Great Southern Bank

# ANNUAL REPORT 2022

# Helping a new generation of Australians

> **When you deal with someone and they're confident, it makes you feel confident too.**

Brody and Riley, both 23, have a bright future in front of them, and it all started with buying their first home.

Brody, a plumber, and Riley, who works in an office, recently bought a new three bedroom house just south of Wollongong with the help of Great Southern Bank and the Government-backed Home Guarantee Scheme. The couple's story is similar to that of thousands of other Australians we helped on to the property ladder over the last year.

"The experience was really good," says Brody of getting a home loan with Great Southern Bank. "Any stresses we had and the team would just ring up and explain things. They would always give you 15 minutes, and they were always on the ball.

"When you deal with someone and they're confident, it makes you feel confident too."

The security that comes with buying their own home means the couple now have the freedom to plan their future together.

"We're keen to travel, and maybe buy more property around here," says Brody. "Now that we have our home, we can really live a bit more."

# Annual highlights

## CHAMPIONING HOME OWNERSHIP

**2,200**
home loan customers helped through Government schemes

**50%**
increase in lending to first home buyers

**$5.28b**
in new home lending

## RESPONSIBLE BANKING

**2040**
Target for net zero emissions

**1st**
Reconciliation Action Plan launched

**All 15**
goals from our Financial Inclusion Action Plan completed

## CUSTOMER AND WORKPLACE

**4.39**
Employee Engagement - approaching global top quartile result

**3x**
higher than any of the big four customer net promoter scores

**52%**
of senior leadership positions held by women

## FINANCIAL

**$140.1m**
bank (ADI) net profit after tax ($70.5 m Group NPAT) includes CUA Health sale

**6%**
increase in deposits

**382,012**
total active customers

# A Message from our CEO & Chairman

## Banking with purpose

Our purpose – helping all Australians to own their own home – has never been more relevant than it is today.

As Australia's largest customer-owned bank, that purpose is reflected in everything we do. It helps direct the way we work to support our customers, how we help the communities we live and work in, and guides the investments we make in our people, products and services.

Our strong home loan and customer growth over the last year reflects the necessity of that purpose. More Australians are choosing us as a vibrant alternative to the big banks. During the year to 30 June, we continued to see strong growth in new customers and are now helping more than 382,000 active customers on the journey towards owning their own home and achieving their savings and financial goals.

## Helping with home ownership

For many Australians, the struggle to own a home is the greatest single economic challenge that they will face in their lifetime.

Our support is clear. In the 2022 financial year, we provided a record $5 billion in new loans, a 58 per cent increase on the previous year. We helped more than 20,500 customers to buy a home or refinance an existing home, and we increased our lending by 50 per cent to first home buyers.

Our growth in the first homebuyer segment was boosted by our ongoing support for the Government-backed Home Guarantee Scheme. In the past year we helped more than 2,200 first homebuyers or single parents to buy their home using the scheme, taking the total to over 4,100 homebuyers since the scheme's introduction.

We're helping our increasing customer base with better technology that offers faster response times. The investment we made in our systems is supporting record numbers of home loan applications and is designed to enable our growth for years to come. Our successful partnerships are enabling faster decisions for home loan applications – today almost half of our home loan applicants receive a decision in under two days.

Nationally, more Australians are turning to mortgage brokers to help with their home loans. To enable more customers to get a home loan where and how they choose, we have doubled our network to reach 5,100 brokers.

Customer deposits grew by 6 per cent to $11.9 billion, thanks to competitive products like our Goal Saver and Home Saver accounts, and our investment in clever online savings tools like The Boost and The Vault.

## Responsible banking

The number of people reaching out to us for financial assistance has doubled since the beginning of the COVID-19 pandemic. During the past year we approved over $200 million worth of loans qualifying for financial assistance, with COVID-19 and natural disaster claims making up around a third of the overall amount. We also created 20,000 individual payment plans to help our customers with arrears.

We have further embraced our responsibilities towards the environment and the communities that we support. Following on from becoming carbon neutral in the 2021 financial year, this year we also pledged to reach net zero by 2040, 10 years ahead of the Paris Agreement. We also launched our first Reconciliation Action Plan, which sets out the roadmap for our reconciliation journey with First Nations peoples.

## Remaining customer-focused

Satisfaction remains high among our customers. Our net promoter score - a measure of our customers' likelihood to recommend us – ended the year around three times higher than any of the big four banks. We were also recognised for the outstanding value we provide to customers, being named Canstar's Customer-Owned Bank of the Year, as well as receiving nine awards for the strength of our service, deposit and transaction products. Canstar research[1] identifies that our home loan customers made an estimated average saving of $1,182 during the year to June 2022 by having their loan with us, rather than one of the big four banks.

Despite the pandemic and turbulent financial environment, engagement among team members reached an all-time high, with Great Southern Bank sitting just outside the top 25 per cent of organisations globally, as measured by Gallup.

In our first full year as the rebranded Great Southern Bank, the customer and public response has been positive. We're building strong emotional connections with Australians, with brand awareness more than doubling in the space of a year. The average age of new customers has decreased to 27 years, as we attract a new generation to customer-owned banking.

The bank, or authorised deposit taking institution (ADI), recorded a $140.1 million net profit after tax (Group $70.5 million net profit after tax), including the sale of CUA Health to member-owned HBF during the year. The move allowed us to strengthen the focus on our banking business, with the net proceeds to provide funds for growth opportunities and to partner with like-minded organisations. This includes investing in fintech Constantinople to help us support small to medium sized enterprises – the same businesses that are operated by or employ many of our home loan customers.

Our financial performance was influenced by a number of headwinds and the delivery of large-scale projects pivotal to our future as a bank. Profit margins contracted across the industry, while we saw significant increases in regulatory and compliance costs, particularly related to Open Banking, anti-money laundering and cyber security. We also implemented our new home loan origination system, and partnered to migrate key technology platforms to the cloud.

## A bright future

Great Southern Bank is well positioned for an exciting future that we want to share with more Australians.

Rebranding as a bank is broadening our appeal and helping attract new generations to bank with us. We are serving our growing customer base with technology of increasing sophistication and capability, and we are eager to introduce a larger number of small business owners to the rich tradition of customer-owned banking.

A lot has been achieved over the last year, but there is more to do. We remain dedicated to helping all Australians own their own home and, where it's right for our customers, to forging new partnerships with organisations that share our values. Ultimately, we are honouring the principles we were founded on 76 years ago – to be a responsible bank, and to make a positive impact on our customers, our people and the environment.

**Paul Lewis**
CEO & Managing Director

**Nigel Ampherlaw**
Great Southern Bank Chairman

[1] *Source: CANSTAR, Great Southern Bank - home loan cost comparison to major banks, August 2022*

# Being a responsible and sustainable bank

Being a responsible and sustainable bank means doing business in ways that benefit our customers, communities and the environment, today and into the future.

During the past 12 months, we significantly accelerated our work on sustainability, taking meaningful action to address climate change, reconciliation and financial inclusion.

## Committing to climate action

Climate change is a key priority for our bank and our customers, and we believe it is vital to clearly set-out the steps we are taking to manage and mitigate climate risk.

In April 2022, we released our first climate-related risk disclosure in line with the global Taskforce on Climate Related Financial Disclosure (TCFD), which provided a level of disclosure more common to the world's largest banks.

This was followed by the launch of our first Climate Action Plan in June 2022. The action plan maps out our journey to net zero emissions, including setting science-based targets and adopting global reporting standards. We have pledged to achieve our net zero goal by 2040, 10 years ahead of the target date set in the Paris Agreement.

We will review and refine our plan over time to ensure our commitments and targets remain meaningful, relevant and in the best interests of our customers.

## Financial inclusion is part of our DNA

Our Financial Inclusion Action Plan (FIAP) sets out the practical actions we are taking to improve financial inclusion, resilience and the wellbeing of customers when they need it most.

In FY22, we completed all 15 actions within our FIAP. These actions are helping to deliver better social and economic outcomes and improve products and services for customers experiencing financial vulnerability.

Learn more at www.greatsouthernbank.com.au/sustainability

*The table below reports on our greenhouse gas emissions in the last financial year. We're committed to remaining carbon neutral and to transparent disclosures about our climate impacts and our progress towards net zero.*

| Operational GHG Emissions | FY22 | FY21 | FY20 |
|---|---|---|---|
| Scope 1 | 80 | 87 | 95 |
| Scope 2 | 1,766 | 1,019 | 1,225 |
| Scope 3 | 5,220 | 6,020 | 5,860 |
| Gross GHG emissions (t CO2-e) | 7,066 | 7,126 | 7,180 |
| Offsets retired | 7,066 | 7,692 | - |
| Total net GHG emissions (t CO2-e) | 0 (2,500 offsets banked) | 0 (566 offsets banked) | 7,180 |
| **Gross GHG emissions per Headcount (t CO2-e)** | **5.78** | **5.09** | **6.22** |
| Fleet fuel (kl) | 35 | 39 | 41 |
| Electricity in offices (MWh) | 530 | 537 | 350 |
| Electricity in branches (MWh) | 656 | 683 | 1,156 |
| Waste (t) | 21 | 27 | 22 |
| Water (kl) | 7,952 | 9,086 | 7,549 |
| **Gross electricity per Headcount (KWh / Headcount)** | **969** | **872** | **1,305** |

**Note FTE has been changed for headcount*





# Meaningful action towards reconciliation

The launch of Great Southern Bank's Respect Reconciliation Action Plan (RAP) in December 2021 represented an important step in our commitment to reconciliation. The plan provides a clear roadmap upon which to strengthen our relationships, and build respect and opportunities with First Nations peoples.

In our inaugural RAP, we have sought to align our actions to our purpose of helping all Australians own their own home, by working in partnership with Aboriginal and Torres Strait Islander peoples to address barriers to financial and social inclusion.

Our RAP builds on the bank's history of working with First Nations peoples to grow financial wellbeing, beginning with our merger 15 years ago with First Nations Credit Union and subsequent establishment of the First Nations Foundation.

Great Southern Bank worked closely with Reconciliation Australia to create the RAP and involved both Indigenous and non-Indigenous team members from across the business.

To bring the RAP document to life, we worked with an Indigenous designer, Leigh Harris, to develop the visual identity that flows through the document and other communications linked to our journey toward reconciliation.

We also commissioned artwork from local Indigenous artist Narelle Urquhart (pictured below) to celebrate the launch of our RAP.

Great Southern Bank has also actively connected with our sports sponsorship partners to understand their journeys towards reconciliation and learn from their experiences. This included conversations with players and representatives of Carlton Football Club and the Brisbane Heat, as part of activities to celebrate National Reconciliation Week and NAIDOC Week.

Great Southern Bank also engaged with Australian Red Cross who shared their approach to reconciliation as part of the RAP launch activities.

# Building a great workplace

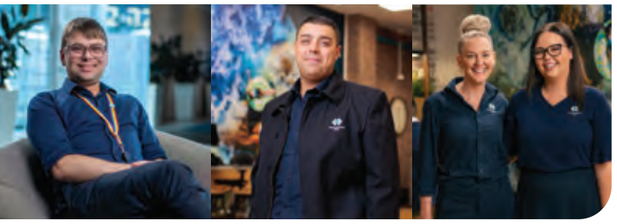
Great Southern Bank has launched a new purpose, brand and three-year strategy so we can grow our business and help all Australians to own their own home. We're actively embedding our values, keeping team members focused on their contribution to our purpose and strategy:

**Customer obsessed**
Keeping the customer in mind in everything we do

**Genuine**
Being genuine and inclusive

**Growth**
Challenging ourselves to innovate, adapt and grow

**Impact**
Being accountable for delivering impactful solutions for our customers.



## A motivated and engaged team

Our engagement score – measured by reputable global organisation Gallup – climbed by 0.17 points during the year to 4.39 (on a scale of 1 to 5). We now sit just outside the top 25 per cent of Gallup organisations globally.

Supporting team members' mental health and wellbeing – particularly through the pandemic – has contributed positively to this engagement, with our training and conversation toolkits for leaders cited as best practice in the Harvard Business Review. We also offered 'healthy hybrid habits' to support our teams' wellbeing including encouraging shorter meetings, walking meetings and dedicated focus time each week.

## Celebrating our unique team members

Our Employee Resource Groups continued championing diversity and inclusion with a particular focus on our culturally diverse backgrounds, gender, the LGBTIQ+ community and promoting work-life balance. Our unwavering focus on diversity and inclusion earned us external recognition from the Diversity Council of Australia as an 'Inclusive Employer' and Work 180 as an endorsed employer for 'All Women'. We now have 52 per cent of our senior leadership roles held by women.

## Promoting and recognising talent

We continued to celebrate the contribution of our people through the annual Jack Harvey awards, named after a pioneer of one of our earliest credit unions. NSW State Manager Nicole McCarthy (pictured above) received the top prize for her leadership of the NSW branches through the pandemic.

Our first ever Learning Week in January 2022 was enthusiastically received by team members, placing a spotlight on professional development and knowledge sharing. Looking ahead, investing in our people will be key to retaining great people and fostering a more customer-focused bank.





# A rising star in customer-owned banking

Ariana Clee (pictured below) is not afraid to admit she is ambitious and driven to succeed. As Great Southern Bank's Senior Manager, Digital Adoption and Usage, Ariana is leading initiatives to help improve customer confidence in digital banking, which in turn supports financial wellbeing.

As a woman in a digital leadership role – a traditionally male dominated technical field - Ariana hopes she is setting an example for others to follow.

"I feel very fortunate to have been able to pivot from marketing and communications to a career in digital, without having to take a side-step or step back career-wise," she says.

Ariana's career is testimony to the power of following your passion, and the opportunities to flourish in the customer-owned banking sector. After starting her career in a bank branch, Ariana spent several years working her way up through the ranks at different mutuals. She now leads a commercially important digital workstream for Great Southern Bank, and remains passionate about the sector and the positive impact it has on customers, team members and communities.

A proud Māori woman, Ariana also co-chairs Great Southern Bank's 195+ Flavours Employee Resource Group, which is dedicated to celebrating cultural diversity.

"You can't be what you can't see. Through my role as co-chair of the ERG and as a leader in digital, my aim is to increase that visibility for women and people from culturally and linguistically diverse backgrounds and create space for them to develop into leadership roles."

# CREDIT UNION AUSTRALIA LTD
# (trading as Great Southern Bank)

# DIRECTORS' REPORT AND FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 30 JUNE 2022





## Contents

# Directors' report

The Directors have pleasure in presenting their report together with the financial statements of Credit Union Australia Ltd (trading as Great Southern Bank) (the Bank) and of the Group, being the Bank and its controlled entities, for the year ended 30 June 2022 and the auditor's report thereon.

**Directors and company secretary**

**Directors**
The names and details of the Directors of the Bank in office during the financial year and until the date of this report are as follows. Directors were in office for this entire period unless otherwise stated.

Nigel Ampherlaw
Paul Bedbrook
Paul Lewis
Kyle Loades
Louise McCann (Leave of absence 23 August 2021 to 30 June 2022)
Deborah O'Toole
Wayne Stevenson

**Nigel Ampherlaw**
*B.Com., FCA, MAICD*
Chairman and Independent Non-Executive Director

Nigel joined the Board in March 2011. He has been the Chairman since 15 November 2017. He is a member of the Remuneration and Nominations Committee.

Nigel has extensive experience in risk management, technology, consulting and auditing for financial services institutions in Australia and the Asia-Pacific region. He is a chartered accountant by profession. He was a Partner of PricewaterhouseCoopers for 22 years where he held a number of leadership positions, including heading the financial services audit, business advisory services and consulting businesses. He also held several senior client Lead Partner roles.

Nigel is a Director of Elanor Investors Group.

**Paul Bedbrook**
*B.Sc., FAICD, F Fin*
Independent Non-Executive Director

Paul joined the Board in July 2011. He is the Chairman of the Remuneration and Nominations Committee, the Chairman of Credicorp Insurance Pty Ltd (Credicorp Insurance) Board and a member of the Credicorp Insurance Board Audit and Board Risk Committees. Paul was also Chairman of CUA Health Limited (CHL) and a member of the CHL Board Audit and Board Risk Committees prior to the sale to HBF Health Insurance Australia on 30 September 2021.

Paul has over 40 years' experience in financial services, specifically across the areas of banking, insurance and investment management. He is a former long-term senior executive with ING (the Dutch global banking, insurance and investment group) and held CEO positions in ING DIRECT Canada, ING Australia and ING Asia Pacific.

Paul is also the Chairman of Zürich Financial Services Australia and Elanor Investors Group, and a Director of the National Blood Authority.

**Paul Lewis**
*BA, MBA*
*Managing Director and the Chief Executive Officer*

Paul was appointed to the Board on 1 November 2019, coinciding with his commencement in the role of CEO.

He is also the Chairman of Credicorp Finance Pty Ltd (Credicorp Finance) and a Director of CUA Management Pty Ltd (CUA Management). Paul was a Director of Credicorp Insurance until November 2021. He was also a Director of CHL prior to the sale to HBF Health Insurance Australia on 30 September 2021.





Directors' report

**Directors and company secretary (continued)**

Paul first joined Great Southern Bank in February 2018 as the Chief Sales Officer with responsibility for leading Great Southern Bank's distribution channels.

With over 20 years' experience in financial services leadership positions, Paul has held numerous retail banking executive roles in Australia, New Zealand and Malaysia.

Prior to joining Great Southern Bank, Paul was the Senior Head of Strategy and Transformation at Westpac, where his role included leading the Consumer banking strategy development for the Group. He held a variety of senior executive roles within ANZ in Australia, New Zealand and South East Asia, including three years as General Manager of the ANZ Australian Retail Branch Network. In this role, Paul was responsible for leading more than 800 branches and 7,000 employees before being seconded to Malaysia for two years as the Managing Director, Retail Banking for AmBank with responsibility for 6,500 staff and 2.5 million retail customers.

Paul's professional qualifications include an MBA and BA from Massey University, NZ. He is an alumnus of the London Business School's Senior Executive Programme and is currently a Director of the Business Council of Co-operatives and Mutuals (BCCM) Ltd.

**Kyle Loades**
*MBA, FAICD, FTL, GFIN*
Independent Non-Executive Director

Kyle joined the Board on 1 December 2017. He is a member of the Board Risk, Board Audit and Remuneration and Nominations Committees. He is also a Director of the Credicorp Insurance Board and Chair of the Credicorp Insurance Board Audit and Board Risk Committees. Kyle was also a Director of the CHL Board Audit and Board Risk Committees prior to the sale to HBF Health Insurance Australia on 30 September 2021.

Kyle is a Chairman, Non-Executive Director and Advisor with more than two decades of experience across the commercial, community and public sectors. He has a particular interest and experience in the transformation of business facing disruption.

Kyle is currently Chair of Hunter Medical Research Institute and Active Super and a Non-Executive Director of AMA Group. He is a Conjoint Professor in the Faculty of Business and Law at the University of Newcastle. Kyle completed a three-and-a-half year term as Chairman of NRMA where he directed a period of significant cultural and operational change requiring considerable strategy and risk expertise.

In an executive capacity he established, grew and managed an independent car broking business that disrupted the motor vehicle retail industry. The company was purchased by ASX listed Eagers Automotive Limited.

Kyle is a Fellow of the AICD and AUSTTA, has completed an MBA at the University of Newcastle, a Harvard Business School Certificate in Disruptive Strategy, a Transformation Leadership Program at ANU, a Diploma of Superannuation at AIST and a Professional Banking Fundamentals Program at FINSIA.

**Louise McCann**
*MM MGSM, FAICD, FAIM, FRSA*
Independent Non-Executive Director (Leave of absence 23 August 2021 to 30 June 2022)

Louise joined the Board in November 2015 and was a member of the Board Risk and Remuneration and Nominations Committees until 30 June 2022.

Louise has a diverse portfolio including technology, media, health, education, personal transport, accounting and professional services. Louise's executive career was as a CEO and senior executive in the media, commercial market research, brand and communications sectors in Australia, New Zealand and across Asia. From April 2011 until August 2015 Louise was a Non-Executive Director with iiNet Limited and Chaired the Remuneration and Nominations Committee. iiNet was sold to TPG to form Australia's second largest telecommunications company in August 2015.

Louise is currently Chair of Grant Thornton Australia Limited and Non-Executive Director of the University of Notre Dame.

**Directors and company secretary (continued)**

**Deborah O'Toole**
*LLB, MAICD*
Independent Non-Executive Director

Deb joined the Board in March 2014. She is the Chairman of the Board Risk Committee and a member of the Board Audit Committee.

Deb is a qualified lawyer and has more than 30 years' experience in mining, resources and rail freight industries, many of which have been focused in the finance function including as CFO at Aurizon, Queensland Cotton and MIM Holdings. She served as Chairman of the Audit Committee for CSIRO, the Norfolk Group and Pacific Aluminium. Deb was also a member of the former Workers' Compensation Board of Queensland and a former Board member of Queensland Country Health Society.

Deb is Chair of Transurban Qld Finance Pty Limited and is a Director of Sims Metal Management Limited, Pacific National Rail, Alumina Limited and Sydney Airport Corporation Limited. Deb is a graduate of the Harvard Business School's Advanced Management Program.

**Wayne Stevenson**
*B.Com., CA, FAICD*
Independent Non-Executive Director

Wayne joined the Board in February 2014. He is the Chairman of the Board Audit Committee and a member of the Board Risk Committee.

Wayne's executive background was largely in banking and financial services with ANZ where he held several senior positions across Australia, New Zealand and Asia. Wayne brings strong expertise of the financial services industry including 15 years in CFO roles at ANZ involving a broad range of disciplines including the undertaking of significant acquisitions, restructures and divestments. His roles included Group General Manager, Group Strategy, and prior to that he held the role of CFO Asia Pacific, Europe and America.

Wayne's current independent Non-Executive Director portfolio includes Chair of MediaWorks Holdings Ltd and a Director of BigTinCan Holdings Ltd (ASX listed) and Cuscal Limited.

**Company secretary**
The name and details of the Company Secretary of the Bank during the financial year and until the date of this report are as follows. The Company Secretary was in office for this entire period unless otherwise stated.

**Nicole Pedwell**
*B.IntBus., FGIA, FCIS, GAICD*
Company Secretary

Nicole joined the company in November 2014 and was appointed a Company Secretary of the Bank in December 2014. She is also a Company Secretary to Credicorp Insurance, CUA Management and Credicorp Finance. Nicole was also a Company Secretary to CHL prior to the sale to HBF Health Insurance Australia on 30 September 2021.

Nicole is a qualified Company Secretary, corporate governance and communications professional. Nicole has over 20 years' investor and stakeholder relations experience in both global and domestic financial services entities. Nicole holds a Bachelor of International Business from Griffith University, a Graduate Diploma in Applied Corporate Governance from the Governance Institute of Australia and is a graduate of the Australian Institute of Company Directors.

Nicole is a Director of the Financial Basics Foundation, the Financial Basics Community Foundation and ESSI Money Pty Ltd.





**Directors and company secretary (continued)**

**Directors' meetings**

The number of meetings of Directors and meetings of Board Committees held during the year and the number of meetings attended by each Director was as follows:

**A** = Number of meetings eligible to attend
**B** = Number of meetings attended

| | Board | | Board Audit Committee | | Board Risk Committee | | Remuneration & Nominations Committee | | Combined Remuneration & Nominations and Risk Committee Meeting[1] | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **A** | **B** | **A** | **B** | **A** | **B** | **A** | **B** | **A** | **B** |
| N. Ampherlaw | 14 | 14 | | | | | 5 | 5 | 2 | 2 |
| P. Bedbrook | 14 | 12 | | | | | 5 | 4 | 2 | 2 |
| K. Loades | 14 | 12 | 4 | 4 | 4 | 4 | 5 | 5 | 2 | 2 |
| P. Lewis | 14 | 14 | | | | | | | | |
| L. McCann[2] | 0 | 0 | | | 0 | 0 | 1 | 0 | 1 | 0 |
| D. O'Toole | 14 | 14 | 4 | 4 | 4 | 4 | | | 2 | 2 |
| W. Stevenson | 14 | 14 | 4 | 4 | 4 | 4 | | | 2 | 2 |

[1] The Remuneration & Nominations Committee and the Board Risk Committee held two combined meetings during the year to consider key risks relating specifically to remuneration issues.
[2] Louise McCann was on an approved leave of absence from 23 August 2021 to 30 June 2022.

The above table relates to the Bank's Directors' meetings. The subsidiaries have their own Boards and Board Committee meetings attended by the respective subsidiary Board members.

**Remuneration of Non-Executive Directors and other key management personnel**

The Bank's remuneration policy aims to remunerate personnel competitively in line with comparable financial services organisations in order to attract and retain the talent necessary to meet organisational objectives. In addition, the remuneration policy and framework are designed to ensure Great Southern Bank's long term financial soundness and to support an effective risk management framework.

*Non-Executive Directors' fees*

Non-Executive Directors receive fees to recognise their contribution to the work of the Board and Board Committees on which they serve. Non-Executive Directors do not receive any performance-related remuneration.

A market benchmarking review of Non-Executive Directors' fees is undertaken periodically. In determining the appropriate level of remuneration, external consultants are engaged to provide independent advice to ensure that the compensation is set competitively compared to the market. A review was completed in March 2021, with advice sought from external consultants. As an outcome of the review, it was agreed to introduce a Chair Committee fee structure for the financial year ended 30 June 2022, to align with industry practice and recognise the additional work of the Chairs of the Committees. The last increase to Directors' fees was in July 2019.

## Directors and company secretary (continued)

### Remuneration of Non-Executive Directors and other key management personnel (continued)

*Other key management personnel (KMP)*

Remuneration comprises total fixed remuneration (TFR) and elements of at-risk pay, including a short term incentive (STI) and a long term incentive (LTI). These elements have been designed to attract and retain talent and are comprised of the following:

- TFR is intended to recognise the delivery of individual roles and responsibilities and is reviewed annually by the Remuneration and Nominations Committee and the Board. The review considers individual performance and market remuneration data.
- The STI provides a reward for contribution aligned to customer interests, annual business performance and collective success and is based on individual and organisational targets. The Board may apply its discretion in determining any STI awards to reflect performance during the year. A portion of the STI is deferred for certain roles to encourage effective risk management in accordance with Australian Prudential Regulation Authority (APRA) requirements.
- The LTI is designed to attract future talent as well as to motivate and retain current executives, focusing on sharing the Bank's successes as a team rather than rewarding individual performance. It also aims to balance short-term, in-year performance with the longer term sustainable creation of value for the Bank and its customers. Any LTI award is paid following the end of a four-year performance period.

### Directors' benefits

During, or since the end of the financial year, no Director has received, or become entitled to receive, a benefit by reason of a contract entered into by the Bank, or its controlled entities, with the Director, a firm of which the Director is a customer, or an entity in which the Director has a substantial financial interest, other than a benefit to which the Director is entitled as a customer of the Bank. All transactions with entities associated with Directors are at arm's length and on commercial terms.

