Members Equity Bank Limited

ABN: 56 070 887 679

Interim Financial Statements

Directors' report
for the half-year ended 31 December 2019

The directors of Members Equity Bank Limited (the Company) submit herewith the interim financial statements of the Group (being the Company and its subsidiaries) for the half-year ended 31 December 2019, and the independent auditor's review report thereon.

In order to comply with the provisions of the Corporations Act 2001, the directors report as follows:

Directors
The names of the directors of the Company during the half year are:

J Evans	Chairman
C Bart	
C Christian	
G Combet	Resigned 7th February 2020
P Everingham	
D Issa	
J Nesbitt	
E Rubin	

Principal activities
The principal activities of the Group comprised of:

- provision of banking services under a banking licence;
- funding, management, and servicing of residential and consumer lending portfolios; and
- carrying out associated funding activities for off balance sheet portfolios.

There were no significant changes during the period in the nature of the activities of the Group.

Dividends
No dividends have been paid or declared since the start of the financial half-year (2019: $nil). The directors do not recommend the payment of a dividend with respect to the half-year ended 31 December 2019.

The Group has paid $6,722,955.12 of fully franked dividends during the half-year with respect to the perpertual Capital Notes on issued (2018: $5,077,895).

Review of operations and results
Statutory profit for the half-year ended 31 December 2019 was $52.0 million compared to $41.2 million for the half-year ended 31 December 2018.

Subsequent events
There have been no matters or circumstances which have arisen since the end of the financial half-year which significantly affect the operations of the Group, the results of those operations, or the state of affairs of the Group in subsequent years.

Significant items
There are a number of significant items which are included in the Group's statutory profit for the financial period but have been excluded from the Group's underlying profit for the financial period. The following table reconciles the Group's statutory profit with the Group's underlying profit. All amounts are after tax.

	31 Dec 2019 $'m	31 Dec 2018 $'m
Underlying earnings	58.6	55.0
• Realised and unrealised gains / (losses) on hedging instruments (1)	0.1	(1.8)
• Impairment losses - other (2)	(2.1)	(5.0)
• IT system remediation and decommissioning costs (3)	(4.6)	(7.0)
Statutory profit for the half-year	52.0	41.2

(1) These instruments do not qualify for hedge accounting.

(2) During half year ended 31 December 2019, an impairment loss relating to the development of robotics was recognised (2018: loss related to the development of a credit card platform).

(3) Cost of IT enhancements to improve the customer experience and to decommission legacy systems.

Directors' report
for the half-year ended 31 December 2019

Rounding
The Company is a company of the kind referred to in *ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191* , dated 24 March 2016, and in accordance with that Instrument amounts in the interim financial statements are rounded off to the nearest thousand dollars, unless otherwise indicated.

Corporate Governance
The Board has received the relevant assurances required from the Chief Executive Officer and the Chief Financial Officer in respect of the half-year financial report for the period ended 31 December 2019.

The directors of the Company have responsibility for the integrity of external reporting. Further details of the role of the Board and the Audit and Governance Committee are available in the Corporate Governance Statement on the Company's website at mebank.com.au.

Auditor independence
The auditor's independence declaration is included on page 3 of the interim financial statements.

Signed in accordance with a resolution of the directors.

On behalf of the directors

Director
Melbourne, 11 March 2020

Deloitte.

Deloitte Touche Tohmatsu
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11 March 2020

The Members
Members Equity Bank Limited
Level 28, 360 Elizabeth Street
MELBOURNE VIC 3000

Dear Members

Members Equity Bank Limited

I am pleased to provide the following declaration of independence to the members of Members Equity Bank Limited (the Bank).

As lead audit partner for the review of the interim financial statements of the Bank for the half-year ended 31 December 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 Australian Auditing Standards in relation to the review; and

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

Yours sincerely

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

M Stretton

Mark Stretton
Partner
Chartered Accountants

Deloitte.

Deloitte Touche Tohmatsu
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Independent Auditor's Review Report to the Members of Members Equity Bank Limited

Report on the Interim Financial Report

We have reviewed the accompanying Interim Financial Statements of Members Equity Bank Limited, which comprises the condensed consolidated statement of financial position as at 31 December 2019, and the condensed consolidated statement of profit or loss and other comprehensive income, the condensed consolidated statement of cash flows and the condensed consolidated statement of changes in equity for the half year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the declaration of the directors as set out on pages 7 to 16. The consolidated entity comprises the company Members Equity Bank Limited and the entities it controlled at the end of the period or from time to time during the period.

