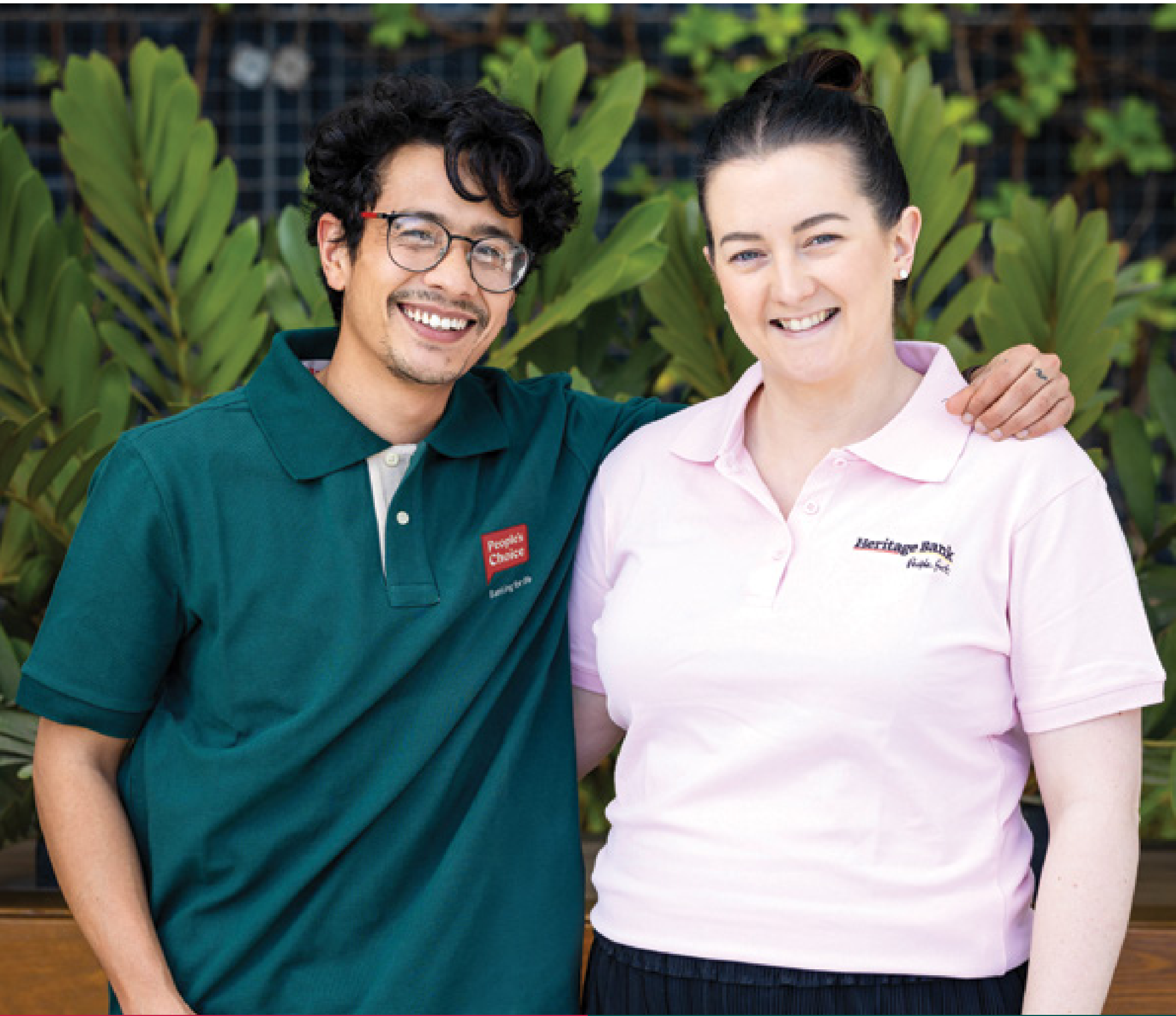
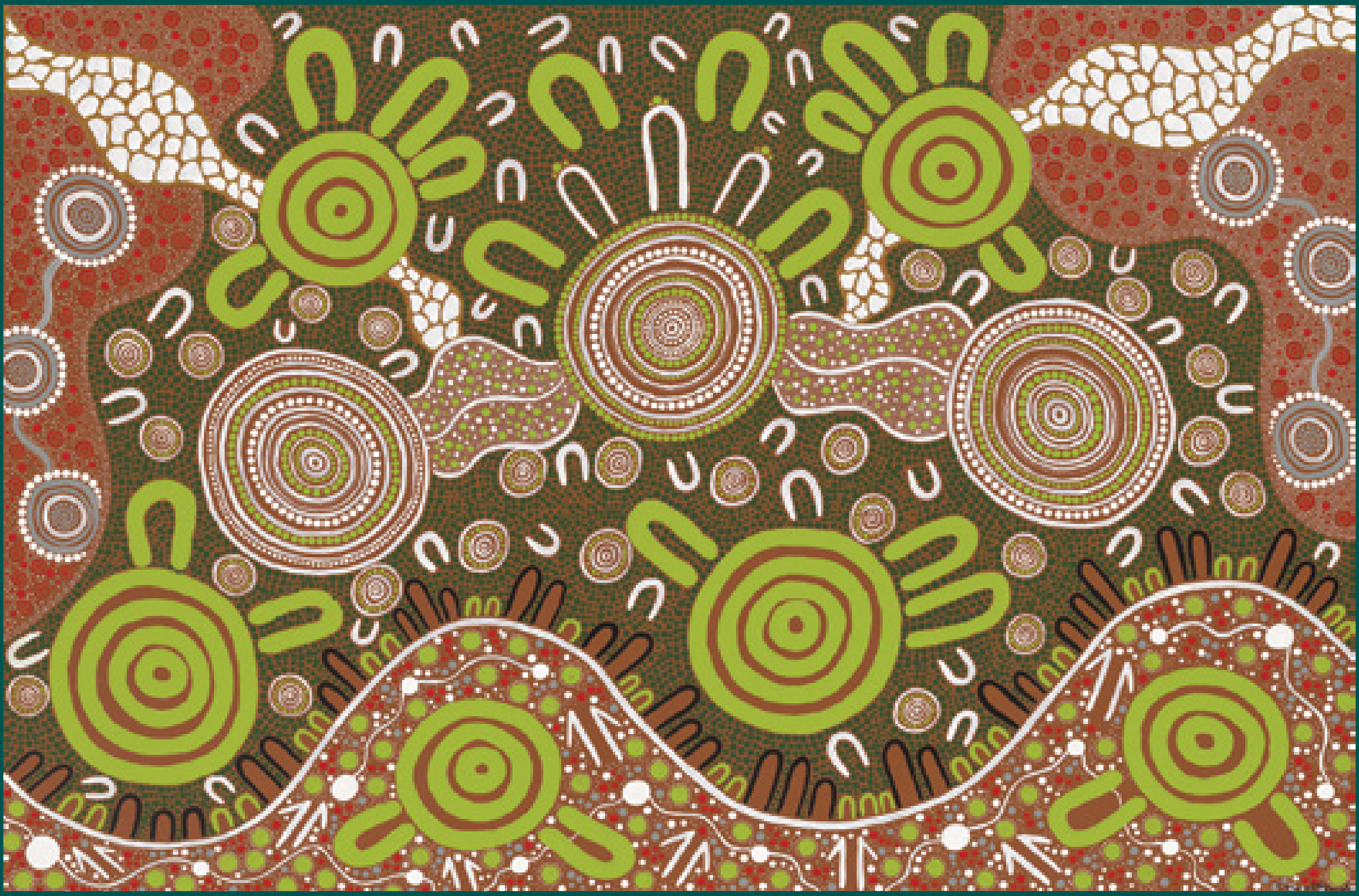
Heritage Bank People first.

People's Choice Banking for life



2023 Financial Report

Acknowledgement of Country

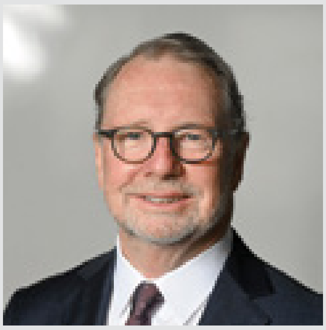


'Community' by Gabriel Stengle, a Kaurna, Ngarrindjeri and Nurrunga woman of South Australia.

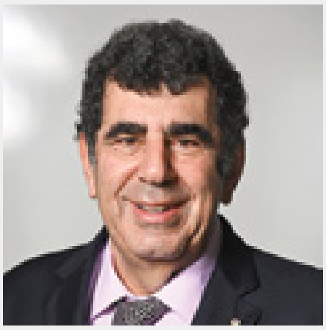
Heritage and People's Choice acknowledges the Traditional Custodians of the many lands on which we live and work across Australia. We recognise their custodianship which has lasted unbroken for more than 60,000 years and which continues today. We pay our respect to Aboriginal and Torres Strait Islander cultures and to Elders past, present and future.

Contents

Directors' Report

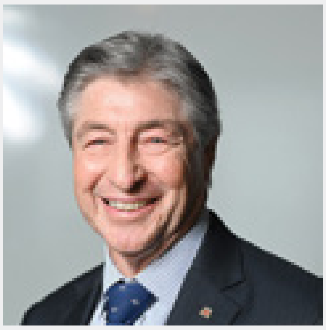


Michael Cameron
Chairman



Kerry Betros AM
Deputy Chairman and Independent Director

Brendan Baulch
Independent Director



Dr Dennis Campbell
Independent Director

Peter Clare
Independent Director

Stephen Davis
Independent Director

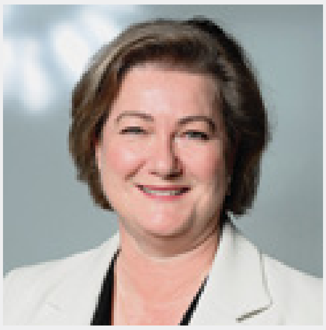
Amanda Heyworth
Independent Director

Virginia Hickey
Independent Director

Wendy Machin
Independent Director

John Patton
Independent Director

Wendy Thorpe
Independent Director



Georgina Williams
Independent Director

The Directors present their report together with the financial report of Heritage and People's Choice Limited (**HPC**), (formerly Australian Central Credit Union Ltd) and its controlled entities (together referred to as the **Group**), for the year ended 30 June 2023 and the Auditor's Report.

DIRECTORS

The Directors of the Group at any time during or since the end of the financial year were:

Michael A. Cameron
Non-Executive Chairman and Independent Director
BBus, FCA, FCPA, FAICD

Kerry J. Betros AM
Deputy Chairman and Independent Director (appointed 1 March 2023)
BBus, HonDBus USQ, FCPA, MAICD

Brendan P. Baulch
Independent Director (appointed 1 March 2023)
BCom, LLB, CA, MAICD

Dennis P. Campbell
Independent Director (appointed 1 March 2023)
PhD, MBA, FCHSE, CHE, FAIM, GAICD

Peter Clare
Independent Director (appointed 1 March 2023)
BCom, MBA, FCPA, MAICD

Stephen Davis
Independent Director (appointed 1 March 2023)
AAPI, MAICD

Amanda E. Heyworth
Independent Director
BA (Accounting), MBA (AGSM), FAICD

Virginia S. Hickey
Independent Director
BA, LLB, FAICD

Wendy Machin
Independent Director (appointed 1 March 2023)
BA (Communication), MCom, GAICD

John P. Patton
Independent Director
FCA, MAICD

Wendy Thorpe
Independent Director
BA, BBus, GradDip, AppFin & Inv, AMP (Harvard), GAICD, FFin

Georgina Williams
Independent Director
BCom, BA, GAICD

Steven P. W. Laidlaw
Managing Director (ceased directorship on 28 February 2023 and remains in an Executive capacity)
BEc, BCom, FCA, FAICD

Directors were in office from the beginning of the financial year until the date of this report, except where indicated otherwise. There were a number of Director appointments as a consequence of the merger with Heritage Bank Limited.

Details of Directors, their experience and any special responsibilities, are available from our websites at www.peopleschoice.com.au and www.heritage.com.au.

The number of Directors' meetings (including meetings of committees of Directors) and number of meetings attended by each of the Directors during the financial year is shown in the Corporate Governance Statement commencing on page 72.

COMPANY SECRETARY

Ms Taryn Shearn LLB (Hons), BCom was appointed to the position of Company Secretary on 2 February 2017.

PRINCIPAL ACTIVITIES

Heritage and People's Choice Limited is a mutual Authorised Deposit-taking Institution (**ADI**) that is incorporated and domiciled in Australia. The principal activities of the Group during the year were the provision of financial products and services to members and customers. There has been no significant change in the nature of these activities during the year.

DIVIDENDS

The Heritage and People's Choice Limited's Constitution prohibits the payment of dividends on member shares.

STATE OF AFFAIRS

On 1 March 2023 Australian Central Credit Union Ltd merged with Heritage Bank Limited to form Australia's leading customer-owned financial institution, Heritage and People's Choice Limited. The merger has provided the scale needed to deliver more for members through better products, services, digital capabilities, and competitive pricing.

The merger, originally announced in August 2021, was approved by the members of both organisations in November 2022 and subsequently approved by the Australian Prudential Regulation Authority (**APRA**). The merger legally took effect on 1 March 2023. On this date Heritage Bank Limited voluntarily transferred its assets and liabilities to Australian Central Credit Union Ltd under the *Financial Sector (Transfer and Restructure) Act 1999 (Cth).* Heritage members ceased to be members of Heritage and each was automatically issued a new share and became a member of Heritage and People's Choice Limited.

A new Constitution was implemented effective 1 March 2023 and the Board of Directors of Heritage Bank Limited became Directors of Heritage and People's Choice Limited.

REVIEW OF OPERATIONS

The Group recorded a profit after tax for the year ended 30 June 2023 of $32.1 million (2022: $17.5 million). Total consolidated assets increased by $12.9 billion to $23.3 billion (2022: $10.4 billion). The increase in total consolidated assets includes the integration of Heritage Bank assets of $11.7 billion at 1 March 2023.

Profit after tax for the first 8 months of the 2023 financial year, and the complete 2022 financial year, is attributable to the operations of People's Choice Credit Union on a standalone basis. As a result of the merger on 1 March 2023, the profit after tax for the final 4 months of the 2023 financial year includes profit earned in relation to the operations of Heritage and People's Choice Limited. The profit of Heritage Bank Limited for the first 8 months of the 2023 financial year is reflected in the contributed equity balance at merger date (refer to Note 25 Reserves).

As stated in Note 34 Business Combination of the financial statements, as a result of the merger and subsequent integration activities the amount of revenue or profit attributable to either former entity, People's Choice Credit Union or Heritage Bank cannot be compared to prior years. Comparison of financial information between years would be materially impacted by integration costs, financial outcomes associated with operational alignment activities and the impact of fair value adjustments resulting from the application of AASB 3 *Business Combinations*.

EVENTS SUBSEQUENT TO THE REPORTING DATE

On 6 September 2023, the Group settled $1bn of Residential Mortgage Backed Securities (RMBS). This was HPC's inaugural public securitisation transaction and qualified for capital relief in accordance with APRA prudential standards. HPC's capital adequacy ratio increased by approximately 50 basis points following settlement.

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

LIKELY DEVELOPMENTS

Further information as to likely developments in the operations of the Group and the expected results of those operations in subsequent financial years has not been included in this report because disclosure of such information is likely to result in unreasonable prejudice to the Group.

REGULATORY DISCLOSURES

Prudential Standard APS 330 *Public Disclosure* requires the Group to meet minimum requirements for the public disclosure of information on its risk profile, risk management, capital adequacy, capital instruments and remuneration practices to contribute to the transparency of the financial markets and to enhance market discipline. This information is published on our websites at www.peopleschoice.com.au under Regulatory Disclosures and at www.heritage.com.au under Prudential Information.

INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

During the financial year, Heritage and People's Choice Limited paid a premium in relation to a Directors' and Officers' liability insurance policy indemnifying the Directors and its Executives against certain liabilities. The insurance contract prohibits the disclosure of the nature of the liabilities insured against and the premium paid in respect of that insurance.

Directors' Report (continued)

LEAD AUDITOR'S INDEPENDENCE DECLARATION UNDER SECTION 307C OF THE CORPORATIONS ACT

The Lead Auditor's Independence Declaration is set out on page 9 and forms part of the Directors' Report for the year ended 30 June 2023.

ROUNDING

The Company is of a kind referred to in the Australian Securities & Investment Commission (**ASIC**) Corporations (Amendment) Instrument 2016/191 and in accordance with that Rounding Instrument, the Company has applied an alternative rounding factor and amounts in the Financial Report and Directors' Report have been rounded to the nearest million dollars, unless otherwise stated.

Signed on the 4 October 2023
in accordance with a resolution of the Board of Directors.

M. A. CAMERON
Chairman

K.J. BETROS AM
Deputy Chairman

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

To the Directors of Heritage and People's Choice Limited

I declare that, to the best of my knowledge and belief, in relation to the audit of Heritage and People's Choice 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

Paul Cenko
Partner

Adelaide

4 October 2023

Independent Auditor's Declaration

Independent Auditor's Report

To the Members of Heritage and People's Choice Limited

Opinions

We have audited the consolidated Financial Report of Heritage and People's Choice Limited (the Group Financial Report). We have also audited the Financial Report of Heritage and People's Choice Limited (the Company Financial Report).

In our opinion, each of the accompanying Group Financial Report and Company Financial Report of Heritage and People's Choice Limited are in accordance with the *Corporations Act 2001*, including:

- giving a true and fair view of the Group's and Company's financial position as at 30 June 2023 and of its financial performance for the year ended on that date; and
- complying with *Australian Accounting Standards* and the *Corporations Regulations 2001*.

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

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

The ***Group*** consists of Heritage and People's Choice Limited (the Company) and the entities it controlled at the year-end or from time to time during the financial year.

Basis for opinions

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

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

We are independent of the Group and Company 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 audits of the Financial Reports 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 Heritage and People's Choice Limited's annual reporting which is provided in addition to the Financial Reports and the Auditor's Report. The Directors are responsible for the Other Information.

