$959,515	$681,657	$584,972	$598,483	$628,860	$505,513	$791,254
Forecast increase (%)	Lower	(10%)	(10%)	(10%)	(10%)	(10%)	(10%)	(10%)	(10%)
	Mid	(15%)	(15%)	(15%)	(15%)	(15%)	(15%)	(15%)	(15%)
	Upper	(20%)	(20%)	(20%)	(20%)	(20%)	(20%)	(20%)	(20%)

Table 3. Resimac Loans in COVID-19 hardship payment moratoriums – Stressed Security Values (by LVR)

Hardship loans – Dynamic LVR (Stressed) ($'000)							
LVR Banding	**Prime LMI**	**Prime No LMI**	**Specialist LMI**	**Specialist No LMI**	**NZ[2]**	**Legacy LMI**	**Total**
<60%	17,838	54,758	7,924	71,038	11,242	32,138	194,938
60% - 70%	14,441	39,974	3,169	61,043	18,102	5,133	141,862
70% - 80%	13,290	86,153	1,514	116,071	48,408	5,401	270,837
80% - 90%	26,244	114,942	590	175,555	23,157	3,311	343,799
90% - 95%	20,243	49,256	-	99,684	1,078	2,541	172,802
95% - 100%	29,327	33,004	-	82,032	-	1,677	146,040
100% +	90,763	74,521	2,737	191,351	-	9,328	368,700
Total	**212,146**	**452,608**	**15,934**	**796,774**	**101,987**	**59,529**	**1,638,978**

2. NZ LVRs based on most recent valuation, NZ securities were not stressed for the purpose of the COVID overlay.

23. Financial risk management (continuation)

Table 4. Resimac COVID-19 Provision Overlay – assuming 33% of loans with Stressed LVR >100% default

	COVID-19 Overlay – By State and HVI Band ($'000)				
State	**Lower**	**Mid**	**Upper**	**No Banding**	**Total**
NSW	449	2,931	1,517	-	4,897
VIC	130	1,587	2,411	-	4,128
QLD	51	700	2,962	-	3,713
WA	82	573	1,388	-	2,043
SA	-	163	924	-	1,087
NT	-	45	131	-	176
ACT	28	-	-	-	28
TAS	-	28	-	-	28
New Zealand	-	-	-	280	280
Total	**740**	**6,027**	**9,333**	**280**	**16,380**

Table 5. Resimac Loans in Hardship vs Overall Portfolio

	Overall Portfolio ($'000)		
	AUM	**Hardship**	**%**
Prime - LMI	1,964,590	212,146	11%
Prime – No LMI	6,333,512	452,608	7%
Specialist - LMI	72,791	15,934	22%
Specialist – No LMI	2,967,961	796,774	27%
NZ / Legacy / Other	1,179,539	161,516	14%
Total	**12,518,394**	**1,638,978**	**13%**

The Group analysed the industry type of the primary borrower of loans in COVID-19 hardship moratoriums. A lack of concentration risk exists in the portfolio industry type. Furthermore, it is difficult to predict probability of defaults for each particular industry. Therefore, the Group has not segmented the book by industry type for the purpose of the COVID-19 overlay.

The industry type of the primary borrower segmented by Prime and Specialist loans are detailed in table 6.

23. Financial risk management (continuation)

Table 6. Resimac COVID-19 Hardship Loans - Employment Industry Type (Primary Borrower)

	Prime LMI	Prime No LMI	Specialist LMI	Specialist No LMI
Air	1%	2%	1%	0%
Building & Construction	9%	8%	21%	17%
Hospitality	4%	4%	7%	9%
Not identified	12%	3%	8%	7%
Legal, Projects, IT & Communications	16%	16%	13%	18%
Marketing, Media & Sales	6%	11%	7%	6%
Transport & Safety	6%	6%	7%	6%
Other professional services	8%	8%	5%	4%
Health, Medicine, Science & Research	7%	10%	4%	6%
Engineering, Plumbing & Electrical	4%	4%	5%	4%
Financial Services	5%	7%	4%	4%
Social Services	6%	6%	2%	2%
Agriculture, Mining, Machinery, Manufacturing	5%	2%	2%	1%
Leisure – Beauty, Events, Tourism, Arts	3%	3%	6%	7%
Other	3%	6%	3%	5%
Real Estate & Property	3%	2%	3%	2%
Retail, Textiles	2%	2%	2%	2%
	100%	**100%**	**100%**	**100%**

23.7 Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the Board of Directors, which has established an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements.

The Group's funding platform currently comprises a mix of:

- warehouse facilities;
- term securitisation;
- a secured corporate debt facility; and
- cash.

The majority of the Group's liabilities represent bonds issued by special purpose trusts through warehouse facilities and term securitisation transactions. Under such arrangements, bondholder recourse is limited to the assets of the relevant special purpose trust to which the liability relates and the repayment profile of the bonds is matched to the repayments collected from the loan assets. Given the limited recourse nature of these borrowings, $12.42 billion at 30 June 2020 (FY19: $10.23 billion), they have not all been included in the table below.

23. Financial risk management (continuation)

The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows, and by matching the maturity profiles of financial assets and liabilities.

Note 23.7.2 below sets out details of additional undrawn facilities that the Group has at its disposal to further reduce liquidity risk.

23.7.1 Liquidity risk tables

The following table shows the Group's remaining expected maturity for its non-derivative financial liabilities with agreed repayment periods. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay and hence will not necessarily reconcile with the amounts disclosed in the statement of financial position.

The tables include both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curves at the end of the reporting period. The contractual maturity is based on the earliest date on which the Group may be required to pay.

