Australian Settlements Limited

Annual Report
30 June 2019

ASL

Contents

Directors' Report

The directors of Australian Settlements Limited (ASL) present their report on the company for the financial year ended 30 June 2019.

The names of the directors of ASL in office at any time during, or since the end of the year to the date of this report, are:

Ms Claudia Jacqueline Bels

Mr Garry Donald Dinnie

Mr Shaun Owen Hassall

Mr David John Lawler (resigned 30 October 2018)

Mr Peter Gerard Lock

Mr Robert James Ryan

Ms Margot Ruth Sweeny (resigned 19 September 2019)

Mr Bruce Kenneth White

Mr Graeme Douglas Willis (appointed 3 October 2018)

Directors have been in office since the start of the financial year to the date of this report unless otherwise stated. None of the directors has any interest in a contract or proposed contract with ASL, with the exception of those identified in note 25 to the financial statements, or have declared such an interest since the date of the last Directors' Report.

Directors

Claudia Jacqueline BELS

Ms Bels is an independent director of ASL with extensive legal, governance, risk management and financial expertise. Ms Bels has over 25 years' experience across the government, member services and international banking and finance sectors. She is currently a non-executive director of Australia and New Zealand Recycling Platform Limited (Techcollect), CBHS Corporate Health Pty Ltd, Australian Physiotherapy Council Ltd and Healthcare Learning Solutions. She also chairs a number of committees for these companies as well as audit and risk committees for two public sector entities. Ms Bels is the Chair of the company's Risk and Contracts & Pricing Committees and is a member of the company's Audit, Governance and Capital & Investment Committees.

Garry Donald DINNIE

Mr Dinnie is an independent director of ASL and a director of CareFlight Limited, Integrated Research Limited and a director of a number of private companies. He is also Chair or member of several other audit and risk Committees of NSW public sector and private sector entities. He was previously a partner with Ernst & Young for 25 years specialising in audit, risk, advisory and IT services. Mr Dinnie is the Chair of the company's Audit Committee and is a member of the company's Risk, Governance, Contracts & Pricing, IT and HR & Remuneration Committees.

Shaun Owen HASSALL

Mr Hassall is the Chief Financial Officer of Newcastle Permanent Building Society Limited. He is a Chartered Accountant with over 15 years' experience including ten years in the financial services industry (customer owned banking), four years in chartered accounting firms and experience in the pharmaceuticals industry. Mr Hassall has held several positions within Newcastle Permanent Building Society within risk management and financial services. Mr Hassall is a member of the company's Audit, Risk and Capital & Investment Committees.

Peter Gerard LOCK

Mr Lock is the Chief Executive Officer of Heritage Bank Limited. Mr Lock has more than 30 years' experience in the financial services industry spanning insurance, institutional banking, business development, business banking and corporate banking. He has held senior management roles at the Bank of Melbourne, St George Bank, and Commonwealth Bank of Australia, following a career with the National Australia Bank. Mr Lock is a Senior Fellow of the Financial Services Institute of Australasia, and a Graduate Member of the Australian Institute of Company Directors. He has a keen interest in leadership and community, has been part of numerous capacity-building committees in a mentoring capacity and holds a Bachelor of Business and a Master of Business Administration from the University of South Australia. Mr Lock is a member of the company's IT Committee and Chair of the Capital and Investment Committee.

Robert James RYAN

Mr Ryan is the Chief Executive Officer of IMB Limited. Mr Ryan joined IMB Limited in 1999. Mr Ryan is a director of IMB Financial Planning Limited and The Flagstaff Group. Mr Ryan was appointed to the University of Wollongong Council by the NSW Minister for Education and Training in January 2010 and is on the Board of the University of Wollongong in Dubai. Prior to joining IMB, Mr Ryan held the positions of Managing Director, Chief Financial Officer and Company Secretary at Australian Resources Limited. Mr Ryan has extensive experience in finance and management at a senior executive and board level, has been involved in the formulation and implementation of strategic business plans, financial restructuring, staff management and development, as well as evaluation of acquisitions and divestments. Mr Ryan is the Chair of the company's Governance Committee and a member of the Capital and Investment Committee.

Margot Ruth SWEENY (OAM)

Ms Sweeny is the former CEO of Summerland Credit Union Limited. She has a diverse background in banking, accounting, finance, construction, education and computing within both the public and private sectors. Ms Sweeny is an active community member and public speaker. Her numerous community positions include being the current Chair of Credit Union Foundation Australia (CUFA), the development agency for the Australian Credit Union Movement, and a former member of Southern Cross University Council where she held positions as Chair of the Audit Committee and Finance Committee. Ms Sweeny is also the patron of Friends of the Koala Inc in the far north coast of NSW. Ms Sweeny is a member of the company's HR & Remuneration Committee.

Bruce Kenneth WHITE

Mr White has been working in the finance and manufacturing industries for close to 30 years. He joined Greater Bank Limited in 2010 as Chief Information Officer. Mr White has 16 years exposure to the operation of payment schemes in Australia. In his current role, Mr White has executive management of Greater Bank's payment functions as well as the technology functions. Mr White is the Chair of the company's IT Committee.

Graeme Douglas Willis (Chair)

Mr Willis has had a career spanning over 40 years within financial services, including board and executive management positions with major European and Australasian banks. He has completed a Management Development program at the Harvard Business School. Mr Willis is a Senior Fellow of the Financial Services Institute of Australasia (FINSIA), Fellow of the Australian Institute of Company Directors, Fellow of the Chartered Institute of Bankers (Scotland) and Fellow of the Governance Institute of Australia. Mr Willis was appointed Chair of the Board on 30 October 2018.

Directors' Report continued

Company Secretary

Allan Leslie MCGREGOR

Mr McGregor has over 25 years of experience working in risk management, compliance, project management, governance, company secretarial and internal audit. During this time Mr McGregor has gained extensive experience through roles in the banking, insurance, foreign exchange and energy industries in Australia including broader involvement in the Asia Pacific region. Mr McGregor holds a Bachelor of Science Degree and Master of Commerce in Finance and is a member of the Australian Institute of Risk Management.

Directors' Meetings

The number of directors' meetings (including meetings of committees of directors) and the number of meetings attended by each of the directors of ASL during the financial year is set out below.

	Meetings or Committees							
	Board	**Audit**	**Risk**	**HR & Rem**	**Governance**	**Contracts & Pricing**	**I.T.**	**Capital & Investments**
Number of Meetings Held:	**8**	**4**	**5**	**3**	**2**	**4**	**4**	**5**
Number of Meetings Attended:								
Ms C J Bels	8	4	5		2	4		5
Mr G D Dinnie	8	4	5	3	2	4	4	
Mr S 0 Hassall	6	3	4					3
Mr D J Lawler (1)	2			1				
Mr P G Lock	7						3	5
Mr R J Ryan	7				2			5
Ms M R Sweeny	8			3				
Mr B K White	9						4	
Mr G D Willis (2)	7			2		3		

(1) Mr Lawler resigned as a Director and Chair on 30 October 2018. Mr Lawler attended 2 out of 2 Board meetings scheduled, and 1 out of 1 HR and Remuneration Committee meetings scheduled prior to his resignation.