Directors' Responsibility for the Interim Financial Statements

The directors of the company are responsible for the preparation and fair presentation of the Interim Financial Statements and have determined that the basis of preparation described in Note 2 is appropriate in accordance with Australian Accounting Standards. The directors' responsibility also includes such internal control as the directors determine is necessary for the preparation and fair presentation of the Interim Financial Statements that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the Interim Financial Statements based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity* (ASRE 2410), in order to state whether, on the basis of the procedures described, anything has come to our attention that causes us believe that the Interim Financial Statements are not presented fairly, in all material respects, in accordance with Australian Accounting Standards. As the auditor of Members Equity Bank Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of an Interim Financial Statements consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Deloitte.

Conclusion

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the Interim Financial Statements of Members Equity Bank Limited do not present fairly, in all material respects, the consolidated entity's financial position as at 31 December 2019 and of its financial performance for the half year ended on that date in accordance with Australian Accounting Standards.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

M Stretton

Mark Stretton
Partner
Chartered Accountants

Melbourne, 11 March 2020

Members Equity Bank Limited

Directors' declaration

The directors declare that:

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

(b) in the directors' opinion, the attached interim financial statements and notes thereto comply with accounting standards and present a true and fair view of the financial position and performance of the consolidated entity.

Signed in accordance with a resolution of the directors.

On behalf of the directors

Director
Melbourne, 11 March 2020

Members Equity Bank Limited

Condensed consolidated statement of profit or loss and other comprehensive income
for the half-year ended 31 December 2019

	Notes	Consolidated half-year ended 31 Dec 2019 $'000	Consolidated half-year ended 31 Dec 2018 $'000
Interest and similar income		589,841	648,426
Interest and similar expense		(369,235)	(444,365)
Net interest income		220,606	204,061
Funds management fee income		623	909
Other operating income		12,923	11,157
Total net operating income		234,152	216,127
Expenses			
Operating expenses		135,527	124,958
Credit impairment charge		4,493	4,059
Impairment on intangibles		3,000	7,082
Project expenses		16,718	21,017
Total operating expenses		159,738	157,116
Profit before income tax		74,414	59,011
Income tax expense	4	22,388	17,804
Profit for the period		52,026	41,207
Other comprehensive income			
Items that will not be reclassified subsequently to profit or loss		-	-
Items that may be reclassfied subsequently to profit or loss			
Net fair value gain / (loss) on fair value through other comprehensive income financial assets, net of tax		(863)	(1,415)
Cash flow hedges - effective portion of changes in fair values, net of tax		15,327	(11,408)
Total comprehensive income for the period		66,491	28,384

Notes to the financial statements are included on pages 11 to 16.

Condensed consolidated statement of financial position
as at 31 December 2019

		Consolidated	
		31 Dec 2019	30 Jun 2019
	Notes	$'000	$'000
Assets			
Cash and cash equivalents		525,179	839,889
Investments	6	2,823,475	3,581,453
Derivatives	6	3,311	3,785
Trade and other receivables		17,656	9,520
Loans and advances	6	26,713,643	26,272,491
Current tax assets		-	9,265
Plant and equipment		23,353	6,567
Intangible assets	7	90,706	86,632
Deferred tax assets		36,335	43,845
Other assets		14,394	14,875
Total assets		30,248,052	30,868,322
Liabilities			
Deposits and other borrowings	6	28,566,792	28,911,694
Derivatives	6	74,343	98,544
Trade and other payables		37,301	40,499
Provisions		24,575	31,235
Subordinated debt		-	301,079
Total liabilities		28,703,011	29,383,051
Net assets		1,545,041	1,485,271
Equity			
Issued capital		1,105,459	1,105,459
Reserves		(36,866)	(40,720)
Retained earnings		476,448	420,532
Total equity		1,545,041	1,485,271
Book value per share		$ 139.87	$ 134.46

Notes to the financial statements are included on pages 11 to 16.