Financial liabilities	**<6 months or on demand** $'000	**6-12 months** $'000	**1-3 years** $'000	**3-5 years** $'000	**>5 years** $'000	**Total cash flows** $'000	**Carrying amount** $'000
FY20							
Non-derivatives							
Trade and other payables	**25,891**	**-**	**-**	**-**	**-**	**25,891**	**25,891**
Interest-bearing liabilities							
• Corporate debt facility	**28**	**-**	**5,000**	**-**	**-**	**5,028**	**5,000**
• Issuance facilities	**-**	**-**	**-**	**258,755**	**-**	**258,755**	**258,755**
Present value of future trail commissions payable	**3,115**	**2,635**	**7,053**	**3,671**	**4,323**	**20,797**	**20,797**
	29,034	**2,635**	**12,053**	**262,426**	**4,323**	**310,471**	**310,443**
Derivatives	**3,277**	**-**	**-**	**-**	**-**	**3,277**	**3,277**
	32,311	**2,635**	**12,053**	**262,426**	**4,323**	**313,748**	**313,720**
FY19							
Non-derivatives							
Trade and other payables	25,294	-	-	-	-	25,294	25,294
Interest-bearing liabilities							
• Corporate debt facility	86	30,000	-	-	-	30,086	30,000
• Issuance facilities	-	-	-	186,051	-	186,051	186,051
• Loans from related parties	-	2,400	-	-	-	2,400	2,400
Present value of future trail commissions payable	3,806	3,043	8,277	3,951	3,824	22,901	22,901
	29,186	35,443	8,277	190,002	3,824	266,732	266,646
Derivatives	1,565	-	-	-	-	1,565	1,565
	30,751	35,443	8,277	190,002	3,824	268,297	268,211

23. Financial risk management (continuation)

23.7.2 Financing facilities

	Note	**FY20** **$'000**	FY19 $'000
Secured corporate debt facility which may be extended by mutual agreement			
• Amount used		**5,000**	30,000
• Amount unused		**25,000**	10,000
		30,000	40,000

24. Subsidiaries

Details of the Group's subsidiaries at the end of the reporting period are as follows.

Name of subsidiary	Principal activity	Place of incorporation and operation	Proportion of ownership interest held and voting power held by the Group	
			FY20	FY19
			%	%
Controlled companies				
Access Network Management Pty Ltd	Mortgage manager	Australia	**100**	100
Auspack Financial Services Pty Ltd	Mortgage broker	Australia	**100**	100
Barnes Mortgage Management Pty Ltd	Mortgage originator and manager	Australia	**100**	100
Clarence Street Finance Pty Ltd	Holder of commission agreements	Australia	**100**	100
Clarence Street Funding No.1 Pty Ltd	Special purpose vehicle	Australia	**99.9**	99.9
Clarence Street Funding No.2 Pty Ltd	Participation unit holder	Australia	**100**	100
Clarence Street Funding No.3 Pty Ltd	Special purpose vehicle	Australia	**100**	100
Clarence Street Funding No.4 Pty Ltd	Special purpose vehicle	Australia	**100**	100
Clarence Street Funding No.6 Pty Ltd	Special purpose vehicle	Australia	**100**	100
Clarence Street Funding No.7 Pty Ltd	Special purpose vehicle	Australia	**100**	100
Clarence Street Funding No.8 Pty Ltd[1]	Special purpose vehicle	Australia	**100**	-
Clarence Street Funding No.9 Pty Ltd[2]	Special purpose vehicle	Australia	**100**	-
FAI First Mortgage Pty Ltd	Trust manager and servicer	Australia	**100**	100
Homeloans Pty Ltd	Mortgage lender	Australia	**100**	100
Housing Financial Services Pty Ltd	Mortgage originator	Australia	**100**	100
Independent Mortgage Corporation Pty Ltd	Mortgage broker	Australia	**100**	100
International Acceptance Investment Pty Limited[3]	Holding company	Australia	**60**	-
International Acceptance Holdings Pty Limited[3]	Holding company	Australia	**60**	-
International Acceptance Pty Limited[3]	Financial service management	Australia	**60**	-
Evergreen Finance Company Pty Limited[3]	Financial service management	Australia	**60**	-
IA Structured Finance Pty Limited[3]	Consumer and commercial lending	Australia	**60**	-
International Acceptance (NZ) Limited[3]	Consumer and commercial lending	New Zealand	**60**	-
IASF (NZ) Limited[3]	Consumer and commercial lending	New Zealand	**60**	-
Parnell Road Funding No.1 Limited	Special purpose vehicle	New Zealand	**100**	100
Parnell Road Funding No.2 Limited	Special purpose vehicle	New Zealand	**100**	100
Prime Insurance Group Limited	LMI captive insurer	Bermuda	**100**	100
RESIMAC Capital Markets Pty Ltd	Trust manager	Australia	**100**	100
RESIMAC Financial Services Limited	NZ Holding company	New Zealand	**100**	100
RESIMAC Financial Securities Limited	NZ Trust manager and servicer	New Zealand	**100**	100
RESIMAC Home Loans Ltd	NZ Lender of record and trustee	New Zealand	**100**	100
RESIMAC Limited	Non-bank lender	Australia	**100**	100

1. Incorporated 21 August 2019.
2. Incorporated 18 October 2019.
3. Acquired 1 January 2020, Refer to Note 25.

24. Subsidiaries (continuation)

Name of subsidiary	Principal activity	Place of incorporation and operation	Proportion of ownership interest held and voting power held by the Group FY20 %	FY19 %
Controlled companies				
RESIMAC NZ Home Loans Ltd	NZ Holding company	New Zealand	**100**	100
Resimac Premier Warehouse No.1 Pty LTD[4]	Unit Holder	Australia	**-**	-
RHG Mortgage Corporation Ltd[4]	Lender of record	Australia	**-**	-
RHG Mortgage Securities Pty Ltd (RMS)[4]	Mortgage trustee	Australia	**-**	-
The Servicing Company Pty Ltd	Trust servicer	Australia	**100**	100
RESIMAC EST PTY LTD[5]	Initial Trustee	Australia	**100**	-
0508 Home Loans Ltd	Dormant	New Zealand	**100**	100
0800 Home Loans Ltd	Dormant	New Zealand	**100**	100
Access Home Loans Pty Ltd	Dormant	Australia	**100**	100
Clarence St Funding No.5 Pty Ltd	Dormant	Australia	**99.9**	99.9
Fiduciary Services Pty Ltd	Dormant	Australia	**100**	100
HLL Pty Ltd[6]	Dormant	Australia	**-**	100
Loan Packaging Australia Pty Ltd	Dormant	Australia	**100**	100
National Mutual Pty Ltd	Dormant	Australia	**100**	100
RESIMAC Financial Securitisation Ltd	Dormant	New Zealand	**100**	100
RESIMAC Financial Services Pty Ltd	Dormant	Australia	**100**	100
RESIMAC Leasing Pty Ltd	Dormant	Australia	**100**	100
RESIMAC (UK) Ltd[7]	Dormant	United Kingdom	**-**	100
Controlled Trusts				
Avoca Master Trust	Issuer of RMBS	Australia	**100**	100
NZF Mortgages Warehouse A Trust	Warehouse mortgages	New Zealand	**100**	100
RESIMAC Bastille Master Trust[8]	Issuer of RMBS	Australia	**100**	100
RESIMAC Triomphe Master Trust[8]	Issuer of RMBS	Australia	**100**	100
RESIMAC Versailles Master Trust	Issuer of RMBS	New Zealand	**100**	100
RESIMAC Victoire Trust	Warehouse mortgages	New Zealand	**100**	100
RHG Mortgage Securities Trust	Issuer of RMBS	Australia	**100**	100
RMT Warehouse Trust No.2	Warehouse mortgages	Australia	**100**	100
RMT Securitisation Trust No.7[8]	Issuer of RMBS	Australia	**100**	100
International Acceptance Trust[11]	Consumer and commercial lending	Australia	**60**	-
The Trustee for the Resimac Group Limited Employee Share Trust[9]	Employee share trust	Australia	**-**	-
RESIMAC NIM Master Trust[10]	Dormant	Australia	**100**	100

