Gateway Bank

Annual Report and Financial Statement 2023

For your pocket & your planet


8:14
5G
bank
Gateway
Log out
Good evening,
Sarah
MY ACCOUNTS
Edge Account
$5,342.85
Need a savings
account?
Open today
Edit
Accounts
Transfer
Cards
Offers

Contents

POCKET & PLANET

RIAA accreditation of Owner Occupied Green Home Loans

Green home loan portfolio up 98%

40% of Gateway employees took part in volunteering activities

Climate Active certification for third year

New Investor Green Plus Home Loan & Green Commercial Property Loan (launched July 2023)

NEW PRODUCTS AND SERVICES

Enhanced online application process for Term Deposits and Savings Accounts

New and improved mobile App

New broker portal to support our broker partners

New online application process for loan variations and product changes to provide an enhanced member experience

CULTURE

95% of employees agreed "I know the contribution I make to the business."

95%

95%

95% said "I know the contribution I make to the customer."

Gateway ranked in the top decile for Employee Engagement measured against 132 other financial institutions

CUSTOMER

9.1%

9.1% increase in members

Net promoter score

+39

84%

Customer Satisfaction at 84%

FINANCIAL **METRICS**

$6.248m

NET PROFIT BEFORE TAX

154%

REVERSE MORTGAGE GROWTH

11.1%

RETAIL DEPOSIT GROWTH

AWARDS

MOZO WINNER

Won Mozo Green Home Loan of the year award

FINDER WINNER

Green Home Loan of the Year 2023

FINDER WINNER

Finder 'Highly commended' Term Deposit

RATE CITY WINNER

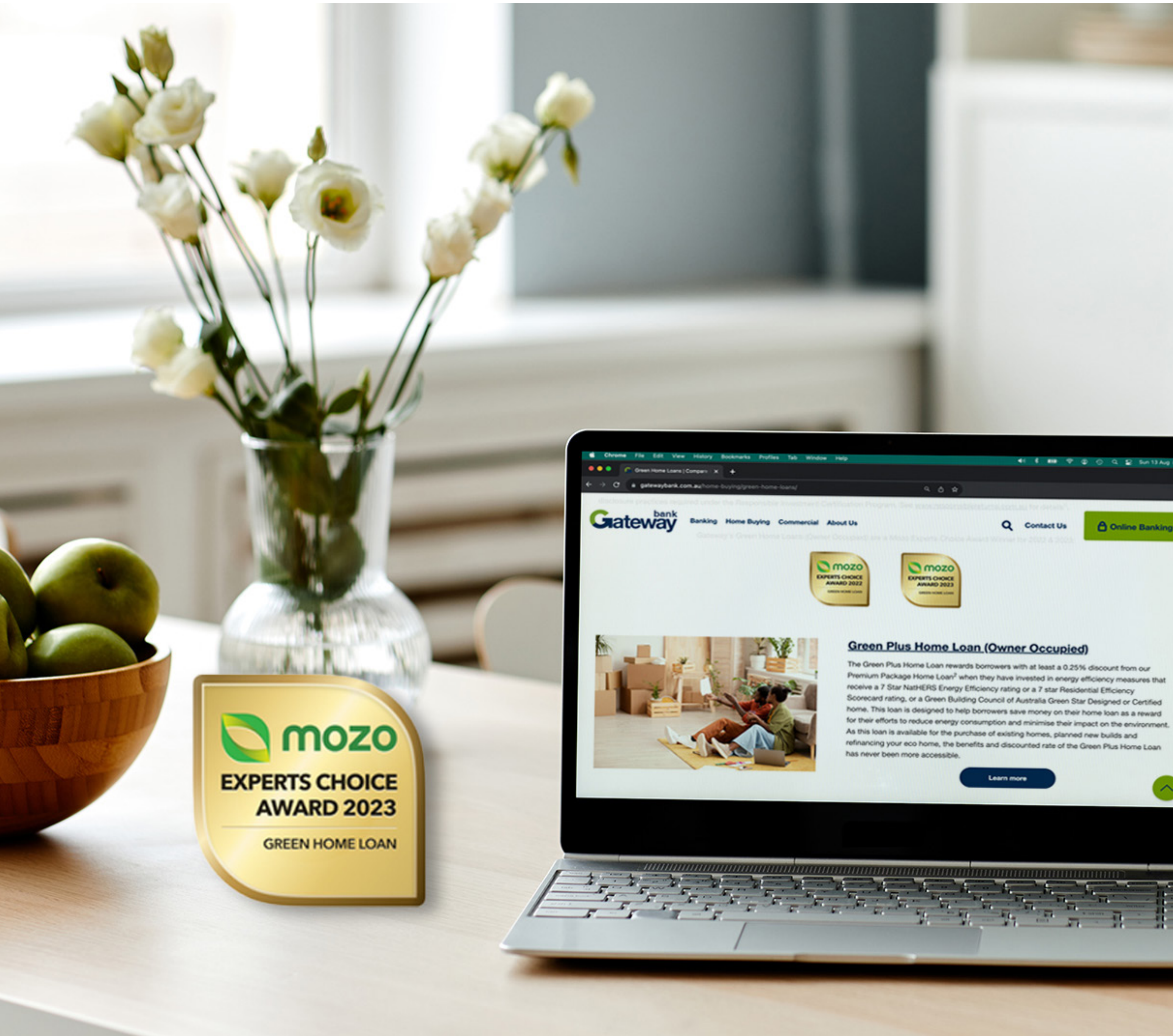
Rate City 12 Month TD Gold Award

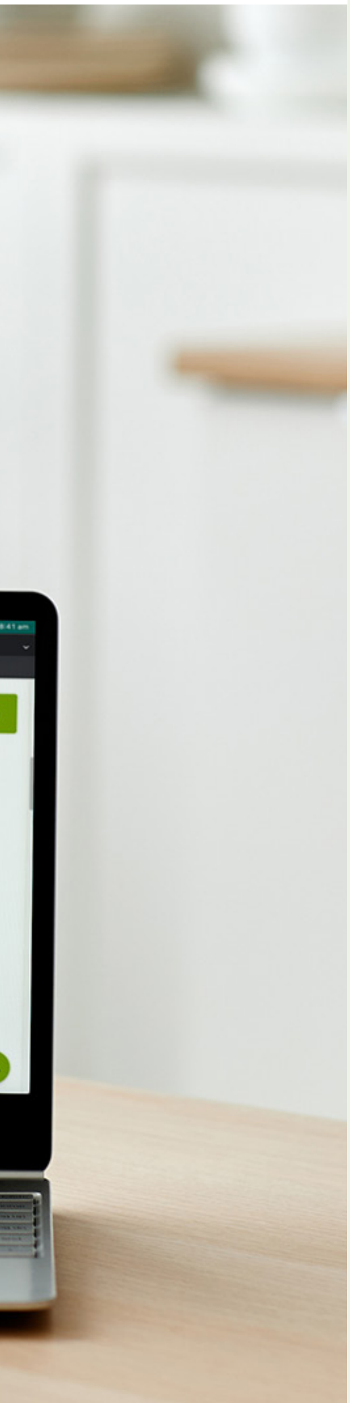
RATE CITY WINNER

Rate City 6 Month TD Gold Award

A message from the

Chair & CEO





Welcome to the Gateway Bank Annual Report

The 2023 financial year was another year of great change and challenge. Against this backdrop, Gateway continued to innovate and improve its products and services, supporting members to meet their everyday needs.

We thank, you, the members, for your continued support of Gateway Bank. We also thank the entire Gateway team for their continued commitment and dedication.

Highlights of the year

Gateway continued its growth path, with membership up 9.1% year on year. Its retail deposits grew 11.1% and loan book 10.1% in a competitive marketplace.

During the year Gateway's **Green Home Loan** and **Green Plus Home Loan** received Responsible Investment Certification from the Responsible Investment Association Australasia (RIAA). Gateway also received Mozo's Green Home Loan award for the second year in a row and the inaugural Finder Green Home Loan of the Year. Alongside these products, Gateway continued to expand its Green loan portfolio, with the development of our **Investor Green Plus Home Loan**. This green investment loan brings all the features of our Green Plus product to property investors. Additionally, we developed a **Green Commercial Property Loan** to support our commercial borrowers with certified energy efficient properties. Both these products launched to market in July 2023.

Gateway's customer and employee metrics remained high, with customer satisfaction at 84%. At 87%, Gateway's externally measured Employee Engagement results were again in the top decile measured against 132 financial institutions.

Financial performance highlights

NPBT for the year was $6.248m 19.7% up on FY22.

Gateway's diversification strategy saw growth of $87.5m in Reverse Mortgage balances and $162m in approved limits. Commercial lending increased 6%. Home loan growth of $27m (3%), was above system in a slowing market with refinancing in the market at record highs.

Return on Assets ended the year at 0.32% and NIM 1.72%.

In a year of increasing inflation, Gateway managed expenses to improve Cost to Income to 75.1%. Gateway's liquidity remained strong and finished the fiscal year at 18.39%.

Gateway's Capital Adequacy Ratio, a core measure of financial strength, stands at 17.47%. Gateway remains well capitalised, significantly above regulatory requirements and in a strong position from which to navigate challenges.

Pocket and Planet

Gateway's purpose is to help members save both money and the planet. Pocket and Planet recognises that although many people would like to be greener in their everyday lives, sometimes this option is more expensive. Gateway aims to help customers go greener quicker and save money at the same time. **It shouldn't cost the earth to save the earth**.

Gateway's Green Home Loan and Green Plus Home Loan have been awarded the **Mozo Green Home Loan award** for the second year in a row, and the inaugural **Finder Green Home Loan of the Year**. These loans offer a discounted rate to reward the levels of environmental features in members' homes. In the past year we've seen a 98% increase in our Green Home Loan portfolio, demonstrating both the increasing awareness of the product category in the market and the success of Gateway's award-winning products.

Gateway maintains ethical investment and lending policies governing how Gateway uses members' money in an ethical and responsible manner, and the industries or activities it will not directly invest in or lend to. During the year Gateway's Green Home Loan and Green Plus Home Loan received **Responsible Investment Certification** from Responsible Investment Association Australasia (RIAA). RIAA is the world's longest running Responsible Investment Certification program and champions responsible investing and a sustainable financial system in Australia and New Zealand. This independent certification is a significant milestone for Gateway in our journey to provide our members with a range of high-quality banking products and services that reduce the impact on their pocket and the planet.

These home loans form part of a portfolio of Pocket and Planet products which started with an Australian banking first, Gateway's plant-based Eco Debit Card. These products expanded to Gateway's cheapest personal loan, the Eco Personal Loan, for customers wanting to purchase or install environmental upgrades to their home.

In FY23 Gateway developed a Green Investment home loan and a Green Commercial loan. Increased demand for energy efficient homes, large scale environmentally focused developments and increased adoption of environmentally resilient properties from Australia's leading volume builders, have all played a factor in Gateway's ongoing development of a comprehensive green lending portfolio.

Gateway's Pocket and Planet Advisory Council reached its first anniversary. The council is made up of highly experienced volunteers committed to helping Gateway increase its impact. They represent a wide circle of backgrounds including community, impact investing, design and finance. In an ever-changing environment, having access to this knowledgeable panel is invaluable and we thank them for their time and commitment.

Pocket and Planet Advisory Council

Kirsten Junor

Chief Executive Officer, Reverse Garbage

Dr Kar Mei Tang

Head of Oceania for the UN Principles for Responsible Investment

Dr Kate Ringvall

Research Fellow Circular Economy | Curtin University

Sustainability Policy (CUSP) Institute

Digby Hall

Climate Adaptation Advisor

Amy Croucher

Nature Lead, Sustainability Advantage, NSW Government AND Founder of the Inner West Tool Library Sydney

Greg Hodgson

Head of Design (Enterprise) for Atlassian

Richard Lovell

Executive Director, Clean Energy Finance Corporation

Camille Socquet-Clerc

Founder, Bloom Impact Investing

Gateway constantly strives to reduce its own impact on the planet and for a third year has been certified as Carbon Neutral by Climate Active, a partnership between the Australian government and the business community that drives voluntary climate action. Gateway has committed to reduce its combined scope 2 and 3 operational emissions by 30% by 2030, compared to its FY20 baseline. Gateway are on track to achieve this commitment having reduced operational emissions by 6% in the first two years of measurement. Key actions to date include a focus on increasing digital channels for member communications where appropriate, increased use of certified carbon neutral suppliers and internal education programs to reduce waste and enhance energy efficiency. All these actions continue to support our emission reduction objectives.

Gateway employees continued to volunteer at Reverse Garbage during the year. Reverse Garbage is a Co-operative with a role to save materials from going to waste in landfill and to renew their value by making them available for reuse by families, students, artists, and community groups. Every year, Reverse Garbage accepts around 35,000 cubic metres of donations (100 football fields) from businesses and individuals that would otherwise end up in landfill. This year 40% of Gateway employees took part in volunteering activities which included painting, creating additional storage solutions, and re-arranging shelving in Reverse Garbage's new premises.

We are grateful to Reverse Garbage for continuing to allow us this opportunity and for helping educate; Gateway employees on sustainability; and our younger members on the importance of re-use through their contribution to Gateway's Dollaroo newsletter.

For the second year Gateway sponsored Reverse Garbage's Creative Reuse Competition ReconsiderED. The competition, open to high school and tertiary students of all abilities from Year 7 onwards is designed to encourage the reimagining, reinventing, and reinvigorating of resources. It is all about transforming an otherwise-disposable item into something of higher quality, to give it another chance at life. It's the ultimate in reuse. We are pleased to feature some of last year's finalists shown here.

