2023

ANNUAL REPORT

Great Southern Bank

About our front cover

Bringing our purpose to life

This year we helped 3,899 Australians buy their own home through the Federal Government's Home Guarantee Scheme. We're proud to have helped Australians like Isobella Perry (28) and Keenan Ellis (26) who accessed the Scheme's new Regional First Home Buyer Guarantee to purchase their home in Broken Hill, in the far west of New South Wales. The couple fell in love with the heritage stylings as well as the open fireplace in the living room. Looking forward, Isobella and Keenan hope to raise a family in their home.

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Delivering on our purpose is underpinned by a commitment to doing business responsibly.

Overview

About Great Southern Bank

For over 75 years, we've been putting our customers first, and today we support more than 400,000 Australians with their banking. We are available to support our customers via digital channels, our Australian based call centre, branch network and via the mortgage broker channel.

While we have changed our name to Great Southern Bank, we remain customer-owned and firmly focused on helping all Australians own their own home. Delivering on our purpose is underpinned by a commitment to doing business responsibly, in ways that benefit our customers, communities, team members and the environment.

About this report

Our 2023 Annual Report provides an overview of our financial and non-financial performance for the period 1 July 2022 to 30 June 2023. This is the first year of transitioning our Annual Report towards aligning to the International Integrated Reporting (IIRC) Framework, enabling us to better demonstrate our positive impact and value we create for our stakeholders. This includes bringing together documents which have historically been separate, including **Our Impact** and the **Climate-Related Financial Disclosure (TCFD) statement**.

Over the next few years readers will see our report further evolve as we continue to mature our understanding of the inputs that help us to create value for customers, team members, the community, our partners and the environment.

Acknowledgement of Country

We acknowledge the Traditional Custodians of the lands on which we operate and pay our respects to Elders past and present, and to emerging community leaders. We also acknowledge the important role Aboriginal and Torres Strait Islander peoples continue to play within the communities in which Great Southern Bank operates and where our team members reside. Our head office is located in Meeanjin, Brisbane, on the lands of the Turrbal and Jagera peoples.

Key highlights

Financial

	2023	2022
Group Net Profit After Tax	$44.5m	$70.5m (includes the sale of CUA Health)
Total lending	$16.0B	$15.0B
New lending to first home buyers	$1.36B	$1.31B

Customers

Number of active customers	401,000	382,000
Number of times savings products in top 5 market rates[1]	92	–
Average amount saved by our home loan customers per year (compared to Big 4 banks)[2]	$1,256	$1,182

Workplace

Gallup employee engagement score[3]	4.47	4.39
Senior leadership roles held by women	47%	52%

1. Based on a weekly survey of Home Saver and Goal Saver in the ongoing bonus rate category, eSaver Flexi in the flat rate savings category and Youth eSaver in the youth category, benchmarked against comparable products offered by competitors.
2. Source: www.canstar.com.au, Great Southern Bank - Home loan cost comparison to major banks, August 2023.
3. Employee engagement is measured by Gallup as a GrandMean out of 5. The 2023 result is above Gallup's criteria to be considered an "Exceptional Workplace" (4.40), placing us in the top 78th percentile globally.

Our purpose and values

In 1946, a group of people met in a small Sydney room to discuss how to help people often ignored by the biggest banks, forming Australia's first credit union.

These humble beginnings were followed by several decades of mergers, which saw over 170 smaller credit unions ultimately come together to evolve into today's Great Southern Bank.

More than 75 years later, the direction those founders provided – the drive to provide a better, fairer way to bank – remains at our core. It's reflected in the way we operate, the award-winning products we provide, and how we put our customers at the heart of everything we do.

Our customers are our owners, which means we strive to deliver benefits to them, rather than to shareholders. It means our attention is on the benefits we deliver for our customers, rather than shareholders.

Today, we focus on what we believe is one of the greatest challenges to our nation – our purpose is to help all Australians own their own home.

Our purpose

Helping all Australians own their own home

Our values

To help us deliver on this purpose, our team are guided by four core values:

Growth
Challenging ourselves to innovate, adapt and grow

Customer obsessed
Keeping the customer in mind in everything we do

Impact
Being accountable for delivering impactful solutions for our customers

Genuine
Being genuine and inclusive

A message from our CEO and Chairman

In a year of increasing financial challenges for many Australians, we have continued to be guided by our purpose and by our founding principles and values as a customer-owned bank.

Our purpose – we're here to help all Australians own their own home – is the north star that provides our direction and shapes our goals. Our principles ensure that we have our customers' interests at the heart of everything that we do.

As our customers and communities have been impacted by rising rents and house prices, inflation and the increasing cost of living, we've stayed focused on how we, as a bank, are best able to help them to achieve their goals.

Supporting our customers and our community with impact

We continue to support customers who need our help, and further embrace our responsibilities towards the community and the environment.

We supported 2.9% of all Australian first-time buyers with lending, which is more than three times our overall home lending market share. Much of that lending has been provided through the Australian Government's Home Guarantee Scheme, which is helping so many Australians to save on upfront costs so they can get into a home sooner with a smaller deposit.

We also provided $2 million in long-term financing to not-for-profit housing provider National Affordable Housing (NAH) to support more Victorian households to buy a home via the BuyAssist shared equity program. And we are providing value to customers – Canstar found our home loan customers saved an average of $1,256 in the 12 months to June 2023 by having their home loan with us rather than one of the Big 4 banks.[2]

The current economic environment has impacted many of our customers. We created over 25,000 payment plans to help customers who needed additional flexibility in their loan repayments. While our home lending arrears rates remain low compared to the industry average, we stand ready to help our customers where required.

We launched our second Build Financial Inclusion Action Plan (FIAP) to improve the financial wellbeing of customers, team members and communities, and completed all 35 actions from our inaugural Reflect Reconciliation Action Plan (RAP). Both the FIAP and RAP connect closely to our purpose by empowering stakeholders, including First Nations peoples, to live in a more financially secure environment, with greater control over their choice of home. We are currently preparing our second Innovate RAP, which we hope to launch in the coming months.

To help deliver on the commitments in our FIAP, we signed a partnership with Mission Australia through which we'll invest $1 million over the next three years to help hundreds of community housing tenants cut their utility bills and reduce their carbon emissions. We made further progress towards reaching net zero emissions by 2040 – a key commitment in our Climate Action Plan - and retained our carbon neutral certification under Climate Active. We also developed green personal loans to help customers purchase emissions-cutting technology for their home and electric and hybrid vehicles.

Building a sustainable business

To be able to continue to support our customers and community, we need to grow a profitable, sustainable business.

We continue to grow our support for Australians looking to own their own home, with the total value of our home loans increasing by 6.6% to $15.58 billion.

Our total retail deposits increased by 9.0% to $13 billion, as more customers were attracted by our term deposit and savings account rates, as well as by our ethos as a customer-owned bank. During the financial year, our key savings products were in the top five market rates over 90 times.[1]

We made a net profit after tax of $44.5 million, a figure in line with average pre-COVID profits, while continuing to deliver service improvements, strong support for customers seeking competitive banking products, and solid customer growth. These profits are ultimately reinvested back into the bank for the benefit of our customers, and to ensure our continued sustainability in a challenging external environment.

In line with the best traditions of customer-owned banking, we are also investing in the development of a new digitally-led banking proposition to support the many Australian small businesses who have historically been under-served and largely ignored by the biggest banks. Through the partnership we announced with fintech Constantinople earlier this year, we are working towards rolling out a simple, intuitive banking alternative for small business in the 2024 financial year.

And finally, we believe our customer service is at its best when our team is highly engaged. We're really pleased to have reached a new milestone in our employee engagement score, as measured by Gallup, placing us among the top quartile of all organisations globally. The focus on building an engaged workforce also saw us recognised in the *AFR Boss* Best Places to Work list for 2023.

A better future

These results reflect our best efforts to honour the principles and values we were founded on over three quarters of a century ago – to serve the customers who own us, to help those who have been financially excluded, and to make a positive impact on our communities, our team members and the environment.

We look forward to introducing more Australians to customer owned banking, and continuing to evolve to meet the needs of future generations.

Paul Lewis
Managing Director and Chief Executive Officer

Nigel Ampherlaw
Chairman

Our impact

Our customers

As a customer-owned bank, customers are at the heart of everything we do. We are committed to helping our customers to become homeowners, in line with our purpose, and to supporting them through their banking journey.

Helping homebuyers

- We issued $4.47 billion in new lending to homebuyers.
- We helped 4,960 first home buyers to purchase a home in FY23 with a total lending of $1.36 billion.
- We increased our market share for first home buyers to 2.88%, around three times our overall market share.

Delivering award-winning products

- Most Recommended First Home Buyer Loan in the 2023 DBM Australian Financial Awards.
- Everyday and Savings Bank of the Year in the Mozo Experts' Choice Awards 2023.
- Canstar Customer Owned Bank of the Year for Savings and Everyday Banking (2022).

Providing value to customers

- Canstar research showed our home loan customers made an estimated average saving of $1,256 during the year to June 2023 by having their loan with us, rather than one of the Big 4 banks - an extra $74 in annual savings compared to the previous 12 months.[2]
- Our four most popular savings accounts were ranked in the top 5 market rates a total of 90 times across the year.[1]

Key metrics	FY23	FY22
Net Promoter Score (NPS) [4]	19	30
New active customers	46,818	36,051
Customers supported via Home Guarantee Scheme	3,899	2,200
New lending to first homebuyers	$1.36 billion	$1.31 billion
Approved financial assistance agreements	2,309	1,609
Individual payment plans approved (includes hardship & collections)	25,131	19,970
Referrals accepted for CareRing assistance	128	197
Internal Dispute Resolution complaints resolved within 21 days	94.6%	95.4%

4. Our Net Promoter Score – or the likelihood that our customers will recommend us - dipped this year but remains strong at around twice the average of the Big 4 banks.

CASE STUDY

Overcoming challenges to become homeowners

Living in Melbourne's western suburbs, Kayla and Stacey (pictured below) know how hard it can be to start a young family and buy a home.

"We thought we were years off buying," says Kayla. "We'd spent the deposit we'd built on IVF, and the ongoing costs of having kids and paying rent made it really hard to save for a deposit.

"The only reason we were able to buy was the 5% deposit scheme [Home Guarantee Scheme]. We went to Great Southern Bank and they approved the loan we needed."

Now parents to three-year old twins and new owners of a three-bedroom house, Kayla says it was all worth it.

"We've just been so lucky," says Kayla.

Supporting customers experiencing vulnerability

- We supported around 25,000 customers with payment plans and hardship arrangements across the year.
- We extended support to customers impacted by flooding in October 2022 across Victoria, NSW and Tasmania.
- We strengthened processes across our business to meet the 180 commitments set out in the new Customer Owned Banking Code of Practice.

Our team members

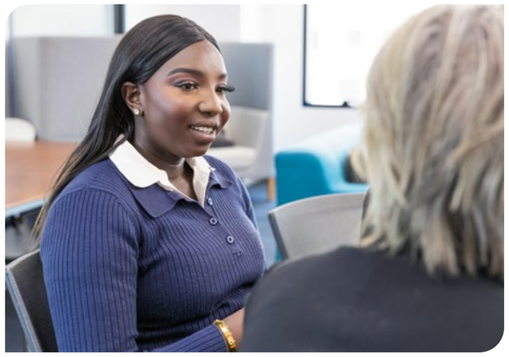
Our team members are passionate about our purpose and what it means to be customer-owned. A highly engaged team enables us to better serve our customers. That's why we are focused on fostering a great place to work, with a strong focus on diversity and inclusion and continuous learning to help our team members grow – personally and professionally.

Creating impact and being a force for good

- Recognised as one of the top 10 *AFR Boss* Best Places to Work in Australia and New Zealand for 2023 in the Banking, Superannuation and Financial Services Sector.
- Achieved an engagement score in the top 25% of Gallup workplaces globally, surpassing the threshold to be considered an 'exceptional workplace'.
- 89% of team members agree or strongly agree that our purpose makes them feel their job is important.
- Relocated to 5-star energy rated offices in Brisbane and Melbourne, purpose-designed to support our embedded flexible and hybrid working practices.

Supporting diversity and inclusion

- Recognised by the Diversity Council of Australia as an inclusive employer for 2023.
- Key events celebrated across the business including Harmony Week, Pride Month, National Reconciliation Week, NAIDOC Week.



Key metrics	FY23	FY22
Employee engagement [3]	4.47	4.39
Senior leadership roles held by women	47%	52%
Board roles held by women	43%	29%
Total Board remuneration	$1.40 million	$1.25 million

CASE STUDY

Attracting top talent

Mel O'Meara (pictured below) looks like she's on the fast track. As part of our Graduate Program in 2021, Mel enjoyed the opportunity to rotate through several different areas of the business before finding a place to thrive as part of our customer research team.

There she helps us understand the needs of our customers and build a better bank. After working there for less than 12 months, Mel was named Young Researcher of the Year at the national 2022 Research Society Awards.

"I love research because it's about problem solving," says Mel. "It sets you up with a way of thinking that's incredibly helpful with whatever direction you take your career in.

"I'm excited about what problems I might need to solve for Great Southern Bank next, even if I don't know what they might be yet."

Helping our team to boost their careers

- Almost 700 team members participated in 31 events during our annual Learning Week.
- 8 graduates joined the business through our Graduate and Internship Program, across disciplines including finance, business, computer science, psychology and mathematics.
- Our Mentorship Program grew from 33 to 94 pairings, with 18% of our team members currently involved in the program as a mentor or mentee.

Our community

We believe all Australians should have access to affordable and stable housing. We are taking action to help achieve this through our commitment to financial inclusion, reconciliation and partnering with like-minded community housing organisations.

Supporting affordable and stable housing

- We provided $2 million in long-term financing to not-for-profit housing provider **National Affordable Housing (NAH)**. The financing will support more Victorian households to buy a home via the BuyAssist shared equity program, without needing to save for a deposit.

Building financial inclusion

- We launched our second **Financial Inclusion Action Plan (FIAP)** in June 2023, with more than 40 practical actions to improve the financial wellbeing of customers, team members and communities.
- We extended our **CareRing** pilot, enabling customers experiencing financial vulnerability to access free, year-round wrap-around support including financial counselling. 128 customers were referred in FY23, taking the total to 401 referrals since the pilot began in 2021.

Key metrics	FY23	FY22
Investment to support our community objectives	$1.47m[5]	$1.28m

Walking the path towards reconciliation

- We completed all actions from our inaugural **Reflect Reconciliation Action Plan (RAP)** including:
  - ✓ Introducing cultural awareness training, with 582 team members completing training with Evolve Communities.
  - ✓ Installing Acknowledgement of Country plaques in all our branches to recognise the Traditional Owners.
  - ✓ Partnering with **Clontarf Foundation** and **Stars Foundation** to support the education of First Nations students.
- We provided funding to help support the **Business Council of Cooperatives and Mutuals (BCCM)** to develop a Reflect Reconciliation Action Plan (RAP) for BCCM and the wider co-op and mutual sector.
- We have partnered with **Queensland Cricket** (the Brisbane Heat BBL/WBBL teams) and **Carlton Football Club** to share knowledge and experiences around reconciliation, diversity and inclusion.

5. FY23 figure includes management costs.

CASE STUDY

Investing in energy efficiency upgrades for community housing

Great Southern Bank has teamed up with Mission Australia in a new community partnership aimed at cutting utility bills for hundreds of Australians living in community housing.

Over the next three years, we will invest $1 million to fund energy and water efficiency upgrades across hundreds of properties managed by Mission Australia along the eastern seaboard.

"Rising utility bills put immense pressure on everyone on a fixed or low to medium income. Through Great Southern Bank's generosity, hundreds of our tenants will now be able to access technology such as solar panels, insulation, water, and energy meters, potentially saving hundreds of dollars annually," said Mission Australia CEO, Sharon Callister.

The new partnership is the centrepiece of our second Financial Inclusion Action Plan (FIAP) and reinforces our commitment to climate action.

Our partners

In FY23, we've delivered a range of positive outcomes through partnering with groups including industry bodies, technology providers and mortgage brokers.

Investing in technology to benefit customers

- We announced plans to launch a digitally-led banking offering to cater to small businesses – specifically nano and micro businesses employing less than 4 people. The offering is being developed using proprietary technology developed by fintech and equity partner **Constantinople**.
- We received global recognition as a **Celent Model Bank** for 2023, awarded to banks for promoting innovation, building better customer experiences and creating stronger businesses.
- We partnered with payments provider **Cuscal** to become the first bank in Australia to launch new payments technology **PayTo**, giving customers a simple and secure digital alternative to direct debits.

Encouraging responsible partnering

- We have incorporated ESG criteria into our evaluation of potential suppliers for all contracts valued at over $500,000. The aim is to implement this across our procurement processes for all relevant contracts over the next 12-18 months.
- We have evolved our supply chain to include more First Nations suppliers, like **Orana Commercial Relocations** and **Born Digital Solutions** (see case study).
- We strengthened our commitments around modern slavery to assess and manage risks across our operations, supply chain and investments.

Growing our broker network

- We joined **Lendi Group's** lending panel, introducing our brand to more than 1,300 additional brokers nationally. We have substantially increased our network to reach over 6,200 brokers and support more Australians to become homeowners.
- We were awarded the **Mutual Bank of the Year** in the Resimac Mortgage Business Awards.

Advocating for reform with industry peers

- We joined the **Customer Owned Banking Association (COBA)** for their annual **Hike the Hill** political advocacy event at Parliament House in Canberra. Collectively the sector met with around 50 politicians and policy makers to highlight the value of customer-owned banking.
- CEO Paul Lewis gave evidence about the need for greater competition in banking to a **House of Representatives Standing Committee on Economics inquiry**. He appeared when the Inquiry into Promoting Economic Dynamism, Competition and Business Formation visited Toowoomba in June 2023.

CASE STUDY

Partnering for impact

Over the past year, we have taken deliberate steps to diversify our supply chain to better reflect our customer base and the communities in which we operate.

This has included working with more First Nations businesses like Born Digital Solutions (pictured left), a 100% Indigenous-owned organisation providing automation consulting work.

"It's wonderful to see Great Southern Bank actively seeking to work with more First Nations businesses," says Tony Kljucevic, Managing Director at Born Digital Solutions.

"As a relatively small business in the technology space, we certainly appreciate the opportunity to demonstrate our capabilities and building a fruitful working relationship that ultimately benefits both parties."

Through the partnership, the automation team delivered 24 projects that collectively helped Great Southern Bank achieve $3m in savings during FY23.

Key metrics	2022	2021
Small business invoices paid within 30 days[6]	82.4%[7]	83.3%

6. Reporting is based on the calendar year to 31 December 2022. The values reported are inclusive of small business invoices paid by Great Southern Bank, and via our procurement partner Mutual Marketplace Pty Ltd. Payment Times Reporting is submitted to the regulator every 6 months.
7. 74.9% of invoices were paid within 30 days by Great Southern Bank (2021: 75.4%). Of all goods/services paid by Great Southern Bank, less than 1% are to small businesses.

CASE STUDY

Offsetting our emissions and supporting local communities

Great Southern Bank has made a strong commitment to reducing our environmental footprint and responding to the changing climate.

We are well underway in working on strategies to help us reach net zero by 2040 – 10 years ahead of the commitments contained in the Paris Agreement. But in parallel, we are also committed to maintaining our annual Climate Active certification to be carbon neutral – something we first achieved in 2021.