4. Ownership interest is 0% however the Group have Board control.
5. Incorporated 12 February 2020.
6. Deregistered 17 November 2019.
7. Deregistered 17 September 2019.
8. This does not represent holding in capital units, percentage ownership represents control of these Trusts.
9. Incorporated 24 February 2020. Ownership interest is 0% however the Group have Board control.
10. Deregistered 21 November 2019.
11. Acquired 1 January 2020, Refer to Note 25.

24. Subsidiaries (continuation)

Special purpose entities – securitised trusts and funding warehouses

Special purpose entities are those entities over which the group has no ownership interest but in effect the substance of the relationship is such that the Group controls the entity so as to obtain the majority of the benefits from its operation.

The Group has established special purpose entities to support the specific funding needs of the Group's securitisation programme with the aim to:

- conduct securitisation activities funded by short term warehouse facilities provided by reputable lenders; and
- hold securitised assets and issue Residential Mortgage Backed Securities.

The special purpose entities meet the criteria of being controlled entities under AASB 10 – *Consolidated Financial Statements*.

25. Acquisition of subsidiary

25.1 Accounting for Business combinations

The Group accounts for business combinations using the acquisition method when control is transferred to the Group. The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Any gain on bargain purchase is recognised in profit or loss immediately. Transaction costs incurred in connection with a business combination are expensed as incurred, except if related to the issue of debt or equity securities.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Any contingent consideration is measured at fair value at the date of acquisition. If an obligation to pay contingent consideration that meets the definition of a financial instrument is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, other contingent consideration is remeasured at fair value at each reporting date and subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

25.2 Details of acquisition

On 1 January 2020 Resimac acquired 60% of the issued share capital of IA Group for $6.0m, with an option to acquire the remaining 40% for $8.0m expiring on 31 December 2021. IA Group is a finance company participating in both secured commercial and consumer lending. IA Group has an on balance sheet portfolio of over $50 million and is involved in all aspects of the lending cycle including origination, underwriting, servicing, treasury and collections. The investment is in line with Resimac's diversification strategy and facilitates expansion into new secured asset classes.

The fair value of the purchase consideration is $6.0m which resulted in the acquisition of two instruments:

- 60% interest in the equity interest in the IA Group; and
- An option to acquire the remaining 40% for additional consideration of $8.0m

Purchase consideration

	$'000
Base equity value for 60% of issued shares	**5,812**
Option to acquire remaining 40%	**188**
Consideration paid for shares and option	**6,000**

25. Acquisition of subsidiary (continuation)

Consideration for option

The option that entitles Resimac to acquire 40% for $8.0m is recognised within equity at the fair value of the option in the consolidated financial statements. The option does not give rise to deferred or contingent consideration. Refer to note 20.2 for further details.

The assets and liabilities recognised as a result of the acquisition are as follows:

	Fair value $'000
Assets	
Cash at bank	**1,087**
Trade and other receivables	**175**
Loans and advances	**54,085**
Other assets	**73**
Plant and equipment	**494**
Right-of-use assets	**191**
Intangible assets	**114**
Total assets	**56,219**
Liabilities	
Trade and other payables	**(1,295)**
Provisions	**(75)**
Interest-bearing liabilities	**(54,001)**
Lease liability	**(497)**
Deferred tax liability	**(104)**
Total liabilities	**(55,972)**
Fair value of identified net assets	**247**
Less: Non-controlling interest	**(99)**
Add: goodwill	**5,664**
Cash consideration	**5,812**

Subsequent to the acquisition accounting, goodwill becomes subject to impairment tests which are undertaken at least annually, or if and when there are indicators that goodwill maybe impaired.

25. Acquisition of subsidiary (continuation)

Acquired loans receivable

The fair value of acquired loans receivables is $54,085,000. The gross contractual amount for loans receivable due is $54,580,000, with a loan loss provision of $495,000 recognised on acquisition.

Accounting policy choice for non-controlling interests

The Group recognises non-controlling interests in an acquired entity either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets. This decision is made on an acquisition-by-acquisition basis. For the non-controlling interests in IA Group, the Group elected to recognise the non-controlling interests at its proportionate share of the acquired net identifiable assets.

Revenue and profit contribution

IA Group contributed revenue of $3,096,837 and net profit of $247,940 to the Group for the period from 1 January to 30 June 2020.

If the acquisition had occurred on 1 July 2019, consolidated pro-forma revenue and profit for the year ended 30 June 2020 would have been $6,242,015 and $747,263 respectively.

Acquisition-related costs

Acquisition-related costs of $134,975 not directly attributable to the acquisition are included in other expenses in the statement of profit or loss, and in operating cash flows in the statement of cash flows.