Products and services that respond to member needs

Gateway offered **market leading term deposit rates** throughout the year and was recognised by comparison site Rate City with its Gold Award for 'Best 12 Month Term Deposit' and 'Best 6 Month Term Deposit'. Gateway's Term Deposit was also highly commended by Finder.com.au for having a consistently high rate throughout the year.

In FY21 Gateway launched a **Reverse Mortgage** product allowing members to access the value in their property without having to sell their home or move out. This product has been well received by members, particularly in the current high cost of living environment. The portfolio has grown by 154% in FY23.

Gateway continued its position as a panellist on the **Home Guarantee Scheme**. The Scheme is an Australian Government initiative to support eligible home buyers in purchasing their home sooner. Gateway also continued to support members ease the upfront costs of buying a home with the Australian first, **Monthly Lenders Mortgage Insurance (LMI)**.

This product provides the option to pay the LMI premium monthly over time until the property's loan to value ratio reaches 80%.

Gateway improved its process for **new membership** and account opening including the capability for its members to self-service changes to term deposits on maturity.

Over 69% of Australians now go to a broker to assist them in getting a home loan. Brokers are a key channel for Gateway. In support of this, Gateway launched its **broker portal**, allowing brokers to receive real time updates, communicate with underwriters and upload documents in a more secure manner. Brokers can now order valuations upfront reducing processing time, valuation delays and speed to yes. An additional ~400 brokers now have access to Gateway's unique products and service through the partnership with the aggregator, Smartline.

Gateway's externally measured Employee Engagement result of 87%, was in the top decile measured against 132 financial institutions.

Gateway Culture

Gateway's employees work tirelessly to provide great service to our members. **Customer satisfaction** remains high at 84%. **Net Promoter Score**, which measures how likely a customer is to recommend Gateway is +39, this is above the average of many other larger banks. Gateway also asked members whether they have recommended our products and services. Over 56% of members surveyed said they had. Word-of-mouth referrals happen because of great customer experiences. We are grateful to our members for recommending us and proud of our Gateway team for the care and understanding they demonstrate every day.

Gateway's externally measured Employee Engagement results of 87%, is in the top decile measured against 132 financial institutions.

One of Gateway's values is *not "work" but making a difference*. We make a point of ensuring that employees understand their important role, where they fit in, and the valuable difference they make to the customer and to the business. Through our Business and Customer Understanding program, all employees are given a thorough understanding of how the business works, from listening to call centre calls, sessions with the treasury function, to the role of a director. Every employee has the opportunity to share their own knowledge and skills and learn new ones. 95% of employees agreed *I know the contribution I make to the business*, 95% said *I know the contribution I make to the customer*.

Board changes

During FY23, Gateway said goodbye and thank you to two directors: Daniel Cassels and Brendan White. Daniel joined the board in September 2020, bringing with him a wealth of knowledge of treasury management. He left at the end of April 2023. Brendan joined

Gateway in October 2021, bringing with him over 30 years' experience in the financial services sector. He left the board in June 2023. We thank them both for their time and dedication.

Replacing Daniel, Gateway welcomed Peter Binetter. Peter brings over 30 years' experience as a senior executive in risk management, treasury and funds management with Investec, ANZ Funds Management, Citibank and Westpac.

Effective August 2023, Gateway also welcomed Lianne Bolton to the Board. Lianne brings over 30 years in banking and finance experience predominantly in CFO roles in both public and privately owned finance companies and banks, across Australia, South Africa and the United Kingdom.

In FY23 Gateway also said goodbye to CFO Debra Landgrebe. She was replaced by Doug Gordon. Doug is a qualified Chartered Accountant. Prior to joining Gateway Doug was the CFO at Investec Australia.

Final thoughts

Thank you to all our members, new and old, for their continued support. And a special thanks to Gateway employees for continuing to live the Gateway values every day.

With thanks,

Peter and Lexi

Peter M. Schiller
Chair

Lexi Airey
Chief Executive Officer

Board of Directors

Peter M. Schiller Dr Hilangwa Maimbo Christine Franks

Peter M. Schiller

Chair

MBA, Grad Dip. Banking & Fin., MAICD

Peter joined the Board in July 2018 and has nearly 40 years banking experience in Executive Management roles in Risk, Relationship Management, IT and Audit with both the Commonwealth Bank of Australia and the ANZ Banking Group.

Committee Memberships:

+ Audit (July 2018 to present)
+ Nominations & Remuneration (October 2021 to present)

Dr Hilangwa Maimbo

Non-Executive Director

PhD (IS), Mcom. (IS), PGrad Dip. (IS), BTech (Hons), MAICD, MIITPSA

Dr. Hilangwa Maimbo joined the board in April 2021 and is an Information Technology professional with over 20 years of experience in several Senior and Executive Management roles, both local and international. Dr. Maimbo has broad industry experience having worked in Financial Services, State Government, Manufacturing, Professional Services, and Information Technology Services. Prior to joining the Board at Gateway Bank, he was a Non-Executive Director at Mountain's Youth Services Team (MYST). In addition, to his NED roles, Dr. Maimbo works with organisations to deliver complex Information Technology solutions through his expertise in Digital Transformation, IT Strategy, IT Operations and Service Delivery. Dr. Maimbo holds current certifications in Information Technology, Project Management, and a PhD in Information Systems.

Committee Memberships:

+ Audit (April 2021 to present)
+ Risk (November 2021 to present)

Christine (Chris) Franks

AM FAICD - Non-Executive Director

BA (Statistics, Sociology), M.Mgmt (Community)

Chris joined the Board in August 2019. She is a director with more than 20 years' governance experience in financial services, health, NFP and government, and is currently founder and CEO/Chair of Women in Aid & Development and the Chairs Circle. She is a strong advocate of customer-owned banking with significant experience as a mutual banking director. Chris has an executive background in sales, marketing, customer research and customer service across commercial and not-for-profit sectors and was awarded the Member of the Order of Australia in 2020.

Committee Memberships:

+ Risk (August 2019 to present)
+ Nominations & Remuneration (August 2019 to present)

Andrew B. Black

Non-Executive Director

Grad Dip. Financial Planning, Dip. Financial Services (Finance & Mortgage Broking), MAICD

Andrew joined the board in August 2019, and has over 35 years financial services experience in banking, wealth, insurance and investments with Citibank (UK & Australia), Commonwealth Bank, St.George Bank, Skandia Australia and Plan B Group Holdings. Andrew has held other non-executive Director and advisory board roles in business coaching and personal insurances and is currently a responsible manager for personal insurance comparison website lifeinsurancecomparison.com.au owned by Alternative Media.

Committee Memberships:

+ Chair Audit (November 2020 to present)
+ Risk (January 2020 to November 2020 and October 2021 to present)

Andrew B. Black | Robyn L. FitzRoy | Peter M. Binetter | Lianne Bolton

Robyn L. FitzRoy

Non-Executive Director

BA, MA, FAICD.

Robyn joined the Board in January 2015. She is also a director of the Self-Managed Super Fund Association. She has over 20 years' experience in the financial services industry and is a former Executive Director of Macquarie Bank. Robyn is a management consultant specialising in governance and is a former non-executive director of CUSCAL. She also is an accredited facilitator and author of courses for the Australian Institute of Company Directors.

Committee Memberships:

+ Chair Nominations & Remuneration (December 2015 to present)
+ Audit (January 2020 to present)

Peter M. Binetter

Non-Executive Director

B.D.S, M.Comm (Finance), GAICD

Peter joined the Board in May 2023 and has over 30 years experience as a senior executive in risk management, treasury and funds management with Investec, ANZ Funds Management, Citibank and Westpac. He is currently the Chair of the Audit and Risk Committee of the Australian Dental Association, an External Member of the Safety and Risk Committee of the University of New South Wales, and is a former Executive Director and Chief Risk Officer for the Investec Group in Australia.

Committee Memberships:

+ Chair Risk (June 2023 to present)
+ Risk (May 2023 to June 2023)

Lianne Bolton

Non-Executive Director

GAICD

Lianne joined the Board in August 2023 and brings over 30 years' experience in financial services. Lianne is currently Chief Financial Officer with financial advisory and accounting services business Findex.

Lianne is experienced in capital raising, securitisation, balance sheet management and risk management. Lianne's diverse background spans executive roles in public and privately owned companies across Australia, South Africa and the UK where she successfully navigated organisations through significant change and ongoing regulatory reform while driving growth in top and bottom-line performance.

She is passionate about helping others, and in her personal time you can find Lianne supporting community charities, like the Hornsby Ku-ring-gai women's shelter where she previously held a board role as Treasurer.

Committee Memberships:

+ Risk (August 2023 to present)

Thomas C. Lyons

Company secretary

+ Senior Manager, Finance & Treasury
+ Appointed Company Secretary July 2020
+ BCom, CA.

Executive Team

Lexi Airey

Chief Executive Officer

BA (Hons), MSc, GAICD

Gerald Nicholls

Chief Risk Officer

B Bus

Doug Gordon

Chief Financial Officer

CA (SA)

Zeb Drummond

Chief Operating Officer

Adam Norman

Chief Marketing Officer

BA (Hons)

Peter Buzek

Chief Technology Officer

BSc, MBT, CISM, CRISC, CISA

Values

Not "work" but **making a difference**

Stumble don't fall

Passion

Do the **right** thing

"Small up" do more with less


VISA
Debit

Gateway Bank

General Purpose Financial Report for the year ended 30 June 2023

Gateway Bank Limited and its Controlled Entities ABN 47 087 650 093

Gateway bank | For your pocket & your planet

Contents

Gateway Bank General Purpose Financial Report for the year ended 30 June 2023

Directors' Report

Your directors submit their report for the year ended 30 June 2023.

DIRECTORS

The names and details of Gateway Bank's directors in office during the financial year and until the date of this report are as follows.

Directors were in office for this entire period unless otherwise stated.

Peter M Schiller (Chair)

Peter M Binetter – appointed 1 May 2023

Andrew B Black

Lianne Bolton – appointed 1 August 2023

Daniel R Cassels – retired 30 April 2023

Robyn L FitzRoy

Christine Franks AM

Dr Hilangwa Maimbo

Brendan White – retired 1 June 2023

Director Profiles

Peter M Schiller

CHAIR

Qualifications

MBA, Grad Dip. Banking & Finance, MAICD

Experience and Special Responsibilities

Peter joined the Board in July 2018 and has nearly 40 years' banking experience in executive management roles in Risk, Relationship Management, IT and Audit with both the Commonwealth Bank of Australia and the ANZ Banking Group.

- Chair (October 2021 to present)

Committee Memberships

- Audit (July 2018 to present)
- Nominations and Remuneration (October 2021 to present)

Peter M Binetter (Appointed 1 May 2023)

NON-EXECUTIVE DIRECTOR

Qualifications

B.D.S, M.Comm (Finance), GAICD

Experience and Special Responsibilities

Peter joined the Board in May 2023 and has over 30 years experience as a senior executive in risk management, treasury and funds management with Investec, ANZ Funds Management, Citibank and Westpac. He is currently the Chair of the Audit and Risk Committee of the Australian Dental Association, an External Member of the Safety and Risk Committee of the University of New South Wales, and is a former Executive Director and Chief Risk Officer for the Investec Group in Australia.

Committee Memberships

- Risk Chair (June 2023 to present)
- Risk (May 2023 to June 2023)

Andrew B Black

NON-EXECUTIVE DIRECTOR

Qualifications

Grad Dip. Financial Planning, Dip. Financial Services (Finance & Mortgage Broking), MAICD

Experience and Special Responsibilities

Andrew joined the Board in August 2019 and has over 35 years' financial services experience in banking, wealth, insurance, and investments with Citibank (United Kingdom and Australia), Commonwealth Bank of Australia, St. George Bank, Skandia Australia, and Plan B Group Holdings. Andrew has held other non-executive director and advisory board roles in business coaching and personal insurances and is currently a responsible manager for the personal insurance comparison website lifeinsurancecomparison.com.au owned by Alternative Media.

Committee Memberships

- Audit Chair (November 2020 to present)
- Risk (January 2020 to November 2020 and October 2021 to present)

Directors' Report (continued)

Lianne Bolton (Appointed 1 August 2023)

NON-EXECUTIVE DIRECTOR

Qualifications

GAICD

Experience and Special Responsibilities

Lianne joined the Board in August 2023 and brings over 30 years' experience in financial services. Lianne is currently Chief Financial Officer with financial advisory and accounting services business Findex. Lianne is experienced in capital raising, securitisation, balance sheet management and risk management. Lianne's diverse background spans executive roles in public and privately owned companies across Australia, South Africa and the UK where she successfully navigated organisations through significant change and ongoing regulatory reform while driving growth in top and bottom-line performance.

Committee Memberships

- Risk (August 2023 to present)

Daniel R Cassels (Retired 30 April 2023)

NON-EXECUTIVE DIRECTOR

Qualifications

MAppFin, BMathFin, MAICD

Experience and Special Responsibilities

Daniel joined the Board in September 2020. Daniel is a skilled practitioner in global fixed income markets with over 25 years of diverse experience in senior positions across treasury management and debt capital markets with the Commonwealth Bank of Australia.

Committee Memberships

- Nominations and Remuneration (October 2021 to April 2023)
- Risk Chair (October 2021 to December 2022)
- Risk (January 2023 to April 2023)

Robyn L FitzRoy

NON-EXECUTIVE DIRECTOR

Qualifications

BA, MA, FAICD

Experience and Special Responsibilities

Robyn joined the Board in January 2015. She is also a director of the Self-Managed Super Fund Association.. She has over 20 years' experience in the financial services industry and is a former Executive Director of Macquarie Bank. Robyn is a management consultant specialising in governance and is a former non-executive director of CUSCAL. She is also an accredited facilitator and author of courses for the Australian Institute of Company Directors.