In FY23, our offsetting program included two key initiatives - Aboriginal traditional fire management in Northern Australia (Arnhem Land Fire Management) and renewable energy projects supporting rural communities in India (Renewable Wind Energy India).

Together, these projects offset our operational emissions in FY23.

Importantly, they are also delivering economic and social benefits to local communities, supporting our commitment to financial inclusion, reconciliation and the UN Sustainable Development Goals.

CREDIT: David Hancock Photography

The environment

Climate change is one of the most significant challenges of our time. We must evolve our business operations to respond to the emerging environmental risks. We are also focused on better understanding, and mitigating, the environmental risks for our customers that result from our activities as a bank.

Implementing our Climate Action Plan

- We submitted our near-term science-based targets to the **Science Based Targets initiative (SBTi)** for validation, in line with global standards.
- We achieved **Climate Active** certification for 2022 for our business operations.
- We removed consumables from the Brisbane office, helping us to decrease our Scope 3 emissions. We reduced the printed copies of our Annual Report in 2022 by 90%.
- We developed new products to incentivise customers to adopt renewable energy and improve energy efficiency.
- We have engaged with landlords and energy providers, allocated budget and developed a transition roadmap to help us achieve our goal of 100% renewable energy for our offices and branches by 2030.

Partnering for impact

- We became a signatory to the **Business Council of Cooperatives and Mutuals' Declaration of Climate Action**.
- We partnered with **Ndevr Environmental** to support the delivery of our climate related commitments.
- We partnered with **Tasman Environmental Markets (TEM)** to help offset operational emissions and maintain our carbon neutral status.

Key metrics	FY23	FY22
Total operational greenhouse gas emissions	6,631 tonnes of CO_2-e	7,066 tonnes of CO_2-e
Carbon offsets retired	6,631 tonnes of CO_2-e	7,066 tonnes of CO_2-e
Emissions reduction achieved	435 tonnes of CO_2-e	60 tonnes of CO_2-e

What matters most to our stakeholders

Being customer-owned means understanding and responding to what matters most to our customers and other key stakeholders.

Through regular Materiality Assessments, we engage with internal and external stakeholders to identify and prioritise the environmental, social and governance (ESG) risks and opportunities of most significance to our business.

Conducting formal assessments of this kind helps us make more informed decisions that better reflect the priorities of the organisation and the increasing ESG expectations of our stakeholders. The results inform our strategy, decision-making, work programs, targets and external reporting.

Our latest Materiality Assessment was carried out in 2022 and is the first such assessment since the Bank's rebranding. The top 5 issues highlighted were similar to those revealed in our previous assessment two years earlier. The main change was the increasing importance placed on data privacy and security, which was previously outside the top 5 most material issues. This change coincides with numerous events in the external environment which have placed more public and government focus on cyber security and privacy generally.

Top 5 material topics and how we're responding

What matters most to our stakeholders	How we responded
1. Data privacy and security Protecting customers by managing the risks related to the collection, retention and use of sensitive and confidential customer data.	• We continue to make significant investments in cybersecurity to protect our customers from new and emerging online threats. • In response to more frequent cyberattacks within Australia, we have increased surveillance, resourcing and monitoring to detect fraudulent activity. • We have placed an increased focus on educating customers to help them identify and reduce the risk of scams, and continue to invest in identifying new scams.
2. Customer welfare Ensuring customers can access products and services that genuinely meet their needs and are aligned with their expectations.	• We subscribe to the **Customer Owned Banking Code of Practice** and seek to outline clearly and transparently what customers can expect when dealing with Great Southern Bank. • We capture real customer feedback through our **Voice of Customer (VoC)** program every day and use these insights to continuously improve experiences for our customers. • We have a dedicated **Seniors Hotline**, with a specialist team trained to assist with inquiries from customers who may need additional assistance.
3. Climate risk Adapting to and proactively addressing the physical and transitional risks and opportunities of climate change for our business and our customers.	• We developed a **Climate Action Plan (CAP)** including setting science-based targets to reach net zero by 2040, 10 years ahead of the Paris Agreement. • We are responding to changing stakeholder expectations by publishing an annual **Climate-Related Financial Disclosure (TCFD)** to identify, manage and disclose our climate risks. See page 26.
4. Responsible lending practices Taking a responsible approach to lending that balances the needs of customers with manageable repayments to avoid financial difficulty.	• Our commitment to providing fair and affordable finance includes offering customers loans that meet their individual circumstances and ability to repay. • We rigorously test loan serviceability among our home loan customers and our arrears rates are consistently lower than most of the market. • Our teams are ready to help our customers who get into difficulties with their loan repayments. In FY23, we helped around 25,000 customers with payment plans and hardship arrangements.
5. Financial inclusion Improving the financial capability of unbanked, underbanked or underserved customers and providing them with access to affordable and appropriate banking products and services.	• We launched our second **Financial Inclusion Action Plan (FIAP)**, defining more than 40 practical actions the bank will take over the next two years to improve the financial wellbeing of its customers, team members, and the communities we serve. • We developed a new **Vulnerability Standard** to help guide our approach to supporting customers experiencing vulnerability, beyond just products and services, including extending our successful **CareRing** referral pilot program. • Our commitment to financial inclusion includes helping secure better social and financial outcomes for First Nations peoples, which we will continue to do through our **Innovate Reconciliation Action Plan (RAP)**, to be published by the end of 2023.

External operating environment

The external environment in which we operate presents a range of challenges and risks that we must respond to, in order to be able to effectively deliver on our purpose and provide consistent, reliable and trusted everyday banking services to our customers.

Risk	How we are responding
Changing economic environment During the past 12 months, Australia has experienced high inflation and cost of living pressures, falling property prices and increasing rental costs. These economic conditions may make it more difficult for many Australians to purchase – and own - their own home, and also increase the risk of some customers falling into hardship.	• We helped 3,899 customers to buy a home during the year through the Australian Government's Home Guarantee Scheme. • We provided $2m in long-term financing to National Affordable Housing, enabling more Victorians to buy a home with no deposit through the BuyAssist shared equity program. • We work with our customers before, during and after a loan is agreed to help them manage their loan commitments. • When assessing loan applications, we rigorously assess the ability for customers to service, or repay, the loan. Our arrears are low compared to the industry at 0.24% of our home loan book, an increase of 0.03% over the year. • We created over 25,000 flexible payment plans to help customers who needed support. • Customers are provided with free independent financial advice, family violence support and other holistic services through CareRing.
Volatile macroeconomic conditions and funding costs As global conditions remain volatile and monetary policy in Australia impacts the performance of the domestic economy, we will see impacts to funding costs in both retail and wholesale markets. In this economic context, it is important to consider how market volatility may impact our credit ratings, liquidity and funding costs.	• We maintain a resilient and diversified funding structure, with around 70% coming from retail deposits and the remainder from a range of sources within wholesale markets. • We have set aside provisions to ensure we are positioned to respond to potential increases in customers experiencing hardship. • We have a strong credit rating of Baa1 (Stable) with Moody's and BBB (Positive) with S&P and maintain robust strategies and strong financial risk management to help us maintain this position. • We have a strong total capital adequacy ratio of 14.57%, which is significantly above the minimum capital level required by APRA.

Risk	How we are responding
Environmental risks Climate change is an ever-present risk to local communities, with the potential to materially impact the ability for more Australians to afford to purchase, maintain and insure their home. Against this backdrop, customers, communities and stakeholders such as regulators increasingly expect greater engagement and action from companies, including banks, on climate change issues.	• We are committed to being net zero by 2040, and sourcing 100% renewable energy for our offices and branches by 2030. • Last year, we maintained our carbon neutral certification for our operations through Climate Active by offsetting 6,631 thousand tonnes of our emissions. • ESG requirements are included within our procurement and sourcing processes. • We are responding to changing stakeholder expectations by identifying, managing and disclosing our climate risks annually through our Taskforce for Climate-Related Financial Disclosures report. This forms part of the Annual Report from page 26.
Cyber and financial crime risks In the past 12 months, Australia has seen an increase in the frequency and sophistication of cyber attacks, as well as scams targeting consumers. Keeping our networks and systems secure and ensuring our customer's bank accounts and data are safe, are absolute priorities for us.	• We continue to make significant investments in cybersecurity to protect our customers from new and emerging threats. • We partner with external providers to provide 24 x 7 IT security monitoring and to enable customers to report suspicious transactions. • We actively participate in industry forums to share knowledge on cybersecurity and financial crime, including talking to government around opportunities for clearer or stronger legislation and improved regulation of data security across all sectors. • We regularly email customers to highlight the increased risks posed by cyber attacks and scams, and we post educational content and warnings on social media about new or emerging scams.
Attracting and retaining talent There are significant challenges in the post-pandemic economy in attracting and retaining people across all levels and professions within financial services. The search for talent in our sector is compounded by continued skills shortages and record low unemployment.	• We have invested further in our Talent Acquisition capability, focusing on increasing talent attraction and retention. • Almost 700 team members participated across 31 sessions held during our annual Learning Week. We also offer graduate and internship programs, mentoring and subsidised professional association memberships. • We've rolled out initiatives to improve team member wellbeing and promote healthy and sustainable ways of working. Our 'healthy, hybrid ways of working' earned us recognition in the *AFR Boss* Best Places to Work list for 2023. • We recorded an annual Gallup employee engagement score of 4.47 in June 2023, which places us in the top quartile of Gallup organisations globally and surpasses the threshold for us to be recognised as an exceptional workplace.

Climate-related financial disclosure

Our approach to climate change

Our approach to climate change aligns closely with our purpose of helping all Australians own their own home. After all, a house may not feel like a home without a safe environment and thriving community around it.

Great Southern Bank continues to prioritise climate action, recognising that we need to act now. Through our 2022-24 Climate Action Plan, we have committed to actively managing the physical and economic impacts of climate change on the environment, as well as our business, customers and community.

We have chosen to focus on four key areas:

- Commit to climate action
- Build recovery and support resilience
- Manage climate risk
- Partner for impact

These are the areas where we believe we can deliver the biggest impact and where we can best connect climate action to the needs and expectations of our customers, and the priorities of our organisation. Our 2022-24 Climate Action Plan includes a commitment to achieve net zero emissions by 2040, 10 years earlier than the timeframe set by the Intergovernmental Panel on Climate Change (IPCC) Global Warming of 1.5°C Special Report.[1]

We believe it is important to disclose and clearly demonstrate the steps we are taking to achieve our commitments and manage our climate-related financial impacts. We support recommendations made by the Taskforce on Climate-related Financial Disclosures (TCFD)[2] and have used their framework to help guide our approach to this section of our report.

The TCFD provides a global framework for companies to communicate to investors, lenders and insurers about how climate change is expected to impact their business and how they are responding. It includes four key areas – Governance, Strategy, Risk Management and, Metrics and Targets.

Great Southern Bank released its first Climate-Related Financial Disclosure in 2022 using the global framework developed by the TCFD.

This year's disclosure builds on last year's and includes key activities undertaken between 1 July 2022 and 30 June 2023, as well as updated metrics and targets.

Financial year highlights 2023

SUBMITTED
near-term emissions reduction targets to the Science Based Targets initiative (SBTi) for validation.

COMPLETED
measuring and reporting total, operational and financed emissions.

COMPLETED
physical climate risk financial stress test on our mortgage portfolio.

MAINTAINED
carbon neutral certification under the Climate Active Carbon Neutral Standard.

COMPLETED
enterprise-wide climate risk-assessment, based on collaborative work led by Great Southern Bank for the customer-owned banking sector.

1. IPCC Global Warming of 1.5°C Special Report, 2018, https://www.ipcc.ch/sr15/
2. See more information on the TCFD and its recommendations in our 2022 Climate-Related Financial Disclosure, at https://www.greatsouthernbank.com.au, and the TCFD website at https://www.fsb-tcfd.org/

Governance

Board

Through the Board Risk Committee, the Board has oversight of the bank's climate-related risks and opportunities and how these issues are managed.

The Committee is updated twice yearly on key strategic and financial risks as well as the actions being taken by the bank now or proposed for the future. Climate-related risks and opportunities are included within these updates where appropriate.

In FY23, the Committee approved the outcome of the bank's first physical climate risk financial stress test on our mortgage portfolio. They also received a separate, dedicated climate-related update including an overview of industry developments, a summary of climate-related work completed by the bank during the year, and a roadmap of activity planned for FY24.

An external consultant also presented to the Board on climate-related disclosure frameworks, including the inaugural International Financial Reporting Standards (IFRS) S1 and S2 standards issued by the International Sustainability Standards Board (ISSB), and efforts to harmonise climate-related reporting requirements internationally.

Executive team

Great Southern Bank's executive team, led by our Chief Executive Officer and supported by several Executive-level committees, are accountable for climate-related matters. Together, they continue to embed climate change into our risk management, business strategy, planning and budgeting processes.

Emerging risks related to climate change are monitored by the executive team, supported by the Enterprise Risk Committee. Where required, material issues and decision-making are escalated to the Board Risk Committee.

The Chief Customer Officer and Chief Risk Officer are responsible for the review and implementation of the TCFD recommendations. They also oversee the steps the bank is taking to meet the commitments made in our 2022-2024 Climate Action Plan.

This year, the Enterprise Risk Committee oversaw our climate risk assessment while the Assets and Liability Committee supervised our physical climate risk financial stress test on our mortgage portfolio, including scope, financial impact and next steps.

The executive team also had oversight of the development of a new community partnership and new products we will launch in FY24, collectively aimed at promoting the uptake of renewable energy and improving energy efficiency for customers and community members.

This year, as we did last, we engaged external climate change experts to support the delivery of our climate-related commitments.

Review and outlook

During the year, we also engaged an external consultant to review our climate governance to ensure our management of climate-related risks and opportunities aligns with global best practice, including draft standards from the ISSB and the TCFD framework.

In June 2023, in line with recommendations from this review, our Board approved the establishment of a dedicated Board Committee to build upon the Board's existing governance of ESG matters. Beginning September 2023, this Committee will be responsible for overseeing Great Southern Bank's climate-related matters, including risks and opportunities, metrics, targets and measuring progress against commitments on a quarterly basis.

Strategy

Great Southern Bank has made responding to climate change a priority within our sustainability strategy and broader business.

We assess climate-related risks and opportunities on an ongoing basis to help make well-informed and evidence-based strategic decisions on behalf of the bank, our customers and the community.

Our 2022-2024 Climate Action Plan articulates our commitment to achieving net zero emissions by 2040, with clear and meaningful emission reduction strategies, and transparency in the way we report our progress to our stakeholders.

We will review and refine our plan over time to ensure our emission reduction targets and other commitments remain meaningful, relevant, aligned to the latest climate science, and in the best interest of our stakeholders.

Table 1 maps out the progress we have made during FY23 against each of the key focus areas within our 2022-2024 Climate Action Plan.

Table 1

Progress against 2022-2024 Climate Action Plan

Actions in progress · Ongoing actions · Not yet commenced

COMMITMENT		STATUS	ACTIONS COMPLETED IN FY23
Commit to climate action	Align our GHG emission reduction targets with the Paris Agreement.	In progress	• Submitted near-term science-based targets for our operational emissions (Scope 1 and 2) and financed emissions (Scope 3, Category 15) to SBTi for validation (Metrics and Targets, p. 38).
	Source 100% renewable energy for our offices and branches by 2030.	In progress	• Engaged with relevant landlords and/or energy providers, allocated budget and developed a transition roadmap.
	Be net zero by 2040.	In progress	• Monitored the release of a net zero standard for financial institutions by the SBTi. • Integrated ESG criteria into procurement processes and developed new products to incentivise customers to adopt renewable energy and improve energy efficiency.
	Maintain carbon neutral certification under the Climate Active Carbon Neutral Standard for Organisations.	Ongoing	• Maintained our carbon neutral certification for our business operations in FY22 (Metrics and Targets, p. 38).
	Enable our team members to become agents of change.	Ongoing	• Key team members developed technical knowledge and skills through setting science-based targets and contributing to the climate risk assessment and physical climate risk financial stress test. • Key team members participated in the 2023 United Nations Global Compact Climate Ambition Accelerator program. • Key team members participated in sustainability-related events and conferences. • Raised awareness and delivered behavioural change campaigns to all team members, including a Paper Lite initiative and World Environment Day.
Build recovery and support resilience	Support our customers' access to housing upgrades that increase their physical resilience to extreme weather events.	In progress	• Engaged an insurance partner to help us understand which housing upgrades are likely to be most effective in increasing the physical resilience to extreme weather events.
	Promote affordable energy efficiency and the adoption of renewables.	In progress	• Developed two new personal loan products to incentivise customers to adopt renewables and invest in energy efficiency measures, including the purchase of electric and hybrid vehicles, solar panel systems, home battery storage, solar hot water systems and heat pumps. These will be launched to customers in FY24.
	Advocate for our customers to maintain appropriate levels of home and contents insurance.	In progress	• Engaged an insurance partner to scope the tools and resources required to help customers determine appropriate levels of home and contents insurance.
	Identify opportunities for the bank and our team members to support disaster responses.	In progress	• Commenced a review of existing employee giving opportunities available to team members, including donating, fundraising and volunteering. Allocated annual disaster relief budget for extreme weather events.
Manage climate risk	Embed climate risk governance across our business.	In progress	• Established internal and external governance to support our 2022-2024 Climate Action Plan. • Monitored for sustainability-related regulation, including greenwashing and climate-related financial reporting.
	Understand and manage climate risks and risk scenarios to ensure we are a sustainable bank for our customers today and in the future.	In progress	• Developed enterprise-wide climate risk register, including physical, transition and liability risks. • Conducted stress testing to determine the potential financial impact of physical climate risks on our mortgage portfolio (Strategy, p. 34).
	Report annually against the TCFD framework.	Ongoing	• Prepared 2023 Climate-Related Financial Disclosure based on the TCFD framework for inclusion in Great Southern Bank's 2023 Annual Report. • Engaged an external consultant to conduct pre-assurance over our FY22 climate-related metrics to strengthen our climate-related disclosure and prepare us for seeking limited assurance.
Partner for impact	Strategically partner with community, industry, NGOs and government to advance tangible climate action.	Ongoing	• Established a new community partnership with the goal to reduce emissions generated from community housing by adopting renewables and improving energy efficiency. This will be launched in FY24.
	Continue working with COBA and BCCM to strengthen industry capacity in climate action and climate-related risk.	Ongoing	• Led a project with the Customer Owned Banking Association (COBA) to identify climate-related risks and opportunities for the customer-owned banking sector (Strategy, p. 34). • Established and participated in the Business Council of Co-Operatives and Mutuals (BCCM) ESG Development Squad. • Became a signatory to the Co-Operatives and Mutuals Declaration of Climate Action facilitated through the BCCM.
	Partner with service providers to decarbonise our procurement and supply chains.	In progress	• Integrated ESG criteria into our procurement processes. • Facilitated opportunities for our third-party procurement partner Mutual Marketplace to build their capability in responsible procurement.
	Share success stories to inspire our business banking customers towards achieving net zero emissions.	Not yet commenced	• To be commenced in FY24

Assessing our climate risks and opportunities

During FY23, Great Southern Bank deepened our understanding of our climate-related risks and opportunities.

Using the Australian Prudential Regulation Authority's (APRA) Prudential Practice Guide CPG 229 on Climate Change Financial Risks[3] for guidance, we led a project with 11 customer-owned banks (COBA members) and external climate change experts to better understand the climate-related risks and opportunities relevant to participating banks and the customer-owned banking sector more broadly.

