Qudos Bank

2023 Annual report

Bank of the Year
CANSTAR 2023
Customer-Owned

mozo
EXPERTS CHOICE AWARD 2023
AUSTRALIA'S BEST CUSTOMER OWNED BANK

Contents

Chair's and CEO's report to members

"We are pleased to present our 2023 annual report, which reflects our strong financial performance and continued commitment to being purpose led and returning value to our customers, culminating in being awarded Customer-Owned Bank of the Year (Canstar) and Australia's Best Customer-Owned Bank (Mozo Experts Choice Award)."

BRENDAN WRIGHT
CEO, QUDOS BANK

RODNEY WATSON
CHAIR, QUDOS BANK

Purpose led since 1959

Since Qudos Bank was founded, we have believed in doing the right thing for our customers and community and in the power of people coming together to pursue financial freedom. In 2022 we decided to redefine an ambitious vision for Qudos Bank in the year 2030 through the lens of our customers, employees and other stakeholders. A vision of a proudly purpose led, values driven, sustainable and resilient customer owned bank.

During the year, we undertook a process of refining our purpose to achieve that vision, which involved collaboration and consultation with our Board, management team, employees and customers.

We are proud to announce Qudos Bank's renewed purpose and mission:

We help people realise their full potential

Like family, we'll always champion people to achieve more for themselves, their community and the planet.

Over the coming months we will engage with our employees to refresh our values, 'the Qudos Way'. We look forward to the formal launch of our purpose and values in 2024.

Delivering on our strategy

Our strategy is aligned with our renewed purpose and vision to increase customer value by strengthening and deepening our core product and service offering, focusing on being the best at what we do, empowering our people and leveraging our partner relationships.

To provide a faster and more efficient loan application process we launched a new straight through loan application processing platform in 2023, which is now live for new home loans across all channels. Key enhancements delivered by the platform include the ability to bundle multiple applications into a single assessment and full integration with brokers and service providers. This leading technology allowed us to process 50% more loan applications than the previous year, while achieving significantly lower processing times for similar volumes. The platform will be rolled out to existing home loans and personal loans by June 2024.

We also introduced electronic signing of loan documents via DocuSign, saving time for our customers and reducing paper usage by over 400,000 pages per year.

Ongoing enhancements to our payments, online and mobile banking platforms provided our customers with faster, easier and safer ways to bank. We introduced PayTo, a new, efficient alternative to direct debits, as well as functionality to allow greater control for customers over the sharing of data through Open Banking. The 3D Secure service to verify online payments or purchases made using Visa debit or credit cards was extended to EFTPOS.

Our customers' banking experience was improved by enhancing accessibility and features in our Mobile App, which holds Apple and Android App Store ratings of 4.1 and 4.2 respectively.

Sustainable growth

Underpinning our strategy is a sustainable business model to achieve our purpose in the long run. Our research has confirmed that customers understand the need for Qudos Bank to grow so that we can continue to provide competitive products and services, stronger security and greater trust and reliability.

We are pleased to report that 6.3% growth in Members and 7% growth in lending, in conjunction with excellent returns on our investments, contributed to a strong year-end pre-tax profit of $26.20 million, up 16.6% on the previous year. Total assets grew by 5.3% to $5.467 billion.

It is important to remember that as an unlisted customer owned bank, retained earnings are our main source of capital and the foundation for future growth. At 30 June 2023 our capital adequacy ratio was a solid 15.91%, well above prudential requirements. Retail deposits, which are key to funding our future loan growth, grew by 1.4% to $4.73 billion and our high-quality liquid assets (assets that can be easily and quickly converted to cash) at 30 June 2023 were 19.22% of our liabilities (largely depositor funds).

The 2022/2023 financial year saw record levels of inflation in Australia coming off the back of COVID, the global impact of the war in the Ukraine and strong consumer demand. This resulted in rapid rises in interest rates, with 12 increases in the cash rate in 13 months. We expect that the next financial year will bring its own headwinds and are planning accordingly.

Given the increased global uncertainty throughout the year we actively managed the Treasury book to mitigate geopolitical risks and have increased scrutiny of all operating risks.

The current economic environment also presented cost of living pressures for our customers, operational impacts on our people and a balancing act for Qudos Bank as we managed our financial risks while considering the impact on both our borrowers and depositors.

Our strong performance and investment returns allowed us to put our customers first by passing on interest rate increases to our savings accounts, while rebalancing interest rates for some of our more heavily impacted home loan customers. We proactively reached out to customers nearing the end of their fixed-rate home loan terms to discuss available options and, unlike many banks that switch such loans to the standard variable rate, we offered the relevant new business rate. By actively managing our interest margin we were able to provide these initiatives, which are estimated to have given back more than $2 million to customers, while prudently increasing margin to 1.6%.

In addition, we provided tailored support for customers experiencing financial difficulty. Although pleasingly loans in arrears continue to be low reflecting our responsible lending practices.

Members
6.3% ↑

Lending
7.0% ↑

Loan applications processed
50% ↑

Total assets
5.3% ↑

Electronic signing of loan documents reduced paper pages by
400,000 ↓ per year.

Customer value

In 2023 we received numerous industry awards showcasing our continued focus on returning value to our customers. We won two Home Loan awards and a Term Deposit award from Mozo, as well as being named Australia's Best Customer-Owned Bank (Mozo Experts Choice Award) for the third year in a row, recognising that when looking across our range of products Qudos Bank looks after our customers no matter what their needs.

Canstar awarded us their Home Lender Outstanding Value and Variable Home Lender Outstanding Value Awards and we regained their title of Customer-Owned Bank of the Year, which is awarded to the banks that provide their customers with the strongest combination of banking products across home loans, deposit accounts, credit cards and personal loans as well as customer satisfaction.

We also won Most Innovative Bank at the DBM Australian Financial Awards 2023. This award is based on information collected from the DBM Atlas research program — feedback from over 80,000 businesses and/or retail customers from January 2022 through December 2022.

Protecting our customers

Our customers' safety and security continues to be a top priority and we employ a range of security measures to protect our customers personal information and transactions and to help them to stay informed and take the actions needed to protect themselves.

The dedicated fraud and security section on our website sets out some of the measures we take, as well as providing a range of information and videos about how to fight fraud and what to do when a fraud occurs.

As part of our continual improvements to strengthen security and respond to the rise of fraud and scams, we implemented an additional layer of security for Online Banking. We also became a founding member of the Fraud Reporting Exchange (FRX) launched in May 2023, which is a trusted, secure, single platform for reporting and actioning fraudulent activities between issuing and recipient financial institutions.

Through our monitoring activities and the efforts of our fraud team, during the financial year Qudos Bank was able to prevent or recover $3.10 million of the $4.98 million in attempted fraudulent transactions (62%).

In the coming year we will invest in technology and processes to further enhance our Anti-Money Laundering and Counter-Terrorism Financing (AML/CTF) program that helps to protect Qudos Bank, our customers and the community from criminal activity.

Achieving for the community and the planet

We are proud to have continued our longstanding sponsorship of Qantas Pathfinders by helping to cover costs and donating prizes for their annual revue, which raised over $230,000 in October 2022 for NextSense (formerly the Royal Institute for Deaf and Blind Children).

During the year we also supported several worthy causes including Black Dog, ReForest Now, Jeans for Genes and Little Wings, to name a few.

In September 2022, ReForest Now planted 2,000 trees on behalf of Qudos Bank for its Banyula ("Place of many trees") project to restore the Booyong Nature Reserve on the lands of the Bundjalung nation near Clunes, New South Wales. The reserve represents less than 1% of the original extent of the Big Scrub rainforest, which used to cover most of the Northern Rivers region, and has been identified as a critically endangered ecosystem.

For more than 15 years Qudos Bank has offset the carbon emissions for one motor vehicle for each employee with Greenfleet and in April 2023 our employees volunteered to plant trees with Greenfleet at Bonna Point in Kurnell located on the lands of the Dharawal people in New South Wales.

Because our customers and their communities are at the heart of everything we do, it's important to ensure we play our part in combatting climate change by becoming carbon neutral ourselves and reducing our own carbon emissions. That's why in 2023 we met the requirements of the Climate Active Carbon Neutral Standard for Organisation and are now certified as carbon neutral.

Our ongoing commitment to sustainability is reflected in our targets of Net zero emissions by 2035, a 90% reduction in Scope 1 and Scope 2 emissions by 2030 and a 20% to 50% reduction in Scope 3 emissions by 2030.

Supporting and developing our people

In May 2023, we launched the collaborative platform Viva Engage to foster communication across Qudos Bank. We continued to provide growth opportunities with our

'Accelerate Program' by rotating employees through different areas of the business and offered ongoing development opportunities and coaching to enhance career growth.

As part of our commitment to employee wellbeing, we introduced 'Qudos Well', providing financial assistance for wellness activities. All employees completed psychological safety training to support a safe environment and a culture where everyone's voice is valued. During 'Mental Health May' we featured onsite massage angels and therapy dogs and throughout the year we facilitated free flu vaccinations and skin cancer checks.

We celebrated diversity and inclusion through cultural celebrations and provided education about important topics such as resilience, gender equality, pride month and "The Voice" referendum.

Good governance

We remain steadfast in our commitment to strong governance to ensure security, stability, risk management and sustainable growth, and to prioritise the interests of customers and employees.

A new Board Committee was established during the reporting period with the crucial mandate of conducting an objective review and oversight of Qudos Bank's endeavours to enhance member engagement, amplify the customer voice, and to deliver banking services embedded in customer care.

The remit of our Remuneration Committee was also expanded to ensure continued focus on Qudos Bank's commitment to our people as our greatest asset.

Welcoming change ahead

During part of the reporting period, Rodney Watson served as Executive Chair while facilitating the search and selection of a new Chief Executive Officer (CEO). We would like to take this opportunity to extend our sincere gratitude to former CEO, Michael Anastasi, for his dedicated 19-year service to Qudos Bank.

With the appointment of Brendan Wright as CEO in August 2023, Rodney reverted to his previous non-executive role as Chair of the Board, reinforcing his commitment to maintaining independent governance. Brendan will steer the bank through our transformative journey ahead and looks forward to bringing our new purpose and strategy to life.

We are excited to continue this journey into financial year 2024 and we look forward to sharing more about Qudos Bank's transformation at the upcoming AGM in November 2023.

We thank our members and employees for your continued loyalty and support. We are confident that together we have the resilience and determination to achieve even greater success in the years ahead.

RODNEY WATSON
CHAIR, QUDOS BANK

BRENDAN WRIGHT
CEO, QUDOS BANK

Directors' report

The Directors present their report together with the consolidated financial statements of the Qudos Mutual Limited ("the Bank") and its subsidiary (together: "The Group") for the year ended 30 June 2023 and the auditor's report thereon.

The Bank is a company registered under the Corporations Act 2001.

Information on Directors

The names of the Directors in office at any time, during or since the end of the year, are:

RODNEY WATSON

CHAIR (Jan–Apr 2023)
EXECUTIVE CHAIR * (Mar–Jun 2023)
MBA, FFIN, GAICD
65 years old

- Director since 2021
- Member, Risk Committee
- Member, Audit Committee
- Member, People & Remuneration Committee
- Member, Customer, ESG & Technology Committee
- Member, Distribution, Infrastructure & Transformation Committee
- Independent Chair, AgriNous, Pty Ltd
- Member, Australian Institute of Company Directors

JENNIFER DALITZ

DEPUTY CHAIR (From Jan 2023)
NON-EXECUTIVE DIRECTOR
BA, MBA, GAICD, FCPA
50 years old

- Director since 2019
- Chair, People & Remuneration Committee
- Member, Risk Committee
- Member, Customer, ESG & Technology Committee
- Director, iPartners
- Trustee, Australian Museum
- Independent Member, Audit & Risk Committee, Australian Physiotherapy Association
- Member, Australian Institute of Company Directors

BARRY JACKSON

NON-EXECUTIVE DIRECTOR
BAv
61 years old

- Director since 2015
- Former Chair (Jul 2022–Jan 2023)
- Member, Audit Committee
- Member, Customer, ESG & Transformation Committee
- Member, Distribution, Infrastructure & Transformation Committee
- Member, Committee of Management for the Australian International Pilots' Association (AIPA)
- Member, Australian Institute of Company Directors
- Fellow of the Royal Aeronautical Society

* On 22 June 2023, APRA temporarily adjusted Paragraph 28 of Prudential Standard CPS510 – Governance in relation to Rodney Watson's capacity as a Director of the Bank from 28 March 2023 until the earlier of 24 September 2023 and the date on which the appointment of a new CEO was made. This adjustment did not affect his status as an independent director of the Bank.

ANDREW LEITHHEAD

NON-EXECUTIVE DIRECTOR

BCom, GAICD, FFin, JP

63 years old

- Director since 2017
- Former Deputy Chair, Board (Jul 2022–Jan 2023)
- Chair, Risk Committee
- Member, Audit Committee
- Member, Distribution, Infrastructure & Technology Committee
- Director, P.T Management Services Pty Ltd
- Director, Lutheran Laypeople's League of Australia
  Director, Australian Racing Drivers' Club Ltd
- Member, Australian Institute of Company Directors

JOE DICKS

NON-EXECUTIVE DIRECTOR

BCom, GradDip Acct CA, GAICD

63 years old

- Director since 2020
- Chair, Audit Committee
- Member, People & Remuneration Committee
- Chair, Campus Living Villages Group
- Director, Nido Education Pty Ltd
- Member, Australian Institute of Chartered Accountants
- Member, Australian Institute of Company Directors

CLARE MAZZETTI

NON- EXECUTIVE DIRECTOR

BEc, MBA, MIR, GAICD, FFIN

43 years old

- Director since 2020
- Chair, Distribution, Infrastructure & Technology Committee
- Member, Risk Committee
- Member, Customer, ESG & Technology Committee
- Independent Chair, The Tax Institute of Australia
- Director, Uniting Church of Australia, NSW Synod
- Director, Uniting Financial Services
- Director, Credit Corporation (PNG) Ltd Group (including Credit Corporation Finance Ltd; Era Dorina Ltd; Era Matana Ltd; Credit House Ltd; Credit Corporation Industrial Ltd)

SALLY-ANN WILLIAMS

NON-EXECUTIVE DIRECTOR

BA, MA, GAICD

48 years old

- Director since 2021
- Chair, Customer, ESG & Transformation Committee
- Member, Risk Committee
- Member, Distribution, Infrastructure & Technology Committee
- CEO, Cicada Innovations Pty Ltd
- Chair, Pathway to Diversity in STEM Review (Federal Government appointment)
- Executive Director, Cicada Innovations Pty Ltd
- Executive Director, Biz Capital Pty Ltd
- Non-Executive Director, Australian Ocean Laboratory Ltd
- Member, Heavy Ion Accelerators NCRIS Facility Advisory Board
- Member, NSW Government Tech Central Advisory Board
- Member, Australian Institute of Company Directors

COLIN ADAMS

NON-EXECUTIVE DIRECTOR

(former) Retired Nov 2022

MAMI

73 years old

- Director (Nov 2008–Nov 2022)
- Member, Technology Committee (until Nov 2022)
- Member, Audit Committee (until Nov 2022)
- Director, Columbia Securities Pty Ltd,**
- Director, Columbia Superannuation (NSW) Pty Ltd**
- Honorary Life Member of Australian International Pilots Association
- Member, Australian Institute of Company Directors

DAWSON PETIE

NON- EXECUTIVE DIRECTOR

(former) Retired Nov 2022

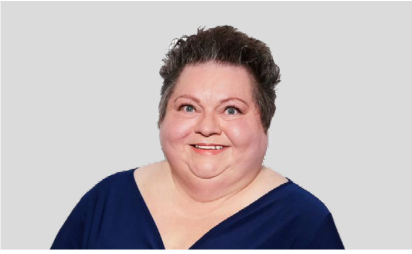
FAICD, FASFA

72 years old

- Director (Nov 2019–Nov 2022)
- Member, Risk Committee (until Nov 2022)
- Member, Technology Committee (until Nov 2022)
- Member, Audit Committee (until Nov 2022)
- Chair, Nortec**
- Director, Lowes Petroleum**
- Councillor, Australian Institute of Company Directors

** This information was correct as at November 2022.

The name of the Company Secretary in office at the end of the year was:



CINDY HANSEN
CHIEF STRATEGY AND TRANSFORMATION OFFICER
LLB (Hons), F Fin, GAICD
56 years old

- Company Secretary since 24 April 2007
- Company Secretary, Qudos Mutual Limited

Directors' Meetings

The number of Directors meetings (including meetings of Committees of Directors) and the number of meetings attended by each of the Directors of the Bank during the financial year are:

	Board meetings		Committee meetings	
DIRECTOR	HELD	ATTENDED	HELD	ATTENDED
Rodney Watson (Chair)	14	13	20	17
Jen Dalitz (Dep Chair)	14	12	24	21
Joe Dicks	14	14	15	14
Clare Mazzetti	14	12	16	16
Andrew Leithhead	14	11	20	16
Barry Jackson	14	13	15	14
Sally-Ann Williams	14	14	5	5
Colin Adams*	5	5	4	4
Dawson Petie*	5	4	4	4

* Retired 24/11/22

All Directors requested, and were granted, leave for meetings they were unable to attend.