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

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

KPMG

Responsibilities of the Directors for the Financial Reports

The Directors are responsible for:

- preparing Financial Reports that give a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001;*
- implementing necessary internal control to enable the preparation of Financial Reports that give a true and fair view and are free from material misstatement, whether due to fraud or error; and,
- assessing the Group and 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 audits of the Financial Reports

Our objective is:

- to obtain reasonable assurance about whether each of the Financial Reports as a whole are free from material misstatement, whether due to fraud or error; and
- to issue an Auditor’s Report that includes our opinions.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with *Australian Auditing Standards* will always detect a material misstatement when it exists.

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

A further description of our responsibilities for the audits of the Financial Reports is located at the *Auditing and Assurance Standards Board* website at: http://www.auasb.gov.au/auditors_responsibilities/ar3.pdf.

This description forms part of our Auditor’s Report.

KPMG

Paul Cenko
Partner

Adelaide

4 October 2023

KPMG

Jillian Richards
Partner

Brisbane

4 October 2023

Directors’ Declaration

In the opinion of the Directors of Heritage and People's Choice Limited:

a) the financial statements and notes of Heritage and People's Choice Limited and of the Group, set out on pages 13 to 71 are in accordance with the *Corporations Act 2001,* including:

i. giving a true and fair view of Heritage and People's Choice Limited and the Group's financial position as at 30 June 2023 and of their performance, for the financial year ended on that date;

ii. complying with Australian Accounting Standards and the Corporations Regulations 2001;

b) the financial statements also comply with the International Financial Reporting Standards as disclosed in Note 2; and

c) there are reasonable grounds to believe that Heritage and People's Choice Limited will be able to pay its debts as and when they become due and payable.

Signed on the 4 October 2023
in accordance with a resolution of the Board of Directors.

M. A. CAMERON
Chairman

K.J. BETROS AM
Deputy Chairman

Statements of Profit or Loss and Other Comprehensive Income

FOR THE YEAR ENDED 30 JUNE 2023

	Note	Consolidated		Parent	
		2023	2022	**2023**	2022
		$m	$m	**$m**	$m
Interest income	4	**622.5**	235.5	**668.0**	278.5
Interest expense	4	**(303.1)**	(46.4)	**(359.8)**	(100.0)
Net interest income		**319.4**	189.1	**308.2**	178.5
Share in net profit/(loss) of equity accounted investees	23	**0.9**	(0.5)	**-**	-
Other income	5	**57.1**	52.3	**66.8**	61.1
Non-interest income		**58.0**	51.8	**66.8**	61.1
Net (impairment charge)/release on loans and advances	10	**(7.1)**	2.2	**(7.1)**	2.3
Other expenses	6	**(327.5)**	(231.7)	**(325.5)**	(229.7)
Profit before tax		**42.8**	11.4	**42.4**	12.2
Income tax expense	7	**(12.4)**	(1.9)	**(12.2)**	(2.1)
Profit from continuing operations		**30.4**	9.5	**30.2**	10.1
Discontinued operation					
Profit from discontinued operation, net of tax	26	**1.7**	8.0	**1.4**	7.0
Profit for the year		**32.1**	17.5	**31.6**	17.1
Profit attributable to:					
Members of the parent		**32.1**	17.5	**31.6**	17.1
Other comprehensive income					
Items that may be reclassified subsequently to profit or loss					
Movement in cash flow hedge reserve:					
Cash flow hedges- reclassified to profit or loss		**(1.8)**	0.5	**(1.8)**	0.5
Cash flow hedges- effective portion of changes in fair value		**(10.7)**	51.0	**(10.7)**	51.0
Changes in fair value of debt investments held at FVOCI		**2.3**	(5.6)	**2.3**	(5.6)
Income tax on comprehensive income		**3.1**	(13.8)	**3.1**	(13.8)
Items that will not be reclassified subsequently to profit or loss					
Changes in fair value of equity investments held at FVOCI		**-**	17.4	**-**	17.4
Income tax on comprehensive income		**-**	(5.2)	**-**	(5.2)
Other comprehensive income, net of income tax		**(7.1)**	44.3	**(7.1)**	44.3
Total comprehensive income for the year		**25.0**	61.8	**24.5**	61.4

The accompanying notes form part of these financial statements.

Statements of Financial Position

AS AT 30 JUNE 2023

	Note	Consolidated		Parent	
		2023	2022	**2023**	2022
		$m	$m	**$m**	$m
Assets					
Cash and cash equivalents	8	**661.2**	176.5	**499.6**	83.0
Loans and advances	9	**19,121.9**	8,820.3	**19,121.9**	8,820.3
Derivative assets	11	**53.9**	55.6	**41.6**	51.9
Investment securities	12 a)	**3,107.4**	1,140.6	**3,107.4**	1,140.6
Other investments	12 b)	**126.7**	104.8	**4,057.2**	1,763.9
Current tax receivable	7	**-**	4.2	**-**	4.2
Property, plant and equipment	21	**88.1**	55.7	**88.1**	55.7
Intangible assets	22	**23.2**	7.5	**23.2**	7.5
Interest in equity accounted investees	23	**12.0**	11.5	**4.2**	4.2
Deferred tax assets	7	**52.8**	9.8	**55.1**	11.9
Other assets	13	**62.9**	34.4	**73.4**	41.4
Total Assets		**23,310.1**	10,420.9	**27,071.7**	11,984.6
Liabilities					
Deposits	14	**18,529.3**	7,668.1	**18,529.3**	7,668.2
Other financial liabilities	15	**281.9**	-	**281.9**	-
Derivative liabilities	11	**13.1**	3.7	**13.1**	22.7
Other payables	16	**145.0**	54.3	**137.6**	40.0
Current tax payable	7	**13.3**	-	**13.3**	-
Lease liabilities	21 b)	**55.5**	49.7	**55.5**	49.7
Borrowings	17	**2,825.8**	1,940.1	**6,602.7**	3,506.4
Provisions	24	**49.4**	20.1	**49.4**	20.1
Total Liabilities		**21,913.3**	9,736.0	**25,682.8**	11,307.1
Net Assets		**1,396.8**	684.9	**1,388.9**	677.5
Members' Funds					
Retained earnings		**492.1**	460.0	**484.2**	452.6
Reserves	25	**904.7**	224.9	**904.7**	224.9
Total Members' Funds		**1,396.8**	684.9	**1,388.9**	677.5

The accompanying notes form part of these financial statements.

Statements of Changes in Members' Funds

FOR THE YEAR ENDED 30 JUNE 2023

Consolidated Entity	Note	Retained Earnings $m	Reserves $m	Total $m
Opening balance at 1 July 2022		**460.0**	**224.9**	**684.9**
Profit after tax for the year		**32.1**	**-**	**32.1**
Other comprehensive income, net of income tax				
Cash flow hedges:				
Effective portion of changes in fair value		**-**	**(7.5)**	**(7.5)**
Reclassified to profit or loss		**-**	**(1.2)**	**(1.2)**
Change in fair value of financial assets held at FVOCI		**-**	**1.6**	**1.6**
Total comprehensive income for the period		**-**	**(7.1)**	**(7.1)**
Transactions recorded directly in members' funds				
Merger with Heritage Bank	34	**-**	**686.9**	**686.9**
Total recorded directly in member's funds		**-**	**686.9**	**686.9**
Closing balance at 30 June 2023		**492.1**	**904.7**	**1,396.8**

Opening balance at 1 July 2021		426.7	196.4	623.1
Profit after tax for the year		17.5	-	17.5
Other comprehensive income, net of income tax				
Cash flow hedges:				
Effective portion of changes in fair value		-	35.7	35.7
Reclassified to profit or loss		-	0.3	0.3
Change in fair value of financial assets held at FVOCI		-	8.3	8.3
Derecognition of equity instrument held at FVOCI		2.0	(2.0)	-
Total comprehensive income for the period		2.0	42.3	44.3
Transactions recorded directly in members' funds				
General reserve for credit losses		13.8	(13.8)	-
Total recorded directly in members' funds		13.8	(13.8)	-
Closing balance as at 30 June 2022		460.0	224.9	684.9

The accompanying notes form part of these financial statements.

Statements of Changes in Members' Funds (continued)

FOR THE YEAR ENDED 30 JUNE 2023

Parent	Note	Retained Earnings $m	Reserves $m	Total $m
Opening balance at 1 July 2022		**452.6**	**224.9**	**677.5**
Profit after tax for the year		**31.6**	**-**	**31.6**
Other comprehensive income, net of income tax				
Cash flow hedges:				
Effective portion of changes in fair value		**-**	**(7.5)**	**(7.5)**
Reclassified to profit or loss		**-**	**(1.2)**	**(1.2)**
Change in fair value of financial assets held at FVOCI		**-**	**1.6**	**1.6**
Total comprehensive income for the period		**-**	**(7.1)**	**(7.1)**
Transactions recorded directly in members' funds				
Merger with Heritage Bank	34	**-**	**686.9**	**686.9**
Total recorded directly in member's funds		**-**	**686.9**	**686.9**
Closing balance at 30 June 2023		**484.2**	**904.7**	**1,388.9**
Opening balance at 1 July 2021		419.7	196.4	616.1
Profit after tax for the year		17.1	-	17.1
Other comprehensive income, net of income tax				
Cash flow hedges:				
Effective portion of changes in fair value		-	35.7	35.7
Reclassified to profit or loss		-	0.3	0.3
Change in fair value of financial assets held at FVOCI		-	8.3	8.3
Derecognition of equity instrument held at FVOCI		2.0	(2.0)	-
Total comprehensive income for the period		2.0	42.3	44.3
Transactions recorded directly in members' funds				
General reserve for credit losses		13.8	(13.8)	-
Total recorded directly in members' funds		13.8	(13.8)	-
Closing balance as at 30 June 2022		452.6	224.9	677.5

The accompanying notes form part of these financial statements.

Statements of Cash Flows

FOR THE YEAR ENDED 30 JUNE 2023

	Note	Consolidated		Parent	
		2023	2022	**2023**	2022
		$m	$m	**$m**	$m
Cash from operating activities					
Interest received		**605.1**	236.0	**650.2**	279.0
Interest paid		**(231.9)**	(47.7)	**(298.4)**	(98.8)
Fees and commission received		**50.8**	48.3	**55.7**	43.0
Other income received		**1.0**	8.9	**1.0**	17.2
Net increase in loans and advances		**(983.0)**	(723.2)	**(983.0)**	(723.1)
Net increase in deposits and short term borrowings		**1,284.8**	549.6	**1,284.8**	549.0
Proceeds from close out of derivatives		**74.0**	-	**74.0**	-
Payments to employees and suppliers		**(337.9)**	(219.4)	**(328.8)**	(211.0)
Income taxes paid		**(12.0)**	(8.6)	**(12.0)**	(8.6)
Net cash from/(used in) operating activities	30	**450.9**	(156.1)	**443.5**	(153.3)
Cash from investing activities					
Net increase in investment securities		**(74.2)**	(37.9)	**(74.1)**	(38.0)
Acquisition of other investments		**(21.5)**	(29.2)	**(61.5)**	(20.2)
Acquisition of property plant and equipment		**(13.5)**	(1.1)	**(13.5)**	(1.1)
Acquisition of software intangibles		**(5.0)**	(4.3)	**(5.0)**	(4.3)
Dividends and distributions received		**2.0**	5.0	**2.0**	5.0
Proceeds from sale of discontinued operations		**2.1**	8.8	**2.1**	7.8
Cash transferred on merger with Heritage Bank Limited		**274.3**	-	**274.3**	-
Net cash from/(used in) investing activities		**164.2**	(58.7)	**124.3**	(50.8)
Cash from financing activities					
Payment of lease liabilities		**(14.4)**	(11.7)	**(14.4)**	(11.7)
Proceeds from borrowings		**-**	75.0	**-**	75.0
Proceeds from residential mortgage backed securities issue		**615.5**	600.0	**1,114.5**	600.0
Repayment of borrowings		**(265.5)**	(1.4)	**(1,251.3)**	(517.0)
Payments to Noteholders		**(466.0)**	(496.3)	**-**	-
Net cash (used in)/from financing activities		**(130.4)**	165.6	**(151.2)**	146.3
Net increase/(decrease) in cash and cash equivalents		**484.7**	(49.2)	**416.6**	(57.8)
Cash and cash equivalents at 1 July		**176.5**	225.7	**83.0**	140.8
Cash and cash equivalents at 30 June	8	**661.2**	176.5	**499.6**	83.0

The accompanying notes form part of these financial statements.

Notes to the Financial Statements

1. ABOUT OUR FINANCIAL STATEMENTS

On 4 October 2023 the Directors resolved to authorise the issue of the consolidated financial statements for Heritage and People's Choice Limited and its controlled entities (together, **the Group**) for the year ended 30 June 2023.

The parent entity, Heritage and People's Choice Limited (**HPC**), is a for-profit entity that is incorporated and domiciled in Australia. The nature of operations and principal activities of the Group is the provision of financial products and services to members. There have been no significant change in the nature of these activities during the year.

Information in the financial statements is included to the extent that it is material and relevant. The Group considers a disclosure material and relevant, if for example:

- the amount is significant in size;
- the information is significant in nature;
- the user cannot understand the Group's results without the specific disclosure; and
- the information is required under legislative requirements of the *Corporations Act 2001.*

The controlling entity of the Group is Heritage and People's Choice Limited. The registered office is 6th Floor, 400 Ruthven Street, Toowoomba, Queensland, Australia, 4350.

2. BASIS OF PREPARATION

a) Statement of compliance

The financial report is a general purpose financial report, prepared by a for-profit entity, in accordance with Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board (**AASB**), the *Corporations Act 2001*, and International Financial Reporting Standards (**IFRS**) and interpretations published by the International Accounting Standards Board (**IASB**).

HPC holds an Australian Financial Services Licence and has therefore applied ASIC Class Order CO 2021/195 and has presented both parent company and consolidated entity financial statements in this financial report.

b) Basis of measurement

The Group has prepared the financial information in accordance with the historical cost convention, except for following assets and liabilities which are stated at their fair value:

- Derivative financial instruments;
- Investment securities held at FVOCI; and
- Freehold land and buildings.

The financial report has been prepared on a going concern basis.

c) Functional and presentation currency

The financial report is presented in Australian dollars, which is HPC's functional currency, and all values have been rounded to the nearest million dollars ($m) unless otherwise stated under the option available to the Group under ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2022/519.

d) Use of judgments and estimates

The preparation of a financial report in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable when making the judgment about the carrying values of assets and liabilities that are not readily apparent from other sources.

2. BASIS OF PREPARATION (continued)

d) Use of judgments and estimates (continued)

In particular, information about significant areas of estimation uncertainty, and critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are described in the following notes:

- Note 10 Impairment of loans and advances
- Note 20 Fair value of financial instruments
- Note 21 Property, plant and equipment
- Note 22 Intangible assets
- Note 34 Business combination

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 and in any future periods affected.

3. NEW ACCOUNTING STANDARDS

A number of new standards, amendments to standards and interpretations, are effective for annual periods beginning after 1 July 2023 and earlier application is permitted. The Group however, has not early adopted them in preparing this financial report as those standards remain subject to ongoing assessment and, no significant impacts to the Group's financial statements have been identified to date.

Financial Performance

4. NET INTEREST INCOME

	Consolidated		Parent	
	2023 $m	2022 $m	**2023 $m**	2022 $m
Interest income				
Cash and investment securities	**79.2**	5.9	**74.1**	5.7
Loans and advances	**514.1**	229.6	**507.0**	229.7
Interest rate derivatives	**29.2**	-	**14.2**	19.6
Other investments	**-**	-	**72.7**	23.5
Total interest income	**622.5**	235.5	**668.0**	278.5
Interest expense				
Deposits	**214.8**	20.1	**214.7**	20.1
Borrowings	**88.3**	22.4	**145.1**	79.9
Interest rate derivatives	**-**	3.9	**-**	-
Total interest expense	**303.1**	46.4	**359.8**	100.0
Net interest income	**319.4**	189.1	**308.2**	178.5

Recognition and measurement

The Group recognises interest income and interest expense using the effective interest rate (**EIR**) method for financial assets and liabilities which are held at amortised cost and debt instruments at fair value through other comprehensive income. The EIR is the rate that discounts estimated future cash receipts or payments over the expected life of the financial asset or liability to the gross carrying amount or amortised cost.

The Group recognises fees and costs that form an integral part of the financial instrument (for example, loan origination fees and transaction costs) as part of interest income or expense. These incremental fees and costs are directly attributable to the acquisition or issue of a financial asset or financial liability. For purchased or originated credit impaired financial assets a credit adjusted effective interest rate is calculated using estimated cash flows including expected credit losses.

Notes to the Financial Statements (continued)

5. OTHER INCOME

	Consolidated		Parent	
	2023 $m	2022 $m	**2023 $m**	2022 $m
Loan fees, banking fees and other commissions	**35.3**	26.3	**44.5**	34.6
Insurance commissions	**19.8**	21.3	**19.8**	21.3
Dividends received	**1.5**	4.6	**2.0**	5.1
Other income	**0.5**	0.1	**0.5**	0.1
Total other income	**57.1**	52.3	**66.8**	61.1

Recognition and Measurement

Loan fees, banking fees and other commissions

Loan fees, banking fees and other commissions that do not form an integral part of the EIR are recognised when the performance obligation is satisfied, which is at the point of time or over a period of time when the customer benefited from the service provided by the Group.

Insurance commissions

The Group recognises insurance commission revenue when the Group acts in the capacity as an agent and refers insurance policies with third party insurers and the performance obligation is satisfied. The performance obligation includes initial referrals, policy renewals and ongoing processing and promotion obligations. The total consideration to be received under the contract is calculated and allocated to separate performance obligations, with the revenue recognised over time as each performance obligation is completed.

Dividends received

Dividends from other investments are recognised when the right to receive the dividend has been established.