We applied and expanded on the outcomes of this project to identify and assess the climate risks specific to Great Southern Bank. This involved a cross-functional team assessing climate-related impacts on our portfolios, strategy and financial plans. As per APRA's recommendation, transition impacts (policy, market and reputation), physical impacts (acute, extreme weather impacts and chronic, gradual long-term climate changes) and liability impacts (litigation) were considered. Risks were assessed in line with our Risk Assessment Matrix and existing controls were captured before being prioritised based on their residual rating.

Where necessary, enhanced or additional controls were proposed to further mitigate any impact to our business. Risk owners were engaged this year ahead of assigning the risks, controls and actions to their risk profiles in FY24.

Consistent with the TCFD recommendations, short, medium, and long-term timeframes were used to structure the risk assessment. These timeframes are based on Great Southern Bank's strategic planning horizons and capital allocation plans.

- **Short term (0 - 3 years)**
  Focusing on existing operations and conditions in Australia.
- **Medium term (3 - 10 years)**
  Focusing on potential climate driven changes to conditions in Australia to 2030.
- **Long term (10 - 30 years)**
  Focusing on additional large-scale changes, including substantial physical impacts of climate change on the mortgage portfolio (which considers a 30-year time horizon).

Table 2 summarises Great Southern Bank's key climate-related physical, transition and liability risks. Key actions to manage these risks are detailed under Strategy (page 32) and metrics and targets related to these risks are detailed under Metrics and Targets (page 38).

Management of these risks and opportunities has been considered in the design and execution of our 2022-24 Climate Action Plan.

Table 2 Great Southern Bank's climate-related risks

Climate risk type	Risk driver	Potential impacts	Time horizon	Other business impacts
Transition	Policy	• Resources required to meet current and emerging climate-related legislation. • Reduced value of mortgage portfolio if customers cannot meet more stringent environmental standards.	Short to medium term	Regulatory and Legal risk Credit risk Strategic risk Treasury and Financial risk
	Market	• Reduced demand for existing products perceived to be less 'green'. • Insufficient securitisation of mortgage portfolio. • Changes in value of assets and liabilities due to transition to low carbon economy. • Increased volatility of interest rates and commodity prices impacting mortgage and deposit portfolios. • Customers working in carbon intensive industries may experience disruption in employment.	Short to medium term	Strategic risk Treasury and Financial risk
	Reputation	• Reputational impact if third parties we procure from or invest in don't align to our climate commitments. • Reputational impact if we don't achieve our climate commitments.	Medium term	Strategic risk Operational risk Treasury and Financial risk
Physical	Acute	• Damage to properties in our mortgage portfolio. • Reduced land and asset value due to exposure to potential extreme weather events. • Increased customer withdrawals to fund repairs to their properties. • Increased insurance premiums and unaffordability resulting in increased customers having low or no insurance. • Peaks in demand for customer service during extreme weather events. • Disruption to business continuity.	Short to medium term	Credit risk Treasury and Financial risk Operational risk Strategic risk
	Chronic	• Increase in customers facing financial hardship due to property damage. • Corporate insurance and other operating costs increase. • Stranded and uninsurable assets in our mortgage and investment portfolios.	Medium to long term	Treasury and Financial risk
Liability	Litigation	• Regulatory action due to non-compliance with current and emerging climate-related legislation. • Legal action from financing environmentally harmful projects. • Legal action if 'greenwashing' is perceived. • Legal action if Directors fail to perform fiduciary duties.	Short to medium term	Regulatory and Legal risk

3. CPG 229 Climate Change Financial Risks: https://www.apra.gov.au/climate-change-financial-risks

Assessing the physical resilience of our mortgage portfolio

Great Southern Bank's residential mortgage portfolio is the largest asset in terms of outstanding loan amount on our balance sheet.

It is also the most exposed to the physical risks of climate change, including flooding, bushfires and storms. With the frequency and intensity of these natural hazards set to rise, these physical risks are only likely to further increase.

In FY21, we completed an initial assessment of climate-related physical risks that may impact our residential mortgage portfolio. This focused on understanding the proportion of our mortgage portfolio which could be impacted by natural hazards across three physical climate change scenarios out to 2030, 2050 and 2100. One of the key findings of the assessment was that the most material physical climate risk to our portfolio is river flooding, with 5% of security properties considered at very high risk, followed by flash flooding and storm surges. Please refer to our 2022 Climate-Related Financial Disclosure for more information on this initial assessment.

This year, we expanded on this work by undertaking stress testing to understand the potential financial impacts of climate-related physical risks on our residential mortgage portfolio. This helped us understand and assess our vulnerabilities and resilience against severe but plausible scenarios, particularly the adequacy of capital levels in line with regulatory requirements.

In the context of climate change, we adapted our standard approach and based the stress test on a hypothetical one-off 'shock' scenario, where a series of different natural hazards occurred across several concentrated regions in close succession. The impacts to our balance sheet were modelled, with and without intervention actions by management (see Figure 1). The results indicated that key regulatory measures would remain above the limits set by the Board should such a 'shock' scenario occur.

A key element of our stress test – assessing potential financial exposure to climate-related risks – was based on the APRA 2022 Climate Vulnerability Assessment. This was our first step in aligning to APRA's recommendations on quantifying climate-related risks. We will continue to align our climate risk management to APRA's recommendations where appropriate.

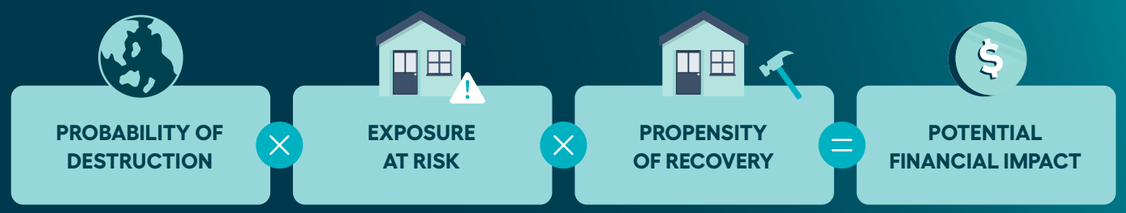


FIGURE 1: Stress test modelling

Risk management

Great Southern Bank's Risk Management Framework (RMF) governs the identification, management, control and monitoring of all risks, including those associated with climate change. The framework considers climate-related risks to the bank and our customers' ability to own and retain a home. The Board has ultimate responsibility for governance of the RMF.

The RMF brings together all our risk artefacts, including our Risk Appetite Statement (RAS), Risk Management Strategy (RMS), stress testing and strategic priorities.

The RMS outlines our material risk class assessment and strategies for managing our material risks. The RAS describes the key risks, acceptable appetite and tolerance levels approved by the Board i.e., the maximum level of risk we are willing to tolerate within each material risk class.

While climate risk is reflected in Great Southern Bank's risk management approach, it is currently not considered to be a separate material risk class. Rather, climate risk is defined in terms of other material risks, including strategic, credit, operational and regulatory and legal risk. This year, we developed a new enterprise-wide risk taxonomy which now includes climate-related risks, which will be embedded into our enterprise risk management in FY24.

Climate change is not specifically included in our residential mortgage risk assessments. However, our property valuation reports do take into account broader environmental factors, including flood or bushfire threats.

This year, we engaged third party providers to understand how we could enhance our identification of climate-related physical risk when assessing mortgage applications as part of our credit risk processes. This will be explored further in FY24. We do not have direct exposures to agriculture, nuclear power and the fossil fuel industry through our investment or business banking portfolios.

Furthermore, as outlined in our RAS, we have no appetite for direct investment or lending associated with fossil fuel extraction or fossil fuel energy production.

We are reviewing ways to enhance our management of climate-related risks next year, including more formal integration with enterprise risk management, credit risk and investment processes.

FIGURE 2: Great Southern Bank's Material Risk Classes

Metrics and targets

Great Southern Bank believes in being transparent and voluntarily disclosing our climate-related impacts.

Our operational emissions (Scope 1 and Scope 2) are those associated with our operations, i.e., our offices and branches in Queensland, New South Wales, Victoria and Western Australia and include relevant Scope 3 emissions.[4,5] These have been calculated in line with the World Resources Institute's Greenhouse Gas Protocol Corporate Standard and the Climate Active Carbon Neutral Standard for Organisations.

In addition, we assess our financed emissions from our mortgage and investments portfolios (Scope 3, Category 15). In 2022, we were proud to become the first bank in Australia to report its financed emissions in line with the global best practice Partnership for Carbon Accounting Financials (PCAF) Standard for financed emissions.

This year, for the first time, we obtained independent limited assurance for our total FY23 financed emissions because they were our most material source of emissions (see pages 44 and 45).

In line with the commitment made in our 2022-2024 Climate Action Plan, we submitted our near-term science-based targets for our operational emissions (Scope 1 and 2) and financed emissions (Scope 3, Category 15) to the SBTi for validation. Validation of emission reduction targets by the SBTi is considered global best practice and will ensure our targets are in line with the most up to date climate science.

We are committed to disclosing and reporting our progress towards meeting these targets once they are approved by the SBTi. By signing the SBTi Commitment letter in September 2022, we have committed to setting net zero science-based targets, becoming part of the Business Ambition for 1.5°C campaign and joining the Race to Zero campaign.

Table 3 Total emissions [6, 7]

Metric		Units[8]	FY23	FY22	FY21	FY20[9]
Operational emissions	Scope 1 GHG emissions[10]	tCO_2-e	45	135	142	141
	Scope 2 GHG emissions	tCO_2-e	825	952	1,019	1,225
	Scope 3 GHG emissions	tCO_2-e	5,761	5,979	5,965	5,814
Financed emissions		tCO_2-e	297,503	378,977	220,768	–
Total emissions		**tCO_2-e**	**304,134**	**386,043**	**227,894**	**7,180**

4. Our reporting boundary for Scope 1 and 2 emissions is based on the World Resources Institute's Greenhouse Gas Protocol Corporate Standard and the Climate Active Carbon Neutral Standard for Organisations.
5. Scope 1 emissions include all GHG emissions from sources that are within Great Southern Bank's control boundary, including emissions from fuel use for transportation purposes and refrigerants during the use of air conditioning equipment. Scope 2 emissions include the use of purchased electricity in our offices and branches, reported using the location-based method from FY21. Scope 3 emissions are emissions that occur as a result of our activities but occur from sources outside the organisation's control boundary. These include computer software and equipment, professional services, postage, courier, and freight, employee commuting, business travel and waste generation and disposal.
6. Subsidiaries covered in FY20-FY22 are CUA Health Limited (ABN 98 098 685 459), Credicorp Insurance Pty Ltd (ABN 50 069 196 756), CUA Management Pty Ltd (ABN 60 010 003 853) and Credicorp Finance Pty Ltd (ABN 79 010 052 981). CUA Health Limited was sold in FY22 and is not covered in FY23.
7. Figures stated in this report are calculations based on best practice methodology rather than precise measurements. These methodologies include estimations and assumptions.
8. All emissions values are in tonnes of carbon dioxide equivalent (tCO2-e). Emission factors were derived from the National Greenhouse Accounts (NGA) Factors and the Climate Active database.
9. In line with Climate Active requirements, FY20 performance data used to project FY21 emissions underwent a third-party technical assessment and audit. A second technical assessment has been performed for FY23, and the next technical assessment will be performed in FY26. A third-party audit will only be carried out if a base year recalculation is needed.
10. FY20 and FY21 Scope 1 and Scope 3 emissions have been restated to correctly account for refrigerant emissions.

Operational metrics and targets

Table 4 Operational metrics [11, 12]

Metric	Units[13]	FY23	FY22	FY21	FY20[14]
Scope 1 GHG emissions [15]	tCO_2-e	45	135	142	141
Scope 2 GHG emissions	tCO_2-e	825	952	1,019	1,225
Scope 3 GHG emissions	tCO_2-e	5,761	5,979	5,965	5,814
Total operational GHG emissions (Scope 1, 2 and 3)	tCO_2-e	6,631	7,066	7,126	7,180
Operational GHG emissions intensity by Full-Time Equivalent (Scope 1, 2 and 3)	tCO_2-e/FTE	4.83	5.78	5.10	6.22
Offsets used [16]	tCO_2-e	6,631	7,066	7,126[17]	-
Liquid fuel consumption	kL	17.38	35	39	41
Electricity consumption	MWh	1,114	1,186	1,220	1,506
Waste generated	Tonnes	30	21	27	22
Waste diverted from landfill[18]	Tonnes	12	8	0	0
Water consumption	kL	2,957	7,952	9,086	7,549

In FY23, our combined Scope 1 (directly released from our operations) and Scope 2 (released from offsite generation of electricity consumed in our operations) GHG emissions were estimated at 870 tonnes of carbon-dioxide equivalent emissions (tCO_2-e). This represents a 20% decrease from our FY22 emissions of 1,087 tCO_2-e, attributed to a reduction in electricity consumption and more accurate refrigerant data[19]. Combined Scope 1, 2 and 3 emissions from FY22 to FY23 decreased by 435 tCO_2-e, or around 6%.

Targets

The science-based targets we submitted to the SBTi for our operational emissions include achieving a 42% reduction in our Scope 1 and 2 absolute GHG emissions by 2030 from a FY22 base year. These are pending validation by SBTi. [20]

While our ongoing focus is to reduce our emissions in line with our science-based targets, we are committed to retaining our carbon neutral certification to mitigate our impact on the climate today.

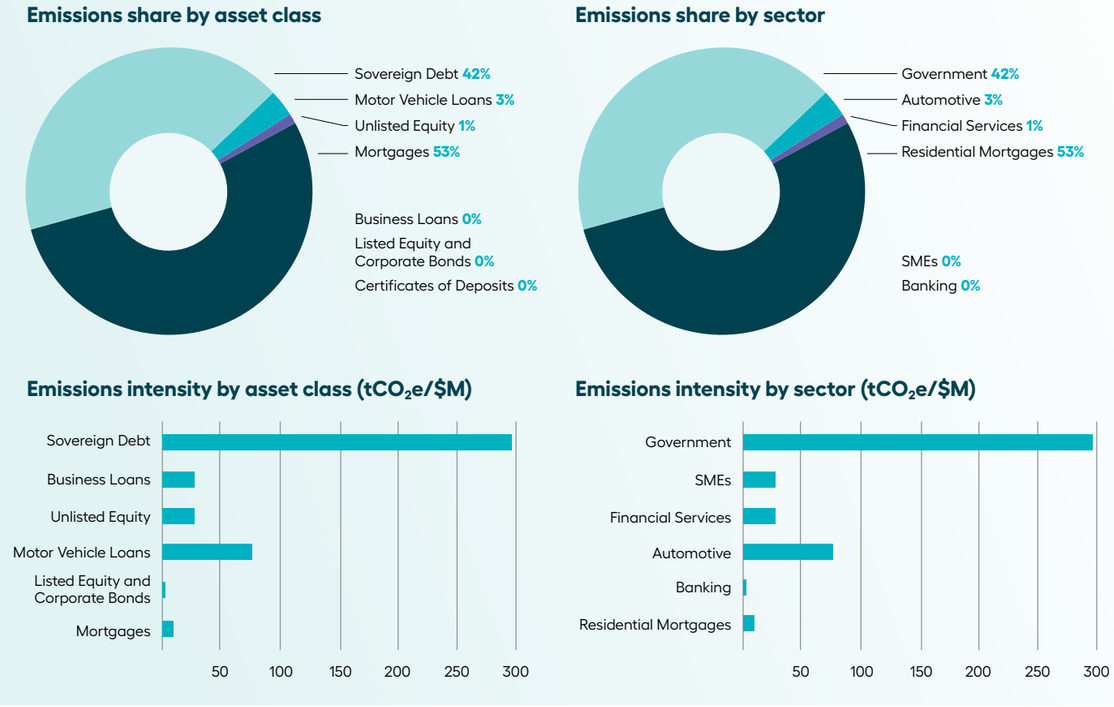
Our business operations for FY22 were certified carbon neutral under the Climate Active Carbon Neutral Standard for Organisations. Climate Active is the Australian Department of Industry, Science, Energy and Resources' corporate climate action program, enabling businesses to account for their GHG emissions and seek independent verification and certification. Our FY23 Public Disclosure Statement is in progress and will be submitted according to the timeline established by Climate Active.

11. Subsidiaries covered in FY20-FY22 are CUA Health Limited (ABN 98 098 685 459), Credicorp Insurance Pty Ltd (ABN 50 069 196 756), CUA Management Pty Ltd (ABN 60 010 003 853) and Credicorp Finance Pty Ltd (ABN 79 010 052 981). CUA Health Limited was sold in FY22 and is not covered in FY23.
12. Figures stated in this report are calculations based on best practice methodology rather than precise measurements. These methodologies include estimations and assumptions.
13. All emissions values are in tonnes of carbon dioxide equivalent (tCO_2-e). Emission factors were derived from the National Greenhouse Accounts (NGA) Factors and the Climate Active database.
14. In line with Climate Active requirements, FY20 performance data used to project FY21 emissions underwent a third-party technical assessment and audit. A second technical assessment has been performed for FY23, and the next technical assessment will be performed in FY26. A third-party audit will only be carried out if a base year recalculation is needed.
15. FY20 and FY21 Scope 1 and Scope 3 emissions have been restated to correctly account for refrigerant emissions.
16. Our FY22 and FY23 operational emissions have been fully offset through Certified Emission Reduction units from a wind power project in India and Australian Carbon Credit Units from a savanna burning project managed by First Nations rangers in Arnhem Land, in alignment with the quality requirements of Climate Active. More information is available on the Climate Active website.
17. Figure restated to only include the offsets used to obtain our Climate Active carbon neutral certification. Previously the figure reflected all offsets retired in FY21 which included offsets banked for use in future years.
18. Waste diverted from landfill was not reported in FY20 and FY21.

Financed metrics and targets

This year, we re-assessed the GHG emissions across our lending and investment portfolios, with the following key findings for our FY23 emissions: [21]

FIGURE 3: Financed metrics



- The total GHG emissions generated by Great Southern Bank's portfolio in FY23 were estimated to be 297,503 tCO_2-e.
- The weighted average carbon intensity (WACI) of each million Australian dollars lent or invested was estimated at 16.19 tCO_2-e. The carbon intensity varies across asset classes and sectors, with corporate bonds, security deposits and certificates of deposits being the least, and motor vehicle loans the most, GHG intensive asset class. Residential mortgages, Great Southern Bank's single largest asset class, had a GHG intensity of 10.18 tCO_2-e/A$million.
- One tonne of GHG emissions (in CO_2-e) is generated by $61,754 loaned or invested.
- The overall weighted data quality score improved from 4.63 out of 5 (FY22) to 4.57 (FY23), where 1 is high quality and 5 is low quality.

Key metrics by asset class and sector are outlined in Tables 5 and 6, including the data quality scores (as required by the PCAF Standard) and notable exclusions. We will continue to work to identify financial impacts and the most meaningful metrics to measure and manage climate-related risks and opportunities such as climate-related metrics linked to Executive remuneration. We are committed to improving data quality and reporting metrics over time.