(2) Mr Willis was appointed as a Director on 3 October 2018. Mr Willis attended 7 out of 7 Board meetings scheduled following his appointment, 2 out of 2 HR and Remuneration Committee meetings and 3 out of 3 Contracts and Pricing Committee meetings scheduled following his appointment to those Board Committees.

Directors' Report continued

Principal Activities

The principal activities of ASL during the financial year ended 30 June 2019 were providing Members (known as System Participants) with settlement services for ATM/eftpos, VISA, direct entry, BPAY, NPP, PEXA and high value transactions, maintaining a risk management system, acting as a focal point for Members to participate in the payments system, and developing payments services and strategies.

Profit for the financial year was $718,999 (2018: $1,910,829).

Review of Operations

ASL is an Authorised Deposit-taking Institution (ADI) subject to prudential supervision by the Australian Prudential Regulation Authority (APRA) and operates an Exchange Settlement Account (ESA) at the Reserve Bank of Australia (RBA) which is used for the settlement of payment obligations of System Participants.

ASL is a principal member of AusPayNet, BPAY, VISA, eftpos, Austraclear, PEXA, and NPP, and accepts responsibility for settling the payment system obligations of System Participants that arise within payment streams. System Participants provide ASL with funds which are used to meet their settlement obligations. The ASL Board has set the level of the funds required appropriate to the level of risk.

ASL is committed to maintaining best practice in all its activities, including risk management, having regard to the size and nature of its operations. In so doing, ASL complies with all applicable prudential standards and guidance notes issued by APRA.

Since inception, ASL has successfully met all its settlement and other obligations as they have fallen due.

Significant Changes in the State of Affairs

There were no significant changes in the company's state of affairs during the year ended 30 June 2019.

Matters Subsequent to the end of the Financial Year

Margot Ruth Sweeney has resigned as a Director of Australian Settlements Limited effective 19 September 2019.

There have been no other matters or circumstances that have arisen since 30 June 2019 that are likely to have affected or to significantly affect in future financial years, the operations of ASL, the results of those operations or the state of affairs of ASL.

Likely Developments and Expected Results of Operations

There are no expected developments that are likely to affect the operations of ASL or the expected results of those operations in financial years subsequent to the financial year ended 30 June 2019.

Directors' Report continued

Insurance of Officers

The directors have not included details of the nature of the liabilities covered or the amount of the premium paid in respect of the directors' and officers' liability and legal expenses insurance contracts, as such disclosure is prohibited under the terms of the contracts.

Environmental Regulation

The company's operations are not regulated by any significant environmental regulation under a law of the Commonwealth or of a state or territory.

Dividend

No dividend was declared nor paid during the financial year (2018: nil).

Auditor's Independence Declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 8.

Signed in accordance with a resolution of directors. The directors have the power to amend and reissue the financial statements.

Graeme Douglas Willis

Director

Garry Donald Dinnie

Director

Dated this 24th day of September 2019

Deloitte.

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The Board of Directors
Australian Settlements Limited
Level 11, 275 Alfred Street
North Sydney, NSW 2000

24 September 2019

Dear Board Members

Australian Settlements 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 Australian Settlements Limited.

As lead audit partner for the audit of the financial report of Australian Settlements Limited for the financial year ended 30 June 2019, 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

Mark Lumsden
Partner
Chartered Accountants

Statement of Comprehensive Income

For the year ended 30 June 2019

	Note	2019	2018
		$	$
Interest revenue	2	6,064,717	5,733,451
Borrowing costs	2	(5,101,168)	(5,499,328)
Net interest income		963,549	234,123
Fee Income	2	13,328,894	12,876,739
Processing costs		(5,703,102)	(4,978,741)
Net non-interest revenue		7,625,792	7,897,998
Gross profit		**8,589,341**	**8,132,121**
Miscellaneous income	2	165,581	325,812
Depreciation and amortisation expenses		(559,723)	(125,551)
Employee benefits expenses		(4,789,847)	(3,777,776)
Administrative expenses		(2,686,353)	(2,643,777)
Profit for the year before income tax		**718,999**	**1,910,829**
Income tax expense	4	-	-
Profit for the year after income tax		**718,999**	**1,910,829**
Other comprehensive income for the year		-	-
Total comprehensive income for the year		**718,999**	**1,910,829**
Dividends per share		-	-

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

Statement of Financial Position

As at 30 June 2019

	Note	2019	2018
		$	$
Assets			
Cash and cash equivalents	6	299,997,673	306,912,564
Financial Assets - amortised cost		117,094,040	118,981,714
Trade and interest receivables	7	3,551,969	2,272,832
Other assets	8	1,027,234	690,847
Plant and equipment	9	3,693,757	4,063,076
Intangibles	10	5,719,136	5,244,410
Equity Instruments - other comprehensive income		2,000,000	2,000,000
Total assets		**433,083,809**	**440,165,443**
Liabilities			
Trade and other payables	11	2,073,092	1,546,720
Provisions	12	1,095,445	519,608
Borrowings	17	415,442,828	425,524,891
Finance lease liability	14	133,965	309,569
System participant shares	19	28	27
Total liabilities		**418,745,358**	**427,900,815**
Net assets		**14,338,451**	**12,264,628**
Equity			
Contributed equity	13	3,979,005	2,624,181
Retained earnings		10,359,446	9,640,447
Total equity		**14,338,451**	**12,264,628**

The above statement of financial position should be read in conjunction with the accompanying notes.

Statement of Changes in Equity

For the year ended 30 June 2019

	Contributed Equity	Retained Earnings	Total Equity
	$	$	$
Balance at 1 July 2017	2,624,181	7,729,618	10,353,799
Profit for the year	-	1,910,829	1,910,829
Other comprehensive income	-	-	-
Total comprehensive income for the year	**-**	**1,910,829**	**1,910,829**
Transactions with owners in their capacities as owners:	-	-	-
Dividends provided for or paid	-	-	-
Balance at 30 June 2018	**2,624,181**	**9,640,447**	**12,264,628**
Profit for the year	-	718,999	718,999
Other comprehensive income	-	-	-
Total comprehensive income for the year	**-**	**718,999**	**718,999**
Transactions with owners in their capacities as owners:			
Issue of Ordinary Non-Voting Share (Note 13)	1,354,824	-	1,354,824
Dividends provided for or paid	-	-	-
Balance at 30 June 2019	**3,979,005**	**10,359,446**	**14,338,451**

The above statement of changes in equity should be read in conjunction with the accompanying notes.

Statement of Cash Flows

For the year ended 30 June 2019

	Note	2019	2018
		$	**$**
Cash flows from operating activities			
Interest received		5,752,533	4,984,967
Interest paid		(5,096,041)	(5,459,409)
Receipts from customers (inclusive of GST)		14,251,465	14,400,924
Payments to suppliers and employees (inclusive of GST)		(14,370,579)	(13,823,903)
Net cash inflows from operating activities	16(b)	**537,378**	**102,579**
Cash flows from investing activities			
Payments for financial assets		-	-
Loans and Investments		1,887,674	(118,981,714)
Purchase of plant and equipment and intangibles		(456,050)	(2,400,495)
Net cash flows (used in) investing activities		**1,431,624**	**(121,382,209)**
Cash flows from financing activities			
Net movement in System Participants deposits		(8,708,290)	61,727,714
Finance lease payments		(175,603)	(332,613)
Net cash inflows from financing activities		**(8,883,893)**	**61,395,101**
Net increase in cash and cash equivalents		(6,914,891)	(59,884,529)
Cash and cash equivalents at the beginning of the financial year		306,912,564	366,797,093
Cash and cash equivalents at end of the year	16(a)	**299,997,673**	**306,912,564**

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

Notes to the Financial Statements

For the year ended 30 June 2019

Note 1: Summary of Significant Accounting Policies

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial statements have been prepared for ASL as an individual entity.

Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board and the Corporations Act 2001. ASL is a for profit entity for the purpose of preparing the financial statements. All amounts are presented in Australian dollars.

(i) Compliance with IFRS

These financial statements also comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

(ii) Historical cost convention

The financial statements have been prepared on a historical cost basis, except for certain financial assets and liabilities (including derivative instruments), which are measured at fair value.

(iii) Changes in Comparatives

Where applicable comparative information has been restated to conform to presentation in the current year.

Critical accounting estimates and judgements

The preparation of financial statements in conformity with Australian Accounting Standards requires the use of certain critical accounting estimates. Management is also required to exercise its judgement in the process of applying the company's accounting policies.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the company and that are believed to be reasonable under the circumstances.

The following are the critical judgements that management have made in the process of applying the company's accounting policies and that have the most significant effect in the amounts recognised in the financial statements:

Note 10 - the carrying amount of intangible assets

Note 22 - the fair value of financial instruments

Notes to the Financial Statements continued

For the year ended 30 June 2019

Application of new and revised Accounting Standards

ASL has adopted all of the new or amended Accounting Standards and Interpretations issued by the Australian Accounting Standards Board (AASB) that are mandatory for the current reporting period. Any new or amended Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

The following new Accounting Standards and Interpretations most relevant to ASL are:

AASB 9 *Financial Instruments* and related amending standards

AASB 15 *Revenue from Contracts* with Customers and related amending standards

AASB 9 *Financial Instruments* and related amending Standards

In the current year, ASL has applied AASB 9 *Financial Instruments* (as amended) and the related consequential amendments to other Accounting Standards that are effective for an annual period that begins on or after 1 July 2018. The transition provisions of AASB 9 allow an entity not to restate comparatives. ASL has elected not to restate comparatives.

Additionally, ASL has adopted consequential amendments to AASB 7 *Financial Instruments: Disclosures* that were applied to the disclosures about the financial year ended 30 June 2019 and to the comparative period.

AASB 9 introduced new requirements for:

- The classification and measurement of financial assets and financial liabilities;
- Impairment of financial assets; and
- General hedge accounting.

Details of these new requirements as well as their impact on the ASL's financial statements are described below.

Classification and measurement of financial assets

The date of initial application (i.e. the date on which ASL has assessed its existing financial assets and financial liabilities in terms of the requirements of AASB 9) is 1 July 2018. Accordingly, ASL has applied the requirements of AASB 9 to instruments that continue to be recognised as at 1 July 2018 and has not applied the requirements to instruments that have already been derecognised as at 1 July 2018. Comparative amounts in relation to instruments that have not been derecognised as at 1 July 2018 have been restated where appropriate.

All recognised financial assets that are within the scope of AASB 9 are required to be subsequently measured at amortised cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

Specifically:

- Debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding, are subsequently measured at amortised cost.
- Debt investments that are held within a business model whose objective is both to collect the contractual cash flows and to sell the debt instruments, and that have contractual cash flows that are solely payments of principal and

interest on the principal amount outstanding, are subsequently measured at fair value through other comprehensive income (FVTOCI).

- All other debt investments and equity investments are subsequently measured at fair value through profit or loss (FVTPL).

Despite the aforegoing, ASL may make the following irrevocable election/designation at initial recognition of a financial asset:

- ASL may irrevocably elect to present subsequent changes in fair value of an equity investment that is neither held for trading nor contingent consideration recognised by an acquirer in a business combination in other comprehensive income
- ASL may irrevocably designate a debt investment that meets the amortised cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

In the current year, ASL has not designated any debt investments that meet the amortised cost or FVTOCI criteria as measured at FVTPL.

When a debt investment measured at FVTOCI is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment. In contrast, for an equity investment designated as measured at FVTOCI, the cumulative gain or loss previously recognised in other comprehensive income is not subsequently reclassified to profit or loss.

Debt instruments that are subsequently measured at amortised cost or at FVTOCI are subject to impairment (see below).

Application of AASB 9

ASL has reviewed and assessed existing financial assets as at 1 July 2018 based on the facts and circumstances that existed at that date and concluded that the initial application of AASB 9 has had the following impact on ASL's financial assets as regards their classification and measurement

ASL's investments in equity instruments (neither held for trading nor a contingent consideration arising from a business combination) that were previously classified as available-for-sale financial assets and were measured at fair value at each reporting date under AASB 139 have been designated as at FVTOCI. Any change in fair value on these equity instruments will be accumulated in the investment revaluation reserve.

Financial assets classified as held-to-maturity and under AASB 139 that were measured at amortised cost continue to be measured at amortised cost under AASB 9 as they are held within a business model to collect contractual cash flows and these cash flows consist solely of payments of principal and interest on the principal amount outstanding.

None of the reclassifications of financial assets have had any impact on the ASL financial position, profit or loss, other comprehensive income or total comprehensive income in either year.

Notes to the Financial Statements continued

For the year ended 30 June 2019

Impairment of financial assets

In relation to the impairment of financial assets, AASB 9 requires an expected credit loss model as opposed to an incurred credit loss model under AASB 139. The expected credit loss model requires ASL to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition of the financial assets. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

Specifically, AASB 9 requires ASL to recognise a loss allowance for expected credit losses on:

- Debt investments measured subsequently at amortised cost or at FVTOCI;
- Lease receivables;
- Trade receivables and contract assets; and
- Financial guarantee contracts to which the impairment requirements of AASB 9 apply.

In particular, AASB 9 requires ASL to measure the loss allowance for a financial instrument at an amount equal to the lifetime expected credit losses (ECL) if the credit risk on that financial instrument has increased significantly since initial recognition, or if the financial instrument is a purchased or originated credit-impaired financial asset. However, 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), ASL is required to measure the loss allowance for that financial instrument at an amount equal to 12-months ECL. AASB 9 also requires a simplified approach for measuring the loss allowance at an amount equal to lifetime ECL for trade receivables, contract assets and lease receivables in certain circumstances. The ECL allowance has been assessed as not material for ASL for all asset classes at June 2019 (1 July 2018: not material).

Classification and measurement of financial liabilities

One major change introduced by AASB 9 in the classification and measurement of financial liabilities relates to the accounting for changes in the fair value of a financial liability designated as at FVTPL attributable to changes in the credit risk of the issuer. Specifically, AASB 9 requires that the changes in the fair value of the financial liability that is attributable to changes in the credit risk of that liability be presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss, but are instead transferred to retained earnings when the financial liability is derecognised. Previously, under AASB 139, the entire amount of the change in the fair value of the financial liability designated as at FVTPL was presented in profit or loss.

The application of AASB 9 has had no impact on the classification and measurement of ASL's financial liabilities.

Disclosures in relation to the initial application of AASB 9

There were no financial assets or financial liabilities which ASL had previously designated as at FVTPL under AASB 139 that were subject to reclassification or which ASL has elected to reclassify upon the application of AASB 9. There were no financial assets or financial liabilities which ASL has elected to designate as at FVTPL at the date of initial application of AASB 9.