Principal activities

The principal activities of the Group during the financial year related to the provision of retail financial and associated services to Members in accordance with our Constitution.

No significant changes to these activities occurred during the year.

Operating results

Profit before income tax for the 2023 financial year was $26.21 million (2022: $22.48 million), reducing to $18.41 million (2022: $15.73 million) after providing $7.80 million (2022: $6.75 million) for taxation.

Dividends

No dividends have been paid or declared during or since the end of the financial year and no dividends have been recommended or provided for by the Directors of the Bank (2022: Nil).

Review of operations

Total assets at year-end were $5,467.34 million, representing an increase of $276.76 million, or 5.3% over the previous year. Included in total assets are Member loans and advances of $4,206.95 million, having risen by $274.8 million or 6.99%. Deposits increased by $65.78 million, or 1.41% to $4,734.21 million at year end. Total Member's equity at year end was $340.87 million, an increase of $20.64 million, or 6.45%. Continued Member support together with strong lending levels and competitive interest rates offered to depositors and borrowers, along with prudent expenditure controls, enabled the Group to further strengthen its financial position during the year.

Significant changes in state of affairs

No significant changes occurred in the state of affairs of the Group during the year that has not otherwise been disclosed in this Report or the consolidated financial statements.

Events occurring after balance date

No other matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations, or state of affairs of the Group in subsequent years.

Indemnification of Directors and Officers

During the financial year, the Group has not indemnified or made a relevant agreement for indemnifying against a liability for any person who is or has been an officer, Director or auditor of the Group.

Insurance of Directors and Officers

During the financial year, the Group paid an insurance premium of $150,181 (2022: $142,556) in respect of Directors' and Officers' Liability and Company Reimbursement insurance policies for any past, present or future, director, secretary or executive officer of the Group. The policy does not contain details of the premiums paid in respect of individual directors or officers and does not cover payments made arising out of claims made against any directors or officers by reason of any wrongful act in their respective capacities.

No insurance cover has been provided for the benefit of the auditors of the Group.

Year-end pre-tax profit

$26.20 million

16.6% ↑

Likely developments

No other matter, circumstance or likely development in the operations has arisen since the end of the financial year that has significantly affected or may significantly affect:

(i) The operations of the Group;
(ii) The results of those operations; or
(iii) The state of affairs of the Group

in the subsequent financial years.

Lead Auditor's Independence Declaration

The lead auditor's independence declaration is set out on page 12 and forms part of the Directors' Report for financial year ended 30 June 2023.

Rounding

Unless otherwise stated the amounts contained in the financial statements have been rounded to the nearest one thousand dollars ($'000) in accordance with ASIC Rounding instrument 2016/191 dated 1 April 2016. The Bank is permitted to round to the nearest one thousand ($'000) for all amounts except prescribed disclosures that are shown in whole dollars.

Public prudential disclosures

As an Authorised Deposit taking Institution ("ADI") regulated by the Australian Prudential Regulation Authority ("APRA"), the group is required to publicly disclose certain information in respect of:

- Consolidated equity and regulatory capital;
- Risk exposure and assessment; and
- Remuneration disclosures.

These disclosures can be found on the company's website: www.qudosbank.com.au/about-us/corporate-information/

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

RODNEY WATSON
CHAIR
DIRECTOR

Sydney
3rd October 2023

JENNIFER DALITZ
DEPUTY CHAIR
DIRECTOR

Sydney
3rd October 2023

KPMG

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

To the Directors of Qudos Mutual Limited

I declare that, to the best of my knowledge and belief, in relation to the audit of Qudos Mutual Limited 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

Graeme Scott
Partner

Sydney
3 October 2023

Corporate governance statement

The Qudos Bank Board are committed to managing the Bank's business ethically and maintaining the highest standards of corporate governance. With this in mind, the Board has articulated and formalised the Bank's corporate governance framework in a Governance Framework document which is supported by detailed policies, processes and the Bank's Code of Conduct.

This Corporate Governance Statement generally describes the practices and processes adopted by Qudos Bank to ensure its sound and prudential management including having regard to the regulatory environment in which it operates. The Bank's approach to corporate governance is currently underpinned by its core values 'The Qudos Way'. However, continuing focus on environmental awareness, ethical behaviour, corporate culture, compensation, and risk management practice, together with an evolving regulatory landscape has necessitated a need for the Bank to enhance this framework and re-assess whether its core values remain 'fit for purpose'. As a result, Qudos Bank has embarked on a program to refresh The Qudos Way and to assess how its core values may better reinforce the Bank's approach to corporate governance going forward.

Qudos Bank is an authorised deposit-taking institution (ADI) supervised by the Australian Prudential Regulation Authority (APRA) under the Banking Act 1959 (*Cth*). Qudos Bank is also supervised by the Australian Securities and Investments Commission (ASIC) under the Corporations Act 2001 (*Cth*) (2001Act) and has been granted both an Australian Financial Services License and an Australian Credit License.

ENVIRONMENTAL AWARENESS

ETHICAL BEHAVIOUR

CORPORATE CULTURE

COMPENSATION

RISK MANAGEMENT PRACTICE

EVOLVING REGULATORY LANDSCAPE

01. The Board of Directors

Role of the Board

The Board has adopted a formal Charter setting out the roles and responsibilities of the Board.

The Board's role is to provide leadership, strategic guidance and oversight of Qudos Bank, and includes:

a) overseeing and evaluating Qudos Bank's strategies, policies and performance;
b) overseeing Qudos Bank's performance to build sustainable value for members within a framework of prudent and effective controls that enable risks (including financial risks as well as misconduct, compliance and other non-financial risks) to be assessed and managed;
c) overseeing Qudos Bank's values, including the establishment of a sound risk management and compliance culture; and
d) adopting and implementing an appropriate governance framework for Qudos Bank.

The Board is also responsible for maintaining a sound enterprise-wide risk management culture. This ensures that the Bank has in place an appropriate risk management framework (for both financial and non-financial risk) and sets the risk appetite within which the Board expects management to operate.

Board composition

The Constitution of Qudos Bank provides that the number of Directors shall be between 5 and 7. The Board is presently comprised of 7 non-executive Directors, 4 of which (as a minimum) are elected or appointed by eligible voting Members and 3 (as a maximum) appointed by the Board. The Bank's Constitution provides for three types of Directors: Member Elected; Board Appointed; and Executive.

Both Member Elected and Board Appointed Directors are non-executive directors, and their roles are the same irrespective of their method of appointment. The Board has determined not to appoint an Executive Director at this time. All Directors must retire from office no later than the third Annual General Meeting after the Director was last elected or appointed.

Pending the appointment of a new Chief Executive Officer (CEO), in June 2023 APRA temporarily adjusted Paragraph 28 of its Prudential Standard CPS510 (Governance) in relation to Rodney Watson's capacity as a Director from 28 March 2023 until 28 August 2023 (the date upon which Brendan Wright was appointed as CEO). This prudential adjustment did not affect Rodney Watson's independence or his status as a non-executive director.

Details of the Directors and Secretary as at the date of this Corporate Governance Statement are set out in the Directors' Report on pages 7 to 9.

Board tenure & effectiveness

Governance practice suggests that organisations benefit by increased board tenure only up to a certain point, and beyond that point, incremental increases in tenure no longer have a significant effect on corporate governance. For this purpose, under the Constitution the maximum term a Director may serve on the Board is 15 years, comprising a one term not exceeding three years (as a Board Appointed Director), after having served as a Member Elected Director for a consecutive period equal to or exceeding 12 years.

Succession planning

The Board periodically considers succession planning of Directors and the CEO, and in conjunction with the CEO considers succession planning for senior executives.

At a Board level, governance trends such as board performance appraisals and transparency of selection policies reinforce the idea that an organisation must have the optimal mix of people, skills and knowledge to ensure its continued success.

For executives, succession planning enables an organisation to refresh its most senior leaders in order to continue meeting the challenges of a constantly changing business environment. The aim being to have the right person able to fill a vacancy at the right time.

Director independence

In assessing the independence of each Director, the Board considers whether he or she has any relationships that would materially affect their ability to exercise unfettered and independent judgment in the interests of Qudos Bank and its Members. In this regard, and more broadly, Qudos Bank complies with APRA Prudential Standard CPS510 - Governance.

Board skills

Collectively, the Board must have the necessary skills, knowledge and experience to understand the risks of the Bank, including its legal and prudential obligations, and to ensure that the Bank is managed in an appropriate way considering these risks. The Bank regularly reviews the need for various skills and experience against the current skills and experience represented on the Board.

All Directors must bring certain personal attributes to the table to allow them to make an effective contribution to Board deliberations and processes. In addition, the Board must have a blend of functional competencies and/or characteristics so as to maintain the appropriate mix of skills, experience, expertise and diversity as deemed necessary by the Board from time to time.

Prior to calling for nominations for Directors' election each year, or prior to appointing a person to fill a casual vacancy or as a Board Appointed Director (as applicable), the Board will provide to the Nominations Committee a list of the competencies for the role of Director for that election / appointment.

The overriding principle to which the Board has regard in relation to its structure is that all Directors must be assessed to be fit and proper persons as defined in APRA Prudential Standard CPS520 - Fit and Proper. The Board Charter and Fit and Proper Policy set out how the Bank assesses whether or not a person is fit and proper.

The Nominations Committee assesses the fitness and propriety of all candidates for appointment as a Director. All Directors have been assessed as fit and proper, in accordance with the Prudential Standard and the Bank's policy.

Conflicts of interest

In accordance with the 2001 Corporations Act and Qudos Bank's Constitution, Directors must keep the Board advised of any interest that could potentially conflict with the interests of the Bank.

The Bank has adopted policies and procedures in relation to disclosing and managing real, perceived or potential conflicts of interest (including any confluences of interest) that may or might reasonably be thought to exist, and to minimise the risk of related party transactions. Transactions between the Directors and Qudos Bank are conducted at arm's length and are subject to the same commercial terms and conditions that apply to Members. The senior executives, company secretary and other key employees are also required to declare any material interests that could potentially conflict with those of the Bank.

Corporate culture and values

Acting lawfully, ethically and responsibly goes well beyond mere compliance with legal obligations and involves acting with honesty, integrity and in a manner that is consistent with the reasonable expectations of Members and the broader community. It includes being, and being seen to be, a 'good corporate citizen', having the customer at the centre of everything we do and asking 'should we' when making business decisions.

The Board instils and continually reinforces a culture across the Bank of acting lawfully, ethically and in a socially responsible manner, which is reflected in our vision, purpose, values, code of conduct and risk appetite. In making its decisions, the Bank not only complies with its legal obligations, but also considers the reasonable expectations of its stakeholders, including customers and employees.

Values are the guiding principles that represent an organisation's corporate identity and culture, define its character and provides it with a guide on how it should behave and make decisions. The Bank's policies and procedures reflect those values and promote responsibility, accountability and integrity.

Responsible investing

The Board has integrated responsible and sustainable business practices into our approach to investing by adopting a Responsible Investing Policy.

The Bank has committed that we will not directly lend to or invest in businesses whose primary purpose harms people, animals, society or the environment, such as fossil fuels, uranium, weapons, gambling, tobacco, alcohol, pornography, deforestation or live export.

The Bank conducted a review of the investment policies of its eligible counterparties during the financial year, with a view to better understanding their Environmental, Social and Governance practices, such as being environmentally and socially responsible, promoting workplace safety and diversity and supporting their communities.

Environmental, social and governance

Qudos Bank contributes to charity, its communities and maintains ethical and environmentally sustainable business practices.

During the year, Qudos Bank was awarded 'Climate Active' carbon neutral certification[1], having taken steps to reduce its greenhouse emissions and for credibly reaching a state of carbon neutrality. Climate Active certification relates to an organisations primary business operation (e.g., its products, services, events, precincts and buildings) and in particular, that the relevant emissions associated with those operations have been certified to have no net negative impact on climate.

Whistleblowing

In most cases, the best source of information about whether a company is living up to its values are its employees. The Board has adopted a Whistleblowing Policy to encourage eligible whistleblowers to speak up about any unlawful, unethical or irresponsible behaviour within the Bank. Eligible whistleblowers include employees, directors, suppliers, employees of suppliers and the relatives and dependents of such people.

The Board's relationship with senior management

The Board has delegated responsibility for the operation and management of Qudos Bank to the CEO subject to the overall supervision of the Board. The CEO is responsible for managing the day-to-day operations and management of the Bank. The CEO provides input and recommendations on strategic direction and has authority for implementing the approved strategic plan of Qudos Bank in accordance with the decisions of the Board.

The CEO leads the senior executives, who meet regularly to review and report on Qudos Bank's business activities including its operations, financial performance and general strategic direction.

The Board's relationship with members

As a mutual company, the Bank's business and activities are guided by an ethos of providing benefits through goods or services to its Members, rather than maximising profits to pay dividends or distributions to shareholders or external investors.

Whilst Member representation and voice is achieved at meetings through voting and at Director elections at which Members are encouraged to participate, a new Board Committee was established during the reporting period to provide an objective review and oversight of Qudos Bank's measures to uplift Member engagement and the voice of the customer, and measures to advance Qudos Bank's purpose of providing banking based on the care for its customers.

[1] The Climate Active Carbon Neutral Certification is a registered trademark of Climate Active, an Australian Federal Government initiative represented by the Department of Climate Change, Energy, the Environment and Water.

02. Board Committees

The details of certain Board functions are handled through Board Committees. However, the Board as a whole is responsible for determining the extent of powers residing in each committee and is ultimately responsible for accepting, modifying or rejecting committee recommendations. Each committee has its own charter, which includes its structure, authority and responsibilities.

The Board has currently mandated each of the following standing committees:

Committee	Members	Role
Audit Committee	J Dicks, Chair B Jackson A Leithhead R Watson	Provides an objective non-executive review of the effectiveness of the Bank's financial reporting, internal controls, risk management framework and internal and external audit functions. APRA Prudential Standard CPS510: Governance requires all ADI's to maintain an Audit Committee.
Risk Committee	A Leithhead, Chair J Dalitz C Mazzetti S Williams R Watson	Provides an objective non-executive review, oversight and monitoring of the Bank's risk management policies and processes. APRA Prudential Standard CPS510: Governance requires all ADI's to maintain a Risk Committee.
People & Remuneration Committee [1]	J Dalitz, Chair J Dicks C Mazzetti R Watson	Facilitates the governance activities of the Board and provides an objective non-executive review of the Bank's remuneration practice, including the consideration of fixed and variable pay. APRA Prudential Standard CPS510: Governance requires all ADI's to maintain a Remuneration Committee.
Nomination Committee	K Bruckner Chair [2] R Watson S Bennett [2]	Applies the Bank's Fit and Proper Policy to candidates for appointment to the Board.
Customer, ESG and Transformation Committee [3]	S Williams, Chair J Dalitz B Jackson C Mazzetti R Watson	Provides an objective review and oversight of Qudos Bank's measures to uplift Member engagement and the voice of the customer; measures to advance Qudos Bank's purpose of providing banking based on care for customers, communities and the planet, focussing on environmental, social and governance (ESG) matters; and transformation initiatives.
Distribution, Infrastructure & Technology Committee [4]	C Mazzetti, Chair B Jackson A Leithhead R Watson S Williams	Provides an objective review and oversight of Qudos Bank's measures relating to the distribution of products and services to existing and future customers, including third parties and direct channels; infrastructure, including physical assets; and technology, including digital, information technology and cyber security.

1. Formerly, Governance & Remuneration Committee. The name of the Committee was changed on 30 January 2023
2. Non-Bank Member
3. The Committee was established on 30 January 2023
4. Formerly Technology Committee. The Committee's remit was expanded to include distribution- and infrastructure-related matters and its name changed on 30 January 2023

Other special purpose committees may also be established by the Board from time to time.

03.
Board performance assessment

The Board is committed to continuous improvement and is subject to ongoing assessment and an annual internal formal evaluation process of the Board, Board Committees and of the individual Directors. The policy on Board renewal and procedures for assessing the collective performance of the Board (including the performance of individual Directors) allows the Board to match the future needs of the Bank with the best qualified directors available. In this regard, Qudos Bank complies with APRA Prudential Standard CPS510 - Governance.

Employees, including senior executives are subject to an annual performance evaluation, based on performance targets aligned to overall business goals and the requirements of the position. In the case of senior executives, performance is overseen by the People & Remuneration Committee.

Fit & proper

Qudos Bank complies with APRA Prudential Standard CPS520 - Fit and Proper which requires that those persons responsible for the management and oversight of an ADI (Responsible Persons) have the appropriate skills, experience and knowledge and that they act with honesty and integrity.