Members Equity Bank Limited

Condensed consolidated statement of changes in equity for the half-year ended 31 December 2019

	Consolidated					
	Issued capital $'000	Retained earnings $'000	General reserve for credit losses $'000	Investment revaluation reserve $'000	Cash flow hedge reserve $'000	Total $'000
Balance as at 1 July 2018	1,006,282	377,129	22,461	1,619	(1,321)	1,406,170
Adjustment due to change in accounting policy - net of tax	-	(14,086)	-	-	-	(14,086)
Balance as at 1 July 2018 (adjusted)	1,006,282	363,043	22,461	1,619	(1,321)	1,392,084
Issue of share capital						
Issue of capital notes*	99,191	-	-	-	-	99,191
Dividends paid	-	(5,078)	-	-	-	(5,078)
Transfer to/(from) general reserve for credit losses	-	981	(981)	-	-	-
Other comprehensive income for the period	-	-	-	(1,415)	(11,408)	(12,823)
Profit for the period	-	41,207	-	-	-	41,207
Balance as at 31 December 2018	1,105,473	400,153	21,480	204	(12,729)	1,514,581
Balance as at 1 July 2019	1,105,459	420,532	19,622	4,244	(64,586)	1,485,271
Issue of share capital	-	-	-	-	-	-
Issue of capital notes		-	-	-	-	-
Dividends paid	-	(6,720)	-	-	-	(6,720)
Transfer to/(from) general reserve for credit losses	-	10,610	(10,610)	-	-	-
Other comprehensive expense for the period	-	-	-	(863)	15,327	14,464
Profit for the period	-	52,026	-	-	-	52,026
Balance as at 31 December 2019	1,105,459	476,448	9,012	3,381	(49,259)	1,545,041

*$100 million net of transaction costs

Notes to the financial statements are included on pages 11 to 16.

Members Equity Bank Limited

Condensed consolidated statement of cash flows for the half-year ended 31 December 2019

	Consolidated	
	31 Dec 2019 $'000	31 Dec 2018 $'000
Cash flows from operating activities		
Profit before tax	74,414	59,011
Adjustments for:		
Change in operating assets	316,204	(744,663)
Change in operating liabilities	(324,418)	573,707
Non-cash items included in profit before tax	(59,876)	23,122
Income tax payments	(10,103)	(24,146)
Net cash (used in) / from operating activities	(3,779)	(112,969)
Cash flows from investing activities		
Purchase of plant and equipment	(4,174)	(461)
Purchase of intangible assets	(37)	(13,780)
Net cash used in investing activities	(4,211)	(14,241)
Cash flows from financing activities		
Redemption of subordinated debt	(300,000)	-
Proceeds from issue of capital notes	-	100,000
Dividends paid on capital notes issued	(6,720)	(5,078)
Net cash provided by financing activities	(306,720)	94,922
Net (decrease) / increase in cash	(314,710)	(32,288)
Cash and cash equivalents at the beginning of the period	839,889	409,650
Cash and cash equivalents at the end of the period	525,179	377,362

Notes to the financial statements are included on pages 11 to 16.

1 General information

The interim financial statements of Members Equity Bank Limited (the Company) and its subsidiaries (collectively, the Group) for the half-year ended 31 December 2019 were authorised for issue in accordance with a resolution of the directors made on 11 March 2020.

The Company is a limited company, incorporated and domiciled in Australia. The Group's principal activities are:

- provision of banking services under a banking licence;
- funding, management, and servicing of residential and consumer lending portfolios; and
- carrying out associated funding activities for off balance sheet portfolios.

2 Basis of preparation

The interim financial statements are general purpose financial reports prepared in accordance with *AASB 134 'Interim Financial Reporting'* . Compliance with AASB 134 ensures compliance with International Financial Reporting Standard *IAS 34 'Interim Financial Reporting'* . The interim financial statements do not include notes of the type normally included in an annual financial report and should be read in conjunction with the most recent annual financial report.

The interim financial statements have been prepared on the basis of historical cost, unless the application of fair value measurement is required by relevant accounting standards. Cost is based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars, unless otherwise stated.

The Company is a company of the kind referred to in *ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191,* dated 24 March 2016, and in accordance with that Corporations Instrument amounts in the interim financial statements are rounded off to the nearest thousand dollars, unless otherwise indicated.

The accounting policies and methods of computation adopted in the preparation of the half-year financial report are consistent with those adopted and disclosed in the Company’s 2019 annual financial report for the financial year ended 30 June 2019, except for the impact of the Standards and Interpretations described in Note 3. These accounting policies are consistent with Australian Accounting Standards and with International Financial Reporting Standards.