The table below shows information relating to financial assets that have been reclassified as a result of transition to AASB 9.

	(i)	(ii)	(iii)	(iv) = (i) + (ii) + (iii)	(v) = (iii)
	AASB 139 measurement 30/6/2018	**Reclass-ifications**	**Remeasure-ments**	**AASB 9 measurement 1/7/2018**	**Retained earnings effect on 1/7/2018**
Financial assets					
From:					
Available for sale (AASB 139)	2,000,000	(2,000,000)	-	-	-
Amortised cost (AASB 139)	118,981,714	(118,981,714)	-	-	-
To:					
Amortised cost (AASB 9)		118,981,714	-	118,981,714	-
FVTOCI - equity instruments (AASB 9)		2,000,000	-	2,000,000	-
Total	120,981,714	-	-	120,981,714	-

AASB 15 *Revenue from Contracts with Customers* and related amending Standards

In the current year, ASL has applied AASB 15 *Revenue from Contracts with Customers* (as amended) which is effective for an annual period that begins on or after 1 July 2018. AASB 15 introduced a 5-step approach to revenue recognition. Far more prescriptive guidance has been added in AASB 15 to deal with specific scenarios. Details of the new requirements as well as their impact on the financial statements are described below.

ASL has applied AASB 15 in accordance with the fully retrospective transitional approach without using the practical expedients for completed contracts in AASB 15:C5(a), and (b), or for modified contracts in AASB 15:C5(c) but using the expedient in AASB 15:C5(d) allowing both non-disclosure of the amount of the transaction price allocated to the remaining performance obligations, and an explanation of when it expects to recognise that amount as revenue for all reporting periods presented before the date of initial application i.e. 1 July 2018.

AASB 15 uses the terms 'contract asset' and 'contract liability' to describe what might more commonly be known as 'accrued revenue' and 'deferred revenue', however the Standard does not prohibit an entity from using alternative descriptions in the statement of financial position. ASL has not adopted the terminology used in AASB 15 to describe such balances.

ASL's accounting policies for its revenue streams are disclosed in detail below. Apart from providing more extensive disclosures for ASL's revenue transactions, the application of AASB 15 has had no material impact on the financial position and/or financial performance of ASL.

Notes to the Financial Statements continued

For the year ended 30 June 2019

New accounting standards and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for the 30 June 2019 reporting periods and have not been early adopted by the company. The company's assessment of the impact of these new standards and interpretations is set out below:

Title of standard	Nature of change	Impact	Mandatory application date/date of adoption by ASL
AASB 16 *Leases*	The AASB issued a new standard for the recognition of leases, which will primarily affect the accounting by lessees with the recognition of leases currently classed as operating leases on the balance sheet. The accounting by lessors, however, will not significantly change.	Upon adoption of the standard, the company will recognise a right-to-use asset and associated lease liability, with no material impact to net assets. The resulting charge to the profit and loss is not expected to differ materially from the rental payments implicit in lease agreements.	The new standard is effective for annual reporting periods commencing after 1 January 2019. The company will apply the standard from 1 July 2019.

Income Tax

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses. Under the concept of mutuality, ASL is only assessed for income tax on the portion of income derived from non-member services, including interest income.

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

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

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority.

Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

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

Notes to the Financial Statements continued

For the year ended 30 June 2019

Plant and equipment

Plant and equipment is stated at historical cost less accumulated depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

The carrying amount of plant and equipment is reviewed annually to ensure it is not stated above its recoverable amount. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the assets' employment and subsequent disposal. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

Subsequent costs are included in the assets' carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to profit and loss during the financial period in which they are incurred.

The depreciable amount of all fixed assets, including leased assets, is depreciated on a straight line basis over the asset's useful life commencing from the time the asset is held ready for use. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

The depreciation rates used for each class of depreciable asset are:

Class of asset	2019	2018
Motor vehicle	8 years	8 years
Computer hardware and software	3 to 10 years	3 to 10 years
Office equipment	3 to 15 years	3 to 15 years
Furniture and fittings	5 to 15 years	5 to 15 years
Intangible assets	5 to 15 years	5 to 15 years

Assets' residual values and useful lives are reviewed and adjusted if appropriate at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains or losses are included in profit or loss.

During the financial year ended 30 June 2018 the depreciation rate for computer hardware and software was changed to 3 to 10 years (previously 3 to 5 years). This is to ensure the financial statements provide more reliable and relevant information and depreciation amounts reflect the expected useful life of the computer hardware and software. This had no material impact on the profit and loss for the year ended 30 June 2018.

Intangible assets

Internally generated intangible assets include costs incurred in developing products or systems that are expected to contribute to future financial benefits through the generation of revenue and/or cost reduction. The costs are only capitalised if they can be reliably measured during the development of the asset. Recognition of an internally generated intangible asset will only take place if it can be demonstrated that it is technically feasible to complete the asset and the company has the intention and ability to complete the asset so that it can be made available for sale or use.

Intangible assets are amortised from the point in time that they are available for sale or use as intended by management. Amortisation is calculated on a straight line basis, over a period ranging from 5 to 15 years (2018: 5 to 15 years).

Notes to the Financial Statements continued

For the year ended 30 June 2019

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the statement of profit or loss in the expense category that is consistent with the function of the intangible assets.

Leases

Leases of property, plant and equipment where the company, as lessee, has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's inception at the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other short-term and long-term payables. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the asset's useful life or over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that the company will obtain ownership at the end of the lease term.

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the company as lessee are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

Impairment of assets

At each reporting date the company reviews the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets may be impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to profit or loss.

Where it is not possible to estimate the recoverable amount of an individual asset, the company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Employee benefits

(i) Short-term obligations

Liabilities for wages and salaries, including non-monetary benefits and annual leave expected to be settled within 12 months after the end of the period in which the employees render the related service, are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liability for annual leave is recognised in the provision for employee benefits. All other short-term employee benefit obligations are presented as payables.

(ii) Other long-term employee benefit obligations

The liability for long service leave and annual leave which is not expected to be settled within 12 months after the end of the period in which the employees render the related service is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the end of the reporting period using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service.

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

The obligations are presented as current liabilities if the entity does not have an unconditional right to defer settlement for at least twelve months after the reporting date, regardless of when the actual settlement is expected to occur.

Provisions

Provisions for legal claims, service warranties and make good obligations are recognised when the company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

An onerous lease contract liability is recognised when the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. The liability is determined by estimating the present value of the minimum future contractual payments the Company is obligated to make under the onerous contract.

Contributed equity

Ordinary shares and non-voting shares are classified in equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Cash and cash equivalents

For the purpose of presentation in the statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities.

Notes to the Financial Statements continued

For the year ended 30 June 2019

Revenue recognition

Revenue is recognised upon satisfying the performance obligations by the company. The principal sources of revenue are interest income, and fee and miscellaneous income.

(i) Interest Income

Interest Income is recognised on a time proportion basis using the effective interest on the financial asset in accordance with AASB 9. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the consolidated entity estimates cash flows considering all fees paid or received between parties, transaction costs, premiums incurred or discounts received in relation to the contract that are an integral part of the effective interest rate.