Committee Memberships

- Nominations and Remuneration Chair (December 2015 to present)
- Audit (January 2020 to present)

Christine Franks AM

NON-EXECUTIVE DIRECTOR

Qualifications

BA (Statistics, Sociology), M.Mgmt (Community), FAICD

Experience and Special Responsibilities

Christine joined the Board in August 2019. She is a director with 20 years' governance experience in financial services, health, Not-For-Profit (NFP) and government, and is currently founder and CEO/Chair of Women in Aid & Development and the Chairs Circle. She is a strong advocate of customer-owned banking with significant experience as a mutual banking director. Christine has an executive background in sales, marketing, customer research and customer service across commercial and NFP sectors and was awarded the Member of the Order of Australia in 2020.

Committee Memberships

- Risk (August 2019 to present)
- Nominations and Remuneration (August 2019 to present)

Dr Hilangwa Maimbo

NON-EXECUTIVE DIRECTOR

Qualifications

PHD (IS), MCom (IS), Post Grad Dip. (IS), BTech (Hons), MAICD, MIITPSA

Experience and Special Responsibilities

Hilangwa joined the Board in April 2021. He is an Information Technology professional with over 20 years' experience in several senior and executive management roles, both locally and internationally, predominantly in the financial services industry. In addition, to his non-executive director roles, Hilangwa works with organisations to deliver complex Information Technology solutions through his expertise in Digital Transformation, IT Strategy, IT Operations and Service Delivery.

Committee Memberships

- Audit (April 2021 to present)
- Risk (November 2021 to present)

Directors' Report (continued)

Brendan White (Retired 1 June 2023)

NON-EXECUTIVE DIRECTOR

Qualifications

Grad Dip. Investment Management

Experience and Special Responsibilities

Brendan joined the Board in October 2021. He is also a Non-Executive Director of Trade for Good and an Advisory board member of a fintech start-up. Brendan has over 30 years' experience in the financial services sector, having held several senior executive roles at the Commonwealth Bank of Australia and Bank of Queensland.

Committee Memberships

- Audit (October 2021 to June 2023)
- Risk Chair (January 2023 to May 2023)
- Risk (October 2021 to December 2022)

COMPANY SECRETARY

Thomas C Lyons

Senior Manager, Finance & Treasury

Appointed Company Secretary July 2020

BCOM, CA.

Directors' Report (continued)

DIRECTORS' MEETINGS

The number of meetings of directors (including meetings of committees of directors) held during the year and the number of meetings attended by each director were as follows:

		Board Meetings	Nominations and Remuneration Committee Meetings	Audit Committee Meetings	Risk Committee Meetings
Peter M Schiller	A	8	5	6	
	B	8	5	6	
Peter M Binetter	A	2			1
	B	2			1
Andrew B Black	A	8		6	6
	B	8		6	6
Daniel R Cassels	A	6	4		5
	B	6	4		5
Robyn L FitzRoy	A	8	5	6	
	B	8	5	6	
Christine Franks AM	A	7	4		5
	B	8	5		6
Dr Hilangwa Maimbo	A	7		5	6
	B	8		6	6
Brendan White	A	6		6	6
	B	7		6	6

A - Number of meetings attended

B - Number of meetings held during the time the director held office during the year.

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

Directors' Report (continued)

DIVIDENDS

No dividends have been paid or declared since the end of the previous financial year, nor do the directors recommend the declaration of a dividend.

CORPORATE INFORMATION

Gateway is a public company limited by shares incorporated and domiciled in Australia. As at 30 June 2023, the Consolidated Entity comprises of the Bank, the Portavia Trust No.1 Westpac Warehouse ("Portavia Trust No.1") and Portavia Trust No.2 Series 2013-1R ("Portavia Trust No.2"). The Bank holds nine residual income units in each of the Portavia Trust No.1 and Portavia Trust No.2, which are both controlled entities of the Bank.

The Consolidated Entity employed 69 employees at 30 June 2023 (2022: 66).

PRINCIPAL ACTIVITIES

The principal activities of the Consolidated Entity during the year were the provision of financial and associated services to Members of the Bank. There have been no significant changes in the nature of these activities during the year.

OPERATING AND FINANCIAL REVIEW

The Consolidated Entity results comprise of the full 12 months to 30 June 2023 for Gateway Bank Limited, and its controlled entities, Portavia Trust No.1 and Portavia Trust No.2.

The Consolidated Entity recorded a profit after income tax for the financial year ended 30 June 2023 of $4.573 million (2022: $3.910 million).

As at 30 June 2023, the Consolidated Entity's total assets increased to $1.492 billion (2022: $1.381 billion), representing an increase of $111 million (8.0%) from the prior financial year. Total loans increased by $110 million (10.1%) to $1.203 billion (2022: $1.093 billion), with total deposits of $1.184 billion (2022: $1.057 billion), having increased $128 million (12.0%) from the prior financial year.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

The turbulent events of the past year have reverberated through the economy. The start of the financial year saw Russian soldiers in Ukraine, which led to a surge in global energy prices and further supply chain issues exacerbating the inflation problem. The Reserve Bank of Australia started its aggressive tightening, increasing rates by a cumulative 400bps in an attempt to bring inflation back to the 2-3% target range. Uncertainty remains elevated and how quickly inflation moderates is a key unknown, as domestic pressures, including wage and rents growth, continue to build.

The Australian banking system was not directly affected by the bank failures in the US and Switzerland. However it did reignite fears of a global recession and exposed vulnerabilities for certain US and European banks in an aggressive monetary tightening cycle.

Given these factors economic uncertainty exists and there remains an elevated level of uncertainty involved in the preparation of these financial statements.

The estimation uncertainty is predominantly related to the Expected Credit Losses (ECL) where the Consolidated Entity recognised an impairment expense in the Statements of Comprehensive Income for the financial year ended 30 June 2023 of $0.36 million pre-tax (2022: $0.07 million). Further information on the ECL provisioning is set out in Note 8.

Other than the changes outlined above, there have been no other significant changes in the state of affairs during the financial year.

SIGNIFICANT EVENTS AFTER THE BALANCE DATE

The Directors are not aware of any other matter or circumstance that has occurred since 30 June 2023, that has significantly affected or may significantly affect the operations of the Consolidated Entity, the results of those operations or the state of affairs of the Consolidated Entity in subsequent financial years.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS

There have been no significant changes in the operations and services of the Consolidated Entity.

ENVIRONMENTAL REGULATION AND PERFORMANCE

The Consolidated Entity is not subject to any particular or significant environmental regulation under laws of the Commonwealth or of a State or Territory.

SHARE OPTIONS

No option to acquire shares in the Bank has been granted to any person. No shares have been issued during the financial year or since the end thereof by virtue of the exercise of any options. There are no unissued shares under option at the date of this report.

DIRECTORS BENEFITS

No director has received or become entitled to receive, during or since the financial year, a benefit of a contract

Directors' Report (continued)

made by Gateway Bank with a director, a firm which a director is a member, or an entity on which a director has a substantial financial interest other than disclosed in Note 21 of the financial statements.

INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

During or since the end of the financial year, a premium was paid in respect of a contract insuring directors and officers (including executive officers, secretary, and employees) of the Bank against liability.

In accordance with normal commercial practice, disclosure of the total amount of premium payable and the nature of the liabilities covered by the insurance contract is prohibited by a confidentiality clause in the contract.

ROUNDING

The amounts contained in this report and in the financial report have been rounded to the nearest $1,000 (where rounding is applicable), unless otherwise stated, under the option available to the Bank under ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191. The Bank is an entity to which the Class Order applies.

AUDITOR INDEPENDENCE

As required under Section 307C of the *Corporations Act* the directors received an independence declaration from the auditor, KPMG. A copy has been included on the following page.

PRUDENTIAL DISCLOSURES

Prudential disclosures made in accordance with APS 330 *Public Disclosures* can be located under Important Information on Gateway Bank's website at https://www.gatewaybank.com.au/important-information.

Signed in accordance with a resolution of the directors.

P M Schiller
Chair
Sydney, 19 September 2023

Auditor's Independence Declaration

For the year ended 30 June 2023

KPMG

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

To the Directors of Gateway Bank Ltd

I declare that, to the best of my knowledge and belief, in relation to the audit of Gateway Bank Ltd 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

Richard Drinnan

Partner

Wollongong

19 September 2023

Statements of Comprehensive Income

For the year ended 30 June 2023

		Consolidated		Bank	
		2023	2022	2023	2022
	Note	$'000	$'000	$'000	$'000
Interest income	3(a)	**56,887**	27,895	**57,663**	28,236
Interest expense	3(a)	**(32,653)**	(7,173)	**(33,568)**	(7,518)
Net interest income		**24,234**	**20,722**	**24,095**	**20,718**
Non-interest income	3(b)	**2,269**	1,929	**2,177**	1,656
Operating income		**26,503**	**22,651**	**26,272**	**22,374**
Occupancy expenses		**(139)**	(134)	**(139)**	(134)
Marketing expenses		**(793)**	(656)	**(793)**	(656)
IT expenses		**(2,313)**	(1,979)	**(2,313)**	(1,979)
Administration expenses	3(c)	**(5,735)**	(4,208)	**(5,504)**	(3,931)
Employee expenses	3(d)	**(9,251)**	(8,702)	**(9,251)**	(8,702)
Depreciation and amortisation expense	3(e)	**(1,666)**	(1,681)	**(1,666)**	(1,681)
Operating expenses		**(19,897)**	**(17,360)**	**(19,666)**	**(17,083)**
Net profit before impairment and income tax expense		**6,606**	5,291	**6,606**	5,291
Impairment (expense)/benefit	3(f)	**(358)**	(71)	**(358)**	(71)
Net profit before tax		**6,248**	**5,220**	**6,248**	**5,220**
Income tax expense	4(a)	**(1,675)**	(1,310)	**(1,675)**	(1,310)
Net profit after tax attributable to Members		**4,573**	**3,910**	**4,573**	**3,910**
Other comprehensive income					
Items that will not be reclassified to profit or loss					
Net change on Cash Flow Hedge Reserve	16	**-**	37	**-**	-
Other comprehensive income net of tax		**-**	**37**	**-**	**-**
Total comprehensive income attributable to Members		**4,573**	**3,947**	**4,573**	**3,910**

The above Statements of Comprehensive Income should be read in conjunction with the accompanying notes.

Statements of Financial Position

For the year ended 30 June 2023

		Consolidated		Bank	
		2023	2022	2023	2022
	Note	$'000	$'000	$'000	$'000
Assets					
Cash and cash equivalents	5	**59,125**	54,491	**54,028**	48,237
Investments	6	**220,231**	224,286	**240,784**	244,839
Loans and advances	7,8	**1,203,190**	1,092,889	**1,203,190**	1,092,889
Current tax assets		**1,268**	730	**1,268**	730
Net deferred tax assets	4(c)	**1,555**	1,119	**1,555**	1,119
Property, plant and equipment	9	**4,608**	5,985	**4,608**	5,985
Intangible assets	10	**734**	769	**734**	769
Other assets	11	**841**	921	**3,715**	4,263
Total assets		**1,491,552**	**1,381,190**	**1,509,882**	**1,398,831**
Liabilities					
Deposits	12	**1,184,332**	1,056,574	**1,184,332**	1,056,574
Trade payables	13	**4,154**	3,391	**3,392**	3,108
Borrowings	14(a)	**180,815**	203,525	**39,888**	50,992
Inter-entity borrowings	14(b)	**-**	-	**160,019**	170,457
Provisions	15	**1,530**	1,552	**1,530**	1,552
Total liabilities		**1,370,831**	**1,265,042**	**1,389,161**	**1,282,683**
Net assets		**120,721**	**116,148**	**120,721**	**116,148**
Members' equity					
Retained earnings		**120,721**	116,148	**120,721**	116,148
Reserves	16	**-**	-	**-**	-
Total members' equity		**120,721**	**116,148**	**120,721**	**116,148**

The above Statements of Financial Position should be read in conjunction with the accompanying notes.

Statements of Changes in Equity

For the year ended 30 June 2023

Consolidated	Note	Retained Earnings $'000	Cash Flow Hedge Reserve $'000	Total Equity $'000
At 30 June 2021		**112,238**	**(37)**	**112,201**
Total comprehensive income				
Profit for the year		3,910	-	3,910
Other comprehensive income				
Net change in Cash Flow Hedge Reserve	16	-	37	37
Total other comprehensive income		**-**	**37**	**37**
Total comprehensive income		**3,910**	**37**	**3,947**
At 30 June 2022		**116,148**	**-**	**116,148**
Total comprehensive income				
Profit for the year		4,573	-	4,573
Other comprehensive income				
Net change in Cash Flow Hedge Reserve	16	-	-	-
Total other comprehensive income		**-**	**-**	**-**
Total comprehensive income		**4,573**	**-**	**4,573**
At 30 June 2023		**120,721**	**-**	**120,721**

Bank	Note	Retained Earnings $'000	Cash Flow Hedge Reserve $'000	Total Equity $'000
At 30 June 2021		**112,238**	**-**	**112,238**
Total comprehensive income				
Profit for the year		3,910	-	3,910
Other comprehensive income				
Net change in Cash Flow Hedge Reserve	16	-	-	-
Total other comprehensive income		**-**	**-**	**-**
Total comprehensive income		**3,910**	**-**	**3,910**
At 30 June 2022		**116,148**	**-**	**116,148**
Total comprehensive income				
Profit for the year		4,573	-	4,573
Other comprehensive income				
Net change in Cash Flow Hedge Reserve	16	-	-	-
Total other comprehensive income		**-**	**-**	**-**
Total comprehensive income		**4,573**	**-**	**4,573**
At 30 June 2023		**120,721**	**-**	**120,721**

The above Statements of Changes in Equity should be read in conjunction with the accompanying notes.