The fitness and propriety of Responsible Persons for purposes of the Prudential Standard must generally be assessed prior to their initial appointment and then re-assessed annually. Responsible Persons include all Directors, senior executives, and other key employees.

Other regulatory assessments

In addition to APRA's fit and proper requirements, Qudos Bank is also required to comply with the Banking Executive Accountability Regime (BEAR). BEAR is a regulatory framework that aims to hold directors and senior executives of banks accountable for their actions (Accountable Persons).

Accountable Persons are identified based on their position within the ADI, but liability arises in relation to the functional responsibilities of that person.

All Directors and certain senior executives are considered Accountable Persons for purposes of BEAR as they have either satisfied a general principles test or hold a prescribed responsibility or position.

Legislation was recently passed to effectively replace BEAR with the Financial Accountability Regime (FAR). The change of regulatory regime aims to expand on and strengthen BEAR-like accountability requirements across the financial services sector. Joint regulators, APRA and ASIC have sought initial industry engagement and consultation on the implementation of FAR. Whilst we expect that the Directors and certain senior executives will continue to be considered Accountable Persons for purposes of FAR, its wider implications on the proposed accountability and key personnel obligations, and its application to other key employees has yet to be determined.

Diversity and inclusion

Diversity and inclusion encompass acceptance and respect of the visible and invisible characteristics of an individual, which make one individual different from another. It is central to the maintenance of an inclusive work environment and culture that empowers all employees to bring their authentic selves to work each day and allows them to contribute to their full potential.

The Bank's Diversity and Inclusion Policy, processes and initiatives focus on six principles:

1. **Value Diversity and Inclusion** - recognising and promoting the diversity of our people and creating a culture that values a diverse range of views, knowledge, and experiences across all levels of our business, and where people feel valued and included.
2. **Talent Acquisition and Development** - conducting recruitment and selection from a diverse pool of suitably qualified candidates, talent identification, succession planning and promoting internal career development based on relative ability, performance and potential that is free from discrimination.
3. **Reward & Recognition** - rewarding and recognising achievement based on merit and performance and ensuring pay equity, that is free from known barriers.
4. **Decisions** - making workplace decisions effecting employees fairly, based on fact and not preconceived notions and unconscious bias.
5. **Education** - providing continuous development, training and support to our employees to promote a better understanding of diversity and inclusion in the workplace.
6. **Workplace Health & Safety** - building a safe work environment by acting against inappropriate workplace behaviour that does not value diversity including discrimination, harassment, bullying, victimisation and vilification.

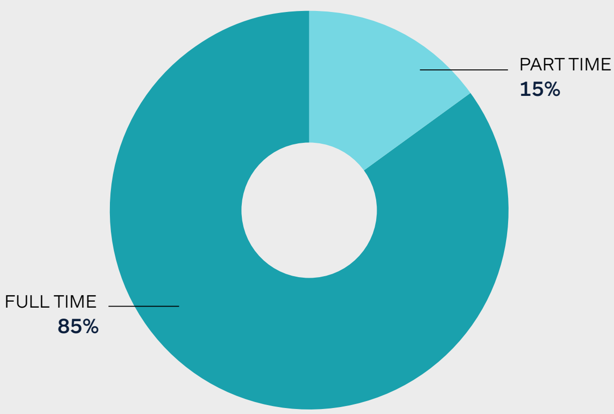
In accordance with Qudos Bank's strategy, vision and values, the Board has set the following measurable objectives for achieving gender diversity in the composition of the board and senior leadership roles:

	Objective	Timeframe	Status
Board	At least 30% female representation	2022 AGM	MET
	At least 40% female and 40% male representation	2025 AGM	MET
Senior Leadership	At least 30% female representation	2022	MET
	At least 50% female representation	2025	ON TRACK

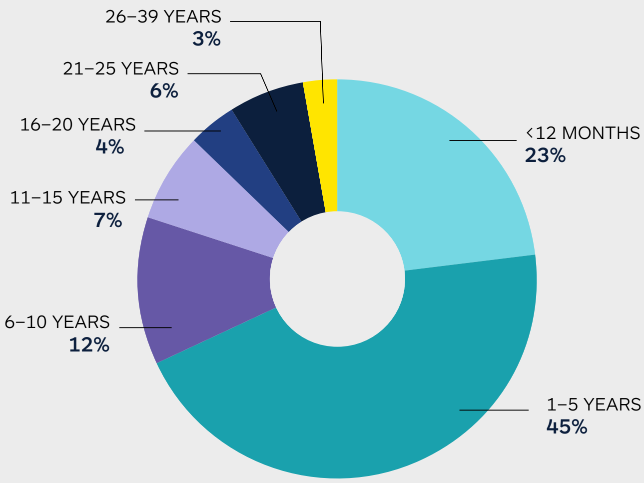
The Workplace Gender Equality Act 2012 (2012 Act) was established by the Workplace Gender Equality Agency (WGEA). The 2012 Act requires employers with 100 or more employees to report annually against six gender equality indicators. Qudos Bank continues to meet the requirements of workplace gender equality via yearly reporting to the WGEA.

The Bank's employee demographic split (by type, tenure, age and gender) as at 30 June 2023 were as follows:

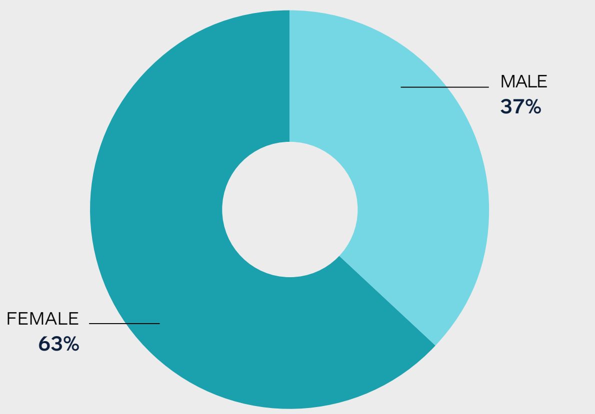
Employment type



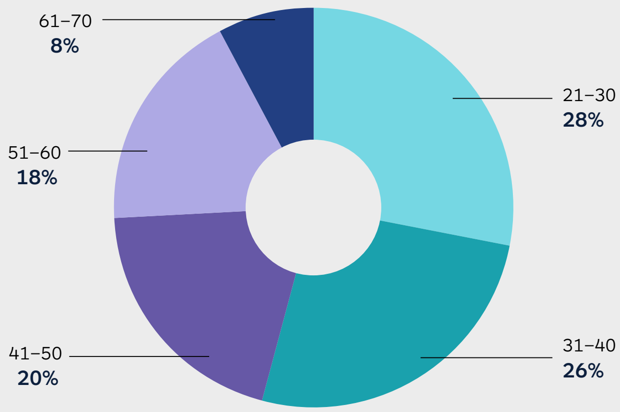
Tenure



Gender



Age



As at 30 June 2023, the Bank's overall gender diversity split was 63% female and 37% male. The Board was 43% female and 57% male. Senior executives were split 43% female and 57% male, while other senior leaders were split 42% female and 58% male.

Directors' declaration

1. In the opinion of the Directors of Qudos Mutual Limited ("the Bank"):

b) the financial statements and notes that are contained on pages 24 to 77 are in accordance with the *Corporations Act 2001*, including:

   (i) giving a true and fair view of the Bank's financial position as at 30 June 2023 and of its performance for the financial year ended on that date; and

   (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001;

b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1(a); and

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

2. The Directors have been given the declarations required by Section 295A of the *Corporations Act 2001* from the Chief Executive Officer and Chief Financial Officer for the financial year ended 30 June 2023.

Signed in accordance with a resolution of the Directors:

RODNEY WATSON
CHAIR
DIRECTOR

Sydney
3rd October 2023

JENNIFER DALITZ
DEPUTY CHAIR
DIRECTOR

Sydney
3rd October 2023

Independent Auditor's Report

To the members of Qudos Mutual Limited

Opinion

We have audited the consolidated ***Financial Report*** of Qudos Mutual Limited (the Company).

In our opinion, the accompanying consolidated Financial Report of the Company is in accordance with the *Corporations Act 2001*, including:

- giving a true and fair view of the ***Group***'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 consolidated ***Financial Report*** comprises:

- Consolidated Statement of financial position as at 30 June 2023;
- Consolidated Statement of profit or loss and other comprehensive income, Consolidated Statement of changes in equity, and Consolidated Statement of cash flows for the year then ended;
- Notes including a summary of significant accounting policies; and
- Directors' Declaration.

The ***Group*** consists of the Company and the entities it controlled at the year-end or from time to time during the financial year.

Basis for opinion

We conducted our audit 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 opinion.

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

We are independent of the Group 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 these requirements.

Other Information

Other Information is financial and non-financial information in Qudos Mutual Limited's annual reporting which is provided in addition to the consolidated Financial Report and the Auditor's Report. The Directors are responsible for the Other Information.

Our opinion on the consolidated Financial Report does 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 consolidated Financial Report, our responsibility is to read the Other Information. In doing so, we consider whether the Other Information is materially inconsistent with the consolidated Financial Report 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 consolidated Financial Report

The Directors are responsible for:

- preparing the consolidated Financial Report that gives 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 a consolidated Financial Report that gives a true and fair view and is free from material misstatement, whether due to fraud or error
- assessing the Group and Company'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 Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the consolidated Financial Report

Our objective is:

- to obtain reasonable assurance about whether the consolidated Financial Report as a whole is free from material misstatement, whether due to fraud or error; and
- to issue an Auditor's Report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with *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 consolidated Financial Report.

A further description of our responsibilities for the audit of the consolidated Financial Report 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

Graeme Scott

Partner

Sydney

3 October 2023

Consolidated statement

of profit or loss and other comprehensive income

For the year ended
30 June 2023

	Note	2023 $000	2022 $000
Interest revenue	2.a	214,712	107,524
Interest expense	2.b	(129,386)	(37,108)
Net interest income		**85,326**	**70,416**
Other income	2.c	8,840	7,052
Total operating income		**94,166**	**77,468**
Non-interest expenses			
Impairment losses on loans and advances	2.d	1,437	(46)
Other expenses	2.e	(69,393)	(54,943)
Profit before income tax		**26,210**	**22,479**
Income tax expense	3	(7,796)	(6,752)
Profit after income tax		**18,414**	**15,727**
Other comprehensive income			
Net fair value Gain/ (loss) on financial assets at FVOCI, net of tax		4,118	(5,417)
Net movement on cash flow hedge, net of tax		(1,891)	8,615
Total comprehensive income		**20,641**	**18,925**

The above Consolidated Statement of Profit or Loss and Other Comprehensive Income should be read in conjunction with the Notes to the Financial Statements set out on pages 28 to 77.

Consolidated statement

of changes in equity

For the year ended

30 June 2023

	Note	General Reserve for Credit Losses $000	Cash Flow Hedge Reserve $000	Financial Assets at FVOCI Reserve $000	Retained Profits $000	Total $000
Total as at 1 July 2021		**1,796**	**(83)**	**6,817**	**292,775**	**301,305**
Profit for the year	-	-	-	-	15,727	15,727
Other comprehensive income						
Net fair value gain on financial assets at FVOCI, net of tax	19	-	-	(5,417)	-	(5,417)
Net movement on cash flow hedge, net of tax	19	-	8,615	-	-	8,615
Total as at 30 June 2022		**1,796**	**8,532**	**1,400**	**308,502**	**320,230**
Profit for the year	-	-	-	-	18,414	18,414
Other comprehensive income						
Net fair value gain/(loss) on financial assets at FVOCI, net of tax	19	-	-	4,118	-	4,118
Net movement on cash flow hedge, net of tax	19	-	(1,891)	-	-	(1,891)
Total as at 30 June 2023		**1,796**	**6,641**	**5,518**	**326,916**	**340,871**

The above Consolidated Statement of Changes in Equity should be read in conjunction with the Notes to the Financial Statements set out on pages 28 to 77.

Consolidated statement of financial position

As at 30 June 2023

	Note	2023 $000	2022 $000
ASSETS			
Cash and cash equivalents	4	151,258	172,153
Receivables	5	12,485	5,189
Receivables due from other financial institutions	6	39,765	59,765
Loans and advances to members	7	4,206,954	3,932,157
Financial assets at FVOCI	9	1,013,065	979,772
Derivative Asset	29	9,487	12,187
Plant and equipment	10.a	7,609	9,033
Intangibles	10.b	3,403	1,367
Prepayments and Other Assets	11	22,323	17,024
Deferred tax assets	12	-	1,934
Current tax asset	16	989	-
TOTAL ASSETS		**5,467,338**	**5,190,581**
LIABILITIES			
Payables to other financial institutions	13	358,549	173,209
Deposits	14	4,734,205	4,668,428
Creditor accruals and settlement accounts	15	21,496	14,070
Lease liability	18	6,535	7,726
Current tax liability	16	-	1,643
Deferred Tax Liability	12	500	-
Provisions	17	5,182	5,275
TOTAL LIABILITIES		**5,126,467**	**4,870,351**
NET ASSETS		**340,871**	**320,230**
MEMBERS' EQUITY			
Reserves	19	13,955	11,728
Retained earnings	20	326,916	308,502
TOTAL MEMBERS' EQUITY		**340,871**	**320,230**

The above Consolidated Statement of Financial Position should be read in conjunction with the Notes to the Financial Statements set out on pages 28 to 77.

Consolidated statement of cash flows

For the year ended
30 June 2023

	Note	2023 $000	2022 $000
OPERATING ACTIVITIES			
Interest received		212,052	108,983
Fees and commissions received		9,307	7,000
Dividends received		276	-
Interest paid		(126,123)	(41,142)
Cash paid to suppliers and employees		(66,630)	(51,981)
Income taxes paid		(8,264)	(7,361)
Net increase in member loans		(273,360)	(381,536)
Net increase in deposits and shares		244,959	171,826
Net (Decrease)/ increase in receivables from other financial institutions		(7,412)	193,087
Net cash from/(used in) operating activities	**28b**	**(15,195)**	**(1,124)**
INVESTING ACTIVITIES			
Proceeds on sale of property, plant and equipment		137	149
Purchase of property plant and equipment		(873)	(1,054)
Purchase of intangibles		(3,393)	(1,162)
Net cash from/(used in) investing activities		**(4,129)**	**(2,067)**
FINANCING ACTIVITIES			
Payment for the principal portion of lease liabilities		(1,571)	(1,812)
Net cash from/(used in) financing activities		**(1,571)**	**(1,812)**
Total net cash increase/(decrease)		**(20,895)**	**(5,003)**
Cash at beginning of year		172,153	177,156
Cash and cash equivalents at end of year	**28a**	**151,258**	**172,153**

The above Consolidated Statement of Cash Flows should be read in conjunction with the Notes to the Financial Statements set out on pages 28 to 77.

Notes to the Consolidated Financial Statements

For the year ended
30 June 2023

1. STATEMENT OF ACCOUNTING POLICIES

Qudos Mutual Limited (the "Company" or the "Bank") is a company domiciled in Australia. The address of the Company's registered office is 191 O'Riordan St, Mascot, NSW 2020. The consolidated financial statements of the Company as at and for the year ended 30 June 2023 comprise the Company and the MEAA Funding Trust (the "Trust"), a Special Purpose Vehicle deemed under the Accounting Standards to be controlled by the Bank, (together referred to as the "Group"). The Group is a for-profit entity which is primarily involved in the provision of financial products, services and associated activities to Members.

a. Basis of Preparation

(i) Statement of compliance

The consolidated financial statements are general purpose financial statements which have been prepared in accordance with Australian Accounting Standards (AASBs) adopted by the Australian Accounting Standards Board (AASB) and the Corporations Act 2001. The consolidated financial statements comply with International Financial Reporting Standards (IFRSs) adopted by the International Accounting Standards Board (IASB).

The consolidated financial statements were authorised for issue by the Board of Directors on 3rd October 2023.

(ii) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for financial assets which are classified as fair value through other comprehensive income (FVOCI) and derivatives.

(iii) Functional and presentation currency

These consolidated financial statements are presented in Australian dollars, which is the Group's functional currency.

The Group is of a kind referred to in ASIC Rounding instrument 2016/191 dated 1st April 2016 and in accordance with the Legislative Instrument, all financial information presented in Australian dollars has been rounded to the nearest thousand dollars ($'000) unless otherwise stated.

(iv) Use of estimates and judgements

The preparation of a financial report in conformity with Australian Accounting Standards requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

The areas involving higher degree of judgement or complexity or areas where assumptions and estimates are significant to the financial statements are disclosed in the following notes to the Financial Statements:

- 1(i) - Financial Instruments, including loan impairment
- 22 - Fair value of financial assets and liabilities
- 1(s) - Leases

Current Economic Impacts on Key Judgements and Estimates

The Group has considered the effects of economic uncertainty relating to rising interest rates, inflation and global conflicts. The Group has considered the implications of these in the preparation of the financial statements.