6. OTHER EXPENSES[1]

	Consolidated		Parent	
	2023	2022	**2023**	2022
	$m	$m	**$m**	$m
Personnel				
Salaries and related costs	**150.4**	105.1	**150.2**	104.9
Superannuation	**12.4**	8.2	**12.3**	8.1
Total personnel expense	**162.8**	113.3	**162.5**	113.0
Occupancy				
Occupancy expenses	**7.6**	4.0	**7.6**	4.0
Depreciation of property, plant and equipment	**17.1**	15.9	**17.1**	15.9
Lease liability interest expense	**1.3**	1.5	**1.3**	1.5
Total occupancy expense	**26.0**	21.4	**26.0**	21.4
Information technology				
Information technology costs	**45.9**	32.9	**45.9**	32.8
Amortisation of intangible computer software	**5.0**	0.1	**5.0**	0.1
Total information technology expense	**50.9**	33.0	**50.9**	32.9
Operating and administrative				
Administrative expenses	**43.5**	30.5	**41.6**	28.4
Marketing costs	**11.6**	7.7	**11.8**	8.1
Distribution channel costs	**32.1**	25.8	**32.1**	25.9
Amortisation of core deposit intangible	**0.6**	-	**0.6**	-
Total operating and administrative expense	**87.8**	64.0	**86.1**	62.4
Total other expenses	**327.5**	231.7	**325.5**	229.7

[1] Other expenses includes $24.4m of costs incurred during the financial year associated with merger and integration activities with Heritage Bank Limited. These costs include Personnel expenses ($7.5m), Information technology expenses ($7.8m) and Operating and administrative expenses ($9.1m).

Recognition and Measurement

Personnel

Personnel include employee entitlements and other entitlements. The Group accrue annual leave and other entitlements expected to be paid within twelve months using remuneration rates that the Group expects to pay when the liabilities are settled. Staff expenses are recognised over the period the employee renders the service.

Long service entitlements are accrued for all employees from their date of commencement. Long service leave is calculated by discounting to present value using assumptions relating to staff departures, leave utilisation, future salary increases and expected years of service.

Occupancy

The Group recognises occupancy and equipment expenses in accordance with AASB 16 *Leases* and applies the straight-line method over the asset's estimated useful life. The Group recognises its right to use an underlying leased asset over the lease term as a right of use (**ROU**) asset, and its obligation to make lease payments as a lease liability. The Group recognises depreciation expense on the ROU asset and interest expense on the lease liability over the term of the lease.

Further information is included in Note 21 Property, plant and equipment.

The Group has elected not to recognise ROU assets and lease liabilities for leases of low value assets. These costs have been included in operating and administrative expenses.

Notes to the Financial Statements (continued)

7. INCOME TAX

	Consolidated 2023 $m	Consolidated 2022 $m	Parent 2023 $m	Parent 2022 $m
Profit before tax from continuing operations	**42.8**	11.4	**42.4**	12.2
Tax at the tax rate of 30% (2022: 30%)	**12.8**	3.4	**12.7**	3.7
Adjust for tax effect of:				
Fully franked dividends received	**(0.6)**	(1.5)	**(0.6)**	(1.5)
Sundry items	**0.2**	-	**0.1**	(0.1)
Income tax expense	**12.4**	1.9	**12.2**	2.1
The components of tax expense comprise:				
Current tax	**24.6**	4.0	**24.6**	4.4
Deferred tax	**(12.2)**	(2.1)	**(12.4)**	(2.3)
Income tax expense	**12.4**	1.9	**12.2**	2.1
Income tax recognised in other comprehensive income				
Net gain/(loss) on cash flow hedges	**(3.7)**	15.4	**(3.7)**	15.4
Net gain/(loss) on investment securities held at FVOCI	**0.6**	3.5	**0.6**	3.5
Income tax in other comprehensive income	**(3.1)**	18.9	**(3.1)**	18.9
Current tax (payable)/receivable	**(13.3)**	4.2	**(13.3)**	4.2
Deferred tax assets comprise:				
Amounts recognised in profit or loss				
Allowance for expected credit loss	**7.2**	2.8	**7.2**	2.8
Employee benefits	**13.1**	6.3	**13.1**	6.3
Provisions	**2.3**	0.7	**2.3**	0.6
Lease liability	**1.9**	2.1	**1.9**	2.1
Plant and equipment	**6.3**	1.1	**6.3**	1.1
Intangible assets	**6.8**	20.0	**6.8**	20.0
Other items	**10.0**	2.6	**13.7**	8.2
	47.6	35.6	**51.3**	41.1
Amounts recognised directly in Members' Funds				
Merger fair value adjustments	**26.8**	-	**26.8**	-
Total deferred tax assets	**74.4**	35.6	**78.1**	41.1
Deferred tax liabilities comprise:				
Amounts recognised in profit or loss				
Equity accounted associates	**2.3**	2.2	**-**	-
Derivative assets at fair value through profit or loss	**-**	1.2	**3.7**	6.8
	2.3	3.4	**3.7**	6.8
Amounts recognised directly in Members' Funds				
Cash flow hedges	**11.8**	15.6	**11.8**	15.6
Fair value reserve - investment securities held at FVOCI	**7.5**	6.8	**7.5**	6.8
Total deferred tax liabilities	**21.6**	25.8	**23.0**	29.2
Net deferred tax asset	**52.8**	9.8	**55.1**	11.9

The effective tax rate on continuing operations of the consolidated group is 29% (2022: 17%). The lower effective tax rate in 2022 was due to larger fully franked dividends received in the prior year.

7. INCOME TAX (continued)

Recognition and Measurement

Income tax expense
Income tax expense comprises current and deferred taxes and is based on the accounting profit adjusted for differences in the accounting and tax treatment of income and expenses (taxable income). The Group recognises tax expense in the Statements of Profit or Loss and Other Comprehensive Income.

Current income tax expense
Current income tax is the tax the Group expects to pay on taxable income for the year, including any adjustments for prior years. The tax is based on tax rates and tax laws which are enacted at the reporting period.

Deferred tax assets and liabilities
Deferred tax arises from the differences between financial reporting and taxation reporting which creates temporary differences that usually reverse over time. Until these are reversed, a deferred tax asset or deferred tax liability is recognised on the Statements of Financial Position. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the reporting date.

Deferred tax assets and deferred tax liabilities are offset only if they are expected to be settled or realised at the same time. Deferred tax assets are recognised for unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Tax consolidation
Heritage and People's Choice Limited and its Australian wholly-owned controlled entities have formed a tax-consolidated group and are therefore taxed as a single entity. The head entity within the consolidated group is Heritage and People's Choice Limited.

Current tax expense/income, deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax-consolidated group are recognised in the separate financial statements of the members of the tax-consolidated group. This is applied using the separate taxpayer within group approach by reference to the carrying amounts in the separate financial statements of each entity and the tax values applying under tax consolidation.

Goods and services tax
Revenues, expenses and assets are recognised net of the amount of goods and services tax (**GST**), except where the amount of GST incurred is not recoverable from the Australian Taxation Office. 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 in the Statements of Financial Position are shown inclusive of GST.

Notes to the Financial Statements (continued)

Financial Instruments and Risk Management

Financial Instruments

Overview

Financial instruments include cash, loans and advances, investment securities, deposits, other financial liabilities, borrowings and derivatives and account for the majority of the Group's Statement of Financial Position.

Recognition and Measurement

Initial recognition and measurement

Financial assets and liabilities are recognised on the Group's Statement of Financial Position on the date they are originated or the trade date, which is the date at which the Group becomes a party to the contractual provisions of the instrument.

Financial assets and liabilities are initially recognised at fair value. Directly attributable transaction costs are added or deducted from the financial asset or liabilities, except for financial instruments measured at fair value through profit or loss, where directly attributable transaction costs are recognised in profit or loss.

There are three measurement classifications for financial assets under AASB 9 *Financial Instruments* (AASB 9):
- amortised cost;
- fair value through other comprehensive income (FVOCI); and
- fair value through profit or loss (FVTPL).

Financial assets are classified into these categories on the basis of two criteria:
- the business model within which the financial asset is managed (business model assessment); and
- the contractual cash flow characteristics of the financial asset, whether the cash flows represent solely payments of principal and interest (SPPI test).

Business model assessment

The Group determines the business model by considering the purpose of the portfolio, how the relevant risks are managed and the basis on which the performance of the portfolio is evaluated.

SPPI test

In making the SPPI assessment the Group considers relevant factors such as how principal is repaid and whether interest reflects the time value of money and credit risk.

The resulting financial asset classifications are as follows:
- *Amortised cost:* Financial assets with contractual cash flows that comprise solely payments of principal and interest and which are held in a business model whose objective is to collect their cash flows;
- *FVOCI:* Financial assets with contractual cash flows that comprise solely payments of principal and interest and which are held in a business model whose objective is to collect their cash flows or to sell the assets; and
- *FVTPL*: Any other financial assets not falling into one of the above two categories.

Financial Instruments (continued)

Overview (continued)

Recognition and Measurement

Derecognition of financial instruments

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

a) the right to receive cash flows from the asset has expired;

b) the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them without material delay to a third party; or

c) the Group has transferred its rights to receive cash flows from the asset and either:

(i) has transferred substantially all the risks and rewards of the asset; or

(ii) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expired. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in profit or loss.

8. CASH AND CASH EQUIVALENTS

	Consolidated		Parent	
	2023	2022	**2023**	2022
	$m	$m	**$m**	$m
Cash on hand and at bank	**36.2**	12.4	**36.2**	12.4
Deposits at call	**566.0**	164.1	**404.4**	70.6
Foreign currency floats	**59.0**	-	**59.0**	-
Cash and cash equivalents	**661.2**	176.5	**499.6**	83.0

Recognition and Measurement

Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits at call with ADIs and foreign currency floats with prepaid card partners. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the Statements of Cash Flows. Cash and cash equivalents are measured at amortised cost.

Notes to the Financial Statements (continued)

9. LOANS AND ADVANCES

	Consolidated		Parent	
	2023	2022	**2023**	2022
	$m	$m	**$m**	$m
Residential loans	**18,313.5**	8,412.5	**18,313.5**	8,412.5
Business loans	**217.7**	29.5	**217.7**	29.5
Credit cards	**98.9**	36.1	**98.9**	36.1
Personal and other loans	**486.7**	336.0	**486.7**	336.0
Gross loans and advances	**19,116.8**	8,814.1	**19,116.8**	8,814.1
Provision for impairment (Note 10)	**(23.9)**	(9.3)	**(23.9)**	(9.3)
Net deferred origination costs and fee revenue	**29.0**	15.5	**29.0**	15.5
Net loans and advances	**19,121.9**	8,820.3	**19,121.9**	8,820.3

Recognition and Measurement

Loans and advances comprise term and revolving credit facilities that the Group enters into with members. Loans and advances are initially recognised at fair value plus directly attributable transaction costs such as broker expenses, origination fees received, and costs incurred. Subsequently loans and advances are measured at amortised cost using the effective interest rate method, less impairment losses. The effective interest rate is the rate that discounts estimated future cash payments through the expected life of the loan or advance, to the carrying amount of the loan or advance.

When estimating the future cash flows, the Group consider all contractual terms of the loan or advance excluding any expected credit losses (**ECLs**). Included in this calculation are all fees paid or received, that are integral to the contract. The ECL on loans and advances are calculated in accordance with Note 10 Impairment of loans and advances.

The Group enters into transactions where it transfers financial assets, primarily loans and advances. The transferred assets remain on the Group's balance sheet as the Group retains substantially all of the risks and rewards of the transferred assets. Refer to Note 28 Transfer of financial assets for further details.

Modified financial assets

If the terms of a financial asset are modified, an assessment is made to determine if the changes to the terms of the existing financial asset are considered substantial. If the change in cash flows are substantially different, the original financial asset is derecognised and a new asset is recognised at fair value. Any gain or loss between the original and new asset is recognised in profit or loss. Where a modification is considered to not be substantial, the Group recalculates the gross carrying amount using the original effective interest rate and recognises the difference in profit or loss.

The loan portfolio of the Group does not include any loans or groups of related loans which represent 10% or more of capital (2022: $Nil).

10. IMPAIRMENT OF LOANS AND ADVANCES

	Consolidated		Parent	
	2023	2022	**2023**	2022
	$m	$m	**$m**	$m
Specific provision:				
Balance at beginning of year	**0.1**	0.3	**0.1**	0.3
Recognition of credit impaired loans on merger	**0.3**	-	**0.3**	-
Increase/(decrease) in provision	**0.1**	(0.2)	**0.1**	(0.2)
Balance at end of year	**0.5**	0.1	**0.5**	0.1
The gross value of loans specifically provided for is $1.9m (2022: $1.2m) and the total value of collateral held for loans specifically provided for is $1.5m (2022:$1.2m).				
Collective provision:				
Balance at beginning of year	**9.2**	12.1	**9.2**	12.1
Recognition of credit impaired loans on merger	**3.3**	-	**3.3**	-
Increase/(decrease) in provision	**10.9**	(2.9)	**10.9**	(2.9)
Balance at end of year	**23.4**	9.2	**23.4**	9.2
Total provision for impairment	**23.9**	9.3	**23.9**	9.3
Charge/(recovery) to profit or loss comprises:				
Provision for loan impairment	**5.5**	(3.0)	**5.5**	(3.0)
Loans written off during the year as uncollectible	**2.4**	1.7	**2.4**	1.6
Bad debts recovered	**(0.8)**	(0.9)	**(0.8)**	(0.9)
Total charge/(recovery) to profit or loss	**7.1**	(2.2)	**7.1**	(2.3)

Recognition and Measurement

The provision for impairment of loans and advances is categorised as follows:

Specific Provision
Loans and advances that meet significant delinquency and loan size criteria are individually assessed for impairment to estimate the expected credit loss on the loan.

Collective Provision
Loans and advances that are not individually assessed are placed into portfolios of assets with similar credit risk characteristics, taking into account product and borrower type and a collective assessment of impairment is performed based on objective evidence from historical experience and other forward-looking indicators.

Loans and advances are written off and derecognised when negotiations for collection of a debt are unsuccessful and there is no reasonable expectation that the outstanding principal and interest will be recovered.

The Group considers that its cash and cash equivalents and investment securities have a low credit risk based on the external credit ratings of the counterparties.

Notes to the Financial Statements (continued)

10. IMPAIRMENT OF LOANS AND ADVANCES (continued)

The following table presents the movement in the provision for impairment for the year:

Consolidated and Parent

	Stage 1	Stage 2	Stage 3 Collective	Stage 3 Specific	Stage 3 POCI loans	Total
	$m	$m	$m	$m	$m	$m
Balance as at 1 July 2022	**5.9**	**1.0**	**2.3**	**0.1**	**-**	**9.3**
Loans and advances transferred on merger	**-**	**-**	**-**	**0.3**	**3.3**	**3.6**
Changes due to loans and advances that have:						
Transferred to Stage 1	**0.9**	**(0.7)**	**(0.2)**	**-**	**-**	**-**
Transferred to Stage 2	**(0.1)**	**0.7**	**(0.6)**	**-**	**-**	**-**
Transferred to Stage 3	**-**	**-**	**-**	**-**	**-**	**-**
New and increased provisions (net of provision releases)	**5.7**	**3.5**	**2.1**	**0.1**	**(0.4)**	**11.0**
Balance as at 30 June 2023	**12.4**	**4.5**	**3.6**	**0.5**	**2.9**	**23.9**
Balance as at 1 July 2021	7.4	2.2	2.4	0.3	-	12.3
Changes due to loans and advances that have:						
Transferred to Stage 1	1.6	(1.0)	(0.6)	-	-	-
Transferred to Stage 2	(0.1)	0.4	(0.2)	(0.1)	-	-
Transferred to Stage 3	-	(0.1)	0.1	-	-	-
New and increased provisions (net of provision releases)	(3.0)	(0.5)	0.6	(0.1)	-	(3.0)
Balance as at 30 June 2022	5.9	1.0	2.3	0.1	-	9.3

10. IMPAIRMENT OF LOANS AND ADVANCES (continued)

Recognition and Measurement

The measurement of expected credit losses (**ECL**) reflects an unbiased, probability weighted prediction which evaluates a range of scenarios and takes into account the time value of money, past events, current conditions and forecasts of future economic conditions.

Expected credit losses are either measured over 12 months or the expected lifetime of the financial asset, depending on credit deterioration since origination, according to the following three-stage approach:

Stage 1: 12 month ECL
The Group collectively assesses ECLs on exposures that have not significantly increased in credit risk since initial recognition and that were not credit impaired upon origination. For these exposures, the Group recognises a collective provision equal to the portion of the lifetime ECL associated with the probability of default events occurring within the next 12 months.

Stage 2: Lifetime ECL – asset is not impaired
The Group collectively assesses, based on shared credit risk characteristics, ECLs on exposures that have significantly increased in credit risk since initial recognition but are not credit impaired. Credit risk is considered to have significantly increased when contractual payments are 30 days past due at some time in the last 6 months, there is significant change in serviceability, financial hardship or default events. For these exposures, the Group recognises a collective provision equal to the lifetime ECL.

Stage 3: Lifetime ECL – asset is impaired
The Group assesses ECLs both collectively and individually on those exposures that are assessed as credit impaired. Exposures are credit impaired when they are equal to or greater than 90 days past due or where one or more events that have a detrimental impact on the estimated future cash flows of that asset have occurred, including loan modifications. For exposures that have become credit impaired, a lifetime ECL is recognised as a collective or specific provision.

Stage 3: Purchased or originated credit-impaired (POCI)
For financial assets that are credit-impaired on initial recognition, lifetime ECL are incorporated into the calculation of the effective interest rate when the asset is first recognised. Therefore the ECL provision recognised on POCI assets is not the total amount of lifetime ECL but instead the changes in lifetime ECL since initial recognition of the financial asset.

Measurement of expected credit loss
ECL is calculated as the product of the following credit risk factors, discounted to incorporate the time value of money:
* Probability of default (PD) - the estimate of the likelihood that a borrower will default over a given period;
* Exposure at default (EAD) - the expected balance sheet exposure at default taking into account repayments of principal and interest, expected additional drawdowns and accrued interest; and
* Loss given default (LGD) - the expected loss in the event of the borrower defaulting, expressed as a percentage of the facility's EAD, taking into account direct and indirect recovery costs.

These credit risk factors are adjusted for current and forward-looking information through the use of macroeconomic variables.