Targets

The science-based targets we submitted to the SBTi for our financed emissions include targets for our Scope 3, Category 15 emissions. Specifically, these targets include a commitment to reduce the emissions intensity of our mortgage portfolio in terms of tCO_2-e per square metre by 43% by 2030 from a FY22 base year, to increase our investment in corporate bonds and deposit certificates to 47% by invested value and our investment in private equity portfolios to 33% by invested value, both by 2028. These are pending validation by the SBTi.[22]

19. In FY23, we incorporated actual data from one of our facilities to obtain a more accurate representation of the emissions resulting from the use of refrigerants across our organisation. Due to this improved methodology, emissions from refrigerants have decreased compared to previous years.
20. Targets submitted to SBTi are subject to change pending feedback from SBTi.
21. Financed emissions for FY23 are based on non-audited financial data.
22. Targets submitted to SBTi are subject to change pending feedback from SBTi.

Key metrics for financed emissions

Table 5 Financed emissions by asset class [23, 24]

Asset class	Total outstanding loans and investments covered ($M)			Total financed emissions (tCO_2-e)			Emissions intensity for financed emissions (tCO_2-e/$M)			Dollars lent/ invested per tonne of emissions generated ($/$tCO_2$-e)[25]		
	FY23	FY22	FY21	FY23	FY22	FY21	FY23	FY22	FY21	FY23	FY22	FY21
Residential mortgages	15,545	13,358	13,093	158,219	155,626	195,823	10.18	11.65	14.96	98,248	85,835	66,860
Listed Equity and Corporate Bonds	2,172	1,486	1,427	987	645	416	0.45	0.43	0.29	2,200,391	2,305,587	3,433,608
Motor vehicle loans	122	60	179	9,298	4,289	17,521	76.52	71.18	97.63	13,068	14,049	10,242
Certificates of deposit	0	0	160	0	0	912	0	0	5.70	0	0	175,390
Security deposit	0	0	90	0	0	1,133	0	0	12.56	0	0	79,632
Unlisted equity	62	61	50	1,609	477	3,229	26.10	7.79	64.20	38,313	128,412	15,577
Business loans	47	39	26	1,337	938	1,735	28.50	23.85	65.56	35,082	41,921	15,253
Sovereign bonds	425	562	-	126,052	221,734	-	296.41	394.80	-	3,374	2,533	-
Total	**18,372**	**15,567**	**15,026**	**297,503**	**383,709**	**220,768**	**16.19**	**24.65**	**14.69**	**61,754**	**40,570**	**68,063**

Table 6 Financed emissions by sector [26]

Asset class	Total outstanding loans and investments covered ($M)			Total financed emissions (tCO_2-e)			Emissions intensity for financed emissions (tCO_2-e/$M)			Dollars lent/ invested per tonne of emissions generated ($/$tCO_2$-e)		
	FY23	FY22	FY21	FY23	FY22	FY21	FY23	FY22	FY21	FY23	FY22	FY21
Residential mortgages	15,545	13,358	13,093	158,219	155,626	195,823	10.18	11.65	14.96	98,248	85,835	66,860
Banking	2,172	1,486	1,587	987	524	1,328	0.45	0.35	0.84	2,200,391	2,834,613	1,195,374
Automotive	122	60	179	9,298	4,289	17,521	76.52	71.78	97.63	13,068	14,049	10,242
Financial services	62	61	141	1,609	477	4,362	26.10	7.79	31.05	38,313	128,412	32,211
SMEs	47	39	26	1,337	938	1,735	28.50	23.85	65.56	35,082	41,921	15,253
Government	425	562	-	126,052	221,734	-	296.41	395	-	3,374	2,533	-
Total	**18,372**	**15,567**	**15,026**	**297,503**	**383,709**	**220,768**	**16.19**	**24.65**	**14.69**	**61,754**	**40,570**	**68,063**

Table 7 Other key metrics

Asset class	Emissions intensity for residential mortgages (tCO_2-e/m^2)		
	FY23	FY22	FY21
Residential mortgages[27]	32.86	30	–

23. The weighted data quality score (as defined under the PCAF standard) for FY23 data has been estimated at 4.57. Great Southern Bank has elected to disclose this information, in line with the PCAF's position in its Reporting Standard that recognises *"high quality data can be difficult to come by when calculating financed emissions, particularly for certain asset classes. However, data limitations should not deter financial institutions from taking the first steps toward preparing their inventories, as even estimated or proxy data can help them identify carbon-intensive hotspots in their portfolios, which can inform their climate strategies"*. We will continue to investigate options to improve data quality over time.
24. Asset classes not covered by this inventory are personal loans and investments in derivatives and authorised deposit-taking institutions because there is no current methodology under the PCAF standard. The total loan and investment value for FY23 as per June 30, 2023, is $368M.
25. Dollars lent for mortgages, motor vehicle loans and business loans reflect the total outstanding loan amount as of June 30, 2023. Dollars invested for corporate bonds, certificates of deposits, security deposits, unlisted equity and sovereign bonds reflect the total investment value as of June 30, 2023.
26. The weighted data quality score (as defined under the PCAF standard) for FY23 data has been estimated at 4.57.
27. In FY21, data for emissions intensity was not available.

KPMG

Independent Limited Assurance Report to the Directors of Credit Union Australia Ltd (trading as Great Southern Bank)

Conclusion

Based on the evidence we obtained from the procedures performed, we are not aware of any material misstatements in the information subject to assurance, which has been prepared by Great Southern Bank in accordance with the criteria for the period ended 30 June 2023.

Information Subject to Assurance

The information subject to assurance, is presented in the 2023 Basis of Preparation for Financed Emissions and in the 2023 Annual Report, available on the Great Southern Bank website and is shown in the table below and covers the year ended 30 June 2023:

Information subject to assurance	Value assured
Total financed emissions (tCO2e)	297,503
Emissions intensity for financed emissions (tCO2e/$M)	16.19
Dollar lent/ invested per tonne of emissions generated ($M/tCO2e)	61,754

Criteria Used as the Basis of Reporting

The criteria used for the preparation of the information subject to assurance is described in the 2023 Basis of Preparation for Financed Emissions ("the Criteria").

Basis for Conclusion

We conducted our work in accordance with Australian Standard on Assurance Engagements ASAE 3000 (Standard). In accordance with the Standard, we have:

- used our professional judgement to plan and perform the engagement to obtain limited assurance that we are not aware of any material misstatements in the information subject to assurance, whether due to fraud or error;
- considered relevant internal controls when designing our assurance procedures, however, we do not express a conclusion on their effectiveness; and
- ensured that the engagement team possesses the appropriate knowledge, skills, and professional competencies.

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Summary of Procedures Performed

Our limited assurance conclusion is based on the evidence obtained from performing the following procedures:

- enquiries with relevant Great Southern Bank personnel to understand the internal controls, governance structure, and reporting process of the information subject to assurance;
- reviews of relevant documentation including the Basis of Preparation for Financed Emissions;
- analytical procedures over the information subject to assurance;
- walkthroughs of the information subject to assurance to source documentation;
- evaluating the appropriateness of the criteria with respect to the information subject to assurance; and
- reviewed the information subject to assurance in the 2023 Annual Report in its entirety to ensure it is consistent with our overall knowledge of assurance engagement.

How the Standard Defines Limited Assurance and Material Misstatement

The procedures performed in a limited assurance engagement vary in nature and timing from, and are less in extent than for a reasonable assurance engagement. Consequently, the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had a reasonable assurance engagement been performed.

Misstatements, including omissions, are considered material if, individually or in the aggregate, they could reasonably be expected to influence relevant decisions of the Directors of Great Southern Bank.

Use of this Assurance Report

This report has been prepared for the Directors of Great Southern Bank for the purpose of providing an assurance conclusion on the information subject to assurance and may not be suitable for another purpose. We disclaim any assumption of responsibility for any reliance on this report, to any person other than the Directors of Great Southern Bank, or for any other purpose than that for which it was prepared.

Management's responsibility

Management are responsible for:

- determining that the criteria is appropriate to meet their needs and the needs of their stakeholders;
- preparing and presenting the information subject to assurance in accordance with the criteria; and
- establishing internal controls that enable the preparation and presentation of the information subject to assurance that is free from material misstatement, whether due to fraud or error.

KPMG

KPMG

30 August 2023

Our Responsibility

Our responsibility is to perform a limited assurance engagement in relation to the information subject to assurance for the period ended 30 June 2023, and to issue an assurance report that includes our conclusion.

Our Independence and Quality Management

We have complied with our independence and other relevant ethical requirements of the *Code of Ethics for Professional Accountants (including Independence Standards)* issued by the Australian Professional and Ethical Standards Board, and complied with the applicable requirements of Australian Standard on Quality Management 1 to design, implement and operate a system of quality management.

CREDIT UNION AUSTRALIA LTD
(trading as Great Southern Bank)

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2023

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 2023 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 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 (resigned on 1 December 2022)
Mark Hand (appointed on 1 July 2023)
Paul Lewis
Kyle Loades
Louise McCann
Deborah O'Toole
Wayne Stevenson
Sangeeta Venkatesan (appointed on 1 December 2022, resigned on 1 August 2023)

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

Nigel joined the Board in March 2011 and has been the Chairman since November 2017. He is a member of the Board People, Culture and Remuneration Committee and was a member of the Board Audit Committee until December 2022.

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 (resigned on 1 December 2022)

Paul joined the Board in July 2011. He was the Chairman of the Remuneration and Nominations Committee (former name of the Board People, Culture and Remuneration 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 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.

At the time of his resignation, Paul was 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 in 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.

Directors' report

Directors and company secretary (continued)

Paul first joined the Bank in February 2018 as the Chief Sales Officer with responsibility for leading the 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 the Bank, Paul was the Senior Head of Strategy and Transformation at Westpac, where his role included leading the Consumer banking strategy development for the Westpac 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.

Mark Hand
B.Bus., MBA, CPA
Independent Non-Executive Director (appointed on 1 July 2023)

Mark joined the Board on 1 July 2023 and is a member of the Board Risk Committee.

Mark is a career banker and experienced senior executive, having held senior positions in Australia and South Asia. Mark has held executive leadership roles across the commercial and consumer banking sectors and has extensive experience in risk management. Most recently he was the Group Executive for the Australian Retail and Commercial Banking division of ANZ Bank.

Mark has strong innovation and transformation capability combined with a passion for customer experience. He has long been an advocate for gender equity, workplace culture and employee engagement.

Mark has previously been a Director of Diversity Council Australia Limited, ANZ Bank Taiwan Limited and ANZ Trustees Limited.

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

Kyle joined the Board in December 2017. He is a member of the Board Risk and Board Audit Committees. He was a member of the Board People, Culture and Remuneration Committee until September 2022. He is the Chairman of the Credicorp Insurance Board and member of the Credicorp Insurance Board Audit and Board Risk Committees.

Kyle is a Chairman, Non-Executive Director and Advisor with more than two decades of experience across the commercial, community and public sectors.

Kyle is currently Chairman of Hunter Medical Research Institute and Active Super and a Non-Executive Director of AMA Group. He is a Conjoint Professor at Newcastle Business School 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.

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.

Directors' report

Directors and company secretary (continued)

Louise McCann
MM MGSM, FAICD, FIML, FRSA
Independent Non-Executive Director

Louise joined the Board in November 2015 and is a member of the Board Risk and the Board People, Culture and Remuneration Committees.

After a successful executive career as a CEO and senior executive in the media, commercial market research, brand and communications sectors in Australia, New Zealand and across Asia, Louise has had a very diverse portfolio of Non-Executive Director roles. These roles have been in the following sectors: technology/telecommunications, media, health, education, personal transport, accounting and professional services, across the ASX, Public Companies and Not-for-Profit organisations.

Louise is currently Chairman of Grant Thornton Australia Limited, Chairman of their Nominations and Remuneration Committee and a member of their Partner Earning and Performance Committee. She is also Non-Executive Director of the University of Notre Dame and Chairman of their Remuneration, People and Culture Committee.

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

Deb joined the Board in March 2014. She is the Chairman of the Board People, Culture and Remuneration Committee and a member of the Board Audit Committee. She was previously Chairman of the Board Risk Committee until September 2022.

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. She is a graduate of the Harvard Business School's Advanced Management Program and a former CFO at Aurizon, Queensland Cotton and MIM Holdings.

Deb is Chairman of Transurban Qld Finance Pty Limited and is a Director of Sims Limited, Pacific National Rail, Alumina Limited and Sydney Airport Corporation Limited.

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. Since leaving ANZ, Wayne has developed a Non-Executive director portfolio across a number of industries including outdoor media, payments, SaaS technology, and insurance.

Wayne is currently a Director of BigTinCan Holdings Ltd (ASX listed) and Cuscal Limited.

Sangeeta Venkatesan
FCA, B.Com.
Independent Non-Executive Director (appointed on 1 December 2022, resigned on 1 August 2023)

Sangeeta joined the Board on 1 December 2022. She is a member of the Board Audit Committee, a Director of Credicorp Insurance and a member of Credicorp Insurance Board Audit and Board Risk Committees.

Directors' report

Directors and company secretary (continued)

Sangeeta is an experienced banker, board advisor, investor, and entrepreneur. Sangeeta's executive career included working with some of the most prominent and globally recognised firms such as Goldman Sachs, Morgan Stanley, Nomura, and the Commonwealth Bank of Australia in senior roles across the globe including London, Singapore, Hong Kong, and Sydney. Sangeeta was co-founder and Chairman of Human Financial from 2018 until 2022, for which she won the "Innovator of the Year" award at Money Management and Super Review's Financial Services Awards 2019, and the finance Monthly Women in Finance Awards 2020. She was also co-founder and CEO of Applegrove Capital from 2018 until 2022.

Sangeeta is currently President of Women in Banking and Finance, a Director of RSL LifeCare, Mercer Investments (Australia) Limited, and SW Accountants & Advisors, and Advisory Board Member of Risk Australia.

Company secretary
The name and details of the Company Secretary of the Bank during the 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 is a qualified Company Secretary and 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 was appointed to the Boards of Credicorp Insurance, CUA Management and Credicorp Finance in December 2022. Nicole is a Director of the Financial Basics Foundation, the Financial Basics Community Foundation and ESSI Money Pty Ltd, and is on the Queensland State Council of the Governance Institute of Australia.

Directors' report

Directors and company secretary (continued)

Directors' meetings

The number of meetings of Directors and meetings of Board Committees held during the financial 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		Board People, Culture & Remuneration Committee		Combined Board People, Culture & Remuneration Committee and Board Risk Committee Meeting[1]	
	A	**B**	**A**	**B**	**A**	**B**	**A**	**B**	**A**	**B**
N. Ampherlaw	12	12	1	1	-	-	4	4	2	2
P. Bedbrook	6	6	-	-	-	-	1	1	1	1
P. Lewis	12	12	-	-	-	-	-	-	-	-
K. Loades	12	12	4	4	7	7	1	1	2	2
L. McCann	12	12	-	-	5	5	3	3	1	1
D. O'Toole	12	11	3	3	2	2	3	3	2	2
W. Stevenson	12	12	4	4	7	7	-	-	2	2
S. Venkatesan[2]	6	6	2	2	-	-	-	-	-	-

[1]The Board People, Culture & Remuneration Committee and the Board Risk Committee held two combined meetings during the year to consider key risks relating specifically to remuneration issues.
[2]Sangeeta Venkatesan was appointed on 1 December 2022 and resigned on 1 August 2023.
[3]Mark Hand was appointed on 1 July 2023.
[4]A new committee, the Purpose and Impact Committee was established on 1 August 2023.

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 the 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 Chair Committee fee structure for the financial year ended 30 June 2023 is in place, to align with industry practice and recognise the additional work of the Chairs of the Committees.

Directors' report

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 Board People, Culture & Remuneration 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 current 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 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 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 general insurance and securitisation activities.

Significant changes in the state of affairs

There was no significant change in the state of affairs of the Group during the year ended 30 June 2023 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.

Directors' report

Financial performance disclosures (continued)

Review of operations

The Group reported a net profit after tax for the financial year ended 30 June 2023 of $44.5 million (2022: $70.5 million) noting that the prior financial year included the proceeds from the sale of the CUA Health Insurance business to HBF, Health Insurance Australia. This disposal was reflected in the prior financial year in discontinued operations as a net profit of $58.0 million. Excluding the impact of this sale, the prior year profit from continuing operations was $12.5 million.

On a profit from continuing operations basis, the increase from the prior financial year result of $12.5 million to the current financial year result of $44.5 million was predominately driven by an increase in total net interest income. Net interest income for the Group increased by 19.9% to $348.8 million (2022: $290.8 million) as interest income increased by 82.4% to $710.4 million (2022: $389.5 million) while interest expense increased by 266.5% to $361.6 million (2022: $98.7 million).

The increase in net interest income was driven by a combination of an improvement in net interest margins and an increase in gross loans and advances as the Group continued to deliver on its purpose of helping all Australians own their own home with loans and advances growing by 6.7% to $16.0 billion (2022: $15.0 billion).

The growth in loans and advances was funded by growth in deposits of 9.2% to $13.0 billion (2022: $11.9 billion).

Other net operating income decreased by $6.8 million to $0.7 million (2022: $7.5 million) as the Group saw increases in fee, brokerage and commission expense and a reduction in dividend income.

Total operating expenses for the Group increased by 1.6% to $276.5 million (2022: $272.1 million) with increases in personnel expenses, information technology and general administrative expenses offset to a large degree by reductions in depreciation and other expenses.

Underlying asset quality remains strong, as the Group continued to maintain a conservative approach to risk management and lending practices. However, the expense from credit and other financial asset impairment increased from the prior financial year (2022: $3.1 million) to $7.1 million. Additional impairment provisions have been recognised in the face of an uncertain economic outlook as a result of inflation and interest rate pressures.

The Group remains committed to doing business responsibly and taking meaningful action to combat climate change, address financial exclusion and advance reconciliation. This financial year saw the delivery of further actions in the Group's climate action plan (CAP) and progress towards its 2040 net zero emissions target, including submitting near-term science-based targets to the Science Based Targets initiative (SBTi) for validation. The Group launched its second financial inclusion action plan (FIAP), detailing more than 40 practical actions it will take over the next two years to improve the financial wellbeing of customers and the communities it serves. The Group also completed all the actions in its first reflect reconciliation action plan (RAP), including introducing cultural awareness training for staff and evolving its supply chain to include more First Nations suppliers.

Risk management

The Group's strategic and operational outcomes are underpinned by the effective management of key risks through the three lines of defence model. This model defines risk management roles, accountabilities and responsibilities, including our approach to risk oversight and assurance.

During the year, the Group regularly identified and assessed key risks in accordance with our Risk Management Framework, 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.

Directors' report

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 has articulated its expectations in Prudential Practice Guide CPG 229.

Climate action is important to the Bank. Underpinning our 2022-24 Climate Action Plan (http://www.greatsouthernbank.com.au/climate-action), 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. Furthermore, we have developed near-term and net zero science-based targets and have submitted our near-term targets to the SBTi for validation.

The Bank published its second Task Force on Climate-Related Financial Disclosure (TCFD) report as part of this report (please refer to page 26). This includes our financial year 2023 emissions for the Group's investment and lending activities in line with global accounting standards established by the Partnership for Carbon Accounting Financials, as well as an assessment of physical, transition and liability risks posed by climate change, and the outcomes of a stress test of the financial impacts of hypothetical severe weather events on our mortgage portfolio.

During the financial year ending 30 June 2024, the Group will continue to operationalise the commitments made within its Climate Action Plan, including implementing strategy to transition our offices and branches to 100% renewable energy by 2030, embedding climate risk management within our policies and procedures, and supporting customers to manage the impacts of climate change to their homes and lives.