### Indemnification of Directors and Officers

During the financial year, the Bank paid an insurance premium in respect of an insurance policy for the benefit of Directors, secretary, executive officers and employees of the Bank and related entities. The insurance policy grants indemnification in respect of certain liabilities for which the *Corporations Act 2001* allows indemnification. The insurance policy does not permit the disclosure of the nature of the liabilities insured nor the amount of the premium. No insurance cover or indemnification has been provided for the benefit of the auditor of the Bank.

## Financial performance disclosures

### Principal activities

The principal activities of the Bank during the financial year comprised the raising of funds by deposit and the provision of loans and associated services to customers. Through its controlled entities, the Group was also involved in private health insurance, general insurance and securitisation activities.

### Significant changes in the state of affairs

Other than the sale of the CHL Insurance business to HBF Health Insurance Australia, there was no significant change in the state of affairs of the Group during the year ended 30 June 2022 not otherwise contained in the Directors' report or the financial statements.

### Dividends

The Constitution of the Bank does not allow for the payment of dividends on any member shares currently on issue.





## Financial performance disclosures (continued)

### Review of operations

The Group reported a net profit after tax for the financial year ended 30 June 2022 of $70.5 million (2021: $49.1 million). This includes the sale of the CUA Health Insurance business to HBF, Health Insurance Australia, as the Group strengthens focus on its core banking operations. The disposal is reflected in Discontinued operations as a net profit of $58.0 million.

An increasingly competitive lending environment and stronger customer preference for fixed rate lending resulted in declining margins across the banking industry. This is consistent with the decrease of 2.3% to $290.8 million (2021: $297.7 million) in the Group's net interest income.

Despite these impacts, the Group continued its strong lending asset growth, building on a post COVID-19 return of consumer confidence during the second half of the year. The Group continued to deliver on its purpose of helping all Australians own their own home by participating in the Australian Government First Home Loan Deposit Scheme to support first home buyers. Increased lending to first home buyers helped deliver growth in gross loans and advances of 11.1% to $15.0 billion (2021: $13.5 billion). At the same time, competitive products and investment in new online savings tools, helped deposits grow 5.3% to $11.9 billion (2021: $11.3 billion).

Other net operating income increased $0.6 million to $7.5 million for the year ended 30 June 2022 (2021: $6.9 million). Dividend revenue offset a decrease in net fee and commission income.

Underlying expenses for the Group increased $30.5 million or 12.6% over the year, primarily driven by strategic investments in technology systems and software, fulfilling regulatory compliance obligations as well as increasing costs to support volume growth.

Investment during the year included the delivery of a new, transformational home loan origination system, which has already halved approval times while doubling the number of applications processed. Other future-focused investments included the successful implementation of Consumer Data Rights regime (Open Banking), the migration of key information technology infrastructure and data to the Cloud and the completion of rebranding activities.

The increase in the Group's personnel expenses to $147.7 million (2021: $125.9 million) and other expenses $36.5 million (2021: $29.4 million) was driven by the above-mentioned investment activities as well as funding volume growth and customer-focused support across operations, product and marketing. Additional costs were incurred competing for talent to deliver the Group's technology investment program and enhance its data and analytics capability to support regulatory and compliance obligations.

The relocation of the Group head office to 300 George Street, Brisbane QLD is reflected in the Group balance sheet as property, plant and equipment. The move will provide enhanced collaboration spaces, improved technology, modern facilities and an environmentally friendly workplace. This, together with a review to the capitalisation threshold for existing assets, is reflected in an increase in depreciation of $4.8 million to $25.4 million for the year.

Underlying asset quality remains strong, as the Group continued to maintain a conservative approach to risk management and lending practices. During the year, the Group released the impairment provision for COVID-19. However, an additional impairment provision was recognised for the forward-looking macroeconomic scenarios given the uncertain economic outlook.

The Group remains committed to being a responsible Bank and continues working towards achieving the best possible outcomes for our customers. During the year, the Group has accelerated its sustainability focus, including the launch of the Reconciliation Action Plan with achievements reported quarterly to Reconciliation Australia. It also published its first Climate Action Plan and commitment to net zero by 2040. As well, the Group completed its first Financial Inclusion Action Plan after receiving verification from Ernst & Young under the Good Shepherd Financial Inclusion Program.

## Risk management

The Group's strategic and operational outcomes are underpinned by the effective management of key risks through the three lines of accountability. This model articulates the three layers of risk management and defines the roles, accountabilities and responsibilities for each layer.

During the year, the Group regularly monitored emerging risks in accordance with its defined Risk Management Strategy and Risk Appetite Statement. This, along with the supporting policies and standards, has helped management to deliver on the business strategy within a comprehensive framework for managing risk. These enterprise wide risk management activities enable the Group to aggregate material risk classes to form a Group wide view of risks and to support better, more customer focused decision making.

Management continues to invest in improvements to risk management processes, people and systems to protect customers and meet increasing regulatory obligations.

### Climate risk

The Australian Council of Financial Regulators identifies climate change as a first-order risk for the financial system. APRA considers that climate risk should be managed within an institution's broader risk management framework, and sets out its expectations in its Prudential Practice Guide CPG 229.

Great Southern Bank has made climate action a priority within our business. Underpinning our Climate Action Plan (http://www.greatsouthernbank.com.au/__data/assets/pdf_file/0033/453957/Climate-Change-Action-Plan.pdf), the Group has publicly committed to achieving net zero emissions by 2040, ten years earlier than the target date set by the United Nations in the Paris Agreement.

The Plan builds on the earlier work performed in March 2022, when Great Southern Bank became the first customer-owned bank to publish a Task Force on Climate-Related Financial Disclosure (TCFD) report (https://www.greatsouthernbank.com.au/__data/assets/pdf_file/0035/447866/GSB-Climate-Related-Financial-Disclosures-Online-Brochure.pdf). This includes emissions data for the Group's investment and lending activities in line with emerging global accounting standards established by the Partnership for Carbon Accounting Financials (PCAF) as well as assessment of climate risk posed by severe weather events across our mortgage portfolio and covering three scenarios to 2030, 2050 and 2100.

For financial year ending 30 June 2023, the Group plans to operationalise the commitments made within the Climate Action Plan, including the development of a pathway to net zero emissions and the establishment of near-term science-based emission reduction targets, for which validation will be sought by the Science Based Targets initiative (SBTi).

## Other matters

### Capital and remuneration prudential disclosures

For APRA Authorised Deposit-taking Institution (ADI) Prudential Standard APS 330 *Public Disclosure*, refer to the Prudential Disclosures section of the Bank's website (https://www.greatsouthernbank.com.au/about/corporate-governance/prudential-disclosures).

### Sale of CUA Health Limited

On 13 May 2021, the Group entered into an agreement to sell its wholly owned subsidiary, CHL. The sale was finalised on 30 September 2021 and settlement of the transaction occurred on 9 February 2022. As part of the sale, the Group entered into an exclusive five-year distribution agreement with the buyer to offer health insurance products through its branch network and digital channels to its customers.

The sale achieved a beneficial outcome for the Group and CHL members who joined another customer-focused organisation that shares many of the same values as the Group. It also allows the Group to focus on its core banking business and help achieve its purpose of helping all Australians to own their own homes.





## Other matters (continued)

### Carbon neutral

The Group continues to be certified carbon neutral for financial year ended 30 June 2022 under the Australian Government's Climate Active Carbon Neutral Standard for Organisations. Climate Active is a partnership between the Australian Government and Australian businesses to encourage voluntary climate action. Climate Active provides independent verification and certification to businesses who account for their greenhouse gas emissions.

The Group's carbon impact has been fully offset through a wind project in India and a savanna burning project by Arnhem Land Fire Abatement (Northern Territory) Ltd. The Group considers addressing operational Greenhouse Gases emissions as the first step in a broader program to decarbonise its operations and align its emissions trajectory to net zero by 2040. Further work on this is planned for financial year ending 30 June 2023.

Further information can be found in the Group's Public Disclosure Statement on the Department for Climate Change, Energy, Environment, and Water's website (https://www.climateactive.org.au/sites/default/files/2022-01/Great%20Southern%20Bank_Ongoing%20cert_Year%201%20FY2020-21_%28True-Up%29_PDS.pdf.)

### Supporting our team members and customers through COVID-19 pandemic and natural disasters

The Group continued to provide additional support to team members through the pandemic and recent Queensland and New South Wales flood events in 2022. The Group is proud that the Call Centre and Branches have remained open and able to support customers with all their financial needs, despite the challenges of a reduced workforce. That support includes financial assistance packages such as deferral of home loan payments, fee-free redraw of excess repayments, reduction of home loan repayments, temporary switch to interest only repayments, once off emergency grants and repayment relief on credit cards.

### New securitisation trust

On 16 August 2021, the Bank established a new capital effective securitisation trust: Series 2021-1 Harvey Trust. The Bank completed the issuance of $750 million of residential mortgage-backed securities to external investors at a weighted average margin of 72 basis points above the one-month bank bill swap rate. At the time of issuance this was the lowest margin achieved for a capital effective securitisation by any ADI in Australia since the global financial crisis.

### Events subsequent to reporting date

*COVID-19 pandemic*

There continues to be uncertainty regarding how the COVID-19 pandemic will evolve. Consideration was given to the emergence of new variants, "soft lockdowns" and isolation requirements from high infection rates and government support measures. The Group has not identified COVID-19 subsequent events that would require adjustments to the amounts or disclosures in the financial statements.

There are no other matters or circumstances not otherwise dealt with in the Financial Report that have significantly or may significantly affect the Group.

### Likely developments

A number of factors that may affect the Group's operations include the duration of COVID-19 and the emergence of new variants, economic performance impacted by geopolitical events, natural disasters, inflationary pressures and other uncertainties such as changes in consumer spending, disrupted supply chains, staff shortages and increased market volatility, as well as the extent of government support for the economies affected by these factors.

# Directors' report

**Other matters (continued)**

**Environmental regulation**

The Group's operations are not subject to any significant environmental regulations under either Commonwealth or State legislation. The Board believes that the Group is not aware of any breach of environmental requirements as they apply to the Group.

**Rounding**

The Group is of a kind referred to in the ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 dated 24 March 2016 and, in accordance with that instrument, amounts have been rounded to the nearest million dollars unless otherwise stated.

**Lead auditor's independence**

The Directors have obtained a copy of the Lead auditor's independence declaration as required under section 307C of the *Corporations Act 2001*, refer to page 19.

**Authorisation by Directors**

This report is made in accordance with a resolution of the Board of Directors and is authorised for and on behalf of the Directors by:

Nigel Ampherlaw
Chairman

Wayne Stevenson
Director

Brisbane
31 August 2022





KPMG

# Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

To the Directors of Credit Union Australia Ltd (trading as Great Southern Bank) (the Bank)

I declare that, to the best of my knowledge and belief, in relation to the audit of the Bank for the financial year ended 30 June 2022 there have been:

i. no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and

ii. no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

KPMG

Scott A Guse

*Partner*

Brisbane

31 August 2022

# FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 30 JUNE 2022



## Income statements

For the year ended 30 June 2022

| | Note | Group 2022 $m | Group 2021 $m | Bank 2022 $m | Bank 2021 $m |
|---|---|---|---|---|---|
| **Net interest income** | | | | | |
| Interest income | 2.1 | **389.5** | 439.6 | **389.5** | 439.6 |
| Interest expense | 2.1 | **(98.7)** | (141.9) | **(98.7)** | (141.9) |
| **Total net interest income** | | **290.8** | 297.7 | **290.8** | 297.7 |
| **Other net operating income**[1] | 2.1 | **7.5** | 6.9 | **29.2** | 15.1 |
| Share of net loss of a joint venture | | **(2.7)** | (2.4) | **(2.7)** | (2.4) |
| **Total net operating income** | | **295.6** | 302.2 | **317.3** | 310.4 |
| Disposal of investment in subsidiary[2] | 4.13 | **-** | - | **154.8** | - |
| **Total income** | | **295.6** | 302.2 | **472.1** | 310.4 |
| **Expenses** | | | | | |
| Personnel | | **(147.7)** | (125.9) | **(148.7)** | (125.5) |
| Occupancy | | **(2.7)** | (2.5) | **(2.7)** | (2.5) |
| Depreciation | 2.2 | **(25.4)** | (20.6) | **(25.4)** | (20.6) |
| Amortisation of intangible assets | 4.3 | **(17.5)** | (21.0) | **(17.5)** | (21.0) |
| Information technology | | **(20.5)** | (20.0) | **(20.8)** | (20.0) |
| General administrative expenses | 2.2 | **(21.8)** | (22.2) | **(24.2)** | (23.6) |
| Other expenses | 2.2 | **(36.5)** | (29.4) | **(36.0)** | (33.7) |
| Total operating expenses | | **(272.1)** | (241.6) | **(275.3)** | (246.9) |
| **Profit before impairment and income tax** | | **23.5** | 60.6 | **196.8** | 63.5 |
| Software asset impairment | 4.3 | **-** | (0.9) | **-** | (0.9) |
| Credit and other financial asset impairment | 2.2 | **(3.1)** | (2.7) | **(3.1)** | (2.7) |
| **Profit before income tax** | | **20.4** | 57.0 | **193.7** | 59.9 |
| Income tax expense | 2.3(a) | **(7.9)** | (16.4) | **(53.6)** | (15.2) |
| **Profit from continuing operations** | | **12.5** | 40.6 | **140.1** | 44.7 |
| Income from discontinued operations | 4.13 | **58.0** | 8.5 | **-** | - |
| **Profit for the year** | | **70.5** | 49.1 | **140.1** | 44.7 |
| **Profit for the year is attributable to:** | | | | | |
| Members of the Bank | | **70.5** | 49.1 | **140.1** | 44.7 |

[1]The prior year balances have been adjusted for consistency with the current year disclosures that reflect updated information.
[2]The gain on sale of investment relates to the disposal of the investment in CHL subsidiary and is the difference between the proceeds from the sale of $154.8m and the carrying amount of the investment sold. For details of the CHL disposal, refer to Note 4.13.

*The income statements should be read in conjunction with the accompanying notes.*

# Statements of comprehensive income

For the year ended 30 June 2022

| | Note | Group 2022 $m | Group 2021 $m | Bank 2022 $m | Bank 2021 $m |
|---|---|---|---|---|---|
| **Profit for the year** | | **70.5** | 49.1 | **140.1** | 44.7 |
| **Other comprehensive income** | | | | | |
| *Items that are or may be reclassified to profit or loss* | | | | | |
| Cash flow hedges: | | | | | |
| Revaluation taken to members' funds | | **86.0** | 8.3 | **86.0** | 8.3 |
| Transferred to profit or loss | | **(0.1)** | (0.1) | **(0.1)** | (0.1) |
| Revaluation of debt instruments - fair value through other comprehensive income | | **-** | - | **(0.9)** | 1.0 |
| | | **85.9** | 8.2 | **85.0** | 8.2 |
| *Items that will not be reclassified to profit or loss* | | | | | |
| Revaluation of equity instruments - fair value through other comprehensive income | | **6.6** | 4.6 | **6.6** | 4.6 |
| | | **6.6** | 4.6 | **6.6** | 4.6 |
| Income tax on other comprehensive income | 2.3(d) | **(27.1)** | (3.8) | **(26.8)** | (4.1) |
| Other comprehensive income after tax | | **65.4** | 9.0 | **64.8** | 9.7 |
| **Total comprehensive income** | | **135.9** | 58.1 | **204.9** | 54.4 |
| Total comprehensive income for the period is attributable to: | | | | | |
| Members of the Bank | | **135.9** | 58.1 | **204.9** | 54.4 |
| Total comprehensive income for the period attributable to members of the Bank arises from: | | | | | |
| Continuing operations | | **77.9** | 49.6 | **204.9** | 54.4 |
| Discontinued operations | 4.13 | **58.0** | 8.5 | **-** | - |
| | | **135.9** | 58.1 | **204.9** | 54.4 |

*The statements of comprehensive income should be read in conjunction with the accompanying notes.*



# Balance sheets

As at 30 June 2022

| | Note | Group 2022 $m | Group 2021 $m | Bank 2022 $m | Bank 2021 $m |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Cash and cash equivalents[1] | 3.1 | **382.1** | 463.3 | **377.1** | 456.7 |
| Receivables due from other banks[1] | 3.1 | **12.3** | 3.0 | **12.3** | 3.0 |
| Financial assets - fair value through profit or loss | 3.2 | **3.0** | 3.0 | **-** | - |
| Financial assets - amortised cost | 3.2 | **2,146.9** | 2,001.0 | **5,568.5** | 4,574.8 |
| Derivative financial instruments | 3.3(a) | **108.0** | 2.1 | **108.0** | 2.1 |
| Loans and advances | 3.4 | **15,019.1** | 13,547.0 | **15,019.1** | 13,547.0 |
| Financial assets - fair value through other comprehensive income | 3.2 | **57.9** | 47.3 | **91.7** | 70.1 |
| Other assets | 4.1 | **16.4** | 17.8 | **16.2** | 17.7 |
| Investments in controlled entities | 4.9(b) | **-** | - | **1.5** | 1.5 |
| Investments in a joint venture | 4.10 | **3.4** | 3.0 | **3.4** | 3.0 |
| Deferred tax asset | 2.3(c) | **-** | 11.1 | **-** | 10.6 |
| Property, plant and equipment[1] | 4.2 | **23.6** | 13.5 | **23.6** | 13.5 |
| Intangibles[1] | 4.3 | **55.3** | 55.3 | **55.3** | 55.3 |
| Right-of-use assets | 4.4 | **35.9** | 29.0 | **35.9** | 29.0 |
| Assets classified as held for sale[2] | 4.13 | **-** | 102.9 | **-** | - |
| **Total assets** | | **17,863.9** | 16,299.3 | **21,312.6** | 18,784.3 |
| **Liabilities** | | | | | |
| Deposits | 3.6 | **11,940.6** | 11,256.7 | **11,940.6** | 11,263.4 |
| Derivative financial instruments | 3.3(a) | **23.2** | 4.3 | **23.2** | 4.3 |
| Borrowings | 3.7 | **4,453.1** | 3,751.0 | **7,911.3** | 6,349.7 |
| Other liabilities | 4.5 | **68.2** | 25.8 | **67.8** | 28.0 |
| Lease liabilities | 4.6 | **40.3** | 31.3 | **40.3** | 31.3 |
| Provisions | 4.7 | **31.9** | 26.9 | **31.9** | 26.9 |
| Deferred tax liability | 2.3(c) | **11.9** | - | **11.9** | - |
| Liabilities directly associated with assets classified as held for sale | 4.13 | **-** | 44.5 | **-** | - |
| **Total liabilities** | | **16,569.2** | 15,140.5 | **20,027.0** | 17,703.6 |
| **Net assets** | | **1,294.7** | 1,158.8 | **1,285.6** | 1,080.7 |
| **Members' funds** | | | | | |
| Reserves | 4.8 | **93.0** | 31.0 | **92.8** | 31.4 |
| Retained earnings | | **1,201.7** | 1,127.8 | **1,192.8** | 1,049.3 |
| **Total members' funds** | | **1,294.7** | 1,158.8 | **1,285.6** | 1,080.7 |

[1]The prior year balances have been adjusted for consistency with the current year disclosures that reflect updated information.
[2]Included in assets classified as held for sale at the Group level is the investment in the subsidiary held for sale. Refer to Note 4.9(b) and 4.13.

*The balance sheets should be read in conjunction with the accompanying notes.*

# Statements of changes in members' funds

For the year ended 30 June 2022

| | Group | | | Bank | | |
|---|---|---|---|---|---|---|
| | Reserves $m | Retained earnings $m | Total members' funds $m | Reserves $m | Retained earnings $m | Total members' funds $m |
| **Balance at 1 July 2020** | 23.5 | 1,077.2 | 1,100.7 | 23.2 | 1,003.1 | 1,026.3 |
| Profit for the year after tax | - | 49.1 | 49.1 | - | 44.7 | 44.7 |
| *Other comprehensive income after tax:* | | | | | | |
| Cash flow hedges: | | | | | | |
| Revaluation taken to members' funds | 5.9 | - | 5.9 | 5.9 | - | 5.9 |
| Transferred to profit and loss | (0.1) | - | (0.1) | (0.1) | - | (0.1) |
| Revaluation of debt instruments - fair value through other comprehensive income | - | - | - | 0.7 | - | 0.7 |
| Revaluation of equity instruments - fair value through other comprehensive income | 3.2 | - | 3.2 | 3.2 | - | 3.2 |
| **Total comprehensive income for the period** | 9.0 | 49.1 | 58.1 | 9.7 | 44.7 | 54.4 |
| Redemption of member shares | 0.1 | (0.1) | - | 0.1 | (0.1) | - |
| Appropriation of retained earnings for credit losses reserve | (1.6) | 1.6 | - | (1.6) | 1.6 | - |
| **Balance at 30 June 2021** | 31.0 | 1,127.8 | 1,158.8 | 31.4 | 1,049.3 | 1,080.7 |
| **Balance at 1 July 2021** | **31.0** | **1,127.8** | **1,158.8** | **31.4** | **1,049.3** | **1,080.7** |
| Profit for the year after tax | **-** | **70.5** | **70.5** | **-** | **140.1** | **140.1** |
| *Other comprehensive income after tax:* | | | | | | |
| Cash flow hedges: | | | | | | |
| Revaluation taken to members' funds | **60.2** | **-** | **60.2** | **60.2** | **-** | **60.2** |
| Transferred to profit and loss | **(0.1)** | **-** | **(0.1)** | **(0.1)** | **-** | **(0.1)** |
| Revaluation of debt instruments - fair value through other comprehensive income | **-** | **-** | **-** | **(0.6)** | **-** | **(0.6)** |
| Revaluation/sale of equity instruments - fair value through other comprehensive income | **3.0** | **2.3** | **5.3** | **3.0** | **2.3** | **5.3** |
| **Total comprehensive income for the period** | **63.1** | **72.8** | **135.9** | **62.5** | **142.4** | **204.9** |
| Redemption of member shares | **0.1** | **(0.1)** | **-** | **0.1** | **(0.1)** | **-** |
| Appropriation of retained earnings for credit losses reserve | **(1.2)** | **1.2** | **-** | **(1.2)** | **1.2** | **-** |
| **Balance at 30 June 2022** | **93.0** | **1,201.7** | **1,294.7** | **92.8** | **1,192.8** | **1,285.6** |

*The statements of changes in members' funds should be read in conjunction with the accompanying notes.*





# Statements of cash flows

For the year ended 30 June 2022

| | | Group | | Bank | |
|---|---|---|---|---|---|
| | Note | **2022 $m** | 2021 $m | **2022 $m** | 2021 $m |
| **Cash flows from operating activities** | | | | | |
| Interest received | | **406.2** | 445.6 | **404.5** | 445.5 |
| Interest paid | | **(102.9)** | (140.6) | **(103.0)** | (140.7) |
| Fees and commissions received | | **28.2** | 29.4 | **28.2** | 29.7 |
| Fees and commissions paid | | **(27.2)** | (26.4) | **(27.2)** | (25.1) |
| Contributions/premiums received | | **-** | 153.8 | **-** | - |
| Benefits/claims paid | | **(0.3)** | (124.6) | **-** | - |
| Dividends received | | **5.1** | 0.4 | **26.0** | 7.1 |
| Other non-interest income received | | **3.2** | 13.7 | **4.7** | 17.3 |
| Payments to suppliers and employees | | **(226.1)** | (221.1) | **(232.7)** | (219.1) |
| Income tax paid | | **(17.9)** | (22.7) | **(17.4)** | (15.3) |
| Change in loans and advances | | **(1,491.7)** | 15.1 | **(1,491.7)** | 15.1 |
| Change in financial assets | | **(151.4)** | (14.7) | **(151.4)** | (14.7) |
| Change in deposits | | **684.5** | 180.7 | **677.9** | 184.7 |
| Net cash (used in)/provided by operating activities | 3.1(a) | **(890.3)** | 288.6 | **(882.1)** | 284.5 |
| **Cash flows from investing activities** | | | | | |
| Payments for plant, equipment and intangible assets | | **(35.1)** | (24.0) | **(35.1)** | (24.0) |
| Proceeds from sale of property, plant and equipment | | **-** | 0.4 | **-** | 0.4 |
| Proceeds from disposal of subsidiary | 4.13 | **154.8** | - | **154.8** | - |
| Payments from investments in a joint venture | | **0.5** | - | **0.5** | - |
| Net cash provided by/(used in) investing activities | | **120.2** | (23.6) | **120.2** | (23.6) |
| **Cash flows from financing activities** | | | | | |
| Proceeds from/(repayments to) borrowings | | **705.8** | (92.3) | **707.2** | (93.8) |
| Net repayments to lease liabilities | | **(15.6)** | (16.1) | **(15.6)** | (16.1) |
| Net cash provided by/(used in) financing activities | 3.1(c) | **690.2** | (108.4) | **691.6** | (109.9) |
| Change in cash and cash equivalents | | **(79.9)** | 156.6 | **(70.3)** | 151.0 |
| Cash at the beginning of the year | | **474.3** | 317.7 | **459.7** | 308.7 |
| Cash at the end of the year | 3.1(b) | **394.4** | 474.3 | **389.4** | 459.7 |

*The statements of cash flows should be read in conjunction with the accompanying notes.*

# Notes to the financial statements

For the year ended 30 June 2022







# Notes to the financial statements

For the year ended 30 June 2022

## 1. Basis of preparation

### 1.1 Corporate information

The financial report of Credit Union Australia Ltd (trading as Great Southern Bank) (the Bank) as an individual entity, and the Bank and its subsidiaries as a Group (the Group) for the year ended 30 June 2022 was authorised for issue in accordance with a resolution of the Directors on 31 August 2022.

The Bank is a for-profit company incorporated and domiciled in Australia.

The controlling entity of the Group is Credit Union Australia Ltd. The registered office and principal place of business is:

Credit Union Australia Ltd
Level 27
300 George Street
Brisbane QLD 4000

### 1.2 Basis of accounting

#### (a) Basis of preparation

The financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards and the *Corporations Act 2001*.

The financial report has been prepared on a historical cost basis, unless the application of fair value measurements is required by the relevant accounting standards.

The financial report is presented in Australian dollars and all values are rounded to the nearest million dollars ($m) unless otherwise stated under the option available to the Bank under the ASIC Corporations Instrument 2016/191. The Bank is an entity to which the Corporations Instrument applies.

#### (b) Statement of compliance

The financial report complies with International Financial Reporting Standards (IFRS) which are applicable to the Group as issued by the International Accounting Standards Board.

### 1.3 Significant accounting judgements and estimates

In the process of applying the Group's accounting policies, management has used its judgement and made estimates in determining the amounts recognised in the financial statements.