26. Commitments and contingencies

Group as lessor	**FY20 $'000**	FY19 $'000
Operating lease commitments		
Within one year	**393**	622
Greater than one year but not more than five years	**388**	725
	781	1,347

Recognition and measurement

26.1 Capital commitments

The Directors were not aware of any capital commitments as at the end of the financial year or arising since balance date.

26.2 Contingent liabilities

Lease guarantees

The Group has provided guarantees in respect of the leases over its premises of $1,415,351 (FY19: $931,921). The Directors were not aware of any other contingent liabilities as at the end of the financial year or arising since balance date.

27. Subsequent events

27.1 Final dividend declared

The Board of Resimac Group Ltd declared a fully-franked final dividend of $0.018 per share. The Record Date is 28 August 2020. The payment date will be 25 September 2020. The dividend has not been provided for in this financial report.

Other than the above, there have been no circumstances arising since 30 June 2020 that have significantly affected or may significantly affect:

(a) The operations

(b) The results of those operations, or

(c) The state of affairs of Group in future financial years.

27.2 Funding programmes

The RESIMAC Bastille 2020-1NC transaction was settled on 30 July 2020 and is a domestic non-conforming issue with a total issuance size of $1 billion equivalent.

28. Auditor's remuneration

	FY20	FY19
	$	$
Deloitte Touche Tohmatsu		
Audit or review of the financial statements	**915,864**	995,729
Statutory assurance services required by legislation to be provided by the auditor		
AFSL audit	**13,650**	7,350
Other assurance and agreed-upon procedures under other legislation or contractual arrangements		
RMBS issuance services	**275,608**	227,000
Other services		
Other advisory services	**174,704**	30,000
Total remuneration of Deloitte Touche Tohmatsu	**1,379,826**	1,260,079
Non Deloitte Touche Tohmatsu audit firms		
Audit of the financial statements	**10,000**	-
Tax compliance	**177,648**	265,200
Other advisory services	**94,500**	-
Total remuneration of Non Deloitte Touche Tohmatsu audit firms	**282,148**	265,200

28.1 Non-audit services

The auditor of the Group is Deloitte Touche Tohmatsu (Deloitte). It is the Group's policy to employ Deloitte on assignments additional to its statutory audit duties, in compliance with the Group's independence policies, where Deloitte's expertise and experience with the Group are important.

The total non-audit services fees of $450,312 represents 32.6% of the total fees paid or payable to Deloitte and related practices for the year ended 30 June 2020 (FY19: $257,000).

29. Related party transactions

Balances and transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Group and other related parties are disclosed below.

Trading transactions

During the year, Group entities entered into the following trading transactions with related parties that are not members of the Group:

	Revenue received		Expenses paid	
	FY20 $'000	FY19 $'000	**FY20 $'000**	FY19 $'000
Associates of Resimac Group Ltd [1]	**-**	-	**-**	(2,836)
Amounts incurred to Director's related entities [2]	**-**	-	**(123)**	(267)
	-	-	**(123)**	(3,103)

1. Broker commission and sponsorship fees paid to Finsure Group, who ceased as an associate of the Group effective 17 September 2018.
2. Includes interest paid on debt securities on issue to Bermuda Commercial Bank Limited. This interest rate is charged at market related terms.

Sales to related parties occur at arm's length on commercial terms in the ordinary course of business in accordance with the terms and conditions outlined in the relevant commercial agreements with each party.

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

	Amounts owed by related parties		Amounts owed to related parties	
	FY20 $'000	FY19 $'000	**FY20 $'000**	FY19 $'000
Other related parties of Resimac Group Ltd [1]	**13,176**	5,780	**-**	-
Amounts owing to Director's related entities [2]	**-**	-	**-**	2,400
	13,176	**5,780**	**-**	2,400

1. Includes residential mortgages to KMP or related parties lent in ordinary course of business at arm's lengths.
2. Debt securities on issue to Bermuda Commercial Bank Limited. Terms on this instrument are market related.

Amounts owed by related parties are secured and will be settled in cash. No guarantees have been given or received. No expense has been recognised in the current or prior years for bad or doubtful debts in respect of the amount owed by related parties.

29. Related party transactions (continuation)

Compensation of KMP

The remuneration disclosures of directors and other members of KMP during the year are provided in sections one to nine of the remuneration report on pages 12 to 23 of this financial report designated as audited and forming part of the directors' report.

The remuneration disclosures is for Resimac KMP only as presented in the Remuneration report.

KMP compensation	**FY20** **$**	FY19 $
Short-term benefits	**2,422,142**	2,577,944
Post-employment benefits	**102,087**	127,138
Long-term benefits	**310,595**	91,527
Termination benefits	**-**	302,058
Share-based payments	**346,928**	44,882
	3,181,752	3,143,549

The remuneration of directors and KMP is determined by the Remuneration and Nomination Committee having regard to the performance of individuals and market trends.

30. Parent disclosures

The parent company of the Group, as at and throughout the financial year ended 30 June 2020, was Resimac Group Ltd.

Presented below is supplementary information about the parent entity.

	FY20 $'000	FY19 $'000
STATEMENT OF FINANCIAL POSITION		
ASSETS		
Current	**39,745**	28,175
Non-current	**201,385**	188,475
	241,130	216,650
LIABILITIES		
Current	**34,946**	13,841
Non-current	**65,876**	47,462
	100,822	61,303
NET ASSETS	**140,308**	155,347
EQUITY		
Issued capital	**182,072**	180,545
Reserves	**485**	88
Accumulated losses	**(42,249)**	(25,286)
	140,308	155,347
Attributable to members of the parent:		
Profit after tax	**(5,659)**	6,797
Total comprehensive income for the period	**(5,659)**	6,797

30.1 Guarantees, contingent liabilities and contingent assets

At 30 June 2020, there are no financial guarantees, contingent assets or contingent liabilities (FY19: nil).

30.2 Accounting policies

The accounting policies of the parent entity, which have been applied in determining the financial information shown above, are the same as those applied in the consolidated financial statements except as set out above. The significant accounting policies relating to the Group are used throughout this financial report.

31. Share-based payments

31.1 Employee share option plan of the Company

The Company has a share option scheme (pursuant to the Resimac Group Employee Share Option and Rights Plan) for senior employees of the Company. In accordance with the terms of the Plan, as approved by shareholders at the 2017 Annual General Meeting, senior employees may be granted options to purchase ordinary shares.