The definition of default used in measuring credit losses is aligned with the APRA's definition of default. Default occurs when there are indicators that a customer is unlikely to fully satisfy contractual credit obligations to the Group, the exposure is 90 days past due or a loss has already been incurred.

10. IMPAIRMENT OF LOANS AND ADVANCES (continued)

KEY JUDGMENTS AND ESTIMATES

In estimating collectively assessed ECL the Group makes judgments and assumptions in relation to the selection of a modelling methodology, and the selection of inputs for the models. The following table summarises the key judgments and assumptions in relation to the models and also highlights significant changes during the year.

Judgment / assumption and description	Changes during the year ended 30 June 2023
Selection of macroeconomic variables Judgment is involved in determining which forward looking variables have the highest correlation to default rates observed in the portfolio.	Types of variables used as model inputs have been aligned as a result of the merger. The variables include unemployment rates, RBA cash rate, GDP and property price.
Economic forecast assumptions Judgment is involved in determining the forecast settings for each relevant economic variable under each scenario (Base Case, Upside, Downside and Severe Downside).	The forecast settings for each relevant economic variable are based on Management's view of the most likely future macroeconomic conditions at 30 June 2023. In forecasting future economic conditions, assumptions for the Base Case are sourced from a number of external sources such as the Reserve Bank of Australia. The settings for the current year reflect an expectation of an increase to the unemployment rate and lower economic growth.
Probability weighting of each economic scenario Probability weighting of each economic scenario is determined by considering the risks and uncertainties surrounding the base case scenario.	The assigned probability weightings have been updated since the prior year to reflect a higher weighting on the downside and severe downside scenarios to take into account potential uncertainties related to the anticipated economic conditions associated with sustained increases in the cash rate and the possibility of an increase to the unemployment rate and lower economic growth.
Determining when a Significant Increase in Credit Risk (SICR) has occurred In the measurement of ECL, judgment is involved in setting the rules and trigger points to determine whether there has been a SICR since initial recognition of a loan, which would result in the financial asset moving from Stage 1 to Stage 2.	SICR rules were reviewed and expanded as a result of merger, with particular attention given to serviceability of residential loans in the increasing interest rate environment.
Management overlay Management overlay adjustments to the ECL allowance are used in circumstances where it is judged that existing inputs, assumptions and modelling techniques do not capture all the risk factors relevant to the lending portfolios.	Management has applied adjustments to the modelled ECL primarily to mitigate modelling risk and other specific conditions that are not able to be incorporated into modelled risk estimates.

10. IMPAIRMENT OF LOANS AND ADVANCES (continued)

Sensitivity analysis

The table below illustrates the sensitivity of collectively assessed ECL to key factors used in determining the allowance as at 30 June 2023 together with the prior year comparative:

	2023	2022
	$m	$m
Reported probability weighted ECL	**23.9**	9.3
100% Upside scenario	**18.1**	3.3
100% Base scenario	**19.8**	5.0
100% Downside scenario	**26.9**	-
100% Severe Downside scenario	**42.0**	23.2

The Group uses four alternative macro-economic scenarios to reflect an unbiased probability-weighted range of possible future outcomes in estimating the ECL; Base, Upside, Downside and Severe Downside scenarios.

	2023				2022		
	Upside Scenario %	**Base Scenario %**	**Downside Scenario %**	**Severe Downside Scenario %**	Upside Scenario %	Base Scenario %	Severe Downside Scenario %
Forecast unemployment rate	**3.8**	**4.3**	**6.5**	**9.0**	4.0	4.8	9.0
Forecast cash rate	**3.9**	**4.1**	**4.4**	**5.1**	-	-	-
Forecast annual GDP growth	**2.5**	**1.3**	**-**	**(2.0)**	-	-	-
Property price increase/(fall)	**5.0**	**-**	**(10.0)**	**(20.0)**	5.0	-	(30.0)

Notes to the Financial Statements (continued)

11. DERIVATIVES

	Consolidated		Parent	
	2023 $m	2022 $m	**2023 $m**	2022 $m
Assets				
Derivatives held at fair value through profit or loss				
Foreign currency swaps	**2.3**	-	**2.3**	-
Interest rate swaps	**12.3**	3.7	**-**	-
Derivatives held as cash flow hedges				
Interest rate swaps	**39.3**	51.9	**39.3**	51.9
Total derivative assets	**53.9**	55.6	**41.6**	51.9
Liabilities				
Derivatives held at fair value through profit or loss				
Foreign currency swaps	**(0.6)**	-	**(0.6)**	-
Interest rate swaps	**(12.5)**	(3.7)	**(12.5)**	(22.7)
Total derivative liabilities	**(13.1)**	(3.7)	**(13.1)**	(22.7)

Feature and purpose

Foreign currency and interest rate swaps are contractual arrangements whose value is derived from an underlying price index defined in the contract that are settled at a future date. The two parties exchange a series of cash flows. Movements in the price of the underlying variables, which cause the value of the contract to fluctuate, are reflected in the fair value of the derivative.

The Group's derivative financial instruments include the following categories:

Held at fair value	Swaps held in order to manage risks that are not in a designated hedge accounting relationship (balance sheet management).
Designated in hedging relationships	Swaps designated into hedge accounting relationships in order to minimise volatility in net interest income arising from interest rate risk.

The Group utilises cash flow hedges for the hedge accounting relationship, detailed below:

Cash flow hedges	Description
Objective	To hedge variability in cash flows from recognised financial assets and liabilities arising from interest rate risk
Hedged risk	Interest rate risk
Hedging instruments	Pay fixed / receive variable interest rate swaps
Hedged item	Variable interest rate financial liabilities
Hedge effectiveness	Regression analysis / hypothetical derivative method
Potential sources of ineffectiveness	Mainly mismatches in terms of the hedged item and the hedging instrument as well as prepayment risk

11. DERIVATIVES (continued)

The following table shows the average rates of hedging instruments and the maturity profile for hedging instruments by notional amount.

Consolidated and Parent

	Weighted average fixed interest rate	Within 1 year	1 to 5 years	Over 5 years
	%	$m	$m	$m
2023				
Cash flow hedges - interest rate swaps	**1.76%**	**905.0**	**1,025.0**	**-**
2022				
Cash flow hedges - interest rate swaps	0.51%	265.0	1,195.0	-

The following table shows amounts related to the hedging instruments, including the fair value changes during the year used as the basis for calculating hedge ineffectiveness.

Consolidated and Parent

	Gains / (losses) on hedging instruments $m	Gains / (losses) on hedged items $m	Hedge ineffectiveness in profit or loss $m
2023			
Cash flow hedges - interest rate swaps	**(10.7)**	**10.7**	**-**
2022			
Cash flow hedges - interest rate swaps	51.0	(51.0)	-

Notes to the Financial Statements (continued)

11. DERIVATIVES (continued)

Recognition and Measurement

Initial and subsequent recognition
Initially and at each reporting date the derivatives are recognised at fair value. If the fair value is positive then the derivative is recognised as an asset, if it is negative it is recognised as a liability.

Impact on the Income Statement and Other Comprehensive Income
How the movement (gain or loss) in the fair value of the derivative financial instrument is recognised depends on the accounting category:

Held at fair value through profit or loss
Gains or losses arising from changes in the fair value are recognised in profit or loss under net interest income.

Designated as a cash flow hedge relationship
The Group recognises the effective portion of changes in the fair value in the cash flow hedge reserve (Other Comprehensive Income). Any ineffective portion is recognised in the profit or loss under net interest income.

Hedge effectiveness
In assessing the hedge effectiveness the Group determines whether an economic relationship exists between the cash flows of the hedged item and hedging instrument based on an evaluation of the qualitative characteristics and quantitative analysis. The Group considers whether the critical terms of the hedged item and instrument closely align when assessing the presence of an economic relationship.

To qualify for hedge accounting, a hedge is expected to be highly effective. A hedge is highly effective if it meets the following:
- effective in achieving offsetting changes in cash flows attributable to the hedged risk during the period; and
- the actual results of the hedge are within the range of 80% to 125%.

Measurement
Both the interest rate swaps and the foreign currency swaps that the Group transacts are over the counter arrangements with no active market. The measurement of the fair value is undertaken using a discounted cash flow analysis. Refer to Note 20 Fair value of financial instruments for further information.

AASB 9 provides the Group with an accounting policy choice to continue to apply the AASB 139 hedge accounting requirements until the International Accounting Standards Board's ongoing project on macro hedge accounting is completed. The Group continues to apply the hedge accounting requirements of AASB 139.

Offsetting financial assets and financial liabilities
Financial assets and financial liabilities are offset and the net amount reported in the Statements of Financial Position 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 Group does not have a legally enforceable right to set-off any interest rate swap agreements.

Master netting arrangement
Agreements with derivative counterparties are based on the International Swaps and Derivatives Association (**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 neither the Group nor the Parent presently have a legally enforceable right of set-off, these amounts have not been offset in the Statements of Financial Position and accordingly derivative assets and derivative liabilities are shown on a gross basis in the Statements of Financial Position.

If under the ISDA Master Agreement there was a legally enforceable right of set-off, there would be a reduction in both the derivative asset and derivative liability of $13.1 million as at 30 June 2023 ($3.7 million at 30 June 2022), and a reduction in repurchase agreement balances of the Group (including the Term Funding Facility) to nil (2022: nil).

12. INVESTMENTS

	Consolidated		Parent	
	2023	2022	**2023**	2022
	$m	$m	**$m**	$m
a) Investment securities				
Interest-bearing deposits	**59.3**	59.3	**59.3**	59.3
Negotiable certificates of deposit	**450.5**	522.2	**450.5**	522.2
Floating rate notes	**1,279.3**	429.4	**1,279.3**	429.4
Bonds	**877.1**	-	**877.1**	-
Promissory notes	**441.2**	129.7	**441.2**	129.7
Total investment securities	**3,107.4**	1,140.6	**3,107.4**	1,140.6
Of which: total investment securities held at FVOCI	***524.6***	*1,140.6*	***524.6***	*1,140.6*
Of which: total investment securities held at amortised cost	***2,582.8***	-	***2,582.8***	-
b) Other investments				
Shares in unlisted entities	**46.1**	45.6	**46.1**	45.6
Capital notes	**-**	-	**3,965.1**	1,699.8
Other investments	**80.6**	59.2	**41.0**	13.5
Shares in controlled entities	**-**	-	**5.0**	5.0
Total other investments	**126.7**	104.8	**4,057.2**	1,763.9
Total Investments	**3,234.1**	1,245.4	**7,164.6**	2,904.5

Recognition and Measurement

Debt investment securities are financial instruments the Group holds in order to collect principal and interest payments. The Group measures investment securities at amortised cost.

On 1 March 2023, Heritage Bank Limited merged with Australian Central Credit Union Ltd (refer to Note 34 Business combination). As of the merger date, the objectives of the business model within which the financial assets are managed were reassessed including the purpose of the portfolios held, how risks are managed and the basis on which the performance of the portfolios is evaluated. It was determined that debt securities are held to collect contractual cash flows and the sale of debt securities in prior periods has been infrequent and the value insignificant relative to the portfolio. As such, the Group considers that debt securities are held within a business model whose objectives is to hold assets to collect contractual cash flows. As a result of this reassessment, any new debt securities acquired from 1 March 2023, including those acquired from Heritage Bank Limited, are measured at amortised cost under the business model. Any existing debt securities will remain measured at fair value through Other Comprehensive Income until the next reporting period, 1 July 2023, when they are reclassified to amortised cost.

In the prior year, debt investment securities were held at fair value through other comprehensive income (**FVOCI**). Investment securities are recognised/derecognised by the Group on the date it commits to purchase/sell the investments. For debt investment securities held at FVOCI, where the financial instruments are derecognised, the cumulative gain or loss previously recognised in other comprehensive income, and presented in the fair value reserve in members' funds, is transferred to profit or loss. Refer to Note 20 Fair value of financial instruments for details on fair value methodologies applied in estimating the fair value of investment securities and other investments.

Shares in unlisted entities are initially recognised at fair value and subsequently measured at fair value through other comprehensive income. These shares represent investments that HPC intend to hold for the long term. Amounts in the fair value reserve are subsequently transferred to retained earnings, and not profit or loss, when the asset is derecognised.

Capital notes, other investments and shares held in controlled entities are initially recognised at cost and subsequently held at amortised cost.

The Group's investment securities are subject to impairment testing with nil impairment recognised in current year (2022: nil). Refer to Note 10 Impairment of loans and advances for further details.

Notes to the Financial Statements (continued)

13. OTHER ASSETS

	Consolidated		Parent	
	2023 $m	2022 $m	**2023 $m**	2022 $m
Accrued interest receivable	**16.1**	1.0	**16.1**	1.0
Prepayments	**22.0**	12.5	**22.0**	12.5
Other receivables	**24.8**	20.9	**35.3**	27.9
Total other assets	**62.9**	34.4	**73.4**	41.4

Recognition and Measurement

Other assets include non-interest bearing receivables that are stated at cost less any impairment losses.

14. DEPOSITS

	Consolidated		Parent	
	2023 $m	2022 $m	**2023 $m**	2022 $m
Member at call and deposit accounts	**17,811.5**	7,545.1	**17,811.5**	7,545.2
Short term wholesale deposit and borrowings	**717.8**	123.0	**717.8**	123.0
Total deposits	**18,529.3**	7,668.1	**18,529.3**	7,668.2

Recognition and Measurement

Deposits are financial liabilities and are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest rate method.

The Group's deposit portfolio does not include any deposits or groups of related deposits which represent 10% or more of liabilities (2022: $Nil).

15. OTHER FINANCIAL LIABILITIES

	Consolidated		Parent	
	2023 $m	2022 $m	**2023 $m**	2022 $m
Foreign currency liabilities	**281.9**	-	**281.9**	-
Total other financial liabilities	**281.9**	-	**281.9**	-

Recognition and Measurement

Other financial liabilities primarily relate to settlement liabilities associated with prepaid card schemes managed by the Group.

16. OTHER PAYABLES

	Consolidated		Parent	
	2023	2022	**2023**	2022
	$m	$m	**$m**	$m
Accounts payable and other payables	**68.6**	50.3	**58.5**	31.5
Accrued interest payable	**76.4**	4.0	**79.1**	8.5
Total other payables	**145.0**	54.3	**137.6**	40.0

Recognition and Measurement

Other payables are non-interest bearing payables, which are normally settled between seven and thirty day terms and are stated at amortised cost.

17. BORROWINGS

	Consolidated		Parent	
	2023	2022	**2023**	2022
	$m	$m	**$m**	$m
Wholesale funding facilities	**-**	3.1	**-**	3.1
Loans payable to securitisation trusts	**-**	-	**5,713.8**	3,041.1
Notes payable	**1,936.9**	1,474.8	**-**	-
Term funding facility	**764.3**	387.5	**764.3**	387.5
Subordinated debt	**124.6**	74.7	**124.6**	74.7
Total borrowings	**2,825.8**	1,940.1	**6,602.7**	3,506.4

Loans payable to securitisation trusts and Notes payable
Refer to Note 27 Related parties for details of the Group's securitisation program.

Securitisation funding facility
The Group maintains securitisation warehouse funding facilities to assist with liquidity management. The facilities are renewed annually. The Group has utilised $853.2 million with $146.8 million unutilised. In 2022 the Group had utilised $314.8 million with $135.2 million unutilised. The Group expects to maintain its current level of utilised and unutilised balances for the next 12 months given its increased balance sheet size post-merger, and as a prudent position during the repayment period for the remaining Term Funding Facility borrowings. The utilised funding facility is included within Notes payable.

Term Funding Facility
In response to the COVID-19 pandemic, the RBA has provided a Term Funding Facility to the Group, for a term of three years at a fixed interest rate. Securities sold under this agreement to repurchase are retained on the Statements of Financial Position when the majority of the risk and rewards of ownership remain with the Group. The counterparty liability is included within Borrowings on the Statements of Financial Position when cash consideration is received.

Notes to the Financial Statements (continued)

17. BORROWINGS (continued)

Subordinated Debt (Tier 2 Capital)

The subordinated debt comprises of two tranches of fully paid, unsecured, cumulative subordinated notes:

- $50 million with a maturity date of 24 June 2030, with an option for HPC to redeem the notes on the early redemption date of 24 June 2025, subject to APRA approval.
- $75 million with a maturity date of 16 September 2031, with an option for HPC to redeem the notes on the early redemption date of 16 September 2026, subject to APRA approval.

The subordinated debt securities pay interest quarterly in arrears. If APRA determines that a non-viability event has occurred the subordinated notes will be subject to write off. If a write off occurs the debt will be extinguished with a corresponding gain or loss taken to profit or loss.

Recognition and Measurement

The Group initially recognises debt securities issued and subordinated liabilities on the date 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. The Group derecognises a financial liability when its contractual obligations are discharged, cancelled or expire.

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs (including securitisation establishment costs). Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in profit or loss over the period of the borrowings using an effective interest rate method.

18. STANDBY BORROWING FACILITIES

The Parent has the following borrowing facilities in addition the securitisation funding facilities:

	Parent	
	2023	2022
Overdraft facility	**$m**	$m
Gross facility amount	**5.0**	5.0
Less: current borrowing	**-**	-
Net available	**5.0**	5.0

19. RISK MANAGEMENT

Financial risk management objectives

The Group is exposed to a range of risks as part of its daily operations. These risks are managed using an enterprise wide approach in line with sound business practice, Australian risk management standards, prudential requirements and the Board's approved risk appetite, providing the Board with a comprehensive view of its risk profile.

As part of the risk management framework, a Risk Management Strategy (**Strategy**) was approved by the HPC Board on 1 March 2023 which includes policies and plans which detail the Group's approach to the management of risk exposures. The Strategy includes systems for the identification, analysis, evaluation, treatment, monitoring and reporting of risk, is subject to regular review and is responsive to the changing regulatory and operating environments. HPC has a Board approved Risk Appetite Statement which includes specific appetite settings for material financial risks and includes Board approved Risk Tolerance Indicators which are monitored on an ongoing basis.

The Board ensures a sound risk management culture is maintained and embedded in the Group's values and behaviours and the conduct of business. The material financial risks faced by the Group include market risk (incorporating interest rate risk, currency risk and equity price risk), liquidity risk and credit risk.