The ongoing effects of COVID-19 has had significant impacts on the global economy and markets. Governments have responded with unprecedented levels of support. Vaccination levels and government responses vary globally in their extent and timing. Globally, economies are still reopening. Locally in Australia, there continues to be ongoing impacts from COVID-19 which include the risks of subsequent infections and emergence of new variants.

The impact of COVID-19 continues to evolve and, where applicable, has been incorporated in the Group's results of operations and measurement of its assets and liabilities at reporting date. The Group's processes to determine the impact of COVID-19 for these financial statements are consistent with prior years. The judgements and assumptions applied to measure expected credit losses (ECL) reflect current circumstances.

Forward-looking information, including consideration of various scenarios and probabilities in determining the Group's forward-looking assumptions for the purpose of ECL, has been provided in Note 3.5. While there are a wide range of possible scenarios and macro-economic outcomes including the uncertainty of how COVID-19 and its financial and economic impacts will evolve, the scenarios and assumptions applied represent reasonable and supportable forward-looking views at the reporting date.

# Notes to the financial statements

For the year ended 30 June 2022

### 1.3 Significant accounting judgements and estimates (continued)

As there is a high degree of uncertainty associated with these scenarios and assumptions, actual outcomes may differ to those forecasted which may impact the accounting estimates included in the financial statements. Other than adjusting events that provide evidence of conditions that existed at the end of the reporting period, the impact of events that arise after the reporting period will be accounted for in future reporting periods.

Other than COVID-19, the Group faces challenges including natural disasters, geopolitical events and inflationary pressures impacting global economic uncertainty. The evolving uncertainty creates a variety of issues and risks, including changes in consumer demand, disrupted supply chains, staff shortages and increased market volatility.

The most significant use of judgements and estimates has been applied to the areas outlined below and incorporate the impact of COVID-19, in particular on the Group's provisioning processes. Refer to the respective notes for additional details.

| | *Reference* |
|---|---|
| ECL and impairment of loans and advances and financial assets | Note 3.2, Note 3.5 and Note 3.10 |
| Fair value of financial instruments | Note 3.9 |
| Impairment of intangible assets | Note 4.3 |
| Determining lease terms and estimating the incremental borrowing rate | Note 4.4 |





# Notes to the financial statements

For the year ended 30 June 2022

## 2. Financial performance

### 2.1 Income

| | Group | | Bank | |
|---|---|---|---|---|
| | **2022 $m** | 2021 $m | **2022 $m** | 2021 $m |
| **Net interest income** | | | | |
| Interest income | | | | |
| Loans and advances to customers | **370.5** | 412.5 | **370.5** | 412.5 |
| Other financial assets | **19.0** | 27.1 | **19.0** | 27.1 |
| | **389.5** | 439.6 | **389.5** | 439.6 |
| Interest expense | | | | |
| Deposits from customers | **(45.9)** | (78.3) | **(45.9)** | (78.3) |
| Borrowings | **(30.0)** | (38.6) | **(30.0)** | (38.6) |
| Debt securities | **(10.1)** | (11.4) | **(10.1)** | (11.4) |
| Wholesale funding | **(2.7)** | (3.9) | **(2.7)** | (3.9) |
| Other interest expense | **(10.0)** | (9.7) | **(10.0)** | (9.7) |
| | **(98.7)** | (141.9) | **(98.7)** | (141.9) |
| Total net interest income | **290.8** | 297.7 | **290.8** | 297.7 |
| **Other operating income** | | | | |
| Fees and commissions income from contracts with customers | | | | |
| Commissions income | **13.6** | 13.3 | **13.5** | 14.0 |
| Account services | **11.6** | 12.6 | **11.6** | 12.6 |
| Transactional | **2.3** | 2.3 | **2.3** | 2.3 |
| Other fees | **1.0** | 0.8 | **1.0** | 0.8 |
| | **28.5** | 29.0 | **28.4** | 29.7 |
| Fee, brokerage and commission expense | | | | |
| Brokerage | **(24.1)** | (21.8) | **(24.1)** | (21.8) |
| Commissions | **(1.4)** | (1.5) | **(1.4)** | (1.5) |
| Other expense | **(1.7)** | (1.7) | **(1.7)** | (1.7) |
| | **(27.2)** | (25.0) | **(27.2)** | (25.0) |
| Total net fee and commission income | **1.3** | 4.0 | **1.2** | 4.7 |
| Finance cost - other | | | | |
| Interest expense - lease liabilities | **(0.9)** | (0.7) | **(0.9)** | (0.7) |
| Total finance cost - other | **(0.9)** | (0.7) | **(0.9)** | (0.7) |
| Dividend revenue | **5.1** | 0.4 | **26.0** | 7.1 |
| Net gain/(loss) on derivative financial instruments | **0.2** | (0.1) | **0.2** | (0.1) |
| Net gain on fixed assets | **-** | 0.4 | **-** | 0.4 |
| Net insurance income[1] | **1.1** | 2.8 | **-** | - |
| Other income | **0.7** | 0.1 | **2.7** | 3.7 |
| Total net other operating income | **7.5** | 6.9 | **29.2** | 15.1 |

[1]The prior year balances have been adjusted for consistency with the current year disclosures that reflect updated information.

# Notes to the financial statements

For the year ended 30 June 2022

## 2.1 Income (continued)

*Recognition and measurement*

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Separate specific recognition criteria must also be met, as outlined below.

Interest income and expense

Interest income and expense on financial assets and liabilities at amortised cost are recognised in profit or loss using the effective interest method. The effective interest method calculates the amortised cost using the effective interest rate of a financial asset or liability. The effective interest rate is the rate that exactly discounts the estimated future cash receipts or payments over the expected life of the financial assets or liabilities to the gross carrying amount or amortised cost of the financial asset or liability. Within net interest income, there are no amounts that relate to assets or liabilities held at fair value through profit or loss. If an asset is assessed as credit impaired, a lifetime ECL provision is recognised and interest revenue is calculated on a net basis (gross carrying amount less provision).

The Bank has elected to offset the benefit arising from the utilisation of the Reserve Bank of Australia (RBA) Term Funding Facility (TFF) against related interest expense from borrowings. Refer to Note 3.8 for further details of the TFF.

Fee, brokerage and commission revenue and expense

Fee, brokerage and commission revenue are brought to account on an accruals basis over the period that they cover, once a right to receive consideration has been attained and the performance obligation in respect of this income is met. Fee and commission expense relates mainly to transaction and service fees which are expensed when services are received.

Other fee revenue and expense from contracts with customers

Other fee income includes fees earned on a range of products and services platforms and are brought to account on an accruals basis over the period that they cover, once a right to receive consideration has been attained and the performance obligation in respect of this income is considered to be met. Other fee expense includes ATM, card and transaction fees which are expensed when services are received.

Interest expense on lease liabilities

The finance cost portion of lease payments are charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. Refer to recognition and measurement section in Note 4.4.





# Notes to the financial statements

For the year ended 30 June 2022

## 2.2 Expenses

| | Group | | Bank | |
|---|---|---|---|---|
| | **2022 $m** | 2021 $m | **2022 $m** | 2021 $m |
| Depreciation | | | | |
| Property, plant and equipment | **(7.9)** | (5.2) | **(7.9)** | (5.2) |
| Right-of-use assets | **(17.5)** | (15.4) | **(17.5)** | (15.4) |
| | **(25.4)** | (20.6) | **(25.4)** | (20.6) |
| General administrative expenses | | | | |
| Administrative expenses | **(20.5)** | (20.9) | **(22.9)** | (22.3) |
| Community | **(1.3)** | (1.3) | **(1.3)** | (1.3) |
| | **(21.8)** | (22.2) | **(24.2)** | (23.6) |
| Other expenses | | | | |
| Advertising | **(12.0)** | (7.1) | **(12.0)** | (7.1) |
| Professional services | **(23.8)** | (16.2) | **(23.3)** | (20.5) |
| Brand | **(0.7)** | (6.1) | **(0.7)** | (6.1) |
| | **(36.5)** | (29.4) | **(36.0)** | (33.7) |
| Credit and other financial asset impairment[1] | | | | |
| Impairment of loans and advances | **1.1** | 3.0 | **1.1** | 3.0 |
| Bad debts written off - loans and advances | **(6.2)** | (7.4) | **(6.2)** | (7.4) |
| Bad debts recovered - loans and advances | **2.0** | 1.7 | **2.0** | 1.7 |
| | **(3.1)** | (2.7) | **(3.1)** | (2.7) |

[1] Refer to Note 3.5 for recognition and measurement information.

# Notes to the financial statements

For the year ended 30 June 2022

## 2.3 Income tax

### (a) Amounts recognised in income statements

The components of income tax expense are:

| | Group | | Bank | |
|---|---|---|---|---|
| | **2022 $m** | 2021 $m | **2022 $m** | 2021 $m |
| Income tax expense | **7.9** | 16.4 | **53.6** | 15.2 |
| | **7.9** | 16.4 | **53.6** | 15.2 |
| Current tax | | | | |
| Current income tax | **11.0** | 19.8 | **56.9** | 18.8 |
| Adjustments in respect of current income tax of previous year | **1.0** | 0.2 | **1.0** | 0.1 |
| Deferred tax | | | | |
| Relating to origination and reversal of temporary differences | **(3.7)** | (2.8) | **(3.9)** | (2.9) |
| Adjustments in respect of deferred income tax of previous year | **(0.4)** | (0.8) | **(0.4)** | (0.8) |
| Income tax expense on continuing operations | **7.9** | 16.4 | **53.6** | 15.2 |

Deferred tax assets and liabilities of CHL were classified as held for sale at 30 June 2021. The sale of CHL was completed during the year. Refer to Note 4.13 which provides further disclosure relating to CHL.

### (b) Reconciliation of tax expense

A reconciliation between the tax expense and the accounting profit before income tax multiplied by the Group's applicable income tax rate is as follows:

| | Group | | Bank | |
|---|---|---|---|---|
| | **2022 $m** | 2021 $m | **2022 $m** | 2021 $m |
| Accounting profit before tax from continuing operations | **20.4** | 57.0 | **193.7** | 59.9 |
| At Australia's statutory income tax rate of 30% (2021: 30%) | **6.1** | 17.1 | **58.2** | 18.0 |
| Adjust for tax effect of: | | | | |
| Non-deductible expenses | **2.7** | (0.1) | **(0.5)** | (0.1) |
| Fully franked dividends received | **(1.5)** | - | **(4.7)** | (2.1) |
| Under/(over) provision in prior year | **0.6** | (0.6) | **0.6** | (0.6) |
| Income tax expense | **7.9** | 16.4 | **53.6** | 15.2 |





# Notes to the financial statements

For the year ended 30 June 2022

## 2.3 Income tax (continued)

### (c) Deferred tax balances

Deferred income tax on the balance sheets relates to the following:

| | Group | | Bank | |
|---|---|---|---|---|
| | **2022 $m** | 2021 $m | **2022 $m** | 2021 $m |
| Deferred tax assets comprise temporary differences attributable to: | | | | |
| Derivative financial instruments | **-** | 0.6 | **-** | 0.6 |
| Deferred acquisition costs | **-** | 0.1 | **-** | - |
| Provision for impairment of loans and advances | **8.9** | 9.2 | **8.9** | 9.2 |
| Employee benefits | **6.5** | 6.1 | **6.5** | 6.1 |
| Provisions and accruals | **5.6** | 4.0 | **5.6** | 3.9 |
| Lease assets and liabilities | **1.3** | 0.7 | **1.3** | 0.7 |
| Other | **0.8** | 0.9 | **0.8** | 0.8 |
| Total deferred tax assets | **23.1** | 21.6 | **23.1** | 21.3 |
| Deferred tax liabilities comprise temporary differences attributable to: | | | | |
| Plant and equipment and intangible assets | **0.5** | 2.7 | **0.5** | 2.7 |
| Financial assets - fair value through other comprehensive income | **9.2** | 7.8 | **9.2** | 8.0 |
| Derivative financial instruments | **25.3** | - | **25.3** | - |
| Total deferred tax liabilities | **35.0** | 10.5 | **35.0** | 10.7 |
| Net deferred tax assets/(liabilities) | **(11.9)** | 11.1 | **(11.9)** | 10.6 |

# Notes to the financial statements

For the year ended 30 June 2022

## 2.3 Income tax (continued)

### (d) Movement in deferred tax

| | Group | | Bank | |
|---|---|---|---|---|
| | **2022 $m** | 2021 $m | **2022 $m** | 2021 $m |
| Reclassification to assets held for sale/discontinued operations | **-** | (2.0) | **-** | - |
| Deferred income tax credit included in income tax expense comprises: | | | | |
| Increase in deferred tax assets | **2.0** | 1.0 | **2.2** | 1.0 |
| Decrease in deferred tax liabilities | **2.1** | 2.6 | **2.1** | 2.7 |
| | **4.1** | 3.6 | **4.3** | 3.7 |
| Deferred income tax related to items charged or credited to other comprehensive income during the year as follows: | | | | |
| Net gain on cash flow hedges | **(25.8)** | (2.5) | **(25.5)** | (2.5) |
| Net gain on fair value through other comprehensive income | **(1.3)** | (1.3) | **(1.3)** | (1.6) |
| | **(27.1)** | (3.8) | **(26.8)** | (4.1) |
| Total deferred tax movement | **(23.0)** | (2.2) | **(22.5)** | (0.4) |

### (e) Unused tax losses and franking account

| | Group | | Bank | |
|---|---|---|---|---|
| | **2022 $m** | 2021 $m | **2022 $m** | 2021 $m |
| Unused tax losses for which no deferred tax asset has been recognised | **0.9** | 0.9 | **-** | - |
| Potential tax benefit @ 30% | **0.3** | 0.3 | **-** | - |

All unused tax losses were incurred by Credicorp Finance, an Australian entity that is not part of a tax consolidated group.

| | Group | | Bank | |
|---|---|---|---|---|
| | **2022 $m** | **2021** $m | **2022 $m** | **2021** $m |
| Franking account balance | **377.9** | 360.4 | **373.9** | 349.7 |

The ability to use these franking credits is restricted by the Constitution of the Bank which does not permit the payment of dividends on any member shares currently on issue.





# Notes to the financial statements

For the year ended 30 June 2022

## 2.3 Income tax (continued)

*Recognition and measurement*

Income tax expense comprises current and deferred tax. It is recognised in profit or loss except to the extent that it relates to items recognised directly in members' funds or in other comprehensive income.

Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year and any adjustments to the tax payable or receivable in respect of previous years.

Deferred tax is recognised in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. No deferred income tax is recognised on the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible temporary differences to the extent it is probable that future taxable profits will be available against which they can be used. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Unrecognised deferred tax assets are reassessed at each reporting date and recognised to the extent that it has become probable that future taxable profits will be available against which they can be used.

# 3. Balance sheet and risk management

## 3.1 Cash and cash equivalents

| | Group | | Bank | |
|---|---|---|---|---|
| | **2022 $m** | 2021 $m | **2022 $m** | 2021 $m |
| Notes and coins on hand | **3.9** | 3.9 | **3.9** | 3.9 |
| Deposits on call[1] | **378.2** | 459.4 | **373.2** | 452.8 |
| | **382.1** | 463.3 | **377.1** | 456.7 |

[1]The prior year balances have been adjusted for consistency with the current year disclosures that reflect updated information.

Cash and cash equivalents include restricted balances of $238.4 million (2021: $198.1 million) in the Group which represent deposits held in securitisation trust collection accounts which are not available to the Group.

*Recognition and measurement*

Cash and cash equivalents include notes and coins on hand and cash on deposits and at call accounts with other ADIs and Approved Deposit Funds.

Cash and cash equivalents are carried at amortised cost on the balance sheet.

# Notes to the financial statements

For the year ended 30 June 2022

## 3.1 Cash and cash equivalents (continued)

*Notes to the statements of cash flows*

(a) Reconciliation of profit for the year to net cash (used in)/provide by operating activities:

| | Note | Group 2022 $m | Group 2021 $m | Bank 2022 $m | Bank 2021 $m |
|---|---|---|---|---|---|
| Profit after tax for the year | | | | | |
| Continuing operations | | **12.5** | 40.6 | **140.1** | 44.7 |
| Discontinued operations | 4.13 | **58.0** | 8.5 | **-** | - |
| Adjustments for: | | | | | |
| Depreciation and amortisation | | **42.9** | 41.7 | **42.9** | 41.6 |
| Credit and other financial asset impairment | | **5.1** | 4.8 | **5.1** | 4.8 |
| Net interest on loans and advances | | **16.2** | 11.7 | **16.2** | 11.7 |
| Net gain on financial assets - fair value through profit or loss | | **(0.2)** | (2.7) | **(0.2)** | - |
| Gain on sale of discontinued operations | | **(103.1)** | - | **(154.8)** | - |
| Derivative financial instruments (unrealised) | | **(26.9)** | (2.8) | **(26.9)** | (2.8) |
| Software impairment | | **-** | 0.9 | **-** | 0.9 |
| Other non-cash items | | **(0.8)** | (0.1) | **(0.7)** | (0.1) |
| Changes in: | | | | | |
| Change in loans and advances | | **(1,491.7)** | 15.1 | **(1,491.7)** | 15.1 |
| Change in financial assets | | **(151.4)** | (14.7) | **(151.4)** | (14.7) |
| Change in deferred tax liability | | **21.5** | (2.7) | **21.5** | (1.3) |
| Change in other assets | | **1.0** | (12.6) | **1.2** | (11.4) |
| Change in deposits | | **684.5** | 180.7 | **677.9** | 184.7 |
| Change in insurance policy liabilities | | **(1.4)** | 3.3 | **-** | - |
| Change in income tax payable | | **40.2** | 2.2 | **40.6** | 3.7 |
| Change in provisions | | **(0.1)** | 4.6 | **(0.7)** | 4.6 |
| Change in other liabilities | | **3.4** | 10.1 | **(1.2)** | 3.0 |
| Net cash (used in)/provided by operating activities | | **(890.3)** | 288.6 | **(882.1)** | 284.5 |

(b) Reconciliation of cash and cash equivalents at the end of financial year in the statements of cash flows:

Cash and cash equivalents at the end of the financial year in the statement of cash flows is represented by the following items in the balance sheet:

| | Note | Group 2022 $m | Group 2021 $m | Bank 2022 $m | Bank 2021 $m |
|---|---|---|---|---|---|
| Cash and cash equivalents | | | | | |
| Continuing operations | | **382.1** | 463.3 | **377.1** | 456.7 |
| Discontinued operations | 4.13 | **-** | 8.0 | **-** | - |
| | | **382.1** | 471.3 | **377.1** | 456.7 |
| Receivables due from other banks[1] | | **12.3** | 3.0 | **12.3** | 3.0 |
| | | **394.4** | 474.3 | **389.4** | 459.7 |

[1]Includes collateral representing credit support to secure the Bank's derivative liability position, as part of the standard International Swaps and Derivatives Association (ISDA) Agreement.

Cash and cash equivalents of CHL were classified as held for sale at 30 June 2021. The sale of CHL was completed during the current year. Refer to Note 4.13 which provides further disclosure relating to CHL.





# Notes to the financial statements

For the year ended 30 June 2022

## 3.1 Cash and cash equivalents (continued)

*Notes to the statements of cash flows (continued)*

(c) Reconciliation of cash flows from financing activities:

| **Group** | **1 July 2021 $m** | **Cash flows $m** | **Non-cash changes $m** | **30 June 2022 $m** |
|---|---|---|---|---|
| **Liabilities** | | | | |
| Borrowings | **3,751.0** | **705.8** | **(3.7)** | **4,453.1** |
| Lease liabilities | **31.3** | **(15.6)** | **24.6** | **40.3** |
| Total liabilities from financing activities | **3,782.3** | **690.2** | **20.9** | **4,493.4** |

| **Group** | 1 July 2020 $m | Cash flows $m | Non-cash changes $m | 30 June 2021 $m |
|---|---|---|---|---|
| **Liabilities** | | | | |
| Borrowings | 3,830.4 | (92.3) | 12.9 | 3,751.0 |
| Lease liabilities | 39.6 | (16.1) | 7.8 | 31.3 |
| Total liabilities from financing activities | 3,870.0 | (108.4) | 20.7 | 3,782.3 |

| **Bank** | **1 July 2021 $m** | **Cash flows $m** | **Non-cash changes $m** | **30 June 2022 $m** |
|---|---|---|---|---|
| **Liabilities** | | | | |
| Borrowings | **6,349.7** | **707.2** | **854.4** | **7,911.3** |
| Lease liabilities | **31.3** | **(15.6)** | **24.6** | **40.3** |
| Total liabilities from financing activities | **6,381.0** | **691.6** | **879.0** | **7,951.6** |

| **Bank** | 1 July 2020 $m | Cash flows $m | Non-cash changes $m | 30 June 2021 $m |
|---|---|---|---|---|
| **Liabilities** | | | | |
| Borrowings | 7,286.3 | (93.8) | (842.8) | 6,349.7 |
| Lease liabilities | 39.6 | (16.1) | 7.8 | 31.3 |
| Total liabilities from financing activities | 7,325.9 | (109.9) | (835.0) | 6,381.0 |

# Notes to the financial statements

For the year ended 30 June 2022

## 3.2 Financial assets

| | Group | | Bank | |
|---|---|---|---|---|
| | **2022 $m** | 2021 $m | **2022 $m** | 2021 $m |
| **Fair value through profit or loss** | | | | |
| Term deposits | **3.0** | 3.0 | **-** | - |
| | **3.0** | 3.0 | **-** | - |
| **Amortised cost** | | | | |
| Deposits | **366.6** | 351.3 | **366.6** | 351.3 |
| Fixed coupon bonds | **366.2** | 146.5 | **366.2** | 146.5 |
| Floating rate notes | **1,414.4** | 1,503.7 | **1,414.4** | 1,503.7 |
| Residential mortgage-backed securities | **-** | - | **3,421.6** | 2,573.8 |
| Impairment provision[1] | **(0.3)** | (0.5) | **(0.3)** | (0.5) |
| | **2,146.9** | 2,001.0 | **5,568.5** | 4,574.8 |
| **Fair value through other comprehensive income** | | | | |
| Debt instruments - residential mortgage-backed securities | **-** | - | **33.8** | 22.8 |
| Equity instruments - shares in an unlisted entity | **57.9** | 47.3 | **57.9** | 47.3 |
| | **57.9** | 47.3 | **91.7** | 70.1 |

[1] Refer to Note 3.5 for consideration of asset credit quality and ECL.

*Recognition and measurement*

Initial recognition of financial assets

On initial recognition, financial assets are measured at fair value. For an asset that is not at fair value through profit or loss, the fair value includes transaction costs that are directly attributable to the acquisition of that financial asset. The fair value of a financial instrument at initial recognition is generally its transaction price.

Fair value through profit or loss

Financial assets in this category relate to investments backing insurance liabilities and other debt securities. This group of financial assets is managed and its performance is evaluated on a fair value basis because related liabilities are also managed on this basis. Realised and unrealised gains and losses arising from changes in the fair value of these assets are included in the income statement in the period in which they arise.

Amortised cost

Financial assets are classified at amortised cost when they are held to solely collect contractual cash flows and the contractual terms of the financial assets give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI). Amortised cost is calculated by taking into account any discount or premium on the issue of the asset and costs that are an integral part of the effective interest rate.

Gains and losses are recognised in the profit or loss statement when the financial assets are derecognised or impaired.

During the year ended 30 June 2022, the Bank sold corporate investment securities measured at amortised cost at the value of $16 million (30 June 2021 $nil million). Any sales are made in order to comply with the credit limits in the Bank's Financial Risk Policy.





# Notes to the financial statements

For the year ended 30 June 2022

## 3.2 Financial assets (continued)

*Recognition and measurement (continued)*

Fair value through other comprehensive income

Financial assets are classified at fair value through other comprehensive income when they are held for both collecting contractual cash flows and selling the financial assets; and the contractual terms of the financial assets give rise on specified dates to cash flows that are SPPI.

All financial assets not classified at amortised cost or fair value through other comprehensive income are classified as fair value through profit or loss. In certain circumstances, on initial recognition, the Bank may irrevocably designate a financial asset as measured at fair value through profit or loss if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

The fair value through the reserve includes the change in the fair value of investments in debt instruments. The changes recognised in other comprehensive income are transferred to profit or loss when the asset is derecognised or impaired.

Equity instruments at fair value through other comprehensive income include unlisted shares. These equity securities represent investments that the Bank intends to hold for the long term. Amounts in the reserve are subsequently transferred to retained earnings, and not profit or loss, when the asset is derecognised. Dividends on such investments are recognised in profit or loss unless the dividend represents a recovery of the cost of the investment.

*Assessment of classification*

The classification of financial assets is determined by:

- Stated policies and objectives and the operation of those policies in practice, strategy on earning contractual interest revenue, interest rate profile, duration of financial assets and associated financial liabilities that are funding the assets, and cash flows from the sale of assets;
- How performance is evaluated and reported to the Group's management;
- How those risks affect performance and how those risks are managed;
- The frequency, volume and timing of sales in prior periods, the reason for such sales and the expectation of future sales activity (as part of an overall assessment on how the Group's objective of managing financial assets is achieved and how cash flows are realised).

The assessment is made at a portfolio level as this best reflects the way the business is managed and information is prepared and reported.

*Contractual cash flows assessment*

In assessing whether the cash flows are SPPI, the Group will consider the contractual terms of the instrument, including contractual terms that could change the timing or amount of contractual cash flows.

*Impairment of financial assets*

Refer to Note 3.5.

*Modified financial assets*

Where the modification to the contractual terms of a loan is substantial, the existing loan is derecognised and a new renegotiated loan is recognised at a new effective interest rate. Where the modification is not substantial and does not result in derecognition, the gross carrying amount of the loan is calculated by discounting the modified cash flows using the original effective interest rate. Credit risk is assessed by comparing the remaining lifetime probability of default (PD) at the reporting date based on the modified terms with the remaining lifetime PD at initial recognition and based on the original terms.

# Notes to the financial statements

For the year ended 30 June 2022

### 3.3 Derivative financial instruments

#### (a) Fair value of derivatives

The Bank is exposed to interest rate risk arising from changes in market interest rates.

The following table summarises the fair value and notional amounts of the Bank's commitments to derivative financial instruments at reporting date. The fair value of derivative financial instruments is determined on a present value basis.

| Group & Bank - 2022 | Fair value | | Weighted average fixed interest rate | Notional amount | Maturity of notional amount | | |
|---|---|---|---|---|---|---|---|
| | Assets | Liabilities | | | Within 1 year | 1 to 3 years | Over 3 years |
| | $m | $m | % | $m | $m | $m | $m |
| **Derivative financial instruments** | | | | | | | |
| Interest rate swaps | 108.0 | 23.2 | 0.91% | 3,838.6 | 873.6 | 2,810.0 | 155.0 |

| Group & Bank - 2021 | Fair value | | Weighted average fixed interest rate | Notional amount | Maturity of notional amount | | |
|---|---|---|---|---|---|---|---|
| | Assets | Liabilities | | | Within 1 year | 1 to 3 years | Over 3 years |
| | $m | $m | % | $m | $m | $m | $m |
| **Derivative financial instruments** | | | | | | | |
| Interest rate swaps | 2.1 | 4.3 | 0.53% | 1,733.6 | 955.0 | 443.6 | 335.0 |

By using interest rate swaps to hedge exposures to changes in interest rates, the Bank also exposes itself to the credit risk of the derivative counterparty, which is not offset against the hedged item. The Bank manages this risk by entering into transactions with high-quality counterparties whose credit rating is grade 1 (refer to Note 3.10(c) for grade definitions).