Each employee share option converts into one ordinary share of the Company on exercise. No amounts are paid or payable by the recipient on receipt of the option. The options carry neither rights to dividends nor voting rights. Options may be exercised at any time from the date of vesting to the date of their expiry.

Long-Term Incentive (LTI#1) Share Options - CEOs

Resimac offered the joint CEOs Scott McWilliam and Mary Ploughman (ceased employment on 17 July 2019) the opportunity to purchase 1,800,000 share options vesting in three equal tranches on each anniversary of the grant date. The options were granted on 18 August 2017 and all options vest within 12 months, 24 months and 36 months of respective grant date associated with each tranche. The options expire within 36 months of their vesting, or one month after resignation, whichever is the earlier. The sole vesting condition of the options is the employees remain employed with the Company to the respective vesting date associated with each tranche.

The tranche 3 shares for Mary Ploughman expired due to her cessation of employment on 17 July 2019. The expiry dates of her tranche 1 and 2 were revised to 17 July 2020 by the Board.

Long-Term Incentive (LTI#2) Share Options – CEO and GMs

Under the Group's LTI share options and rights plan, the CEO and GMs receive options over ordinary shares and a potential cash component of $2.4m. The options were granted on 15 August 2019 and the vesting date for all options is 31 August 2022, subject to the Group achieving Net Profit After Tax (NPAT) performance hurdles, digital transformation hurdles, compliance hurdles and remaining employed with the Group until the vesting date.

Since the current reporting period, the LTI#1 and LTI#2 are administrated by The Trustee for the Resimac Group Limited Employee Share Trust. The trust is consolidated in accordance with note 24. The trustee subscribes for the shares issued by the Group and allocates to the employees on exercise of options. Shares held by the trust and not yet allocated to employees at the end of the reporting period are shown as treasury shares in the financial statements. No treasury shares were held at 30 June 2020.

The fair value of share options under LTI#1 and LTI#2 is recognised as an employee benefits expense with a corresponding increase in equity. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each period, the Group revises its estimates of the number of options that are expected to vest based on the non-market vesting and service conditions. It recognises the impact of the revision to original estimates, if any, in the consolidated statement of profit or loss with a corresponding adjustment to equity.

The fair value of the amounts payable to CEO and GMs in respect of cash component is recognised as an expense with a corresponding increase in liabilities, over the vesting period. The liabilities are remeasured to fair value at each reporting date and are presented as employee benefit obligations in the consolidated statement of financial position.

31. Share-based payments (continuation)

The table below provides the details of options issued on 18 August 2017 and 15 August 2019:

Acquired by	Number of options	Tranche	Grant date	Fair value at grant date ($)	Exercise price of option ($)	Vesting date	Expiry date	Options forfeited	Options exercised	Number of options held at 30 June 2020	Number of options vested at 30 June 2020	Number of options unvested at 30 June 2020
MCWILLIAM, Scott	300,000	Tranche 1	18 August 2017	0.07	0.55	1 July 2018	30 June 2021	-	-	300,000	300,000	-
MCWILLIAM, Scott	300,000	Tranche 2	18 August 2017	0.08	0.55	1 July 2019	30 June 2022	-	-	300,000	300,000	-
MCWILLIAM, Scott	300,000	Tranche 3	18 August 2017	0.09	0.55	1 July 2020	30 June 2023	-	-	300,000	-	300,000
PLOUGHMAN, Mary	300,000	Tranche 1	18 August 2017	0.07	0.55	1 July 2018	17 July 2020	-	(300,000)	-	-	-
PLOUGHMAN, Mary	300,000	Tranche 2	18 August 2017	0.08	0.55	1 July 2019	17 July 2020	-	(300,000)	-	-	-
PLOUGHMAN, Mary	300,000	Tranche 3	18 August 2017	0.09	0.55	Expired	Expired	(300,000)	-	-	-	-
MCWILLIAM, Scott	300,000	Tranche 1	15 August 2019	0.20	0.65	31 August 2022	30 June 2025	-	-	300,000	-	300,000
MCWILLIAM, Scott	300,000	Tranche 2	15 August 2019	0.20	0.65	31 August 2022	30 June 2025	-	-	300,000	-	300,000
MCWILLIAM, Scott	300,000	Tranche 3	15 August 2019	0.20	0.65	31 August 2022	30 June 2025	-	-	300,000	-	300,000
GMs	1,000,000	Tranche 1	15 August 2019	0.20	0.65	31 August 2022	30 June 2025	(125,000)	-	875,000	-	875,000
GMs	1,000,000	Tranche 2	15 August 2019	0.20	0.65	31 August 2022	30 June 2025	(125,000)	-	875,000	-	875,000
GMs	1,000,000	Tranche 3	15 August 2019	0.20	0.65	31 August 2022	30 June 2025	(125,000)	-	875,000	-	875,000
	5,700,000							**(675,000)**	**(600,000)**	**4,425,000**	**600,000**	**3,825,000**

31. Share-based payments (continuation)

31.2 Fair value of options

The primary valuation approach we have considered for the valuations is the Black-Scholes method, which entails the determination of the value of the options using comparable market equivalent information. In determining the fair value of each of the share options, a number of statistical and probability based calculations have been considered.

The following table lists the inputs to the model used:

Grant date	Tranche	Grant date share price ($)	Exercise price($)	Term (years)	Annual volatility	Risk-free interest rate	Dividend yield	Call option value	Issued options
18 August 2017	Tranche 1	0.47	0.55	3.9	30-35%	2.00%	3.23%	$0.06-$0.08	600,000
18 August 2017	Tranche 2	0.47	0.55	4.9	30-35%	2.15%	3.23%	$0.07-$0.09	600,000
18 August 2017	Tranche 3	0.47	0.55	5.9	30-35%	2.26%	3.23%	$0.08-$0.10	600,000
15 August 2019	Tranche 1	0.76	0.65	5.9	25-30%	0.75%	2%	$0.18-$0.21	300,000
15 August 2019	Tranche 2	0.76	0.65	5.9	25-30%	0.75%	2%	$0.18-$0.21	300,000
15 August 2019	Tranche 3	0.76	0.65	5.9	25-30%	0.75%	2%	$0.18-$0.21	300,000
15 August 2019	Tranche 1	0.76	0.65	5.9	25-30%	0.75%	2%	$0.18-$0.21	1,000,000
15 August 2019	Tranche 2	0.76	0.65	5.9	25-30%	0.75%	2%	$0.18-$0.21	1,000,000
15 August 2019	Tranche 3	0.76	0.65	5.9	25-30%	0.75%	2%	$0.18-$0.21	1,000,000