Market risk management

Market risk is the risk of exposure to changes to financial prices affecting the value of positions held by the Group as part of its normal business activities. The Group utilises two key market risk management strategies: a Product and Pricing Committee facilitates direct (pricing) intervention strategies and an Asset and Liability Committee (**ALCO**) has oversight of indirect (hedging) intervention strategies.

The Group is not exposed to significant equity risk. The Group does not trade in the financial instruments it holds. The Group is exposed to interest rate risk, which is the risk of volatility in income or economic value resulting from changes to market interest rates.

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The Board has established limits on the interest rate risk volatility of net interest income and economic value exposures. Positions are monitored regularly and hedging strategies are executed to ensure sensitivities and exposures are maintained within the established limits.

Monitoring of adherence to policies, limits and procedures is controlled through the ALCO and the Board Risk Committee.

The Group undertakes scenario analysis to stress test the impact of extreme events on the Group's market risk exposures. The Group model a 1% overnight parallel positive shift in the yield curve to determine the potential impact on net interest income over the next 12 months. This is a standard risk measure which assumes the parallel shift is reflected in all wholesale and customer rates.

The table below shows the outcome of this risk measure for the current and previous financial years.

	Consolidated	
	2023	2022
	$m	$m
Impact of 1% rate shock on 12 months of net interest income		
100 bp rise	**11.1**	(1.3)
100 bp fall	**(11.0)**	1.4

Notes to the Financial Statements (continued)

19. RISK MANAGEMENT (continued)

Interest rate risk (continued)

The tables below show HPC's exposure to interest rate risk through the interest rate gap analysis. The values reported for the Group do not differ materially from that of the Parent.

Consolidated

2023	0 - 1 month $m	1 - 12 months $m	1 - 5 yrs $m	> 5 yrs $m	Non-interest bearing $m	Total $m
Financial Assets						
Cash and cash equivalents	**636.9**	**-**	**-**	**-**	**24.3**	**661.2**
Loans and advances	**11,402.1**	**4,421.4**	**3,297.4**	**1.0**	**-**	**19,121.9**
Investment securities	**465.6**	**1,871.2**	**748.1**	**-**	**22.5**	**3,107.4**
Other investments	**-**	**80.6**	**-**	**-**	**46.1**	**126.7**
	12,504.6	**6,373.2**	**4,045.5**	**1.0**	**92.9**	**23,017.2**
Financial Liabilities						
Deposits	**11,523.0**	**5,499.2**	**1,507.1**	**-**	**-**	**18,529.3**
Other financial liabilities	**-**	**281.9**	**-**	**-**	**-**	**281.9**
Borrowings	**1,962.6**	**863.2**	**-**	**-**	**-**	**2,825.8**
	13,485.6	**6,644.3**	**1,507.1**	**-**	**-**	**21,637.0**
Interest rate swaps held in hedge relationship - assets/ (liabilities) Notional value	**1,930.0**	**(905.0)**	**(1,025.0)**	**-**	**-**	**-**

2022	0 - 1 month $m	1 - 12 months $m	1 - 5 yrs $m	> 5 yrs $m	Non-interest bearing $m	Total $m
Financial Assets						
Cash and cash equivalents	164.1	-	-	-	12.4	176.5
Loans and advances	4,758.5	1,400.5	2,660.6	0.7	-	8,820.3
Investment securities	-	1,140.6	-	-		1,140.6
Other investments		59.2	-	-	45.6	104.8
	4,922.6	2,600.3	2,660.6	0.7	58.0	10,242.2
Financial Liabilities						
Deposits	5,591.2	1,532.6	544.3	-	-	7,668.1
Other financial liabilities	-	-	-	-	-	-
Borrowings	-	1,682.5	257.6	-	-	1,940.1
	5,591.2	3,215.1	801.9	-	-	9,608.2
Interest rate swaps held in hedge relationship - assets/ (liabilities) Notional value	1,460.0	(265.0)	(1,195.0)	-	-	-

Currency risk

The Group repatriates a significant portion of the four main foreign currency floats (US dollars, Euros, British Pounds and Canadian dollars) to manage counterparty risk. Foreign currency swaps relating to these currencies are entered into as part of the process which reduces the foreign currency exposure. For these currencies a risk exists relating to the difference between the unrealised gain or loss on the float accounts, together with the fair value of the swaps compared to the unrealised loss or gain on the settlement obligation. For the remaining currencies any unrealised gains or losses on the float accounts are exactly offset by a corresponding unrealised loss or gain on the settlement obligation.

19. RISK MANAGEMENT (continued)

Equity price risk

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

The Group is exposed to equity price risk on its shares in unlisted entities, refer to Note 12 Investments for further detail.

The following sensitivity analysis is based on the equity price risk exposures on average balances at balance date. It shows the effect on members' funds if the price per share had moved, with all other variables held constant.

	2023		2022	
	25%	**-25%**	25%	-25%
	$m	**$m**	$m	$m
Group and Parent				
Judgments of reasonably possible movements				
Shares in unlisted entities	**8.1**	**(8.1)**	8.0	(8.0)
	8.1	**(8.1)**	8.0	(8.0)

Liquidity risk management

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity risk is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to its reputation.

The Group has in place information systems and a structured process to monitor and manage liquidity risk. The management process incorporates specific liquidity management strategies and liquidity contingency plans that manage liquidity on a daily basis under normal situations and assumed adverse scenarios. The liquidity strategy requires the holding to maturity of surplus funds in liquid assets which meet APRA's criteria for classification as eligible Minimum Liquidity Holdings (**MLH**), the availability of appropriate standby lines of funding, maintenance of reliable sources of funding (retail and wholesale) and daily liquidity projections.

APRA Prudential Standards place specific management and reporting requirements on ADIs in relation to liquidity risk. The Prudential Standards provide that liquidity strategies and liquidity holdings can be based on either a scenario analysis or on an MLH basis. APRA has approved the Group to adopt an MLH approach, whereby the Group is required to maintain a minimum holding in specified eligible assets at all times.

The liquidity ratio as at the reporting date (30 June) is provided below:

	Group	
	2023	2022
	%	%
Liquidity ratio	**16.27**	13.78

19. RISK MANAGEMENT (continued)

Liquidity risk management (continued)

Contractual undiscounted cash flows

The following tables summarise the maturity profile of the Group's and the Parent's financial liabilities as at 30 June 2023 based on contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as if notice is given immediately. However, the Group and the Parent expect that many members will not request repayment on the earliest date the Group or the Parent could be required to pay and the tables do not reflect the cash flows indicated by the Group's or the Parent's deposit retention history. Derivatives designated are based on their contractual maturity. The amounts represent principal and interest cash flows and may differ when compared to the carrying amounts reported on the Statement of Financial Position.

Consolidated	At call $m	3 Months or less $m	3 to 12 months $m	1 to 5 years $m	Greater than 5 years $m	Total $m	Carrying amount $m
2023							
Financial Liabilities							
Deposits	**12,419.6**	**2,391.5**	**3,638.8**	**137.4**	**-**	**18,587.3**	**18,529.3**
Other financial liabilities	**-**	**-**	**281.9**	**-**	**-**	**281.9**	**281.9**
Lease liabilities	**-**	**5.1**	**13.9**	**38.9**	**0.4**	**58.3**	**55.5**
Borrowings	**-**	**397.1**	**699.8**	**683.4**	**2,572.8**	**4,353.1**	**2,825.8**
Derivative Financial Instruments							
Interest rate swaps liabilities	**-**	**6.0**	**4.2**	**2.9**	**-**	**13.1**	**13.1**
Total cash flows	**12,419.6**	**2,799.7**	**4,638.6**	**862.6**	**2,573.2**	**23,293.7**	**21,705.6**
2022							
Financial Liabilities							
Deposits	5,890.0	909.3	795.2	93.4	-	7,687.9	7,668.1
Lease liabilities	-	3.3	10.0	40.8	-	54.1	49.7
Borrowings	-	24.7	204.1	647.8	1,590.4	2,467.0	1,940.1
Derivative Financial Instruments							
Interest rate swaps liabilities	-	0.9	0.8	1.2	-	2.9	3.7
Total cash flows	5,890.0	938.2	1,010.1	783.2	1,590.4	10,211.9	9,661.6

19. RISK MANAGEMENT (continued)

Liquidity risk management (continued)

Contractual undiscounted cash flows (continued)

Parent	At call $m	3 Months or less $m	3 to 12 months $m	1 to 5 years $m	Greater than 5 years $m	Total $m	Carrying amount $m
2023							
Financial Liabilities							
Deposits	12,419.6	2,391.5	3,638.8	137.4	-	18,587.3	18,529.3
Other financial liabilities	-	-	281.9	-	-	281.9	281.9
Lease liabilities	-	5.1	13.9	38.9	0.4	58.3	55.5
Borrowings	-	456.4	877.7	1,630.4	6,787.1	9,751.6	6,602.7
Derivative Financial Instruments							
Interest rate swaps liabilities	-	6.0	4.2	2.9	-	13.1	13.1
Total cash flows	12,419.6	2,859.0	4,816.5	1,809.6	6,787.5	28,692.2	25,482.5
2022							
Financial Liabilities							
Deposits	5,890.1	909.3	795.2	93.4	-	7,688.0	7,668.2
Lease liabilities	-	3.3	10.0	40.8	-	54.1	49.7
Borrowings	-	49.1	277.3	1,037.0	3,345.1	4,708.5	3,506.4
Derivative Financial Instruments							
Interest rate swaps liabilities	-	1.1	8.6	11.4	-	21.1	22.7
Total cash flows	5,890.1	962.8	1,091.1	1,182.6	3,345.1	12,471.7	11,247.0

Notes to the Financial Statements (continued)

19. RISK MANAGEMENT (continued)

Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted a policy of only dealing with credit worthy counterparties and obtaining sufficient collateral or other security where appropriate, as a means of mitigating the risk of financial loss from defaults.

The Group's maximum exposure to credit risk at balance date in relation to each class of recognised financial assets is the carrying amount of those assets as indicated in the Statements of Financial Position. For customer commitments the maximum exposure to credit risk is the full amount of the commitment facilities as at the reporting date (refer Note 31 Commitments). The maximum credit exposure does not take into account the value of any collateral or other security held in the event other entities/parties fail to perform their obligations under the financial instruments in question. The value of collateral held against individual exposures is generally only assessed at the time of borrowing or when a specific review of that exposure is undertaken in accordance with policy.

The Group holds collateral against loans and advances to members in the form of mortgage interests over real property. 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.

Credit quality by class of financial asset

Investment securities are included in the Group's investment policy where individual counterparties need to have the appropriate investment grading and are monitored in respect to their limits and credit ratings. The appropriate credit ratings and sector and counterparty limits ensure the Group is not exposed to any significant individual counterparty exposure. Unrated balances relate to cash on hand and the Group's cash and receivable balances held with settlement providers.

The following tables outlines the credit ratings of the Group's exposure to counterparties excluding loans and advances:

Consolidated

2023	**AAA+ to AA- $m**	**A+ to A- $m**	**BBB+ to BBB- $m**	**Unrated $m**	**Total $m**
Cash and cash equivalents	**495.7**	**66.4**	**-**	**99.1**	**661.2**
Investment securities	**1,979.6**	**653.0**	**386.5**	**88.3**	**3,107.4**
Other investments	**76.8**	**-**	**-**	**3.8**	**80.6**
Total	**2,552.1**	**719.4**	**386.5**	**191.2**	**3,849.2**

2022	AAA+ to AA- $m	A+ to A- $m	BBB+ to BBB- $m	Unrated $m	Total $m
Cash and cash equivalents	137.8	26.3	-	12.4	176.5
Investment securities	457.7	386.8	233.1	63.0	1,140.6
Other investments	57.8	-	-	1.4	59.2
Total	653.3	413.1	233.1	76.8	1,376.3

19. RISK MANAGEMENT (continued)

Credit risk management (continued)

Concentration of credit risk

The Group manages concentration risk through a geographically diversified membership base. The following table shows gross loans and advances by state:

	Consolidated		Parent	
	2023	2022	**2023**	2022
	$m	$m	**$m**	$m
Australian Capital Territory	**170.7**	80.3	**170.7**	80.3
New South Wales	**2,263.4**	205.3	**2,263.4**	205.3
Northern Territory	**1,683.6**	1,725.2	**1,683.6**	1,725.2
Queensland	**5,968.9**	226.9	**5,968.9**	226.9
South Australia	**5,215.0**	4,961.0	**5,215.0**	4,961.0
Tasmania	**90.3**	19.8	**90.3**	19.8
Victoria	**3,347.6**	1,516.6	**3,347.6**	1,516.6
Western Australia	**377.3**	79.0	**377.3**	79.0
Total	**19,116.8**	8,814.1	**19,116.8**	8,814.1

Loan to value ratio for gross loans and advances

The majority of the Group's loan portfolio is secured with mortgages over relevant properties and as a result credit risk is managed by reference to the loan to value ratio (LVR). The following table shows the Group's LVR on its residential loan and business loan portfolios.

	Consolidated		Parent	
	2023	2022	**2023**	2022
LVR Band				
0-60%	**32%**	31%	**32%**	31%
61-80%	**50%**	48%	**50%**	48%
81-90%	**14%**	16%	**14%**	16%
91-100%	**4%**	5%	**4%**	5%
> 100%	**0%**	0%	**0%**	0%
Total	**100%**	100%	**100%**	100%

Notes to the Financial Statements (continued)

19. RISK MANAGEMENT (continued)

Credit risk management (continued)

Loan portfolio by provision staging

The following is an analysis of the gross carrying value of loans and advances by overdue status in the different stages of the ECL model as defined in Note 10 Impairment of loans and advances.

2023

Loans and advances (gross)	Stage 1 $m	Stage 2 $m	Stage 3 $m	Stage 3 POCI loans $m	Total $m
Residential loans					
Current	**17,588.9**	**241.3**	**-**	**0.9**	**17,831.1**
Overdue less than or equal to 30 days	**239.7**	**34.3**	**-**	**1.0**	**275.0**
Overdue more than 30 days	**16.9**	**75.7**	**54.8**	**60.0**	**207.4**
	17,845.5	**351.3**	**54.8**	**61.9**	**18,313.5**
Business loans					
Current	**210.6**	**1.0**	**-**	**0.4**	**212.0**
Overdue less than or equal to 30 days	**4.0**	**-**	**-**	**-**	**4.0**
Overdue more than 30 days	**0.3**	**1.0**	**0.1**	**0.3**	**1.7**
	214.9	**2.0**	**0.1**	**0.7**	**217.7**
Personal and other loans					
Current	**470.0**	**3.1**	**0.1**	**0.2**	**473.4**
Overdue less than or equal to 30 days	**7.7**	**0.7**	**-**	**-**	**8.4**
Overdue more than 30 days	**0.3**	**1.5**	**2.2**	**0.9**	**4.9**
	478.0	**5.3**	**2.3**	**1.1**	**486.7**
Credit cards					
Current	**92.9**	**1.3**	**0.1**	**0.3**	**94.6**
Overdue less than or equal to 30 days	**2.7**	**0.1**	**0.2**	**0.1**	**3.1**
Overdue more than 30 days	**-**	**0.4**	**0.3**	**0.5**	**1.2**
	95.6	**1.8**	**0.6**	**0.9**	**98.9**

2022

Loans and advances (gross)	Stage 1 $m	Stage 2 $m	Stage 3 $m	Stage 3 POCI loans $m	Total $m
Residential loans					
Current	8,214.7	26.7	-	-	8,241.4
Overdue less than or equal to 30 days	104.8	6.6	-	-	111.4
Overdue more than 30 days	-	23.0	36.7	-	59.7
	8,319.5	56.3	36.7	-	8,412.5
Business loans					
Current	29.1	0.2	-	-	29.3
Overdue less than or equal to 30 days	0.1	-	-	-	0.1
Overdue more than 30 days	-	0.1	-	-	0.1
	29.2	0.3	-	-	29.5
Personal and other loans					
Current	325.9	0.8	-	-	326.7
Overdue less than or equal to 30 days	5.7	0.2	-	-	5.9
Overdue more than 30 days	-	1.3	2.1	-	3.4
	331.6	2.3	2.1	-	336.0
Credit cards					
Current	35.1	0.1	-	-	35.2
Overdue less than or equal to 30 days	-	-	-	-	-
Overdue more than 30 days	-	0.5	0.4	-	0.9
	35.1	0.6	0.4	-	36.1

The gross loans and advances for FY23 includes $9,326m of originated loans as a result of the merger. With the exception of the purchased or originated credit impaired loans (**POCI loans**) the remaining originated loans are classified as Stage 1 assets unless there has been a significant increase in credit risk between 1 March 2023 (date of merger) and 30 June 2023.

19. RISK MANAGEMENT (continued)

Capital adequacy management

The management of the capital of a financial institution is a fundamental part of its risk management process, as an essential element of capital is its availability to absorb future, unexpected and unidentified losses.

APRA Prudential Standards require ADIs to maintain at all times a minimum ratio of capital to risk weighted assets. As part of its risk management process, the Group has developed a methodology with financial modelling to assist in determining the optimum level of capital that is consistent with assessed risk exposure and business activity. The optimum capital is managed within a range well above the minimum required by APRA and incorporates an assessment of the combined risk exposure for operations, market, credit and strategic risk.

The Group's capital management governance process ensures capital holdings are maintained in proportion to its risk exposure from its activities. The Group has complied with all the APRA capital adequacy requirements throughout the year.

The Group's capital adequacy ratio as at the end of the reporting date (30 June) and the comparative are as follows:

	Consolidated	
	2023	2022
	$m	$m
Capital Adequacy Ratio	**14.50%**	14.91%
Qualifying capital		
Tier 1	**1,189.9**	549.2
Tier 2	**142.0**	75.0
Total qualifying capital	**1,331.9**	624.2
Risk Weighted Assets	**9,182.1**	4,186.2

For further detail on the Group's capital adequacy please refer to the information published on our websites at www.peopleschoice.com.au under Regulatory Disclosures and at www.heritage.com.au under Prudential Information.