Other matters

Launch of digitally led small business banking proposition

During the financial year, the Group announced plans to launch a new, digitally led banking proposition targeting the under-served small business market. Using technology developed and integrated by its fintech and equity partner, Constantinople, the Group will target Nano (sole traders) and Micro businesses (companies employing less than four people) with a range of simple, intuitive, and integrated banking products. Customer testing is underway, ahead of an expected roll out of the first of the new business banking products in the 2024 financial year.

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).

Tax consolidation

The Group formed a tax consolidated group effective 1 July 2022. The head entity within the tax consolidated group is the Bank. The Bank, together with all eligible wholly owned Australian subsidiaries, comprise a tax consolidated group.

The members of the tax consolidated group have entered into tax funding and tax sharing agreements, which set out the funding obligations of members. Any current tax liabilities/assets and deferred tax assets from unused tax losses of subsidiaries in the tax consolidated group are recognised by the Bank and funded in line with the tax funding arrangements.

Directors' report

Other matters (continued)

Carbon neutral

The Group has been certified carbon neutral for its financial year ended 30 June 2022 operations and is currently seeking certification for its financial year ended 30 June 2023 operations. The Group first obtained certification as a carbon neutral entity in financial year ended 2021 and commits to maintaining this status by seeking recertification under the Australian Government's Climate Active Carbon Neutral Standard for Organisations on an annual basis.

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 operational carbon impact for financial year 30 June 2022 was fully offset through a wind project in India and a savanna burning project by Arnhem Land Fire Abatement (Northern Territory) Ltd.

The Group is also committed to decarbonising its operations to achieve net zero by 2040.

Further information can be found in the Group's Public Disclosure Statements on the Department for Climate Change, Energy, Environment, and Water's website (https://www.climateactive.org.au/buy-climate-active/certified-members/great-southern-bank).

Securitisation trust

On 9 May 2023, the remaining loans and advances in Series 2013-1 Harvey Trust were bought back by the Bank ($64.1m). All securitisation borrowings in Series 2013-1 Harvey Trust were repaid to the investors at this time.

On 15 June 2023, Series 2023-1 Harvey Trust was formed acquiring loans from the Bank ($355.1m) and Harvey Warehouse Trust No. 4 ($341.0m). These loans were acquired by the issuance of floating rate notes.

Events subsequent to reporting date

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 economic performance include geopolitical events, natural disasters, inflationary pressures, monetary policy tightening by central banks around the world impacting global economic uncertainty and other uncertainties such as changes in consumer spending, disrupted supply chains and staff shortages. The Board and its Committees closely monitored the changing operating environment together with the Group's approach to dealing with those matters.

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

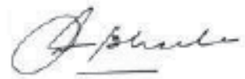
The Group is of a kind referred to in the Australian Securities & Investments Commission (ASIC) Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 dated 24 March 2016 and, in accordance with that instrument, amounts have been rounded to the nearest million dollars unless otherwise 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 58.

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
30 August 2023

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 2023 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 Guse
Partner
Brisbane
30 August 2023

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2023

Income statements

For the year ended 30 June 2023

	Note	Group 2023 $m	Group 2022 $m	Bank 2023 $m	Bank 2022 $m
Net interest income					
Interest income	2.1	**710.4**	389.5	**710.4**	389.5
Interest expense	2.1	**(361.6)**	(98.7)	**(361.8)**	(98.7)
Total net interest income		**348.8**	290.8	**348.6**	290.8
Other net operating income	2.1	**0.7**	7.5	**1.6**	29.2
Share of net loss of a joint venture		**(2.8)**	(2.7)	**(2.8)**	(2.7)
Total net operating income		**346.7**	295.6	**347.4**	317.3
Disposal of investment in subsidiary[1]	4.13	**-**	-	**-**	154.8
Total income		**346.7**	295.6	**347.4**	472.1
Expenses					
Personnel		**(153.2)**	(147.7)	**(152.8)**	(148.7)
Occupancy		**(2.7)**	(2.7)	**(2.7)**	(2.7)
Depreciation	2.2	**(16.8)**	(25.4)	**(16.8)**	(25.4)
Amortisation of intangible assets	4.3	**(15.9)**	(17.5)	**(15.9)**	(17.5)
Information technology		**(30.9)**	(20.5)	**(30.9)**	(20.8)
General administrative expenses		**(28.2)**	(21.8)	**(29.6)**	(24.2)
Other expenses	2.2	**(28.8)**	(36.5)	**(28.6)**	(36.0)
Total operating expenses		**(276.5)**	(272.1)	**(277.3)**	(275.3)
Profit before impairment and income tax		**70.2**	23.5	**70.1**	196.8
Credit and other financial asset impairment	2.2	**(7.1)**	(3.1)	**(7.1)**	(3.1)
Profit before income tax		**63.1**	20.4	**63.0**	193.7
Income tax expense	2.3(a)	**(18.6)**	(7.9)	**(18.4)**	(53.6)
Profit from continuing operations		**44.5**	12.5	**44.6**	140.1
Income from discontinued operations	4.13	**-**	58.0	**-**	-
Profit for the year		**44.5**	70.5	**44.6**	140.1
Profit for the year is attributable to:					
Members of the Bank		**44.5**	70.5	**44.6**	140.1

[1]The gain on sale of investment relates to the disposal of the investment in CUA Health Limited (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 2023

	Note	Group 2023 $m	Group 2022 $m	Bank 2023 $m	Bank 2022 $m
Profit for the year		**44.5**	70.5	**44.6**	140.1
Other comprehensive income					
Items that are or may be reclassified to profit or loss					
Cash flow hedges:					
Revaluation taken to members' funds		**(36.6)**	86.0	**(36.6)**	86.0
Transferred to profit or loss		**0.7**	(0.1)	**0.7**	(0.1)
Revaluation of debt instruments - fair value through other comprehensive income		**-**	-	**(0.1)**	(0.9)
		(35.9)	85.9	**(36.0)**	85.0
Items that will not be reclassified to profit or loss					
Revaluation of equity instruments - fair value through other comprehensive income		**-**	6.6	**-**	6.6
		-	6.6	**-**	6.6
Income tax on other comprehensive income	2.3(d)	**10.8**	(27.1)	**10.8**	(26.8)
Other comprehensive income after tax		**(25.1)**	65.4	**(25.2)**	64.8
Total comprehensive income		**19.4**	135.9	**19.4**	204.9
Total comprehensive income for the period is attributable to:					
Members of the Bank		**19.4**	135.9	**19.4**	204.9
Total comprehensive income for the period attributable to members of the Bank arises from:					
Continuing operations		**19.4**	77.9	**19.4**	204.9
Discontinued operations	4.13	**-**	58.0	**-**	-
		19.4	135.9	**19.4**	204.9

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

Balance sheets

As at 30 June 2023

	Note	Group 2023 $m	Group 2022 $m	Bank 2023 $m	Bank 2022 $m
Assets					
Cash and cash equivalents	3.1	**450.3**	382.1	**445.3**	377.1
Receivables due from other banks	3.1(b)	**19.0**	12.3	**19.0**	12.3
Financial assets - fair value through profit or loss	3.2	**3.0**	3.0	**-**	-
Financial assets - amortised cost	3.2	**2,613.5**	2,146.9	**5,798.6**	5,568.5
Derivative financial instruments	3.3(a)	**74.2**	108.0	**74.2**	108.0
Loans and advances	3.4	**16,022.1**	15,019.1	**16,022.1**	15,019.1
Financial assets - fair value through other comprehensive income	3.2	**57.9**	57.9	**139.1**	91.7
Other assets	4.1	**19.6**	16.4	**19.5**	16.2
Investments in controlled entities	4.9(b)	**-**	-	**1.5**	1.5
Investments in a joint venture	4.10	**3.8**	3.4	**3.8**	3.4
Property, plant and equipment	4.2	**30.0**	23.6	**30.0**	23.6
Intangibles	4.3	**61.2**	55.3	**61.2**	55.3
Right-of-use assets	4.4	**32.9**	35.9	**32.9**	35.9
Total assets		**19,387.5**	17,863.9	**22,647.2**	21,312.6
Liabilities					
Payables due to other banks	3.1(b)	**55.3**	-	**55.3**	-
Deposits	3.6	**13,021.1**	11,940.6	**13,021.1**	11,940.6
Derivative financial instruments	3.3(a)	**21.6**	23.2	**21.6**	23.2
Borrowings	3.7	**4,876.2**	4,453.1	**8,145.2**	7,911.3
Other liabilities	4.5	**24.8**	68.2	**24.7**	67.8
Lease liabilities	4.6	**36.6**	40.3	**36.6**	40.3
Provisions	4.7	**37.1**	31.9	**37.1**	31.9
Deferred tax liability	2.3(c)	**0.7**	11.9	**0.6**	11.9
Total liabilities		**18,073.4**	16,569.2	**21,342.2**	20,027.0
Net assets		**1,314.1**	1,294.7	**1,305.0**	1,285.6
Members' funds					
Reserves	4.8	**68.0**	93.0	**67.7**	92.8
Retained earnings		**1,246.1**	1,201.7	**1,237.3**	1,192.8
Total members' funds		**1,314.1**	1,294.7	**1,305.0**	1,285.6

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

Statements of changes in members' funds

For the year ended 30 June 2023

	Group Reserves $m	Group Retained earnings $m	Group Total members' funds $m	Bank Reserves $m	Bank Retained earnings $m	Bank Total members' funds $m
Balance at 1 July 2022	**93.0**	**1,201.7**	**1,294.7**	**92.8**	**1,192.8**	**1,285.6**
Profit for the year after tax	**-**	**44.5**	**44.5**	**-**	**44.6**	**44.6**
Other comprehensive income after tax:						
Cash flow hedges:						
Revaluation taken to members' funds	**(25.6)**	**-**	**(25.6)**	**(25.6)**	**-**	**(25.6)**
Transferred to profit and loss	**0.5**	**-**	**0.5**	**0.5**	**-**	**0.5**
Revaluation of debt instruments - fair value through other comprehensive income	**-**	**-**	**-**	**(0.1)**	**-**	**(0.1)**
Total comprehensive income for the period	**(25.1)**	**44.5**	**19.4**	**(25.2)**	**44.6**	**19.4**
Redemption of member shares	**0.1**	**(0.1)**	**-**	**0.1**	**(0.1)**	**-**
Balance at 30 June 2023	**68.0**	**1,246.1**	**1,314.1**	**67.7**	**1,237.3**	**1,305.0**
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 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 2023

	Note	Group 2023 $m	Group 2022 $m	Bank 2023 $m	Bank 2022 $m
Cash flows from operating activities					
Interest received		**679.8**	406.2	**674.5**	404.5
Interest paid		**(327.0)**	(102.9)	**(327.1)**	(103.0)
Fees and commissions received		**27.8**	28.2	**27.8**	28.2
Fees and commissions paid		**(30.5)**	(27.2)	**(30.5)**	(27.2)
Benefits/claims paid		**(0.2)**	(0.3)	**-**	-
Dividends received		**1.7**	5.1	**2.2**	26.0
Other non-interest income received		**2.0**	3.2	**3.1**	4.7
Payments to suppliers and employees		**(253.9)**	(226.1)	**(255.3)**	(232.7)
Income tax paid		**(53.6)**	(17.9)	**(53.5)**	(17.4)
Change in loans and advances		**(1,029.8)**	(1,491.7)	**(1,029.8)**	(1,491.7)
Change in financial assets		**(458.9)**	(151.4)	**(458.9)**	(151.4)
Change in deposits		**1,080.5**	684.5	**1,080.5**	677.9
Net cash used in operating activities	3.1(a)	**(362.1)**	(890.3)	**(367.0)**	(882.1)
Cash flows from investing activities					
Payments for plant, equipment and intangible assets		**(34.6)**	(35.1)	**(34.6)**	(35.1)
Proceeds from disposal of subsidiary	4.13	**-**	154.8	**-**	154.8
Payments from investments in a joint venture		**0.5**	0.5	**0.5**	0.5
Net cash (used in)/provided by investing activities		**(34.1)**	120.2	**(34.1)**	120.2
Cash flows from financing activities					
Proceeds from borrowings		**427.1**	705.8	**432.0**	707.2
Net repayments to lease liabilities		**(11.3)**	(15.6)	**(11.3)**	(15.6)
Net cash provided by financing activities	3.1(c)	**415.8**	690.2	**420.7**	691.6
Change in cash and cash equivalents		**19.6**	(79.9)	**19.6**	(70.3)
Cash at the beginning of the year		**394.4**	474.3	**389.4**	459.7
Cash at the end of the year	3.1(b)	**414.0**	394.4	**409.0**	389.4

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 2023

Notes to the financial statements

For the year ended 30 June 2023

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 2023 was authorised for issue in accordance with a resolution of the Directors on 30 August 2023.

The Bank is a for-profit entity 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.

(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.

Forward-looking information, including consideration of various scenarios and probabilities in determining the Group's forward-looking assumptions for the purpose of expected credit losses (ECL), has been provided in Note 3.5. While there are a wide range of possible scenarios and macro-economic outcomes including the tightening monetary policy cycle and high inflationary environment, 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 2023

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.

The Group faces challenges including natural disasters, geopolitical events, after-effects of COVID-19, inflationary pressures and monetary policy tightening by central banks around the world 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 impacts of a tightening monetary policy cycle and high inflationary environment, in particular on the Group's provisioning processes. Refer to the respective notes for additional details.

	Note Reference
ECL and impairment of loans and advances and financial assets	3.2, 3.5 and 3.10
Fair value of financial instruments	3.9
Determining lease terms and estimating the incremental borrowing rate	4.4 and 4.6

Notes to the financial statements

For the year ended 30 June 2023

2. Financial performance

2.1 Income

	Group		Bank	
	2023 $m	2022 $m	**2023 $m**	2022 $m
Net interest income				
Interest income				
Loans and advances to customers	**581.3**	370.5	**581.3**	370.5
Other financial assets	**88.3**	19.0	**88.3**	19.0
Other interest income[1]	**40.8**	-	**40.8**	-
	710.4	389.5	**710.4**	389.5
Interest expense				
Deposits from customers	**(216.3)**	(45.9)	**(216.3)**	(45.9)
Borrowings	**(80.0)**	(30.0)	**(80.0)**	(30.0)
Debt securities	**(38.7)**	(10.1)	**(38.7)**	(10.1)
Wholesale funding	**(26.6)**	(2.7)	**(26.6)**	(2.7)
Other interest expense[1]	**-**	(10.0)	**(0.2)**	(10.0)
	(361.6)	(98.7)	**(361.8)**	(98.7)
Total net interest income	**348.8**	290.8	**348.6**	290.8
Other operating income				
Fees and commissions income from contracts with customers				
Commissions income	**14.0**	13.6	**14.0**	13.5
Account services	**10.5**	11.6	**10.5**	11.6
Transactional	**3.0**	2.3	**3.0**	2.3
Other fees	**1.0**	1.0	**1.0**	1.0
	28.5	28.5	**28.5**	28.4
Fee, brokerage and commission expense				
Brokerage	**(27.6)**	(24.1)	**(27.6)**	(24.1)
Commissions	**(1.2)**	(1.4)	**(1.2)**	(1.4)
Other expense	**(1.6)**	(1.7)	**(1.6)**	(1.7)
	(30.4)	(27.2)	**(30.4)**	(27.2)
Total net fee and commission (expense)/income	**(1.9)**	1.3	**(1.9)**	1.2
Finance cost - other				
Interest expense - lease liabilities	**(1.0)**	(0.9)	**(1.0)**	(0.9)
Total finance cost - other	**(1.0)**	(0.9)	**(1.0)**	(0.9)
Dividend revenue	**1.7**	5.1	**2.2**	26.0
Net gain on derivative financial instruments	**0.7**	0.2	**0.7**	0.2
Net insurance income	**0.7**	1.1	**-**	-
Other income	**0.5**	0.7	**1.6**	2.7
Total net other operating income	**0.7**	7.5	**1.6**	29.2

[1]Includes interest income and expense from hedging instruments.

Notes to the financial statements

For the year ended 30 June 2023

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 expenses are recognised using a calculated effective interest rate method which is the rate that discounts estimated future cash payments or receipts through the expected life of the financial instrument to the net carrying amount 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 2023

2.2 Expenses

	Group		Bank	
	2023 $m	2022 $m	**2023 $m**	2022 $m
Depreciation				
Property, plant and equipment	**(6.2)**	(7.9)	**(6.2)**	(7.9)
Right-of-use assets	**(10.6)**	(17.5)	**(10.6)**	(17.5)
	(16.8)	(25.4)	**(16.8)**	(25.4)
Other expenses				
Advertising	**(11.7)**	(12.0)	**(11.7)**	(12.0)
Professional services	**(17.1)**	(24.5)	**(16.9)**	(24.0)
	(28.8)	(36.5)	**(28.6)**	(36.0)
Credit and other financial asset impairment[1]				
Impairment of loans and advances	**(2.6)**	1.1	**(2.6)**	1.1
Bad debts written off - loans and advances	**(6.5)**	(6.2)	**(6.5)**	(6.2)
Bad debts recovered - loans and advances	**2.0**	2.0	**2.0**	2.0
	(7.1)	(3.1)	**(7.1)**	(3.1)

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

Notes to the financial statements

For the year ended 30 June 2023

2.3 Income tax

(a) Amounts recognised in income statements

The components of income tax expense are:

	Group		Bank	
	2023 $m	2022 $m	**2023 $m**	2022 $m
Income tax expense	**18.6**	7.9	**18.4**	53.6
	18.6	7.9	**18.4**	53.6
Current tax				
Current income tax	**21.4**	11.0	**21.3**	56.9
Adjustments in respect of current income tax of previous year	**(2.4)**	1.0	**(2.4)**	1.0
Deferred tax				
Relating to origination and reversal of temporary differences	**(2.4)**	(3.7)	**(2.5)**	(3.9)
Adjustments in respect of deferred income tax of previous year	**2.0**	(0.4)	**2.0**	(0.4)
Income tax expense on continuing operations	**18.6**	7.9	**18.4**	53.6

Income tax expense on discontinued operations is disclosed in Note 4.13. The sale of CHL was completed during the year ended 30 June 2022.