# Notes to the financial statements

For the year ended 30 June 2022

### 3.3 Derivative financial instruments (continued)

#### (b) Accounting for derivatives

*Recognition and measurement*

Interest rate swaps are initially recognised at fair value on the date the contract is entered into and are subsequently remeasured at fair value.

For interest rate swaps which do not qualify for hedge accounting, changes in fair value are recorded at fair value through profit or loss.

Interest earned or incurred is accrued in interest income or expense respectively, according to the terms of the contract.

*Hedge accounting for cash flow hedges*

For the purposes of hedge accounting, the Bank continues to apply the hedge accounting requirements under AASB 139 *Financial Instruments: Recognition and Measurement* as permitted under AASB 9 *Financial Instruments*. Hedging instruments are classified as cash flow hedges where they are used to hedge the exposure to variability in cash flows that is attributable to either a particular risk associated with a recognised asset or liability, or a highly probable forecast transaction.

In assessing hedge effectiveness, the Bank determines whether an economic relationship exists between the cash flows of the hedged item and hedging instrument based on an evaluation of the qualitative characteristics of these items and the hedged risk that is supported by quantitative analysis. The Bank considers whether the critical terms of the hedged item and hedging instrument closely align when assessing the presence of an economic relationship.

The Bank evaluates whether the cash flows of the hedged item and the hedging instrument respond similarly to the hedged risk, such as the benchmark interest rate. The Bank further supports this qualitative assessment by using regression analysis to assess whether the hedging instrument is expected to be and has been highly effective in offsetting changes in the present value of the hedged item.

The quantitative analysis involves the use of the hypothetical derivative method, which creates a derivative instrument to serve as a proxy for the hedged item. The terms of the hypothetical derivative match the critical terms of the hedged item and it has a fair value of zero at inception. The hypothetical derivative and the actual derivative are regressed to establish the statistical significance of the hedge relationship. The Bank assesses whether the derivative designated in each hedging relationship is expected to be and has been highly effective in offsetting changes in cash flows of the hedged item (prospectively and retrospectively) using this regression analysis.

Hedging relationships are considered to be highly effective if all the following criteria are met:

- The regression co-efficient (R squared), which measures the correlation between variables in the regression, is at least 80%;
- The slope of regression is within an 80%-125% range; and
- The confidence level of the slope is at least 95%.

In the Bank's hedging relationships, the main sources of ineffectiveness are:

- The effect of the counterparty's and the Bank's credit risks on the fair value of the swap, which is not reflected in the fair value of the hedged item; and
- Differences in maturities or timing of cash flows of the interest rate swaps and the hedged item.

There were no other sources of ineffectiveness in the Bank's hedging relationships. The Bank's policy is to de-designate ineffective hedges.

For designated and qualifying cash flow hedges, the change in fair value of the effective portion of the hedging instrument is initially recognised directly in members' funds in the cash flow hedge reserve. The ineffective portion is recognised immediately in the income statement.

# Notes to the financial statements

For the year ended 30 June 2022

## 3.3 Derivative financial instruments (continued)

### (b) Accounting for derivatives (continued)

*Hedge accounting for cash flow hedges (continued)*

When the hedged cash flow affects the income statement, the gain or loss on the hedging instrument is recorded in the corresponding income or expense line of the income statement. When a hedging instrument expires or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in the cash flow hedge reserve at that time remains in the reserve and is recognised when the hedged forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in the cash flow hedge reserve is immediately transferred to the income statement.

The following table provides information regarding the determination of hedge ineffectiveness at 30 June 2022 and 30 June 2021[1]:

| **Group & Bank - 2022** | **Changes in fair value used for calculating hedge ineffectiveness** | **Changes in the value of the hedged item used for calculating ineffectiveness [2]** | **Hedge ineffectiveness recognised in income statement** | **Line item in income statement that includes hedge ineffectiveness** | **Amount reclassified from the cash flow hedge reserve to income statement** | **Line item in income statement affected by the reclassification** |
|---|---|---|---|---|---|---|
| *Interest rate risk* | **$m** | **$m** | **$m** | | **$m** | |
| **Derivative financial instruments** | | | | | | |
| Interest rate swaps | **60.3** | **60.2** | **0.1** | **Other net operating income** | **(0.1)** | **Other net operating income** |

| **Group & Bank - 2021** | Changes in fair value used for calculating hedge ineffectiveness | Changes in the value of the hedged item used for calculating ineffectiveness [2] | Hedge ineffectiveness recognised in income statement | Line item in income statement that includes hedge ineffectiveness | Amount reclassified from the cash flow hedge reserve to income statement | Line item in income statement affected by the reclassification |
|---|---|---|---|---|---|---|
| *Interest rate risk* | $m | $m | $m | | $m | |
| **Derivative financial instruments** | | | | | | |
| Interest rate swaps | 5.9 | 5.9 | - | Other net operating income | (0.1) | Other net operating income |

[1] Balances presented in the table are net of tax. There is $nil (2021: $nil) remaining in the hedging reserve from hedging relationships for which hedge accounting is no longer applied.

[2] This amount is recognised in other comprehensive income as part of the cash flow hedge reserve.





# Notes to the financial statements

For the year ended 30 June 2022

## 3.4 Loans and advances

| | **Group** | | **Bank** | |
|---|---|---|---|---|
| | **2022** | 2021 | **2022** | 2021 |
| | **$m** | $m | **$m** | $m |
| Term loans | **14,911.7** | 13,450.9 | **14,911.7** | 13,450.9 |
| Credit cards and overdrafts | **95.4** | 103.1 | **95.4** | 103.1 |
| Gross loans and advances | **15,007.1** | 13,554.0 | **15,007.1** | 13,554.0 |
| Impairment provision | **(29.5)** | (30.6) | **(29.5)** | (30.6) |
| Net deferred origination costs and fee revenue | **41.5** | 23.6 | **41.5** | 23.6 |
| Net loans and advances | **15,019.1** | 13,547.0 | **15,019.1** | 13,547.0 |

*Recognition and measurement*

Loans and advances are financial assets with fixed or determinable payments that are not quoted in an active market. They are not entered into with the intention of immediate or short term resale. Loans and advances are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method, net of any credit impairment. Losses arising from credit impairments are recognised in the income statement in credit and other financial asset impairment.

## 3.5 Impairment of financial assets

The provision for impairment of loans and advances reflects ECLs measured using the three-stage approach as detailed below. The tables below show the movements in the impairment provisions by ECL stage.

| **Group & Bank - 2022** | **Stage 1 Collective provision $m** | **Stage 2 Collective provision $m** | **Stage 3 Collective provision $m** | **Stage 3 Individual provision $m** | **Total provision $m** |
|---|---|---|---|---|---|
| **Balance at 30 June 2021** | **21.2** | **4.1** | **5.0** | **0.3** | **30.6** |
| *Changes due to financial assets recognised in the opening balance that have:* | | | | | |
| Transferred from Stage 1 | **(0.5)** | **0.4** | **0.1** | **-** | **-** |
| Transferred from Stage 2 | **1.5** | **(2.3)** | **0.8** | **-** | **-** |
| Transferred from Stage 3 | **0.7** | **0.8** | **(1.5)** | **-** | **-** |
| Charge to income statement | **(1.2)** | **0.3** | **(0.3)** | **0.1** | **(1.1)** |
| **Balance at 30 June 2022** | **21.7** | **3.3** | **4.1** | **0.4** | **29.5** |

| **Group & Bank - 2021** | Stage 1 Collective provision $m | Stage 2 Collective provision $m | Stage 3 Collective provision $m | Stage 3 Individual provision $m | Total provision $m |
|---|---|---|---|---|---|
| **Balance at 30 June 2020** | 23.2 | 3.0 | 7.2 | 0.2 | 33.6 |
| *Changes due to financial assets recognised in the opening balance that have:* | | | | | |
| Transferred from Stage 1 | (0.5) | 0.4 | 0.1 | - | - |
| Transferred from Stage 2 | 1.0 | (1.5) | 0.5 | - | - |
| Transferred from Stage 3 | 1.4 | 0.9 | (2.3) | - | - |
| Charge to income statement | (3.9) | 1.3 | (0.5) | 0.1 | (3.0) |
| **Balance at 30 June 2021** | 21.2 | 4.1 | 5.0 | 0.3 | 30.6 |

# Notes to the financial statements

For the year ended 30 June 2022

### 3.5 Impairment of financial assets (continued)

*Movements in gross carrying amount of loans and advances*

The following tables show the movements in the gross carrying amount of loans and advances in different stages during the financial year.

| **Group & Bank - 2022** | **Stage 1 $m** | **Stage 2 $m** | **Stage 3 $m** | **Total $m** |
|---|---|---|---|---|
| **Loans and advances (gross) as at 1 July 2021** | **13,351.2** | **169.7** | **33.1** | **13,554.0** |
| *Transfers* | | | | |
| Transferred from Stage 1 Loans | **(110.4)** | **99.7** | **10.7** | **-** |
| Transferred from Stage 2 Loans | **87.9** | **(99.6)** | **11.7** | **-** |
| Transferred from Stage 3 Loans | **5.0** | **7.3** | **(12.3)** | **-** |
| Balance of new loans and advances originated during the year | **4,958.9** | **7.9** | **0.5** | **4,967.3** |
| Loans and advances derecognised during the period including write-offs | **(3,452.6)** | **(50.4)** | **(11.2)** | **(3,514.2)** |
| **Loans and advances (gross) as at 30 June 2022** | **14,840.0** | **134.6** | **32.5** | **15,007.1** |

| **Group & Bank - 2021** | Stage 1 $m | Stage 2 $m | Stage 3 $m | Total $m |
|---|---|---|---|---|
| **Loans and advances (gross) as at 1 July 2020** | 13,430.9 | 112.7 | 45.5 | 13,589.1 |
| *Transfers* | | | | |
| Transferred from Stage 1 Loans | (132.3) | 115.3 | 17.0 | - |
| Transferred from Stage 2 Loans | 38.0 | (42.8) | 4.8 | - |
| Transferred from Stage 3 Loans | 12.1 | 8.5 | (20.6) | - |
| Balance of new loans and advances originated during the year | 3,056.7 | 6.3 | 0.3 | 3,063.3 |
| Loans and advances derecognised during the period including write-offs | (3,054.2) | (30.3) | (13.9) | (3,098.4) |
| **Loans and advances (gross) as at 30 June 2021** | 13,351.2 | 169.7 | 33.1 | 13,554.0 |

*Recognition and measurement*

The ECL model used for impairment under AASB 9 *Financial Instruments* applies to financial assets measured at amortised cost, fair value through other comprehensive income, amounts receivable from contracts with customers as defined in AASB 15 *Revenue from Contracts with Customers,* loan commitments and financial guarantee contracts.

The Group applies a three-stage approach in measuring ECLs based on changes in the financial assets' underlying credit risk and includes forward-looking or macroeconomic conditions:

- Stage 1: Where there has been no significant increase in credit risk (SICR) since initial recognition or the asset is not credit impaired upon origination, a portion (12 month ECL) of the lifetime ECLs associated with the PD events occurring within the next 12 months is recognised. Debt investment securities that are determined to have a low credit risk at the reporting date and Other financial instruments on which the credit risk has not increased significantly since their initial recognition are measured as 12 month ECL.
- Stage 2: Where there has been a SICR since initial recognition but the asset is not credit impaired, the lifetime ECL is recognised.
- Stage 3: When a financial asset is assessed as credit impaired (including exposures that are greater than 90 days past due), the lifetime ECL is recognised. Interest revenue is calculated on a net basis (gross carrying amount less provision).

ECLs are estimated on a collective basis for exposures in Stage 1 and Stage 2, and on either a collective or individual basis when transferred to Stage 3.





# Notes to the financial statements

For the year ended 30 June 2022

### 3.5 Impairment of financial assets (continued)

*Recognition and measurement (continued)*

Lifetime ECLs are generally determined based on the contractual maturity or behavioural life of the financial asset. When measuring the ECLs, the Bank takes into account the probability weighted outcome of cash shortfalls over the expected life of the asset discounted at its current effective interest rate. The cash shortfall is the difference between all contractual cash flows that are due to the Group and all the cash flows that the Group is expected to receive.

The Group considers a debt investment security to have a low credit risk when its credit rating is equivalent to the globally understood definition of "investment grade". The Group does not apply this approach to any other financial instruments.

*Model inputs*

The ECL is calculated based on the probability of default (PD), loss given default (LGD) and the exposure at default (EAD) discounted at the effective interest rate:

- PD is the estimate of the likelihood that a borrower will default over a given period. The ECL model uses PD taking into account the prior status of the loans.
- LGD is the amount of expected loss in the event of the borrower defaulting.
- EAD is the expected balance sheet exposure at default.

*Forward-looking information*

Forward-looking information is used in the measurement of ECLs through unbiased, probability weighted scenarios and includes macroeconomic variables that influence credit losses such as gross domestic product (GDP) data, unemployment rates and changing house prices.

*Significant increase in credit risk (SICR)*

The Bank will assess whether there has been a SICR for financial assets by comparing the risk of a default occurring over the remaining life of a financial asset at the reporting date to the corresponding risk of default at origination. In assessing whether there has been a SICR, the Bank considers reasonable and supportable information that is relevant and available without undue cost or effort. The credit risk assessment is carried out on an individual and collective basis. The Bank considers contractual payments that are 30 days past due, financial hardship or default events (e.g. 90 days past due) as primary indicators of SICR.

*Model review*

The model and macro-economic forward-looking factors are regularly monitored and reviewed at least annually through the Bank's risk committees.

*Forward-looking macroeconomic adjustments*

The Bank incorporates forward-looking information through probability weighted scenarios to evaluate and measure ECLs. The Bank has considered the ongoing impacts of COVID-19, the Russia/Ukraine War and a tightening monetary policy cycle in the forward-looking economic provision adjustments to address the uncertainty of the future performance of loans.

# Notes to the financial statements

For the year ended 30 June 2022

### 3.5 Impairment of financial assets (continued)

*Forward-looking macroeconomic adjustments*

The Bank incorporates forward-looking information through probability weighted scenarios to evaluate and measure ECLs. The Bank has considered the ongoing impacts of COVID-19, the Russia/Ukraine War and a tightening monetary policy cycle in the forward-looking economic provision adjustments to address the uncertainty of the future performance of loans.

The scenarios and assumptions considered for the forward-looking macroeconomic adjustments are summarised below:

| Scenario | Weighting | Assumption applied |
|---|---|---|
| **Base case** | 50% | This scenario continues to see GDP growth exceed historical averages with unemployment being maintained around its current record lows, fuelled by consumers spending against the current high Household Savings Ratio. Overseas migration returns but below historical levels which helps to maintain the current tight employment market. COVID remains as a risk to the economy but with the high vaccination rates it has an immaterial impact on GDP / employment / wages growth.<br><br>The war between Russia/Ukraine continues to impact Australia indirectly through higher fuel prices and inflation. The reduction in the 2.0% of trade we historically do with Russia is immaterial due to the offsetting higher commodity prices on Australia's other exports.<br><br>Despite an increase in wages growth from the historical low unemployment rate, it is outpaced by inflation which negatively impacts disposable incomes. The RBA executes its foreshadowed tightening of monetary policy however the current high proportion of fixed rate mortgage lending initially dampens this impact to borrowers through financial year ending 30 June 2023, more materially impacting from financial year ending 30 June 2024.<br><br>The current slowing in property price growth continues and turns to more wide-spread negative growth but limited to peak-to-trough reductions of approximately 5.0 – 15.0%, like what was experienced in financial year ending 30 June 2019. The slowdown in housing market begins to impact GDP growth in the outer years where below trend growth is seen. |
| **Downside** | 40% | This scenario sees the strong economic recovery falter in the near term. This may be due to a combination of an escalation in the Russian/Ukraine war, China supporting Russia's war effort and resulting trade sanctions, heightened health-related risk aversion from further COVID-19 outbreaks or from new events.<br><br>The base scenario is dependent on strong consumer spend which does not play out due to the factors listed above. Households rein in their discretionary spending on services sharply, which weighs heavily on labour demand.<br><br>As such, the unemployment rate turns upwards and remains in the 4.5 – 5.0% range for the remainder of the forecast period, which places downward pressure on wages growth. The weakness in labour market conditions would be sufficient to keep inflation in the bottom half of the target range for most of the forecast period resulting in the RBA's tightening of monetary policy being short lived. The peak-to-trough drop in dwelling prices becomes more widespread and sees reductions of 10.0 – 20.0% across most regions. |
| **Severe Downside** | 5% | This scenario sees the escalation of current factors (e.g., Russia/Ukraine war, COVID-19) and/or other material issues emerge that significantly impact economic growth, employment and dwelling prices. This results in economic growth returning to recessionary type conditions and the doubling in the unemployment rate.<br><br>While the RBA quickly ceases the tightening of monetary policy, it has little means to stimulate the economy. Dwelling prices decline by approximately 30.0% as a result. |





# Notes to the financial statements

For the year ended 30 June 2022

### 3.5 Impairment of financial assets (continued)

*Forward-looking macroeconomic adjustments (continued)*

| Scenario | Weighting | Assumption applied (continued) |
|---|---|---|
| **Upside** | 5% | The recent environment of war (Russia/Ukraine), pandemic and natural disasters moderates with the bulk of this effect seen in stronger consumer confidence and consumption. This increases the demand for labour, pushing the unemployment rate below previous record low levels. However, supply constraints in the short term mean that the stronger aggregate demand does not translate one-for-one into output and results in a sharper pick-up in near-term inflation.<br><br>In this scenario the RBA's tightening of monetary policy is more aggressive which slows economic growth in the medium term. Dwelling prices peak in the near-term, but the expected negative growth does not eventuate due to the stronger employment, wages growth and economic activity. |

In addition to the modelled scenarios, the Bank also considers the need for additional overlays for model risk and/or other forward-looking factors not adequately captured within the model. These overlays were reviewed and updated as of 30 June 2022.

*Sensitivity analysis*

Given the continued uncertainty and need for management judgement, sensitivity analysis was conducted to understand the impact of changes in certain variables on the ECL.

The table below shows the impact on the total ECL by adjusting the specified input and leaving all other inputs unchanged.

| **Sensitivity measure** | **2022 $m** | 2021 $m |
|---|---|---|
| If 1% of stage 1 facilities were included in stage 2 | **3.7** | 3.4 |
| If the LGD of the home loan portfolio increased by 1%[1] | **0.9** | 0.9 |
| If the LGD of the home loan portfolio decreased by 1%[1] | **(0.9)** | (0.9) |

[1] Sensitivity shown for home loans, which represents 98% (2021: 97%) of loans by balance as at 30 June 2022.

*Climate change considerations*

The impact of climate change has the potential to affect loan repayments and the value of the associated collateral held to secure those loans. These impacts include changes in climatic conditions, extreme weather events and actions or initiatives by the government or regulators.

At present, the risk of climate change is assessed at loan origination and during regular reviews as part of the Bank's credit risk processes. As at 30 June 2022, management has assessed no material risk of loss due to climate change risk in our customers' exposures. Management are in the process of evaluating and enhancing the Bank's processes to consider climate risk exposures and the potential ways to manage those risks.

*Write-off*

Loans and advances are written off (either partially or in full) when there is no reasonable expectation of recovering the financial asset in its entirety. This is generally the case when the Bank determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-offs. This assessment is carried out at the individual asset level. Recoveries of amounts previously written off are included in the income statement.

# Notes to the financial statements

For the year ended 30 June 2022

### 3.5 Impairment of financial assets (continued)

*Use of judgements and estimates*

The Bank individually reviews loans and advances that have triggered certain criteria to assess whether an impairment loss should be recorded in the income statement. Judgement is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. In estimating these cash flows, the Bank makes judgements about the borrower's financial situation and the net realisable value of collateral. These estimates are based on assumptions about a number of factors including forward-looking information available at the time. Actual results may differ, resulting in future changes to the allowance.

Given the continued uncertainty and volatility around forward looking economic conditions, including the breakdown in the historical relationship between economic variables and credit losses, management judgement has been applied and additional overlays recognised for specific forward-looking risks and model risk considerations.

### 3.6 Deposits

| | Group | | Bank | |
|---|---|---|---|---|
| | **2022 $m** | 2021 $m | **2022 $m** | 2021 $m |
| Members' shares | **3.0** | 3.1 | **3.0** | 3.1 |
| Customers' call deposits | **8,934.3** | 8,309.5 | **8,934.3** | 8,316.2 |
| Customers' term deposits | **3,003.3** | 2,944.1 | **3,003.3** | 2,944.1 |
| | **11,940.6** | 11,256.7 | **11,940.6** | 11,263.4 |

No customer or industry groups represent a significant portion of total deposit liabilities.

*Recognition and measurement*

All deposits and borrowings are initially recognised at cost, being the fair value of the consideration received net of direct incremental issue costs associated with the borrowings. After initial recognition, deposits and borrowings are subsequently measured at amortised cost using the effective interest method.

### 3.7 Borrowings

| | Group | | Bank | |
|---|---|---|---|---|
| | **2022 $m** | 2021 $m | **2022 $m** | 2021 $m |
| Securitisation trust borrowings | **1,265.6** | 945.1 | **4,687.2** | 3,518.9 |
| Securitisation warehouse borrowings | **884.6** | 607.7 | **918.7** | 629.8 |
| Term borrowings[1] | **2,302.9** | 2,198.2 | **2,305.4** | 2,201.0 |
| | **4,453.1** | 3,751.0 | **7,911.3** | 6,349.7 |

[1] Included in term borrowings is the TFF drawn down, refer to Note 3.8.

For recognition and measurement details, refer to Note 3.6.





# Notes to the financial statements

For the year ended 30 June 2022

### 3.8 Standby borrowing facilities

In the normal course of business, the Bank enters into various types of contracts which give rise to the following standby and overdraft facilities:

| | Group | | Bank | |
|---|---|---|---|---|
| | **2022 $m** | 2021 $m | **2022 $m** | 2021 $m |
| (i) Australia and New Zealand Banking Group | | | | |
| Approved limit | **500.0** | 500.0 | **500.0** | 500.0 |
| Committed limit[1] | **500.0** | 315.0 | **500.0** | 315.0 |
| Amount utilised | **392.3** | 254.6 | **392.3** | 254.6 |
| (ii) One Managed Investment Funds Limited as trustee of the Gryphon Capital Income Trust | | | | |
| Approved limit | **60.0** | 60.0 | **60.0** | 60.0 |
| Committed limit[1] | **42.2** | 42.2 | **42.2** | 42.2 |
| Amount utilised | **40.9** | 28.2 | **40.9** | 28.2 |
| (iii) National Australia Bank Limited | | | | |
| Approved limit | **690.0** | 690.0 | **690.0** | 690.0 |
| Committed limit[1] | **570.0** | 425.0 | **570.0** | 425.0 |
| Amount utilised | **450.5** | 324.6 | **450.5** | 324.6 |
| (iv) Overdraft | | | | |
| Approved limit | **10.0** | 10.0 | **10.0** | 10.0 |
| Amount utilised | **-** | - | **-** | - |
| (v) RBA (internal securitisation) | | | | |
| Approved limit | **1,923.2** | 1,196.8 | **1,923.2** | 1,196.8 |
| Amount utilised | **-** | - | **-** | - |
| (vi) RBA TFF | | | | |
| *Initial allowance* | | | | |
| Approved limit | **406.6** | 406.6 | **406.6** | 406.6 |
| Amount utilised | **406.6** | 406.6 | **406.6** | 406.6 |
| *Supplementary allowance* | | | | |
| Approved limit | **270.9** | 270.9 | **270.9** | 270.9 |
| Amount utilised | **270.9** | 270.9 | **270.9** | 270.9 |

[1] The committed limit is utilised as the base in determining unused limit fees.

The RBA announced on 19 March 2020 the establishment of a TFF to offer three-year funding to ADIs at a fixed rate of 25 basis points in response to COVID-19. The Bank, being an eligible ADI, was granted an initial allowance of $406.6 million. On 1 September 2020, the RBA announced a further supplementary allowance, of which the Bank was granted $270.9 million. From 4 November 2020, the supplementary allowance is provided at an interest rate of 10 basis points, fixed for the term of the funding.

Of the total funding allowance of $677.5 million issued to date, the Bank has utilised $677.5 million (2021: $677.5 million) of the facility as at 30 June 2022. $855.0 million (2021: $853.3 million) of mortgage backed securities that have a fair value of $845.9 million (2021: $863.0 million) were pledged as collateral for the amount utilised.

# Notes to the financial statements

For the year ended 30 June 2022

## 3.9 Fair value of financial instruments

The following tables provide the fair value measurement hierarchy of the Group's financial assets and liabilities at the reporting date.

| Group - 2022 | Fair value | | | | Carrying amount |
|---|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total | |
| | $m | $m | $m | $m | $m |
| **Financial assets measured at fair value** | | | | | |
| Derivative financial instruments | - | 108.0 | - | 108.0 | 108.0 |
| Financial assets - fair value through profit or loss: Insurance assets | - | 3.0 | - | 3.0 | 3.0 |
| Financial assets - fair value through other comprehensive income: Investment in shares of unlisted entities | - | - | 57.9 | 57.9 | 57.9 |
| **Financial assets not measured at fair value** | | | | | |
| Loans and advances | - | - | 14,297.2 | 14,297.2 | 15,019.1 |
| Financial assets - amortised cost | - | - | 2,054.5 | 2,054.5 | 2,146.9 |
| **Financial liabilities measured at fair value** | | | | | |
| Derivative financial instruments | - | 23.2 | - | 23.2 | 23.2 |
| **Financial liabilities not measured at fair value** | | | | | |
| Deposits | - | 11,908.2 | - | 11,908.2 | 11,940.6 |
| Borrowings[1] | - | 2,126.9 | 2,193.5 | 4,320.4 | 4,453.1 |

[1]The amount utilised from the RBA TFF has been included in borrowings. Refer to Note 3.8 for further details.

| Group - 2021 | Fair value | | | | Carrying amount |
|---|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total | |
| | $m | $m | $m | $m | $m |
| **Financial assets measured at fair value** | | | | | |
| Derivative financial instruments | - | 2.1 | - | 2.1 | 2.1 |
| Financial assets - fair value through profit or loss: Insurance assets[2] | 7.1 | 78.2 | - | 85.3 | 85.3 |
| Financial assets - fair value through other comprehensive income: Investment in shares of unlisted entity | - | - | 47.3 | 47.3 | 47.3 |
| **Financial assets not measured at fair value** | | | | | |
| Loans and advances | - | - | 13,460.9 | 13,460.9 | 13,547.0 |
| Financial assets - amortised cost | - | - | 1,981.9 | 1,981.9 | 2,001.0 |
| **Financial liabilities measured at fair value** | | | | | |
| Derivative financial instruments | - | 4.3 | - | 4.3 | 4.3 |
| **Financial liabilities not measured at fair value** | | | | | |
| Deposits | - | 11,256.2 | - | 11,256.2 | 11,256.7 |
| Borrowings[1,3] | - | 1,597.2 | 2,189.0 | 3,768.3 | 3,751.0 |

[1]The amount utilised from the RBA TFF has been included in borrowings. Refer to Note 3.8 for further details.
[2]The amount comprises $82.3 million relating to sale of CHL. Refer to Note 4.13. This fair value is categorised within Level 1 of $7.1 million and Level 2 of $75.2 million of the fair value hierarchy.
[3]The prior year balances have been adjusted for consistency with the current year disclosures that reflect updated information.