Statements of Cash Flows

For the year ended 30 June 2023

	Note	Consolidated 2023 $'000	Consolidated 2022 $'000	Bank 2023 $'000	Bank 2022 $'000
Cash flows from operating activities					
Interest received		**59,395**	30,669	**60,171**	31,011
Bad debts recovered		**196**	204	**196**	204
Commissions and fees paid		**(4,358)**	(4,565)	**(4,358)**	(4,565)
Other non-interest income received/(refunded)		**1,778**	(1,192)	**1,687**	(333)
Interest paid		**(24,699)**	(7,022)	**(25,614)**	(7,368)
Net funds advanced to members for loans and advances		**(110,775)**	(198,526)	**(110,775)**	(198,525)
Payments to suppliers and employees		**(15,498)**	(13,035)	**(15,277)**	(15,133)
Income tax paid		**(2,650)**	(2,228)	**(2,650)**	(2,228)
Net acceptance from deposits		**119,780**	252,761	**119,780**	252,761
Net cash flows from operating activities	18(a)	**23,169**	**57,066**	**23,160**	**55,824**
Cash flows used in investing activities					
Proceeds from redemption of investments		**620,448**	347,610	**620,448**	347,610
Payments for investments		**(615,751)**	(430,902)	**(615,751)**	(430,901)
Purchase of intangible assets		**(431)**	(53)	**(431)**	(53)
Purchase of property, plant and equipment		**(98)**	(224)	**(98)**	(224)
Net cash flows from/(used in) investing activities		**4,168**	**(83,569)**	**4,168**	**(83,568)**
Cash flows from/(used in) financing activities					
Proceeds from debt securities issuance		**84,062**	43,429	**-**	-
Proceeds from/(repayment of) borrowings		**(10,100)**	(0)	**(20,539)**	41,741
Repayment of debt securities		**(95,667)**	-	**-**	-
Payment of lease liabilities		**(998)**	(928)	**(998)**	(928)
Net cash flows (used in)/from financing activities	18(b)	**(22,703)**	**42,501**	**(21,537)**	**40,813**
Net increase in cash and cash equivalents		**4,634**	15,998	**5,791**	13,069
Cash and cash equivalents at beginning of year		**54,491**	38,493	**48,237**	35,168
Cash and cash equivalents at end of year	5	**59,125**	**54,491**	**54,028**	**48,237**

The above Statements of Cash Flows should be read in conjunction with the accompanying notes.

It should be noted that the Consolidated Entity does not use the Statements of Cash Flows in the internal management of its liquidity positions.

Notes to the Financial Statements

For the year ended 30 June 2023

1 FINANCIAL STATEMENTS PREPARATION

The financial report of Gateway Bank Limited (the Bank), together with its controlled entities (the Consolidated Entity), for the year ended 30 June 2023, was authorised for issue by the Board of Directors on 19 September 2023. The directors have the power to amend and reissue the financial statements.

The Bank is a for-profit entity incorporated and domiciled in Australia. It is a public company limited by shares. The registered office is Level 10, 68 York Street, Sydney, New South Wales, 2000.

The financial report includes the consolidated and standalone financial statements of the Consolidated Entity and the Bank. Controlled entities are all those entities over which the parent entity, the Bank, has the power to govern the financial and operating policies to obtain the benefits from their activities. As the Bank holds all the participating residual income units of Portavia Trust No.1 and Portavia Trust No.2 in its ownership structure, both these special purpose entities are deemed to be controlled entities of the Bank.

The principal accounting policies are set out below and in the relevant notes to the financial statements. These accounting policies provide details of the accounting treatments adopted and where accounting standards provide policy choices. These policies have been consistently applied to all years presented, unless otherwise stated.

(a) Basis of preparation and accounting

The Financial Report:

- is a general purpose financial report
- has been prepared in accordance with the Australian Accounting Standards and Interpretations adopted by the Australian Accounting Standards Board (AASB) and International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB)
- has been prepared in accordance with the requirements of the Corporations Act 2001
- is presented in Australian Dollars, which is the Consolidated Entity's functional and presentation currency
- is presented with all values rounded to the nearest thousand dollars ($'000) in accordance with ASIC Corporations Instrument 2016/191 unless otherwise indicated
- has been prepared on a going concern basis using an historical cost basis, as modified by applying fair value accounting to financial assets and financial liabilities measured at fair value through profit and loss (FVTPL) for Reverse Mortgages or in other comprehensive income (OCI) for derivative instruments; and
- presents assets and liabilities on the face of the Statements of Financial Position in decreasing order of liquidity.

The Consolidated Entity has adopted Class Order 10/654, issued by the Australian Securities and Investments Commission (ASIC), permitting entities to continue to include parent entity financial statements in their financial reports. Entities taking advantage of the relief are not required to present the summary parent entity information otherwise required by Regulation 2M.3.01 of the Corporations Regulations 2001.

(b) New accounting standards and interpretations

No new accounting standards have been adopted by the Consolidated Entity for the full year ended 30 June 2023. There have also been no amendments to existing accounting standards that have had a material impact on the Consolidated Entity.

(c) Future developments in accounting standards

AASB 17 Insurance Contracts is effective from 1 July 2023. Under AASB 17, reverse mortgages meet the definition of insurance contracts. However, the insurance risk associated with these lending arrangements is limited by the mortgage security held against these facilities. Accordingly, the Consolidated Entity has elected to continue to apply AASB 9 Financial Instruments in accounting for the reverse mortgage portfolio.

Apart from the above there are no other new standards and interpretations that may have a material impact on the Consolidated Entity that have been issued but are not yet effective, and unless otherwise stated, have not been early adopted by the Consolidated Entity.

Notes to the Financial Statements (continued)

For the year ended 30 June 2023

1 FINANCIAL STATEMENTS PREPARATION (continued)

(d) Critical accounting assumptions and estimates

The preparation of the financial statements requires the use of judgement, assumptions and estimates which impact the financial information. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, income, and expenses. Management bases its judgements and estimates on historical experience and on other various factors it believes to be reasonable under the circumstances, the result of which form the basis of the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions and conditions.

Management has identified the following critical accounting policies for which significant judgements, estimates and assumptions are made. Further details of the key judgements and estimates may be found in the relevant notes to the financial statements.

Provisions for Expected Credit Losses (ECL)

Details on specific judgements in relation to emerging risks on the calculation of provisions for ECL are included in Note 8.

2 RISK MANAGEMENT

Financial instruments are fundamental to the Consolidated Entity's business of providing financial and associated services to Members. The associated financial risks include market risk, credit risk, liquidity and funding risk and operational risk. These risks are managed through a continuous process of identification, analysis, measurement and monitoring, setting of appropriate risk limits and other controls. This risk management process is critical to the Consolidated Entity's sustained profitability and each individual within the Consolidated Entity is accountable for the risk exposures relating to his or her role and responsibilities.

Risk Management Framework (RMF)

The Consolidated Entity's RMF is embedded throughout its operations and governance process and is subject to ongoing development and enhancement to reflect changes in strategy, market conditions, and products and services offered. It incorporates the following core components:

- a 'three lines of defence' model clearly defining risk ownership responsibilities with functionally independent levels of oversight and independent assurance
- a suite of policies, procedures and systems documenting the Consolidated Entity's Board-approved Risk Appetite Statement (RAS) and risk management systems descriptions, establishing specific limits and other measures to restrict particular risk exposures, ensuring that all categories of risk are actively monitored by the Board and managed by Executive Management and providing for regular review of the Consolidated Entity's risk tolerance
- human resources practices designed to recruit, train, and retain employees with required specialist skills
- clearly documented delegations of responsibility and accountability of risk management throughout the organisation
- internal control processes including structured Board and Executive Management reporting, a system of independent review (by internal and external audit) and regular Board oversight; and
- an operational philosophy that seeks to anticipate and minimise risks before they occur and that fully investigates, and learns from, any unexpected consequences that should arise.

Notes to the Financial Statements (continued)

For the year ended 30 June 2023

2 RISK MANAGEMENT (continued)

Roles and responsibilities

Board of Directors (Board)

The Board has an overall responsibility for the establishment and oversight of the Consolidated Entity's RMF.

Risk Committee

The Risk Committee is responsible for monitoring compliance with the Consolidated Entity's risk management policies and procedures, and for reviewing the adequacy of the RMF in relation to the risks faced by the Consolidated Entity. The Risk Committee reports regularly to the Board on its activities, and it is a requirement that at least one member of the Audit Committee is also a member of the Risk Committee.

Audit Committee

The Audit Committee provides assurance to the Board on the appropriateness, effectiveness, and adequacy of the RMF. It is responsible for the internal and external auditor relationships.

Internal Audit

From 7 November 2018, Grant Thornton has been engaged by the Board to review risk management and internal controls in the capacity of independent internal auditor. Grant Thornton has provided reports to the Chair of the Audit Committee and has full access to staff and information when conducting its reviews.

Chief Executive Officer (CEO)

The CEO is responsible for the ongoing management of the RMF including its periodic review and renewal, subject to requisite Board direction and approvals.

Chief Risk Officer (CRO) and Executive Management

The CRO and Executive Management team are responsible for implementing the Board-approved risk management strategy and for developing policies, procedures, processes, and controls for identifying and managing risks in all areas of activity.

Executive Risk and Compliance Committee (ERCC)

The ERCC, convened by the CEO, oversees the Consolidated Entity's effectiveness in meeting all relevant risk and compliance obligations, as well as developing and reviewing the policy framework for recommendation and approval by the relevant Board Committees and endorsement by the Board.

Risk governance and reporting

Monitoring and controlling risk is primarily conducted using the limits established in the RAS by the Board. These limits reflect the Consolidated Entity's business strategy and market environment as well as the level of risk it is willing to accept.

The Board identifies several discrete material risk categories and the risk appetite and tolerance parameters for each of these. The RAS qualifies the appetite or tolerance level for business risks and summarises the limits and management controls that apply to manage the impact of a particular risk. These parameters are reviewed annually.

Information is compiled, processed, and understood to analyse, identify, and manage risks early. This information is presented to the Executive Management Committees, the Risk Committee, and the Board. The reporting includes aggregate credit exposures, delinquency summary, loan security summary, loan type summary, liquidity ratios, Value at Risk (VaR), sensitivity analysis and material changes. Detailed reporting occurs monthly. Executive Management assesses the appropriateness of the inputs and assumptions used in determining the provision for impairment on an annual basis or more frequently where market conditions dictate it. The Board receives summarised risk reporting on key risk measures monthly. More detailed analysis and review of risks is undertaken on a periodic basis by the Risk Committee with reporting of outcomes to the Board.

Notes to the Financial Statements (continued)

For the year ended 30 June 2023

2 RISK MANAGEMENT (continued)

Risk mitigation

The Consolidated Entity actively manages risk through a framework that includes the use of collateral, delegations, limit frameworks, review of loan concentrations, lending and funding portfolio diversification and interest rate hedging.

(a) Interest rate risk

Market risk is the risk that market rates and prices will change and that this may have an adverse effect on the profitability and/or net worth of the Consolidated Entity. The Consolidated Entity is only exposed to Interest Rate Risk in the Banking Book (IRRBB).

Fair value interest rate risk

Fair value interest rate risk is the risk that the fair value of future cash flows of financial instruments will fluctuate due to changes in interest rates.

Cash flow interest rate risk

Cash flow interest rate risk is the risk that changes in interest rates will affect future cash flows of financial instruments. The Board has established limits on VaR and interest rate gaps for stipulated periods. Positions are monitored monthly and managed using interest rate swaps and adjusting fixed rate pricing.

Key controls and risk management strategies

- Defined VaR indicators set in the RAS
- Pricing appropriately for risk
- Monthly monitoring of VaR; and
- Using interest rate swaps to manage exposure in variability in future cash flows resulting from fluctuations in interest rates, which could affect profit or loss.

Notes to the Financial Statements (continued)

For the year ended 30 June 2023

2 RISK MANAGEMENT (continued)

(a) Interest rate risk (continued)

VaR assumptions

The principal risk to which non-trading portfolios are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instruments because of a change in market interest rates. The main tool used to measure and control market risk exposure within the Consolidated Entity's non-trading portfolio is VaR. The VaR of the non-trading portfolio is the estimated loss that will arise on the portfolio over a specified period (holding period) from an adverse market movement with a specified probability (confidence level).

The VaR that the Consolidated Entity measures is an estimate, using a confidence level of 99%, of the potential loss that is not expected to be exceeded if the current market risk positions were to be held unchanged for one day. The use of a 99% confidence level means that, within twenty days' horizon, losses exceeding the VaR figure should occur, on average, not more than once every hundred days.

Since VaR is an integral part of the Consolidated Entity's interest rate risk management, VaR limits have been established and exposures are reviewed monthly against the limits by Executive Management and the Board.