Notes to the Financial Statements (continued)

20. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value hierarchy - financial instruments measured at fair value

The following table sets out the fair value of financial instruments that are measured at fair value and analyses them by the level in the fair value hierarchy into which the fair value measurement is categorised:

- **Level 1:** Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- **Level 2:** Inputs other than quoted prices included within Level 1 that are observable for the assets or liabilities, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- **Level 3:** Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
Consolidated Entity				
2023				
Financial Assets				
Investments securities	**-**	**524.6**	**-**	**524.6**
Other investments	**-**	**-**	**46.1**	**46.1**
Derivative assets	**-**	**53.9**	**-**	**53.9**
	-	**578.5**	**46.1**	**624.6**
Financial Liabilities				
Derivative liabilities	**-**	**13.1**	**-**	**13.1**
	-	**13.1**	**-**	**13.1**
2022				
Financial Assets				
Investments securities	-	1,140.6	-	1,140.6
Other investments	-	-	45.6	45.6
Derivative assets	-	55.6	-	55.6
	-	1,196.2	45.6	1,241.8
Financial Liabilities				
Derivative liabilities	-	3.7	-	3.7
	-	3.7	-	3.7
Parent				
2023				
Financial Assets				
Investments securities	**-**	**524.6**	**-**	**524.6**
Other investments	**-**	**-**	**46.1**	**46.1**
Derivative assets	**-**	**41.6**	**-**	**41.6**
	-	**566.2**	**46.1**	**612.3**
Financial Liabilities				
Derivative liabilities	**-**	**13.1**	**-**	**13.1**
	-	**13.1**	**-**	**13.1**
2022				
Financial Assets				
Investments securities	-	1,140.6	-	1,140.6
Other investments	-	-	45.6	45.6
Derivative assets	-	51.9	-	51.9
	-	1,192.5	45.6	1,238.1
Financial Liabilities				
Derivative liabilities	-	22.7	-	22.7
	-	22.7	-	22.7

20. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

Fair value hierarchy - financial instruments not measured at fair value

The following table sets out the fair value of financial instruments that are not measured at fair value and analyses them by the level in the fair value hierarchy into which each fair value measurement is categorised:

	Level 1	Level 2	Level 3	Total Fair Values	Carrying Amount
	$m	$m	$m	$m	$m
Consolidated Entity					
2023					
Loans and advances	**-**	**-**	**18,968.8**	**18,968.8**	**19,121.9**
Investment securities	**-**	**2,578.4**	**-**	**2,578.4**	**2,582.8**
Other investments	**-**	**80.6**	**-**	**80.6**	**80.6**
Total Financial Assets	**-**	**2,659.0**	**18,968.8**	**21,627.8**	**21,785.3**
Borrowings	**-**	**-**	**2,849.3**	**2,849.3**	**2,825.8**
Total Financial Liabilities	**-**	**-**	**2,849.3**	**2,849.3**	**2,825.8**
2022					
Loans and advances	-	-	8,718.7	8,718.7	8,820.3
Other investments	-	59.2	-	59.2	59.2
Total Financial Assets	-	59.2	8,718.7	8,777.9	8,879.5
Borrowings	-	-	1,924.6	1,924.6	1,940.1
Total Financial Liabilities	-	-	1,924.6	1,924.6	1,940.1

Notes to the Financial Statements (continued)

20. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

Fair value hierarchy - financial instruments not measured at fair value (continued)

	Level 1 $m	Level 2 $m	Level 3 $m	Total Fair Values $m	Carrying Amount $m
Parent					
2023					
Loans and advances	**-**	**-**	**18,968.8**	**18,968.8**	**19,121.9**
Investment securities	**-**	**2,578.4**	**-**	**2,578.4**	**2,582.8**
Other investments	**-**	**4,011.1**	**-**	**4,011.1**	**4,011.1**
Total Financial Assets	**-**	**6,589.5**	**18,968.8**	**25,558.3**	**25,715.8**
Borrowings	**-**	**-**	**6,626.2**	**6,626.2**	**6,602.7**
Total Financial Liabilities	**-**	**-**	**6,626.2**	**6,626.2**	**6,602.7**
2022					
Loans and advances	-	-	8,718.7	8,718.7	8,820.3
Other investments	-	1,718.3	-	1,718.3	1,718.3
Total Financial Assets	-	1,718.3	8,718.7	10,437.0	10,538.6
Borrowings	-	-	3,492.4	3,492.4	3,506.4
Total Financial Liabilities	-	-	3,492.4	3,492.4	3,506.4

The following assets and liabilities have not been included in the tables above as their carrying amount is a reasonable approximation of fair value due to their short term nature:

Cash and cash equivalents	Deposits
Other assets	Other financial liabilities
Other payables	

20. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

Recognition and Measurement

Fair value methodologies
Disclosed above is the estimated fair value of the Group's financial instruments presented in accordance with the requirements of Accounting Standard AASB 7 *Financial Instruments: Disclosures.*

A financial instrument is defined by AASB 132 *Financial Instruments: Presentation* as any contract that gives rise to both a financial asset of one entity and a financial liability or equity instrument of another entity. A financial liability is a contractual obligation either to deliver cash or another financial asset to another entity, or, to exchange financial instruments with another entity under conditions that are potentially unfavourable.

Loans and advances
The fair value is determined by adjusting the fixed rate loan portfolio for current market rates as at balance date. For variable rate loans, the carrying amount is a reasonable estimate of the net fair value. The net fair value for fixed rate loans was calculated utilising discounted cash flow models based on the maturity of the loans. The discount rates applied were based on the current benchmark rate offered for the average remaining term of the portfolio as at 30 June 2023.

Investment securities
The fair value of investment securities is estimated using discounted cash flow analysis, based on current market rates for similar arrangements.

Other investments
For shares held in unlisted entities the fair value is based on observable market transactions. Observable market transactions may include sales of shares held by other shareholders.

Derivative financial instruments
The Group enters into swaps with various counterparties who have investment grade credit ratings. The fair value is calculated as the present value of the estimated future interest cash flows based on observable yield curves. Other inputs include the credit quality of counterparties and foreign exchange spot and forward rates.

Borrowings
Borrowings are estimated using discounted cash flow analysis, based on current market rates for similar arrangements.

KEY JUDGMENTS AND ESTIMATES

Judgment is required when selecting the valuation models to determine fair values. Where the fair values of the financial assets and financial liabilities cannot be derived from active markets, they are determined using a variety of valuation models. The inputs to these models are derived from observable market data where possible. Where unobservable market data is used more judgment is required and generally the Group derives unobservable inputs from other relevant market data where available.

Notes to the Financial Statements (continued)

21. PROPERTY, PLANT AND EQUIPMENT

Consolidated and Parent	Land held for development $m	Freehold land $m	Heritage Plaza building $m	Plant and equipment $m	Right of use assets $m	Total $m
At 1 July 2022, net of accumulated depreciation	-	-	-	13.0	42.7	55.7
Merger with Heritage Bank Limited	-	2.5	5.7	9.2	24.3	41.7
Additions	10.3	-	-	3.2	0.2	13.7
Disposals	-	-	-	-	(5.9)	(5.9)
Depreciation expense	-	-	-	(5.1)	(12.0)	(17.1)
Balance at 30 June 2023	10.3	2.5	5.7	20.3	49.3	88.1
At 30 June 2023						
Cost / Fair Value	10.3	2.5	9.4	105.6	113.2	241.0
Accumulated depreciation and impairment	-	-	(3.7)	(85.3)	(63.9)	(152.9)
Net carrying amount	10.3	2.5	5.7	20.3	49.3	88.1
At 1 July 2021, net of accumulated depreciation	-	-	-	16.1	47.4	63.5
Additions	-	-	-	1.1	7.1	8.2
Disposals	-	-	-	-	-	-
Depreciation expense	-	-	-	(4.2)	(11.8)	(16.0)
Balance at 30 June 2022	-	-	-	13.0	42.7	55.7
At 30 June 2022						
Cost	-	-	-	67.3	108.7	176.0
Accumulated depreciation and impairment	-	-	-	(54.3)	(66.0)	(120.3)
Net carrying amount	-	-	-	13.0	42.7	55.7

21. PROPERTY, PLANT AND EQUIPMENT (continued)

a) Right of use assets

Right of use assets includes lease of office and branch premises, ATMs, motor vehicles and IT equipment. Any renewal rights, escalation and termination clauses have been considered in determining the right of use assets.

	2023	2022
	$m	$m
Net carrying amount	**49.3**	42.7

b) Lease liabilities	**2023**	2022
	$m	$m
Current	**18.4**	11.1
Non-current	**37.1**	38.6
Balance at 30 June	**55.5**	49.7

The total cash outflows for leases for the year ended 30 June 2023 was $15.7m (2022: $13.2m).

Recognition and Measurement

Acquisition of assets

All assets acquired, including property, plant and equipment are initially recorded at cost at the date of acquisition, being the fair value of the consideration provided plus incidental costs directly attributable to the acquisition.

The costs of assets constructed or internally generated by the Group, include the cost of materials and direct labour. Directly attributable overheads and other incidental costs are also capitalised to the asset.

Expenditure, including that on internally generated assets (other than research costs), is only recognised as an asset when the entity controls future economic benefits as a result of the costs incurred that are probable and can be measured reliably. Costs attributable to feasibility and alternative approach assessments are expensed as incurred.

Land and buildings

The freehold land and Heritage Plaza building were acquired as a result of the merger with Heritage Bank Limited. These are measured at fair value less accumulated depreciation on the buildings. Valuations are performed with sufficient frequency to ensure that the fair value does not differ materially from its carrying amount.

The fair value of land and building was updated at the date of the merger. The fair value was determined using the capitalisation approach. In determining the valuation a capitalisation rate of 9.25% was applied to the net market rentals. The fair value hierarchy classification of land and buildings is level 3.

Land held for development is measured at amortised cost.

Plant and equipment

Plant and equipment is carried at cost less accumulated depreciation and any accumulated impairment losses. Plant and equipment primarily includes office and branch equipment, furniture and fittings.

Depreciation

All property, plant and equipment other than land are depreciated on a straight-line basis over the estimated useful life of the assets as follows:

- Building - 40 years
- Leasehold improvements (included within plant and equipment) - the lease term
- Plant and equipment - 3 to 8 years

Notes to the Financial Statements (continued)

21. PROPERTY, PLANT AND EQUIPMENT (continued)

Recognition and Measurement (continued)

Right of use assets
The Group identifies leases under AASB 16 that provide the right to control the use of an identified asset for a specified time. For these leases, the Group is required to recognise on balance sheet a right of use (**ROU**) asset, representing the right to use the underlying asset, and a lease liability, representing the future lease payment obligations.

The ROU asset is initially measured at cost which comprises the initial measurement of the lease liability. The ROU asset is subsequently measured using the cost model, being cost less depreciation and any impairment losses. Right of use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful life as follows:

Branch and office premises	3 – 12 years
ATMs	3 years
Motor vehicles	3 years
IT equipment	3 – 4 years

Lease liabilities
The lease liability is initially measured at the present value of the lease payments that are not paid at commencement date, discounted using the Group's incremental borrowing rate. The Group determines its incremental borrowing rate by analysing its borrowings from various external sources and making certain adjustments, where necessary, to reflect the terms of the lease and type of asset leased.

The lease liability is subsequently 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, a change in the estimated amount expected to be paid at the end of the lease or if the Group changes its assessment of whether it will exercise a purchase, extension or termination option. When the lease liability is remeasured, a corresponding adjustment is made to the carrying amount of the right of use lease asset or is recorded in profit or loss if the asset has been reduced to nil.

Impairment
The carrying values of plant and equipment are reviewed for impairment at each reporting date with recoverable amounts being estimated when changes in circumstances indicate the carrying value may be impaired. An impairment loss exists when the carrying value of an asset exceeds its estimated recoverable amount. The asset is then written down to its recoverable amount.

KEY JUDGMENTS AND ESTIMATES

Valuation of land and buildings
Judgment is required in assessing the key inputs used in the valuation of the land and buildings. Inputs include rental income, capitalisation rate, capital expenditure and outgoings. The selection of the valuation technique also requires judgment and is supported by the results of alternate valuation techniques.

Leases
Accounting for leases under AASB 16 requires management to make certain key judgments. These include identifying arrangements that contain a lease, the determination of lease terms and the assumed borrowing rate.

22. INTANGIBLE ASSETS

Consolidated and Parent	Computer software $m	Core deposit intangible $m	Total $m
At 1 July 2022, net of accumulated amortisation	**7.5**	**-**	**7.5**
Merger with Heritage Bank Limited	**7.5**	**8.8**	**16.3**
Additions	**4.9**	**-**	**4.9**
Disposals	**0.1**	**-**	**0.1**
Amortisation	**(5.0)**	**(0.6)**	**(5.6)**
Balance at 30 June 2023	**15.0**	**8.2**	**23.2**
At 30 June			
Cost	**40.7**	**8.8**	**49.5**
Accumulated amortisation	**(25.7)**	**(0.6)**	**(26.3)**
Net carrying amount	**15.0**	**8.2**	**23.2**
At 1 July 2021, net of accumulated amortisation	3.3	-	3.3
Additions	4.3	-	4.3
Amortisation	(0.1)	-	(0.1)
Balance at 30 June 2022	7.5	-	7.5
At 30 June 2022			
Cost	24.3	-	24.3
Accumulated amortisation	(16.8)	-	(16.8)
Net carrying amount	7.5	-	7.5

Recognition and Measurement

Capitalised software
Capitalised software includes 'off the shelf' software and costs incurred in building software and computer systems. The Group measures capitalised software initially at cost and then subsequently, carried at cost less accumulated amortisation and any accumulated impairment losses. Capitalised software is amortised over its expected useful life of between three and five years.

Prepaid Software as a Service (SaaS) implementation costs
SaaS arrangements are service contracts providing the Group with the right to access the cloud provider's application software over the contract period. Implementation costs relating to the SaaS arrangements generally include customisation and configuration of the software. Where the SaaS provider provides the implementation services and these are not distinct from the SaaS access, the costs are recognised as a prepayment and expensed over the contract term. Where the services are distinct, or provided by a third party the costs are expensed as incurred. These costs are included within Information technology costs in Note 6 Other expenses.

Core deposit intangible
A core deposit intangible was recognised on merger with Heritage Bank Limited and represents the value of having a deposit base from customer and businesses, providing a more favourable source of funding than alternative sources of funding such as in wholesale and securitisation markets. The core deposit intangible is amortised over 5 years and assessed for any indication of impairment at least annually.

Notes to the Financial Statements (continued)

22. INTANGIBLE ASSETS (continued)

KEY JUDGMENTS AND ESTIMATES

Capitalised software
At each reporting date, capitalised software is assessed for indicators of impairment and, when such indicators are identified, an impairment assessment is performed. In the event that the carrying amount is determined to be greater than its recoverable amount, the carrying amount of the asset is written down.

Prepaid SaaS implementation costs
Judgment is applied to determine whether the implementation services provided by the SaaS arrangement supplier are distinct or not from the underlying use of the SaaS application software.

Useful Lives
Expected useful lives of intangible assets are assessed on an annual basis. The assessment requires management judgment with a number of factors influencing the expected life such as business strategy, regulatory and compliance changes and pace of technological change. Assessing what components of a software project meet the criteria for capitalisation also requires management judgment.

23. EQUITY ACCOUNTED INVESTEES

Interests in equity accounted investees

The Group's interests in equity accounted investees comprise interests in an associate and a joint venture. Associates are those entities in which the Group has significant influence, but not control or joint control, over the financial and operating policies. A joint venture is an arrangement in which the Group has joint control, whereby the Group has rights to the net assets of the arrangement, rather than rights to its assets and obligations for its liabilities.

Interests in associates and joint ventures are accounted for using the equity method. They are recognised initially at cost, which includes transaction costs. Subsequent to initial recognition, the consolidated financial statements include the Group's share of the profit or loss and other comprehensive income of equity accounted investees, until the date on which significant influence or joint control ceases.

	Consolidated		Parent	
	2023	2022	**2023**	2022
	$m	$m	**$m**	$m
Interest in joint venture	**3.9**	3.5	**1.5**	1.5
Interest in associate	**8.1**	8.0	**2.7**	2.7
	12.0	11.5	**4.2**	4.2
Share of profit in joint venture	**0.9**	0.9		
Share of profit/(loss) in associate	**-**	(1.4)		
	0.9	(0.5)		

The following tables provide the total amount of transactions that were entered into during the relevant financial year.

	Purchases from related parties		Amounts owed to related parties	
	2023	2022	**2023**	2022
	$m	$m	**$m**	$m
Joint venture: Mutual Marketplace Pty Ltd	**69.1**	67.1	**-**	0.6
Associate: Data Action Pty Ltd	**9.6**	9.4	**1.3**	0.5
	78.7	76.5	**1.3**	1.1

23. EQUITY ACCOUNTED INVESTEES (continued)

a) Interest in Joint Venture

Mutual Marketplace Pty Ltd (**Mutual Marketplace**) operates in Australia and is a joint venture jointly controlled by Heritage and People's Choice Limited and Great Southern Bank with both parties having a 50% ownership interest. Mutual Marketplace commenced operations in April 2017 and provides professional procure-to-pay services to the mutual sector with its principal places of business in both Adelaide and Brisbane. The Group has a residual interest in the net assets of Mutual Marketplace and accordingly, the investment is classified as a joint venture and accounted for under the equity method.

The following table summarises the financial information of Mutual Marketplace and reconciles the financial information to the carrying amount of the Group's interest in the joint venture.