# Notes to the financial statements

For the year ended 30 June 2022

## 3.9 Fair value of financial instruments (continued)

| Bank - 2022 | Fair value | | | | Carrying amount |
|---|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total | |
| | $m | $m | $m | $m | $m |
| **Financial assets measured at fair value** | | | | | |
| Derivative financial instruments | - | 108.0 | - | 108.0 | 108.0 |
| Financial assets - fair value through other comprehensive income: Investment in shares of unlisted entities and Mortgage backed securities | - | 33.8 | 57.9 | 91.7 | 91.7 |
| **Financial assets for which fair values are disclosed** | | | | | |
| Loans and advances | - | - | 14,297.2 | 14,297.2 | 15,019.1 |
| Financial assets - amortised cost | - | 3,392.0 | 2,054.5 | 5,446.5 | 5,568.5 |
| **Financial liabilities measured at fair value** | | | | | |
| Derivative financial instruments | - | 23.2 | - | 23.2 | 23.2 |
| **Financial liabilities for which fair values are disclosed** | | | | | |
| Deposits | - | 11,908.2 | - | 11,908.2 | 11,940.6 |
| Borrowings[1] | - | 5,551.7 | 2,196.1 | 7,747.8 | 7,911.3 |

[1]The amount utilised from the RBA TFF has been included in borrowings. Refer to Note 3.8 for further details.

| Bank - 2021 | Fair value | | | | Carrying amount |
|---|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total | |
| | $m | $m | $m | $m | $m |
| **Financial assets measured at fair value** | | | | | |
| Derivative financial instruments | - | 2.1 | - | 2.1 | 2.1 |
| Financial assets - fair value through other comprehensive income: Investment in shares of unlisted entity and Mortgage backed securities | - | 22.8 | 47.3 | 70.1 | 70.1 |
| **Financial assets for which fair values are disclosed** | | | | | |
| Loans and advances | - | - | 13,460.9 | 13,460.9 | 13,547.0 |
| Financial assets - amortised cost | - | 2,604.8 | 1,981.9 | 4,586.7 | 4,574.8 |
| **Financial liabilities measured at fair value** | | | | | |
| Derivative financial instruments | - | 4.3 | - | 4.3 | 4.3 |
| **Financial liabilities for which fair values are disclosed** | | | | | |
| Deposits | - | 11,262.9 | - | 11,262.9 | 11,263.4 |
| Borrowings[1,2] | - | 4,207.0 | 2,191.9 | 6,398.9 | 6,349.7 |

[1]The amount utilised from the RBA TFF has been included in borrowings. Refer to Note 3.8 for further details.
[2]The prior year balances have been adjusted for consistency with the current year disclosures that reflect updated information.

There were no transfers between levels during the period.

# Notes to the financial statements

For the year ended 30 June 2022

### 3.9 Fair value of financial instruments (continued)

*Recognition and measurement*

The fair values of financial assets and liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments, the Group determines fair values using other valuation techniques.

For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgement depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific financial instruments.

All financial assets and liabilities are initially recognised at fair value on the settlement date.

The Group measures fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements:

- Level 1 – the fair value is calculated using quoted prices in active markets;
- Level 2 – the fair value is estimated using inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices); and
- Level 3 – the fair value is estimated using inputs for the asset or liability that are not based on observable market data.

The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date. The following methods and assumptions are used to determine the net fair values of financial assets and liabilities.

*Valuation techniques used to determine fair value*

Derivative financial instruments

The fair value for derivative financial instruments is derived from a combination of quoted closing market prices at balance date, discounted cash flow models and option pricing models. Where there is no market value, the fair value is determined using inputs which are observable either directly or indirectly. The fair values of derivative financial instruments take into account both credit valuation adjustments (CVA) and debit valuation adjustments (DVA).

Financial assets – fair value through profit or loss

These assets are insurance assets backing insurance liabilities and are therefore designated at fair value through profit or loss to reduce the accounting mismatch between assets and related liabilities. These assets are valued based on quoted market prices; where these are not available the following alternative valuation techniques are used:

- Floating rate notes – indicative external broker valuations;
- Mortgage-backed securities - external broker valuations;
- Term deposits - the amortised cost is deemed to represent fair value, due to their short term nature (all mature within 12 months of balance date) and the lack of fluctuations in the market interest rates or credit quality of the counterparties since their inception;
- Australian listed equities – are valued using quoted market price (unadjusted current bid price) on the Australian Securities Exchange (ASX); and
- Investment in unlisted unit trusts – are valued at the redemption price quoted by the trust managers as at the reporting date.

The Group has an established control framework with respect to the measurement of fair values when third party information, such as external broker quotes or valuations are used to measure fair value, which includes:

- Verification of observable pricing;
- Re-performance of the market valuation, for example Australian listed equities are agreed to closing market price listed on the ASX as at the reporting date; and
- Understanding how the fair value has been derived, the extent to which it represents actual market transactions and whether it represents a quoted price in an active market for an identical instrument.





# Notes to the financial statements

For the year ended 30 June 2022

### 3.9 Fair value of financial instruments (continued)

Financial assets – fair value through profit or loss (continued)

Significant valuation issues are reported to the Board Audit Committee (BAC).

Financial assets – fair value through other comprehensive income

Equity instruments at fair value through other comprehensive income (OCI)

These assets represent investments that the Group intends to hold for long term for strategic purposes and are not actively traded. These shares were measured at fair value on initial recognition. Where their value cannot be measured reliably, the assets are subsequently measured at the carrying amount determined at the last date on which the fair value could be determined reliably.

*Level 3 fair value measurement*

In the current financial year, the fair value of these assets has been estimated taking into consideration the most recently transacted prices for the shares, earnings multiples of other similar entities and the net asset value per share of the underlying investment. This asset is categorised at level 3 in the fair value hierarchy given the lack of visibility of these valuation variables.

The following table shows a reconciliation from the opening balance to the closing balance.

| | Group & Bank | |
|---|---|---|
| | **2022** | 2021 |
| | **$m** | $m |
| Balance at beginning of financial year | **47.3** | 42.9 |
| Fair value movement recognised in OCI | **6.7** | 4.4 |
| Additions[2] | **7.2** | - |
| Shares sold[1] | **(3.3)** | - |
| Balance at end of financial year | **57.9** | **47.3** |

[1]The Bank received and accepted a buy-back offer for 1.7 million "units" of its investment shares. Proceeds of $3.3 million received on 31 December 2021 were recognised directly in retained earnings.
[2]During the year, the Bank invested in another entity and has made the irrevocable election to fair value those shares through other comprehensive income.

The summary below contains information about the significant unobservable inputs used in the level 3 valuation of the equity shares and the valuation technique used to measure fair value. The range of inputs represents the highest and lowest inputs used in the valuation technique:

- Valuation technique – market comparables method
- Significant unobservable inputs – price to earnings multiples (with a range of inputs between 13.6 times to 18.9 times)
- Fair value measurement sensitivity to unobservable inputs – increase / (decrease) in these inputs will result in higher / (lower) fair values outlined in the table below

| **Sensitivity analysis** | **-1x multiple 2022 $m** | **+1x multiple 2022 $m** |
|---|---|---|
| Changes in fair value and impact to OCI | **(3.4)** | **3.4** |
| % change | **(6.7%)** | **6.7%** |

Debt instruments at fair value through other comprehensive income

These notes are internal residential mortgage-backed securities held by the Bank and are not quoted or traded on an active market and are accordingly categorised at level 2 in the fair value hierarchy. These assets are measured at fair value on initial recognition and are subsequently measured by means of discounted cash flows and other valuation techniques that are commonly used by market participants.

# Notes to the financial statements

For the year ended 30 June 2022

### 3.9 Fair value of financial instruments (continued)

Loans and advances

The carrying value of loans and advances are net of provisions for impairment.

For variable rate loans, excluding impaired loans, the amortised cost is a reasonable estimate of the net fair value. The net fair value for fixed rate loans was calculated by utilising a discounted cash flow model. The discount rates applied were based on the current benchmark rate for fixed rate loans being offered on terms with a similar remaining period.

*Level 3 fair value measurement*

As observable market transactions are not available to estimate the fair value of loans and advances, the fair value is estimated using valuation models such as a discounted cash flow model. There are no transfers to or from Level 3 of the fair value hierarchy.

Financial assets – amortised cost

Financial assets – amortised cost comprise of investments and securities where cash flows arise on specified contractual dates, underlying terms can range anywhere from short to long term. They are categorised across Level 2 and Level 3 in the fair value hierarchy. The fair value is estimated using a discounted cash flow model based on current market rates as at balance date, and observable market data on capital pricing for similar instruments.

*Level 3 fair value measurement*

Where observable market transactions are not available to estimate the fair value of these assets, the fair value is estimated using a discounted cash flow model. There are no transfers to or from Level 3 of the fair value hierarchy.

Deposits

The net fair value for deposits was calculated by utilising a discounted cash flow model. The discount rates applied were based on the current benchmark rate offered for the actual remaining term of the portfolio as at balance date.

The net fair value of non-interest bearing, call and variable rate deposits repriced within 12 months is the carrying value as at balance date.

Borrowings

Borrowings are categorised across Level 2 and Level 3 in the fair value hierarchy. Fair value is estimated utilising a discounted cash flow model based on current market rates as at balance date, and observable market data on capital pricing for similar instruments.

*Level 3 fair value measurement*

Where observable market transactions are not available to estimate the fair value of borrowings, the fair value is estimated using a discounted cash flow model.

*Financial instruments where fair value not separately disclosed – carrying amount approximates fair value*

Cash and cash equivalents

The carrying amount approximates the fair value as they are short term in nature or are receivable on demand.

Use of judgements and estimates

Where the fair values of financial assets and financial liabilities recorded in the balance sheet cannot be derived from active markets, they are determined using a variety of valuation models. The inputs to these models are derived from observable market data where possible, but where observable market data is not available these assets are valued using valuation techniques based on non-observable data.





# Notes to the financial statements

For the year ended 30 June 2022

### 3.10 Risk management

*Overview*

The Group manages risk to fulfil its commitments to customers whilst providing a positive customer experience and delivering on strategic objectives. The Group's Board of Directors has overall responsibility for the establishment and oversight of the Group's Risk Management Framework (RMF). The RMF is a key component of the Group's strategy for managing risk and is comprised of structures, policies and processes designed to enable the purpose of "help all Australians own their own home". The overarching principles for this framework are outlined in the sections below.

The key pillars which are reviewed and approved annually by the Board and subsequently provided to APRA include:

- The Risk Appetite Statement – which outlines, through qualitative and quantitative terms, the degree of risk the Group is willing to take in order to meet strategic objectives; and
- The Risk Management Strategy – which provides the method for identifying and managing risk including approach, responsibilities, policies and systems.

The Group applies the three lines of defence model for the approach to managing risk across the business. The responsibilities for each line of defence are as follows:

| Line of defence | Responsibilities |
|---|---|
| First | Under the first line of defence, operational management (including each member of staff) is responsible for identifying and managing risks in a way that is consistent with the risk management framework and risk appetite set by the Board. |
| Second | The second line of defence is the risk management function, headed by the Chief Risk Officer (CRO), which contributes toward the progressive development and monitoring of the implementation of the Group's RMF. The risk management function also maintains the regulatory compliance framework in line with regulatory expectations. |
| Third | Internal audit forms the third line of defence and provides independent assurance over the performance of both first and second lines in managing risk. |

In addition to the lines of defence within the Group, external audit provides an independent audit opinion on the organisation's financial report and an audit/review opinion on certain aspects of the Group's compliance with its APRA regulatory compliance requirements.

Risk management policies have been established to identify and analyse the risks, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. The risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. Training, standards and procedures, aim to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

Formal governance structures enable the management of risk at the Board and Executive level. Three key committees are in place to achieve this including: (i) the Board Risk Committee (BRC); (ii) the BAC and; (iii) the Remuneration and Nominations Committee (Rem & Noms), each responsible for overseeing management of specific categories of risks for the Group. The BRC is assisted in its oversight role by the risk management function. The BAC is assisted in its oversight role by internal audit. Internal audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the BAC and the Board. Key risk issues are captured and considered during every Board meeting including the presentation of the CRO Report.

The Bank maintains five key management committees for monitoring and reporting risk across the Group: (i) Enterprise Risk Committee (ERCO), responsible for the Group's enterprise-wide risk management framework; (ii) Asset and Liability Committee (ALCO), responsible for balance sheet risk; (iii) Operational Risk and Compliance Committee (ORCC), responsible for the operational risk and compliance framework; (iv) Credit Risk Committee (CRC) responsible for providing credit risk oversight and; (v) Breach Committee (BreachCo) responsible for assessing regulatory incidents.

# Notes to the financial statements

For the year ended 30 June 2022

## 3.10 Risk management (continued)

The Group's approach to managing interest rate, price, credit, liquidity and funding risks is further detailed below.

### (a) Interest rate risk

Interest rate risk is the risk that changes in interest rates result in losses for a financial institution. The Group is exposed to interest rate risk due to an underlying mismatch in the timing of interest rate repricing across all financial products. The tables below show the value of financial instruments grouped by interest rate repricing period:

| Group - 2022 | At call/ variable | Fixed interest rate maturing | | | Non interest bearing | Total |
|---|---|---|---|---|---|---|
| | | Within 1 year | 1 to 5 years | Over 5 years | | |
| | $m | $m | $m | $m | $m | $m |
| **Assets** | | | | | | |
| Cash and cash equivalents | 379.1 | - | - | - | 3.0 | 382.1 |
| Receivables due from other banks | 12.3 | - | - | - | - | 12.3 |
| Financial assets - fair value through profit or loss | - | 3.0 | - | - | - | 3.0 |
| Financial assets - amortised cost | 1,504.5 | 527.4 | 115.0 | - | - | 2,146.9 |
| Derivative financial instruments | - | 1.8 | 106.2 | - | - | 108.0 |
| Loans and advances (gross) | 8,389.0 | 1,130.5 | 5,383.3 | 104.3 | - | 15,007.1 |
| | 10,284.9 | 1,662.7 | 5,604.5 | 104.3 | 3.0 | 17,659.4 |
| **Liabilities** | | | | | | |
| Deposits | 8,934.4 | 2,883.1 | 120.1 | - | 3.0 | 11,940.6 |
| Derivative financial instruments | - | 1.4 | 21.8 | - | - | 23.2 |
| Borrowings[1] | 2,650.8 | 1,174.8 | 627.5 | - | - | 4,453.1 |
| Commitments (Note 4.11) | 441.8 | 0.8 | 4.6 | - | - | 447.2 |
| | 12,027.0 | 4,060.1 | 774.0 | - | 3.0 | 16,864.1 |

[1]The amount utilised from the RBA TFF has been included in borrowings. Refer to Note 3.8 for further details.

| Group - 2021 | At call/ variable | Fixed interest rate maturing | | | Non interest bearing | Total |
|---|---|---|---|---|---|---|
| | | Within 1 year | 1 to 5 years | Over 5 years | | |
| | $m | $m | $m | $m | $m | $m |
| **Assets** | | | | | | |
| Cash and cash equivalents[1,2] | 468.3 | - | - | - | 3.0 | 471.3 |
| Receivables due from other banks[2] | 3.0 | - | - | - | - | 3.0 |
| Financial assets - fair value through profit or loss | - | 3.0 | - | - | - | 3.0 |
| Financial assets - amortised cost | 1,593.7 | 342.9 | 64.4 | - | - | 2,001.0 |
| Derivative financial instruments | - | - | 2.1 | - | - | 2.1 |
| Loans and advances (gross) | 8,775.9 | 1,305.9 | 3,312.3 | 159.9 | - | 13,554.0 |
| | 10,840.9 | 1,651.8 | 3,378.8 | 159.9 | 3.0 | 16,034.4 |
| **Liabilities** | | | | | | |
| Deposits | 8,309.5 | 2,764.0 | 180.1 | - | 3.1 | 11,256.7 |
| Derivative financial instruments | - | 2.4 | 1.9 | - | - | 4.3 |
| Borrowings[3] | 2,465.4 | 608.1 | 677.5 | - | - | 3,751.0 |
| Commitments (Note 4.11) | 404.5 | - | 31.5 | 0.9 | - | 436.9 |
| | 11,179.4 | 3,374.5 | 891.0 | 0.9 | 3.1 | 15,448.9 |

[1]The amount comprises $8.0 million relating to discontinued operations. Refer to Note 4.13. These are classified as At call/variable.
[2]The prior year balances have been adjusted for consistency with the current year disclosures that reflect updated information.
[3]The amount utilised from the RBA TFF has been included in borrowings. Refer to Note 3.8 for further details.





# Notes to the financial statements

For the year ended 30 June 2022

## 3.10 Risk management (continued)

### (a) Interest rate risk (continued)

| Bank - 2022 | At call/ variable | Fixed interest rate maturing | | | Non interest bearing | Total |
|---|---|---|---|---|---|---|
| | | Within 1 year | 1 to 5 years | Over 5 years | | |
| | $m | $m | $m | $m | $m | $m |
| **Assets** | | | | | | |
| Cash and cash equivalents | 374.1 | - | - | - | 3.0 | 377.1 |
| Receivables due from other banks | 12.3 | - | - | - | - | 12.3 |
| Financial assets - fair value through profit or loss | - | - | - | - | - | - |
| Financial assets - amortised cost | 4,926.1 | 527.4 | 115.0 | - | - | 5,568.5 |
| Derivative financial instruments | - | 1.8 | 106.2 | - | - | 108.0 |
| Loans and advances (gross) | 8,389.0 | 1,130.5 | 5,383.3 | 104.3 | - | 15,007.1 |
| Financial assets - fair value through other comprehensive income | 33.8 | - | - | - | - | 33.8 |
| | 13,735.3 | 1,659.7 | 5,604.5 | 104.3 | 3.0 | 21,106.8 |
| **Liabilities** | | | | | | |
| Deposits | 8,934.4 | 2,883.1 | 120.1 | - | 3.0 | 11,940.6 |
| Derivative financial instruments | - | 1.4 | 21.8 | - | - | 23.2 |
| Borrowings[1] | 6,106.6 | 1,177.2 | 627.5 | - | - | 7,911.3 |
| Commitments (Note 4.11) | 441.8 | 0.8 | 4.6 | - | - | 447.2 |
| | 15,482.8 | 4,062.5 | 774.0 | - | 3.0 | 20,322.3 |

[1]The amount utilised from the RBA TFF has been included in borrowings. Refer to Note 3.8 for further details.

| Bank - 2021 | At call/ variable | Fixed interest rate maturing | | | Non interest bearing | Total |
|---|---|---|---|---|---|---|
| | | Within 1 year | 1 to 5 years | Over 5 years | | |
| | $m | $m | $m | $m | $m | $m |
| **Assets** | | | | | | |
| Cash and cash equivalents | 453.7 | - | - | - | 3.0 | 456.7 |
| Receivables due from other banks[1] | 3.0 | - | - | - | - | 3.0 |
| Financial assets - amortised cost | 4,167.5 | 342.9 | 64.4 | - | - | 4,574.8 |
| Derivative financial instruments | - | - | 2.1 | - | - | 2.1 |
| Loans and advances (gross) | 8,775.9 | 1,305.9 | 3,312.3 | 159.9 | - | 13,554.0 |
| Financial assets - fair value through other comprehensive income | 22.8 | - | - | - | - | 22.8 |
| | 13,422.9 | 1,648.8 | 3,378.8 | 159.9 | 3.0 | 18,613.4 |
| **Liabilities** | | | | | | |
| Deposits | 8,316.2 | 2,764.0 | 180.1 | - | 3.1 | 11,263.4 |
| Derivative financial instruments | - | 2.4 | 1.9 | - | - | 4.3 |
| Borrowings[2] | 5,061.3 | 610.9 | 677.5 | - | - | 6,349.7 |
| Commitments (Note 4.11) | 404.5 | - | 31.5 | 0.9 | - | 436.9 |
| | 13,782.0 | 3,377.3 | 891.0 | 0.9 | 3.1 | 18,054.3 |

[1]The prior year balances have been adjusted for consistency with the current year disclosures that reflect updated information.
[2]The amount utilised from the RBA TFF has been included in borrowings. Refer to Note 3.8 for further details.

# Notes to the financial statements

For the year ended 30 June 2022

## 3.10 Risk management (continued)

### (a) Interest rate risk (continued)

The Bank's exposure to interest rates is through earnings and valuation risk. Earnings risk is measured through net interest income sensitivity (NIIS), while valuation risk is measured through present value sensitivity (PVS) and value at risk (VaR). The Board has responsibility for ensuring compliance with these limits and is assisted by the monitoring activities implemented by management under the broader risk management process.

NIIS is used for determining the potential volatility in our net interest income over the short term. NIIS is reported based on a 1% movement in interest rates across the yield curve to determine the potential adverse change in net interest income in the ensuing 12-month period.

The below table represents the average, maximum and minimum potential adverse change in NIIS.

| Net interest income sensitivity | **2022 $m** | 2021 $m |
|---|---|---|
| Average exposure | **2.2** | 2.0 |
| Maximum exposure | **4.6** | 4.0 |
| Minimum exposure | **0.6** | 0.2 |

VaR and PVS are used as complementary metrics for determining the potential volatility in longer term economic value. VaR measures historically observed interest rate changes, whilst PVS measures pre-defined rate movements across the yield curve.

The VaR methodology is a statistical technique used to measure and quantify the valuation risk over a specific holding period at a given confidence level. The Bank's approach is based on a historical interest rate simulation which uses a 1500-day observation period and consists of a 99% confidence level within a 20-day holding period.

The below table represents the average, maximum and minimum VaR as a percentage of equity as measured at the end of each month over the financial year:

| Value at risk | **2022** | | 2021 | |
|---|---|---|---|---|
| | **$m** | **%** | $m | % |
| Average | **4.7** | **0.38%** | 3.8 | 0.36% |
| Maximum | **7.6** | **0.59%** | 7.7 | 0.71% |
| Minimum | **2.6** | **0.24%** | 1.2 | 0.11% |

PVS measures the sensitivity of the present value of the balance sheet based on a 1% movement in interest rates across the yield curve. This is to determine adverse changes in economic value of the balance sheet. The following table represents the average, maximum and minimum potential change in PVS since implementation of the enhanced framework:

| Present value sensitivity | **2022 $m** | 2021 $m |
|---|---|---|
| Average exposure | **11.1** | 11.1 |
| Maximum exposure | **15.6** | 20.5 |
| Minimum exposure | **7.1** | 2.4 |





# Notes to the financial statements

For the year ended 30 June 2022

## 3.10 Risk management (continued)

### (b) Equity price risk

Equity price risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices, whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

Risk management techniques are used in the selection of investments, including derivatives, which are only acquired if they meet specified investment criteria. Daily monitoring of trade restrictions and derivative exposure against limits is undertaken with any breach of these restrictions reported to the Board of CHL. Additionally, the Group is exposed to equity price risk on its investment in unlisted securities, see Note 3.2 and 3.9 for further detail.

The following sensitivity analysis is based on the equity price risk exposures on average balances at balance date. It shows the effect on equity and profit after tax if market prices had moved, with all other variables held constant.

| Group | **2022** | | 2021 | |
|---|---|---|---|---|
| **Judgments of reasonably possible movements** | **10% $m** | **-10% $m** | 10% $m | -10% $m |
| Australian listed equities | **-** | **-** | 0.5 | (0.5) |
| Investment in unlisted unit trusts | **-** | **-** | 5.3 | (5.3) |
| Investment in unlisted securities | **4.0** | **(4.0)** | 3.3 | (3.3) |
| | **4.0** | **(4.0)** | 9.1 | (9.1) |

### (c) Credit risk

Credit risk is the risk that a counterparty will default on its contractual obligations resulting in financial loss. Credit risk arises from the Bank's lending activities, which includes residential mortgages, consumer loans, overdrafts and credit cards and from the financial instruments held for liquidity management purposes and to hedge interest rate risk.

The Bank has an established Credit Risk Management Framework that encompasses:

- Risk appetite for lending;
- Strategies, policies and governance for managing credit risk; and
- Processes for continually monitoring credit quality for impairment and the adequacy of provisions.

*Maximum credit exposure*

Credit exposures are capped to the carrying value reported on the balance sheets for the related assets. The table below (refer to credit quality – investment with counterparties) presents the Bank's maximum credit exposure to the respective asset classes at the reporting dates. The amounts are presented gross of provisions for impairment and before taking account of any collateral held or other credit enhancement.

*Credit quality – investment with counterparties*

Counterparty concentration risk is monitored daily by treasury risk reporting and the risk management division, and monthly by the ALCO. Management establishes counterparty limits based on maximum exposure limits set by the Board and our internal credit assessment of a counterparty. The exposure is limited to the carrying amount in the balance sheet and is classified according to APRA's APS 112 *Capital Adequacy: Standardised Approach to Credit Risk (Attachment E, paragraph 13, Table 6)* which are broadly aligned to external long term credit rating agencies such as Standard & Poor's, Moody's and Fitch.