Whilst the impacts of the above have not resulted in new areas involving judgment, they have created additional challenges in the determination of estimates. The specific impacts are disclosed in the specific notes relating to those areas.

The estimation uncertainty is associated with:

- The possible economic downturn and key economic factors such as GDP, unemployment and house prices;
- Global economic uncertainty such as disrupted supply chains and staff shortage;
- Impacts of interest rates and increased inflation.

The Group has included various accounting estimates in the financial statements based on forecasts of economic conditions and future events which reflect expectations and assumptions as at 30 June 2023.

There is a considerable degree of judgement required in preparing forecasts. The underlying assumptions are also subject to uncertainties beyond the control of individual entities. The actual economic outcomes are likely to differ from the forecast as the anticipated events and interaction will not always occur as expected. The effect of these differences may significantly impact accounting estimates included in the financial statements.

The significant accounting estimates impacted by these forecasts and associated uncertainties are predominately related to measurement of expected credit losses, fair value measurement of financial assets and recoverable amount assessments of assets.

b. Significant Accounting Policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.

c. Loans and Advances to Members

(i) Basis of inclusion

The Group recognises loans and advances on the date that they are originated.

All loans are initially recognised at fair value, net of transaction costs incurred and inclusive of loan origination fees. Loans are subsequently measured at amortised cost using the effective interest method net of any credit impairment. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the profit or loss over the period of the loans using the effective interest method.

Loans to Members are reported at their recoverable amount representing the aggregate amount of principal and unpaid interest owing to the Group at balance date, less any allowance or provision for impairment. Refer to note 1(i) for details on the approach to measure the expected credit losses on financial assets accounted for as amortised cost.

(ii) Interest earned

Term Loans – The loan interest is calculated on the basis of daily balance outstanding and is charged in arrears to a Member's account on the last day of each month.

Credit Cards – For interest free credit cards, interest will be charged only where the relevant transactions do not qualify for interest free status in accordance with the terms and conditions of the facility.

(iii) Loan origination fees and transaction costs

Loan establishment fees and associated transaction costs are initially deferred as part of the loan balance, and are brought to account as either a net expense or net income over the expected life of the loan. The amounts brought to account are included as part of interest revenue or expense as appropriate.

d. Plant and Equipment

Items of plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset.

Plant and equipment with the exception of freehold land, are depreciated on a straight-line basis, so as to write off the net cost of each asset over its expected useful life to the Group. The useful lives are adjusted if appropriate at each reporting date. Estimated useful lives at the balance date are as follows:

- Leasehold Improvements – 3 to 10 years.
- Plant and Equipment – 2.5 to 7 years.

e. Provisions

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 in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small. This does not include the ECL provision, for which the accounting policy is outlined in note 1(i).

f. Intangibles

Research costs are expensed as incurred. Development expenditures on individual projects are recognised in capital work in progress when the Group can demonstrate:

- The technical feasibility of completing the capital project so that it will be available for use or sale;
- Its intention to complete and its ability to use the capital project;
- How the capital project will generate future economic benefits;
- The availability of resources to complete the capital project; and
- The ability to measure reliably the expenditure during the development.

The Group capitalises computer software costs and recognises them as an intangible asset where they are clearly identifiable, can be reliably measured and will lead to future economic benefits that the Group controls. Capitalised software assets are carried at cost less amortisation and any impairment losses. The Group amortises these assets on a straight-line basis at a rate applicable to the expected useful life of the asset, but usually not exceeding 3 years. Any impairment loss is recognised under operating expenditure in the profit or loss when incurred.

Software-as-a-Service (SaaS) arrangements

The International Financial Reporting Standards Interpretations Committee (IFRIC) has issued two final agenda decisions which impact SaaS arrangements:

- Customer's right to receive access to the supplier's software hosted on the cloud (March 2019) — this decision considers whether a customer receives a software asset at the contract commencement date or a service over the contract term.
- Configuration or customisation costs in a cloud computing arrangement (April 2021) — this decision discusses whether configuration or customisation expenditure relating to SaaS arrangements can be recognised as an intangible asset and if not, over what time period the expenditure is expensed.

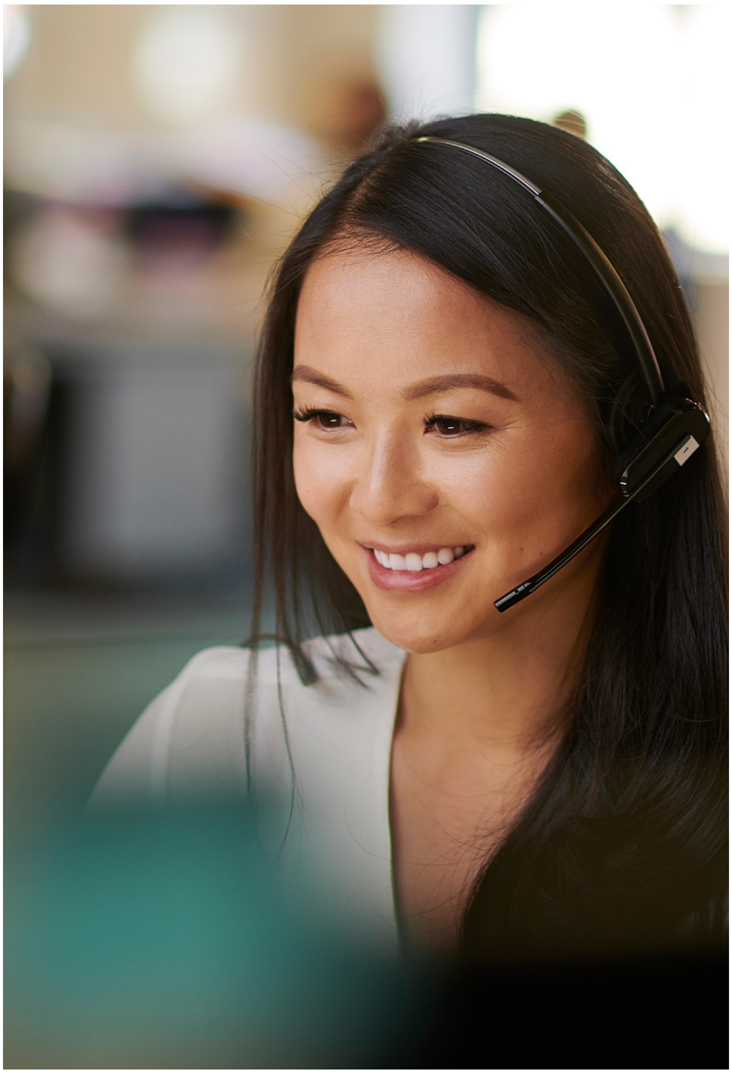
The Group has considered all previously capitalised costs relating to cloud computing arrangements and has determined that they continue to meet the recognition criteria under AASB 138 Intangible Assets.

g. Receivables from Other Financial Institutions

Receivables from other financial institutions include term deposits and settlement account balances due from other banks. They are recognised and accounted for as financial assets classified as amortised cost in accordance with Note 1(i).

Certificate of deposits and floating rate notes are recognised and accounted for as financial assets classified as Fair Value through OCI (FVOCI) in accordance with Note 1(i).

Interest on receivables due from other financial institutions is recognised on an effective yield basis.



h. Fees and Commissions

Transaction and interchange fees are charged and recognised at the time of the transaction. Service based fees in relation to administrating credit facilities are recognised over the service period.

The group earns trail commissions for the successful referral of customers for certain insurance products. Once the group has referred a successful insurance application to the insurance provider, its performance obligations have been met. As such, the Group recognises this revenue at a point in time, being when the policy is placed by the provider. On initial recognition a contract asset is recognised, representing management's estimate of the variable consideration to be received from the completion of this performance obligation. The Group uses the 'expected value' method of estimating the variable consideration.

i. Financial Instruments

Recognition and measurement

The Bank initially recognises loans and advances, deposits, debt securities issued and subordinate liabilities on the date on which they are originated. All other financial instruments including repurchase agreements are recognised on the trade date, which is the date on which the Bank becomes a party to the contractual provisions of the instruments.

Amortised cost

Financial assets or financial liabilities are initially recognised at fair value, inclusive of any directly attributable costs. They are subsequently measured at amortised cost when they are held within a business model to solely collect contractual cash flows and the contractual terms of the financial assets give rise on specified date 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 income statement when the financial assets are derecognised or impaired.

Fair value through other comprehensive income (FVOCI)

Financial assets including debt instruments are classified at FVOCI when they are held within a business model whose objective is achieved by 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.

Debt instruments at FVOCI

Debt instruments at FVOCI includes certificates of deposits and floating rate notes. Changes in the fair value are recognised in OCI, and are transferred to profit or loss when the asset is derecognised. Interest income using the effective interest method and impairment losses are recognised directly in the profit or loss. The fair value of the debt instruments at FVOCI as included in Note 9 'Financial assets at FVOCI' concerns the clean fair value price of these instruments and thus excludes interest earned on these instruments. Interest income as earned from the time of purchase of the instrument until balance sheet date is accounted for as 'Interest receivable' as part of the 'Receivables' on the balance sheet.

Equity instruments at FVOCI

Management has made an irrevocable election to measure the unlisted shares at FVOCI. These equity securities represent investments that the Bank intends to hold for the long term for strategic purposes.

Fair Value through profit or loss (FVTPL)

All financial assets not classified as measured at amortised cost or FVOCI are measured at FVTPL. For financial assets in this category, all 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.

Cash flow hedges

When a derivative is designated as a cash flow hedging instrument, the effectiveness portion of changes in the fair value of the derivative is recognised in other comprehensive income and accumulated in the hedging reserve. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in profit or loss. The amount accumulated in equity is retained in other comprehensive income and reclassified to profit or loss in the same period or periods during which the hedged item affects profit or loss. If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, or the designation is revoked, then the amount accumulated in equity is reclassified to profit or loss.

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of hedging instruments used in cash flow hedges pending subsequent recognition in profit or loss as the hedged cash flows affect profit or loss.

Business model assessment

The Bank will make an assessment of the objective of the business model at a portfolio level as this best reflects the way the business is managed and information is prepared and reported. The information includes:

- Stated policies and objectives for the portfolio and the operation of those policies in practice, strategy on earning contractual interest revenue, the interest rate profile, matching the duration of financial assets to the duration of financial liabilities that are funding the assets or realising cash flows through the sale of assets;

- How performance of the portfolio is evaluated and reported to the Bank's management;
- The risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- The frequency, volume and timing of sales in prior periods, the reason for such sales and expectation of future sales activity (as part of an overall assessment on how the Bank's objective of managing financial assets is achieved and how cash flows are realised).

In determining the business model the Bank will assess whether the contractual cash flows are SPPI.

Contractual cash flows assessment

In assessing whether the cash flows are SPPI, the Bank will consider the contractual terms of the instrument. This will include assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition.

Impairment of financial assets

The impairment requirements apply to financial assets subsequently measured at amortised cost, debt instruments subsequently measured at FVOCI, loan commitments and financial guarantee contracts.

The Bank measures loss allowances at an amount equal to lifetime ECLs except for the following assets, where they are measured as 12-month ECLs: (1) Debt investment securities that are determined to have low credit risk at the reporting date and (2) financial instruments on which credit risk has not increased significantly since their initial recognition, where they are measured as 12-month ECLs.

The Bank considers a debt investment security to have low credit risk when its credit rating is equivalent to the globally understood definition of "investment grade". An ECL assessment is also undertaken over receivables from other financial institutions using an external rating based approach. The ECL as at 30 June 2023 was immaterial on these investments.

The Bank 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 credit risk has not increased significantly since initial recognition or the asset is not credit impaired upon origination, recognise a portion of the lifetime ECLs associated with the probability of default events occurring within the next 12 months.
- Stage 2: Where credit risk has increased significantly since initial recognition but not credit impaired (includes exposures that are greater than 30 days and less then 90 past due), recognise lifetime ECLs. A cure period of 6 months is considered to allow backward movement across stages. A loan that gets classified into Stage 2 or Stage 3 due to the Days Past Due (DPD) criteria must exhibit good payment behaviour for 6 consecutive months for backward movement.
- Stage 3: When a financial asset is assessed as credit impaired (includes exposures that are greater than or equal to 90 days past due), recognise lifetime ECLs.

Lifetime ECLs are generally determined based on the expected remaining life of the financial asset, after considering possible prepayments. When measuring 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 Bank and all the cash flows that the Bank is expected to receive.

Model inputs

The Bank uses AASB 9 collective provisioning models in calculating the ECL for mortgages and non-mortgage lending. The key model inputs used in measuring the ECL include:

- Exposure at default (EAD): The EAD represents the estimated exposure in the event of a default. The EAD is estimated taking into consideration a range of possible exposures including both repayments and future drawdowns of unutilised commitments up to when the exposure is expected to default.
- Probability of default (PD): The calculation of PD is generally performed at a facility level segmented based on product type, or any other shared characteristics that are highly correlated to credit risk. PDs are a function of transition matrices used to determine a point in time PD estimate.
- Loss given default (LGD): The LGD associated with PD used is the magnitude of the ECL in a default event. The LGD is estimated using historical loss rates considering relevant factors for individual exposures or portfolios. These factors include collateral, recovery cost, LMI and the structure of the facility. To mitigate volatility an LGD floor of 10%, which is in line with APRA guidelines, was introduced this year.

Forward looking information

Forward looking information used in the measurement of ECLs takes into account probability weighted scenarios and includes macroeconomic variables that influence credit losses. The Bank has a process to assess this information in determining a base case, downside and upside forecast scenario with adjustments to the PD and LGD assumptions used in the ECL model. The adjustments to the assumptions are determined by senior management based on the scenarios and involve significant judgement. Refer to the key estimates and judgements section below for details on changes in key assumptions in the current period.

Definition of default, impaired and write-offs

The Bank uses the definition of default used for in the Bank's internal credit risk management framework and has aligned the definition of credit impaired under AASB 9 Stage 3 with the definition of default for prudential purposes. Default is generally defined as the point in time when the borrower is unlikely to meet its credit obligations in full, without recourse by the Bank to take realisation of collateral; or the borrower is greater than or equal to 90 days past due.

Facilities are classified as impaired where there is doubt as to whether the full amounts due, including interest and other payments, will be received in a timely manner. 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 or a portion thereof. 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 impairment of loans and advances line in the Income Statement.

Modified financial assets

The contractual terms of a loan may be modified for a number of reasons. If the terms of modification are substantial, the existing loan will have to be derecognised and the renegotiated loan recognised at a new effective interest rate. Where the modifications are not substantial and do 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. As of 30 June 2023, the Bank holds $7.5m (2022: $1.8m) financial assets where the contractual terms were modified.

Management Overlay

An overlay adjustment is used by the Bank to adjust the total provision recognised where it is judged that the adopted inputs, assumptions and model techniques do not address all the risk factors, limitations or complexity involved in estimating the future expected credit losses of the loan portfolio. The Bank has created overlays for the following areas;

- Overlay on PD: Based on the external reports and communications with the regulators, the Bank has identified that loans with DTI (Debt to Income) more than 6, LVR (Loan Valuation Ratio) more than 80% or Interest only loans are the most vulnerable to the economic conditions.
- During the current year, an overlay has been created for a specific segment of borrowers with fixed rate loans that are expected to be under significant stress on conversion to variable rate due to increase in cash rate.
- Overlay on LGD: The Bank has created an overlay equal to 20% of LGD for home loan portfolio to provide for the impact of the fall in property prices in the LGD estimates. This is a potential risk not included in the Bank's ECL model. The Bank will continue to monitor this risk for potential inclusion in the model.

Key estimates and judgements

The rising interest rates, inflation and global conflicts continues to result in increased levels of uncertainty in the global and domestic economy. This uncertainty is reflected in the Bank's assessment of expected credit losses from its credit portfolio which are subject to a number of management judgements.

In estimating the collectively assessed ECL, the Bank makes judgements and assumptions in relation to the selection of ECL inputs, assumptions and interdependencies between these inputs.

The judgements and associated assumptions have been made within the context of the impact of current economic conditions and reflect historical experience and other factors that are considered to be relevant, including expectations of future events that are believed to be reasonable under the circumstances. These include the impacts of the movements in interest rates, inflation, housing prices and unemployment. The Bank's estimation of Expected Credit Loss is inherently uncertain and actual results and outcomes may differ from these estimates.

The following table summarises the key judgements and assumptions in relation to model inputs and interdependencies between these inputs, and highlights significant changes during the period.