(ii) Fee and Miscellaneous Income

Fee and Miscellaneous Income relates to specific transaction delivery, settlement activity or related events and are generally charged to a customer on a monthly basis. In accordance with AASB 15, Fee and Miscellaneous Income is recognised in the period in which they are received when the performance obligation is satisfied. However, when they are charged for services provided over a period, the income is recorded on an accrual basis. All performance obligations for these services are expected to be completed in one year.

All revenue is stated net of the amount of goods and services tax (GST).

Goods and Services Tax

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the statement of financial position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to, the taxation authority are presented as operating cash flows.

Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for expected credit loss. Trade receivables are generally due for settlement within 30 days. They are presented as current assets unless collection is not expected for more than 12 months after the reporting date.

Trade and other payables

These amounts represent liabilities for goods and services provided to the company prior to the end of the financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition. Trade and other payables are presented as current liabilities unless payment is not due within 12 months from the reporting date. They are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.

Borrowings

Borrowings represent the funds lodged by System Participants, held to cover their settlement obligations, and excess funds deposited. For further information refer to note 17.

Borrowings are classified as current liabilities unless ASL has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

Foreign currency translation

The company has expenses payable in foreign currencies. Payments of these expenses are translated into Australian dollars at the time of remittance. The exposures of these foreign currency payments is not material against the company's overall expenses.

Rounding of amounts

The company is of a kind referred to in Class Order 2016/191, issued by the Australian Securities and Investments Commission, relating to the 'rounding off' of amounts. All amounts are shown to the nearest dollar, except where indicated.

Notes to the Financial Statements continued

For the year ended 30 June 2019

Note 2: Income and Borrowing Costs

The following tables for Interest and Borrowing Costs show the average balance for each of the main categories of interest-bearing assets and liabilities, the amount of interest revenue or borrowing cost and the average interest rate.

Interest and Borrowing Costs	**Average Balance**	**Amount**	**Average Rate**
	$	**$**	**%**
2019			
Interest revenue			
Cash and cash equivalents	302,479,050	3,845,105	1.27%
Financial Assets - amortised cost	128,326,027	2,219,612	1.73%
Total interest revenue		**6,064,717**	
Borrowing costs			
Borrowings	423,846,907	5,096,041	1.20%
Subordinated debt – Tranche 1	198,562	5,127	2.58%
Subordinated debt – Tranche 2	1,362,306	-	0.00%
Total borrowing costs		**5,101,168**	
2018			
Interest revenue			
Cash and cash equivalents	382,654,913	5,174,118	1.35%
Financial Assets - amortised cost	30,383,562	559,333	1.84%
Total interest revenue		**5,733,451**	
Borrowing costs			
Borrowings	417,649,464	5,491,955	1.31%
Subordinated debt – Tranche 1	331,733	7,373	2.22%
Subordinated debt – Tranche 2	2,090,000	-	0.00%
Total borrowing costs		**5,499,328**	

Fee and Miscellaneous Income	**2019**	**2018**
	$	**$**
Fee Income	13,328,894	12,876,739
Miscellaneous Income	165,581	325,812
Total fee and miscellaneous Income	**13,494,475**	**13,202,551**

Notes to the Financial Statements continued

For the year ended 30 June 2019

Note 3: Auditor's Remuneration

	2019 $	2018 $
Audit & other assurance activities (Deloitte Touche Tohmatsu)		
Financial statement audit	38,100	32,200
Other assurance services	21,500	18,200
Total audit & other assurance activities	**59,600**	**50,400**

Note 4: Income Tax Expense

(a) Income tax expense

	2019 $	2018 $
Deferred tax assets	-	-
Current income tax payable	-	-
Total income tax expense reported in the statement of comprehensive income	-	-

(b) Numerical reconciliation of income tax expense to prima facie tax payable

	2019 $	2018 $
Accounting profit before income tax	**718,999**	**1,910,829**
Tax at the Australian tax rate @ 27.5%	197,725	525,478
Tax effect of:		
Non-deductible expenditure	23,309	9,693
Member related expenses not deductible under the mutuality principle	3,400,254	2,903,909
Member related income not assessable under the mutuality principle	(3,966,681)	(3,786,003)
Tax losses not recognised as a deferred tax asset	345,393	346,923

(c) Deferred tax assets not recognised

	2019 $	2018 $
Unused tax losses – Net interest income	3,095,580	2,750,186
Property, plant and equipment	(74,284)	28,375
Employee provisions and accruals	385,281	203,037

Note 5: Key Management Personnel Disclosures

The Directors of ASL during the year were:

Ms Claudia Jacqueline Bels

Mr Garry Donald Dinnie

Mr Shaun Owen Hassall

Mr David John Lawler (resigned 30 October 2018)

Mr Peter Gerard Lock

Mr Robert James Ryan

Ms Margot Ruth Sweeny

Mr Bruce Kenneth White

Mr Graeme Douglas Willis (appointed 3 October 2018)

Directors were in office for the duration of the financial year unless otherwise stated.

The executives of ASL during the year include:

Mr David Jay, Chief Executive Officer, until 1 April 2019

Mr Mathew Crichton, Chief Information Officer

Mr Allan McGregor, Company Secretary and Acting Chief Risk Officer, from 3 September 2018

Mr Bruce Potter, Chief Member Officer

Mr Anthony Roberts, Chief Financial Officer

Mr Mark Tibbles, Chief Strategy, Innovation & Partnerships Officer, Acting Chief Executive Officer, from 2 April 2019

Ms Rubi Westman, Chief Risk Officer, until 31 August 2018

Executives have been in office since the start of the financial year to the date of this report unless otherwise stated.

Compensation for key management personnel

	2019 $	2018 $
Short term employee benefits	2,939,144	2,087,099
Other long-term employee benefits	33,273	21,497
Total compensation for key management personnel	**2,972,417**	**2,108,596**

Compensation in 2018 includes consultant fees for acting executive role.

Notes to the Financial Statements continued

For the year ended 30 June 2019

Note 6: Cash and Cash Equivalents

	Note	2019	2018
		$	$
Cash on hand		479	111
Exchange Settlement Account (RBA) (a)		249,199,486	277,297,320
Deposits with Australian ADIs (b)		50,797,708	25,910,133
Deposits with other financial institutions (ADIs) (c)		-	3,705,000
	16a.	**299,997,673**	**306,912,564**

(a) Exchange Settlement Account

ASL holds funds from System Participants to cover settlement obligations. Part of these funds are held in an Exchange Settlement Account in accordance with the RBA's requirement.

(b) Deposits with Australian ADIs

These cash balances represent part of the System Participants' funds held for settlement obligations and excess funds System Participants hold above the settlement funding requirements determined by ASL as a tool of their own short-term liquidity management. These funds are held in deposit and at call accounts with Australian ADIs. Interest is calculated and earned on these balances at prevailing market rates. It also includes liquid assets of ASL.

(c) Deposits with other financial institutions (ADIs)

These balances represent deposits of varying lengths with Australian ADIs.

Note 7: Trade and Interest Receivables

	2019	2018
	$	$
Current		
Interest receivable – RBA (a)	157,123	276,846
Interest receivable – ADIs	87,013	65,866
Interest receivable – Government Securities	1,718,518	893,198
Trade receivables (b)	1,589,315	1,036,922
Total trade and interest receivables	**3,551,969**	**2,272,832**

(a) Interest receivable – RBA

Interest receivable represents interest not yet received from the RBA, on funds held in ASL's Exchange Settlement Account, which is due for receipt on the first working day of the following financial period.