# Notes to the financial statements

For the year ended 30 June 2022

## 3.10 Risk management (continued)

### (c) Credit risk (continued)

*Credit quality – investment with counterparties (continued)*

The following tables summarise the counterparty concentration risk exposure by rating grades:

| **Group - 2022** | **Credit rating Grade 1 $m** | **Credit rating Grade 2 $m** | **Credit rating Grade 3 $m** | **Unrated $m** | **Total $m** |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Cash and cash equivalents | **211.8** | **166.7** | **0.9** | **2.7** | **382.1** |
| Receivables due from other banks | **12.3** | **-** | **-** | **-** | **12.3** |
| Financial assets - fair value through profit or loss | **-** | **3.0** | **-** | **-** | **3.0** |
| Financial assets - amortised cost | | | | | |
| Stage 1: 12-month ECL - not credit impaired | **1,224.9** | **789.6** | **132.4** | **-** | **2,146.9** |
| Derivative financial instruments | **108.0** | **-** | **-** | **-** | **108.0** |
| | **1,557.0** | **959.3** | **133.3** | **2.7** | **2,652.3** |

| **Group - 2021** | Credit rating Grade 1 $m | Credit rating Grade 2 $m | Credit rating Grade 3 $m | Unrated $m | Total $m |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Cash and cash equivalents[1] | 352.1 | 115.7 | 0.9 | 2.6 | 471.3 |
| Receivables due from other banks[2] | 3.0 | - | - | - | 3.0 |
| Financial assets - fair value through profit or loss | - | 3.0 | - | - | 3.0 |
| Financial assets - amortised cost | | | | | |
| Stage 1: 12-month ECL - not credit impaired | 1,082.5 | 652.8 | 265.7 | - | 2,001.0 |
| Derivative financial instruments | 2.1 | - | - | - | 2.1 |
| | 1,439.7 | 771.5 | 266.6 | 2.6 | 2,480.4 |

[1]The amount comprises $8.0 million relating to sale of discontinued operations. Refer to Note 4.13. $2.3 million is classified as Credit Rating Grade 1, and $5.6 million classified as Credit Rating Grade 2.
[2]The prior year balances have been adjusted for consistency with the current year disclosures that reflect updated information.

| **Bank - 2022** | **Credit rating Grade 1 $m** | **Credit rating Grade 2 $m** | **Credit rating Grade 3 $m** | **Unrated $m** | **Total $m** |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Cash and cash equivalents | **206.8** | **166.7** | **0.9** | **2.7** | **377.1** |
| Receivables due from other banks | **12.3** | **-** | **-** | **-** | **12.3** |
| Financial assets - fair value through profit or loss | **-** | **-** | **-** | **-** | **-** |
| Financial assets - amortised cost | | | | | |
| Stage 1: 12-month ECL - not credit impaired | **4,501.4** | **789.6** | **132.4** | **145.1** | **5,568.5** |
| Financial assets - fair value through other comprehensive income | | | | | |
| Stage 1: 12-month ECL - not credit impaired | **-** | **-** | **-** | **33.8** | **33.8** |
| Derivative financial instruments | **108.0** | **-** | **-** | **-** | **108.0** |
| | **4,828.5** | **956.3** | **133.3** | **181.6** | **6,099.7** |





# Notes to the financial statements

For the year ended 30 June 2022

## 3.10 Risk management (continued)

### (c) Credit risk (continued)

*Credit quality – investment with counterparties (continued)*

| **Bank - 2021** | Credit rating Grade 1 $m | Credit rating Grade 2 $m | Credit rating Grade 3 $m | Unrated $m | Total $m |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Cash and cash equivalents | 343.1 | 110.1 | 0.9 | 2.6 | 456.7 |
| Receivables due from other banks[1] | 3.0 | - | - | - | 3.0 |
| Financial assets - amortised cost | | | | | |
| Stage 1: 12-month ECL - not credit impaired | 3,441.9 | 652.8 | 265.7 | 214.4 | 4,574.8 |
| Financial assets - fair value through other comprehensive income | | | | | |
| Stage 1: 12-month ECL - not credit impaired | - | - | - | 22.8 | 22.8 |
| Derivative financial instruments | 2.1 | - | - | - | 2.1 |
| | 3,790.1 | 762.9 | 266.6 | 239.8 | 5,059.4 |

[1]The prior year balances have been adjusted for consistency with the current year disclosures that reflect updated information.

*Credit quality – lending portfolios*

All loans and advances are subject to continuous management review to assess whether there is any objective evidence that any loan or group of loans is impaired. The Bank sets aside provisions for impairment in accordance with its internal policies and procedures, which comply with AASB 9 *Financial Instruments: Recognition and Measurement* and APRA's APS 220 *Credit Quality*.

The following table sets out information about the overdue status of loans and advances to customers in Stage 1, Stage 2 and Stage 3 as defined in Note 3.5.

| **Group & Bank - 2022**<br>**Loans and advances (gross)** | **Stage 1 $m** | **Stage 2 $m** | **Stage 3 $m** | **Total $m** |
|---|---|---|---|---|
| **Residential mortgages** | | | | |
| Current | **14,367.5** | **86.1** | **-** | **14,453.6** |
| Overdue less than or equal to 30 days | **99.6** | **14.6** | **-** | **114.2** |
| Overdue more than 30 days | **-** | **25.5** | **27.1** | **52.6** |
| | **14,467.1** | **126.2** | **27.1** | **14,620.4** |
| **Commercial lending** | | | | |
| Current | **33.3** | **-** | **-** | **33.3** |
| Overdue less than or equal to 30 days | **0.1** | **-** | **-** | **0.1** |
| Overdue more than 30 days | **-** | **0.1** | **0.3** | **0.4** |
| | **33.4** | **0.1** | **0.3** | **33.8** |
| **Personal lending** | | | | |
| Current | **331.2** | **3.7** | **-** | **334.9** |
| Overdue less than or equal to 30 days | **8.3** | **0.9** | **-** | **9.2** |
| Overdue more than 30 days | **-** | **3.7** | **5.1** | **8.8** |
| | **339.5** | **8.3** | **5.1** | **352.9** |
| **Total loans and advances (gross)** | **14,840.0** | **134.6** | **32.5** | **15,007.1** |
| **Total impairment provision** | **21.7** | **3.3** | **4.5** | **29.5** |

# Notes to the financial statements

For the year ended 30 June 2022

## 3.10 Risk management (continued)

### (c) Credit risk (continued)

*Credit quality – lending portfolios (continued)*

| **Group & Bank - 2021**<br>**Loans and advances (gross)** | Stage 1<br>$m | Stage 2<br>$m | Stage 3<br>$m | Total<br>$m |
|---|---|---|---|---|
| **Residential mortgages** | | | | |
| Current | 12,818.5 | 111.2 | - | 12,929.7 |
| Overdue less than or equal to 30 days | 97.5 | 14.6 | - | 112.1 |
| Overdue more than 30 days | - | 33.1 | 25.8 | 58.9 |
| | 12,916.0 | 158.9 | 25.8 | 13,100.7 |
| **Commercial lending** | | | | |
| Current | 26.8 | - | - | 26.8 |
| Overdue less than or equal to 30 days | 0.1 | - | - | 0.1 |
| Overdue more than 30 days | - | 0.2 | 0.4 | 0.6 |
| | 26.9 | 0.2 | 0.4 | 27.5 |
| **Personal lending** | | | | |
| Current | 397.5 | 5.5 | - | 403.0 |
| Overdue less than or equal to 30 days | 10.8 | 1.1 | - | 11.9 |
| Overdue more than 30 days | - | 4.0 | 6.9 | 10.9 |
| | 408.3 | 10.6 | 6.9 | 425.8 |
| **Total loans and advances (gross)** | 13,351.2 | 169.7 | 33.1 | 13,554.0 |
| **Total impairment provision** | 21.2 | 4.1 | 5.3 | 30.6 |





# Notes to the financial statements

For the year ended 30 June 2022

## 3.10 Risk management (continued)

### (c) Credit risk (continued)

*Credit quality – lending portfolios (continued)*

Collateral held

The Bank holds collateral against certain classes of loans and advances to customers in the form of a mortgage interest over property, other registered securities over assets and guarantees. To mitigate credit risk, the Bank can take possession of the security held against the loans and advances as a result of default.

The following table sets out the principal types of the collateral held against different types of financial assets:

| **Group & Bank**<br>**Types of credit exposure** | **Percentage of exposure that is subject to collateral requirements**<br>**2022**<br>**%** | 2021<br>% | Principal type of collateral held |
|---|---|---|---|
| Financial assets - amortised cost | **-** | - | None |
| Derivative financial instruments | **-** | - | None |
| Loans and advances: | | | |
| Residential mortgages | **100** | 100 | Real estate property |
| Commercial lending | **100** | 100 | Real estate property |
| Personal lending | **31** | 40 | Motor vehicle |
| Financial assets - fair value through other comprehensive income | **-** | - | None |

An estimate of the value of collateral held as security is assessed at the time of the borrowing and is generally not updated except when loans and advances are individually assessed as impaired. As at 30 June 2022 the fair value of collateral held against those loans and advances that have been individually assessed as Stage 3 credit impaired is $8.9 million (2021: $8.6 million) with an associated gross loans and advances balance of $15.4 million (2021: $16.7 million). It has not been practicable to determine the fair value of the collateral held as security against Stage 1 and Stage 2 loans. During the year, the Bank took possession of properties valued at $2.2 million (2021: $0.3 million) which were securing loans of $1.2 million (2021: $0.4 million).

The following table shows the Bank's Loan to Value Ratios (LVR) on its residential mortgages. Valuation amounts used in these calculations are based on the security value taken at the time the loans were originated or subsequent revaluation.

| **Group & Bank** | **2022**<br>**$m** | 2021<br>$m |
|---|---|---|
| LVR 0% - 60% | **4,281.3** | 3,853.3 |
| LVR 60.01% - 80% | **6,564.4** | 5,982.6 |
| LVR 80.01% - 90% | **2,335.8** | 2,173.6 |
| LVR > 90.01% | **1,438.9** | 1,091.3 |
| | **14,620.4** | 13,100.7 |

During the year the Bank participated in the Government's schemes to support home buyers, primarily the First Home Loan Deposit Scheme (FHLDS). The schemes help first home buyers purchase their own home by providing a partial guarantee and removing the need for the buyer to purchase Lenders Mortgage Insurance. Loans supported by the FHLDS typically originate at LVR above 90% (2021: 90%) but not greater than 98% (2021: 98%). The existence of the guarantee strengthens the Bank's security position. The LVR is reported without the FHLDS guarantee.

# Notes to the financial statements

For the year ended 30 June 2022

## 3.10 Risk management (continued)

### (c) Credit risk (continued)

*Credit risk – geographical analysis (concentration risk)*

The lending portfolio is heavily concentrated on residential mortgages in line with our core business and risk appetite. The concentration of exposures broadly aligns to our traditional branch network. Management undertakes periodic exercises including stress testing and geographic analysis to better understand the impact of concentration risk within the lending portfolio. Based on these exercises, management is comfortable with the level of concentration risk.

| Group & Bank | 2022 | | 2021 | |
|---|---|---|---|---|
| *State* | **Residential mortgages $m** | **Other loans $m** | Residential mortgages $m | Other loans $m |
| Queensland | **5,205.9** | **193.3** | 4,988.5 | 226.1 |
| New South Wales | **4,714.1** | **86.4** | 4,044.4 | 104.3 |
| Victoria | **3,056.0** | **79.6** | 2,762.3 | 88.2 |
| Western Australia | **994.0** | **17.2** | 820.7 | 21.6 |
| Australian Capital Territory | **253.9** | **4.0** | 202.9 | 5.4 |
| South Australia | **284.0** | **3.4** | 206.1 | 4.8 |
| Tasmania | **85.3** | **1.5** | 59.7 | 1.4 |
| Northern Territory | **27.2** | **1.3** | 16.1 | 1.5 |
| | **14,620.4** | **386.7** | 13,100.7 | 453.3 |





# Notes to the financial statements

For the year ended 30 June 2022

## 3.10 Risk management (continued)

### (d) Liquidity and funding risk

Liquidity and funding risk is the risk that the Group is unable to meet its financial obligations as they fall due, caused by a mismatch in cash flows. The primary liquidity objective is to fund in a way that will facilitate growth in core business under a wide range of market conditions.

Liquidity risk is managed through the matching of maturity profiles of assets and liabilities on a daily basis, maintenance of committed funding facilities and, continuous forecasting of cash-flows, supplemented with liquidity scenario analysis. Funding risk is managed through a range of key metrics around diversification, duration and capacity. The operational management of liquidity and funding is performed centrally within the Treasury Division, with oversight from the Risk Management Group, ALCO and Board. Policies are approved by the Board on the recommendation of the ALCO and are consistent with the requirements of APRA's regulatory standard *APS 210 Liquidity*. During the current and the previous year, the Bank did not breach these requirements.

The following table shows the expected cash flow liquidity analysis for different monetary liabilities and assets held. In the case of borrowings, the table shows the period in which the principal outstanding will be repaid based on the remaining period to the repayment date. For term borrowings, the below dissection is based upon the contractual conditions for each borrowing being strictly complied with and is subject to change in the event that current repayment conditions are varied.

| Group - 2022 | Carrying Amount $m | Gross contractual inflow/(outflow) $m | Within 1 month $m | 1-3 months $m | 3-12 months $m | 1-5 years $m | More than 5 years $m |
|---|---|---|---|---|---|---|---|
| **Financial liability by type** | | | | | | | |
| **Non-derivative financial liabilities** | | | | | | | |
| Members' shares | **3.0** | **3.0** | **3.0** | **-** | **-** | **-** | **-** |
| Customers' call deposits | **8,934.3** | **8,935.0** | **8,935.0** | **-** | **-** | **-** | **-** |
| Customers' term deposits | **3,003.3** | **3,026.7** | **435.2** | **692.8** | **1,774.1** | **124.4** | **0.2** |
| Borrowings[1] | **4,453.1** | **4,754.0** | **256.6** | **360.0** | **1,334.3** | **2,250.5** | **552.6** |
| Lease liabilities | **40.3** | **45.2** | **1.3** | **2.5** | **7.6** | **16.9** | **16.9** |
| Total non-derivative financial liabilities | **16,434.0** | **16,763.9** | **9,631.1** | **1,055.3** | **3,116.0** | **2,391.8** | **569.7** |
| **Derivative financial liabilities** | | | | | | | |
| Interest rate swaps[2] | | | | | | | |
| Outflow | **33.9** | **33.9** | **0.3** | **1.1** | **16.9** | **15.6** | **-** |
| Inflow | **(10.7)** | **(10.5)** | **(0.1)** | **(0.2)** | **(7.3)** | **(2.9)** | **-** |
| Total derivative financial liabilities | **23.2** | **23.4** | **0.2** | **0.9** | **9.6** | **12.7** | **-** |
| **Financial asset by type[3]** | | | | | | | |
| **Non-derivative financial assets** | | | | | | | |
| Cash and cash equivalents | **382.1** | **382.1** | **382.1** | **-** | **-** | **-** | **-** |
| Receivables due from other banks | **12.3** | **12.3** | **9.3** | **-** | **-** | **-** | **3.0** |
| Financial assets - fair value through profit or loss | **3.0** | **3.0** | **1.6** | **1.4** | **-** | **-** | **-** |
| Financial assets - amortised cost | **2,146.9** | **2,147.0** | **557.1** | **365.6** | **389.1** | **835.2** | **-** |
| Loans and advances | **15,019.1** | **15,018.7** | **25.2** | **91.8** | **245.6** | **1,295.9** | **13,360.2** |
| Financials assets – fair value through other comprehensive income | **57.9** | **57.9** | **-** | **-** | **-** | **-** | **57.9** |
| Total non-derivative financial assets | **17,621.3** | **17,621.0** | **975.3** | **458.8** | **634.7** | **2,131.1** | **13,421.1** |
| **Derivative financial assets** | | | | | | | |
| Interest rate swaps[2] | | | | | | | |
| Outflow | **(47.5)** | **(47.5)** | **(2.0)** | **(4.1)** | **(17.6)** | **(23.8)** | **-** |
| Inflow | **155.5** | **155.5** | **2.4** | **8.2** | **63.3** | **81.6** | **-** |
| Total derivative financial assets | **108.0** | **108.0** | **0.4** | **4.1** | **45.7** | **57.8** | **-** |

[1] The amount utilised from the RBA TFF has been included in borrowings. Refer to Note 3.8 for further details.
[2] For interest rate swaps the cash flows have been estimated using forward interest rates applicable at the end of the reporting period.
[3] The financial assets have been presented based on the remaining contractual maturities.

# Notes to the financial statements

For the year ended 30 June 2022

## 3.10 Risk management (continued)

### (d) Liquidity and funding risk (continued)

| Group - 2021 | Carrying Amount $m | Gross contractual inflow/(outflow) $m | Within 1 month $m | 1-3 months $m | 3-12 months $m | 1-5 years $m | More than 5 years $m |
|---|---|---|---|---|---|---|---|
| **Financial liability by type** | | | | | | | |
| **Non-derivative financial liabilities** | | | | | | | |
| Members' shares | 3.1 | 3.1 | 3.1 | - | - | - | - |
| Customers' call deposits | 8,309.5 | 8,309.5 | 8,309.5 | - | - | - | - |
| Customers' term deposits | 2,944.1 | 2,957.9 | 379.7 | 584.8 | 1,809.9 | 183.5 | - |
| Borrowings[1] | 3,751.0 | 3,854.3 | 173.8 | 533.2 | 790.7 | 2,123.4 | 233.2 |
| Lease liabilities | 31.3 | 32.3 | 1.4 | 2.8 | 11.8 | 15.0 | 1.3 |
| Total non-derivative financial liabilities | 15,039.0 | 15,157.1 | 8,867.5 | 1,120.8 | 2,612.4 | 2,321.9 | 234.5 |
| **Derivative financial liabilities** | | | | | | | |
| Interest rate swaps[2] | | | | | | | |
| Outflow | 6.3 | 6.3 | 0.6 | 1.0 | 1.0 | 3.7 | - |
| Inflow | (2.0) | (2.0) | (0.1) | (0.1) | (0.5) | (1.3) | - |
| Total derivative financial liabilities | 4.3 | 4.3 | 0.5 | 0.9 | 0.5 | 2.4 | - |
| **Financial asset by type[3]** | | | | | | | |
| **Non-derivative financial assets** | | | | | | | |
| Cash and cash equivalents[5] | 471.3 | 471.3 | 471.3 | - | - | - | - |
| Receivables due from other banks[6] | 3.0 | 3.0 | - | - | - | - | 3.0 |
| Financial assets - fair value through profit or loss[4] | 85.3 | 85.3 | 1.6 | - | 1.4 | - | 82.3 |
| Financial assets - amortised cost | 2,001.0 | 2,000.8 | 160.5 | 332.7 | 324.9 | 1,182.7 | - |
| Loans and advances[6] | 13,547.0 | 13,547.0 | 28.3 | 93.8 | 265.4 | 1,443.4 | 11,716.1 |
| Financials assets – fair value through other comprehensive income | 47.3 | 47.3 | - | - | - | - | 47.3 |
| Total non-derivative financial assets | 16,154.9 | 16,154.7 | 661.9 | 426.5 | 591.7 | 2,626.1 | 11,848.7 |
| **Derivative financial assets** | | | | | | | |
| Interest rate swaps[2] | | | | | | | |
| Outflow | (5.1) | (5.1) | (0.1) | (0.2) | (0.8) | (4.0) | - |
| Inflow | 7.2 | 7.2 | 0.1 | 0.1 | 0.6 | 6.4 | - |
| Total derivative financial assets | 2.1 | 2.1 | - | (0.1) | (0.2) | 2.4 | - |

[1] The amount utilised from the RBA TFF has been included in borrowings. Refer to Note 3.8 for further details.
[2] For interest rate swaps the cash flows have been estimated using forward interest rates applicable at the end of the reporting period.
[3] The financial assets have been presented based on the remaining contractual maturities.
[4] The amount comprises $82.3 million relating to sale of discontinued operations. Refer to Note 4.13. This includes investments in unlisted unit trusts and listed and unlisted equity shares that do not have contractual maturities. These are classified as More than 5 Years as intention is to hold these investments with a long term view.
[5] The amount comprises $8.0 million relating to sale of discontinued operations. Refer to Note 4.13. These are classified Within 1 month.
[6] The prior year balances have been adjusted for consistency with the current year disclosures that reflect updated information.





# Notes to the financial statements

For the year ended 30 June 2022

## 3.10 Risk management (continued)

### (d) Liquidity and funding risk (continued)

| Bank - 2022 | Carrying Amount $m | Gross contractual inflow/(outflow) $m | Within 1 month $m | 1-3 months $m | 3-12 months $m | 1-5 years $m | More than 5 years $m |
|---|---|---|---|---|---|---|---|
| **Financial liability by type** | | | | | | | |
| **Non-derivative financial liabilities** | | | | | | | |
| Members' shares | **3.0** | **3.0** | **3.0** | **-** | **-** | **-** | **-** |
| Customers' call deposits | **8,934.3** | **8,935.0** | **8,935.0** | **-** | **-** | **-** | **-** |
| Customers' term deposits | **3,003.3** | **3,026.7** | **435.2** | **692.8** | **1,774.1** | **124.4** | **0.2** |
| Borrowings[1] | **7,911.3** | **8,579.3** | **370.4** | **540.2** | **2,034.0** | **4,369.2** | **1,265.5** |
| Lease liabilities | **40.3** | **45.2** | **1.3** | **2.5** | **7.6** | **16.9** | **16.9** |
| Total non-derivative financial liabilities | **19,892.2** | **20,589.2** | **9,744.9** | **1,235.5** | **3,815.7** | **4,510.5** | **1,282.6** |
| **Derivative financial liabilities** | | | | | | | |
| Interest rate swaps[2] | | | | | | | |
| Outflow | **33.9** | **33.9** | **0.3** | **1.1** | **16.9** | **15.6** | **-** |
| Inflow | **(10.7)** | **(10.5)** | **(0.1)** | **(0.2)** | **(7.3)** | **(2.9)** | **-** |
| Total derivative financial liabilities | **23.2** | **23.4** | **0.2** | **0.9** | **9.6** | **12.7** | **-** |
| **Financial asset by type[3]** | | | | | | | |
| **Non-derivative financial assets** | | | | | | | |
| Cash and cash equivalents | **377.1** | **377.1** | **377.1** | **-** | **-** | **-** | **-** |
| Receivables due from other banks | **12.3** | **12.3** | **9.3** | **-** | **-** | **-** | **3.0** |
| Financial assets - fair value through profit or loss | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| Financial assets - amortised cost | **5,568.5** | **5,568.7** | **559.4** | **365.6** | **389.1** | **835.2** | **3,419.4** |
| Loans and advances | **15,019.1** | **15,018.7** | **25.2** | **91.8** | **245.6** | **1,295.9** | **13,360.2** |
| Financials assets – fair value through other comprehensive income | **91.7** | **92.0** | **-** | **-** | **-** | **-** | **92.0** |
| Total non-derivative financial assets | **21,068.7** | **21,068.8** | **971.0** | **457.4** | **634.7** | **2,131.1** | **16,874.6** |
| **Derivative financial assets** | | | | | | | |
| Interest rate swaps[2] | | | | | | | |
| Outflow | **(47.5)** | **(47.5)** | **(2.0)** | **(4.1)** | **(17.6)** | **(23.8)** | **-** |
| Inflow | **155.5** | **155.5** | **2.4** | **8.2** | **63.3** | **81.6** | **-** |
| Total derivative financial assets | **108.0** | **108.0** | **0.4** | **4.1** | **45.7** | **57.8** | **-** |

[1] The amount utilised from the RBA TFF has been included in borrowings. Refer to Note 3.8 for further details.
[2] For interest rate swaps the cash flows have been estimated using forward interest rates applicable at the end of the reporting period.
[3] The financial assets have been presented based on the remaining contractual maturities.

# Notes to the financial statements

For the year ended 30 June 2022

## 3.10 Risk management (continued)

### (d) Liquidity and funding risk (continued)

| Bank - 2021 | Carrying Amount $m | Gross contractual inflow/(outflow) $m | Within 1 month $m | 1-3 months $m | 3-12 months $m | 1-5 years $m | More than 5 years $m |
|---|---|---|---|---|---|---|---|
| **Financial liability by type** | | | | | | | |
| **Non-derivative financial liabilities** | | | | | | | |
| Members' shares | 3.1 | 3.1 | 3.1 | - | - | - | - |
| Customers' call deposits | 8,316.2 | 8,316.2 | 8,316.2 | - | - | - | - |
| Customers' term deposits | 2,944.1 | 2,957.9 | 379.7 | 584.8 | 1,809.9 | 183.5 | - |
| Borrowings[1] | 6,349.7 | 6,560.0 | 252.7 | 674.3 | 1,336.7 | 3,584.0 | 712.3 |
| Lease liabilities | 31.3 | 32.3 | 1.4 | 2.8 | 11.8 | 15.0 | 1.3 |
| Total non-derivative financial liabilities | 17,644.4 | 17,869.5 | 8,953.1 | 1,261.9 | 3,158.4 | 3,782.5 | 713.6 |
| **Derivative financial liabilities** | | | | | | | |
| Interest rate swaps[2] | | | | | | | |
| Outflow | 6.3 | 6.3 | 0.6 | 1.0 | 1.0 | 3.7 | - |
| Inflow | (2.0) | (2.0) | (0.1) | (0.1) | (0.5) | (1.3) | - |
| Total derivative financial liabilities | 4.3 | 4.3 | 0.5 | 0.9 | 0.5 | 2.4 | - |
| **Financial asset by type[3]** | | | | | | | |
| **Non-derivative financial assets** | | | | | | | |
| Cash and cash equivalents | 456.7 | 456.7 | 456.7 | - | - | - | - |
| Receivables due from other banks[4] | 3.0 | 3.0 | - | - | - | - | 3.0 |
| Financial assets - amortised cost | 4,574.8 | 4,574.6 | 161.1 | 332.7 | 324.9 | 1,182.7 | 2,573.2 |
| Loans and advances[4] | 13,547.0 | 13,547.0 | 28.3 | 93.8 | 265.4 | 1,443.4 | 11,716.1 |
| Financials assets – fair value through other comprehensive income | 70.1 | 70.0 | - | - | - | - | 70.0 |
| Total non-derivative financial assets | 18,651.6 | 18,651.3 | 646.1 | 426.5 | 590.3 | 2,626.1 | 14,362.3 |
| **Derivative financial assets** | | | | | | | |
| Interest rate swaps[2] | | | | | | | |
| Outflow | (5.1) | (5.1) | (0.1) | (0.2) | (0.8) | (4.0) | - |
| Inflow | 7.2 | 7.2 | 0.1 | 0.1 | 0.6 | 6.4 | - |
| Total derivative financial assets | 2.1 | 2.1 | - | (0.1) | (0.2) | 2.4 | - |

[1] The amount utilised from the RBA TFF has been included in borrowings. Refer to Note 3.8 for further details.
[2] For interest rate swaps the cash flows have been estimated using forward interest rates applicable at the end of the reporting period.
[3] The financial assets have been presented based on the remaining contractual maturities.
[4] The prior year balances have been adjusted for consistency with the current year disclosures that reflect updated information.





# Notes to the financial statements

For the year ended 30 June 2022

## 3.11 Capital management

*Regulatory capital*

The Group actively manages its capital base to cover risks inherent in the business. The primary objectives of the Group's capital management strategies are to ensure that the Bank maintains sufficient capital resources to support the Group's business activities and operational requirements and to ensure continuous compliance with externally imposed capital ratios. The Bank uses capital to reinvest in the business to enhance products and services supplied to the customers of the Bank.