Judgements and assumptions	Details	Approach for the period
Determining when a significant increase in credit risk (SICR) has occurred	In the measurement of ECL, judgement is involved in setting the rules and trigger points to determine whether there has been a SICR since recognition of a loan, which would result in the financial assets moving from Stage 1 to Stage 2. This represents a key area of judgement with transition from Stage 1 to Stage 2 changing the estimate from 12 month losses to lifetime expected credit losses.	The Bank considers both qualitative and quantitative information to determine the SICR criteria. As per the rebuttable presumption in the standard, the Bank has classified all loans on which any instalment or part thereof are more than or equal to 30 days past due and less than 90 days past due as Stage 2, and calculated lifetime ECL on such loans. Further, financial difficulty is considered as a qualitative indicator for SICR and hence, borrowers that have opted for payment deferrals due to hardship are also classified under stage 2. These indicators are based on management assessment of additional credit risk on customers who are vulnerable due to financial difficulty. During the period management has decided to remove the SICR for aviation industry loans resulting in a writeback of $4.07m. This is due to the recovery of the travel industry post Covid.
Forecast economic scenarios	The Bank uses its judgement to develop a base, upside and downside scenario	In light of current economic conditions the key assumptions in the base case, downside and upside scenarios were reassessed and updated. In performing this assessment consideration was given to the impact of federal and state government policy, the current economic outlook, uncertainty and potential volatility in residential property prices. Further, in the current period cash rate is included in the model to incorporate the stress on the portfolio due to the rising cash rate. The updated scenarios resulted in increased estimates for PD assumptions used in the models. Assessing the impacts of forward-looking information on future losses involves significant judgment. The Bank considers the updated assumptions to reflect the best estimate of each forecast scenario. Expected Scenario reflects management's best estimate of future economic conditions. The best-case and worst-case scenarios are considered as one standard deviation away from the Expected Scenario.
Probability weighting of each scenario	The probability weighting of best estimate, downside and upside scenarios is determined by management considering the risks and uncertainties surrounding the base case.	The key consideration in the current period has been the economic outlook. In performing assessment of economic outlook, consideration was given to the impact of federal and state government policy, uncertainty and potential volatility in residential property prices and cash rate. As such, the scenario weights as at 30 June 2023 for base case, upside and downside are consistent with previous year's weights of 60% (2022: 60%), 0% (2022: 0%) and 40% (2022: 40%) respectively. The applied probability weightings are subject to inherent uncertainty and the actual outcomes may be significantly different to those projected. The Bank considers the weightings to provide the best estimate of probability outcomes.

Judgements and assumptions	Details	Approach for the period
Probability of default (PD) rates	PD rates are determined using available data to reflect the current economic environment.	During the period the Bank considered available historical data to determine the Through the Cycle (TTC) PD. The TTC PD is adjusted using forward looking information to appropriately reflect the current and future economic environment.
Management overlay	Management adjustments to the ECL allowance are adjustments used in circumstances where it is judged that existing inputs, assumptions and model techniques do not capture all the risk factors relevant to the credit portfolios. Examples of such circumstances are: risks associated to specific cohorts of loans, emerging domestic or global economic events, natural disasters, or forward looking information. The use of adjustments may impact the amount of ECL recognised.	To address known risks not included in the ECL model (largely linked to economic uncertainties), the management has created an overlay. Details of the overlay are noted above.

The uncertainty of the impact of current economic conditions increases the risk to the forecast resulting in understatement or overstatement of the ECL provision due to the uncertainty of the impacts and evolution of the crisis. The Bank's measurement of ECL is based upon available information and applied professional judgment as at 30 June 2023. The rapidly evolving consequences and interplay of government, business and consumer responses could result in significant adjustment to the ECL provision within the next financial year or years. Given the current uncertainties and judgement applied to factors used in determining the expected default of borrowers in future periods, expected losses reported by the Bank should be considered as a best estimate within a range of estimates. The Bank is continuing to closely monitor and measure the ECL with appropriate adjustments and application of professional judgement.

Sensitivity analysis

The following sensitivity table shows the reported provision for ECL based on the probability weighted scenarios and what the provisions for ECL (including any overlay) would be prior to rounding, assuming a 100% weighting is applied to the 3 scenarios as per the below table and when all other assumptions are held constant as at 30 June 2023.

June 2023

Description	$000	Weighting applied in ECL model	Weighted PV $'000
Base Case / Scenario	10,912	60%	6,547
Downside	17,051	40%	6,820
Upside	8,919	0%	-
		Total	**13,367**

June 2022

Description	$000	Weighting applied in ECL model	Weighted PV $'000
Base Case / Scenario	12,079	60%	7,247
Downside	19,339	40%	7,736
Upside	9,779	0%	-
		Total	**14,983**

j. Deposits

(i) Basis for determination

All deposits, including savings, term investments and retirement savings accounts, are initially recognised at fair value (being the aggregate amount of money owing to depositors) less directly attributable transaction costs. After initial recognition, interest bearing borrowings are subsequently measured at amortised cost using the effective interest method.

(ii) Interest on deposits

At Call
Interest on deposit balances is calculated and accrued on a daily basis at current rates and credited to accounts on a monthly basis.

Term Deposits
Interest on term deposits is calculated and accrued on a daily basis at agreed rates and is paid or credited to accounts in accordance with the terms of the deposit.

Retirement Savings Accounts (RSA)
Interest on Retirement Savings Accounts are calculated and accrued on a daily basis at current rates and credited to Retirement Savings Accounts on a monthly basis.

k. Borrowings

The Group initially recognises borrowings on the date that they are originated. All other financial liabilities are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

All borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost using the effective interest method. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the profit or loss over the period of the loans and borrowings using the effective interest method. Any gain or loss on derecognition is also recognised in profit or loss.

l. Provision for Employee Benefits

The provision for long service leave is based on the present value of the estimated future cash outflows to be made resulting from employees' service up to reporting date, and having regard to the probability that employees as a group will remain employed for the period of time necessary to qualify for long service leave.

Provisions for annual leave represent present obligations resulting from employees' services calculated on undiscounted amounts based on remuneration, wage and salary rates that the Group expects to pay as at reporting date.

Contributions are made by the Group to an employee's superannuation fund and are charged to the profit or loss as the related service is provided.

m. Income Tax

The income tax expense shown in the profit or loss is based on the operating profit before income tax adjusted for any non-tax deductible or non-assessable items between accounting profit and taxable income. Deferred tax assets and liabilities are recognised using the Statement of Financial Position liability method in respect of temporary differences arising between the tax bases of assets or liabilities and their carrying amounts in the financial statements. Current and deferred tax balances relating to amounts recognised directly in equity are also recognised directly in equity.

Deferred tax assets and liabilities are recognised for all temporary differences between carrying amounts of assets and liabilities for financial reporting purposes and their respective tax bases at the rate of income tax applicable to the period in which the benefit will be received or the liability will become payable. These differences are presently assessed at 30%.

Deferred tax assets are only brought to account if it is probable that future taxable amounts will be available to utilise those temporary differences. The recognition of these benefits is based on the assumption that no adverse change will occur in income tax legislation; and the anticipation that the Group will derive sufficient future assessable income and comply with the conditions of deductibility imposed by the law to permit a future income tax benefit to be obtained.

n. Goods and Services Tax (GST)

As a financial institution, the Group is input taxed on all income except other income from commissions and some fees. An input taxed supply is not subject to GST collection, and similarly the GST paid on purchases cannot be recovered. In addition certain prescribed purchases are subject to reduced input tax credits (RITC), of which 75% of the GST paid is recoverable. In addition, general apportionment may be recoverable in some cases.

Revenue, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of the GST incurred is not recoverable from the Australian Tax Office (ATO). In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of an item of expense.

Receivables and payables are stated with the amount of GST included where applicable GST is collected. The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or current liability in the Consolidated Statement of Financial Position.

Cash flows are included in the Consolidated Statement of Cash Flows on a gross basis. The GST components of cash flows arising from investing and financing activities, which are recoverable from, or payable to, the Australian Taxation Office, are classified as operating cash flows.

o. Impairment of Non-Financial Assets

At each reporting date the Group assesses whether there is any indication that individual assets are impaired. The recoverable amount is determined and impairment losses are recognised in the profit or loss where the asset's carrying value exceeds its recoverable amount. Recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purpose of assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where it is not possible to estimate recoverable amount for an individual asset, recoverable amount is determined for the cash-generating unit to which the asset belongs.

p. Principles of Consolidation

Subsidiaries are entities controlled by the Group. The Group controls an entity when it 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 over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases. In preparing the consolidated financial statements, all inter-company balances and transactions, and unrealised profits arising within the Group are eliminated in full.

q. Other Trade and Other Receivables

Trade and other receivables are held at amortised cost (see accounting policy 1(i)).

r. Cash and Cash Equivalents

Cash and cash equivalents comprise cash balances, short term bills and call deposits with maturity equal to or less than 3 months. Bank overdrafts that are repayable on demand and form an integral part of the Group cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

s. Leases

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group assesses whether:

- the contract involves the use of an identified asset – this may be specified explicitly or implicitly, and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified;
- the Group has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
- the Group has the right to direct the use of the asset. The Group has this right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used. In rare cases where the decision about how and for what purpose the asset is used is predetermined, the Group has the right to direct the use of the asset if either:
- the Group has the right to operate the asset; or
- the Group designed the asset in a way that predetermines how and for what purpose it will be used.

As a Lessee

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

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

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;

- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Group is reasonably certain to exercise, lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or if the Group changes its assessment of whether it will exercise a purchase, extension or termination option.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Group presents right-of-use assets that do not meet the definition of investment property in 'Plant and equipment' in the statement of financial position. Interest expense on the lease liability is presented separately from the depreciation charge for the right-of-use assets in the statement of profit or loss.

Short-term leases and leases of low-value assets

The Group has elected not to recognise right-of-use assets and lease liabilities for short-term leases of machinery that have a lease term of 12 months or less and leases of low-value assets, including IT equipment. The Group recognises the lease payments associated with these leases as an expense on a straight- line basis over the lease term.

Amount recognised in Profit and Loss

	2023 $000	2022 $000
Interest on lease liabilities	(230)	(253)
Variable lease payments not included in the measurements of lease liabilities	(562)	(505)
ROU asset depreciation	(1,589)	(1,677)
	(2,381)	**(2,435)**

Real estate leases

The Group leases land and buildings for its office space and retail branches. The leases of office space typically run for a period of 10 years, and leases of retail branches for five years. Some leases include an option to renew the lease for an additional period of the same duration after the end of the contract term.

Extension Options

Some leases of office buildings contain extension options exercisable by the Group up to one year before the end of the non-cancellable contract period. The extension options held are exercisable only by the Group and not by the lessors. The Group assesses at lease commencement whether it is reasonably certain to exercise the extension options. The Group has not recognised any lease options as being reasonably certain of being extended.

t. Trade and Other Payables

Trade and other payables are carried at amortised cost which is the fair value of the consideration for goods and services received. These items are recognised when incurred.

For the year ended
30 June 2023

2. STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	2023 $000	2022 $000
ANALYSIS OF INTEREST REVENUE		
a. Category of interest bearing assets		
Loans and advances to Members	174,918	104,172
Investment Securities	34,732	3,119
Call Deposits with other Financial Institutions	3,918	98
Term Deposits with other Financial Institutions	324	66
Regulatory Deposits	820	69
TOTAL INTEREST REVENUE	**214,712**	**107,524**
b. Category of interest bearing liabilities		
Deposits	129,155	36,854
Bank Overdraft	-	1
Other	231	253
TOTAL INTEREST EXPENSE	**129,386**	**37,108**
c. Other Income		
Fees and Commissions	8,417	6,609
Dividends received	276	218
Bad debts recovered	147	225
TOTAL OTHER INCOME	**8,840**	**7,052**
d. Impairment losses on loans and advances		
Bad debts written off directly against profit	178	163
Addition/(Release) to/(from) provision for doubtful debts	(1,615)	(117)
TOTAL IMPAIRMENT LOSSES ON LOANS & ADVANCES	**(1,437)**	**46**

2. STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (Continued)

	2023 $000	2022 $000
e. Other expenses		
Salaries and on costs	25,931	21,636
Superannuation costs	2,039	1,771
Transaction costs	9,494	8,520
Information technology	8,913	5,821
Insurance and legal	1,165	649
Directors remuneration	722*	646
Depreciation of plant and equipment	1,202	1,318
Lease Depreciation	1,590	1,677
Amortisation of intangibles	1,357	903
Amounts set aside to provisions:		
Employee entitlements	545	874
Occupancy expenses	991	985
Supervision levies	205	281
Marketing costs	4,396	3,579
Fees and Commissions	3,312	2,527
Other costs	7,531	3,756
TOTAL OTHER EXPENSES	**69,393**	**54,943**
f. Auditor's Remuneration		
Accounts received or due and receivable by KPMG for:		
Audit services		
Audit of financial statements	216	191
Other regulatory and audit services	103	93
Total audit services	**319**	**284**
Non-audit services		
Other services	-	14
Total non-audit services	**-**	**14**
TOTAL AUDITOR'S REMUNERATION	**319**	**298**

* This amount includes payment of additional remuneration for the chair performing special duties as Executive Chair during the period 28 March 2023 – 30 June 2023.

3. INCOME TAX EXPENSE

	2023 $000	2022 $000
a. Items recognised in Profit and Loss		
Current year	6,434	6,710
Prior year over/(under) provision for current tax	118	(28)
Deferred Tax Expense		
Prior year (over)/under provision for deferred tax	(189)	28
Decrease in net deferred tax asset	1,433	42
TOTAL INCOME TAX EXPENSE IN INCOME STATEMENT	**7,796**	**6,752**
b. Reconciliation between tax expense and pre-tax net profit:		
Profit before tax	26,210	22,479
Income tax using the Company tax rate of 30%	7,863	6,744
Tax effect of expenses/ income		
- Other non-deductible expenses	(67)	8
INCOME TAX EXPENSE ATTRIBUTABLE TO PROFIT	**7,796**	**6,752**

4. CASH AND CASH EQUIVALENTS

	2023 $000	2022 $000
Cash on hand	523	560
Deposits at call		
Cash at Bank	88,221	109,571
Other Financial Institutions	32,514	37,022
Other Authorised Deposit-taking Institutions	30,000	25,000
TOTAL CASH AND CASH EQUIVALENTS	**151,258**	**172,153**

5. RECEIVABLES

	2023 $000	2022 $000
Interest receivable	9,636	3,028
Sundry debtors and settlement accounts	2,849	2,161
TOTAL RECEIVABLES	**12,485**	**5,189**
Maturity Analysis		
Not longer than 3 months	9,699	3,024
3 to 12 months	2,786	2,165
	12,485	**5,189**

6. RECEIVABLES DUE FROM OTHER FINANCIAL INSTITUTIONS

	2023 $000	2022 $000
Deposits with other Authorised Deposit-taking Institutions.	39,765	59,765
TOTAL RECEIVABLE DUE FROM OTHER FINANCIAL INSTITUTIONS	**39,765**	**59,765**
Maturity Analysis		
Not longer than 3 months	10,000	10,000
3 to 12 months	29,765	49,765
	39,765	**59,765**
Fair Value		
Deposits with other Authorised Deposit-taking Institutions	39,764	59,601
	39,764	**59,601**

7. LOANS AND ADVANCES

	2023 $000	2022 $000
Amount due comprises:		
Home loans	4,191,262	3,918,023
Credit cards	18,572	18,723
Personal loans	4,632	5,348
Car loans	5,856	5,046
Subtotal	**4,220,322**	**3,947,140**
Less:		
Provision for impaired loans (Note 8)	(13,368)	(14,983)
TOTAL LOANS AND ADVANCES	**4,206,954**	**3,932,157**
Maturity analysis - gross loans and advances		
Not longer than 3 months	33,374	79,732
Longer than 3 months and not longer than 12 months	80,100	103,568
Longer than 1 year and not longer than 5 years	142,861	345,678
Longer than 5 years	3,963,987	3,418,162
	4,220,322	**3,947,140**

8. PROVISION FOR IMPAIRMENT

The table below represents the reconciliation from the opening to the closing balance of ECL allowances on loan assets to which the impairment requirements under AASB 9 are applied:

	Stage 1 12 month ECL $000	Stage 2 Lifetime ECL $000	Stage 3 Lifetime ECL $000	Management Overlay $000	Provision Total $000
As at 1 July 2021	**3,066**	**7,411**	**760**	**3,863**	**15,100**
Changes due to financial assets that have:					
Transferred to/(from) 12 months ECL collectively assessed	(31)	17	14	-	-
Transfer to/(from) lifetime ECL not credit impaired collectively assessed	573	(594)	21	-	-
Transfer to/(from) lifetime ECL credit impaired collectively assessed	31	29	60	-	**120**
New and increased provisions net of releases	(2,888)	(451)	1,588	-	**(1,751)**
Bad debts written off	-	-	(163)	-	**(163)**
Management overlay increase/(decrease)	-	-	-	1,677	**1,677**
As at 30 June 2022	**751**	**6,412**	**2,280**	**5,540**	**14,983**
As at 1 July 2022	**751**	**6,412**	**2,280**	**5,540**	**14,983**
Changes due to financial assets that have:					
Transferred to/(from) 12 months ECL collectively assessed	(665)	266	399	-	**-**
Transfer to/(from) lifetime ECL not credit impaired collectively assessed	386	(601)	215	-	**-**
Transfer to/(from) lifetime ECL credit impaired collectively assessed	1	9	(10)	-	**-**
New and increased provisions net of releases	1,178	(4,330)	91	-	**(3,061)**
Bad debts written off	-	-	(171)	-	**(171)**
Management overlay increase/(decrease)	-	-	-	1,617	**1,617**
As at 30 June 2023	**1,651**	**1,756**	**2,804**	**7,157**	**13,368**

Use of judgements and estimates

Refer to Note 1(i) for further details on the Group's methodology for estimating the provision for impaired loans.