31. Share-based payments (continuation)

31.3 Movements in share options during the period

The following reconciles the share options outstanding at the beginning and the end of the period:

	Number of LTI options – LTI#1	Number of LTI options – LTI#2	Number of options total	Weighted average fair value $ - LTI#1	Weighted average fair value $ - LTI#2
Unvested options at 1 July 2019	1,200,000	-	1,200,000	0.09	-
Vested options at 1 July 2019	600,000	-	600,000	0.07	-
Options held at 1 July 2019	**1,800,000**	**-**	**1,800,000**	**0.08**	**-**
Granted during the year	-	3,900,000	3,900,000	-	0.20
Exercised during the year	(600,000)	-	(600,000)	0.55	-
Forfeited during the year	(300,000)	(375,000)	(675,000)	0.09	-
Unvested options at 30 June 2020	300,000	3,525,000	3,825,000	0.09	0.20
Vested options at 30 June 2020	600,000	-	600,000	0.08	-
Options held at 30 June 2020	**900,000**	**3,525,000**	**4,425,000**	**0.08**	**0.20**

31.4 Share options exercised during the period

The Trustee for the Resimac Group Limited Employee Share Trust subscribed for 600,000 fully paid ordinary shares issued by the Group at a subscription price of $0.85 per share, being the volume weighted average price of shares at the close of trading over a 5 day trading period up to and including 11 May. Shares held by the trustee were allocated to Mary Ploughman on her exercise of tranche 1 and tranche 2 share options on 13 May 2020.

32. Other accounting policies

32.1 Application of new and revised accounting standards

(a) New and amended standards adopted by the Group

(i) AASB 16 *Leases*

In the current year, the Group has applied AASB 16 *Leases* (AASB 16) that is effective for annual periods that begin on or after 1 July 2019.

AASB 16 introduces new or amended requirements with respect to lease accounting. It introduces significant changes to the lessee accounting by removing the distinction between operating and finance leases and requiring the recognition of a right-of-use asset and a lease liability at the lease commencement for all leases, except for short-term leases and leases of low value assets. In contrast to lessee accounting, the requirements for lessor accounting have remained largely unchanged. Details of these requirements and the impact of the adoption of AASB 16 on the Group's consolidated financial statements are described below.

Impact of the new definition of a lease

The Group has made use of the practical expedient available on transition of AASB 16 not to reassess whether a contract is or contains a lease. Accordingly, the definition of a lease in accordance with AASB 117 and IFRIC 4 will continue to be applied to leases entered into or modified before 1 July 2019.

The change in definition of a lease mainly relates to the concept of control. AASB 16 determines whether a contract contains a lease on the basis of whether the customer has the right to control the use of an identified asset for a period of time in exchange for consideration.

The Group applies the definition of a lease and related guidance set out in AASB 16 to all lease contracts entered into or modified on or after 1 July 2019. The Group notes that the new definition in AASB 16 will not change significantly the scope of contracts that meet the definition of a lease for the Group.

On 1 July 2019 (the date of initial application of AASB 16), the Group has applied AASB 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognised in retained earnings at 1 July 2019. Accordingly, the comparative information presented for 2019 has not been restated i.e. it is presented as previously reported, under AASB 117 and related Interpretations. The details of the changes in accounting policies are disclosed below:

Impact on lessee accounting

AASB 16 changes how the Group accounts for leases previously classified as operating leases under AASB 117, which were off balance sheet.

Applying AASB 16, for all leases, the Group:

- Recognise right-of-use assets and lease liabilities in the consolidated statement of financial position, initially measured at the present value of the future lease payments;
- Recognise depreciation of right-of-use assets and interest on lease liabilities in the consolidated statement of profit or loss;
- Separate the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within operating activities) in the consolidated cash flow statement.

Lease incentives (e.g. rent-free period) will be recognised as part of the measurement of the right-of-use assets and lease liabilities whereas under AASB 117 they resulted in the recognition of a lease liability incentive, amortised as a reduction of rental expenses on a straight-line basis.

Under AASB 16, right-of-use assets are tested for impairment in accordance with AASB 136. This replaces the previous requirements to recognise a provision for onerous lease contracts.

32. Other accounting policies (continuation)

For short-term leases (lease term of 12 months or less) and leases of low-value assets, the Group has opted to recognise a lease expense on a straight-line basis as permitted by AASB 16.

The right-of-use assets recognised under AASB 16 is an intangible asset, and hence excluded from the Group's net tangible assets, despite the related lease liability being included as reduction in the net tangible assets calculation.

Transition

The Group leases offices previously classified as operating leases under AASB 117. The lease term is between 3 to 8 years with, in some cases, options to extend. This has been accounted for in determining the minimum lease payments. The Group's obligations are secured by the lessor's title to the leased assets for such leases.

At transition, for leases previously classified as operating leases under AASB 117, lease liabilities were measured at present value of the remaining lease payments, discounted at the Group's incremental borrowing rate as at 1 July 2019. The weighted average borrowing rate applied is 4%. The Group has applied the approach of measuring right-of-use assets at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments.

The Group used the following practical expedients when applying AASB 16 to leases previously classified as operating leases under AASB 117.

- Excluded initial direct costs from measuring the right-of-use asset at the date of initial application
- Used hindsight when determining the lease term if the contract contains options to extend or terminate the lease
- Not to separate non-lease components from lease components and instead account for each component and any associated non-lease components as a single lease component
- Applied a single discount rate to a portfolio of leases with reasonably similar characteristics

Below is the financial impact on transition to AASB 16 as at 1 July 2019:

Financial Disclosure	Under AASB 117 $'000	Under AASB 16 $'000	Financial impact $'000
Right-of-use assets	-	13,230	13,230
Lease liabilities*	(276)	(13,990)	(13,714)
Tax effect of the above	-	145	145
Adjustment to opening retained earnings			(339)

*The 30 June 2019 lease liability is within trade and other payables.