The adequacy of the Group's capital is monitored using, among other measures, the rules and ratios established by the Basel Committee on Banking Supervision and adopted by APRA in supervising the Bank. During the current and previous years, the Banking Group[1] has not breached any capital requirements.

The elements of capital are analysed as follows:

| Qualifying capital | Banking Group[1] | |
|---|---|---|
| | **As at 30 June 2022 $m** | As at 30 June 2021 $m |
| **Common Equity Tier 1 Capital** | | |
| Retained profits, including current year profits | **1,195.6** | 1,053.7 |
| Reserves | **92.8** | 30.2 |
| Total Common Equity Tier 1 Capital | **1,288.4** | 1,083.9 |
| **Regulatory Adjustments** | | |
| Intangibles | **(55.3)** | (56.6) |
| Equity investments | **(64.1)** | (53.1) |
| Other deductions | **(131.5)** | (40.8) |
| Total Regulatory Adjustments | **(250.9)** | (150.5) |
| **Net Common Equity Tier 1 Capital** | **1,037.5** | 933.4 |
| **Tier 2 Capital** | | |
| General reserve for credit losses | **20.7** | 21.2 |
| **Net Tier 2 Capital** | **20.7** | 21.2 |
| Capital base | **1,058.2** | 954.6 |
| Risk weighted assets | **7,019.0** | 6,548.6 |
| **Risk Weighted Capital Ratios** | | |
| Tier 1 | **14.78%** | 14.25% |
| Tier 2 | **0.29%** | 0.33% |
| **Total Capital Ratio** | **15.07%** | 14.58% |

[1] The regulatory capital requirements are measured for the Bank and all of its banking subsidiaries (known as the Banking Group).

# Notes to the financial statements

For the year ended 30 June 2022

## 4. Other notes

### 4.1 Other assets

| | Group | | Bank | |
|---|---|---|---|---|
| | **2022 $m** | 2021 $m | **2022 $m** | 2021 $m |
| Sundry debtors | **4.0** | 6.1 | **3.8** | 6.0 |
| Prepayments | **12.4** | 11.7 | **12.4** | 11.7 |
| | **16.4** | 17.8 | **16.2** | 17.7 |

All other asset balances at 30 June 2022 and 30 June 2021 are current.

### 4.2 Property, plant and equipment

| | Group | | Bank | |
|---|---|---|---|---|
| | **2022 $m** | 2021 $m | **2022 $m** | 2021 $m |
| At cost/fair value | **65.8** | 64.5 | **65.8** | 64.5 |
| Accumulated depreciation | **(59.5)** | (54.1) | **(59.5)** | (54.1) |
| Property, plant and equipment | **6.3** | 10.4 | **6.3** | 10.4 |
| Capital work in progress[1] | **17.3** | 3.1 | **17.3** | 3.1 |
| Total property, plant and equipment | **23.6** | 13.5 | **23.6** | 13.5 |

[1]The prior year balances have been adjusted for consistency with the current year disclosures that reflect updated information.

All property, plant and equipment balances at 30 June 2022 and 30 June 2021 are non-current.

*Recognition and measurement*

Plant and equipment are measured at cost less depreciation and impairment losses.

All property, plant and equipment are depreciated using the straight-line method over their expected useful lives to the Group. Leasehold improvements are depreciated over the shorter of either their estimated useful life or the remaining term of the lease. The estimated useful lives have not changed from the prior year.

The estimated useful lives are as follows:

| | |
|---|---|
| Computer hardware | 4 years |
| Office furniture and equipment | 3-5 years |
| Leasehold improvements | 2-10 years |





# Notes to the financial statements

For the year ended 30 June 2022

### 4.3 Intangible assets

| | Group | | Bank | |
|---|---|---|---|---|
| | **2022 $m** | 2021 $m | **2022 $m** | 2021 $m |
| At cost | **163.5** | 142.8 | **163.5** | 142.8 |
| Accumulated amortisation | **(117.9)** | (100.4) | **(117.9)** | (100.4) |
| Intangible assets | **45.6** | 42.4 | **45.6** | 42.4 |
| Capital work in progress[2] | **9.7** | 12.9 | **9.7** | 12.9 |
| Total intangible assets | **55.3** | 55.3 | **55.3** | 55.3 |
| | | | | |
| Reconciliation of carrying amounts | | | | |
| Carrying amount at beginning of financial year | **55.3** | 59.6 | **55.3** | 59.5 |
| Additions | **20.7** | 15.2 | **20.7** | 15.9 |
| Net movement in capital work in progress | **(3.2)** | 1.8 | **(3.2)** | 1.8 |
| Impairment | **-** | (0.9) | **-** | (0.9) |
| Amortisation[1] | **(17.5)** | (21.0) | **(17.5)** | (21.0) |
| Reclassification to assets held for sale/discontinued operations | **-** | 0.6 | **-** | - |
| Carrying amount at end of financial year | **55.3** | 55.3 | **55.3** | 55.3 |

[1] The decrease in amortisation was due to the increase in the useful life of the major banking infrastructure software. Refer to 'Use of judgements and estimates' below for the details.
[2]The prior year balances have been adjusted for consistency with the current year disclosures that reflect updated information.

All intangible asset balances at 30 June 2022 and 30 June 2021 are non-current.

Intangible assets of CHL were classified as held for sale at 30 June 2021. The sale of CHL was completed during the current year. Refer to Note 4.13 which provides further disclosure relating to CHL.

*Recognition and measurement*

Intangible assets include acquired or internally generated software. Software is amortised using the straight-line method over the expected useful life to the Group. The estimated useful lives are as follows:

| | |
|---|---|
| Major banking infrastructure software | 15 years (2021: 10 years) |
| Loan origination system | 3-10 years (2021: 3-10 years) |
| Other computer software | 3-7 years (2021: 3-7 years) |

*Software as a services (SaaS) arrangements*

SaaS arrangements are service contracts providing the Group with the right to access a cloud provider's application service software over the contractual period. The Group does not receive a software intangible asset at the contract commencement date.

Distinct configuration and customisation costs paid to the cloud provider are expensed as incurred as the software is configured or customised. Non distinct configuration and customisation costs are expensed over the SaaS contract term. Services fees or fees for use of the application software are recognised as operating expenses over the term of the service contract when services are received.

Costs incurred by the Group that meet the definition and recognition criteria for an intangible asset are recognised as intangible software assets. These costs include the development of software code that enhances, modifies, or creates additional capability to existing systems owned and controlled by the Group.

Non distinct customisation activities significantly enhance or modify a SaaS cloud based application. Judgement has been applied in determining whether the degree of customisation and modification of the SaaS cloud based application is significant or not.

During the financial year, the Group recognised $0.8 million (2021: $1.2 million) as prepayments in respect of configuration and customisation activities undertaken in implementing SaaS arrangements. These are not considered to be distinct from the access to the SaaS application software over the contract term.

# Notes to the financial statements

For the year ended 30 June 2022

### 4.3 Intangible assets (continued)

*Use of judgements and estimates*

At 30 June 2021, the Group estimated the useful life of its major banking infrastructure software to be at least 10 years based on the expected technical obsolescence of such assets and a comparison of other similar platforms. During the current year, the Group undertook a review of the Group's existing major banking infrastructure software which is now expected to operate for an additional five years. The extension better reflects the expected pattern of consumption of the future benefits of those enhancements. As a result, the expected useful life of the major banking infrastructure software increased. The change in useful life is a change in accounting estimate and adjusted prospectively. The effect of these changes on actual and expected amortisation of intangible assets, was as follows:

| | **2022 $m** | 2023 $m | 2024 $m | 2025 $m | 2026 $m | Later $m |
|---|---|---|---|---|---|---|
| (Decrease)/increase in amortisation expense | **(3.7)** | (3.7) | - | 1.7 | 1.7 | 3.9 |
| Carrying amount of major banking infrastructure software | **11.3** | 9.2 | 7.4 | 5.7 | 3.9 | - |

### 4.4 Right-of-use assets

| | **Group** | | **Bank** | |
|---|---|---|---|---|
| | **2022 $m** | 2021 $m | **2022 $m** | 2021 $m |
| Buildings | **35.9** | 28.9 | **35.9** | 28.9 |
| Plant and equipment | **-** | 0.1 | **-** | 0.1 |
| Total right-of-use assets | **35.9** | 29.0 | **35.9** | 29.0 |
| | | | | |
| Reconciliation of carrying amounts | | | | |
| Carrying amount at beginning of financial year | **29.0** | 36.5 | **29.0** | 36.5 |
| Net additions | **24.4** | 7.9 | **24.4** | 7.9 |
| *Depreciation* | | | | |
| Buildings | **(17.4)** | (15.2) | **(17.4)** | (15.2) |
| Plant and equipment | **(0.1)** | (0.2) | **(0.1)** | (0.2) |
| | **(17.5)** | (15.4) | **(17.5)** | (15.4) |
| | | | | |
| Carrying amount at end of financial year | **35.9** | 29.0 | **35.9** | 29.0 |

All right-of-use (ROU) asset balances at 30 June 2022 and 30 June 2021 are non-current.





# Notes to the financial statements

For the year ended 30 June 2022

### 4.4 Right-of-use assets (continued)

The Group leases various hub offices, branch premises and vehicles. Lease contracts are typically made for periods of 1 to 10 years, excluding extension options.

*Recognition and measurement*

Assets and liabilities arising from a lease are initially measured on a present value basis.

ROU assets are measured at cost, which comprise the following:

- The amount of the initial measurement of the lease liability;
- Any lease payments made at or before the commencement date less any lease incentives received;
- Any initial direct costs; and
- Restoration costs.

ROU assets are depreciated over the shorter of the asset's useful life and the lease term, on a straight-line basis.

Lease liabilities include the following lease payments:

- Fixed payments, less any lease incentives received or receivable; and
- Variable lease payment that are based on an index or a rate, initially measured using the index or rate as at the commencement date.

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

The lease payments are discounted using the Group's incremental borrowing rates (IBR) as the rates implicit to Group's leases cannot be readily determined. The IBR is the rate that the Group would have to pay to borrow the funds necessary to obtain a similar ROU in a similar economic environment with similar terms, security and conditions.

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

Exemptions are available for short term leases of equipment and vehicles and leases of low-value assets. The Group did not apply these exemptions.

*Use of judgements and estimates*

*Determining the lease term of contracts with renewal and termination options*

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Group has several lease contracts that include extension and termination options. The Group considers all relevant factors that create an economic incentive in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not to exercise the option to renew or to terminate (e.g., construction of significant leasehold improvements or significant customisation to the leased asset).

*Estimating the incremental borrowing rate*

The Group estimates the IBR using observable inputs (such as market interest rates) when available.

# Notes to the financial statements

For the year ended 30 June 2022

## 4.5 Other liabilities

Except for the straight-line lease liability, all other liability balances are current.

| | Group | | Bank | |
|---|---|---|---|---|
| | **2022 $m** | 2021 $m | **2022 $m** | 2021 $m |
| Trade creditors and accruals | **25.1** | 21.4 | **26.0** | 26.8 |
| Unearned insurance premiums | **0.8** | 2.2 | **-** | - |
| Outstanding insurance claims liabilities | **0.5** | 0.7 | **-** | - |
| Income tax payable | **41.8** | 1.5 | **41.8** | 1.2 |
| | **68.2** | 25.8 | **67.8** | 28.0 |

Other liabilities of CHL were classified as held for sale at 30 June 2021. Income tax payable of $46.4 million relates to the tax on the capital gain on sale of subsidiary. The sale of CHL was completed during the current year. Refer to Note 4.13 which provides further disclosure relating to CHL.

## 4.6 Lease liabilities

| | Group | | Bank | |
|---|---|---|---|---|
| | **2022 $m** | 2021 $m | **2022 $m** | 2021 $m |
| Lease liabilities | **40.3** | 31.3 | **40.3** | 31.3 |
| | | | | |
| Current - lease liabilities | **10.4** | 15.4 | **10.4** | 15.4 |
| Non-current - lease liabilities | **29.9** | 15.9 | **29.9** | 15.9 |
| | **40.3** | 31.3 | **40.3** | 31.3 |
| | | | | |
| Reconciliation of carrying amounts | | | | |
| Carrying amount at beginning of financial year | **31.3** | 39.6 | **31.3** | 39.6 |
| Net additions | **24.6** | 7.8 | **24.6** | 7.8 |
| *Lease payments* | | | | |
| Gross lease payments | **(16.5)** | (16.8) | **(16.5)** | (16.8) |
| Interest portion of lease payments | **0.9** | 0.7 | **0.9** | 0.7 |
| | **(15.6)** | (16.1) | **(15.6)** | (16.1) |
| | | | | |
| Carrying amount at end of financial year | **40.3** | 31.3 | **40.3** | 31.3 |

For recognition and measurement details, refer to Note 4.4.

The Bank has a bank guarantee of $2.5 million (2021: $2.5 million) in respect of one of its leased properties.





# Notes to the financial statements

For the year ended 30 June 2022

## 4.7 Provisions

| | Group | | Bank | |
|---|---|---|---|---|
| | **2022 $m** | 2021 $m | **2022 $m** | 2021 $m |
| Employee benefits | **21.6** | 20.2 | **21.6** | 20.2 |
| Make good provision | **2.2** | 4.4 | **2.2** | 4.4 |
| Other provisions[1] | **8.1** | 2.3 | **8.1** | 2.3 |
| | **31.9** | 26.9 | **31.9** | 26.9 |
| | | | | |
| Current | **28.0** | 20.5 | **28.0** | 20.5 |
| Non-current | **3.9** | 6.4 | **3.9** | 6.4 |
| | **31.9** | 26.9 | **31.9** | 26.9 |

[1]The prior year balances have been adjusted for consistency with the current year disclosures that reflect updated information.

*Recognition and measurement*

Provisions are recognised when the Group 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 can be 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 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 payable later than one year have been measured at the present value by discounting the expected future cash outflows at a rate that reflects the current market assessment of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as financing costs, excluding long term employee benefits.

Employee benefits

Employee provisions comprise liabilities for employee benefits such as annual and long service leave, short term and long term incentives plans, refer to Note 4.9(a). These arise from services rendered by employees to balance date. Employee benefits have been measured at the amounts expected to be paid when the liability is settled plus related on-costs.

Superannuation contributions are made by the Group to defined contribution superannuation funds and are charged as expenses when incurred.

Make good provision

The make good provision is the estimated present value of expenditure required to restore the leased branches and hub offices to their original condition at the end of the respective leases. The provision is assessed at each balance date for new, amended and expired leases. The estimate of the costs has been calculated using historical costs.

Other provisions

Included in other provisions are provisions relating to ongoing remediations and regulatory reviews. The Group undertakes ongoing compliance activities, including review of products, advice, conduct and services provided to customers, as well as interest, fees and premiums charged. Some of these investigations and reviews have resulted in remediation programs or are being assessed for possible breaches of regulatory obligations. The Group continues to work with various regulators including ASIC, APRA and the ATO on proposed remediation actions. There is a risk that where a breach has occurred, regulators may also impose fines and/or penalties.

Provisions relating to these remediations and regulatory reviews are recognised when it is probable an outflow will be required to address a past event and where a reliable estimate is available. Contingent liabilities exist with respect to these matters where it is not possible to determine the extent of any obligation to remediate or the potential liability cannot be reliably estimated.

# Notes to the financial statements

For the year ended 30 June 2022

## 4.8 Reserves

| | Group | | Bank | |
|---|---|---|---|---|
| | **2022 $m** | 2021 $m | **2022 $m** | 2021 $m |
| General reserve for credit losses | **-** | 1.2 | **-** | 1.2 |
| Redeemed member share reserve | **3.2** | 3.1 | **3.2** | 3.1 |
| Fair value through other comprehensive income reserve | **21.3** | 18.4 | **21.1** | 18.8 |
| Cash flow hedge reserve | **58.9** | (1.3) | **58.9** | (1.3) |
| Business combination reserve | **9.6** | 9.6 | **9.6** | 9.6 |
| | **93.0** | 31.0 | **92.8** | 31.4 |

*Nature and purpose of reserves*

General reserve for credit losses

During financial year ended 30 June 2022, APRA has updated the requirements of APRA Prudential Standard APS 220 *Credit Quality*, to remove holding a general reserve for credit losses which represents the difference between the accounting collective provisions for impairment and the estimate of lifetime ECL. The current standard requires the Bank to hold provisions that are adequate and consistent with the objectives of Australian Accounting Standards.

Redeemed member share reserve

Under the *Corporations Act 2001*, redeemable preference shares (member shares) may only be redeemed out of the Bank's profit or through the new issue of shares for the purpose of the redemption. The Bank therefore has transferred the value of member shares redeemed since 1 July 1999 (the date that the *Corporations Act 2001* applied to the Bank), from retained earnings to the redeemed member share reserve. The value of members' shares is disclosed as a liability in Note 3.6.

Fair value through other comprehensive income reserve

This comprises the cumulative net changes in the fair value of investments in equity and debt instruments. For equity instruments, amounts in the reserve are subsequently transferred to retained earnings, and not profit or loss, when the investment is derecognised or impaired. For debt instruments, on derecognition the amounts in the reserve are reclassified to profit or loss.

Cash flow hedge reserve

This reserve is for the portion of the cumulative net gain or loss on cash flow hedges that are determined to be an effective hedge.

Business combination reserve

This reserve is used to record mergers with other mutual entities. The reserve represents the excess of the fair value of assets taken up over liabilities assumed in a merger.





# Notes to the financial statements

For the year ended 30 June 2022

## 4.9 Related parties

### (a) Key management personnel (KMP)

Compensation of the Bank's Non-Executive Directors and other KMP

| | Non-executive directors | | Other KMP | |
|---|---|---|---|---|
| | **2022 $'000** | 2021 $'000 | **2022 $'000** | 2021 $'000 |
| The aggregate compensation of KMP during the year comprising amount paid or payable or provided for was as follows: | | | | |
| - Short term employee benefits | **1,077.7** | 1,016.7 | **3,281.0** | 3,173.0 |
| - Post employment benefits | **165.0** | 141.7 | **163.1** | 149.9 |
| - Other long term benefits | **-** | - | **455.3** | 1,416.8 |
| - Termination benefits | **-** | - | **270.5** | - |
| | **1,242.7** | 1,158.4 | **4,169.9** | 4,739.7 |

Compensation shown as short term benefits means (where applicable) salaries, annual and sick leave, bonuses and the value of fringe benefits received, but excludes out of pocket expense reimbursements. The Bank's Non-Executive Directors and other KMP are only remunerated by the Bank.

Included in post-employment benefits is superannuation contributions and compensation relating to the Directors' defined benefit plan. The plan provides lump sum benefits based on years of service and the final average salary for the respective Directors. Included in other long term benefits is the long term incentive plan for the CEO and Executive Committee members.

The average total compensation to each Non-Executive Director excluding post employment benefits is $180,106 (2021: $145,636).

Loans to the Bank's Non-Executive Directors and other KMP

| | **2022 $'000** | 2021 $'000 |
|---|---|---|
| Aggregate of loans as at balance date | **4,644.2** | 2,781.2 |
| Total undrawn revolving credit facilities available at balance date | **424.6** | 103.4 |
| Interest charged on loans and overdraft facilities | **73.1** | 41.1 |

The above table includes amounts for the Bank's Non-Executive Directors and other KMP in office or employed by the Bank at balance date and their related parties. Non-Executive Directors and other KMP who resigned during the 2022 financial year are excluded from the 2022 analysis but are included in the 2021 comparative analysis.

The Bank's policy for lending to its Non-Executive Directors and other KMP is that all loans are approved under the same criteria applicable to customers. All loans were at lending terms and conditions applicable to customers. KMP may receive concessional rates of interest on their loans and facilities that are available to all the Bank's employees. No amounts were written down or recorded as impaired during the year (2021: $nil).

There are no benefits or concessional terms and conditions applicable to the family members of the Bank's Non-Executive Directors and other KMP (2021: $nil). No loan balances with family or relatives of the Bank's Non-Executive Directors and other KMP were written down or recorded as impaired during the year (2021: $nil).

# Notes to the financial statements

For the year ended 30 June 2022

### 4.9 Related parties (continued)

#### (a) Key management personnel (KMP) (continued)

*Other transactions with the Bank's Non-Executive Directors and other KMP*

Other transactions with the Bank's Non-Executive Directors and other KMP and their related parties generally relate to deposits and private health insurance.

The Bank's policy for these other transactions is that all transactions are approved on the same terms and conditions that apply to customers. Interest has been paid on terms and conditions no more favorable than those available on similar transactions to customers of the Bank. KMP may receive discounts on premiums for private health insurance that are available to all Bank employees.

#### (b) Controlled entities and other related parties

Controlled entities are entities where the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity.

(i) Particulars in relation to controlled entities

The Group financial statements include the financial statements of the Bank and the subsidiaries listed in the following table:

| | Equity interest | | Investment | |
|---|---|---|---|---|
| | **2022** | 2021 | **2022** | 2021 |
| Name of entity | **%** | % | **$'000** | $'000 |
| CUA Health Limited | **-** | 100% | **-** | - |
| Credicorp Finance Pty Ltd | **100%** | 100% | **1,500.0** | 1,500.0 |
| Credicorp Insurance Pty Ltd | **100%** | 100% | **-** | - |
| CUA Management Pty Ltd | **100%** | 100% | **-** | - |
| | | | **1,500.0** | 1,500.0 |

Investments in controlled entities are carried at cost and eliminated on consolidation.

All entities are incorporated in Australia.

(ii) Securitisation

The Bank conducts an asset securitisation program through which it packages and sells asset-backed securities to investors and borrows from lenders through special purpose entities (SPE). The Bank is entitled to any residual income of the SPE after all payments to investors and lenders and costs of the programs have been met. These SPEs are consolidated as the Bank has the power to govern directly or indirectly decision making in relation to financial and operating policies and receives the majority of the residual income or is exposed to the majority of the residual risk associated with the SPEs.

The following securitisation trusts are controlled by the Bank:

- Series 2012-1R Harvey Trust
- Series 2013-1 Harvey Trust
- Series 2015-1 Harvey Trust
- Series 2017-1 Harvey Trust
- Series 2018-1 Harvey Trust
- Series 2021-1 Harvey Trust (established on 16 August 2021)
- Harvey Warehouse Trust No. 4
- Harvey Warehouse Trust No. 5





# Notes to the financial statements

For the year ended 30 June 2022

### 4.9 Related parties (continued)

#### (b) Controlled entities and other related parties (continued)

(ii) Securitisation (continued)

*Transfer of financial assets*

The following table sets out the financial assets transferred to the above Trusts that did not qualify for derecognition and associated liabilities from conducting the securitisation program.

| | Group | | Bank | |
|---|---|---|---|---|
| | **2022** | 2021 | **2022** | 2021 |
| | **$'000** | $'000 | **$'000** | $'000 |
| **Transferred financial assets** | | | | |
| Loans and advances at amortised cost | **5,438,147.3** | 4,026,822.9 | **5,438,147.3** | 4,026,822.9 |
| **Associated financial liabilities** | | | | |
| Securitisation liabilities - external investors | **2,150,196.3** | 1,552,816.8 | **2,150,196.3** | 1,552,816.8 |
| Amounts due to the Bank | **-** | - | **3,510,205.2** | 2,656,800.7 |
| | **2,150,196.3** | 1,552,816.8 | **5,660,401.5** | 4,209,617.5 |
| **For those liabilities that have recourse only to transferred assets:** | | | | |
| Fair value of transferred assets | **5,366,320.2** | 4,024,115.9 | **5,366,320.2** | 4,024,115.9 |
| Fair value of associated liabilities | **(2,126,901.6)** | (1,585,965.0) | **(2,126,901.6)** | (4,216,659.1) |
| Net position | **3,239,418.6** | 2,438,150.9 | **3,239,418.6** | (192,543.2) |

*Collateral*

The Bank has advanced $12,277.8 thousand (2021: $3,000.1 thousand) as cash collateral in relation to interest rate swaps for securitisation trusts. The funds are held in restricted interest earning accounts and will be returned at maturity of the interest rate swap contracts.

(iii) Significant restrictions

Cash and cash equivalents include restricted balances of $238,385.9 thousand (2021: $198,103.4 thousand) in the Group which represent deposits held in securitisation trust collection accounts which are not available to the Group.

The regulatory frameworks within which the health and general insurance subsidiaries operate, require these subsidiaries to keep certain levels of regulatory capital and liquid assets, limit their exposure to other parts of the Group and comply with various ratio requirements. The significant restrictions imposed by the regulatory frameworks are the only restrictions on the Bank transferring the cash or other assets of the subsidiaries. The net carrying amount of these subsidiaries' assets and liabilities are $10,263.4 thousand and $1,425.1 thousand respectively (2021: $107,372.4 thousand and $27,881.7 thousand respectively). The sale of the Bank's health insurance subsidiary was completed during the current year. Refer to Note 4.13 for further disclosures.

(iv) Particulars in relation to a joint venture entity

The Group has a 50% interest in Mutual Marketplace Pty Ltd (2021: 50%). For more details, refer to Note 4.10.

# Notes to the financial statements

For the year ended 30 June 2022

### 4.9 Related parties (continued)

**(b) Controlled entities and other related parties (continued)**

(v) Transactions with controlled and joint venture entities

The following table provides the total amount of transactions that were entered into by the Bank with controlled and joint venture entities for the relevant financial year. These transactions were all carried out under normal commercial terms and where possible are benchmarked against industry averages.

Transactions with controlled and joint venture entities:

| | Bank | |
|---|---|---|
| | **2022 $'000** | 2021 $'000 |
| Dividend revenue[1] | **20,990.2** | 6,700.0 |
| Commission revenue | **31.9** | 668.1 |
| Net management fees income/(expense) | **(32.8)** | 1,777.2 |
| Net interest income/(expense) | **(14.9)** | (33.7) |
| Net income/(expense) Mutual Marketplace Pty Ltd[2] | **(135,975.0)** | (121,352.3) |
| Operating lease revenue | **83.9** | 353.9 |

[1]The amount includes $10.0 million normal dividend and $10.0 million special dividend triggered by the sale of CHL.
[2] Spend in ordinary course of business that would otherwise flow through the Bank.

The net amounts receivable from/(payable to) controlled and joint venture entities as at 30 June were:

| | Bank | |
|---|---|---|
| | **2022 $'000** | 2021 $'000 |
| CUA Health Limited | **-** | (11,429.2) |
| Credicorp Finance Pty Ltd | **(92.3)** | (94.8) |
| Credicorp Insurance Pty Ltd | **(1,954.9)** | (1,876.5) |
| CUA Management Pty Ltd | **(1,442.0)** | (1,642.2) |

(vi) Indemnity arrangements

At 30 June 2022, there is a deed of indemnity issued by Great Southern Bank to CUA Management. This is for losses and damages as a result of any fee for no service issues arising out of or in connection with the operation as a financial planning business until 30 June 2014. Majority of the remediation to customers has been completed during the financial year.