9. FINANCIAL ASSETS AT FVOCI

	2023 $000	2022 $000
Equity Investments		
Indue Limited	16,130	13,689
Debt instrument investments		
Bank issued certificates of deposit	293,532	129,372
Government Securities	142,493	259,186
Floating rate notes	560,910	577,525
TOTAL FINANCIAL ASSETS AT FVOCI	**1,013,065**	**979,772**
Maturity Analysis		
Not longer than 3 months	515,787	400,421
3 to 12 months	97,528	187,434
1-5 years	383,620	378,228
No maturity	16,130	13,689
	1,013,065	**979,772**

Refer to Note 22 for further detail on fair value methodology.

10a. PLANT AND EQUIPMENT

	2023 $000	2022 $000
Leasehold property improvements - at cost	5,786	6,437
Less: Accumulated depreciation	(4,290)	(4,393)
	1,496	**2,044**
Office furniture and equipment - at cost	2,375	2,359
Less: Accumulated depreciation	(2,230)	(2,171)
	145	**188**
Computer equipment - at cost	5,210	4,720
Less: Accumulated depreciation	(4,635)	(4,345)
	575	**375**
Motor vehicles - at cost	710	928
Less: Accumulated depreciation	(342)	(486)
	368	**442**
TOTAL PLANT AND EQUIPMENT OWNED – NET BOOK VALUE	**2,584**	**3,049**
Right-of-use assets - at cost	11,702	11,071
Less: Accumulated depreciation	(6,677)	(5,087)
	5,025	**5,984**
TOTAL PLANT AND EQUIPMENT – NET BOOK VALUE	**7,609**	**9,033**

10a. PLANT AND EQUIPMENT (Continued)

MOVEMENT IN THE ASSETS BALANCES DURING THE YEAR WERE:

Plant & Equipment	2023		2022	
	Leasehold improvements $000	Other plant & equipment $000	Leasehold improvements $000	Other plant & equipment $000
Opening balance	2,044	1,005	2,055	1,407
Purchases	-	873	544	510
Transfers	-	-	-	-
Less:				
Assets disposed	(4)	(133)	(16)	(133)
Depreciation charge	(544)	(657)	(539)	(779)
Balance at the end of the year	**1,496**	**1,088**	**2,044**	**1,005**

Plant & Equipment	2023	2022
	Right-of-use Assets $000	Right-of-use Assets $000
Opening balance	5,984	7,661
Additions during the year	861	-
Less:		
Derecognition during the year	(230)	-
Depreciation charge for the year	(1,590)	(1,677)
Balance at the end of the year	**5,025**	**5,984**

10b. INTANGIBLES

	2023 $000	2022 $000
Computer Software - at cost	17,250	13,863
Less: provision for amortisation	(13,847)	(12,496)
TOTAL INTANGIBLES	**3,403**	**1,367**
MOVEMENT IN THE INTANGIBLES BALANCES DURING THE YEAR WERE:		
Computer Software		
Opening balance	1,367	1,108
Purchases	3,393	1,162
Less:		
Assets disposed	-	-
Amortisation charge	(1,357)	(903)
Balance at the end of the year	**3,403**	**1,367**

11. PREPAYMENTS & DEBTORS

	2023 $000	2022 $000
Prepayments	2,954	2,555
Unamortised broker commissions	8,899	7,945
Other Assets	9,224	4,869
Capitalised Expenses	1,246	1,655
TOTAL PREPAYMENTS & DEBTORS	**22,323**	**17,024**
Maturity Analysis		
Less than 12 months	16,948	11,946
Greater than 12 months	5,375	5,078
	22,323	**17,024**

12. DEFERRED TAX

	2023 $000	2022 $000
Net Deferred Tax (Liabilities)/Asset	**(500)**	**1,934**
Net Deferred tax assets represents the estimated future tax benefit / liability at the applicable rate of 30% on the following items:		
Deferred Tax Assets(Liabilities)		
- Provisions for impairment on loans	4,010	4,495
- Provisions for employee benefits not currently deductible	1,487	1,498
- Provisions for makegood	68	85
- Other accruals	654	664
- Fixed assets	(1,942)	(1,102)
-Lease AASB 16	453	523
- Financial Instruments	1,351	2,383
	6,081	**8,546**
Deferred Tax Liabilities		
- Financial Instruments	(6,581)	(6,612)
	(6,581)	**(6,612)**
NET DEFERRED TAX (LIABILITIES)/ASSET	**(500)**	**1,934**

13. PAYABLES DUE TO OTHER FINANCIAL INSTITUTIONS

	2023 $000	2022 $000
Repurchase agreement with the RBA*	208,246	168,247
Electronic Certificates of Deposit issued	150,303	4,962
TOTAL PAYABLES TO OTHER FINANCIAL INSTITUTIONS	**358,549**	**173,209**
Maturity analysis		
Not longer than 3 months	285,616	-
Longer than 3 and not longer than 6 months	4,938	4,962
Longer than 6 and not longer than 12 months	67,995	168,247
	358,549	**173,209**

*As at 30 June 2023, the Group had fully drawn from the RBA term funding facility (TFF) allowance of $168,000,000. Class A notes with a total face value of $227,040,000 were pledged in relation to this.

On the 28th June 2023 the Group entered into a repurchase agreement with the RBA which will expire on 26th July 2023. Three FRNs with a total face value $44,162,000.00 were pledged in relation to this. Under the terms of the agreement, if the Repo is not paid on maturity RBA can claim the pledged assets.

14. DEPOSITS

	2023 $000	2022 $000
Deposits		
- Call deposits	3,671,276	3,795,089
- Superannuation Savings Accounts	280,644	281,745
- Term deposits	781,713	591,013
Total deposits	**4,733,633**	**4,667,847**
Member withdrawable shares	572	581
TOTAL DEPOSITS & SHARES	**4,734,205**	**4,668,428**
Maturity analysis		
At call	3,952,492	4,077,415
Not longer than 3 months	276,512	278,996
Longer than 3 and not longer than 6 months	268,344	179,299
Longer than 6 and not longer than 12 months	171,977	109,374
Longer than 12 months and not longer than 5 years	64,880	23,344
	4,734,205	**4,668,428**

Customer or Industry Groups

The majority of deposits are from employees and former employees of companies within the Qantas Group, associated companies, Commonwealth Government departments and authorities and from related or nominated persons or entities in accordance with the Constitution of the Bank. Deposits are also accepted from non-members and wholesale depositors.

Charge on Members' accounts

The Bank may charge the deposit accounts of a Member in relation to any debt owed by the member to the Bank.

Under the Corporations Act 2001, redeemable preference shares (member shares) may only be redeemed out of the Group's profit or through the new issue of shares for the purpose of the redemption. In previous periods the Group had transferred an amount equal to the value of redeemable preference shares redeemed since 1 July 1999 (the date that the Corporations Act 2001 applied to the Group), from retained earnings to the Capital Reserve Account. The Group's accounting policy was changed in 2019 to no longer recognise a specific reserve in equity and transferred the amount to retained earnings as of 30 June 2019. The value of members' shares is disclosed as a liability in Note 14 Deposits.

15. CREDITOR ACCRUALS AND SETTLEMENT ACCOUNTS

	2023 $000	2022 $000
Creditors and accruals	6,551	5,866
Interest payable on deposits	9,475	2,265
Sundry creditors	5,470	5,939
TOTAL CREDITOR ACCRUALS AND SETTLEMENT ACCOUNTS	**21,496**	**14,070**

16. TAXATION ASSETS AND LIABILITIES

	2023 $000	2022 $000
Current income tax (asset)/liability	(989)	1,643
TOTAL TAXATION (ASSET)/LIABILITIES	**(989)**	**1,643**
Current income tax liability comprises:		
Balance – previous year	1,643	2,044
Income tax paid	(9,498)	(7,389)
RSA tax liability	550	250
Liability for income tax in current year	6,434	6,710
(Over)/ understatement in prior year	(118)	28
	(989)	**1,643**

17. PROVISIONS

	2023 $000	2022 $000
Employee entitlements	4,955	4,992
Dispute resolution	227	283
TOTAL PROVISIONS	**5,182**	**5,275**
PROVISIONS MOVEMENTS		
Employee Entitlements		
Balance – previous year	4,992	4,476
Less amounts paid	(877)	(304)
Increase in provision	840	820
CLOSING BALANCE	**4,955**	**4,992**
Dispute Resolution		
Balance – previous year	283	283
Less amount paid	56	-
Increase in provision	-	-
CLOSING BALANCE	**227**	**283**
TOTAL PROVISIONS	**5,182**	**5,275**

18. LEASE LIABILITY

	2023 $000	2022 $000
Opening Balance	7,726	9,538
Additions	862	-
Derecognition	(252)	-
Lease Payment	(2,032)	(2,066)
Other – Rent free	-	-
Interest Expense on Leases	231	254
BALANCE AT THE END OF YEAR	**6,535**	**7,726**
Maturity analysis — contractual undiscounted cash flows		
Less than 1 year	2,050	1,977
1 to 5 years	4,840	5,928
More than 5 years	-	299
TOTAL UNDISCOUNTED LEASE LIABILITIES AT THE END OF YEAR	**6,890**	**8,204**
LEASE LIABILITIES INCLUDED IN THE STATEMENT OF FINANCIAL POSITION AT END OF YEAR	**6,535**	**7,726**
Current	1,871	1,776
Non-current	4,664	5,950

19. RESERVES

	2023 $000	2022 $000
General Reserve for Credit Losses	1,796	1,796
Cash Flow Hedge Reserve	6,641	8,532
Financial Assets at FVOCI	5,518	1,400
TOTAL RESERVES	**13,955**	**11,728**
General Reserve for Credit Losses		
Balance at the beginning of the year	1,796	1,796
Add: increase / (decrease) transferred from retained earnings	-	-
BALANCE AT END OF YEAR This reserve records amounts set aside as a general provision for doubtful debts and is maintained to comply with the Prudential Standards set down by APRA.	**1,796**	**1,796**
Cash Flow Hedge Reserve		
Balance at the beginning of the year	8,532	(83)
Movement of cash flow hedge	(2,701)	12,307
Effect of tax	810	(3,692)
BALANCE AT THE END OF YEAR	**6,641**	**8,532**
Financial Assets at FVOCI Reserve		
Balance at the beginning of the year	1,400	6,817
Fair value gain on available for sale financial assets	5,882	(7,738)
Effect of tax	(1,764)	2,321
BALANCE AT THE END OF YEAR	**5,518**	**1,400**

20. RETAINED EARNINGS

	2023 $000	2022 $000
Retained profits at the beginning of the financial year	308,502	292,775
Add: operating profit for the year	18,414	15,727
RETAINED PROFITS AT THE END OF THE FINANCIAL YEAR	**326,916**	**308,502**

21. INTEREST RATE CHANGE PROFILE OF FINANCIAL ASSETS AND LIABILITIES

Financial assets and liabilities have conditions that allow interest rates to be amended either on maturity (term deposits and term investments) or after adequate notice is given (loans and savings). The table below shows the respective value of funds where interest rates are capable of being altered within the prescribed time bands, being the earlier of the contractual repricing date, or maturity date.

2023	Up to 3 months $000	Up to 12 months $000	1-5 years $000	Non interest bearing $000	Total $000
ASSETS					
Cash	150,735	-	-	523	**151,258**
Receivables	-	-	-	12,485	**12,485**
Financial assets at FVOCI:					
Shares in Indue Ltd	-	-	-	16,130	**16,130**
Certificates of deposit	279,134	14,398	-	-	**293,532**
Government Securities	142,493	-	-	-	**142,493**
Floating rate notes	560,910	-	-	-	**560,910**
Receivables due from other financial institutions	-	39,765	-	-	**39,765**
Loans & advances	3,114,272	590,600	515,450	-	**4,220,322**
Derivative Asset	2,578	5,950	959	-	**9,487**
Total Assets	**4,250,122**	**650,713**	**516,409**	**29,138**	**5,446,382**
LIABILITIES					
Payables to other financial institutions	358,549	-	-	-	**358,549**
Deposits from members	4,228,432	440,321	64,880	-	**4,733,633**
Redeemable Preference Shares	-	-	-	572	**572**
Payables	-	-	-	9,476	**9,476**
Derivative Liability	-	-	-	-	**-**
Total Liabilities	**4,586,981**	**440,321**	**64,880**	**10,048**	**5,102,230**

21. INTEREST RATE CHANGE PROFILE OF FINANCIAL ASSETS AND LIABILITIES (Continued)

2022	Up to 3 months $000	Up to 12 months $000	1-5 years $000	Non interest bearing $000	Total $000
ASSETS					
Cash	171,593	-	-	560	**172,153**
Receivables	-	-	-	5,189	**5,189**
Financial assets at FVOCI:					
Shares in Indue Ltd	-	-	-	13,689	**13,689**
Certificates of deposit	79,846	49,526	-	-	**129,372**
Government Securities	239,376	19,810	-	-	**259,186**
Floating rate notes	577,524	-	-	-	**577,524**
Receivables due from other financial institutions	10,000	49,765	-	-	**59,765**
Loans & advances	2,628,186	203,737	1,115,217	-	**3,947,140**
Derivative Asset	180	5,383	6,624	-	**12,187**
Total Assets	**3,210,379**	**446,319**	**1,500,069**	**19,438**	**5,176,205**
LIABILITIES					
Payables to other financial institutions	173,209	-	-	-	**173,209**
Deposits from members	4,355,830	288,673	23,344	-	**4,667,847**
Redeemable Preference Shares	-	-	-	581	**581**
Payables	-	-	-	2,265	**2,265**
Derivative Liability	-	-	-	-	**-**
Total Liabilities	**4,529,039**	**288,673**	**23,344**	**2,846**	**4,843,902**

22. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

Fair value has been determined on the basis of the present value of expected future cash flows under the terms and conditions of each financial asset and financial liability. The information is only relevant to circumstances at balance date and will vary depending on the contractual rates applied to each asset and liability, relative to market rates and conditions at the time.

The following table shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy.

	2023			2022		
	Fair Value $000	Book Value $000	Fair Value Level	Fair Value $000	Book Value $000	Fair Value Level
FINANCIAL ASSETS						
Investment Securities:						
Shares in Indue Ltd	16,130	16,130	Level 3	13,689	13,689	Level 3
Certificates of deposit	293,532	293,532	Level 2	129,372	129,372	Level 2
Government Securities	142,493	142,493	Level 2	259,186	259,186	Level 2
Floating rate notes	560,910	560,910	Level 2	577,525	577,525	Level 2
With other financial institutions	40,188	39,765	Level 2	59,831	59,765	Level 2
Derivative asset	9,487	9,487	Level 2	12,187	12,187	Level 2
Loans & advances	4,169,515	4,206,954	Level 2	3,923,374	3,932,157	Level 2
FINANCIAL LIABILITIES						
Payables to Other financial institutions	359,260	358,549	Level 2	173,213	173,209	Level 2
Deposits	4,731,827	4,733,633	Level 2	4,664,511	4,667,847	Level 2
Derivative liability	-	-	Level 2	-	-	Level 2

Fair values are categorised into different levels in fair value hierarchy based on the inputs used in the valuation techniques as follows:

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).

Level 3 – the fair value is estimated using inputs for the asset or liability that are not based on observable market data.

The Group recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

There have been no transfers between levels for the year ended 30 June 2023.

22. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (Continued)

The following methods and assumptions are used to determine the fair values of financial assets and liabilities, including those where the carrying amount is a reasonable approximation of fair value.

Cash Assets

The carrying amounts approximate fair value because of their short term to maturity or are receivable on demand.

Receivables

The carrying amount approximates fair value because of their short term to maturity.

Investment Securities

For financial instruments traded in organised financial markets, fair value is the current quoted market bid price for an asset or offer price for a liability, adjusted for transaction costs necessary to realise the asset or settle the liability. For investments where there is no quoted market price, a reasonable estimate of the fair value is determined by reference to the current market value of another instrument which is substantially the same or is calculated based on the expected cash flows or the underlying net asset base of the investment / security.