(b) Trade receivables

Trade receivables are non-interest bearing and are generally on 30 day terms.

Notes to the Financial Statements continued

For the year ended 30 June 2019

Note 8: Other Assets

	2019	2018
	$	$
Prepayments and deposits	868,090	553,491
Accrued income	159,144	137,356
Total other assets	**1,027,234**	**690,847**

Note 9: Plant and Equipment

	2019	2018
	$	$
Motor vehicle		
At cost	32,686	32,686
Accumulated depreciation	(20,429)	(16,343)
	12,257	**16,343**
Computer hardware and software		
At cost (a)	5,387,005	5,336,803
Accumulated depreciation and amortisation	(1,738,569)	(1,340,000)
	3,648,436	**3,996,803**
Office equipment		
At cost	72,498	72,498
Accumulated depreciation	(69,777)	(66,951)
	2,721	**5,547**
Furniture and fittings		
At cost	172,973	172,973
Accumulated depreciation	(142,630)	(128,590)
	30,343	**44,383**
Total plant and equipment	**3,693,757**	**4,063,076**

(a) includes $1,930,310 of assets under finance lease.

Notes to the Financial Statements continued

For the year ended 30 June 2019

Note 9: Plant and Equipment (continued)

Movements in carrying amounts

	2019	2018
	$	$
Motor vehicle		
Carrying amount at beginning of year	16,343	20,429
Depreciation expense	(4,086)	(4,086)
	12,257	**16,343**
Computer hardware and software		
Carrying amount at beginning of year	3,996,803	3,657,287
Additions	50,202	629,903
Depreciation expense	(398,569)	(290,387)
	3,648,436	**3,996,803**
Office equipment		
Carrying amount at beginning of year	5,547	7,029
Additions	-	4,746
Disposals	-	-
Depreciation expense	(2,826)	(6,228)
	2,721	**5,547**
Furniture and fittings		
Carrying amount at beginning of year	44,383	59,740
Additions	-	2,524
Depreciation expense	(14,040)	(17,881)
	30,343	**44,383**
Total plant and equipment	**3,693,757**	**4,063,076**

Notes to the Financial Statements continued

For the year ended 30 June 2019

Note 10: Intangible Assets

	2019 $	2018 $
Software licences at cost	610,915	610,915
Internally generated intangible at cost	5,352,659	4,633,495
Accumulated depreciation and amortisation	(244,438)	-
Total intangible assets	**5,719,136**	**5,244,410**

Movements in carrying amounts

	2019 $	2018 $
Carrying amount at beginning of year	5,244,410	2,683,885
Additions	719,164	2,560,525
Amortisations	(244,438)	-
Carrying amount at end of year	**5,719,136**	**5,244,410**

Intangible Assets represent core payments infrastructure investments which are being amortised over 10 years, in accordance with the company's accounting policy. A recoverable value of the assets in excess of its carrying value is supported and therefore the asset was not impaired at the 30 June 2019 (2018: nil).

Note 11: Trade and Other Payables

	2019 $	2018 $
Current		
Trade payables (a)	393,272	225,623
Other payables	1,206,856	840,120
Income received in advance	144,529	38,750
Interest payable (b)	328,435	442,227
Total trade and other payables	**2,073,092**	**1,546,720**

(a) Trade payables

Trade payables are non-interest bearing and are generally on 30 day terms.

(b) Interest payable

This represents the interest payable on funds placed by System Participants with ASL. Interest is paid monthly in arrears.

Notes to the Financial Statements continued

For the year ended 30 June 2019

Note 12: Provisions

	2019	2018
	$	$
Current		
Other provisions (a)	449,281	-
Employee benefits provisions		
Annual leave	391,830	310,905
Long service leave	212,369	181,935
Total current provisions	**1,053,480**	**492,840**
Non-current		
Employee benefits provisions		
Long service leave	41,965	26,768
Total provisions	**1,095,445**	**519,608**

(a) Other provisions

A provision has been raised for an estimated amount in respect of a historical contract. The period of the contract will conclude in the next financial year.

Notes to the Financial Statements continued

For the year ended 30 June 2019

Note 13: Contributed Equity

	2019	2018
	$	$
54,627 fully paid ordinary shares (2018: 54,627 shares)	54,627	54,627
3,924,378 fully paid non-voting shares (2018: 2,569,554 shares)	3,924,378	2,569,554
Total contributed equity	**3,979,005**	**2,624,181**

(a) Ordinary shares

Fully paid ordinary shares carry one vote per share and carry the rights to dividends.

(b) Non-voting shares

Fully paid non-voting shares do not carry any voting rights but do carry the rights to dividends.

(c) Capital management

The company manages its capital in order to maintain a sound debt to equity ratio, provide the shareholders with adequate returns and ensure that the company can fund its operations and continue as a going concern.

The company's debt and capital includes ordinary share capital and financial liabilities, supported by financial assets.

There is an externally imposed minimum capital requirement placed on the company by APRA calculated under Basel III (refer note 18).

The company effectively manages its capital by assessing the company's financial risks and adjusting its capital structure in response to changes in these risks and in the market. These responses include management of debt levels, distributions to shareholders and share issues.

During the year 1,354,824 fully paid $1 non-voting shares were issued, offsetting a reduction in Perpetual Subordinated Debt of the equivalent amount.

There have been no other changes in the strategy adopted by the company to manage its capital since the prior year.

Notes to the Financial Statements continued

For the year ended 30 June 2019

Note 14: Commitments

(a) Operating lease commitments

Non-cancellable operating leases contracted for but not capitalised in the financial statements:

	2019	2018
	$	$
Payable within one year	137,781	268,536
Payable later than one year but not later than five years	13,759	195,039
Minimum lease payments	**151,540**	**463,575**

ASL leases various business premises under non-cancellable operating leases which expire no later than five years from 30 June 2019. The leases have varying terms, escalation clauses and renewal rights.

(b) Finance leases

Non-cancellable finance leases contracted and capitalised in the financial statements:

	2019	2018
	$	$
Minimum lease payments	148,403	340,256
Interest	(14,438)	(30,687)
Present value of lease liability	**133,965**	**309,569**
Payable within one year	148,403	191,853
Payable later than one year but not later than five years	-	148,403
Minimum lease payments	**148,403**	**340,256**

Finance lease commitments require annual payments, extend to 1 April 2020 and are non-cancellable. There are no further obligations on the company at the end of the lease term.

Note 15: Segment Reporting

The company operates predominantly in one business and one geographical segment. The company's operations are confined to Australia and involve providing members with settlement services for ATM/eftpos, VISA, Direct Entry, BPAY, PEXA, NPP and high value transactions, maintaining risk management systems, acting as a focal point for financial institutions to participate in payment systems, and developing payments services and strategies.