(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	
	2023 $m	2022 $m	**2023 $m**	2022 $m
Accounting profit before tax from continuing operations	**63.1**	20.4	**63.0**	193.7
At Australia's statutory income tax rate of 30% (2022: 30%)	**18.9**	6.1	**18.9**	58.2
Adjust for tax effect of:				
Non-deductible expenses	**(0.1)**	2.7	**(0.1)**	(0.5)
Assessable income	**0.7**	-	**0.7**	-
Fully franked dividends received	**(0.5)**	(1.5)	**(0.5)**	(4.7)
Intragroup dividends received	**-**	-	**(0.2)**	-
(Over)/under provision in prior year	**(0.4)**	0.6	**(0.4)**	0.6
Income tax expense	**18.6**	7.9	**18.4**	53.6

Notes to the financial statements

For the year ended 30 June 2023

2.3 Income tax (continued)

(c) Deferred tax balances

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

	Group		Bank	
	2023 $m	2022 $m	**2023 $m**	2022 $m
Deferred tax assets comprise temporary differences attributable to:				
Provision for impairment of loans and advances	**9.8**	8.9	**9.8**	8.9
Employee benefits	**8.0**	6.5	**8.0**	6.5
Provisions and accruals	**4.9**	5.6	**4.9**	5.6
Lease assets and liabilities	**1.1**	1.3	**1.1**	1.3
Plant and equipment and intangible assets	**-**	0.3	**-**	0.3
Total deferred tax assets	**23.8**	22.6	**23.8**	22.6
Deferred tax liabilities comprise temporary differences attributable to:				
Plant and equipment and intangible assets	**0.6**	-	**0.6**	-
Financial assets - fair value through other comprehensive income	**9.2**	9.2	**9.1**	9.2
Derivative financial instruments	**14.7**	25.3	**14.7**	25.3
Total deferred tax liabilities	**24.5**	34.5	**24.4**	34.5
Net deferred tax liabilities	**(0.7)**	(11.9)	**(0.6)**	(11.9)

Notes to the financial statements

For the year ended 30 June 2023

2.3 Income tax (continued)

(d) Movement in deferred tax

	Group		Bank	
	2023 $m	2022 $m	**2023 $m**	2022 $m
Deferred income tax credit included in income tax expense comprises:				
Increase in deferred tax assets	**1.2**	1.0	**1.2**	1.3
(Increase)/decrease in deferred tax liabilities	**(0.8)**	3.1	**(0.7)**	3.0
	0.4	4.1	**0.5**	4.3
Deferred income tax related to items charged or credited to other comprehensive income during the year as follows:				
Net loss/(gain) on cash flow hedges	**10.8**	(25.8)	**10.8**	(25.5)
Net gain on fair value through other comprehensive income	**-**	(1.3)	**-**	(1.3)
	10.8	(27.1)	**10.8**	(26.8)
Total deferred tax movement	**11.2**	(23.0)	**11.3**	(22.5)

(e) Unused tax losses and franking account

	Group		Bank	
	2023 $m	2022 $m	**2023 $m**	2022 $m
Unused tax losses for which no deferred tax asset has been recognised	**0.9**	0.9	**0.9**	-
Potential tax benefit @ 30%	**0.3**	0.3	**0.3**	-

All unused tax losses are transferred losses from Credicorp Finance to the Bank (head entity of tax consolidated group) effective 1 July 2022.

	Group		Bank	
	2023 $m	**2022** $m	**2023 $m**	**2022** $m
Franking account balance	**433.8**	377.9	**433.8**	373.9

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.

The franking account surpluses of subsidiary members are transferred to the Bank upon tax consolidation effective 1 July 2022. While the Group is tax consolidated, the Bank maintains and operates a single franking account for the Group.

Notes to the financial statements

For the year ended 30 June 2023

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.

Tax consolidation

The Group formed a tax consolidated group effective 1 July 2022. The head entity within the tax consolidated group is the Bank. The Bank, together with all eligible wholly owned Australian subsidiaries, comprise a tax consolidated group.

The members of the tax consolidated group have entered into tax funding and tax sharing agreements, which set out the funding obligations of members. Any current tax liabilities/assets and deferred tax assets from unused tax losses of subsidiaries in the tax consolidated group are recognised by the Bank and funded in line with the tax funding arrangements.

The Bank recognises the current tax balances of its wholly owned subsidiaries as if those were its own in addition to the current and deferred tax amounts arising in relation to its own transactions, events and balances on a "modified stand-alone taxpayer" basis under UIG 1052 *Tax Consolidation Accounting*. Amounts receivable or payable under the tax sharing and tax sharing agreements with the tax consolidated entities are recognised as intercompany amounts receivable or payable.

The "modified stand-alone taxpayer" basis is the method used for measuring current and deferred taxes (other than deferred tax assets relating to tax losses) of the entities in the tax consolidated group as if each entity continued to be a taxable entity in its own right. Deferred tax assets in relation to tax losses are measured based on the tax-consolidated group's ability to utilise the tax losses.

Notes to the financial statements

For the year ended 30 June 2023

3. Balance sheet and risk management

3.1 Cash and cash equivalents

	Group		Bank	
	2023 $m	2022 $m	**2023 $m**	2022 $m
Notes and coins on hand	**3.6**	3.9	**3.6**	3.9
Deposits on call	**446.7**	378.2	**441.7**	373.2
	450.3	382.1	**445.3**	377.1

Cash and cash equivalents include restricted balances of $257.3 million (2022: $238.4 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.

Cash and cash equivalents are carried at amortised cost in the balance sheets.

Notes to the statements of cash flows

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

		Group		Bank	
	Note	**2023 $m**	2022 $m	**2023 $m**	2022 $m
Profit after tax for the year					
Continuing operations		**44.5**	12.5	**44.6**	140.1
Discontinued operations	4.13	**-**	58.0	**-**	-
Adjustments for:					
Depreciation and amortisation		**32.7**	42.9	**32.7**	42.9
Credit and other financial asset impairment		**9.1**	5.1	**9.1**	5.1
Net interest on loans and advances		**18.7**	16.2	**18.7**	16.2
Net gain on financial assets - fair value through profit or loss		**-**	(0.2)	**-**	(0.2)
Gain on sale of discontinued operations		**-**	(103.1)	**-**	(154.8)
Derivative financial instruments (unrealised)		**7.1**	(26.9)	**7.1**	(26.9)
Other non-cash items		**(0.9)**	(0.8)	**(0.9)**	(0.7)
Changes in:					
Change in loans and advances		**(1,029.8)**	(1,491.7)	**(1,029.8)**	(1,491.7)
Change in financial assets		**(458.9)**	(151.4)	**(458.9)**	(151.4)
Change in deferred tax liability		**(11.2)**	21.5	**(11.3)**	21.5
Change in other assets		**(12.4)**	1.0	**(17.5)**	1.2
Change in deposits		**1,080.5**	684.5	**1,080.5**	677.9
Change in insurance policy liabilities		**(0.7)**	(1.4)	**-**	-
Change in income tax payable		**(34.7)**	40.2	**(34.7)**	40.6
Change in provisions		**5.2**	(0.1)	**5.2**	(0.7)
Change in other liabilities		**(11.3)**	3.4	**(11.8)**	(1.2)
Net cash used in operating activities		**(362.1)**	(890.3)	**(367.0)**	(882.1)

Notes to the financial statements

For the year ended 30 June 2023

3.1 Cash and cash equivalents (continued)

Notes to the statements of cash flows (continued)

(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 sheets:

	Group		Bank	
	2023 $m	2022 $m	**2023 $m**	2022 $m
Cash and cash equivalents	**450.3**	382.1	**445.3**	377.1
Receivables due from other banks[1]	**19.0**	12.3	**19.0**	12.3
Payables due to other banks[2]	**(55.3)**	-	**(55.3)**	-
	414.0	394.4	**409.0**	389.4

[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.
[2]Includes collateral representing credit support to secure the Bank's derivative asset position, as part of the standard ISDA Agreement.

(c) Reconciliation of cash flows from financing activities:

Group	**1 July 2022 $m**	**Cash flows $m**	**Non-cash changes $m**	**30 June 2023 $m**
Liabilities				
Borrowings	**4,453.1**	**427.1**	**(4.0)**	**4,876.2**
Lease liabilities	**40.3**	**(11.3)**	**7.6**	**36.6**
Total liabilities from financing activities	**4,493.4**	**415.8**	**3.6**	**4,912.8**

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

Bank	**1 July 2022 $m**	**Cash flows $m**	**Non-cash changes $m**	**30 June 2023 $m**
Liabilities				
Borrowings	**7,911.3**	**432.0**	**(198.1)**	**8,145.2**
Lease liabilities	**40.3**	**(11.3)**	**7.6**	**36.6**
Total liabilities from financing activities	**7,951.6**	**420.7**	**(190.5)**	**8,181.8**

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

Notes to the financial statements

For the year ended 30 June 2023

3.2 Financial assets

	Group		Bank	
	2023 $m	2022 $m	**2023 $m**	2022 $m
Fair value through profit or loss				
Term deposits	**3.0**	3.0	**-**	-
	3.0	3.0	**-**	-
Amortised cost				
Deposits	**743.3**	366.6	**743.3**	366.6
Fixed coupon bonds	**265.9**	366.2	**265.9**	366.2
Floating rate notes	**1,604.6**	1,414.4	**1,604.6**	1,414.4
Residential mortgage-backed securities	**-**	-	**3,185.1**	3,421.6
Impairment provision[1]	**(0.3)**	(0.3)	**(0.3)**	(0.3)
	2,613.5	2,146.9	**5,798.6**	5,568.5
Fair value through other comprehensive income				
Debt instruments - residential mortgage-backed securities	**-**	-	**81.2**	33.8
Equity instruments - shares in unlisted entities	**57.9**	57.9	**57.9**	57.9
	57.9	57.9	**139.1**	91.7

[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. Subsequent measurement is then either at fair value through profit or loss, amortised cost or fair value through other comprehensive income. For an asset that is not at fair value through profit or loss, the initial carrying amount 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

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 2023, the Bank sold corporate investment securities measured at amortised cost to the value of $10.0 million (2022: $16.0 million). Any sales are made in order to comply with the credit limits and concentration risks in the Bank's Financial Risk Policy.

Notes to the financial statements

For the year ended 30 June 2023

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.

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

Debt instruments at fair value through other comprehensive income include residential mortgage-backed securities.

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 (except for the acceptance of forbearance), 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 2023

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 - 2023	**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	**74.2**	**21.6**	**2.00%**	**4,930.0**	**3,265.0**	**1,570.0**	**95.0**

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

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 2023

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 counterparties' 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 2023

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 2023 and 30 June 2022:

Group & Bank - 2023	**Changes in fair value used for calculating hedge ineffectiveness**	**Changes in the value of the hedged item used for calculating ineffectiveness[1]**	**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	**(25.4)**	**(25.6)**	**0.2**	**Other net operating income**	**0.3**	**Other net operating income**

Group & Bank - 2022	Changes in fair value used for calculating hedge ineffectiveness	Changes in the value of the hedged item used for calculating ineffectiveness[1]	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

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

Balances presented in the table are net of tax. There is $nil (2022: $nil) remaining in the hedging reserve from hedging relationships for which hedge accounting is no longer applied.

Notes to the financial statements

For the year ended 30 June 2023

3.4 Loans and advances

	Group		Bank	
	2023 $m	2022 $m	**2023 $m**	2022 $m
Term loans	**15,913.8**	14,911.7	**15,913.8**	14,911.7
Credit cards and overdrafts	**90.3**	95.4	**90.3**	95.4
Gross loans and advances	**16,004.1**	15,007.1	**16,004.1**	15,007.1
Impairment provision	**(32.1)**	(29.5)	**(32.1)**	(29.5)
Net deferred origination cost and fee revenue	**50.1**	41.5	**50.1**	41.5
Net loans and advances	**16,022.1**	15,019.1	**16,022.1**	15,019.1

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 - 2023	**Stage 1**	**Stage 2**	**Stage 3**		
	Collective provision $m	**Collective provision $m**	**Collective provision $m**	**Individual provision $m**	**Total provision $m**
Balance at 30 June 2022	**21.7**	**3.3**	**4.1**	**0.4**	**29.5**
Changes due to financial assets recognised in the opening balance that have transferred from:					
Stage 1	**(0.5)**	**0.3**	**0.2**	**-**	**-**
Stage 2	**1.1**	**(1.6)**	**0.5**	**-**	**-**
Stage 3	**0.6**	**0.4**	**(1.0)**	**-**	**-**
Charge to income statement	**(0.7)**	**2.0**	**1.3**	**-**	**2.6**
Balance at 30 June 2023	**22.2**	**4.4**	**5.1**	**0.4**	**32.1**

Group & Bank - 2022	Stage 1	Stage 2	Stage 3		
	Collective provision $m	Collective provision $m	Collective provision $m	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	-	-
Stage 2	1.5	(2.3)	0.8	-	-
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

Notes to the financial statements

For the year ended 30 June 2023

3.5 Impairment of financial assets (continued)

Movements in the 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 year.

Group & Bank - 2023	**Stage 1 $m**	**Stage 2 $m**	**Stage 3 $m**	**Total $m**
Loans and advances (gross) as at 1 July 2022	**14,840.0**	**134.6**	**32.5**	**15,007.1**
Transfers from				
Stage 1	**(141.6)**	**123.7**	**17.9**	**-**
Stage 2	**50.1**	**(60.1)**	**10.0**	**-**
Stage 3	**6.6**	**5.7**	**(12.3)**	**-**
Balance of new loans and advances originated during the year	**4,205.3**	**27.1**	**3.6**	**4,236.0**
Loans and advances derecognised during the year including write-offs	**(3,192.9)**	**(36.5)**	**(9.6)**	**(3,239.0)**
Loans and advances (gross) as at 30 June 2023	**15,767.5**	**194.5**	**42.1**	**16,004.1**

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 from				
Stage 1	(110.4)	99.7	10.7	-
Stage 2	87.9	(99.6)	11.7	-
Stage 3	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 year 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

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 2023

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 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 Credit Risk Committee.

Notes to the financial statements

For the year ended 30 June 2023

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 factors including the tightening monetary policy cycle and high inflationary environment 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	55%	This scenario is set around the current central economic forecasts which sees the economy remain on the "narrow path" where inflation returns to target within the RBA's projected timeframe. The economy continues to grow over the forecast period and unemployment rate increases are modest to a peak of 4.6%. The recent return to growth in housing values is maintained through the forecast period at modest levels.
Downside	30%	This scenario recognises the path to maintaining economic growth is narrow and the economy falls into a 'technical recession' due to one (or more) domestic/international risk factors that negatively impact on an already weak Australian consumer. Unemployment rates increase beyond a neutral unemployment level which combined with further reductions to consumer confidence sees housing prices quickly return to the negative growth that occurred through most of 2022. Peak-to-trough declines of 15-20% are experienced across most regions of Australia. Larger reductions in consumer spending support an earlier return of inflation to the RBA's target band which brings forward monetary policy easing to support the economy and avoid a deep recession.
Severe	15%	This scenario considers more remote and other more severe events compared to the downside scenario which adversely impacts GDP, unemployment, and property values. It contemplates that inflation may remain above the RBA's target band through the onset of the downturn which limits the ability of the RBA to ease monetary policy to stimulate the economy to avoid the deep recession that ensues. Unemployment peaks at 7.5% with peak-to-trough housing value declines of 20-25% experienced across most regions of Australia.
Upside	0%	This scenario recognises the potential for economic indicators to be more favourable than expected in the short term. However, any initial upside economic outcomes would be seen as inflationary by the RBA and lead to further tightening in monetary policy, or the timeline for the easing of monetary policy to be extended. Any material upside economic benefits would be countered by the resultant tighter monetary policy settings.

In addition to the modelled scenarios, the Bank also considers the need for additional overlays for model risk and/or other factors not adequately captured within the model. These overlays were reviewed and updated as at 30 June 2023.

Notes to the financial statements

For the year ended 30 June 2023

3.5 Impairment of financial assets (continued)

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 measures	**2023 $m**	2022 $m
If 1% of Stage 1 mortgage secured loans moved to Stage 2	**1.6**	1.3
If 1% of Stage 1 mortgage secured loans moved to Stage 3	**8.3**	7.9
If 1% of Stage 1 personal lending exposures moved to Stage 2	**1.0**	0.9
If 1% of Stage 1 personal lending exposures moved to Stage 3	**3.0**	2.6
If the LGD of the mortgage secured loans increased by 1%	**1.2**	0.9

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 2023, 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-offs

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 2023

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	
	2023 $m	2022 $m	**2023 $m**	2022 $m
Members' shares	**3.0**	3.0	**3.0**	3.0
Customers' call deposits	**9,578.7**	8,934.3	**9,578.7**	8,934.3
Customers' term deposits	**3,439.4**	3,003.3	**3,439.4**	3,003.3
	13,021.1	11,940.6	**13,021.1**	11,940.6

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	
	2023 $m	2022 $m	**2023 $m**	2022 $m
Securitisation trust borrowings	**1,571.9**	1,265.6	**4,817.1**	4,687.2
Securitisation warehouse borrowings	**624.8**	884.6	**646.3**	918.7
Term borrowings[1]	**2,679.5**	2,302.9	**2,681.8**	2,305.4
	4,876.2	4,453.1	**8,145.2**	7,911.3

[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 2023

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	
	2023	2022	**2023**	2022
	$m	$m	**$m**	$m
(i) Australia and New Zealand Banking Group				
Approved limit	**750.0**	500.0	**750.0**	500.0
Committed limit[1]	**750.0**	500.0	**750.0**	500.0
Amount utilised	**245.8**	392.3	**245.8**	392.3
(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]	**42.3**	42.3	**42.3**	42.3
Amount utilised	**40.9**	40.9	**40.9**	40.9
(iii) National Australia Bank Limited				
Approved limit	**690.0**	690.0	**690.0**	690.0
Committed limit[1]	**425.0**	570.0	**425.0**	570.0
Amount utilised	**336.4**	450.5	**336.4**	450.5
(iv) Overdraft				
Approved limit	**10.0**	10.0	**10.0**	10.0
Amount utilised	**-**	-	**-**	-
(v) RBA (internal securitisation)				
Approved limit	**1,669.2**	1,923.2	**1,669.2**	1,923.2
Amount utilised	**-**	-	**-**	-
(vi) RBA TFF				
Initial allowance				
Approved limit	**356.6**	406.6	**356.6**	406.6
Amount utilised	**356.6**	406.6	**356.6**	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.

As at 30 June 2023, the Bank currently has $627.5 million drawn of the funding allowance (2022: $677.5 million), with $50.0 million repaid during the financial year ended 30 June 2023. $819.0 million (2022: $855.0 million) of mortgage backed securities that have a fair value of $814.0 million (2022: $845.9 million) were pledged as collateral for the amount drawn.

Notes to the financial statements

For the year ended 30 June 2023

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.

	Fair value				Carrying amount
Group - 2023	**Level 1**	**Level 2**	**Level 3**	**Total**	
	$m	**$m**	**$m**	**$m**	**$m**
Financial assets measured at fair value					
Derivative financial instruments	**-**	**74.2**	**-**	**74.2**	**74.2**
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	**-**	**-**	**15,507.1**	**15,507.1**	**16,022.1**
Financial assets - amortised cost	**-**	**2,445.3**	**-**	**2,445.3**	**2,613.5**
Financial liabilities measured at fair value					
Derivative financial instruments	**-**	**21.6**	**-**	**21.6**	**21.6**
Financial liabilities not measured at fair value					
Deposits	**-**	**12,955.7**	**-**	**12,955.7**	**13,021.1**
Borrowings[1]	**-**	**2,185.5**	**2,624.3**	**4,809.8**	**4,876.2**

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

	Fair value				Carrying amount
Group - 2022	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]	-	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.
[2]The prior year balances have been adjusted for consistency with the current year disclosures that reflected updated information.

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For the year ended 30 June 2023

3.9 Fair value of financial instruments (continued)

Bank - 2023	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	-	74.2	-	74.2	74.2
Financial assets - fair value through other comprehensive income: Investment in shares of unlisted entities and mortgage-backed securities	-	81.2	57.9	139.1	139.1
Financial assets for which fair values are disclosed					
Loans and advances	-	-	15,507.1	15,507.1	16,022.1
Financial assets - amortised cost	-	5,607.2	-	5,607.2	5,798.6
Financial liabilities measured at fair value					
Derivative financial instruments	-	21.6	-	21.6	21.6
Financial liabilities for which fair values are disclosed					
Deposits	-	12,955.7	-	12,955.7	13,021.1
Borrowings[1]	-	5,377.1	2,626.3	8,003.4	8,145.2

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

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[2]	-	5,446.5	-	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.
[2]The prior year balances have been adjusted for consistency with the current year disclosures that reflected updated information.