3 Significant accounting policies

<u>Critical accounting estimates and significant judgements</u>
The preparation of the Group's interim financial statements in conformity with Australian Accounting Standards requires the use of certain critical accounting estimates. It also requires management to exercise judgement in the process of applying the accounting policies. The basis of which key judgements and estimation uncertainty applied by management in preparing the interim financial statements are consistent with those that were applied and disclosed in the annual financial report for the year ended 30 June 2019, except for the impact of the Standards and Interpretations as described below. There have been no matters or circumstances which have arisen since the end of the financial half-year which significantly affect the operations of the Group, the results of those operations, or the state of affairs of the Group in subsequent years.

<u>Application of new and revised accounting standards</u>
The Group has adopted the following new and revised accounting standards that became effective 1 July 2019 and are relevant to its operations for the half-year.

(i) AASB 16 Leases

AASB 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments by both lessors and lessees and replaces the current lease guidance including AASB 117 Leases and the related interpretations when it became effective on 1 July 2019.

AASB 16 distinguishes leases and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases (off balance sheet) and finance leases (on balance sheet) are removed for lessee accounting, and is replaced by a model where right-of-use asset and a corresponding liability have to be recognised for all leases by the lessees (i.e. all on balance sheet) except for short term leases and leases of low value assets.

Initial measurement
When the Group is the lessee, a right-of-use (ROU) and related lease liability are recongised in the financial position from the date which the Group has right to use the asset (lease commencement date). The lease liability is measured at the present value of future lease payments, discounted at the incremental borrowing rate for the lease term. This includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or not to exercise an option to terminate the lease. The ROU asset is initially measured at cost which is equivient to the lease liability.

AASB 16 has been adoped using the modified retrospective approach as set out in AASB 16.C8(b)(ii) where the right-of-use asset is equal to the lease liability, adjusted by the amount of any prepaid or accured lease payments relating to that the leases financial position immediatley before the date of initial application.

3 Significant accounting policies (continued)

Subsequent measurement
The ROU asset is assessed for impairment when events or circumstances indicate that the carrying amount may not be recoverable and depreciated on a straight-line basis over the shorter of the lease term or the useful life of the asset, adjusted for any re-measurements of the lease liability. The lease liability will subsequently be adjusted for lease payments, interest unwind and any lease modifications.

The classification of cash flows will also be affected as operating lease payments under AASB 117 are presented as operating expenses in the statement of cash flows; whereas under the AASB 16 model, the lease payments will be split into a principal and an interest portion which will be presented as financing and operating cash flows respectively.

The Group account for any low value assets and leases with a lease term of one year or less as operating leases, recongising the lease payments on a straight line basis over the lease term.

The Group leases buildings for its office space, signage, amenities and car parks. The leases of office space run for periods between 2 and 10 years, with the average lease term being 6 years. Some leases include an option to renew the lease for an additional period after the end of the contract term.

The Group leases buildings, information about leases for which the Group is a lessee (all property) is presented below.

Right-of-use assets:

	$'000
Balance as at 1 July 2019	17,218
Depreciation charge for the period	(4,530)
Balance as at 31 December 2019	12,688

Lease related depreciation of $4.53 million and interest expense of $0.15 million have been recognised in the Group profit and loss statement for the period. If leases had continued to be recongised under AASB 117 the Group would have recongnised rental expense of $4.52 million within Operating expenses.

Lease liabilities	$'000
Buildings	(12,845)

On 30 September 2019 the Group entered into an agreement to lease in relation to the Melbourne office. The commencement date of the 10 year lease is 1 April 2020, at this time a ROU asset and corresponding lease liablility of $61 million will be recongised.

The lease liability recognised at 1 July 2019 can be reconciled to the operating lease commitments as disclosed at 30 June 2019 as follows:

Operating lease commitments at 30 June 2019	18,773
Effect of discounting at the incremental borrowing rate	(405)
Low value	(433)
Lower rent negotiated during the period	(717)
Lease liability at 1 July 2019	17,218

(ii) AASB Interpretation 23 Uncertainty over Income Tax Treatments

AASB 23 identifies when there is uncertainty over income tax treatments, the entities:
(a) considers uncertain tax treatments separately;
(b) the assumptions an entity makes about the examination of tax treatments by taxation authorities;
(c) how an entity determines taxable profit(tax loss), tax bases, unused tax losses, unused tax credits and tax rates; and
(d) how an entity considers changes in facts and circumstances

The entity concludes that there is no uncertain tax treatment or any potential effect of the uncertainty as a tax related contingency applying for AASB112.