Loans and Advances

For variable rate loans, (excluding impaired loans) the amount shown in the Statement of Financial Position is considered to be a reasonable estimate of fair value. The fair value for fixed rate loans is calculated by utilising discounted cash flow models (i.e. the net present value of the portfolio's future principal and interest cash flows), based on the maturity of the loans. The discount rates applied are based on the current applicable rate offered for the average remaining term of the portfolio.

The fair value of impaired loans is calculated by discounting expected cash flows using a rate which includes a premium for the uncertainty of the flows.

Other Assets

The carrying amount approximates fair value as they are short term in nature.

Deposits

The book value of non-interest bearing, call and variable rate deposits, and fixed rate deposits is the amount shown in the Statement of Financial Position as at 30 June 2023. Discounted cash flows (based upon the deposit type and its related maturity) were used to calculate the fair value of other term deposits to members.

Payables

The carrying value of payables approximates their fair value as they are short term in nature and reprice frequently.

Derivatives

The fair value of derivatives is calculated by discounting expected cash flows using applicable market rates.

Indue

Level 3 fair values	$000
Balance at 1 July 2021	11,596
- Net change in fair value recognised in OCI	2,093
Balance at 30 June 2022	**13,689**
Balance at 1 July 2022	13,689
- Net change in fair value recognised in OCI	2,441
Balance at 30 June 2023	**16,130**

Fair Value for Indue

The investment consists of shares in an unlisted entity which are not actively traded. In the current financial year, the fair value of these assets has been estimated based on the net asset value per share of the underlying investment. If there are recent transactions of the shares management will also consider the pricing of those transactions. There have been no transaction of the shares in the current financial year. The fair value through other comprehensive income investment is categorised at Level 3 in the fair value hierarchy given the lack of visibility of these valuation variables.

23. FINANCIAL COMMITMENTS

	2023 $000	2022 $000
a. Outstanding loan commitments		
Loans approved but not funded	**168,118**	**136,657**

The loans will be made available at the discretion of Management and the Board subject to the availability of funds, anticipated to be drawn down within 6 months.

	2023 $000	2022 $000
b. Outstanding overdraft commitments		
Member overdraft facilities approved but not funded	**36,581**	**36,832**

There are no restrictions as to the utilisation of such overdraft facilities.

	2023 $000	2022 $000
c. Outstanding credit card commitments		
Member credit card facilities approved but not funded	**58,225**	**59,266**
d. Loan Redraw Facilities		
Loan Redraw facilities available	**426,749**	**396,232**

e. Material Contracts

The Group signed an addendum to a contract with Data Action Pty. Ltd. who provide computer facilities, management services and associated support services. The contract addendum extended the term of the agreement for a period of at least to 31 July 2020. After this date the contract could be terminated at Qudos discretion with 90 days notice, while Data Action should give 12 months notice to termination. The fees payable over the next years are as follows:

	2023 $000	2022 $000
Within 1 year	889	822
Later than 1 year but not exceeding 5 years	-	-
	889	**822**

f. Contingent Liabilities and Contingent Assets

The Directors of the Group are of the opinion that there are no contingent liabilities or assets requiring disclosure.

24. STANDBY BORROWING FACILITIES

Unrestricted access to the following credit facilities with a bank and an Authorised Deposit-taking Institution are held:

2023	Gross $000	Current Borrowing $000	Net Available $000
Unsecured Overdraft	11,100	-	11,100
TOTAL STANDBY BORROWING FACILITIES	**11,100**	**-**	**11,100**

2022	Gross $000	Current Borrowing $000	Net Available $000
Unsecured Overdraft	11,100	-	11,100
TOTAL STANDBY BORROWING FACILITIES	**11,100**	**-**	**11,100**

25. RELATED PARTIES

a. Remuneration of key management personnel (KMP)

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including any Director (whether executive or otherwise) of that entity.

Key management personnel have been taken to comprise the Directors and the three members of the executive management (2022: three) responsible for the day-to-day financial and operational management of the Group.

The aggregate compensation of KMP during the year comprising amounts paid or payable or provided for was as follows:

	2023 $	2022 $
(a) Short-term employee benefits	1,936,226	1,953,347
(b) Post-employment benefits — superannuation contributions	129,567	132,021
(c) Other long-term benefits	27,963	29,051
(d) Termination benefits	447,427*	-
Total	**2,541,183**	**2,114,419**

* Payment on resignation of CEO.

25. RELATED PARTIES (Continued)

In the preceding table, remuneration shown as short term benefits means (where applicable) wages, salaries and social security contributions, paid annual leave and paid sick leave, profit-sharing and bonuses, value of fringe benefits received, but excludes out of pocket expense reimbursements.

The remuneration of Directors was last approved by the Bank's Members at the 2016 Annual General Meeting.

*b. Loans to Key Management Personnel

	2023 $	2022 $
(i) The aggregate value of loans to key management personnel as at balance date amounted to	**1,648,535**	**4,258,216**
(ii) The total value of revolving credit facilities to key management personnel, as at balance date amounted to		
Less amounts drawn down and included in (i)	-	-
Net balance available	**-**	**-**
(iii) During the year the aggregate value of loans disbursed to key management personnel amounted to:		
Revolving credit facilities	-	-
Term Loans	919,367	2,126,276
	919,367	**2,126,276**
(iv) During the year the aggregate value of repayments received amounted to:	**1,492,661**	**2,251,824**
(v) Interest and other revenue earned on Loans and revolving credit facilities to KMP	**95,839**	**103,734**

The Group's policy for lending to Directors and Management is that all loans are approved and deposits accepted on the same terms and conditions that applied to Members for each class of loan or deposit.

There are no loans that are impaired in relation to the loan balances with Directors or other KMP.

There are no benefits or concessional terms and conditions applicable to the close family members of key management personnel. There are no loans which are impaired in relation to the loan balances with close family relatives of Directors and other KMP.

* Disclosures in both periods have been reclassified to exclude the balances of loans provided to KMP which have ceased to be KMP during the year.

25. RELATED PARTIES (Continued)

c. Other transactions between Related Parties including deposits from Key Management Personnel are:

	2023 $	2022* $
Total value term and savings deposits from KMP	**362,224**	**247,939**
Total Interest paid on deposits to KMP	**2,038**	**110**

The Group's policy for receiving deposits from KMP is that all transactions are approved and deposits accepted on the same terms and conditions that applied to Members for each type of deposit.

* Disclosures in both periods have been reclassified to present only those balances relating to active KMP's in those respective years.

d. Transactions with Other Related Parties

Transactions between related parties include deposits from KMP's related entities or close family members. The Group's policy for receiving deposits from related parties is that all transactions are approved and deposits accepted on the same terms and conditions that applied to Members for each type of deposit.

There are no benefits paid or payable to the close family members of Key Management Personnel.

26. MEMBERSHIP

a. Eligibility

Membership is available to employees and former employees of companies within the Qantas Group, associated companies and industries, Commonwealth Government departments and authorities and nominated or related persons or entities in accordance with the Constitution of the Bank.

All Members are required to hold five redeemable preference shares of $2 each in accordance with member eligibility. From 1 April 2010, the Bank ceased calling up the share capital and for all new Members who joined the Bank since this date, the share capital remains uncalled.

b. Total Membership

	2023 Number	2022 Number
Total Membership	**95,544**	**89,879**
Of which fully paid	56,807	57,799
Of which uncalled	38,737	32,080

27. SUPERANNUATION LIABILITIES

The Group contributes to the Qantas Superannuation Plan ("the Plan") with other entities in the Qantas Airways Group. For all employees the Group contributes the minimum required under the Superannuation Guarantee (Administration) Act (1992) plus additional contributions are made for those eligible permanent employees. Employees may also make additional contributions to the Plan, depending on their circumstances. All employees are entitled to benefits on resignation, retirement, disability or death. The Group has no interest in the Plan (other than as a contributor) and is not liable for the performance of the Plan, or the obligations of the Plan. The Group contributed $2,092,409 to the Plan during the 2023 financial year, ($1,825,965 in 2022). No contributions were outstanding as at 30 June 2023.

28. NOTES TO STATEMENT OF CASH FLOWS

		2023 $000	2022 $000
a.	**Reconciliation of Cash and Cash equivalents**		
	For the purpose of the Statement of Cash Flow, cash includes:		
	Cash on hand	523	560
	Deposits at call	118,221	134,571
	Other Financial Institutions	32,514	37,022
	TOTAL CASH AND CASH EQUIVALENTS	**151,258**	**172,153**
b.	**Reconciliation of cash from operations to accounting profit**		
	The net cash increase/(decrease) from operating activities is reconciled to the profit after tax		
	Profit after income tax	18,414	15,727
	Add / (Deduct):		
	Bad debts written off	178	163
	Depreciation & amortisation expense	4,148	3,898
	(Profit) on disposal of plant and equipment	(153)	(48)
	(Decrease) in provision for impairment	(1,615)	(117)
	(Decrease) / increase in provisions for employee entitlements	(37)	516
	(Decrease) in provision for income tax	(2,781)	(401)
	Increase / (decrease) in provision for Dispute Resolution	(56)	-
	Increase in net deferred tax assets	2,434	1,385
	Increase/(decrease) in interest payable	7,224	(1,010)
	Increase in creditors and other liabilities	686	871
	(Increase) in prepayments	(935)	(3,868)
	(Increase) in sundry debtors	(268)	(52)
	(Increase) in interest receivable	(6,607)	(1,565)
	(Increase) in member loans	(273,360)	(381,536)
	Increase in deposits and shares	244,945	171,826
	(Decrease)/increase / in receivables from other financial institutions	(7,412)	193,087
	NET CASH FROM/(USED IN) OPERATING ACTIVITIES	**(15,195)**	**(1,124)**

29. FINANCIAL RISK MANAGEMENT

a. Introduction and overview

The Group has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risk
- operational risk

This Note presents information about the Group's exposure to each of the above risks, the objectives, policies and processes for measuring and managing those risks, and the Group's management of capital.

Risk Management Framework

The Board of Directors has overall responsibility for the establishment and oversight of the Group's Risk Management Framework. The Board has established both a Risk Committee and Audit Committee to oversee the financial reporting, audit and risk management processes.

The Risk Committee is comprised of at least three non-executive Directors.

The Risk Committee's major activities are to:

- Assist the Board to update and regularly review the Group's risk profile, including the Group's risk appetite;
- Assist the Board to review the Group's policy on risk and review the Group's system of risk management and internal control, having regard to the Group's material business risks. These risks may include but are not limited to:
  - Credit risk;
  - Liquidity risk;
  - Market risk (funding risk and interest rate risk);
  - Operational risk (risks attributable to the daily operations of the Group, such as data, legal, fraud, property and asset); and
  - Other risks which if not properly managed will affect the Group (such as environmental, sustainability, compliance, strategic, external, ethical conduct, reputation or brand, technological, product or service quality and human capital).
- Oversee, monitor and review the Group's system of risk management, policies and procedures;
- Report to the Board on all material matters arising from its review and monitoring functions by the provision to the Board of the Committee's minutes of meetings or by special report, as appropriate;
- Review and make recommendations on any changes to risk limit structures; and
- Oversee and monitor Management's annual risk assessment.

The Chair of the Board is not Chair of either the Risk Committee or the Audit Committee.

The Audit Committee is comprised of at least three non-executive Directors

The Audit Committee's major activities are to:

- recommend to the Board the appointment of both the internal and external auditor;
- monitor reports received from internal audit and external audit, and management's responses thereto;
- liaise with the auditors (internal and external) on the scope of their work, and experience in conducting an effective audit;
- ensure that external auditors remain independent in the areas of work conducted;
- oversight compliance with statutory responsibilities relating to financial disclosure and management information reporting to the Board;
- review and approve the compliance approach, ensuring that it covers all material risks and financial reporting requirements of the Group;
- assist the Board in the engagement, performance assessment and remuneration of the auditors;
- evaluate the adequacy and effectiveness of the Group's administrative, operating and accounting policies;
- monitor and review the propriety of any related party transactions;
- overseeing APRA statutory reporting requirements, as well as other financial reporting requirements; and
- establish and maintain policies and procedures for whistle blowing.

29. FINANCIAL RISK MANAGEMENT (Continued)

b. Credit risk

Credit risk is the risk of financial loss to the Group if a Member or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's loans and advances to Members, liquid investments and investment securities.

Management of credit risk – loans and advances

The Board of Directors has delegated responsibility for the management of credit risk to the Lending & Credit Control departments in respect of loans and advances. The Group has established functional areas responsible for the oversight of the Group's credit risk, including:

- Formulating credit policies covering credit assessment, collateral requirements, reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements;
- Establishing the authorization structure for the approval and renewal of credit facilities. Authorisation limits are delegated by the Board of Directors and are detailed within policy;
- Total loan facilities to any one member or family group exceeding $5,000,000 requires the approval of the CEO and the Executive Manager – Retail Banking.
- Limit concentrations of exposure to counterparties. Total borrowings for any Member must not exceed 5% of the Group's tier 1 capital;
- Reviewing and assessing credit risk. The Credit Control department assesses all credit exposures where they are in breach of contractual obligations;
- Establishing appropriate provisions to recognise the impairment of loans and facilities;
- Debt recovery procedures; and
- Review of compliance with the above policies.

29. FINANCIAL RISK MANAGEMENT (Continued)

Credit quality — lending portfolios

All loans 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 of loans in accordance with its internal policies and procedures, which comply with AASB 9 Financial Instruments: Recognition and Measurement and APRA's APS 220 Credit Quality.

The following table sets out information about the overdue status of loans and advances to members in Stage 1, Stage 2 and Stage 3 as defined in Note 1. The distribution of loans and advances by credit quality at the reporting date was:

	2023			Total 2023	Total 2022
	Stage 1 $000	Stage 2 $000	Stage 3 $000	$000	$000
Mortgage loans					
Current & less than 30 days	4,142,378	3,465	-	4,145,843	3,887,397
31 days & less than 60 days	-	28,080	-	28,080	21,937
61 days & less than 90 days	-	7,297	-	7,297	4,026
91 days & less than 120 days	-	-	3,465	3,465	609
Greater than 120 days	-	-	6,588	6,588	4,054
Total Mortgage Loans	-	-	-	**4,191,273**	**3,918,023**
Personal loans					
Current & less than 30 days	28,547	-	-	28,547	28,561
31 days & less than 60 days	-	356	-	356	334
61 days & less than 90 days	-	73	-	73	99
91 days & less than 120 days	-	-	30	30	30
Greater than 120 days	-	-	43	43	93
Total Personal Loans	-	-	-	**29,049**	**29,117**
Total Loans	-	-	-	**4,220,322**	**3,947,140**

Management of credit risk — liquid investments

The risk of losses from liquid investments is reduced by the nature and quality of the independent rating of the counterparty, and the limits of concentration of investments to any individual counterparty. The Group will only hold investments with Authorised Deposit-taking Institutions (ADIs) trading in Australia and Australian Federal and State Governments. Any exposures to any individual ADI (or group) will not exceed 25% of the Group's Tier 1 capital. There is no set limit for government counterparties.

In addition to limiting counterparty exposures, the Group will only hold High Quality Liquid Investments (HQLA), assets which can be easily converted into cash in private markets, within the range detailed below:

Credit Rating Grade	Minimum % of Investments	Maximum % of Investments	Investments as at 30 June 2023
Credit Rating Grade 1 or 2	50%	100%	68%
Credit Rating Grade 3	0%	50%	32%

29. FINANCIAL RISK MANAGEMENT (Continued)

Management of credit risk – equity investments

In respect of equity investments, the Board must approve any equity holding, and will have regard to the size and risks associated with any proposed investment to ensure it will not have a detrimental effect on the Group's capital position.

The Board has approved the holding of membership and participation equity in Indue Limited and future equity subscriptions. The equity may be in the form of shares and/or subordinated debt. The level of equity is based on the assets of the Group and is reviewed twice yearly. The Constitution of Indue Limited also provides for deferral of equity subscriptions if, in Indue Limited's assessment, it holds sufficient capital. The Group is required at all times to hold sufficient equity in Indue Limited to support the services sourced from them, which may be raised from time to time. Indue Limited is an ADI supervised by APRA. The Group will obtain APRA's approval before committing to any exposure to an unrelated entity in excess of prescribed limits.

Impaired loans

Loans for which the Group determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan.

Past due but not impaired loans

Loans where contractual interest or principal payments are past due, but the Group believes that impairment is not appropriate on the basis of the level of security / collateral available and / or the stage of collection of amounts owed to the Group.

Loans with renegotiated terms

Loans that have been restructured due to deterioration in the borrower's financial position and where the Group has made concessions that it would not otherwise consider. Once the loan is restructured it remains in this category independent of satisfactory performance after restructuring. Currently there are 25 restructured loans totaling $7.8 million.