Impact on lessor accounting

AASB 16 does not change substantially how a lessor accounts for leases. Under AASB 16, a lessor continues to classify leases as either finance leases or operating leases and account for those two types of leases differently.

Under AASB 16, an intermediate lessor accounts for the head lease and the sublease as two separate contracts. The intermediate lessor is required to classify the sublease as a finance or operating lease by reference to the right-of-use asset arising from the head lease (and not by reference to the underlying asset as was the case under AASB 117).

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

32. Other accounting policies (continuation)

In the current year, the Group has applied a number of amendments to AASB Standards and Interpretations issued by the AASB that are effective for an annual period that begins on or after 1 July 2019. Their adoption has not had any material impact on the disclosures or on the amount reported in these financial statements.

AASB 2017-6 Amendments to Australian Accounting Standards - Prepayment Features with Negative Compensation

The Group has adopted the amendments to AASB 9 for the first time in the current year. The amendments to AASB 9 clarify that for the purpose of assessing whether a prepayment feature meets the 'solely payments of principal and interest' (SPPI) condition, the party exercising the option may pay or receive reasonable compensation for the prepayment irrespective of the reason for prepayment. In other words, financial assets with prepayment features with negative compensation do not automatically fail SPPI.

Interpretation 23 *Uncertainty over Income Tax Treatments*

The Group has adopted IFRIC 23 for the first time in the current year. IFRIC 23 sets out how to determine the accounting tax position when there is uncertainty over income tax treatments. The Interpretation requires the Group to:

- determine whether uncertain tax positions are assessed separately or as a group; and
- assess whether it is probable that a tax authority will accept an uncertain tax treatment used, or proposed to be used, by an entity in its income tax filings:
  - If yes, the Group should determine its accounting tax position consistently with the tax treatment used or planned to be used in its income tax filings.
  - If no, the entity should reflect the effect of uncertainty in determining its accounting tax position using either the most likely amount or the expected value method.

AASB 2018-1 Amendments to Australian Accounting standards – Annual Improvements 2015 – 2017 Cycle

AASB 112 *Income Taxes*

The amendments clarify that an entity should recognise the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognised the transactions that generated the distributable profits.

AASB 123 *Borrowing costs*

The amendment clarifies that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalisation rate on general borrowing. This is the case irrespective of whether different tax rates apply to distributed and undistributed profits.

32. Other accounting policies (continuation)

(b) New and revised accounting standards and interpretations on issue but not yet effective

Certain new accounting standards and interpretations have been published that are not 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. These standards are not expected to have a material impact on the financial statements of the Group in future periods.

Standard/amendment	Effective for annual reporting periods beginning on or after
AASB 2018-6 *Amendments to Australian Accounting Standards – Definition of a Business*	1 January 2020
AASB 2018-7 *Amendments to Australian Accounting Standards – Definition of Material*	1 January 2020
AASB 2019-1 *Amendments to Australian Accounting Standards – References to the Conceptual Framework*	1 January 2020
AASB 17 *Insurance contracts*	1 January 2021 (likely to be extended to 1 January 2022)

The Group's assessment of the impact of these new standards and interpretations is set out below.

AASB 2018-6 *Amendments to Australian Accounting Standards – Definition of a Business*

Amends AASB 3 *Business Combinations* to clarify the definition of a business, with the objective of assisting entities to determine whether a transaction should be accounted for as a business combination or as an asset acquisition.

The amendments:

- Clarify that to be considered a business, an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs
- Remove the assessment of whether market participants are capable of replacing any missing inputs or processes and continuing to produce outputs
- Add guidance and illustrative examples to help entities assess whether a substantive process has been acquired
- Narrow the definitions of a business and outputs by focusing on goods and services provided to customers and by removing the reference to an ability to reduce costs
- Add an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business

The amendments are applied prospectively to all business combinations and asset acquisitions for which the acquisition date is on or after the first annual reporting period beginning on or after 1 January 2020, with early application permitted.

32. Other accounting policies (continuation)

AASB 2018-7 *Amendments to Australian Accounting Standards – Definition of Material*

Make amendments intended to address concerns that the wording in the definition of 'material' was different in the *Conceptual Framework for Financial Reporting*, AASB 101 *Presentation of Financial Statements* and AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*.

The amendments address these concerns by:

- Replacing the term 'could influence' with 'could reasonably be expected to influence'
- Including the concept of 'obscuring information' alongside the concepts of 'omitting' and 'misstating' information in the definition of material
- Clarifying that the users to which the definition refers are the primary users of general purpose financial statements referred to in the Conceptual Framework
- Aligning the definition of material across Australian Accounting Standards and other publications.

The amendments are applied prospectively for annual periods beginning or after 1 January 2020, with earlier application permitted.

AASB 2019-1 *Amendment to Australian Accounting Standards – References to the Conceptual Framework*

Makes amendments to various Accounting Standards to reflect the issue of the revised Conceptual Framework for Financial Reporting. This Standard updates references to, or quotations from, previous versions of the Framework contained in many Accounting Standards.

This amending Standard applies to for-profit sector entities that have public accountability and are required by legislation to comply with Australian Accounting Standards and other for-profit entities that elect to apply the *Conceptual Framework*. The amendments are effective for annual periods beginning on or after 1 January 2020 with early application permitted.

AASB 17 *Insurance contracts*

AASB 17 establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts and supersedes AASB 4 *Insurance contracts*.

AASB 17 outlines a general model, which is modified for insurance contracts with direct participation features, described as the variable fee approach. The general model is simplified if certain criteria are met by measuring the liability for remaining coverage using the premium allocation approach.

The general model uses current assumptions to estimate the amount, timing and uncertainty of future cash flows and it explicitly measures the cost of that uncertainty. It takes into account market interest rates and the impact of policyholder's options and guarantees.

The Standard is effective for annual reporting periods beginning or after 1 January 2021, with early application permitted. It is applied retrospectively unless impracticable, in which case the modified retrospective approach or the fair value approach is applied. An exposure draft *Amendments to AASB 17* addresses concerns and implementation challenges that were identified after AASB 17 was published. One of the main changes proposed is the deferral of the date of initial application of AASB 17 by one year to annual periods beginning or after 1 January 2022. The impact of the new standard on the Group's financial statements has not yet been determined.