At the date of approval of the financial statements, the Standards and Interpretations listed below were in issue but not yet effective. The Group is currently assessing the impact of the following Standards and Interpretations.

Standard/Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
Revised IFRS Conceptual Framework	1 January 2020	30 June 2021

4 Income tax

The Group calculates the period income tax expense using the tax rate that would be applicable to the expected total annual earnings. The major components of income tax expense in the interim statement of profit or loss are:

	Consolidated half-year ended	
	31 Dec 2019 $'000	31 Dec 2018 $'000
Income taxes		
Current income tax expense	25,265	21,256
Adjustment recognised in the current year in relation to the current tax of prior years	-	-
Deferred income tax expense/(income) related to origination and reversal of deferred taxes	(2,877)	(3,452)
Income tax expense recognised in statement of profit or loss	22,388	17,804

5 Investment in controlled entities

During the half-year ended 31 December 2019 and up until the approval of the financial statements, the Group formed SMHL Series Private Placement Trust 2019-2 as part of its securitisation program, which settled on 15 October 2019. The trust was formed in Australia, and the Group holds 100% of the residual income units of the trusts.

6 Financial instruments

(i) Categories of financial instruments

	Consolidated	
	31 Dec 2019 $'000	30 Jun 2019 $'000
Financial assets		
Cash and cash equivalents	525,179	839,889
Investments		
Amortised cost financial asset	6	1,039
FVTOCI financial assets	2,088,174	2,618,243
FVTPL financial assets	735,295	962,171
Total Investments	2,823,475	3,581,453
Derivatives		
Designated hedge accounting relationship	2,546	1,918
FVTPL derivatives	765	1,867
Total Derivaties	3,311	3,785
Trade and other receivables	17,656	9,520
Loans and advances	26,713,643	26,272,491
Financial liabilities		
Derivatives		
Designated hedge accounting relationship	79,212	97,753
FVTPL derivatives	(4,869)	791
Total Derivaties	74,343	98,544
Deposits and other borrowings	28,566,792	28,911,694
Trade and other payables	37,301	40,499
Subordinated debt	-	301,079

6 Financial instruments (continued)

(ii) Fair value of financial instruments

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

(a) Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities;
(b) Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable; and
(c) Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

	Consolidated			
	Level 1	Level 2	Level 3	Total
	$'000	$'000	$'000	$'000
31 December 2019				
Financial assets				
Investments				
FVTOCI financial assets:				
Treasury notes and semi-government securities	-	714,738	-	714,738
Bank bills	-	408,534	-	408,534
Corporate floating rate notes	-	790,195	-	790,195
Mortgage backed securities	-	174,712	-	174,712
FVTPL financial assets:				
Government securities	-	732,295	-	732,295
Unlisted equity	-	-	3,000	3,000
	-	2,820,474	3,000	2,823,474
Derivatives				
Designated hedge accounting relationship	-	2,546	-	2,546
FVTPL derivatives	-	765	-	765
	-	3,311	-	3,311
Financial liabilities				
Derivatives				
Designated hedge accounting relationship	-	79,212	-	79,212
FVTPL derivatives	-	(4,869)	-	(4,869)
	-	74,343	-	74,343
30 June 2019				
Financial assets				
Investments				
FVTOCI financial assets:				
Treasury notes and semi-government securities	-	1,343,565	-	1,343,565
Bank bills	-	158,475	-	158,475
Corporate floating rate notes	-	915,220	-	915,220
Mortgage backed securities	-	200,983	-	200,983
FVTPL financial assets:				
Government securities	-	959,171	-	959,171
Unlisted equity	-	-	3,000	3,000
	-	3,577,414	3,000	3,580,414
Derivatives				
Designated hedge accounting relationship	-	1,918	-	1,918
FVTPL derivatives	-	1,867	-	1,867
	-	3,785	-	3,785

	Consolidated			
	Level 1	Level 2	Level 3	Total
	$'000	$'000	$'000	$'000
Financial liabilities				
Derivatives				
Designated hedge accounting relationship	-	97,753	-	97,753
FVTPL derivatives	-	791	-	791
	-	98,544	-	98,544

There were no transfers of financial instruments between levels 1, 2, and 3 during the half-year.
The subordinated debt was fully redeemed in August 2019.