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

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

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

	% of Capital	
	2023	**2022**
As at 30 June	**0.60**	**1.83**
Average for the period	**1.00**	**0.99**
Highest for the period	**1.37**	**1.83**
Lowest for the period	**0.60**	**0.32**

Notes to the Financial Statements (continued)

For the year ended 30 June 2023

2 RISK MANAGEMENT (continued)

(a) Interest rate risk (continued)

Consolidated Entity

2023	Floating interest rate $'000	Fixed interest rate: 1 year or less $'000	Fixed interest rate: 1 to 5 years $'000	Fixed interest rate: More than 5 years $'000	Non-interest bearing $'000	Total $'000
Financial assets measured at amortised cost						
Cash and cash equivalents	59,124	-	-	-	1	59,125
Investments	56,729	163,502	-	-	-	220,231
Loans and advances	753,068	130,564	175,059	-	-	1,058,691
Financial assets measured at fair value through profit and loss						
Loans and advances	144,499	-	-	-	-	144,499
Total financial assets	**1,013,420**	**294,066**	**175,059**	**-**	**1**	**1,482,546**
Financial liabilities						
Deposits	316,966	861,972	5,343	-	51	1,184,332
Borrowings (1)	140,927	35,996	3,892	-	-	180,815
Total financial liabilities	**457,893**	**897,968**	**9,235**	**-**	**51**	**1,365,147**
Total interest rate repricing gap	**555,527**	**(603,902)**	**165,824**	**-**	**(50)**	**117,399**
Cumulative interest rate repricing gap	**555,527**	**(48,375)**	**117,449**	**117,449**	**117,399**	

(1) Borrowings relate to funding provided to Portavia Trust No.1 from Westpac Banking Corporation, the lease liability, and the Reserve Bank of Australia's Term Funding Facility.

Notes to the Financial Statements (continued)

For the year ended 30 June 2023

2 RISK MANAGEMENT (continued)

(a) Interest rate risk (continued)

Consolidated Entity

2022	Floating interest rate $'000	Fixed interest rate: 1 year or less $'000	Fixed interest rate: 1 to 5 years $'000	Fixed interest rate: More than 5 years $'000	Non-interest bearing $'000	Total $'000
Financial assets measured at amortised cost						
Cash and cash equivalents	54,490	-	-	-	1	54,491
Investments	55,160	169,126	-	-	-	224,286
Loans and advances	690,600	71,755	272,334	1,258	-	1,035,947
Financial assets measured at fair value through profit and loss						
Loans and advances	56,942	-	-	-	-	56,942
Total financial assets	**857,192**	**240,881**	**272,334**	**1,258**	**1**	**1,371,666**
Financial liabilities						
Deposits	332,957	715,297	8,270	-	50	1,056,574
Borrowings (1)	152,533	10,100	40,892	-	-	203,525
Total financial liabilities	**485,490**	**725,397**	**49,162**	**-**	**50**	**1,260,099**
Total interest rate repricing gap	**371,702**	**(484,516)**	**223,172**	**1,258**	**(49)**	**111,567**
Cumulative interest rate repricing gap	**371,702**	**(112,814)**	**110,358**	**111,616**	**111,567**	

(1) Borrowings relate to funding provided to Portavia Trust No.1 from Westpac Banking Corporation, the lease liability, and the Reserve Bank of Australia's Term Funding Facility.

Notes to the Financial Statements (continued)

For the year ended 30 June 2023

2 RISK MANAGEMENT (continued)

(a) Interest rate risk (continued)

Bank

2023	Floating interest rate $'000	Fixed interest rate: 1 year or less $'000	Fixed interest rate: 1 to 5 years $'000	Fixed interest rate: More than 5 years $'000	Non-interest bearing $'000	Total $'000
Financial assets measured at amortised cost						
Cash and cash equivalents	54,027	-	-	-	1	54,028
Investments	77,282	163,502	-	-	-	240,784
Loans and advances	753,068	130,564	175,059	-	-	1,058,691
Financial assets measured at fair value through profit and loss						
Loans and advances	144,499	-	-	-	-	144,499
Total financial assets	**1,028,876**	**294,066**	**175,059**	**-**	**1**	**1,498,002**
Financial liabilities						
Deposits	316,966	861,972	5,343	-	51	1,184,332
Borrowings [1]	-	35,996	3,892	-	-	39,888
Inter-entity borrowings	153,386	3,797	2,836	-	-	160,019
Total financial liabilities	**470,352**	**901,765**	**12,071**	**-**	**51**	**1,384,239**
Total interest rate repricing gap	**558,524**	**(607,699)**	**162,988**	**-**	**(50)**	**113,763**
Cumulative interest rate repricing gap	**558,524**	**(49,175)**	**113,813**	**113,813**	**113,763**	

(1) Borrowings relate to funding provided to the lease liability and the Reserve Bank of Australia's Term Funding Facility.

Notes to the Financial Statements (continued)

For the year ended 30 June 2023

2 RISK MANAGEMENT (continued)

(a) Interest rate risk (continued)

Bank

2022	Floating interest rate $'000	Fixed interest rate: 1 year or less $'000	Fixed interest rate: 1 to 5 years $'000	Fixed interest rate: More than 5 years $'000	Non-interest bearing $'000	Total $'000
Financial assets measured at amortised cost						
Cash and cash equivalents	48,236	-	-	-	1	48,237
Investments	75,713	169,126	-	-	-	244,839
Loans and advances	690,600	71,755	272,334	1,258	-	1,035,947
Financial assets measured at fair value through profit and loss						
Loans and advances	56,942	-	-	-	-	56,942
Total financial assets	**871,491**	**240,881**	**272,334**	**1,258**	**1**	**1,385,965**
Financial liabilities						
Deposits	332,957	715,297	8,270	-	50	1,056,574
Borrowings (1)	-	10,100	40,892	-	-	50,992
Inter-entity borrowings	159,972	4,428	6,057	-	-	170,457
Total financial liabilities	**492,929**	**729,825**	**55,219**	**-**	**50**	**1,278,023**
Total interest rate repricing gap	**378,562**	**(488,944)**	**217,115**	**1,258**	**(49)**	**107,942**
Cumulative interest rate repricing gap	**378,562**	**(110,382)**	**106,733**	**107,991**	**107,942**	

(1) Borrowings relate to funding provided to the lease liability and the Reserve Bank of Australia's Term Funding Facility.

Notes to the Financial Statements (continued)

For the year ended 30 June 2023

2 RISK MANAGEMENT (continued)

(b) Credit risk

Credit risk is the potential for loss arising from the failure of a counterparty to meet their contractual obligations to the Consolidated Entity. It arises primarily from loans and advances.

Key controls and risk mitigation strategies

- Defined credit risk indicators set in the RAS
- Transacting with counterparties that demonstrate the ability and willingness to service their obligations through performance of due diligence and thorough credit assessments
- Applications manually assessed by qualified, approved credit authority holders within the Consolidated Entity using clearly defined credit policies, with more complex or higher risk applications referred to more senior and experienced credit authority holders with a higher delegated lending authority
- Taking collateral where appropriate, such as mortgage interests over property, other registered securities over assets, and guarantees
- For residential mortgages, where the Loan to Value Ratio (LVR) is greater than 80%, Lenders Mortgage Insurance (LMI) is required
- Pricing appropriately for risk – particularly unsecured loans and advances
- Credit concentration frameworks that set exposure limits to the introduction source, repayment type (interest-only vs. principal and interest), borrower type (investor vs. owner-occupier), LVR, security risk category, counterparties, or groups of related counterparties
- Regular monitoring of credit quality, concentration arrears, policy exceptions and policy breaches
- Working with impaired counterparties, or those in danger of becoming so, to help rehabilitate their financial positions
- Stress testing, either at a counterparty or portfolio level
- Frequent independent credit reviews to assess business compliance with credit policies and frameworks, application of credit risk ratings and other key practices; and
- Regular review of credit policies, and prompt implementations of amendments where required.

Maximum exposure to credit risk

The Consolidated Entity's maximum credit risk exposure equals the drawn-down portion on the Statements of Financial Position and the undrawn portion of all committed facilities of loans and receivables, and is shown in the following table:

	Consolidated		Bank	
	2023 $'000	2022 $'000	2023 $'000	2022 $'000
Bank balances	**59,125**	54,491	**54,028**	48,237
Investments	**220,231**	224,286	**240,784**	244,839
Loans and advances	**1,203,190**	1,092,889	**1,203,190**	1,092,889
Unused committed loan facilities	**32,604**	45,618	**32,604**	45,618
Redraw facilities on mortgages	**58,566**	68,134	**58,566**	68,134
Loans approved but not funded	**55,347**	39,030	**55,347**	39,030
Undrawn reverse mortgage loans	**131,245**	56,035	**131,245**	56,035
Maximum credit risk exposure	**1,760,308**	**1,580,483**	**1,775,764**	**1,594,782**

Refer to Notes 5, 6 and 7 for information regarding the carrying value of financial assets measured at amortised cost.

Notes to the Financial Statements (continued)

For the year ended 30 June 2023

2 RISK MANAGEMENT (continued)

(b) Credit risk (continued)

The following tables summarise the exposures to credit risk under AASB 9.

2023	Consolidated Entity				
	Loans and advances $'000	Deposits with other ADIs $'000	Investment debt securities $'000	Cash and cash equivalents $'000	Total $'000
Carrying amount of financial assets measured at amortised cost					
Stage 1: Collectively assessed					
Secured by mortgage: current	1,007,449	-	-	-	1,007,449
Secured by mortgage: <= 30 days arrears	11,202	-	-	-	11,202
Investment grade	-	682	219,549	51,662	271,893
Unrated	-	-	-	7,463	7,463
Other	30,054	-	-	-	30,054
Net deferred income and expenses	2,757	-	-	-	2,757
Carrying amount	1,051,462	682	219,549	59,125	1,330,818
Stage 2: Collectively assessed					
Secured by mortgage	5,755	-	-	-	5,755
Other	145	-	-	-	145
Carrying amount	5,900	-	-	-	5,900
Stage 3: Collectively assessed					
Secured by mortgage	-	-	-	-	-
Other	-	-	-	-	-
Carrying amount	-	-	-	-	-
Stage 3: Individually assessed					
Secured by mortgage	3,114	-	-	-	3,114
Other	73	-	-	-	73
Carrying amount	3,187	-	-	-	3,187
Expected credit loss	(1,858)	-	-	-	(1,858)
Total carrying amount of financial assets measured at amortised cost	**1,058,691**	**682**	**219,549**	**59,125**	**1,338,047**
Includes restructured loans	682	-	-	-	682
Carrying amount of financial assets measured at fair value through profit and loss					
Secured by mortgage: current	144,499	-	-	-	144,499
Total carrying amount of financial assets measured at fair value through profit and loss	**144,499**	**-**	**-**	**-**	**144,499**
Total carrying amount	**1,203,190**	**682**	**219,549**	**59,125**	**1,482,546**

For a definition of Stage 1, 2 and 3 refer to Note 8.

Notes to the Financial Statements (continued)

For the year ended 30 June 2023

2 RISK MANAGEMENT (continued)

(b) Credit risk (continued)

2022	Consolidated Entity Loans and advances $'000	Deposits with other ADIs $'000	Investment debt securities $'000	Cash and cash equivalents $'000	Total $'000
Carrying amount of financial assets measured at amortised cost					
Stage 1: Collectively assessed					
Secured by mortgage: current	991,787	-	-	-	991,787
Secured by mortgage: <= 30 days arrears	6,001	-	-	-	6,001
Investment grade	-	678	206,630	47,502	254,810
Unrated	-	-	16,978	6,989	23,967
Other	31,415	-	-	-	31,415
Net deferred income and expenses	2,861	-	-	-	2,861
Carrying amount	1,032,064	678	223,608	54,491	1,310,841
Stage 2: Collectively assessed					
Secured by mortgage	3,689	-	-	-	3,689
Other	161	-	-	-	161
Carrying amount	3,850	-	-	-	3,850
Stage 3: Collectively assessed					
Secured by mortgage	-	-	-	-	-
Other	-	-	-	-	-
Carrying amount	-	-	-	-	-
Stage 3: Individually assessed					
Secured by mortgage	1,672	-	-	-	1,672
Other	67	-	-	-	67
Carrying amount	1,739	-	-	-	1,739
Expected credit loss	(1,706)	-	-	-	(1,706)
Total carrying amount of financial assets measured at amortised cost	**1,035,947**	**678**	**223,608**	**54,491**	**1,314,724**
Includes restructured loans	1,365	-	-	-	1,365
Carrying amount of financial assets measured at fair value through profit and loss					
Secured by mortgage: current	56,942	-	-	-	56,942
Total carrying amount of financial assets measured at fair value through profit and loss	**56,942**	**-**	**-**	**-**	**56,942**
Total carrying amount	**1,092,889**	**678**	**223,608**	**54,491**	**1,371,666**

For a definition of Stage 1, 2 and 3 refer to Note 8.