32. Other accounting policies (continuation)

32.2 Goods and services tax (GST)

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

- where the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the costs of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables which are stated with the amount of GST included.

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

Cash flows are included in the statement of cash flows on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority is classified as operating cash flows.

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

DIRECTORS' DECLARATION
RESIMAC GROUP LTD AND ITS CONTROLLED ENTITIES

The directors declare that:

(a) in the directors' opinion, there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable

(b) in the directors' opinion, the attached financial statements are in compliance with Australian Accounting Standards as stated in the financial statements;

(c) in the directors' opinion, the attached financial statements and notes thereto are in accordance with the *Corporations Act 2001*, including compliance with accounting standards and giving a true and fair view of the financial position and performance of the consolidated entity and the company; and

(d) the directors have been given the declarations required by s295.A of the *Corporations Act 2001.*

Signed in accordance with a resolution of the directors pursuant to s295(5) of the *Corporations Act 2001*.

On behalf of the Directors

Warren McLeland
Chairman

Sydney
25 August 2020

Deloitte Touche Tohmatsu
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The Board of Directors
Delarey Nell
Partner
Chartered Accountants

25 August 2020

Dear Board Members

Auditor's Independence Declaration to Resimac Group Limited

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of Resimac Group Limited and its controlled entities.

As lead audit partner for the audit of the financial report of Resimac for the year ended 30 June 2020, I declare that to the best of my knowledge and belief, there have been no contraventions of:

(i) the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and

(ii) any applicable code of professional conduct in relation to the audit.

Yours faithfully

DELOITTE TOUCHE TOHMATSU

DELOITTE TOUCHE TOHMATSU

Delarey Nell
Partner
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Independent Auditor's Report to the Members of Resimac Group Limited

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Resimac Group Limited (the "Entity") and its subsidiaries (the "Group") which comprises the consolidated statement of financial position as at 30 June 2020, the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information, and the directors' declaration.

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

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

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

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Report section of our report. We are independent of the 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.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's report.

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report for the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matter	How the scope of our audit responded to the Key Audit Matter
Loan Loss Provisioning under AASB 9 Financial Instruments As at 30 June 2020 the Group has recognised provisions amounting to $36.7m for impairment losses on loans and	Our procedures in conjunction with our specialists included, but were not limited to: - Assessing whether the model adequately addresses the requirements of the relevant accounting standard;

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advances held at amortised cost in accordance with the Expected Credit Loss (ECL) model as disclosed in note 6. Significant management judgement was necessary in determining expected credit losses, including: - Assumptions used in the ECL model such as the identification of exposures with a significant movement in credit quality to determine whether 12-month or lifetime ECL should be recognised, probability of default, loss given default and other macroeconomic factors disclosed in Note 22 and 23; and - The application of the requirements of AASB 9 as reflected in the Group's ECL model particularly in light of the current economic environment following the outbreak of COVID-19.	- Evaluating management's assessment of the impact of COVID-19 on the loan portfolio and hence the estimate of ECL; - Testing, on a sample basis, individual exposures to determine if they are classified into appropriate default stages and aging buckets for the purpose of determining impairment loss provision; - Independently develop a model, using inputs and assumptions applied by management, to assess the reasonableness of assumptions driving probabilities of default (PD), Loss Given Default (LGD) and Exposure at Default (EAD); and - Assessing reasonableness of management overlays to the modelled collective provision by taking into account recent history and performance of the relevant portfolios. We also assessed the appropriateness of the disclosures within notes 6, 22 and 23 of the financial statements.
Goodwill Impairment Assessment As at 30 June 2020, the group has a goodwill balance of $27.4 million as disclosed in note 11. In accordance with AASB 136 *Impairment of Non-Current Assets*, cash-generating units (CGU) to which goodwill is allocated are required to be tested for impairment at least annually by comparing the CGU's carrying value with its recoverable amount. Significant management judgement is required in determining recoverable amount of the CGU including, but not limited to the: - Identification of appropriate Cash Generating Units (CGU) to which goodwill is allocated for the purpose of impairment testing; - Selection of appropriate valuation methodology; and - Determination of assumptions and estimates in the valuation methodology, in particular those affected by current economic conditions following the outbreak of COVID-19 such as control premium and price-earnings multiples.	In conjunction with our valuation specialists, our procedures included, but were not limited to: - Evaluating the appropriateness of management's identification of the Group's CGUs and testing of key controls over the impairment assessment process, including the identification of indicators of impairment such as the carrying value exceeding the market capitalisation; - Assessing appropriateness of the valuation methodology applied in determining the recoverable amount of the CGU; - Assessing the reasonableness of the key assumptions used by management in the impairment model and whether they are suitably adjusted to reflect the current economic environment especially in light of COVID-19; and - Testing the mathematical accuracy of the impairment model. We also assessed the appropriateness of the disclosures in note 11 in the financial statements.
Future trailing commissions As at 30 June 2020, the net present value of future trailing commissions receivable (contract asset) and payable by the Group is $41.9 million and $20.8 million respectively as disclosed in Note 1 and 15. The determination of the net present value	Our procedures included, but were not limited to: - Challenging the reasonableness of management's assumptions applied, including discount rate and the run-off; and - Independently recalculating the NPV model using the inputs and assumptions applied by management, to recalculate the valuation of trail commission receivable and payable. This was compared to management's valuation, in

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of trailing commissions required management to exercise judgement with regard to the selection of the discount rate, run off rates applied to the model.	order to test the integrity and mathematical accuracy of management's model; We also assessed the appropriateness of the notes 1 and 15 of the financial statements

Other Information

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

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

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information; we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Financial Report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* 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 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 Group or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

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

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

Deloitte.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group's audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial report of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 12 to 24 of the Directors' Report for the year ended 30 June 2020.

In our opinion, the Remuneration Report of the Resimac Group Limited, for the year ended 30 June 2020, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

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DELOITTE TOUCHE TOHMATSU

Delarey Nell
Partner
Chartered Accountants
Sydney, 25 August 2020