At 30 June 2021, there was a deed of indemnity in place between the Bank and Credicorp Insurance. This deed indemnified Credicorp Insurance against losses and damages as a result of policyholder remediation costs which arose from previous sales practices of consumer credit insurance policies by the Bank. The remediation to policyholders was completed during the financial year ended 30 June 2021.





# Notes to the financial statements

For the year ended 30 June 2022

### 4.10 Joint venture

The Bank has an interest in a joint venture known as Mutual Marketplace Pty Ltd which provides procurement services to the joint venture owners and other Australian mutuals. The country of incorporation and principal place of business of the joint operation is Australia.

**(a) Interest in joint venture**

Set out below are details of this joint venture.

| Name of entity | Place of business/country of incorporation | % Ownership interest | | Nature of relationship | Measurement | Carrying amount | |
|---|---|---|---|---|---|---|---|
| | | **2022** | 2021 | | | **2022 $m** | 2021 $m |
| Mutual Marketplace Pty Ltd | Australia | **50%** | 50% | Joint Venture | Equity Method | **3.4** | 3.0 |

Mutual Marketplace Pty Ltd has share capital consisting solely of ordinary shares, which are held directly by the Group and ownership interest is in the same proportion as the voting rights held.

*(i) Commitments and contingent liabilities in respect of joint venture*

| | **2022 $m** | 2021 $m |
|---|---|---|
| Commitments to operating expenditure | **1.9** | 0.8 |
| | **1.9** | 0.8 |

The Group has commitments of $nil million (2021: $nil million) relating to non-cancellable operating lease contracts entered into by the Group's interest in the joint venture.

*(ii) Summarised financial information for joint venture*

The table below provides summarised financial information for the joint venture. The information disclosed reflects the amounts presented in the financial statements of the relevant joint venture and not the Bank's share of those amounts. They have been amended to reflect adjustments made by the Bank when using the equity method, including fair value adjustments and modifications for differences in accounting policy.

| **Summarised income statement** | **2022 $m** | 2021 $m |
|---|---|---|
| Revenue | **211.9** | 196.1 |
| Cost of sales | **(203.9)** | (188.6) |
| **Gross profit** | **8.0** | 7.5 |
| Operating expenses | **(5.3)** | (4.7) |
| **Profit before income tax** | **2.7** | 2.8 |
| Income tax expense | **(0.8)** | (0.9) |
| **Profit for the year** | **1.9** | 1.9 |

# Notes to the financial statements

For the year ended 30 June 2022

### 4.10 Joint venture (continued)

#### (a) Interest in joint venture (continued)

*(ii) Summarised financial information for joint venture (continued)*

| Summarised balance sheet | 2022 $m | 2021 $m |
|---|---|---|
| Total assets | **14.0** | 14.4 |
| Total liabilities | **(7.2)** | (8.4) |
| **Net assets** | **6.8** | 6.0 |
| | | |
| **Reconciliation to carrying amounts:** | | |
| Opening net assets | **6.0** | 4.3 |
| Profit for the period | **1.9** | 1.9 |
| Dividends paid | **(1.1)** | (0.2) |
| **Closing net assets** | **6.8** | 6.0 |
| | | |
| Group's share in % | **50%** | 50% |
| Group's share in $ | **3.4** | 3.0 |
| **Carrying amount** | **3.4** | 3.0 |

*Recognition and measurement*

The Group's investment in the joint venture is accounted for under the equity method in the Group financial statements as it has joint control over all operational decisions and activities.

Under the equity method, the investment in the joint venture is initially recognised at cost and the carrying value is subsequently increased or decreased by the Group's share of the joint venture entity's profits or losses. The Group ceases to recognise its share of losses when its share of net assets and amounts due from the joint venture entity has been reduce to nil, unless it has incurred further obligations.

Share of gains or losses resulting from transactions between the Group and the joint venture are eliminated to the extent of the interest in the joint venture.

Dividends received or receivable from the joint venture entity are recognised as a reduction to the carrying amount of the investment.

At each reporting date, the Group determines whether there is objective evidence that the investment in the joint venture is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the joint venture and it's carrying value.





# Notes to the financial statements

For the year ended 30 June 2022

### 4.11 Commitments and contingent liabilities

#### (a) Outstanding loan and credit facility commitments not provided for

Loans approved but not advanced and credit facilities undrawn at the end of the financial year were as follows:

| | Group | | Bank | |
|---|---|---|---|---|
| | 2022 $m | 2021 $m | 2022 $m | 2021 $m |
| Loans approved not advanced | **172.9** | 163.5 | **172.9** | 163.5 |
| Undrawn overdrafts and credit facilities at call | **274.3** | 273.4 | **274.3** | 273.4 |
| | **447.2** | 436.9 | **447.2** | 436.9 |

#### (b) Capital commitments

At 30 June 2022, the Group had a commitment of $nil million (2021: $nil million) relating to plant and equipment acquisitions.

#### (c) Superannuation commitments

The Bank contributes to a number of defined contribution superannuation funds, which provide benefits for employees on retirement, death or disability. Employees may contribute additional amounts of their gross income to their respective superannuation fund. The Bank has no financial interest in any of the funds and is not liable for their performance or their obligations.

#### (d) Remediation and ongoing regulatory reviews

There are a number of ongoing matters that the Group are working with regulators to assess possible breaches of regulatory obligations and/or the need customer remediation. The outcome and total costs associated with such regulatory actions and reviews, and possible claims remain uncertain. Refer to Note 4.7 for details.

### 4.12 Remuneration of auditor

The auditor of the Group is KPMG.

| | Group | | Bank | |
|---|---|---|---|---|
| | 2022 $'000 | 2021 $'000 | 2022 $'000 | 2021 $'000 |
| Amounts received or due and receivable by KPMG for: | | | | |
| Audit services | | | | |
| Audit of financial statements | **492.2** | 603.4 | **420.0** | 452.0 |
| Other regulatory and audit services | **220.3** | 223.2 | **196.1** | 146.1 |
| Total audit services | **712.5** | 826.6 | **616.1** | 598.1 |
| Audit related services | **56.7** | 114.0 | **56.7** | 82.4 |
| Non-audit services | | | | |
| Other services | **32.1** | 54.2 | **32.1** | 54.1 |
| Total non-audit services | **32.1** | 54.2 | **32.1** | 54.1 |
| Total auditor's remuneration | **801.3** | 994.8 | **704.9** | 734.6 |

The majority of other services provided are recurring agreed upon procedure engagements related to securitisation trust top up transactions.

# Notes to the financial statements

For the year ended 30 June 2022

### 4.13 Discontinued operations and disposal of subsidiary

*Overview*

On 13 May 2021, the Bank entered into an agreement to sell its wholly owned subsidiary, CHL. The associated assets and liabilities of CHL were consequently presented as held for sale in the 30 June 2021 financial statements.

The sale occurred on 30 September 2021, final settlement of the transaction occurred on 9 February 2022. CHL was reported as a discontinued operation for the years ended 30 June 2022 and 30 June 2021. The associated financial information of CHL and intragroup transactions, balances and consolidation impacts are treated as discontinued operations from a financial reporting perspective are outlined below.

*Financial performance information*

| | CUA Health Limited | |
|---|---|---|
| | **2022** | 2021 |
| | **$m** | $m |
| Premium revenue | **39.2** | 153.1 |
| Claims related expenses | **(33.6)** | (131.2) |
| Commission expenses | **(0.7)** | (1.6) |
| **Underwriting result** | **4.9** | 20.3 |
| Net investment income | **0.5** | 5.8 |
| Expenses | **(2.8)** | (9.7) |
| **Profit before tax** | **2.6** | 16.4 |
| Income tax expenses | **(0.7)** | (4.7) |
| **Profit after income tax of discontinued operations**[1] | **1.9** | 11.7 |
| | | |
| Gain on sale of subsidiary after income tax | **56.7** | - |
| Transaction and separation costs net of tax | **(0.6)** | (3.2) |
| **Profit from discontinued operations** | **58.0** | 8.5 |

[1]The profit after income tax in 2022 represents 3 months of operations up to sale date of 30 September 2021.

*Gain on sale of subsidiary*

| | CUA Health Limited |
|---|---|
| | **2022** |
| | **$m** |
| Disposal consideration | **154.8** |
| Carrying amount of net assets sold | **(51.7)** |
| Gain on sale before tax | **103.1** |
| Income tax expense on gain | **(46.4)** |
| Gain on sale after tax | **56.7** |





# Notes to the financial statements

For the year ended 30 June 2022

### 4.13 Discontinued operations and disposal of subsidiary (continued)

*Cash flow information*

| | CUA Health Limited | |
|---|---|---|
| | **2022** | 2021 |
| | **$m** | $m |
| Net cash provided by operating activities | **5.8** | 19.3 |
| Net cash flow provided by/(used in) investing activities | **14.2** | (10.1) |
| Net cash flow used in financing activities | **(20.4)** | (6.1) |
| Net cash generated by subsidiary | **(0.4)** | 3.1 |

*Balance sheet information*

The carrying amount of assets and liabilities held at the date of the settlement (9 February 2022) are as follows:

| | CUA Health Limited |
|---|---|
| | **2022** |
| | **$m** |
| **Assets** | |
| Cash and cash equivalents | **14.2** |
| Financial assets at fair value through profit or loss | **68.2** |
| Receivables | **7.3** |
| Deferred acquisition costs | **2.7** |
| Net deferred tax assets | **4.3** |
| **Assets classified as held for sale** | **96.7** |
| | |
| **Liabilities** | |
| Trade and other payables | **4.0** |
| Income tax payable | **1.6** |
| Outstanding claims liabilities | **27.6** |
| Premiums in advance | **11.8** |
| **Liabilities associated with assets held for sale** | **45.0** |
| | |
| **Net assets associated with assets held for sale** | **51.7** |

# Notes to the financial statements

For the year ended 30 June 2022

### 4.13 Discontinued operations and disposal of subsidiary (continued)

*Balance sheet information (continued)*

The following assets and liabilities were classified as held for sale in relation to the discontinued operations at 30 June 2021.

| | CUA Health Limited 2021 $m |
|---|---|
| Assets | |
| Cash and cash equivalents | 8.0 |
| Financial assets at fair value through profit or loss | 82.3 |
| Receivables | 7.1 |
| Deferred acquisition costs | 1.8 |
| Intangible assets | 0.1 |
| Net deferred tax assets | 3.6 |
| Assets classified as held for sale | 102.9 |
| | |
| Liabilities | |
| Trade and other payables | 4.5 |
| Income tax payable | 1.7 |
| Outstanding claims liabilities | 23.8 |
| Premiums in advance | 14.5 |
| Liabilities associated with assets held for sale | 44.5 |

### 4.14 Insurance governance and capital management

**Credicorp Insurance Pty Ltd**

*Insurance governance*

General insurance contracts are defined as contracts under which Credicorp Insurance accepts significant insurance risk from another party by agreeing to compensate the party insured from a specified uncertain event.

The significance of insurance risk is dependent on both the probability of an insurance event and the magnitude of its potential effect. Credicorp Insurance limits the risks associated with excessive or unexpected losses resulting from poor claims experience or claims management practices. All general insurance contracts written are entered into on a standard form basis and are subject to substantially the same terms and conditions.

Credicorp Insurance's exposure to concentrations of insurance risk is mitigated by a portfolio of diversified general insurance products (personal loan protection, home loan protection and car loan gap cover) across all States of Australia. Because of the small size of the claims, the financial impact of concentrations of risk is not material to the Group.

On 17 September 2019, the Credicorp Insurance Board approved the decision of Credicorp Insurance to stop selling consumer credit insurance products.

*Capital management*

Credicorp Insurance has set out in its Run-off Plan, a targeted minimum capital amount equal to the greater of $6.0 million or 150% of the sum of the prudential risk charges, calculated in accordance with the Prudential Standards. Credicorp Insurance has maintained target capital levels during the current and the previous financial year. Capital levels and the PCA coverage ratio are calculated and reported to the Credicorp Insurance Board on a regular basis. During the current and previous years, Credicorp Insurance has not breached any capital requirements.





# Notes to the financial statements

For the year ended 30 June 2022

### 4.14 Insurance governance and capital management (continued)

**Credicorp Insurance Pty Ltd (continued)**

*Capital management (continued)*

General insurers are required to maintain a capital base in excess of the minimum Prescribed Capital Amount (PCA), which is at least $5.0 million.

| | **2022 $m** | 2021 $m |
|---|---|---|
| PCA per APRA | **5.0** | 5.0 |
| Targeted minimum capital amount per Run-off Plan | **6.0** | 6.0 |
| Capital base | **8.9** | 9.2 |

### 4.15 Events subsequent to reporting date

Since 30 June 2022 there have been no matters or circumstances not otherwise dealt with in the Financial Report that have significantly or may significantly affect the Group.

The Group has not identified any subsequent events that would require adjustments to the amounts or disclosures in the financial statements.

# Notes to the financial statements

For the year ended 30 June 2022

## 5. Accounting policies and new accounting standards

### 5.1 Other accounting policies

**(a) Basis of consolidation**

The Group financial statements comprise the financial statements of the Bank and all of its controlled entities (the Group). Controlled entities are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

All inter-company balances and transactions between entities in the Group, including any unrealised profit or losses, have been eliminated on consolidation. Adjustments are made to bring into line any dissimilar accounting policies that may exist. The financial statements of controlled entities are prepared for the same accounting period as the Bank.

Where controlled entities have entered or left the Group during the year, their operating results have been included from the date control was obtained or until the date control ceased.

**(b) Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of an asset that takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the asset. All other borrowing costs are expensed in the period in which they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

**(c) Impairment of non-financial assets (intangible assets, property, plant and equipment and right-of-use assets)**

The Group assesses at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

**(d) Loyalty program**

The Bank participates in a Customer Loyalty Program operated by a third party. The program allows credit card holders to accumulate points when they transact with their credit card. The third party is paid for points redeemed by the credit card holders in exchange for rewards supplied. The Bank has fulfilled its obligations to the credit card holders when the points are granted and recognises revenue from the points for fees arising from the card transactions. Revenue is measured gross of the amount payable to the third party as the Bank is collecting the revenue on its own account. The amount payable to the third party is measured based on the fair value of the points and the redemption rate estimated.

Certain accounting policies have been incorporated into relevant notes under the "recognition and measurement" sections of those notes for ease of reference and to promote the usefulness of those disclosures.

**(e) Non-current asset or disposal groups held for sale and discontinued operations**

Non-current assets (or disposal groups) are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use and a sale is considered highly probable. They are measured at the lower of their carrying amount and fair value less costs to sell.

An impairment loss is recognised for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs to sell. A gain is recognised for any subsequent increases in fair value less costs to sell of an asset (or disposal group), but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale of the non-current asset (or disposal group) is recognised at the date of derecognition.

Non-current assets (including those that are part of a disposal group) are not depreciated or amortised while they are classified as held for sale. Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale continue to be recognised.





# Notes to the financial statements

For the year ended 30 June 2022

### 5.1 Other accounting policies (continued)

**(e) Non-current asset or disposal groups held for sale and discontinued operations (continued)**

Non-current assets classified as held for sale and the assets of a disposal group classified as held for sale are presented separately from the other assets in the balance sheet. The liabilities of a disposal group classified as held for sale are presented separately from other liabilities in the balance sheet.

A discontinued operation is a component of the entity that has been disposed of or is classified as held for sale and, that represents a separate major line of business or geographical area of operations, and is part of a single co-ordinated plan to dispose of such a line of business or area of operations, a subsidiary acquired exclusively with a view to resale. The results of discontinued operations are presented separately in the statement of profit or loss.

### 5.2 New accounting standards

**(a) New Australian Accounting Standards and amendments to accounting standards that are effective as of 1 July 2021**

The Group has adopted the following new and amended Australian Accounting Standards and AASB Interpretations as of 1 July 2021:

- AASB 2020-2 Amendments to Australian Accounting Standards: *Removal of Special Purpose Financial Statements for Certain For-Profit Private Sector Entities*
- AASB 1060 General Purpose Financial Statements: *Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities*
- AASB 2020-5 Amendments to Australian Accounting Standards: *Insurance Contracts*
- 2020-7 Amendments to Australian Accounting Standards: *COVID-19-Related Rent Concessions - Tier 2 Disclosures*
- 2020-8 Amendments to Australian Accounting Standards: *Interest Rate Benchmark Reform - Phase 2*
- AASB 2020-9 Amendments to Australian Accounting Standards: *Tier 2 disclosures - Interest Rate Benchmark Reform (Phase 2) and Other Amendments*

The application of these standards and amendments do not materially impact the annual consolidated financial statements.

**(b) New accounting standards and amendments to accounting standards and interpretations that are not yet effective**

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective and have not been early adopted by the Group for the annual reporting period ended 30 June 2022 are outlined below. Based on preliminary assessments and other than as disclosed below, management does not expect significant impacts to arise from these standards and interpretations subject to the Group's further detailed analysis and assessment process.

| Standard Reference: AASB 2020-3 Annual Improvements 2018-2020 and Other Amendments | Application Date: 1 January 2022*<br>Application Date for the Group: 1 July 2022* |
|---|---|
| **Nature of Change**<br>• AASB 1 – simplify the application of AASB 1 for a subsidiary that becomes a first time IFRS adopter after its parents<br>• AASB 3 – update a reference to conceptual framework, no change to accounting requirements<br>• AASB 9 – clarify fees to be included in the test for derecognition of financial liabilities<br>• AASB 116 –accounting for sale proceeds arising from production before intended use in profit or loss instead of offsetting amounts received against cost of asset<br>• AASB 137 – clarify cost to be included in the assessment of onerous contracts<br>• AASB 141 – exclude taxation cash flow in fair value measurements<br>**Impact to the Group**<br>• Management are not expecting any material impacts on the Group. | |

# Notes to the financial statements

For the year ended 30 June 2022

## 5.2 New accounting standards (continued)

### (b) New accounting standards and amendments to accounting standards and interpretations that are not yet effective (continued)

| Standard Reference: AASB 17 Insurance Contracts | Application Date: 1 January 2023*<br>Application Date for the Group: 1 July 2023* |
|---|---|

**Nature of Change**

- AASB 17 was released by the AASB on 20 July 2017. The new standard will replace AASB 4 Insurance Contracts, AASB 1023 General Insurance Contracts and AASB 1038 Life Insurance Contracts.
- AASB 17 requires all insurance contracts to be measured using a current estimate of the present value of expected cash flows to fulfil the contractual obligations. The default measurement model is based on the building blocks approach (BBA) of discounted probability-weighted cash flows, a risk adjustment and a contractual service margin (CSM) representing the unearned profit to the contract. Short duration contracts (one year or less) can apply the simplified model using premium allocation approach (PAA).

**Impact to the Group**

- Management are in the process of conducting a gap analysis to assess business and data requirements. Management are also carrying out an initial impact assessment of the new standard on the Group's insurance operations. Due to the complexity of the standard's requirements, evolving interpretation of the requirements and the proposed amendments to the standard, the impact of the standard to Group is still being determined.

| Standard Reference: AASB 2020-6 Classification of Liabilities as Current or Non-current – Deferral of Effective Date | Application Date: 1 January 2023*<br>Application Date for the Group: 1 July 2023* |
|---|---|

**Nature of Change**

- Clarifies the AASB 101 requirements for presentation of a financial liability as current or non-current.

**Impact to the Group**

- Management are not expecting any material impacts on the Group.

| Standard Reference: AASB 2021-2 Disclosure of accounting policies and definition of accounting estimates | Application Date: 1 January 2023*<br>Application Date for the Group: 1 July 2023* |
|---|---|

**Nature of Change**

- Amends a number of accounting standards to improve accounting policy disclosures and clarify the distinction between accounting policies and accounting estimates.

**Impact to the Group**

- Management are not expecting any material impacts on the Group.

| Standard Reference: AASB 2021-5 Amendments to Australian Accounting Standards - Deferred Tax related to Assets and Liabilities arising from a Single Transaction | Application Date: 1 January 2023*<br>Application Date for the Group: 1 July 2023* |
|---|---|

**Nature of Change**

- The amendments narrow the scope of the initial recognition exemption so that it does not apply to transactions that give rise to equal and offsetting temporary differences and clarify that the exemption does not apply to transactions such as leases and decommissioning obligations.

**Impact to the Group**

- Management are not expecting any material impacts on the Group.





# Notes to the financial statements

For the year ended 30 June 2022

## 5.2 New accounting standards (continued)

### (b) New accounting standards and amendments to accounting standards and interpretations that are not yet effective (continued)

| Standard Reference: AASB 2021-6 Amendments to Australian Accounting Standards – Disclosure of Accounting Policies: Tier 2 and other accounting standards | Application Date: 1 January 2023*<br>Application Date for the Group: 1 July 2023* |
|---|---|

**Nature of Change**

- The standard amends a number of other standards including AASB 1054 Australian Additional Disclosures, AASB 1060 General Purpose Financial Statements - Simplified Disclosures for For-Profit and Not For-Profit Tier 2 to disclose material accounting policy information and clarify that measurement bases for financial instruments are expected to be material to an entity's financial statements.

**Impact to the Group**

- Management are not expecting any material impacts on the Group.

| Standard Reference: AASB 2021-7a, 2021-7b, 2021-7c Effective Date of Amendments to AASB 10 and AASB 128 and Editorial Corrections | Application Date: 1 January 2022, 2023 and 2025*<br>Application Date for the Group: 1 July 2022, 2023 and 2025* |
|---|---|

**Nature of Change**

- The amendments defer the mandatory effective date of amendments to AASB 10 and AASB 128 originally made in AASB 2014-10 Amendments to Australian Accounting Standards – Sale or Contribution of Assets between an Investor and its Associate or Joint Ventures so that the amendments are required to be applied on or after 1 January 2025 instead of 1 January 2022.

**Impact to the Group**

- Management are not expecting any material impacts on the Group.

| Standard Reference: AASB 2022-1 Amendments to Australian Accounting Standards – Initial Application of AASB 17 and AASB 9 – Comparative Information | Application Date: 1 January 2023*<br>Application Date for the Group: 1 July 2023* |
|---|---|

**Nature of Change**

- The amendments add a new transition option to AASB 17 to alleviate operations complexities and one-time accounting mismatches in comparative information between insurance contract liabilities and related financial assets on the initial application of AASB 17. It allows presentation of comparative information about financial assets to be presented in a manner that is more consistent with AASB 9 Financial Instruments.

**Impact to the Group**

- Management are not expecting any material impacts on the Group.

* Designates the beginning of the applicable annual reporting period unless the Group opt for early adoption where permitted by the standard.

# Directors' declaration

In the opinion of the Directors of Credit Union Australia Ltd (trading as Great Southern Bank) (the Bank):

(a) the financial statements and notes of the Bank and of the Group as set out on pages 20 to 91, are in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the Bank's and the Group's financial position as at 30 June 2022 and of their performance for the financial year ended on that date; and

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

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

The Directors draw attention to Note 1.2 to the financial statements, which includes a statement of compliance with International Financial Reporting Standards.

Signed in accordance with a resolution of the Directors:

Nigel Ampherlaw
Chairman

Wayne Stevenson
Director

Brisbane
31 August 2022





KPMG

# Independent Auditor's Report

To the Members of Credit Union Australia Limited (trading as Great Southern Bank) (the Bank)

## Opinions

We have audited the consolidated ***Financial Report*** of Credit Union Australia Limited (trading as Great Southern Bank) (the Group Financial Report). We have also audited the Financial Report of Great Southern Bank (the Bank Financial Report).

In our opinion, each of the accompanying Group Financial Report and Bank Financial Report are in accordance with the *Corporations Act 2001*, including:

- giving a true and fair view of the ***Group's and Bank's*** financial position as at 30 June 2022 and of its financial performance for the year ended on that date; and
- complying with *Australian Accounting Standards* and the *Corporations Regulations 2001*.

The respective ***Financial Reports*** of the ***Group*** and the ***Bank*** comprise:

- Balance Sheets as at 30 June 2022;
- Income statements, Statements of comprehensive income, Statements of changes in members' funds and Statements of cash flows for the year then ended;
- Notes including a summary of significant accounting policies; and
- Directors' Declaration.

The ***Group*** consists of Credit Union Australia Limited (trading as Great Southern Bank) (the ***Bank***) and the entities it controlled at the year-end or from time to time during the financial year.

## Basis for opinions

We conducted our audits in accordance with *Australian Auditing Standards*. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Financial Report* section of our report.

We are independent of the Group and Bank in accordance with 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 (including Independence Standards)* (the Code) that are relevant to our audit of the Financial Report in Australia. We have fulfilled our other ethical responsibilities in accordance with the Code.

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## Other Information

Other Information is financial and non-financial information in Great Southern Bank's annual reporting which is provided in addition to the Financial Reports and the Auditor's Report. The Directors are responsible for the Other Information.

The Other Information we obtained prior to the date of this Auditor's Report was the Directors' Report.

Our opinions on the Financial Reports do not cover the Other Information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the Financial Reports, our responsibility is to read the Other Information. In doing so, we consider whether the Other Information is materially inconsistent with the Financial Reports or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We are required to report if we conclude that there is a material misstatement of this Other Information, and based on the work we have performed on the Other Information that we obtained prior to the date of this Auditor's Report we have nothing to report.

## Responsibilities of the Directors for the Financial Reports

The Directors are responsible for:

- preparing the Financial Reports that give a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001*;
- implementing necessary internal control to enable the preparation of Financial Reports that give a true and fair view and are free from material misstatement, whether due to fraud or error; and
- assessing the Group and Bank's ability to continue as a going concern and whether the use of the going concern basis of accounting is appropriate. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Group and Bank or to cease operations or have no realistic alternative but to do so.

## Auditor's responsibilities for the audit of the Financial Reports

Our objective is:

- to obtain reasonable assurance about whether the Financial Reports as a whole are 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 *Australian Auditing Standards* will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the Financial Reports.



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

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KPMG

Scott Guse

*Partner*

Brisbane

31 August 2022


**Credit Union Australia Ltd (trading as Great Southern Bank)**
ABN: 44 087 650 959
AFSL: 238 317
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Brisbane QLD 4000

**Credicorp Insurance Pty Ltd**
ABN: 50 069 196 756
AFSL: 238 335
Registered office:
Level 27, 300 George Street,
Brisbane QLD 4000

**CUA Management Pty Ltd**
ABN: 60 010 003 853
AFSL: 221 896
Registered office:
Level 27, 300 George Street,
Brisbane QLD 4000

Great Southern Bank

greatsouthernbank.com.au

Great Southern Bank, a business name of Credit Union Australia Ltd
ABN 44 087 650 959 AFSL and Australian Credit Licence 238317.