Notes to the Financial Statements (continued)

For the year ended 30 June 2023

2 RISK MANAGEMENT (continued)

(b) Credit risk (continued)

2023	Bank				
	Loans and advances $'000	Deposits with other ADIs $'000	Investment debt securities $'000	Cash and cash equivalents $'000	Total $'000
Carrying amount of financial assets measured at amortised cost					
Stage 1: Collectively assessed					
Secured by mortgage: current	1,007,449	-	-	-	1,007,449
Secured by mortgage: <= 30 days arrears	11,202	-	-	-	11,202
Investment grade	-	682	240,102	46,565	287,349
Unrated	-	-	-	7,463	7,463
Other	30,054	-	-	-	30,054
Net deferred income and expenses	2,757	-	-	-	2,757
Carrying amount	1,051,462	682	240,102	54,028	1,346,274
Stage 2: Collectively assessed					
Secured by mortgage	5,755	-	-	-	5,755
Other	145	-	-	-	145
Carrying amount	5,900	-	-	-	5,900
Stage 3: Collectively assessed					
Secured by mortgage	-	-	-	-	-
Other	-	-	-	-	-
Carrying amount	-	-	-	-	-
Stage 3: Individually assessed					
Secured by mortgage	3,114	-	-	-	3,114
Other	73	-	-	-	73
Carrying amount	3,187	-	-	-	3,187
Expected credit loss	(1,858)	-	-	-	(1,858)
Total carrying amount of financial assets measured at amortised cost	**1,058,691**	**682**	**240,102**	**54,028**	**1,353,503**
Includes restructured loans	682	-	-	-	682
Carrying amount of financial assets measured at fair value through profit and loss					
Secured by mortgage: current	144,499	-	-	-	144,499
Total carrying amount of financial assets measured at fair value through profit and loss	**144,499**	**-**	**-**	**-**	**144,499**
Total carrying amount	**1,203,190**	**682**	**240,102**	**54,028**	**1,498,002**

For a definition of Stage 1, 2 and 3 refer to Note 8.

Notes to the Financial Statements (continued)

For the year ended 30 June 2023

2 RISK MANAGEMENT (continued)

(b) Credit risk (continued)

	Bank				
2022	**Loans and advances $'000**	**Deposits with other ADIs $'000**	**Investment debt securities $'000**	**Cash and cash equivalents $'000**	**Total $'000**
Carrying amount of financial assets measured at amortised cost					
Stage 1: Collectively assessed					
Secured by mortgage: current	991,787	-	-	-	991,787
Secured by mortgage: <= 30 days arrears	6,001	-	-	-	6,001
Investment grade	-	678	227,183	41,248	269,109
Unrated	-	-	16,978	6,989	23,967
Other	31,415	-	-	-	31,415
Net deferred income and expenses	2,861	-	-	-	2,861
Carrying amount	1,032,064	678	244,161	48,237	1,325,140
Stage 2: Collectively assessed					
Secured by mortgage	3,689	-	-	-	3,689
Other	161	-	-	-	161
Carrying amount	3,850	-	-	-	3,850
Stage 3: Collectively assessed					
Secured by mortgage	-	-	-	-	-
Other	-	-	-	-	-
Carrying amount	-	-	-	-	-
Stage 3: Individually assessed					
Secured by mortgage	1,672	-	-	-	1,672
Other	67	-	-	-	67
Carrying amount	1,739	-	-	-	1,739
Expected credit loss	(1,706)	-	-	-	(1,706)
Total carrying amount of financial assets measured at amortised cost	**1,035,947**	**678**	**244,161**	**48,237**	**1,329,023**
Includes restructured loans	1,365	-	-	-	1,365
Carrying amount of financial assets measured at fair value through profit and loss					
Secured by mortgage: current	56,942	-	-	-	56,942
Total carrying amount of financial assets measured at fair value through profit and loss	**56,942**	**-**	**-**	**-**	**56,942**
Total carrying amount	**1,092,889**	**678**	**244,161**	**48,237**	**1,385,965**

For a definition of Stage 1, 2 and 3 refer to Note 8.

Notes to the Financial Statements (continued)

For the year ended 30 June 2023

2 RISK MANAGEMENT (continued)

(b) Credit risk (continued)

Concentration of credit risk

The Consolidated Entity minimises the concentration of geographic credit risk by undertaking transactions with counterparties across a range of geographic areas. Customers located in New South Wales comprise the largest segment.

	Consolidated		Bank	
	2023 %	2022 %	2023 %	2022 %
New South Wales	**52.7**	**53.8**	**52.7**	**53.8**
Victoria	**20.0**	**20.9**	**20.0**	**20.9**
Queensland	**16.6**	**16.0**	**16.6**	**16.0**
Western Australia	**3.9**	**3.4**	**3.9**	**3.4**
South Australia	**3.6**	**2.9**	**3.6**	**2.9**
Tasmania	**0.5**	**0.6**	**0.5**	**0.6**
Northern Territory	**0.0**	**0.0**	**0.0**	**0.0**
Australian Capital Territory	**2.7**	**2.4**	**2.7**	**2.4**
Total	**100.0**	**100.0**	**100.0**	**100.0**

The Consolidated Entity further minimises concentration risk by monitoring credit risk by postcode, as certain postcodes have higher credit risk than others and therefore limits are applied to lending to postcodes identified as high risk.

Collateral and other credit enhancements

The Consolidated Entity holds collateral against loans to customers in the form of mortgage interests over property, other registered securities over assets, and guarantees. The following tables provide information on credit exposures from residential and commercial mortgage lending by stratifications of LVRs. The LVR is calculated as the ratio of the current balance of the loan to the most recent valuation of the collateral.

Residential mortgages

	Consolidated		Bank	
LVRs	2023 $'000	2022 $'000	2023 $'000	2022 $'000
<= 25%	**95,722**	53,842	**95,722**	53,842
>25% <=50%	**256,856**	180,056	**256,856**	180,056
>50% <=70%	**273,103**	228,777	**273,103**	228,777
>70% <=80%	**185,390**	177,150	**185,390**	177,150
>80% <=90% (1)	**137,920**	115,188	**137,920**	115,188
>90% <=100% (1)	**195,158**	274,603	**195,158**	274,603
>100% (1)	**-**	-	**-**	-
Total residential mortgages	**1,144,149**	**1,029,616**	**1,144,149**	**1,029,616**

(1) For the residential mortgages with an LVR of >80%, >90% and >100%, $86.0 million, $148.0 million, and $nil (2022: $56.0 million, $209.3 million, and $nil) respectively, is attributable to participants of the Federal Government's First Home Loan Deposit Scheme (FHLDS). Under the FHLDS the Federal Government acts as a guarantor for up to 15% of the home loan.

Notes to the Financial Statements (continued)

For the year ended 30 June 2023

RISK MANAGEMENT (continued)

(b) Credit risk (continued)

Commercial mortgages

LVRs	Consolidated		Bank	
	2023 $'000	2022 $'000	2023 $'000	2022 $'000
<= 25%	**31**	29	**31**	29
>25% <=50%	**1,511**	11,952	**1,511**	11,952
>50% <=70%	**25,872**	18,495	**25,872**	18,495
>70% <=80%	**457**	-	**457**	-
>80% <=90%	**-**	-	**-**	-
>90% <=100%	**-**	-	**-**	-
>100%	**-**	-	**-**	-
Total commercial mortgages	**27,871**	**30,476**	**27,871**	**30,476**

(c) Liquidity and funding risk

Liquidity risk is the combined risk of not being able to meet financial obligations as they fall due (funding liquidity risk), and that liquidity in financial markets, such as the market for debt securities, may reduce significantly (market liquidity risk). The Consolidated Entity is exposed to liquidity risk primarily through the funding mismatch between the Consolidated Entity's loans, investments, and sources of funding.

Key controls and risk mitigation strategies

- Defined liquidity risk indicators in RAS
- Preparation of an annual Funding Plan based on the Budget for the next financial year and a further 4-year outlook
- Maintaining a diverse, yet stable, pool of potential funding sources across different entities and products
- Maintaining sufficient liquidity buffers and funding capacity to withstand periods of disruption in wholesale funding markets and unanticipated changes in the Balance Sheet funding gap
- Conservatively managing the mismatch between asset and liability maturities
- Maintaining a portfolio of High-Quality Liquid Assets (HQLA) readily saleable or repo-eligible liquid assets
- Maintaining minimum regulatory limits on the ratio of net liquid assets (cash, short-term bank negotiable certificates of deposits/bills and floating rate notes) to customer liabilities, set to reflect market conditions
- Daily monitoring of liquidity risk exposures, incorporating an assessment of expected future cash flows; and
- Maintaining a Contingency Funding Plan that provides strategies for addressing liquidity shortfalls in a crisis situation.

The closing Minimum Liquid Holdings (MLH) ratio for the year ended 30 June 2023 was 18.39% (2022: 18.05%) versus an APRA prudential minimum of 15%. The Board approved policies addressing liquidity risk management ensure that adequate buffers, trigger points and contingency arrangements are in place.

Refer to Notes 12 and 14 for maturity analysis of financial liabilities.

Notes to the Financial Statements (continued)

For the year ended 30 June 2023

2 RISK MANAGEMENT (continued)

(c) Liquidity and funding risk (continued)

Consolidated Entity

2023	Note	Carrying amount $'000	Gross nominal inflow / (outflow) $'000	Less than 1 month $'000	1-3 months $'000	3-12 months $'000	1-5 years $'000	More than 5 years $'000
Financial liabilities								
Deposits	12	**1,184,332**	**(1,195,373)**	(454,289)	(334,904)	(400,686)	(5,494)	-
Term Funding Facility	14	**35,996**	**(36,013)**	(10,037)	(7,854)	(18,122)	-	-
Bank borrowings	14	**140,927**	**(156,564)**	(3,751)	(3,733)	(149,080)	-	-
Lease liability	14	**3,892**	**(4,059)**	(93)	(187)	(876)	(2,903)	-
		1,365,147	**(1,392,009)**	**(468,170)**	**(346,678)**	**(568,764)**	**(8,397)**	**-**

2022	Note	Carrying amount $'000	Gross nominal inflow / (outflow) $'000	Less than 1 month $'000	1-3 months $'000	3-12 months $'000	1-5 years $'000	More than 5 years $'000
Financial liabilities								
Deposits	12	**1,056,574**	**(1,059,770)**	(511,123)	(256,775)	(283,396)	(8,476)	-
Term Funding Facility	14	**46,088**	**(46,189)**	-	-	(10,176)	(36,013)	-
Bank borrowings	14	**152,533**	**(155,513)**	(4,551)	(6,500)	(144,462)	-	-
Lease liability	14	**4,904**	**(5,179)**	(90)	(179)	(839)	(4,071)	-
		1,260,099	**(1,266,651)**	**(515,764)**	**(263,454)**	**(438,873)**	**(48,560)**	**-**

Notes to the Financial Statements (continued)

For the year ended 30 June 2023

2 RISK MANAGEMENT (continued)

(c) Liquidity and funding risk (continued)

Bank

2023	Note	Carrying amount $'000	Gross nominal inflow / (outflow) $'000	Less than 1 month $'000	1-3 months $'000	3-12 months $'000	1-5 years $'000	More than 5 years $'000
Financial liabilities								
Deposits	12	**1,184,332**	**(1,195,373)**	(454,289)	(334,904)	(400,686)	(5,494)	-
Term Funding Facility	14	**35,996**	**(36,013)**	(10,037)	(7,854)	(18,122)	-	-
Lease liability	14	**3,892**	**(4,059)**	(93)	(187)	(876)	(2,903)	-
Inter-entity borrowings	14	**160,019**	**(156,564)**	(3,751)	(3,733)	(149,080)	-	-
		1,384,239	**(1,392,009)**	**(468,170)**	**(346,678)**	**(568,764)**	**(8,397)**	**-**

2022	Note	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Financial liabilities								
Deposits	12	**1,056,574**	**(1,059,770)**	(511,123)	(256,775)	(283,396)	(8,476)	-
Term Funding Facility	14	**46,088**	**(46,189)**	-	-	(10,176)	(36,013)	-
Lease liability	14	**4,904**	**(5,179)**	(90)	(179)	(839)	(4,071)	-
Inter-entity borrowings	14	**170,457**	**(155,513)**	(4,551)	(6,500)	(144,462)	-	-
		1,278,023	**(1,266,651)**	**(515,764)**	**(263,454)**	**(438,873)**	**(48,560)**	**-**

Notes to the Financial Statements (continued)

For the year ended 30 June 2023

2 RISK MANAGEMENT (continued)

(d) Operational risk

Operational risk is the risk of loss arising from inadequate or failed internal processes, people, and systems or from external events.

The Consolidated Entity is exposed to operational risk primarily through:

- Process execution errors
- Cyber security losses
- Technology failures
- Data management issues
- Model risks
- Accounting, legal and taxation risks
- Third parties
- People (employment practice and workplace safety)
- Fraud (external and internal); and
- Non-technology business disruption.

Key controls and risk mitigation strategies

- Defined operational risk indicators in RAS
- Implementation of manual and automated controls to prevent, detect and mitigate the specific operational risks that the Consolidated Entity is exposed to
- Regular risk and control self-assessment to assess key risks and controls
- Use of independent internal audit (Line 3) to assess whether controls are designed and operating effectively to maintain risk exposures within acceptable levels
- Incident management processes to identify, assess, record, report and manage actual operational or compliance events that have occurred. This data is used to guide management to further strengthen processes and controls
- Issue management processes to identify, assess, record, report and manage weaknesses or gaps in controls
- Establishment of key risk indicators to monitor movements in risk exposures over time; and
- Assurance undertaken by the Line 2 Risk team to assess whether operational risks are appropriately identified and managed by the Consolidated Entity.

Notes to the Financial Statements (continued)

For the year ended 30 June 2023

2 RISK MANAGEMENT (continued)

(e) Fair value risk

The Consolidated Entity uses various methods in estimating the fair value of a financial instrument.

Accounting policy

Fair value is the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

On initial recognition, the transaction price generally represents the fair value of the financial instrument, unless there is observable information from an active market that provides a more appropriate fair value.