There were no transfers between levels during the year. There were no transfers to or from Level 3 of the fair value hierarchy.

Notes to the financial statements

For the year ended 30 June 2023

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 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.

Term deposits are brought to account at the gross value of the outstanding balance, which approximates their fair value due to the short term maturities of these securities and the lack of fluctuations in the market interest rates or credit quality of the counterparties since their inception.

Financial assets - Equity instruments at fair value through other comprehensive income

These assets represent investments that the Group intends to hold for long term 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.

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For the year ended 30 June 2023

3.9 Fair value of financial instruments (continued)

Financial assets - Equity instruments at fair value through other comprehensive income (continued)

Level 3 fair value measurement

The fair value of these assets has been estimated taking into account 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	
	2023	2022
	$m	$m
Balance at beginning of financial year	**57.9**	47.3
Fair value movement recognised in other comprehensive income	**-**	6.7
Additions[2]	**-**	7.2
Shares sold[1]	**-**	(3.3)
Balance at end of financial year	**57.9**	**57.9**

[1]During the previous year, 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 previous 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 12.2 times to 17.1 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

	-1x multiple	**+1x multiple**
	2023	**2023**
Sensitivity analysis	**$m**	**$m**
Changes in fair value and impact to other comprehensive income	**(3.4)**	**3.6**
% change	**(6.7%)**	**7.1%**

Financial assets - Debt instruments at fair value through other comprehensive income

All these instruments 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 (e.g., observable market data for similar instruments).

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 fair value. The 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.

Notes to the financial statements

For the year ended 30 June 2023

3.9 Fair value of financial instruments (continued)

Loans and advances (continued)

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.

Financial assets - amortised cost

Financial assets - amortised cost is comprised 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.

Deposits

The 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 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.

Receivables due from other banks and payables due to other banks

Receivables due from other banks and payables due to other banks include collateral posted or received on derivative positions. They are carried at the gross value of the outstanding balance. The carrying amount approximates the fair value as they are short term in nature.

Use of judgements and estimates

Where the fair values of financial assets and financial liabilities recorded in the balance sheets 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.

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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 deliver on its purpose of helping 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 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 Group's RMF 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 Board Audit Committee (BAC) and; (iii) the Board People, Culture & Remuneration Committee (BPCRC), 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.

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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 - 2023	**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	**447.8**	**-**	**-**	**-**	**2.5**	**450.3**
Receivables due from other banks	**19.0**	**-**	**-**	**-**	**-**	**19.0**
Financial assets - fair value through profit or loss	**-**	**3.0**	**-**	**-**	**-**	**3.0**
Financial assets - amortised cost	**1,695.6**	**887.9**	**30.0**	**-**	**-**	**2,613.5**
Derivative financial instruments	**-**	**32.0**	**42.2**	**-**	**-**	**74.2**
Loans and advances (gross)	**10,169.2**	**3,318.5**	**2,381.1**	**135.3**	**-**	**16,004.1**
	12,331.6	**4,241.4**	**2,453.3**	**135.3**	**2.5**	**19,164.1**
Liabilities						
Payables due to other banks	**55.3**	**-**	**-**	**-**	**-**	**55.3**
Deposits	**9,578.6**	**3,268.7**	**170.8**	**-**	**3.0**	**13,021.1**
Derivative financial instruments	**-**	**2.0**	**19.6**	**-**	**-**	**21.6**
Borrowings[1]	**2,880.4**	**1,749.1**	**246.7**	**-**	**-**	**4,876.2**
Commitments (Note 4.11)	**523.7**	**14.7**	**16.4**	**-**	**-**	**554.8**
	13,038.0	**5,034.5**	**453.5**	**-**	**3.0**	**18,529.0**

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

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)[2]	436.3	0.5	6.8	-	-	443.6
	12,021.5	4,059.8	776.2	-	3.0	16,860.5

[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 reflected updated information.

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3.10 Risk management (continued)

(a) Interest rate risk (continued)

Bank - 2023	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	442.8	-	-	-	2.5	445.3
Receivables due from other banks	19.0	-	-	-	-	19.0
Financial assets - amortised cost	4,880.7	887.9	30.0	-	-	5,798.6
Derivative financial instruments	-	32.0	42.2	-	-	74.2
Loans and advances (gross)	10,169.2	3,318.5	2,381.1	135.3	-	16,004.1
Financial assets - fair value through other comprehensive income (Note 3.2)	81.2	-	-	-	-	81.2
	15,592.9	4,238.4	2,453.3	135.3	2.5	22,422.4
Liabilities						
Payables due to other banks	55.3	-	-	-	-	55.3
Deposits	9,578.6	3,268.7	170.8	-	3.0	13,021.1
Derivative financial instruments	-	2.0	19.6	-	-	21.6
Borrowings[1]	6,147.1	1,751.4	246.7	-	-	8,145.2
Commitments (Note 4.11)	523.7	14.7	16.4	-	-	554.8
	16,304.7	5,036.8	453.5	-	3.0	21,798.0

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

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 - 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 (Note 3.2)	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)[2]	436.3	0.5	6.8	-	-	443.6
	15,477.3	4,062.2	776.2	-	3.0	20,318.7

[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 reflected updated information.

Notes to the financial statements

For the year ended 30 June 2023

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	2023 $m	2022 $m
Average exposure	**2.5**	2.2
Maximum exposure	**4.5**	4.6
Minimum exposure	**1.2**	0.6

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 measured at the end of each month over the financial year:

Value at risk	2023 $m	2022 $m
Average	**3.8**	4.7
Maximum	**7.0**	7.6
Minimum	**1.2**	2.6

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

Present value sensitivity	2023 $m	2022 $m
Average exposure	**5.7**	11.1
Maximum exposure	**10.3**	15.6
Minimum exposure	**2.7**	7.1

Notes to the financial statements

For the year ended 30 June 2023

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.

The Group is exposed to equity price risk on its investment in unlisted securities, refer to Notes 3.2 and 3.9 for further details.

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	**2023**		2022	
Judgments of reasonably possible movements	**+10%**	**-10%**	+10%	-10%
	$m	**$m**	$m	$m
Investment in unlisted securities	**4.0**	**(4.0)**	4.0	(4.0)
	4.0	**(4.0)**	4.0	(4.0)

(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 in 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 into account 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 sheets and is classified according to APRA's APS 112 *Capital Adequacy: Standardised Approach to Credit Risk (Attachment F, paragraph 8, Table 21)* 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 2023

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 - 2023	**Credit rating Grade 1**	**Credit rating Grade 2**	**Credit rating Grade 3**	**Unrated**	**Total**
	$m	**$m**	**$m**	**$m**	**$m**
Assets					
Cash and cash equivalents	**397.8**	**48.8**	**1.1**	**2.6**	**450.3**
Receivables due from other banks	**19.0**	**-**	**-**	**-**	**19.0**
Financial assets - fair value through profit or loss	**-**	**3.0**	**-**	**-**	**3.0**
Financial assets - amortised cost					
Stage 1: 12-month ECL - not credit impaired	**1,368.5**	**944.6**	**300.4**	**-**	**2,613.5**
Derivative financial instruments	**74.2**	**-**	**-**	**-**	**74.2**
	1,859.5	**996.4**	**301.5**	**2.6**	**3,160.0**

Group - 2022	Credit rating Grade 1	Credit rating Grade 2	Credit rating Grade 3	Unrated	Total
	$m	$m	$m	$m	$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

Bank - 2023	**Credit rating Grade 1**	**Credit rating Grade 2**	**Credit rating Grade 3**	**Unrated**	**Total**
	$m	**$m**	**$m**	**$m**	**$m**
Assets					
Cash and cash equivalents	**392.8**	**48.8**	**1.1**	**2.6**	**445.3**
Receivables due from other banks	**19.0**	**-**	**-**	**-**	**19.0**
Financial assets - amortised cost					
Stage 1: 12-month ECL - not credit impaired	**4,422.6**	**944.6**	**300.4**	**131.0**	**5,798.6**
Financial assets - fair value through other comprehensive income (Note 3.2)					
Stage 1: 12-month ECL - not credit impaired[1]	**42.9**	**8.7**	**6.0**	**23.6**	**81.2**
Derivative financial instruments	**74.2**	**-**	**-**	**-**	**74.2**
	4,951.5	**1,002.1**	**307.5**	**157.2**	**6,418.3**

[1]The total amount represents the Bank's interest in residential mortgage-backed securities. Of the amount included within Grade 3, $2.5 million (2022: $nil) is credit rated as Grade 4.

Notes to the financial statements

For the year ended 30 June 2023

3.10 Risk management (continued)

(c) Credit risk (continued)

Credit quality - investment with counterparties (continued)

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 (Note 3.2)					
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

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 Risk Management*.

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 - 2023 **Overdue Status of Loans and advances (gross)**	**Stage 1 $m**	**Stage 2 $m**	**Stage 3 $m**	**Total $m**
Residential mortgages				
Current	**15,195.6**	**112.0**	**-**	**15,307.6**
Overdue less than or equal to 30 days	**159.4**	**24.2**	**-**	**183.6**
Overdue more than 30 days	**-**	**49.3**	**35.9**	**85.2**
	15,355.0	**185.5**	**35.9**	**15,576.4**
Commercial lending				
Current	**46.4**	**-**	**-**	**46.4**
Overdue less than or equal to 30 days	**0.8**	**-**	**-**	**0.8**
Overdue more than 30 days	**-**	**-**	**0.5**	**0.5**
	47.2	**-**	**0.5**	**47.7**
Personal lending				
Current	**354.3**	**3.1**	**-**	**357.4**
Overdue less than or equal to 30 days	**11.0**	**1.3**	**-**	**12.3**
Overdue more than 30 days	**-**	**4.6**	**5.7**	**10.3**
	365.3	**9.0**	**5.7**	**380.0**
Total loans and advances (gross)	**15,767.5**	**194.5**	**42.1**	**16,004.1**
Total impairment provision	**22.2**	**4.4**	**5.5**	**32.1**

Notes to the financial statements

For the year ended 30 June 2023

3.10 Risk management (continued)

(c) Credit risk (continued)

Credit quality - lending portfolios (continued)

Group & Bank - 2022 **Overdue Status of 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 2023

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	**Percentage of exposure that is subject to collateral requirements**		
Types of credit exposure	**2023 %**	2022 %	Principal type of collateral held
Financial assets - amortised cost	**-**	-	None
Loans and advances:			
Residential mortgages	**100**	100	Real estate property
Commercial lending	**100**	100	Real estate property
Personal lending	**32**	31	Motor vehicle
Financial assets - fair value through other comprehensive income	**-**	-	None

For derivative financial instruments, the Bank exchanges AUD cash collateral representing credit support to secure the Bank's derivative asset or liability position, as part of the standard ISDA. As at 30 June 2023, this collateral balance is $12.6 million and $55.3 million represented within receivables due from other banks and payables due to other banks respectively (2022: nil).

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 for impairment. As at 30 June 2023, the fair value of collateral held against residential mortgages that have been assessed as Stage 3 credit impaired is $7.6 million (2022: $6.3 million) with associated gross loans and advances balance of $8.0 million (2022: $6.9 million). During the year, the Bank took possession of properties valued at $2.3 million (2022: $2.2 million) which were securing loans of $2.0 million (2022: $1.2 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	**2023 $m**	2022 $m
LVR 0% - 60%	**4,948.2**	4,281.3
LVR 60.01% - 80%	**6,389.7**	6,564.4
LVR 80.01% - 90%	**2,416.8**	2,335.8
LVR > 90.01%	**1,821.7**	1,438.9
	15,576.4	14,620.4

During the year, the Bank participated in the Government's Home Guarantee Scheme to support home buyers, primarily first home buyers. The scheme helps eligible first home buyers to 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 scheme typically originate at LVR above 90%. The existence of the guarantee strengthens the Bank's security position. The LVR is reported without the benefit of the guarantee.

Notes to the financial statements

For the year ended 30 June 2023

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 major concentrations of exposures broadly aligns with our business strategy, focused primarily in the capital cities and large regional areas in the eastern states. 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	**2023**		2022	
State	**Residential mortgages $m**	**Other loans $m**	Residential mortgages $m	Other loans $m
Queensland	**5,677.5**	**200.5**	5,205.9	193.3
New South Wales	**4,857.5**	**97.8**	4,714.1	86.4
Victoria	**3,236.8**	**99.8**	3,056.0	79.6
Western Australia	**1,080.3**	**18.4**	994.0	17.2
Australian Capital Territory	**284.1**	**4.0**	253.9	4.0
South Australia	**300.1**	**3.8**	284.0	3.4
Tasmania	**105.8**	**1.7**	85.3	1.5
Northern Territory	**34.3**	**1.7**	27.2	1.3
	15,576.4	**427.7**	14,620.4	386.7

(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.

Future funding may be sourced from RBA facility, securitisation market, standby facilities, and external notes with consideration given to product, tenor and customer concentrations.

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 years, the Bank did not breach these requirements.

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For the year ended 30 June 2023

3.10 Risk management (continued)

(d) Liquidity and funding risk (continued)

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 - 2023	Carrying Amount	Gross contractual inflow/(outflow)	Within 1 month	1-3 months	3-12 months	1-5 years	More than 5 years
	$m	$m	$m	$m	$m	$m	$m
Financial liability by type							
Non-derivative financial liabilities							
Payables due to other banks	55.3	55.3	55.3	-	-	-	-
Members' shares	3.0	3.0	3.0	-	-	-	-
Customers' call deposits	9,578.7	9,578.7	9,578.7	-	-	-	-
Customers' term deposits	3,439.4	3,511.1	565.6	712.6	2,048.3	184.3	0.3
Borrowings[1]	4,876.2	5,327.1	335.4	781.4	1,334.7	2,295.0	580.6
Lease liabilities	36.6	41.4	0.8	1.6	5.9	17.9	15.2
Total non-derivative financial liabilities	17,989.2	18,516.6	10,538.8	1,495.6	3,388.9	2,497.2	596.1
Derivative financial liabilities							
Interest rate swaps[2]							
Outflow	137.6	137.6	11.1	23.3	60.1	43.1	-
Inflow	(116.0)	(116.0)	(12.6)	(22.2)	(49.0)	(32.2)	-
Total derivative financial liabilities	21.6	21.6	(1.5)	1.1	11.1	10.9	-
Financial asset by type[3]							
Non-derivative financial assets							
Cash and cash equivalents	450.3	450.3	450.3	-	-	-	-
Receivables due from other banks	19.0	19.0	19.0	-	-	-	-
Financial assets - fair value through profit or loss	3.0	3.0	1.5	-	1.5	-	-
Financial assets - amortised cost	2,613.5	2,613.5	136.0	584.3	714.5	1,178.7	-
Loans and advances	16,022.1	16,022.1	21.1	87.0	204.7	1,150.3	14,559.0
Financials assets - fair value through other comprehensive income	57.9	57.9	-	-	-	-	57.9
Total non-derivative financial assets	19,165.8	19,165.8	627.9	671.3	920.7	2,329.0	14,616.9
Derivative financial assets							
Interest rate swaps[2]							
Outflow	(55.9)	(56.0)	(11.1)	(20.6)	(14.3)	(10.0)	-
Inflow	130.1	130.2	14.9	35.0	59.2	21.1	-
Total derivative financial assets	74.2	74.2	3.8	14.4	44.9	11.1	-

[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.

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For the year ended 30 June 2023

3.10 Risk management (continued)

(d) Liquidity and funding risk (continued)

Group - 2022	Carrying Amount	Gross contractual inflow/(outflow)	Within 1 month	1-3 months	3-12 months	1-5 years	More than 5 years
	$m	$m	$m	$m	$m	$m	$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.

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3.10 Risk management (continued)

(d) Liquidity and funding risk (continued)

Bank - 2023	Carrying Amount	Gross contractual inflow/(outflow)	Within 1 month	1-3 months	3-12 months	1-5 years	More than 5 years
	$m	$m	$m	$m	$m	$m	$m
Financial liability by type							
Non-derivative financial liabilities							
Payables due to other banks	55.3	55.3	55.3	-	-	-	-
Members' shares	3.0	3.0	3.0	-	-	-	-
Customers' call deposits	9,578.7	9,578.7	9,578.7	-	-	-	-
Customers' term deposits	3,439.4	3,511.1	565.6	712.6	2,048.3	184.3	0.3
Borrowings[1]	8,145.2	9,022.2	435.8	939.2	1,977.8	4,323.8	1,345.6
Lease liabilities	36.6	41.4	0.8	1.6	5.9	17.9	15.2
Total non-derivative financial liabilities	21,258.2	22,211.7	10,639.2	1,653.4	4,032.0	4,526.0	1,361.1
Derivative financial liabilities							
Interest rate swaps[2]							
Outflow	137.6	137.6	11.1	23.3	60.1	43.1	-
Inflow	(116.0)	(116.0)	(12.6)	(22.2)	(49.0)	(32.2)	-
Total derivative financial liabilities	21.6	21.6	(1.5)	1.1	11.1	10.9	-
Financial asset by type[3]							
Non-derivative financial assets							
Cash and cash equivalents	445.3	445.3	445.3	-	-	-	-
Receivables due from other banks	19.0	19.0	19.0	-	-	-	-
Financial assets - amortised cost	5,798.6	5,798.6	143.2	584.3	714.5	1,178.7	3,177.9
Loans and advances	16,022.1	16,022.1	21.1	87.0	204.7	1,150.3	14,559.0
Financials assets - fair value through other comprehensive income	139.1	139.1	-	-	-	-	139.1
Total non-derivative financial assets	22,424.1	22,424.1	628.6	671.3	919.2	2,329.0	17,876.0
Derivative financial assets							
Interest rate swaps[2]							
Outflow	(55.9)	(56.0)	(11.1)	(20.6)	(14.3)	(10.0)	-
Inflow	130.1	130.2	14.9	35.0	59.2	21.1	-
Total derivative financial assets	74.2	74.2	3.8	14.4	44.9	11.1	-

[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 2023

3.10 Risk management (continued)

(d) Liquidity and funding risk (continued)

Bank - 2022	Carrying Amount	Gross contractual inflow/(outflow)	Within 1 month	1-3 months	3-12 months	1-5 years	More than 5 years
	$m	$m	$m	$m	$m	$m	$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 2023

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 2023	As at 30 June 2022
	$m	$m
Common Equity Tier 1 Capital		
Retained profits, including current year profits	**1,240.0**	1,195.6
Reserves	**67.7**	92.8
Total Common Equity Tier 1 Capital	**1,307.7**	1,288.4
Regulatory Adjustments		
Intangibles	**(61.2)**	(55.3)
Equity investments	**(64.5)**	(64.1)
Other deductions	**(116.2)**	(131.5)
Total Regulatory Adjustments	**(241.9)**	(250.9)
Net Common Equity Tier 1 Capital	**1,065.8**	1,037.5
Tier 2 Capital		
Provisions eligible for inclusion in Tier 2 Capital	**21.8**	20.7
Net Tier 2 Capital	**21.8**	20.7
Capital base	**1,087.6**	1,058.2
Risk weighted assets	**7,466.1**	7,019.0
Risk Weighted Capital Ratios		
Tier 1	**14.28%**	14.78%
Tier 2	**0.29%**	0.29%
Total Capital Ratio	**14.57%**	15.07%

[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 2023

4. Other notes

4.1 Other assets

	Group		**Bank**	
	2023	2022	**2023**	2022
	$m	$m	**$m**	$m
Sundry debtors	**3.3**	4.0	**3.2**	3.8
Prepayments	**16.3**	12.4	**16.3**	12.4
	19.6	16.4	**19.5**	16.2

All other asset balances at 30 June 2023 and 30 June 2022 are current.