	Consolidated		Parent	
	2023	2022	**2023**	2022
	$m	$m	**$m**	$m
Carrying amount of investment in joint venture	**3.9**	3.5	**1.5**	1.5
Share of joint venture's equity				
Paid up share capital	**1.5**	1.5		
Retained earnings	**2.3**	1.9		
	3.8	3.4		
Share of joint venture's balance sheet				
Cash	**4.2**	3.8		
Other current assets	**2.4**	2.7		
Non-current assets	**0.3**	0.5		
Current liabilities	**3.0**	3.4		
Non-current liabilities	**0.1**	0.2		
Share of net assets	**3.8**	3.4		
Share of joint venture's profit or loss				
Revenue	**111.0**	105.9		
Interest income	**0.1**	-		
Depreciation and amortisation	**(0.1)**	(0.1)		
Other expenses	**(109.7)**	(104.5)		
Profit/(loss) before income tax	**1.3**	1.3		
Income tax (expense)/benefit	**(0.4)**	(0.4)		
Profit/(loss) after income tax	**0.9**	0.9		
Dividend received	**0.5**	0.5		

23. EQUITY ACCOUNTED INVESTEES (continued)

	Consolidated	
Reconciliation to carrying amount of investment:	**2023 $m**	2022 $m
Share of joint venture's net assets	**3.8**	3.4
Other adjustments	**0.1**	0.1
Carrying amount of investment in joint venture	**3.9**	3.5

As at 30 June 2023, Mutual Marketplace has non-cancellable commitments of $1.9 million (2022: $1.9 million) to be settled over the next five years.

b) Interest in Associate

The Group has an interest in Data Action Pty Ltd (**Data Action**), a company operating in Australia, and owns 27.5% (2022: 27.5%) of the equity interest and holds 27.5% (2022: 27.5%) of the voting rights. The Group has determined that it exercises significant influence over Data Action and accordingly, the investment is classified as an associate and accounted for under the equity method.

The following table summarises the financial information of Data Action and reconciles the financial information to the carrying amount of the Group's interest in the associate.

	Consolidated		Parent	
	2023 $m	2022 $m	**2023 $m**	2022 $m
Carrying amount of investment in associates	**8.1**	8.0	**2.7**	2.7
Share of associate's balance sheet				
Current assets	**6.5**	6.0		
Non-current assets	**8.0**	5.3		
Current liabilities	**3.6**	3.0		
Non-current liabilities	**4.6**	1.8		
Share of associate's net assets	**6.3**	6.5		
Share of associate's profit or loss				
Revenue	**21.6**	17.9		
Expenses	**(21.7)**	(19.5)		
Profit/(loss) before income tax	**(0.1)**	(1.6)		
Income tax benefit/(expense)	**0.1**	0.2		
Profit/(loss) after income tax	**-**	(1.4)		
Dividend received	**-**	-		
Reconciliation to carrying amount of investment				
Share of associate's net assets	**6.3**	6.5		
Adjustments for 2015 shareholding restructure	**1.8**	1.8		
Other adjustments	**-**	(0.3)		
Carrying amount of investment in associates	**8.1**	8.0		

24. PROVISIONS

	Consolidated		Parent	
	2023	2022	**2023**	2022
	$m	$m	**$m**	$m
Employee benefits	**44.5**	20.1	**44.5**	20.1
Other	**4.9**	-	**4.9**	-
	49.4	20.1	**49.4**	20.1
Maturity analysis				
Not longer than 12 months	**47.0**	18.4	**47.0**	18.4
Longer than 12 months	**2.4**	1.7	**2.4**	1.7
Total	**49.4**	20.1	**49.4**	20.1

Recognition and Measurement

The Group recognises provisions when there is a present obligation arising from a past event, an outflow of economic resources is probable, and the amount of the provision can be measured reliably.

Employee benefits
Employee benefits includes annual leave, long service leave and other employee benefit related provisions. Refer to Note 6 Other expenses for recognition and measurement details.

Other
Other provisions include make good provisions associated with leased premises and expected refunds to customers and remediation project costs.

25. RESERVES

	Consolidated		Parent	
	2023	2022	**2023**	2022
	$m	$m	**$m**	$m
Redeemed member shares	**0.9**	0.9	**0.9**	0.9
Fair value reserve - financial assets held at FVOCI	**17.5**	16.0	**17.5**	16.0
Hedging reserve - cash flow hedges	**27.7**	36.3	**27.7**	36.3
Contributed equity reserves	**858.6**	171.7	**858.6**	171.7
	904.7	224.9	**904.7**	224.9

Recognition and Measurement

Redeemed member shares
The *Corporations Act 2001* requires that redeemable preference shares (Members $2 shares) may only be redeemed out of the Group's profit or through a new issuance for the purpose of the redemption. This reserve represents the amount of Preference Shares redeemed since 1 July 1999 to date.

Fair value reserve - financial assets held at FVOCI
The fair value reserve is the difference in the carrying amount and the financial assets held at FVOCI.

Hedging reserve - cash flow hedges
The cash flow hedge reserve is used to record gains or losses on a hedging instrument in a cash flow hedge reserve that are recognised directly in other comprehensive income, as described in Note 11 Derivatives. Amounts are reclassified to profit or loss when the associated hedged transaction affects profit or loss.

Contributed equity reserves
The contributed equity reserves represents the net assets of Heritage Bank Limited (refer to Note 34 Business combination) and Savings & Loans Credit Union (S.A.) Limited recognised upon merger.

Notes to the Financial Statements (continued)

25. RESERVES (continued)

Contributed equity reserves	Consolidated		Parent	
	2023	2022	**2023**	2022
	$m	$m	**$m**	$m
Opening balance 1 July	**171.7**	171.7	**171.7**	171.7
Contributed equity from merger with Heritage Bank Limited	**686.9**	-	**686.9**	-
Total	**858.6**	171.7	**858.6**	171.7

26. DISCONTINUED OPERATIONS

On 1 February 2022, the Group sold the financial planning business to specialist financial services organisation, Fiducian Group Limited. The sale proceeds included upfront cash consideration of $8.8m with the remaining amount received in February 2023. The deferred consideration was dependent on 12 month recurring revenue.

Results from discontinued operation

	Consolidated		Parent	
	2023	2022	**2023**	2022
	$m	$m	**$m**	$m
Revenue	**-**	6.0	**-**	5.3
Expense	**-**	(5.1)	**-**	(4.4)
Results from operating activities	**-**	0.9	**-**	0.9
Income tax	**-**	(0.3)	**-**	(0.3)
Results from operating activities, net of tax	**-**	0.6	**-**	0.6
Gain on sale of discontinued operation	**1.7**	7.4	**1.4**	6.4
Income tax on gain on sale of discontinued operation	**-**	-	**-**	-
Profit (loss) from discontinued operations, net of tax	**1.7**	8.0	**1.4**	7.0
Cash flows from (used in) discontinued operation				
Net cash used in operating activities	**-**	0.6	**-**	0.6
Net cash from investing activities	**2.1**	7.0	**2.1**	6.0
Net cash flows for the year	**2.1**	7.6	**2.1**	6.6

No income tax expense has been recognised on the gain on sale as the proceeds have been fully offset against previously recognised goodwill, resulting in nil capital gain.

Recognition and Measurement

A discontinued operation is a component of the Group's business, the operations and cash flows of which can be clearly distinguished from the rest of the Group and which:

- represents a separate major line of business or geographic area of operations;
- is a part of a single co-ordinated plan to dispose of a separate major line of business or geographic area of operations; or
- is a subsidiary acquired exclusively with a view to resale.

Classification as a discontinued operation occurs at the earlier of disposal or when the operation meets the criteria to be classified as held-for-sale.

27. RELATED PARTIES

Controlled entities

The Group controls an entity if it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the controlled entity. The financial statements of controlled entities are included in the consolidated financial statements from the date on which control commenced, until the date when control ceases. Investments in controlled entities are carried at cost. Intragroup balances and transactions, and any unrealised income and expenses arising from intragroup transactions are eliminated in preparing the consolidated financial report. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

			% held by Holding Entity	
	2023 $m	2022 $m	**2023 %**	2022 %
Controlled entities				
Australian Central Services Pty Ltd	**-**	-	**100**	100
Financial Solutions Australasia Pty Ltd[1]	**5.0**	5.0	**100**	100
People's Choice Community Foundation Limited	**-**	-	**100**	100
Shares in controlled entities	**5.0**	5.0		

[1] Financial Solutions Australasia Pty Ltd discontinued its operations on 1 February 2022

The Parent entered into transactions with its Controlled Entities. These transactions were all carried out under normal commercial terms and are eliminated on consolidation in the financial reports. The following table provides the total amount of transactions that were entered into with controlled entities for the relevant financial year.

	Parent Income/(expense)		Parent Payable/(receivable)		Deposits with the Parent	
	2023 $m	2022 $m	**2023 $m**	2022 $m	**2023 $m**	2022 $m
Financial Solutions Australasia Pty Ltd	**-**	0.1	**6.4**	6.3	**-**	-
Australian Central Services Pty Ltd	**0.5**	0.5	**1.0**	0.9	**-**	-
People's Choice Community Foundation Limited	**(0.5)**	(0.7)	**(0.1)**	(0.1)	**-**	0.2

Notes to the Financial Statements (continued)

27. RELATED PARTIES (continued)

Special purpose entities

The Group has established a number of special purpose entities (**SPEs**) for the purpose of issuing Residential Mortgage Backed Securities (**RMBS**). The SPEs 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 SPEs are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

Fees are received for various services provided to the SPEs on an arms-length basis, including servicing fees and management fees and are reported in profit or loss. The Group also provides arms-length interest rate swaps and loan facilities to the SPEs. Costs incurred in the establishment of a securitisation issue are amortised over the expected life of the issue.

The special purpose entities are wholly owned by Heritage and People's Choice Limited.

- Light Trust No. 5R
- Light Trust No. 6
- Light Trust 2017-2
- Light Trust 2016-2
- Light Trust 2017-1
- Light Trust 2018-1
- Light Trust 2019-1
- Light Trust 2021-1
- HBS Trust 2008-1R
- HBS Trust 2017-1
- HBS Trust 2014-1
- HBS Trust No. 4

	2023	2022
	$m	$m
Custodian and servicer fee	**8.3**	7.9
Net interest swap expense/(income)	**14.6**	(23.4)

Other Entities

HPC does not meet all the conditions for the control of Heritage Bank Charitable Foundation (**Foundation**) and accordingly the Foundation is not required to be consolidated. The Foundation deposits funds with the Group on standard terms and conditions. During the year the Group contributed $0.8m towards the running costs of the Foundation.

28. TRANSFER OF FINANCIAL ASSETS

The Group enters into transactions that result in the transfer of financial assets, primarily loans and advances to members and debt securities. These transactions do not result in the derecognition of the transferred assets from the Group's balance sheet, because the Group retains substantially all of the risks and rewards of ownership.

Securitisation

The Group conducts a securitisation program under an arrangement where mortgage loans equitably assigned to a SPE are converted to debt securities which are purchased by investors. The holders of the issued debt securities have full recourse to the pool of mortgages which have been securitised and the Group cannot otherwise pledge or dispose of the transferred assets. In some instances the Group is also the holder of the securitised notes.

Repurchase agreements

The Group enters into repurchase agreements involving the sale of interest-bearing securities and simultaneously agrees to buy them back at a pre-agreed price on a future date. The interest-bearing securities transferred are included in Note 12 Investment securities. The obligation to repurchase is included in Note 17 Borrowings.

Term Funding Facility

The Group's drawdown of the TFF is performed by entering into long term repurchase agreements with the RBA (refer to Repurchase agreements above). The debt securities transferred as collateral for the borrowing include a portion of the Group's internal investments in securitised notes issued by its SPEs[1]. The obligation to repurchase is included in Note 17 Borrowings under Term Funding Facility.

The table below sets out the carrying amounts of financial assets transferred that do not qualify for derecognition and associated liabilities:

	Consolidated		Parent	
	2023 $m	2022 $m	**2023 $m**	2022 $m
Securitisations:				
Carrying amount of transferred assets:				
Loans and advances	**1,970.9**	1,463.3	**5,715.5**	3,043.8
Carrying amount of associated liabilities:				
Notes payable	**1,936.9**	1,474.8	**-**	-
Amounts payable from Parent to the SPEs	**-**	-	**5,713.8**	3,041.1
Total	**1,936.9**	1,474.8	**5,713.8**	3,041.1
Repurchase agreement:				
Carrying amount of transferred assets	**10.0**	-	**10.0**	-
Carrying amount of associated liabilities	**8.3**	-	**8.3**	-
Term Funding Facility:				
Carrying amount of transferred assets	**1,141.3**	610.0	**1,141.3**	610.0
Carrying amount of associated liabilities	**764.3**	387.5	**764.3**	387.5

[1] Certain SPEs issue notes internally to the Parent to facilitate repurchase activities with the Reserve Bank of Australia. The gross amount of securitised notes issued is $5.7 billion, with $3.7 billion internally issued to the Parent.

Refer to Note 27 Related parties for more information on loan balances and net distributions to unitholders.

29. KEY MANAGEMENT PERSONNEL

Key Management Personnel (**KMP**) include Directors of the Group and the Executive Committee members. The Executive Committee members include those personnel with a key responsibility for the strategic direction and management of the Group.

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

	2023 $'000	2022 $'000
Short-term benefits	**8,733**	5,044
Post-employment benefits	**347**	243
Long-term benefits[1]	**1,657**	853
Termination benefits	**242**	-
Total	**10,979**	6,140

Short-term benefits

Short-term benefits includes salaries, fees, annual and sick leave paid during the year. Benefits also include cash-based incentive payments that are paid or payable and calculated with reference to a documented incentive plan.

Post-employment benefits

Included in post-employment benefits is superannuation contributions.

Long-term benefits

Long-term benefits include accrued long service leave, provision for retention plans and provision for incentive payments that have been deferred as required by Banking Executive Accountability Regime or prudential standard CPS 511 *Remuneration* with deferral periods of between 4 to 6 years.

[1] Disclosure of long-term benefits for the current year includes the pro-rata deferred incentive expense recognised over the deferral period. In the prior year, deferred incentives have been disclosed as short-term benefits when paid however to facilitate comparison, the prior year balance has been restated for amounts expensed in the prior year.

The principal reason for the increase in KMP expense in FY23 compared to FY22 is due to the additional number of KMP as listed in this note below as a result of the merger.

29. KEY MANAGEMENT PERSONNEL (continued)

KMP of Australian Central Credit Union Ltd

The KMP of Australian Central Credit Union Ltd (**ACCU**) for the financial year 2022 and the period prior to the merger (1 July 2022 to 28 February 2023) include the following whose remuneration details are included in the table above:

Directors

M. Cameron (Chairman)
S. Laidlaw (Managing Director)
A. Heyworth
V. Hickey
J. Patton
W. Thorpe
G. Williams

Executive Committee Members

M. Camilleri	Chief Member Officer
V. Pace	Chief Financial Officer
P. Corolis	Chief Risk Officer
M. Tons	Chief Merger Transition Officer
T. Shearn	Chief Legal Officer and Company Secretary
S. Bradley	Chief People and Culture Officer
A. Weir	Chief Information Officer (from 27 June 2022)

KMP of Heritage and People's Choice Limited

The KMP of Heritage and People's Choice Limited for the period since the merger (1 March 2023 to 30 June 2023) include the following whose remuneration details are included in the table above:

Directors

M. Cameron (Chairman)
K. Betros (Deputy Chairman)
B. Baulch
D.Campbell
P. Clare
S. Davis
A. Heyworth
V. Hickey
W. Machin
J. Patton
W. Thorpe
G. Williams

Executive Committee Members

P. Lock	Chief Executive Officer
S. Laidlaw	Deputy Chief Executive Officer
M. Camilleri	Chief Member Officer
K. Potter	Chief Merger Integration Officer
D. Dredge	Chief Transformation Officer
A. Weir	Chief Information Officer
V. Pace	Chief Operating Officer
P. Williams	Chief Financial Officer
P. Corolis	Chief Risk Officer
B. Wogan	Chief Regulatory and Compliance Officer
T. Shearn	Chief Legal Officer and Company Secretary
D. Stephens	Chief People Officer

Loans with key management personnel
Loans to Directors and other KMP are either unsecured or secured by registered mortgage over eligible security in accordance with standard lending policies. Transactions are at an arms length with interest earned on loans at the same rate available to members.

	2023	2022
	$'000	$'000
Total aggregate loans as at the reporting date (30 June)	**4,883**	767

Other transactions with key management personnel
Other transactions with KMP generally relate to deposits and financial planning advice. Financial transactions (including loans disclosed within this report) with Directors occur in the ordinary course of business on an arms length basis. For other KMP, financial transactions are made at an arms length with interest earned on loans at the same rate available to members. Disclosure of financial transactions regularly made as part of normal banking operations is limited to disclosure of such transactions with KMP and entities controlled or significantly influenced by them. All such financial transactions that have occurred between entities within the Group and their KMP were in the nature of normal personal banking.

Notes to the Financial Statements (continued)

30. NOTES TO THE STATEMENTS OF CASH FLOW

Reconciliation of profit after income tax to net cash from operating activities:

	Consolidated		Parent	
	2023 $m	2022 $m	**2023 $m**	2022 $m
Profit for the year	**32.1**	17.5	**31.6**	17.1
Adjustments for non cash items:				
Depreciation and amortisation	**22.7**	16.1	**22.7**	16.1
Provision for impairment	**6.3**	(3.0)	**6.3**	(3.0)
Bad debts written off net of recoveries	**0.8**	0.8	**0.8**	0.7
Dividend income classified as investing cash flow	**(2.0)**	(5.0)	**(2.0)**	(5.0)
Net (profit)/loss on sale of property, plant & equipment	**(0.1)**	-	**(0.1)**	-
Share of profit of equity accounted investees	**(0.9)**	0.5	**-**	-
Proceeds on sale of discontinued operation classified as investing	**(1.7)**	(8.8)	**(1.4)**	(7.8)
Change in assets:				
Deferred tax assets	**(13.2)**	15.3	**(13.4)**	15.2
Loans and advances	**(983.0)**	(723.2)	**(983.0)**	(723.1)
Interest receivable	**(15.1)**	0.5	**(15.1)**	0.5
Derivative assets	**72.7**	(15.4)	**61.5**	9.2
Other assets	**4.9**	(6.0)	**1.2**	(5.9)
Change in liabilities:				
Deposits and other short term borrowings	**1,284.8**	549.6	**1,284.8**	549.0
Provisions	**3.2**	(0.4)	**2.8**	(0.2)
Provision for income tax	**17.5**	(1.6)	**17.5**	(1.6)
Interest payable	**72.4**	(1.3)	**70.6**	1.1
Other payables	**(50.5)**	8.3	**(41.3)**	(15.6)
Net cash from operating activities	**450.9**	(156.1)	**443.5**	(153.3)

31. COMMITMENTS

Credit commitments

	Consolidated 2023 $m	Consolidated 2022 $m
The Group has the following credit commitments:		
Commitments with certain drawdown	**524.7**	183.9
Other commitments - funds available for redraw and unused credit limits	**2,355.0**	951.8
	2,879.7	1,135.7

32. CONTINGENT ASSETS AND LIABILITIES

Guarantees	Consolidated 2023 $m	Consolidated 2022 $m
The Group has issued guarantees as follows:		
Guarantees issued for members	**8.9**	1.8

As the probability and value of guarantees being called upon is unpredictable, it is not practical to state the timing of any payment.