Determination of fair value

The Consolidated Entity measures fair value using the following fair value hierarchy, which reflects the observability of the inputs used in measuring fair value:

- **Level 1:** Those financial instruments valued using inputs that are unadjusted quoted prices for identical assets or liabilities in active markets where the quoted price is readily available, and the price represents actual and regularly occurring market transactions on an arms' length basis. Financial instruments included in this category are cash and cash equivalents.
- **Level 2:** Those financial instruments valued using inputs other than quoted prices as described for level 1, but which are observable for the asset or liability, either directly or indirectly. Such inputs include quoted prices for similar assets or liabilities in active markets, quoted prices for identical instruments in inactive markets and observable inputs other than quoted prices such as interest rates and yield curves, implied volatilities, and credit spreads. The valuation techniques include the use of discounted cash flow analysis and other market-accepted valuation models. Financial instruments included in this category are investments, deposits, derivative financial instruments, and borrowings (excluding the lease liability).
- **Level 3:** Those financial instruments where the valuation incorporates significant inputs that are not based on observable market data (unobservable inputs). Unobservable inputs are those not readily available in an active market due to market liquidity or complexity of the instrument. These inputs are generally derived and extrapolated from observable inputs to match the risk profile of the financial instrument, and are calibrated against current market assumptions, historical transactions, and economic models, where available. These inputs may include timing and amount of future cash flows, rates of estimated credit losses, discount rates and volatility. Financial instruments included in this category are loans and advances, assets at fair value through profit and loss (reverse mortgages), and lease liabilities.

Derivative financial instruments

The Consolidated Entity uses interest rate swaps from various counterparties who have investment-grade credit ratings. The fair value is calculated as the present value of estimated future interest cash flows based on observable yield curves. Other inputs include the credit quality of counterparties and forward rates.

Cash and investments

The fair value for financial assets is based on the current quoted market price. For those assets where there is no quoted price the fair value is calculated as the present value of estimated future interest cash flows based on observable yield curves.

Loans and advances

The fair value is measured on a level 3 basis which 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 fair value. Unobservable inputs used in calculating fair value include the timing and amount of future cash flows, rates of estimated credit losses, discount rates and volatility. The net fair value for fixed rate loans is calculated utilising discounted cash flow models based on the maturity of the loans. The discount rates applied were based on current benchmark rates offered for the average remaining term of the portfolio as at 30 June 2023.

Notes to the Financial Statements (continued)

For the year ended 30 June 2023

2 RISK MANAGEMENT (continued)

(e) Fair value risk (continued)

Assets at fair value through profit and loss (Loans and advances)

The fair value of reverse mortgages cannot be measured by reference to an active market or observable inputs. As such, the Consolidated Entity has used valuation techniques (income approach) to consider fair value. When the Consolidated Entity enters into a reverse mortgage, it has set expectations regarding the loan's current and future risk profile and expectation of performance. This expectation references various assumptions including:

- Age
- Mortality and move to care
- House price changes
- No negative equity guarantee; and
- Interest rate margin

At balance date the Consolidated Entity does not consider any of the above assumptions to have moved outside of the original expectation range sufficient to have materially influenced the fair value of the portfolio. Therefore, the Consolidated Entity has continued to estimate the fair value of the portfolio at the balance of the amounts owing. There has been no fair value movement recognised in profit and loss during the year. Given the nature of the loan terms and tenor, the fair value as recorded is regarded as not being highly sensitive to the above assumptions, particularly to house prices and interest rates, that would impact the fair value at balance date. While noting the uncertainty around future economic events, based on current judgement there is no evidence that these will have a long-term adverse impact on market conditions, particularly regarding the key elements of house prices or interest rates, that would materially influence the fair value of the reverse mortgage portfolio at balance date. The Consolidated Entity will continue to reassess the existence of a relevant market and movements in assumptions on an ongoing basis.

Deposits

The fair value of call deposits is the amount shown in the statement of financial position. Discounted cash flows were used to calculate the fair value of other term deposits, based upon the deposit type and the rate applicable to its related period maturity.

Borrowings

Due to the short-term nature of borrowings, the carrying amount (amortised cost) of the Consolidated Entity's bank facility balances, including overdraft, approximate their fair value.

	Consolidated Entity							
	2023				2022			
	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Financial assets measured at amortised cost								
Cash	**59,125**	**-**	**-**	**59,125**	54,491	-	-	54,491
Investments	**-**	**220,000**	**-**	**220,000**	-	224,286	-	224,286
Loans and advances	**-**	**-**	**1,045,992**	**1,045,992**	-	-	1,020,795	1,020,795
Financial assets measured at fair value through profit and loss								
Loans and advances	**-**	**-**	**144,499**	**144,499**	-	-	56,942	56,942
Financial assets	**59,125**	**220,000**	**1,190,491**	**1,469,616**	**54,491**	**224,286**	**1,077,737**	**1,356,514**

Notes to the Financial Statements (continued)

For the year ended 30 June 2023

2 RISK MANAGEMENT (continued)

(e) Fair value risk (continued)

	Bank							
	2023				2022			
	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Financial assets measured at amortised cost								
Cash	**54,028**	**-**	**-**	**54,028**	48,237	-	-	48,237
Investments	**-**	**240,553**	**-**	**240,553**	-	244,839	-	244,839
Loans and advances	**-**	**-**	**1,045,992**	**1,045,992**	-	-	1,020,795	1,020,795
Financial assets measured at fair value through profit and loss								
Loans and advances	**-**	**-**	**144,499**	**144,499**	-	-	56,942	56,942
Financial assets	**54,028**	**240,553**	**1,190,491**	**1,485,072**	**48,237**	**244,839**	**1,077,737**	**1,370,813**

	Consolidated Entity							
	2023				2022			
	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Financial liabilities								
Deposits	**-**	**1,182,238**	**-**	**1,182,238**	-	1,054,342	-	1,054,342
Borrowings	**-**	**176,923**	**3,892**	**180,815**	-	198,621	4,904	203,525
Financial liabilities	**-**	**1,359,161**	**3,892**	**1,363,053**	**-**	**1,252,963**	**4,904**	**1,257,867**

	Bank							
	2023				2022			
	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Financial liabilities								
Deposits	**-**	**1,058,755**	**-**	**1,058,755**	-	1,054,342	-	1,054,342
Borrowings	**-**	**35,996**	**3,892**	**39,888**	-	46,088	4,904	50,992
Inter-entity borrowings	**-**	**160,019**	**-**	**160,019**	-	170,457	-	170,457
Financial liabilities	**-**	**1,254,770**	**3,892**	**1,258,662**	**-**	**1,270,887**	**4,904**	**1,275,791**

There were no transfers between Level 1, Level 2, and Level 3 during the year.

Notes to the Financial Statements (continued)

For the year ended 30 June 2023

3 INCOME AND EXPENSES

	Consolidated		Bank	
	2023 $'000	2022 $'000	2023 $'000	2022 $'000
(a) Interest income and interest expense				
Interest income				
Loans and advances to members	**47,105**	26,254	**47,105**	26,253
Investment securities	**8,420**	1,599	**9,335**	1,944
Deposits at call with other financial institutions	**1,362**	42	**1,223**	39
Total interest income	**56,887**	**27,895**	**57,663**	**28,236**
Interest expense				
Deposits	**26,785**	5,248	**26,785**	5,247
Borrowings	**5,868**	1,925	**191**	219
Inter-entity borrowings	**-**	-	**6,592**	2,052
Total interest expense	**32,653**	**7,173**	**33,568**	**7,518**
(b) Non-interest income				
Fees and commissions	**2,073**	1,725	**1,981**	1,452
Bad debts recovered	**196**	204	**196**	204
Total non-interest income	**2,269**	**1,929**	**2,177**	**1,656**
(c) Administration expenses				
Lending expenses	**1,975**	1,047	**1,975**	1,047
Transactional expenses	**1,155**	836	**956**	587
Other administration expenses	**2,605**	2,325	**2,573**	2,297
Total administration expenses	**5,735**	**4,208**	**5,504**	**3,931**
(d) Employee expenses				
Salaries and wages	**7,683**	7,366	**7,683**	7,366
Workers' compensation	**21**	14	**21**	14
Defined contribution superannuation	**858**	713	**858**	713
Other employee benefits	**689**	609	**689**	609
Total employee expenses	**9,251**	**8,702**	**9,251**	**8,702**
(e) Depreciation and amortisation expense				
Depreciation of:				
- Property, plant and equipment	**1,460**	1,467	**1,460**	1,467
Total depreciation expense	**1,460**	**1,467**	**1,460**	**1,467**
Amortisation of:				
- Computer software	**206**	214	**206**	214
Total amortisation expense	**206**	**214**	**206**	**214**
Total depreciation and amortisation expense	**1,666**	**1,681**	**1,666**	**1,681**

Notes to the Financial Statements (continued)

For the year ended 30 June 2023

3 INCOME AND EXPENSES (continued)

	Consolidated		Bank	
	2023 $'000	2022 $'000	2023 $'000	2022 $'000
(f) Impairment expense/(benefit)				
Increase in/(release of) loan impairment provision	**152**	(438)	**152**	(438)
Bad debts written-off	**206**	509	**206**	509
Total impairment expense/(benefit)	**358**	**71**	**358**	**71**

Accounting policy

Net interest income

Interest income and interest expense on financial assets and liabilities are measured using the effective interest method. The effective interest method calculates the amortised cost of a financial instrument, such as a loan or deposit, and allocates the interest income or interest expense over the expected life of the financial instrument.

Fees, transaction costs and issue costs integral to the financial assets and liabilities are capitalised and included in the interest recognised over the expected life of the instrument.

Non-interest income

Non-interest income includes fees and commissions earned from delivering a range of services to members. Facility fees earned for managing and administering credit and other facilities for members, are recognised over the service period.

Operating expenses

Employee expenses includes salaries and related on-costs namely annual leave, long service leave, employee incentives and relevant taxes. Staff expenses are recognised over the period the employee renders the service. Long service leave is discounted to present value using assumptions relating to staff departures, leave utilisation and future salary.

Superannuation expense includes expenses relating to defined contribution superannuation plans. The defined contribution expense is recognised in the period the service is provided.

IT expenses are recognised as incurred unless they qualify for capitalisation as computer software due to the expenditure generating probable future economic benefits. If capitalised, the computer software is subsequently amortised over its estimated useful life. At each balance date, the Consolidated Entity assesses useful lives and residual values and whether there is any objective evidence of impairment. If an asset's carrying value is greater than its recoverable amount, the carrying amount is written down immediately to its recoverable amount.

Operating expenses are recognised as services are provided to the Consolidated Entity, over the period which an asset is consumed, or once a liability is created. Operating expenses related to provisions are recognised for present obligations arising from past events where a payment to settle the obligation is probable and can be reliably estimated.

Goods and Services Tax (GST)

Income, expenses, and assets are recognised net of GST, except where:

- the GST incurred on a purchase of goods and services is not recoverable from the taxation authority. In this instance GST is included in the cost of acquisition of the asset or as part of the expense incurred; and
- the receivables and payables are stated inclusive of GST.

Net GST recoverable or payable is recognised as a receivable or payable respectively in the Statements of Financial Position.

Impairment expense

Impairment losses are written-off in the Statements of Comprehensive Income as an expense when there is no realistic probability of recovery.

Notes to the Financial Statements (continued)

For the year ended 30 June 2023

4 INCOME TAX

	Consolidated		Bank	
	2023 $'000	2022 $'000	2023 $'000	2022 $'000
(a) Income tax expense				
The major components of income tax expense are:				
Statements of Comprehensive Income				
Current income tax				
- Current income tax charge	**2,111**	1,317	**2,111**	1,317
- Deferred tax (benefit)/expense	**(436)**	(7)	**(436)**	(7)
Income tax expense reported in the Statements of Comprehensive Income	**1,675**	**1,310**	**1,675**	**1,310**
(b) Reconciliation between aggregate tax expense recognised in the Statements of Comprehensive Income and tax expense calculated per the statutory income tax rate				
A reconciliation between tax expense and the product of accounting profit before tax multiplied by the applicable income tax rate is as follows:				
Total accounting profit before income tax	**6,248**	**5,220**	**6,248**	**5,220**
At the statutory income tax rate of 30% (2022: 25%)	**1,874**	1,305	**1,874**	1,305
Adjustments in respect of current income tax of previous years	**-**	3	**-**	3
Effect of changes in income tax rate on deferred tax	**(227)**	-	**(227)**	-
Non-deductible expenses	**28**	2	**28**	2
Aggregate income tax expense	**1,675**	**1,310**	**1,675**	**1,310**

As at 30 June 2023, the Bank and Consolidated Entity ceased to meet the threshold of a base rate entity. This resulted in the tax rate increasing to 30%.

Accounting policy

Income tax

Income tax on profit or loss for the period comprises current and deferred tax.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted at balance date, and any adjustment to the tax payable in respect of previous years.

Deferred tax is calculated using the Balance Sheet method where temporary differences are identified by comparing the carrying amount of assets and liabilities for financial reporting purposes and their tax bases.

The amount of deferred tax recognised is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities (i.e., through use or sale), using tax rates which are expected to apply when the deferred tax asset is realised, or the deferred tax liability is settled.

A deferred tax asset can only be recognised to the extent that it is probable that future taxable profits will be available for it to be used against. Deferred tax assets and liabilities are offset as they relate to income tax levied by the same taxation authority on the same taxable entity.