Allowances for impairment

The Group uses an Expected Credit Loss model as defined in AASB 9. Details are included in Note 1i

Write-off policy

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 or a portion thereof. 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 impairment of loans and advances line in the Income Statement.

Collateral

Where the Group holds collateral against loans and advances to Members, it is in the form of mortgage interests over property, other registered securities over assets, and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired.

An estimate of the fair value of collateral and other security enhancements held against past due and impaired financial assets are shown below:

Loans and advances to Members	2023 $000	2022 $000
Stage 3 Lifetime	10,052	4,663
Collateral value of loans	15,059	9,422

It is the Group's policy to dispose of repossessed properties in an orderly fashion. The proceeds are used to reduce or repay the outstanding claim. The Group does not use or take repossessed properties for business use. During the year ended 30 June 2023, the Group took possession of nil collateral (30 June 2022: nil).

LVR Summary

LVR Buckets	2023 $000	2022 $000
0 – 60%	1,781,790	1,507,470
60.01 – 80%	2,047,838	1,938,912
80.01 – 90%	310,439	392,750
90.01 – 100%	78,598	106,367
100% +	1,657	1,641
Total	**4,220,322**	**3,947,140**

29. FINANCIAL RISK MANAGEMENT (Continued)

The Group monitors concentration of credit risk by purpose. An analysis of concentrations of credit risk at the reporting date is shown below:

	2023 $000	2022 $000
Residential loans	4,191,262	3,918,023
Personal loans	29,060	29,117
Total gross loans	**4,220,322**	**3,947,140**

The Group also monitors the investment options in the market based on the credit rating of the counter party. An analysis of concentrations of investment credit risk at the reporting date is shown below:

	2023 $000	2022 $000
Short Term Rating (Standard and Poors or equivalent)		
A1 and above	724,448	850,753
A2	331,955	197,588
A3	14,822	4,991
Unrated	116,279	144,081
Total	**1,187,504**	**1,197,413**

c. Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting Member withdrawal requests in a timely manner.

Management of liquidity risk

The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient funds available to meet its liabilities under both normal and stressed conditions, without incurring unacceptable losses.

The Group maintains a portfolio of short term liquid assets to ensure that sufficient liquidity is maintained for daily operational requirements.

The Group has documented its strategy to manage liquidity risk in a liquidity policy and liquidity management plan which includes the following activities by Management:

- On a daily basis, an assessment is made of the daily cash position and the investment action to be undertaken.
- On a daily basis, a summary of the Group's liquidity position, including movements in major liquid assets and liabilities is reviewed.
- On a monthly basis, the liquidity position is reported to the Board, including an explanation of significant movements and corrective action taken, where applicable.
- Periodically liquidity forecasts and associated "stress-tested" worst-case scenarios are modeled and reported to the Risk Committee.
- Regularly reporting current and emerging liquidity management trends to the Risk Committee and highlighting risk areas and relevant market conditions/expectations.

Management provides an annual budget to the Board, which includes details of the Group's forecast liquidity position. Monthly Board reporting includes tracking against the budgeted forecast position.

APRA Prudential Standards require at least 9% of total adjusted liabilities to be held as liquid assets capable of being converted to cash within 48 hours. The Group's policy is to apply a minimum target of 11.5% (2022:11.5%) of funds as liquid assets to maintain adequate funds for meeting daily cash flow needs. A trigger level of 13% (2022:13%) has been set for a detailed review of liquidity levels by the Group to provide sufficient time for remedial action to be taken. During the past year the Group did not breach these requirements.

The liquidity policy and management plan are reviewed at least annually by the Risk Committee, with the policy then approved by the Board.

The liquidity ratio is calculated based on the formula prescribed by APRA in APS 210 as can be seen below:

	2023 $000	2022 $000
High quality liquid assets	1,088,947	1,099,245
Total Liabilities Base	5,719,846	5,403,199
Liquidity Ratio	**19.22%**	**20.34%**
Minimum Liquidity Holdings (MLH) Ratio	**19.04%**	**20.34%**

29. FINANCIAL RISK MANAGEMENT (Continued)

The residual contractual maturities of the financial liabilities are outlined in the table below:

30 June 2023 On Statement of Financial Position	Note	Carrying amount $000	Gross nominal (outflows) $000	Less than 1 month $000	1 – 3 months $000	3 months to 1 year $000	1 – 7 years $000
Financial Inst.	13	358,549	358,549	61,815	223,802	72,932	-
Deposits	14	4,734,205	4,746,185	4,056,192	184,048	488,948	16,997
Creditors and accruals	15*	12,021	12,021	12,021	-	-	-
Derivative Liability		-	-	-	-	-	-
Lease Liability	18	6,535	6,890	-	504	1,545	4,841
Subtotal		**5,111,310**	**5,123,645**	**4,130,028**	**408,354**	**563,425**	**21,838**
Off Statement of Financial Position							
Commitments to extend credit	23	168,118	168,118	-	-	-	-
Total		**5,279,428**	**5,291,763**	**4,130,028**	**408,354**	**563,425**	**21,838**

* excluding interest payable and PAYG tax

30 June 2022 On Statement of Financial Position	Note	Carrying amount $000	Gross nominal (outflows) $000	Less than 1 month $000	1 – 3 months $000	3 months to 1 year $000	1 – 7 years $000
Financial Inst.	13	173,209	173,209	-	-	4,962	168,247
Deposits	14	4,668,428	4,670,854	4,181,408	162,435	286,469	40,542
Creditors and accruals	15*	11,805	11,805	11,805	-	-	-
Derivative Liability		-	-	-	-	-	-
Lease Liability	18	7,726	8,204	-	512	1,465	6,227
Subtotal		**4,861,168**	**4,864,072**	**4,193,213**	**162,947**	**292,896**	**215,016**
Off Statement of Financial Position							
Commitments to extend credit	23	136,657	136,657	136,657	-	-	-
Total		**4,997,825**	**5,000,729**	**4,329,870**	**162,947**	**292,896**	**215,016**

* excluding interest payable and PAYG tax

29. FINANCIAL RISK MANAGEMENT (Continued)

d. Market risk

Market risk is the risk that changes in market prices, such as interest rates, equity prices or foreign exchange rates will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk.

Management of market risks

The Group is exposed to interest rate risk arising from changes in market interest rates. However, the Group is not exposed to currency risk and other price risk as the Board prohibits trading in financial instruments.

Overall authority for market risk is vested in the Board. The Risk Committee is responsible for the development of detailed risk management policies (subject to review and approval by the Board) and review of their implementation.

Exposure to market risks

The principal risk to which non-trading portfolios are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instruments because of a change in market interest rates. The main tool used to measure and control market risk exposure within the Group's non-trading portfolio is Value at Risk (VaR). The VaR of the non-trading portfolio is the estimated loss that will arise on the portfolio over a specified period of time (holding period) from an adverse market movement with a specified probability (confidence level). The VaR model used by the Group is based upon a 99% confidence level and assumes a 20-day holding period. The VaR model used is based mainly on historical simulation, taking account of market data from the previous two years, and observed relationships between different markets and prices. The model generates a wide range of plausible future scenarios for market price movements.

Although VaR is an important tool for measuring market risk, the assumptions on which the model is based do give rise to some limitations, including the following:

- A 20-day holding period assumes that it is possible to hedge or dispose of positions within that period. This is considered to be a realistic assumption in almost all cases but may not be the case in situations in which there is severe market illiquidity for a prolonged period.
- A 99 percent confidence level does not reflect losses that may occur beyond this level. Even within the model used, there is a one percent probability that losses could exceed the VaR.
- A 250-day observation period. The use of historical data as a basis for determining the possible range of future outcomes may not always cover all possible scenarios, especially those of an exceptional nature.
- The VaR measure is dependent upon the Group's position and volatility of market prices. The VaR of an unchanged position reduces if the market price volatility declines and vice versa.

The Group uses VaR limits for interest rate risk. The interest rate risk policy which details the overall structure of VaR limits is subject to review and approval by Risk Committee and the Board. The VaR limit has been set at a maximum of 3% of Capital. VaR is measured monthly and reported to the Board at each meeting. A detailed VaR report is provided to the Risk Committee on a monthly basis.

A summary of the VaR position of the Group's non-trading portfolio at 30 June is as follows:

	2023 (% of Capital)	2022 (% of Capital)
At 30 June	0.33%	0.26%

A summary of the Group's interest rate gap position can be seen in note 21.

The management of interest rate risk also involves the monitoring of the sensitivity of the Group's financial assets and liabilities to a parallel shift across the yield curve. An analysis of the Group's sensitivity to a 200 basis points increase in market interest rates is as follows:

	2023 (% of Capital)	2022 (% of Capital)
At 30 June	0.01%	0.66%

29. FINANCIAL RISK MANAGEMENT (Continued)

Derivative assets and liabilities

The Group enters into derivative transactions which are designated and qualify as cash flow hedges, for at call deposits. The Group adopted hedge accounting on 1 July 2013.

The Group uses interest rate swaps to protect against changes in cash flows of certain fixed rate loans. For the year ended 30 June 2023 the Group recognised a profit of $nil (2022: $nil), which represents the ineffective portion of the cash flow hedges.

The effective portion of gains or losses on derivative contracts designated as cash flow hedges are initially recorded in the Cash Flow Hedge Reserve but are reclassified to current period earnings when the hedged cash flow occurs.

During the year ended 30 June 2023 the Group did not enter into any swaps designated in cash flow hedge relationships.

2023	Notional value $000	2023 Fair value asset $000	Fair value liability $000
Derivatives designated as cash flow hedges	447,500	9,487	-

Below is the schedule indicating as at 30 June 2023, the periods when the hedged cash flows are expected to occur and when they are expected to affect profit or loss.

2023	Within 1 year $000	1-2 years $000	2-3 years $000	3-4 Years $000
Cash outflows	(6,568)	(808)	(106)	(105)
Cash inflows	15,205	1,771	127	116
Net cash flows	**8,637**	**963**	**21**	**11**

2022	Notional value $000	2022 Fair value asset $000	Fair value liability $000
Derivatives designated as cash flow hedges	489,000	12,187	-

Below is the schedule indicating as at 30 June 2022, the periods when the hedged cash flows are expected to occur and when they are expected to affect profit or loss.

2022	Within 1 year $000	1-2 years $000	2-3 years $000	3-4 Years $000
Cash outflows	(6,661)	(5,440)	(614)	(1)
Cash inflows	12,214	11,617	1,360	7
Net cash flows	**5,553**	**6,177**	**746**	**6**

29. FINANCIAL RISK MANAGEMENT (Continued)

Offsetting financial assets and financial liabilities

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The gross and net positions of financial assets and liabilities that have been offset in the balance sheet are disclosed in the first three columns of the tables below.

30 June 2023	Effects of offsetting on the balance sheet			Related amounts not offset	
	Gross amounts of financial assets	Gross amounts set off in the balance sheet	Net amount of financial assets presented in the balance sheet	Amounts subject to master netting arrangements and cash collateral	Net amounts
	$000	$000	$000	$000	$000
Financial assets					
Derivative financial instruments	9,487	-	9,487	-	9,487
Financial liabilities					
Derivative financial instruments	-	-	-	-	-

30 June 2022	Effects of offsetting on the balance sheet			Related amounts not offset	
	Gross amounts of financial assets	Gross amounts set off in the balance sheet	Net amount of financial assets presented in the balance sheet	Amounts subject to master netting arrangements and cash collateral	Net amounts
	$000	$000	$000	$000	$000
Financial assets					
Derivative financial instruments	12,187	-	12,187	-	12,187
Financial liabilities					
Derivative financial instruments	-	-	-	-	-

Master netting arrangement

Agreements with derivative counterparties are based on the ISDA Master Agreement. Under the terms of these arrangements, only where certain credit events occur (such as default), the net position owing/receivable to a single counterparty in the same currency will be taken as owing and all the relevant arrangements terminated. As the Group does not presently have a legally enforceable right of set-off, these amounts have not been offset in the balance sheet, but have been presented separately in the above table.

29. FINANCIAL RISK MANAGEMENT (Continued)

e. Operational risk

Operational risk is a risk of direct or indirect loss arising from a wide variety of causes associated with the Group's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks (such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour). Operational risks arise from all of the Group's operations and are faced by all business entities.

The Group's objective is to manage operational risk so as to balance the avoidance of financial loss and damage to the Group's reputation, against excessive cost and control procedures that restrict initiative and creativity.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior Management within each business unit. This responsibility is supported by the development of the Group's overall standards for management of operational risk in the following areas:

- Compliance with regulatory and other legal requirements;
- Third party supplier relationships;
- Business continuity and contingency planning;
- People & key person risk including training and professional development;
- Outsourcing risk associated with materially outsourced services;
- Competition risk;
- Fraud risk;
- Requirements for appropriate segregation of duties, including the independent authorisation of transactions;
- Requirements for the reconciliation and monitoring of transactions;
- Documentation of controls and procedures;
- Requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified;
- Requirements for the reporting of operational losses and proposed remedial action;
- Ethical and business standards; and
- Risk mitigation, including insurance where this is effective.

Compliance with the Group's standards is supported by a program of periodic reviews undertaken by Internal Audit and Compliance. The results of these reviews are discussed with the management of the business unit to which they relate and are reported to the Audit Committee.

f. Capital management

The Group is licensed as an ADI under the Banking Act 1959 (Cth) and is subject to APRA's prudential supervision. APRA has issued a series of prudential standards to implement the Basel II capital framework which took effect from 1 January 2008. The Basel III measurement and monitoring of capital has been effective since 1 January 2013.

The Basel III standards include *APS 110 Capital Adequacy* which:

a) Imposes on the Board a duty to ensure that the Group maintains an appropriate level and quality of capital commensurate with the level and extent of the risks to which the Group is exposed from its activities; and
b) Obliges the Group to have in place an Internal Capital Adequacy Assessment Process (ICAAP).

The Group has documented its strategy to manage capital in a capital policy and capital management plan.

Under Basel III framework, the regulatory capital is divided into Common Equity Tier 1, Additional Tier 1, and Tier 2 Capital. Common Equity Tier 1 Capital consists of retained earnings and capital reserve less intangible assets and other regulatory adjustments. Tier 2 Capital consists of collective impairment reserve. Total capital is the aggregate of Tier 1 and Tier 2 Capital.

29. FINANCIAL RISK MANAGEMENT (Continued)

Capital Adequacy is measured by means of risk based capital ratios. The capital ratios reflect capital as a percentage of total risk weighted assets.

The Group is required to maintain at least 12.5% capital. The Group's policy is to apply a minimum target of 13.5% capital. A trigger level of 14% has been set by the Board to provide sufficient time for remedial action to be taken.

The Group's regulatory capital position at 30 June was as follows:

	2023 $000	2022 $000
Tier 1 Capital		
General reserves	319,608	301,566
Current year earnings	18,416	15,727
Upfront fee income		
Less: Deferred tax assets	0	(1,934)
Less: Intangible assets	(4,649)	(2,892)
Less: Other capitalised expenses	(369)	88
Less: Equity investment in other ADI's	(3,743)	(3,743)
Less: Fair value adjustments	(12,159)	(9,932)
Total	317,104	298,880
Tier 2 Capital		
GRCL as determined for regulatory purposes	12,265	13,061
Total	12,265	13,061
Total regulatory capital	**329,369**	**311,941**
Risk weighted assets		
Credit risk	1,882,432	1,797,113
Operational risk	188,243	291,101
Total risk weighted assets	2,070,675	2,088,214
Capital ratios	**15.91%**	**14.94%**

30. SUBSEQUENT EVENTS

There has not arisen in the interval between the end of this financial year and the date of this report any item, transaction or event of a material or unusual nature, likely, in the opinion of the Directors, to significantly affect the operations of the Group, the results of operations, or the state of the affairs of the Group in future financial year.

31. PARENT ENTITY DISCLOSURES

As at, and throughout, the financial year ended 30 June 2023 the parent of the Group was the Bank.

	2023 $000	2022 $000
Result of parent entity		
Profit for the year	18,414	15,727
Other comprehensive income	2,227	3,198
Total comprehensive income for the year	**20,641**	**18,925**
Financial position of parent entity at year end		
Total assets	6,553,869	6,614,401
Total liabilities	6,212,998	6,294,171
Total equity of parent entity comprising of:		
Reserves	13,955	11,728
Retained earnings	326,916	308,502
Total equity	**340,871**	**320,230**

“We thank our members and employees for your continued loyalty and support. We are confident that together we have the resilience and determination to achieve even greater success in the years ahead.”

BRENDAN WRIGHT
CEO, QUDOS BANK

RODNEY WATSON
CHAIR, QUDOS BANK

Qudos Bank

For all life's destinations

Qudos Mutual Limited trading as Qudos Bank

A.B.N. 53 087 650 557 Incorporated in Australia
30 June 2023 – Annual Consolidated Financial Statements
Registered Office: 191 O'Riordan St Mascot NSW 2020