Notes to the Financial Statements continued

For the year ended 30 June 2019

Note 16: Cash Flow Information

(a) Reconciliation of cash

For the purposes of the statement of cash flows, cash and cash equivalents includes cash at bank and on hand and short term deposits. Cash at the end of the year as shown in the statement of cash flows is reconciled to the related items in the statement of financial position as follows:

		$	$
Cash and cash equivalents	6	299,997,673	306,912,564

(b) Reconciliation of profit after income tax to cash flows from operations

	2019 $	2018 $
Profit for the year	718,999	1,910,829
Non-cash flows in profit		
Depreciation and amortisation	559,723	125,551
Capitalised employee benefits	(209,078)	(604,245)
Changes in assets and liabilities		
(Increase)/decrease in trade and interest receivables	(864,578)	(547,588)
(Increase)/decrease in other assets	(750,947)	(499,823)
Increase/(decrease) in trade and other payables	507,422	(359,877)
Increase/(decrease) in provisions	575,837	77,732
Net cash inflow/(outflow) from operating activities	**537,378**	**102,579**

Notes to the Financial Statements continued

For the year ended 30 June 2019

Note 17: Borrowings

	2019	2018
	$	$
System Participant funds (a)	190,084,928	230,915,521
Other member funds (b)	224,290,991	192,187,637
Perpetual subordinated debt (c)	1,066,909	2,421,733
Total borrowings	**415,442,828**	**425,524,891**
Maturity		
At call	414,375,919	423,103,158
No maturity specified	1,066,909	2,421,733
Total borrowings	**415,442,828**	**425,524,891**

Concentration of borrowings

Except for lease liabilities (when applicable), borrowings are from System Participants who utilise the company's exchange settlement function with the RBA.

(a) System Participant funds

ASL holds funds from System Participants to cover settlement obligations.

(b) Other member funds

These funds represent System Participants voluntary excess funds held with ASL.

(c) Perpetual subordinated debt

Perpetual subordinated debt was issued by ASL. The debt is subordinated to all other creditors of ASL, is perpetual, and the lenders cannot claim repayment of the debt or offset the debt other than in very narrow circumstances.

During the year Perpetual Subordinated Debt of $1,354,824 was repaid, and replaced by the issue of 1,354,824 fully paid $1 non-voting shares.

Notes to the Financial Statements continued

For the year ended 30 June 2019

Note 18: Capital Adequacy

	2019	2018
	$	$
Risk weighted assets	42,965,344	36,465,965

Tier 1 capital	15.47%	13.77%
Tier 2 capital	0.75%	2.65%
Total capital	**16.22%**	**16.42%**

The Prudential Standards issued by APRA require ADIs to maintain a risk-based capital ratio in excess of a Prudential Capital Ratio (PCR). Eligible capital is assessed in two tiers:

- Tier 1 - includes the highest quality elements; and
- Tier 2 - consisting of other elements which, to varying degrees, fall short of the quality of Tier 1 capital but nonetheless contribute to the overall strength of the ADI.

Note 19: System Participant Shares

	2019	2018
	$	$
Fully paid system participant shares at $1	28	27

Each System Participant of ASL must hold one fully paid system participant share. The effect of holding the share is to bind the System Participant to ASL's By-Laws including the settlement procedures and rules. These shares are redeemable and do not carry any voting rights or the right to dividends.

Note 20: Settlement Obligations

ASL is liable to settle the liabilities of any System Participant which cannot meet their settlement obligations. ASL holds funds from each System Participant specifically for this purpose. At 30 June 2019 all System Participants within the settlements system met their settlement obligations.

The company may be liable to bear some proportion of the loss in the event that a non-ASL counterparty in the Bulk Electronic Clearing Stream fails to meet their settlement obligations. At 30 June 2019 there was no such liability.

Note 21: Dividends

No dividend was declared nor paid during the financial year (2018: nil).

Note 22: Financial Risk Management

The company's activities expose it to a variety of financial risks, including but not limited to, liquidity risk, credit risk and market risk.

The company's principal financial instruments comprise deposits from System Participants, perpetual subordinated debt, cash, at call deposits, short-term deposits and government securities. The main purpose of these financial instruments is to fund the company's settlement operations. The company has other financial assets and liabilities, such as trade receivables and payables, which arise directly from its operations.

The company holds the following financial instruments:

	Note	2019 $	2018 $
Financial assets			
Cash and cash equivalents	6	299,997,673	306,912,564
Financial Assets - amortised cost		117,094,040	118,981,714
Trade and interest receivables	7	3,551,969	2,272,832
Equity Instruments - other comprehensive income*		2,000,000	2,000,000
Total financial assets		**422,643,682**	**430,167,110**

**Unlisted equities*

Financial liabilities			
Trade and other payables	11	2,073,092	1,546,720
Finance leases	14	133,965	309,569
Borrowings	17	415,442,828	425,524,891
Total financial liabilities		**417,649,885**	**427,381,180**

(a) Financial risk management policies

The Risk Committee and Capital and Investments Committee meet regularly to analyse financial risk exposures and to evaluate treasury management strategies in the context of the most recent economic conditions and forecasts.

The Risk Committee's overall risk management strategies seek to assist the company in meeting its financial targets, whilst minimising potential adverse effects on financial performance.

The Committee's operates under policies approved by the Board of Directors. Risk management policies and investment management policies are approved and reviewed by the Board on a regular basis.

(b) Specific financial risk exposures and management

The main risks the company is exposed to through its financial instruments are liquidity, credit and market risks (foreign exchange, price and interest rate risks). The Risk Committee and Capital and Investments Committee monitor these risks through internal reports and takes action where appropriate to minimise the impact and likelihood of adverse events.

Notes to the Financial Statements continued

For the year ended 30 June 2019

Note 22: Financial Risk Management (continued)

Liquidity risk

The company's primary liquidity risk is derived from its function of settling payments system obligations on behalf of System Participants who provide ASL with funds which are used to meet their settlement obligations. The Board has set the level of the funds required appropriate to the level of risk. The amount of funds required is recalculated as at the last business day each calendar month to reflect changes in the settlement obligations. System Participants cannot withdraw settlement funds when ASL has a settlement exposure to that System Participant, but reduction in funds required can be accessed annually, most usually in January.

The tables below detail the undiscounted cash flows of financial liabilities based on the earliest date the company can be required to pay. The tables include both interest and principal payable and as a result may not reconcile to items on the balance sheet.

Maturity analysis for financial liabilities as at 30 June 2019

	Less than 6 months	6 – 12 months	1 – 5 years	5+ years	At call	No maturity specified	Total
	$	$	$	$	$	$	$
Trade and other payables	2,073,092	-	-	-	-	-	2,073,092
Borrowings	-	-	-	-	414,375,919	1,066,909	415,442,828
Lease liabilities	-	148,403	-	-	-	-	148,403
Total financial liabilities	**2,073,092**	**148,403**	**-**	**-**	**414,375,919**	**1,066,909**	**417,664,323**

Maturity analysis for financial liabilities as at 30 June 2018

	Less than 6 months	6 – 12 months	1 – 5 years	5+ years	At call	No maturity specified	Total
	$	$	$	$	$	$	$
Trade and other payables	1,546,720	-	-	-	-	-	1,546,720
Borrowings	-	-	-	-	423,103,158	2,421,733	425,524,891
Lease liabilities	-	191,853	148,403	-	-	-	340,256
Total financial liabilities	**1,546,720**	**191,853**	**148,403**	**-**	**423,103,158**	**2,421,733**	**427,411,867**

The nature and terms of borrowings are detailed at note 17.

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in the company suffering a financial loss.