4.2 Property, plant and equipment

	Group		**Bank**	
	2023	2022	**2023**	2022
	$m	$m	**$m**	$m
At cost	**58.6**	65.8	**58.6**	65.8
Accumulated depreciation	**(31.2)**	(59.5)	**(31.2)**	(59.5)
Property, plant and equipment	**27.4**	6.3	**27.4**	6.3
Capital work in progress	**2.6**	17.3	**2.6**	17.3
Total property, plant and equipment	**30.0**	23.6	**30.0**	23.6

All property, plant and equipment balances at 30 June 2023 and 30 June 2022 are non-current.

Recognition and measurement

All property, 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 previous 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 2023

4.3 Intangible assets

	Group		Bank	
	2023 $m	2022 $m	**2023 $m**	2022 $m
At cost	**180.3**	163.5	**180.3**	163.5
Accumulated amortisation	**(133.8)**	(117.9)	**(133.8)**	(117.9)
Intangible assets	**46.5**	45.6	**46.5**	45.6
Capital work in progress	**14.7**	9.7	**14.7**	9.7
Total intangible assets	**61.2**	55.3	**61.2**	55.3
Reconciliation of carrying amounts				
Carrying amount at beginning of financial year	**55.3**	55.3	**55.3**	55.3
Additions	**16.8**	20.7	**16.8**	20.7
Net movement in capital work in progress	**5.0**	(3.2)	**5.0**	(3.2)
Amortisation	**(15.9)**	(17.5)	**(15.9)**	(17.5)
Carrying amount at end of financial year	**61.2**	55.3	**61.2**	55.3

All intangible asset balances at 30 June 2023 and 30 June 2022 are non-current.

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 have not changed from the previous year.

Major banking infrastructure software	15 years
Loan origination system	3-10 years
Other computer software	3-7 years

Software as a service (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 year, the Group recognised $3.1 million (2022: $0.8 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 2023

4.3 Intangible assets (continued)

Use of judgements and estimates

As at 30 June 2023, the Group estimates the useful life of its major banking infrastructure software to be at least 15 years based on the expected technical obsolescence of such assets and a comparison of other similar platforms. However, the actual useful life may be shorter or longer than 15 years, depending on technical innovations and competitor actions. As at 30 June 2023, the carrying amount of this software was $9.2 million (2022: $11.3 million). If the useful life was only 10 years, the carrying amount would be $2.0 million (2022: $6.0 million) as at 30 June 2023. If the useful life was estimated to be 20 years, the carrying amount would be $12.2 million (2022: $13.4 million) as at 30 June 2023.

4.4 Right-of-use assets

	Group		Bank	
	2023 $m	2022 $m	**2023 $m**	2022 $m
Buildings	**32.9**	35.9	**32.9**	35.9
Total right-of-use assets	**32.9**	35.9	**32.9**	35.9
Reconciliation of carrying amounts				
Carrying amount at beginning of financial year	**35.9**	29.0	**35.9**	29.0
Additions	**7.6**	24.4	**7.6**	24.4
Depreciation				
Buildings	**(10.6)**	(17.4)	**(10.6)**	(17.4)
Plant and equipment	**-**	(0.1)	**-**	(0.1)
	(10.6)	(17.5)	**(10.6)**	(17.5)
Carrying amount at end of financial year	**32.9**	35.9	**32.9**	35.9

Refer to Note 4.6 for maturity analysis of lease liabilities as at 30 June 2023 and 30 June 2022.

Notes to the financial statements

For the year ended 30 June 2023

4.4 Right-of-use assets (continued)

The Group leases various hub offices and branch premises. Lease contracts are typically made for periods over 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.

Right-of-use-assets (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 payments 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 and leases of low-value assets. The Group has applied these exemptions for short term leases at 30 June 2023 (2022: no exemptions were applied).

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 2023

4.5 Other liabilities

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

	Group		Bank	
	2023 $m	2022 $m	**2023 $m**	2022 $m
Trade creditors and accruals	**17.2**	25.1	**17.6**	26.0
Unearned insurance premiums	**0.2**	0.8	**-**	-
Outstanding insurance claims liabilities	**0.3**	0.5	**-**	-
Income tax payable	**7.1**	41.8	**7.1**	41.8
	24.8	68.2	**24.7**	67.8

Income tax payable of $46.4 million at 30 June 2022 relates to the tax on the capital gain on sale of subsidiary. The sale of CHL was completed during the previous year. Refer to Note 4.13 which provides further disclosure relating to CHL.

4.6 Lease liabilities

	Group		Bank	
	2023 $m	2022 $m	**2023 $m**	2022 $m
Lease liabilities				
Current	**7.2**	10.4	**7.2**	10.4
Non-current	**29.4**	29.9	**29.4**	29.9
	36.6	40.3	**36.6**	40.3
Reconciliation of carrying amounts				
Carrying amount at beginning of financial year	**40.3**	31.3	**40.3**	31.3
Net additions	**7.6**	24.6	**7.6**	24.6
Lease payments				
Gross lease payments	**(12.3)**	(16.5)	**(12.3)**	(16.5)
Interest portion of lease payments	**1.0**	0.9	**1.0**	0.9
	(11.3)	(15.6)	**(11.3)**	(15.6)
Carrying amount at end of financial year	**36.6**	40.3	**36.6**	40.3

For recognition and measurement details, refer to Note 4.4.

The Bank has no bank guarantee (2022: $2.5 million) in respect of its leased properties.

Notes to the financial statements

For the year ended 30 June 2023

4.7 Provisions

	Group		Bank	
	2023 $m	2022 $m	**2023 $m**	2022 $m
Employee benefits	**26.8**	21.6	**26.8**	21.6
Make good provision	**2.5**	2.2	**2.5**	2.2
Other provisions	**7.8**	8.1	**7.8**	8.1
	37.1	31.9	**37.1**	31.9
Current	**31.7**	28.0	**31.7**	28.0
Non-current	**5.4**	3.9	**5.4**	3.9
	37.1	31.9	**37.1**	31.9

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 Australian Taxation Office (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 2023

4.8 Reserves

	Group		Bank	
	2023 $m	2022 $m	**2023 $m**	2022 $m
Redeemed member share reserve	**3.3**	3.2	**3.3**	3.2
Fair value through other comprehensive income reserve	**21.3**	21.3	**21.0**	21.1
Cash flow hedge reserve	**33.8**	58.9	**33.8**	58.9
Business combination reserve	**9.6**	9.6	**9.6**	9.6
	68.0	93.0	**67.7**	92.8

Nature and purpose of reserves

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 2023

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[1]	
	2023	2022	**2023**	2022
	$'000	$'000	**$'000**	$'000
The aggregate compensation of KMP during the year comprising amount paid or payable or provided for was as follows:				
- Short term employee benefits[2]	**1,139.4**	1,080.6	**4,519.9**	4,448.6
- Post employment benefits[2]	**255.7**	165.4	**187.5**	163.5
- Other long term benefits[2]	**-**	-	**1,840.3**	310.7
- Termination benefits	**-**	-	**-**	270.5
	1,395.1	1,246.0	**6,547.7**	5,193.3

[1]Other KMP comprise of Executive Committee members.
[2]The prior year balances have been adjusted for consistency with the current year disclosures that reflect updated information.

Compensation shown as short term benefits means (where applicable) salaries, annual and sick leave, and bonuses, 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 who joined the Bank prior to 30 June 2021. 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 and termination benefits is $189,895 (2022: $180,106).

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

	2023	2022
	$'000	$'000
Aggregate of loans as at balance date	**3,292.5**	4,644.2
Total undrawn revolving credit facilities available at balance date	**1,527.2**	424.6
Interest charged on loans and overdraft facilities	**113.3**	73.1

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 current year are excluded from the current year analysis but are included in the previous year 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 (2022: $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 (2022: $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 (2022: $nil).

Notes to the financial statements

For the year ended 30 June 2023

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.

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	
	2023	2022	**2023**	2022
Name of entity	**%**	%	**$'000**	$'000
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.

All the above entities are members of a tax consolidated group for the full year, refer to Note 2.3 for further details.

(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 (closed on 7 July 2023)
- Series 2015-1 Harvey Trust
- Series 2017-1 Harvey Trust
- Series 2018-1 Harvey Trust
- Series 2021-1 Harvey Trust
- Series 2023-1 Harvey Trust (established on 15 June 2023)
- Harvey Warehouse Trust No. 4
- Harvey Warehouse Trust No. 5

Notes to the financial statements

For the year ended 30 June 2023

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	
	2023	2022	**2023**	2022
	$'000	$'000	**$'000**	$'000
Transferred financial assets				
Loans and advances at amortised cost	**5,266,261.5**	5,438,147.3	**5,266,261.5**	5,438,147.3
Associated financial liabilities				
Securitisation liabilities - external investors	**2,196,684.1**	2,150,196.3	**2,196,684.1**	2,150,196.3
Amounts due to the Bank	**-**	-	**3,313,865.7**	3,510,205.2
	2,196,684.1	2,150,196.3	**5,510,549.8**	5,660,401.5
For those liabilities that have recourse only to transferred assets:				
Fair value of transferred assets	**5,205,757.0**	5,366,320.2	**5,205,757.0**	5,366,320.2
Fair value of associated liabilities[1]	**(2,185,535.2)**	(2,126,901.6)	**(5,377,085.7)**	(5,551,660.1)
Net position	**3,020,221.8**	3,239,418.6	**(171,328.7)**	(185,339.9)

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

Collateral

The Bank has advanced $6,450.0 thousand (2022: $12,277.8 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 $257,341.5 thousand (2022: $238,385.9 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 general insurance subsidiary operate, require the subsidiary to keep certain levels of regulatory capital and liquid assets, limit its 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 subsidiary. The net carrying amount of the subsidiary's assets and liabilities are $9,482.6 thousand and $655.5 thousand, respectively (2022: $10,263.4 thousand and $1,425.1 thousand, respectively).

(iv) Particulars in relation to a joint venture entity

The Group has a 50% interest in Mutual Marketplace Pty Ltd (2022: 50%). For more details, refer to Note 4.10.

Notes to the financial statements

For the year ended 30 June 2023

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	
	2023	2022
	$'000	$'000
Dividend revenue[1]	**480.0**	20,990.2
Commission revenue	**20.0**	31.9
Net management fees expense	**(468.6)**	(32.8)
Net interest expense	**(73.1)**	(14.9)
Net expense Mutual Marketplace Pty Ltd[2]	**(146,373.7)**	(135,975.0)
Operating lease revenue	**-**	83.9

[1]The previous year's 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 payable to controlled and joint venture entities as at 30 June were:

	Bank	
	2023	2022
	$'000	$'000
Credicorp Finance Pty Ltd	**91.9**	92.3
Credicorp Insurance Pty Ltd	**1,407.2**	1,954.9
CUA Management Pty Ltd	**1,278.9**	1,442.0

The Bank is the head entity of the tax consolidated group and has entered into tax funding and tax sharing agreements with its eligible Australian resident subsidiaries. The details of this agreement are set out in Note 2.3. All transactions between Group entities are eliminated on consolidation.

(vi) Indemnity arrangements

At 30 June 2023, there is a deed of indemnity between the Bank and CUA Management, and the Bank and Credicorp Insurance. For CUA Management, this is for losses and damages as a result of any fee for no service remediation arising out of or in connection with the operation as a financial planning business until 30 June 2014. For Credicorp Insurance, this is for 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 for both companies has been completed.

Notes to the financial statements

For the year ended 30 June 2023

4.10 Joint venture

The Bank has an interest in a joint venture known as Mutual Marketplace Pty Ltd which provides procurement and procurement related 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	
		2023	2022			**2023 $m**	2022 $m
Mutual Marketplace Pty Ltd	Australia	**50%**	50%	Joint Venture	Equity Method	**3.8**	3.4

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

	2023 $m	2022 $m
Commitments to operating expenditure	**1.9**	1.9
	1.9	1.9

The Group has no commitments 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	**2023 $m**	2022 $m
Revenue	**222.3**	211.9
Cost of sales	**(213.5)**	(203.9)
Gross profit	**8.8**	8.0
Operating expenses	**(6.3)**	(5.3)
Profit before income tax	**2.5**	2.7
Income tax expense	**(0.8)**	(0.8)
Profit for the year	**1.7**	1.9

Notes to the financial statements

For the year ended 30 June 2023

4.10 Joint venture (continued)

(a) Interest in joint venture (continued)

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

Summarised balance sheet	**2023 $m**	2022 $m
Total assets	**14.0**	14.0
Total liabilities	**(6.5)**	(7.2)
Net assets	**7.5**	6.8
Reconciliation to carrying amounts:		
Opening net assets	**6.8**	6.0
Profit for the period	**1.7**	1.9
Dividends paid	**(1.0)**	(1.1)
Closing net assets	**7.5**	6.8
Group's share in %	**50%**	50%
Group's share in $	**3.8**	3.4
Carrying amount	**3.8**	3.4

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 reduced 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 2023

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	
	2023 $m	2022 $m	**2023 $m**	2022 $m
Loans approved not advanced[1]	**342.6**	221.0	**342.6**	221.0
Undrawn overdrafts and credit facilities at call[1]	**212.2**	222.6	**212.2**	222.6
	554.8	443.6	**554.8**	443.6

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

(b) Capital commitments

At 30 June 2023 and 30 June 2022, the Group had no commitments 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 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	
	2023 $'000	2022 $'000	**2023 $'000**	2022 $'000
Amounts received or due and receivable by KPMG for:				
Audit services				
Audit of financial statements	**497.3**	558.0	**461.6**	485.8
Other regulatory and audit services	**172.3**	220.3	**147.0**	196.1
Total audit services	**669.6**	778.3	**608.6**	681.9
Audit related services	**170.6**	56.7	**170.6**	56.7
Non-audit services				
Environmental, social and governance (ESG) advisory support	**77.1**	-	**77.1**	-
Other services	**-**	32.1	**-**	32.1
Total non-audit services	**77.1**	32.1	**77.1**	32.1
Total auditor's remuneration	**917.3**	867.1	**856.3**	770.7

Other regulatory and audit services include costs related to breach reporting obligations.

Notes to the financial statements

For the year ended 30 June 2023

4.13 Discontinued operations and disposal of subsidiary for the year ended 30 June 2022

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 and the final settlement of the transaction occurred on 9 February 2022. CHL was reported as a discontinued operation in the previous year. The associated financial information of CHL and intragroup transactions, balances and consolidation impacts are treated as discontinued operations from a financial reporting perspective as outlined below.

Financial performance information

	CUA Health Limited	
	2023 $m	2022 $m
Premium revenue	**-**	39.2
Claims related expenses	**-**	(33.6)
Commission expenses	**-**	(0.7)
Underwriting result	**-**	4.9
Net investment income	**-**	0.5
Expenses	**-**	(2.8)
Profit before tax	**-**	2.6
Income tax expenses	**-**	(0.7)
Profit after income tax of discontinued operations[1]	**-**	1.9
Gain on sale of subsidiary after income tax	**-**	56.7
Transaction and separation costs net of tax	**-**	(0.6)
Profit from discontinued operations	**-**	58.0

[1]The profit after income tax 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 2023

4.13 Discontinued operations and disposal of subsidiary for the year ended 30 June 2022 (continued)

Cash flow information

	CUA Health Limited	
	2023 $m	2022 $m
Net cash provided by operating activities	-	5.8
Net cash flow provided by investing activities	-	14.2
Net cash flow used in financing activities	-	(20.4)
Net cash generated by subsidiary	-	(0.4)

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 2023

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.

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

The business continues to be in run-off and as at 30 June 2023, the financial position and performance is not significant to the Group.

4.15 Events subsequent to reporting date

Since 30 June 2023, 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 2023

5. Accounting policies and new accounting standards

5.1 Other accounting policies

(a) Basis of consolidation

These 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.

(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 2023

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 sheets. The liabilities of a disposal group classified as held for sale are presented separately from other liabilities in the balance sheets.

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.

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.

5.2 New accounting standards

(a) New Australian Accounting Standards and amendments to accounting standards that were effective as of 1 July 2022

The Group has adopted AASB 2020-3 *Annual Improvements 2018-2020 and Other Amendments* as of 1 July 2022. The application of these amendments does not materially impact the annual consolidated financial statements.

(b) New accounting standards and amendments to accounting standards and interpretations that are yet to be 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 2023 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 17 Insurance Contracts	Application Date: 1 January 2023* 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 1032 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** • The standard applies to an insurance subsidiary in the Group that has ceased selling its insurance products and is in run-off since 17 September 2019. Application of the standard does not have a material impact to the Group.	

Notes to the financial statements

For the year ended 30 June 2023

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 2020-1/ AASB 2020-6 Classification of Liabilities as Current or Non-current - Deferral of Effective Date	Application Date: 1 January 2023* 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* 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* 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.	
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* 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.	

Notes to the financial statements

For the year ended 30 June 2023

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 2022-1 Amendments to Australian Accounting Standards - Initial Application of AASB 17 and AASB 9 - Comparative Information	Application Date: 1 January 2023* 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.	
Standard Reference: AASB 2023-1 Amendments to Australian Accounting Standards - Supplier Finance Arrangements	Application Date: 1 January 2024* Application Date for the Group: 1 July 2024*
Nature of Change • The standard amends AASB 107 Statement of Cash Flows and AASB 7 Financial Instruments: Disclosures to provide additional information about an entity's supplier finance arrangements and how they affect its liabilities, cash flows and exposure to liquidity risk. **Impact to the Group** • Management are not expecting any material impacts on the Group.	
Standard Reference: AASB 2023-2 Amendments to Australian Accounting Standards - International Tax Reform - Pillar Two Model Rules	Application Date: 1 January 2023* Application Date for the Group: 1 July 2023*
Nature of Change • The standard amends AASB 112 Income Taxes for a mandatory exception to accounting for deferred tax arising from the implementation of Pillar Two model rules published by the Organisation for Economic Cooperation and Development (OECD) and disclosures on an entity's impacts to income taxes arising from the reform (particularly before the effective date). **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 2023

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 2023-3 Amendments to Australian Accounting Standards - Disclosure of Non-current Liabilities with Covenants: Tier 2	Application Date: 1 January 2024* Application Date for the Group: 1 July 2024*
Nature of Change • The standard amends AASB 1060 General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities to improvement information about liabilities arising from loan arrangements which may be deferred subject to covenants in loan arrangements. **Impact to the Group** • Management are not expecting any material impacts on the Group.	
Standard Reference: AASB 2021-7 Effective Date of Amendments to AASB 10 and AASB 128 and Editorial Corrections	Application Date: 1 January 2025* Application Date for the Group: 1 July 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.	

*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 59 to 130, 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 2023 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
30 August 2023

KPMG

Independent Auditor's Report

To the Members of Credit Union Australia Limited (trading as Great Southern 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 2023 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 2023;
- 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.

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.

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.

KPMG

KPMG

Scott Guse
Partner

Brisbane
30 August 2023

Ben Flaherty
Partner

Brisbane
30 August 2023

Credit Union Australia Ltd (trading as Great Southern Bank)
ABN: 44 087 650 959
AFSL: 238 317
Registered office:
Level 27, 300 George Street,
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.