6 Financial instruments (continued)

Except as detailed in the following table, the carrying amounts of financial assets and financial liabilities in the financial statements approximate their fair values:

	Book Value	Consolidated Level 1	Level 2	Level 3	Total
	$'000	$'000	$'000	$'000	$'000
31 December 2019					
Financial assets					
Loans and advances (i)	26,713,643	-	-	26,787,293	26,787,293
Financial liabilities					
Deposits and other borrowings:					
- Medium term notes (ii)	(1,153,496)	-	(1,154,207)	-	(1,154,207)
30 June 2019					
Financial assets					
Loans and advances (i)	26,272,491	-	-	26,380,534	26,380,534
Financial assets					
Deposits and other borrowings:					
- Medium term notes (ii)	1,105,706	-	1,108,821	-	1,108,821
Subordinated debt (ii)	301,079	-	301,697	-	301,697

Methodologies and assumptions used to determine the fair value of financial assets and liabilities not carried at fair value

(i) The fair value of fixed rate loans is estimated by reference to current market rates offered on similar loans. The Group has reviewed the disclosure in relation to the classification of the fair value hierarchy for loans and advances, and has determined that it should be classified as level 3 fair value. The inputs used to determine the fair value of loans and advances are unobservable.

(ii) The fair values of medium term notes and subordinated debt are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments.

7 Intangible assets

The recoverable amount for intangible assets has been calculated based on their deemed fair value. Deemed fair value of the intangible assets was calculated as the remaining balance after deducting all net assets other than intangibles from the Group's fair value of issued share capital (using the market approach valuation methodology), net of selling costs.

Economic and market conditions may change but the Group estimates that reasonable changes in these conditions would not cause the recoverable amount of intangible assets to decline below the carrying amount. An impairment provision of $3 million relating to the service optimisation & robotics project was recognised as at 31 December 2019 (2019: $20m impairment loss on credit cards).

8 Risk management

	Consolidated 31 Dec 2019	30 Jun 2019
	$'000	$'000
New and increased provisions (net of releases)	1,414	5,790
Write offs net of provision releases	4,087	7,340
Write-backs of specific provisions	-	-
Recoveries	(1,316)	(4,485)
Total impairment loss charged to the income statement	4,185	8,645

The table below aggregates the ECL allowance by product.

	Consolidated 31 Dec 2019	30 Jun 2019
	$'000	$'000
Credit cards	5,072	5,742
Personal loans	5,644	6,331
Residential home loans	33,798	31,026
	44,513	43,099

8 Risk management (continued)

The table below shows the reconciliation from the opening balance to the closing balance of ECL allowance and transfers during the period:

	Consolidated				
	Stage 1 12-month ECL Collective provision $'000	Stage 2 Lifetime ECL not credit impaired Collective provision $'000	Stage 3 Lifetime ECL credit impaired Collective provision $'000	Stage 3 Lifetime ECL credit impaired Specific provision $'000	Total $'000
Balance as at 30 June 2019	10,185	12,403	16,293	4,218	43,099
Changes due to financial assets recognised in the opening balance that have:					
Transferred to 12 month ECL - collective provision	4,642	(3,006)	(1,385)	(252)	-
Transferred to lifetime ECL - collective provision					
Transferred to lifetime ECL credit impaired	(409)	3,180	(2,658)	(113)	-
- collective provision	(49)	(1,859)	2,458	(550)	-
- specific provision	(0)	(111)	(539)	650	-
Changes due to modifications that did not result in modification					
New financial assets originated or purchased	1,187	455	137	-	1,780
Changes in model risk parameters	696	3	27	-	727
Increased provisions (net of releases)	(5,251)	(243)	2,911	4,026	1,443
Write-backs of specific provisions	-	-	-	-	-
Write-off from specific provisions	-	-	-	(2,535)	(2,535)
Balance as at 31 December 2019	11,001	10,823	17,244	5,444	44,513

9 Segment Information

The Group operates as one segment and therefore no separate segment reporting is provided.

10 Contingent Liabilities

There are contingent liabilities that may exist in respect to current regulatory reviews. The Group is of the opinion that the outcome and the possibility of any obligation from these reviews is uncertain and any associated costs cannot be reliably measured.

11 Subsequent events

There have been no matters or circumstances which have arisen since the end of the financial half-year which significantly affect the operations of the Group, the results of those operations, or the state of affairs of the Group in subsequent periods.