The company's primary credit risk relates to cash and cash equivalents and investments held to maturity which is mitigated by the fact that these assets are held exclusively with the RBA, Australian ADIs and Australian governments, and in accordance with the company's Large Exposures Policy. Other receivable balances are monitored on an on-going basis and are generally of a short term nature. At the reporting date, the carrying value of all classes of financial assets best represents the maximum credit risk exposure, without taking account of the value of any collateral or other security, in the event other parties fail to perform their obligations under financial instruments. Concentrations of credit risk, where applicable, are identified in the notes to the respective financial assets.

Notes to the Financial Statements continued

For the year ended 30 June 2019

Note 22: Financial Risk Management (continued)

There were no material amounts of collateral held as security at 30 June 2019 (2018: nil).

Market risk

Foreign exchange risk

The company is not exposed to any material fluctuations in foreign currencies.

Price risk

The company is not exposed to any material commodity price risk.

Interest rate risk

Interest rate risk refers to the risk that variable interest rates may change or the risk that the company may be required to sell assets with a fixed interest rate. Financial instruments that expose the company to these risks are set out in the following tables.

2019		$	**Weighted Average Interest Rate**
Cash and cash equivalents			
Within one year	Non-interest bearing	0	0.00%
Within one year	Floating Rate	299,997,673	1.05%
Financial Assets - amortised cost			
Within one year	Fixed Rate	117,094,040	1.50%
Within one year	Floating Rate	0	0.00%
Trade and other receivables			
Within one year	Non-interest bearing	3,551,969	0.00%
Equity Instruments - other comprehensive income			
No maturity date	No return specified	2,000,000	0.00%
Total financial assets		**422,643,682**	
Borrowings			
Within one year	Floating Rate	414,375,919	1.00%
No maturity specified	Floating Rate	115,887	2.25%
No maturity specified	Non-interest bearing	951,022	0.00%
Finance leases			
Within one year	Fixed rate	133,965	6.00%
Trade and other payables			
Within one year	Non-interest bearing	2,073,092	0.00%
Total financial liabilities		**417,649,885**	

Note 22: Financial Risk Management (continued)

2018		$	Weighted Average Interest Rate
Cash and cash equivalents			
Within one year	Non-interest bearing	3,705,000	0.00%
Within one year	Floating Rate	303,207,564	1.31%
Financial Assets - amortised cost			
Within one year	Fixed Rate	108,977,977	1.94%
Within one year	Floating Rate	10,003,737	2.13%
Trade and other receivables			
Within one year	Non-interest bearing	2,272,832	0.00%
Equity Instruments - other comprehensive income			
No maturity date	No return specified	2,000,000	0.00%
Total financial assets		**430,167,110**	
Borrowings			
Within one year	Floating Rate	423,103,158	1.25%
No maturity specified	Floating Rate	331,733	2.50%
No maturity specified	Non-interest bearing	2,090,000	0.00%
Finance leases			
More than one year	Fixed rate	309,569	6.00%
Trade and other payables			
Within one year	Non-interest bearing	1,546,720	0.00%
Total financial liabilities		**427,381,180**	

The company's exposure to the risk of changes in market interest rates relates primarily to the funds held in government securities. This risk is mitigated by holding the securities for short durations.

Sensitivity analysis

The company has performed a sensitivity analysis relating to its exposures to interest rate risk at balance date. This sensitivity analysis demonstrates the effect on the current year results and equity which could result from a change in interest rates. At 30 June 2019, the effect on profit and equity as a result of changes in interest rates, with all other variables remaining constant, would be as follows:

	2019 $	2018 $
Change in profit		
Increase in interest rates by 0.5%	4,366	(8,699)
Decrease in interest rates by 0.5%	(4,366)	8,699
Change in equity		
Increase in interest rates by 0.5%	4,366	(8,699)
Decrease in interest rates by 0.5%	(4,366)	8,699

The above interest rate sensitivity analysis has been performed on the assumption that all other variables remain unchanged, and has been calculated on net interest revenue.

No sensitivity analysis has been performed on foreign exchange risk, as the company has only minor exposure to foreign currency fluctuations.

Fair Value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique.

Fair value reflects the present value of future cash flows associated with a financial asset or financial liability. Fair values of financial assets and liabilities are determined using quoted market prices, where available.

Where no active market price or rate is available, fair values are estimated using present value or other valuation techniques, using inputs based on market conditions prevailing at balance sheet dates. The methods used in determining the fair value of financial assets and liabilities are:

Level 1 – Reference to published price quotations in active markets

Level 2 – Valuation techniques supported by market inputs

Level 3 – Valuation technique not supported by market inputs

The carrying amounts of all financial assets and financial liabilities are approximations of fair value due to their short term nature, other than Equity Instruments - other comprehensive income, which are valued using inputs based on market conditions prevailing at end of the financial reporting period, being a Level 3 valuation technique.

Note 23: Contingent Liabilities/Assets

The company had no contingent liabilities or assets as at 30 June 2019 (2018: nil).

Note 24: Events Occurring After the Reporting Period

Margot Ruth Sweeney resigned as a Director of Australian Settlements Limited, effective 19 September 2019.

There have been no other matters or circumstances that have arisen since 30 June 2019 that are likely to have affected or to significantly affect, in future financial years, the operations of the company, the results of those operations or the state of affairs of the company.

Notes to the Financial Statements continued

For the year ended 30 June 2019

Note 25: Related Party Transactions

The following directors have interests in contracts pursuant to which the company provides services to their organisations.

Mr SO Hassall as CFO of Newcastle Permanent Building Society Limited

Mr PG Lock as CEO of Heritage Bank Limited

Mr RJ Ryan as CEO of IMB Limited

Ms MR Sweeny as CEO of Summerland Credit Union Limited

Mr BK White as CIO of Greater Bank Limited

Note 26: Company Details

Australian Settlements Limited (ASL) is an unlisted public company limited by shares and incorporated in Australia. The company is an Authorised Deposit-taking Institution (ADI) and operates an Exchange Settlement Account (ESA) at the Reserve Bank of Australia. The ESA is used for the settlement of payment obligations between system participants, and other clearers. The registered office and principal place of business of the company is:

Australian Settlements Limited

ASL House
6 Geils Court
Deakin ACT 2600

Directors' Declaration

In the directors' opinion:

(a) the financial statements and notes set out on pages 9 to 42 are in accordance with the Corporations Act 2001, including:

   i. complying with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements, and

   ii. giving a true and fair view of the entity's financial position as at 30 June 2019 and of its performance for the year ended on that date, and

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

Note 1a. confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

This declaration is made in accordance with a resolution of the directors.

Graeme Douglas Willis

Director

Garry Donald Dinnie

Director

Dated this 24th day of September 2019

Deloitte.

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Independent Auditor's Report to the Members of Australian Settlements Limited

Opinion

We have audited the financial report of Australian Settlements Limited (the "Company") which comprises the statement of financial position as at 30 June 2019, the statement of comprehensive income, the statement of changes in equity and the 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 Company is in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the Company's financial position as at 30 June 2019 and of its 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 Company in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We 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.

Other Information

The directors are responsible for the other information. The other information comprises the information included in the Company's directors' report for the year ended 30 June 2019, 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 Company to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Deloitte.

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 Company's internal control.

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

- 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 Company'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 Company 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.

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.

Deloitte. Touche. Tohmatsu.

DELOITTE TOUCHE TOHMATSU

Mark Lumsden
Partner
Chartered Accountants
Sydney, 24 September 2019