Regulatory matters

The Group engages with its regulators on a number of matters in the ordinary course of business including supervisory activities, regulatory reviews and formal and informal enquiries in relation to compliance with laws and regulations. The possibility of any potential financial exposure in relation to these matters is uncertain at this time.

33. AUDITOR'S REMUNERATION

	Consolidated		Parent	
	2023	2022	**2023**	2022
Amounts paid or payable to the external auditors - KPMG:	**$'000**	$'000	**$'000**	$'000
Audit services	**950.3**	414.5	**857.9**	356.6
Assurance services	**253.5**	195.4	**253.5**	195.4
Non-audit services	**262.1**	94.6	**244.1**	77.1
Total remuneration	**1,465.9**	704.5	**1,355.5**	629.1

34. BUSINESS COMBINATION

On 1 March 2023 Australian Central Credit Union Ltd (acquirer) merged with Heritage Bank Limited (acquiree) to form Heritage and People's Choice Limited. The merger has provided the scale needed to deliver more for members through better products, services, digital capabilities, and competitive pricing.

The merger, originally announced in August 2021, was approved by the members of both organisations in November 2022 and subsequently approved by the Australian Prudential Regulation Authority. The merger legally took effect on 1 March 2023. On this date Heritage Bank Limited (**HBL**) voluntarily transferred its assets and liabilities to Australian Central Credit Union Ltd under the *Financial Sector (Transfer and Restructure) Act 1999 (Cth)*. As a result, there was no consideration transferred or purchase price of the merger. Heritage members ceased to be members of Heritage and each was automatically issued a new share and became a member of Heritage and People's Choice Limited.

The amounts of revenue and profit or loss attributable to HBL since 1 March 2023 has not been disclosed as due to integration activities the standalone results for HBL cannot be reliably measured. If the merger had occurred on 1 July 2022, HPC estimates that interest income would have been $903.2m. The information required to report profit or loss had the merger occurred on 1 July 2022, requires significant estimates and cannot be determined in an effective or reliable manner due to the impact of fair value adjustments and other integration impacts that have occurred during the year.

Costs of $24.4m were incurred in relation to merger and integration costs during the year. These expenses are included within the respective nature of expense line refer to Note 6 Other expenses for further details.

The fair value of the identifiable assets and liabilities of Heritage Bank Limited assumed at the date of acquisition were:

	1 March 2023 $m
Assets	
Cash and cash equivalents	274.3
Investments	1,891.0
Loans and advances	9,325.8
Derivatives	74.0
Deferred tax asset	26.8
Property, plant and equipment	41.7
Other assets	18.2
Intangible assets	16.3
Total Assets	**11,668.1**
Liabilities	
Deposits	9,648.5
Other financial liabilities	209.7
Wholesale funding	1,002.1
Other liabilities	120.9
Total Liabilities	**10,981.2**
Net Assets	**686.9**

The loans and advances comprises of gross contractual amounts due of $9.403 billion.

All fair values are disclosed on a provisional basis. If new information obtained within one year of the date of acquisition about facts and circumstances that existed at the date of acquisition identifies adjustments to the above amounts, or any additional provisions that existed at the date of acquisition, then the accounting for acquisition will be revised.

34. BUSINESS COMBINATION (continued)

Recognition and Measurement

Business combinations are accounted for using the acquisition method. The consideration transferred by the Group to obtain control in a business combination is measured at fair value, which is calculated as the sum of the acquisition date fair values of the assets transferred, the liabilities incurred and the equity interest issued by the Group. Acquisition costs are expenses as incurred.

The Group recognises identifiable assets acquired and liabilities assumed in a business combination regardless of whether they have been previously recognised in the acquiree's financial statements.

Where the consideration transferred exceeds the fair value of identifiable net assets acquired, goodwill is recognised. Where the fair value of identifiable net assets acquired exceeds the consideration transferred, the excess amount is recognised directly in equity for a Mutual organisation.

35. EVENTS SUBSEQUENT TO REPORTING DATE

On 6 September 2023, the Group settled $1bn of Residential Mortgage Backed Securities (RMBS). This was HPC’s inaugural public securitisation transaction and qualified for capital relief in accordance with APRA prudential standards. HPC’s capital adequacy ratio increased by approximately 50 basis points following settlement.

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

Corporate Governance Statement

This Corporate Governance Statement has been approved by the Board of Heritage and People's Choice Limited (ACN 087 651 125) (**HPC**). It describes HPC's key governance practices and articulates how the Board makes decisions based on sound corporate governance, acknowledging HPC's specific and broader responsibilities to its members, employees and the communities in which it operates.

HOW WE DO BUSINESS

Together with management, the Board of HPC is committed to acting lawfully, responsibly, ethically and in line with our mutuality.

HPC adopts a principles-based approach to achieve sound corporate governance and business practices by adopting policies at Board level and cascading them throughout the organisation. HPC adheres to the regulatory "fit and proper" framework and has regard to the ASX Corporate Governance Council's "Corporate Governance Principles and Recommendations".

GOVERNANCE IMPACTS OF MERGER

In FY2023, the Board and management played a crucial role in the merger between Heritage Bank Limited (**Heritage**) and Australian Central Credit Union Ltd trading as People's Choice Credit Union (**People's Choice**) which completed on 1 March 2023 (**Merger**). Following the Merger, the Board oversees and continues to support the integration of the two entities and the fulfilment and implementation of HPC's purpose and strategic direction as the new combined entity.

In preparation for the Merger, a comprehensive review was undertaken of the governance practices of both Heritage and People's Choice, including in particular in relation to the composition of the Board and Board Committees, to ensure alignment and understanding within HPC and that the combined entity's practices are reflected in the combined entity's approach to governance. Upon Merger, the Board adopted a corporate governance framework that is appropriate to the needs of HPC with respect to its size and complexity, and the industry in which it operates. The Board will continue to review and introduce appropriate changes to its governance practices.

ROLE OF THE BOARD

Each of the members of the Board has significant experience and brings accountability and judgment to the Board's deliberations with a view to benefitting its key stakeholders.

The role and responsibilities of the Board are set out in the HPC Board Charter, and include responsibilities such as overseeing the operations of HPC as a whole, providing strategic direction, appointing and reviewing the performance of Chief Executive Officer and Deputy Chief Executive Officer, reviewing and approving risk management and internal compliance and controls, monitoring the performance of management, approving and monitoring capital expenditure and capital management, assessing HPC's financial position and performance, approving and monitoring financial and other reporting, ensuring continuous improvement in HPC's performance, ensuring that the structure of remuneration for HPC is linked to the achievement of HPC's objectives, deciding the nature of delegations to management, and approving significant changes in the legal structure of the HPC group.

Importantly, the Board is also responsible for assessing compliance by HPC with its regulatory requirements and operating policies and practices, and ensuring that HPC meets its statutory, regulatory and fiduciary obligations.

STRUCTURE OF THE BOARD

The Board of HPC is comprised of twelve Directors, six from each of the former Heritage and People's Choice entities. Over the next three years, the HPC Constitution requires that the total number of Directors reduces to eight. This will be achieved by retirements provided for in the Constitution which are designed to ensure there will continue to be equal numbers of former People's Choice Directors and former Heritage Directors on the HPC Board.

Of the Directors who remain on the Board of HPC at the third anniversary of the Merger, the term of two Directors will end at the 2027 Annual General Meeting (**AGM**), the term of three Directors will end at the 2028 AGM and the term of the remaining three Directors will end at the 2029 AGM.

The Board of HPC will, at all times, include at least two Directors who have a strong affinity with South Australia (through residing in, or formerly residing in, South Australia) and at least two Directors who have a strong affinity with South East Queensland (through residing in, or formerly residing in, South East Queensland).

Directors who held office during or since the end of FY2023, and the year in which each was appointed to the Board (including service on the Board of Heritage immediately prior to the Merger being implemented), are set out below:

Directors – Non-Executive	Year Elected/Appointed
M.A Cameron (Chairman)	2019
K.J. Betros (Deputy Chairman)	1991
B.P. Baulch	2007
D.P Campbell	2000
P. Clare	2020
S. Davis	2011
A.E Heyworth	2017
V.S. Hickey	2014
W.S. Machin	2019
J.P. Patton	2016
W. Thorpe	2019
G. Williams	2021

Further information on the Directors can be found on the Heritage and People’s Choice websites.

COMMITTEES OF THE BOARD

The Board has established standing Audit, Remuneration and Governance, Risk and Compliance, and Technology and Integration Committees. Each of these Committees has been delegated particular functions and responsibilities, and each Committee’s authority and responsibilities are set out in its respective Charter, as approved by the Board. The members of each Committee have been carefully selected by HPC and have the necessary depth and breadth of knowledge, skills and experience relevant to the roles, responsibilities and subject matter of the relevant Committee.

The Committees generally meet at least four times a year to consider and make recommendations or decisions on matters within their Charter. Committee Chairs provide a verbal report to the Board at Board meetings, and the minutes of all Committee meetings are available to all Directors. The Board also has access to all information prepared for the consideration of Committees.

Set out below is a summary of each Committee and its functions.

Audit Committee

The Audit Committee assists the Board in fulfilling its responsibilities by providing objective oversight of the effectiveness of HPC’s prudential and statutory financial reporting, professional accounting activities and related policies and control frameworks, as well as internal and external audit functions. Activities undertaken by the Committee include overseeing HPC’s internal and external audit functions and processes, and reviewing financial information presented by management.

Corporate Governance Statement

Remuneration and Governance Committee

The Remuneration and Governance Committee is responsible for overseeing the design, operation and monitoring of HPC's remuneration and corporate governance matters, including the remuneration of Directors, and the remuneration and performance of both the Chief Executive Officer and Deputy Chief Executive Officer. The Remuneration and Governance Committee oversees the process for evaluating the performance of the Board, its Committees and individual Directors, as well as ensuring that appropriate checks are undertaken for Directors, the size and composition of the Board, Director and Executive succession plans, the conduct of the Director nominations and elections and the conduct of the AGM.

Risk and Compliance Committee

The Risk and Compliance Committee assists the Board by providing objective oversight of the implementation and operation of HPC's risk management and compliance frameworks, including overseeing the formulation and implementation of an appropriate organisational-wide risk management strategy, ensuring that appropriate systems are in place to monitor emerging risks, assessing the impact of regulatory and legislative change on HPC's operations and obligations, monitoring the cadence and rhythm for prudential and compliance risk reporting, ensuring that a sound risk management culture is maintained, making recommendations to the Board on the setting of HPC's risk appetite and ensuring that appropriate systems and resources are in place to identify and manage material risks and to monitor and review the performance of all aspects of capital management.

Technology and Integration Committee

The Technology and Integration Committee is responsible for overseeing the formulation, implementation and delivery of HPC's technology and integration strategies, including setting clear direction and expectations regarding strategic technology and integration decision making and ensuring that technology and merger integration decisions enhance the customer experience and build business model resilience.

REMUNERATION REPORT

In accordance with APRA standard *APS 330 Public Disclosure*, the HPC Remuneration Report forms part of the Prudential Disclosure Report, which can be found on the Heritage and People's Choice websites.

STRATEGY

The Board is committed to regularly evaluating HPC's strategy to ensure that its decisions align with HPC's long term strategic direction and meets HPC's responsibilities to its members, employees and communities in which it operates. The Board considers that this is particularly important following the Merger to ensure the proper integration of People's Choice and Heritage and the fulfilment of commitments made to members as part of the Merger.

BOARD SKILLS AND EXPERIENCE

The Board believes that its membership should consist of Directors with an appropriate mix of skills, professional experience, tenure and backgrounds that allow the Directors individually, and the Board collectively, to discharge its responsibilities and duties. In reviewing the Board skills and diversity matrix, the Board identifies the competencies and diversity required to enable the Board to fulfil its responsibilities.

The Board considers that it has the appropriate diversity of knowledge, skills and experience to effectively discharge its responsibilities. The relevant qualifications, experience and other directorships of each Director are available on the People's Choice and Heritage websites.

DIVERSITY

The Board is committed to diversity, inclusion and the promotion of an environment conducive to the appointment of well-qualified employees, management and Directors. In accordance with the Remuneration and Governance Committee Charter and the Merger commitment to employees, a diversity and inclusion strategy will be developed which supports a culture of inclusion, builds diversity and creates opportunities for our people to enhance organisational performance. This will leverage the foundational Diversity and Inclusion elements from the former People's Choice and Heritage policies and strategies and will align with the new HPC brand currently under development.

In addition, a Workplace Gender Equality Report is prepared annually and is available on the respective Heritage and People's Choice websites.

BOARD POLICIES

HPC maintains policies relating to its operational, compliance, legal and regulatory reporting requirements, which are reviewed on a regular basis and supported by procedures to ensure compliance and effective monitoring of HPC's business. Further details of some of these policies and procedures are set out in the Board Charter, which can be found on the Corporate Governance section of the People's Choice and Heritage websites.

MEETINGS OF THE BOARD AND BOARD COMMITTEES

The membership and details of attendances at Board and Committee meetings of each of People's Choice and Heritage prior to the Merger are outlined below:

People's Choice										
Director	**Board**		**Audit**		**Corporate Governance**		**Risk**		**Remuneration**	
	A(1)	**B**	**A(2)**	**B**	**A(3)**	**B**	**A(4)**	**B**	**A(5)**	**B**
M.A Cameron (Chairman)	6	6			2	2			4	4
S.P.W. Laidlaw (Managing Director)	6	6								
A.E. Heyworth	6	6	3	3			4	4		
V.S. Hickey	6	6			2	1			4	4
J.P. Patton	6	6	3	3			4	4		
W. Thorpe	6	6					4	4	4	4
G. Williams	6	6	3	3	2	2				

(1) Five scheduled Board meetings and one out of cycle meeting were held during the period of 1 July 2022 to 28 February 2023 inclusive.
(2) Three scheduled Audit Committee meetings were held during the period of 1 July 2022 to 28 February 2023 inclusive.
(3) Two scheduled Corporate Governance Committee meetings were held during the period of 1 July 2022 to 28 February 2023 inclusive.
(4) Two scheduled Risk Committee meetings and two out of cycle meetings were held during the period of 1 July 2022 to 28 February 2023 inclusive.
(5) Two scheduled Remuneration Committee meetings and two out of cycle meetings were held during the period of 1 July 2022 to 28 February 2023 inclusive.
(6) Mr Laidlaw ceased as Managing Director upon Merger.

A The number of meetings held during the period the Director was a member of the Board or Board Committee
B The number of meetings attended by the Director

Corporate Governance Statement

Heritage										
Director	Board		Audit		Technology		Risk and Compliance		Remuneration and Nominations	
	A(1)	B	A(2)	B	A(3)	B	A(4)	B	A(5)	B
K.J. Betros (Chairman)	9	9							5	5
B.P. Baulch	9	9	4	4			5	5		
D.P Campbell	9	9			2	2	5	5	5	5
P. Clare	9	9			2	2	5	5		
S. Davis	9	9	4	4	2	2				
W.S. Machin	9	9	4	3			5	4	5	5

(1) Seven scheduled Board meetings and two out of cycle meetings were held during the period of 1 July 2022 to 28 February 2023 inclusive.
(2) Four scheduled Audit Committee meetings were held during the period of 1 July 2022 to 28 February 2023 inclusive.
(3) Two scheduled Technology Committee meetings were held during the period of 1 July 2022 to 28 February 2023 inclusive.
(4) Four scheduled Risk and Compliance Committee meetings and one out of cycle meeting were held during the period of 1 July 2022 to 28 February 2023 inclusive.
(5) Two scheduled Remuneration and Nominations Committee meetings and three out of cycle meetings were held during the period of 1 July 2022 to 28 February 2023 inclusive.

A The number of meetings held during the period the Director was a member of the Board or Board Committee
B The number of meetings attended by the Director

The membership and details of attendances at HPC Board and Committee meetings following the Merger are outlined below:

Director	Board		Audit		Technology and Integration		Risk and Compliance		Remuneration and Governance	
	A(1)	B	A(2)	B	A(3)	B	A(4)	B	A(5)	B
M.A Cameron (Chairman)[1]	4	4							2	2
K.J. Betros (Deputy Chairman)	4	4							2	2
B.P. Baulch	4	4	2	2						
D.P Campbell	4	4			2	2			2	2
P. Clare	4	4			2	1	1	1		
S. Davis	4	4	2	2						
A.E. Heyworth	4	4	2	2	2	2				
V.S. Hickey	4	4							2	2
W.S. Machin	4	4					1	1		
J.P. Patton	4	4	2	2			1	1		
W. Thorpe	4	4			2	2				
G. Williams	4	4					1	1		

(1) Four scheduled Board meetings were held from 1 March 2023 to 30 June 2023.
(2) Two scheduled Audit Committee meetings were held from 1 March 2023 to 30 June 2023.
(3) Two scheduled Technology and Integration Committee meetings were held from 1 March 2023 to 30 June 2023.
(4) One scheduled Risk and Compliance Committee meeting was held from 1 March 2023 to 30 June 2023.
(5) Two scheduled Remuneration and Governance Committee meetings were held from 1 March 2023 to 30 June 2023.

A The number of meetings held during the period the Director was a member of the Board or Board Committee
B The number of meetings attended by the Director

[1] The Chairman has attended all meetings of the Audit Committee, Risk and Compliance Committee and Technology and Integration Committee in an *ex-officio* capacity.

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