Notes to the Financial Statements (continued)

For the year ended 30 June 2023

4 INCOME TAX (continued)

	Consolidated		Bank	
	2023 $'000	2022 $'000	2023 $'000	2022 $'000
(c) Recognised deferred tax assets and liabilities				
Deferred tax at 30 June relates to the following:				
Statements of Financial Position				
(i) Deferred tax liabilities				
- Other assets	**-**	-	**-**	-
- Plant and equipment	**(183)**	(192)	**(183)**	(192)
- Right-of-use asset	**(1,045)**	(1,135)	**(1,045)**	(1,135)
Gross deferred tax liabilities	**(1,228)**	**(1,327)**	**(1,228)**	**(1,327)**
(ii) Deferred income tax assets				
- Loans and advances	**558**	427	**558**	427
- Creditors and other liabilities	**701**	507	**701**	507
- Employee entitlements	**356**	287	**356**	287
- Lease Liability	**1,168**	1,225	**1,168**	1,225
Gross deferred tax assets	**2,783**	**2,446**	**2,783**	**2,446**
Offset of deferred tax liabilities	**(1,228)**	(1,327)	**(1,228)**	(1,327)
Net deferred tax assets	**1,555**	**1,119**	**1,555**	**1,119**
Statements of Comprehensive Income				
Deferred income tax (benefit)/expense				
- Other assets	**-**	-	**-**	-
- Loans and advances	**(131)**	109	**(131)**	109
- Plant and equipment	**(9)**	(20)	**(9)**	(20)
- Creditors and other liabilities	**(194)**	(17)	**(194)**	(17)
- Employee entitlements	**(69)**	(49)	**(69)**	(49)
- Right-of-use asset	**(90)**	(277)	**(90)**	(277)
- Lease Liability	**57**	247	**57**	247
Deferred income tax (benefit)	**(436)**	**(7)**	**(436)**	**(7)**

Notes to the Financial Statements (continued)

For the year ended 30 June 2023

FINANCIAL ASSETS

Accounting policy

Financial assets – General

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

Financial assets are classified into these measurement classifications based on two criteria:

- the business model within which the financial asset is managed; and
- the contractual cash flow characteristics of the financial asset (specifically whether the contractual cash flows represent Solely Payments of Principal and Interest (SPPI)).

The resultant financial asset classifications are as follows:

- Amortised cost, financial assets with contractual cash flows that comprise SPPI, 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 SPPI, 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 the categories above are measured at FVTPL.

Fair value option for financial assets

A financial asset may be irrevocably designated as FVTPL on initial recognition when the designation eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Business model assessment

The Consolidated Entity determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective:

- The risks that affect the performance of the business model (and the financial assets held within that business model) and the way those risks are managed; and
- How managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected).

The expected frequency, value and timing of sales are also important aspects of the Consolidated Entity's assessment. The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realised in a way that is different from the Consolidated Entity's original expectations, the Consolidated Entity does not change the classification of the remaining financial assets held in that business model but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

The SPPI test

As a second step of its classification process the Consolidated Entity assesses the contractual terms of the financial asset to identify whether they meet the SPPI test.

Principal for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortisation of the premium/discount).

The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk. To make the SPPI assessment, the Consolidated Entity applies judgement and considers relevant factors such as the period for which the interest rate is set.

In contrast, contractual terms that introduce a more than de minimis exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payments of principal and interest on the amount outstanding. In such cases, the financial asset is required to be measured at FVTPL.

Notes to the Financial Statements (continued)

For the year ended 30 June 2023

FINANCIAL ASSETS (CONTINUED)

Accounting policy (continued)

Derecognition

The Consolidated Entity derecognises a loan to a customer, when the rights to receive cash flows from the financial asset have expired. The Consolidated Entity also derecognises the financial asset if it has both transferred the financial asset and the transfer qualifies for derecognition.

The Consolidated Entity has transferred the financial asset if, and only if, either:

- The Consolidated Entity has transferred its contractual rights to receive cash flows from the financial asset; or
- It retains the rights to the cash flows but has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement.

Pass-through arrangements are transactions whereby the Consolidated Entity retains the contractual rights to receive the cash flows of a financial asset (the 'original asset'), but assumes a contractual obligation to pay those cash flows to one or more entities (the 'eventual recipients'), when all of the following three conditions are met:

- The Consolidated Entity has no obligation to pay amounts to the eventual recipients unless it has collected equivalent amounts from the original asset, excluding short-term advances with the right to full recovery of the amount lent plus accrued interest at market rates.
- The Consolidated Entity cannot sell or pledge the original asset other than as security to the eventual recipients.
- The Consolidated Entity has to remit any cash flows it collects on behalf of the eventual recipients without material delay. In addition, the Consolidated Entity is not entitled to reinvest such cash flows, except for investments in cash or cash equivalents, including interest earned, during the period between the collection date and the date of required remittance to the eventual recipients.

A transfer only qualifies for derecognition if either:

- The Consolidated Entity has transferred substantially all the risks and rewards of the asset; or
- The Consolidated Entity has neither transferred nor retained substantially all the risks and rewards of the asset but has transferred control of the asset.

The Consolidated Entity considers control to be transferred if and only if, the transferee has the practical ability to sell the asset in its entirety to an unrelated third party and is able to exercise that ability unilaterally and without imposing additional restrictions on the transfer.

When the Consolidated Entity has neither transferred nor retained substantially all the risks and rewards and has retained control of the asset, the Consolidated Entity continues to recognise the financial asset to the extent of its continuing involvement in the financial asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration the Consolidated Entity could be required to pay.

Notes to the Financial Statements (continued)

For the year ended 30 June 2023

5 CASH AND CASH EQUIVALENTS

	Consolidated		Bank	
	2023 $'000	2022 $'000	2023 $'000	2022 $'000
Cash on hand	**1**	1	**1**	1
Cash at bank [(1)]	**34,236**	30,941	**29,139**	24,687
Deposits at call with financial institutions	**24,888**	23,549	**24,888**	23,549
Cash and cash equivalents	**59,125**	**54,491**	**54,028**	**48,237**

(1) Includes $0.414 million (2022: $0.630 million) cash in Peer-to-Peer Lending platforms, and $15.590 million (2022: $15.133 million) of cash in Portavia Trust No.1 and Portavia Trust No.2 not readily available and subject to restrictions of the respective Trust Deeds.

Cash at bank earns interest at floating rates based on daily bank deposit rates depending on product category.

The carrying amounts of cash and cash equivalents approximates fair value.

Short-term deposits are made for varying periods of between one day and three months, depending on the immediate cash requirements of the Consolidated Entity, and earns interest at the respective short-term rates.

Accounting policy

Cash and cash equivalents

Cash and cash equivalents include cash at bank and on hand, short-term bills, and money at call with an original maturity of three months or less. Cash and cash equivalents are initially measured at fair value then subsequently at amortised cost. Interest is recognised in the Statements of Comprehensive Income using the effective interest method.

Cash and cash equivalents also include cash within Portavia Trust No.1 and Portavia Trust No.2, which are subject to restrictions as the cash can only be distributed in accordance with the legal documents of the trust.

For the purpose of the Statements of Cash Flows, cash and cash equivalents are defined as cash and cash equivalents net of outstanding bank overdrafts. Whereas, for the purpose of the Statements of Financial Position bank overdrafts are included within interest-bearing loans and borrowings.

Notes to the Financial Statements (continued)

For the year ended 30 June 2023

6 INVESTMENTS

	Consolidated		Bank	
	2023 $'000	2022 $'000	2023 $'000	2022 $'000
Negotiable Certificates of Deposits	**162,820**	151,470	**162,820**	151,470
Floating Rate Notes (1)	**56,729**	55,160	**77,282**	75,713
Term Deposits	**682**	678	**682**	678
Debt investments	**-**	16,978	**-**	16,978
Investments	**220,231**	**224,286**	**240,784**	**244,839**
Maturity analysis: Investments				
< 3 months	**140,164**	102,856	**140,164**	102,856
3 to 6 months	**29,198**	54,026	**29,198**	54,026
6 to 12 months	**8,824**	16,012	**29,377**	36,565
> 1 year	**42,045**	51,392	**42,045**	51,392
Investments	**220,231**	**224,286**	**240,784**	**244,839**

(1) The Bank holds $20,553,025 (2022: $20,553,025) in sub-ordinated notes issued by Portavia Trust No.1 as part of a contingency liquidity facility. These investments are eliminated on consolidation.

Accounting policy

Investments

Investments include debt securities held as part of the Consolidated Entity's liquidity portfolio.

These investments are held within the business model where the objective is to hold them in order to collect contractual cash flows. The contractual cash flows on these financial assets comprise payments of principal and interest only. These securities are initially recognised at their fair value plus directly attributable transaction costs.

Subsequent to initial recognition, they are measured at amortised cost using the effective interest method and presented net of any provisions for impairment.

The securities are assessed for impairment using the expected credit loss approach described in Note 8. Impairment is recognised in the Impairment expense line in the Statements of Comprehensive Income.

Notes to the Financial Statements (continued)

For the year ended 30 June 2023

7 LOANS AND ADVANCES

	Consolidated		Bank	
	2023 $'000	2022 $'000	2023 $'000	2022 $'000
Loans and advances measured at fair value through profit and loss				
Lines of credit	**144,499**	56,942	**144,499**	56,942
Sub-total	**144,499**	56,942	**144,499**	56,942
Loans and advances measured at amortised cost				
Lines of credit	**16,131**	18,185	**16,131**	18,185
Term loans	**1,041,661**	1,016,607	**1,041,661**	1,016,607
Sub-total	**1,057,792**	1,034,792	**1,057,792**	1,034,792
Gross loans and advances	**1,202,291**	**1,091,734**	**1,202,291**	**1,091,734**
Add:				
- Gross fees and commissions capitalised	**14,126**	12,666	**14,126**	12,666
- Accumulated amortisation	**(11,369)**	(9,805)	**(11,369)**	(9,805)
Net commissions capitalised	**2,757**	2,861	**2,757**	2,861
Allowance for impairment loss	**(1,858)**	(1,706)	**(1,858)**	(1,706)
Net loans and advances	**1,203,190**	**1,092,889**	**1,203,190**	**1,092,889**
Security dissection				
- Secured by mortgage	**1,172,020**	1,060,092	**1,172,020**	1,060,092
- Secured other	**16,778**	13,181	**16,778**	13,181
- Unsecured	**13,493**	18,461	**13,493**	18,461
Gross loans and advances	**1,202,291**	**1,091,734**	**1,202,291**	**1,091,734**
Purpose dissection (1)				
- Residential loans	**999,650**	972,674	**999,650**	972,674
- Personal loans	**159,675**	78,537	**159,675**	78,537
- Commercial loans	**42,966**	40,523	**42,966**	40,523
Gross loans and advances	**1,202,291**	**1,091,734**	**1,202,291**	**1,091,734**
Maturity analysis: Gross loans and advances (2)				
< 3 months	**156**	3,060	**156**	3,060
3 to 12 months	**19,730**	30,706	**19,730**	30,706
1 - 5 years	**29,430**	38,791	**29,430**	38,791
> 5 years	**1,152,975**	1,019,177	**1,152,975**	1,019,177
Gross loans and advances	**1,202,291**	**1,091,734**	**1,202,291**	**1,091,734**

(1) Personal loans consist of Reverse Mortgages $144.5m (2022: $56.9m), Alliance loans $5.2m (2022: $10.7m) and Personal Consumer loans $10.0m (2022 $10.9m).

(2) Cash flows are based on contractual obligations.

Credit risk adjustments on financial assets designated as FVTPL

There were no credit risk adjustments on individual financial assets.

Notes to the Financial Statements (continued)

For the year ended 30 June 2023

7 LOANS AND ADVANCES (continued)

	Consolidated		Bank	
	2023 $'000	2022 $'000	2023 $'000	2022 $'000
(a) Concentration of loans				
Geographic areas: Residence and/or employed within:				
- New South Wales	**634,045**	586,235	**634,045**	586,235
- Victoria	**239,636**	228,429	**239,636**	228,429
- Queensland	**199,156**	175,016	**199,156**	175,016
- Western Australia	**46,849**	37,598	**46,849**	37,598
- South Australia	**43,586**	31,396	**43,586**	31,396
- Northern Territory	**269**	354	**269**	354
- Tasmania	**6,306**	6,561	**6,306**	6,561
- Australian Capital Territory	**32,444**	26,145	**32,444**	26,145
Gross loans and advances	**1,202,291**	**1,091,734**	**1,202,291**	**1,091,734**
(b) Fair value				
The *carrying amount* of loans and advances are as follows:				
- Lines of credit	**160,630**	75,127	**160,630**	75,127
- Term loans	**1,041,661**	1,016,607	**1,041,661**	1,016,607
Gross loans and advances	**1,202,291**	**1,091,734**	**1,202,291**	**1,091,734**
The *fair values* of loans and advances are as follows:				
- Lines of credit	**160,630**	75,127	**160,630**	75,127
- Term loans	**1,029,861**	1,002,610	**1,029,861**	1,002,610
Gross loans and advances	**1,190,491**	**1,077,737**	**1,190,491**	**1,077,737**

The fair values are based on cash flows discounted at a rate reflecting current market rates adjusted for counterparty credit risk.

Accounting policy

Loans and advances measured at FVTPL

Reverse mortgages are initially recognised and subsequently measured at FVTPL, per Note 2(e).

Loans and advances measured at amortised cost

Loans and advances are held within a business model whose objective is to hold them in order to collect contractual cash flows. The contractual cash flows on these financial assets comprise solely payments of principal and interest. These instruments are accordingly measured at amortised cost.

Loans and advances are recognised on settlement date, i.e., when funds are transferred to the members' accounts. They are initially recognised at their fair value plus directly attributable transaction costs, primarily brokerage and loan origination fees.

Subsequent to initial recognition, they are measured at amortised cost using the effective interest method and presented net of provisions for impairment.

For the accounting policy for provisions for impairment, refer to Note 8. For information on the Consolidated Entity's management of credit risk, refer to Note 2(b).

Notes to the Financial Statements (continued)

For the year ended 30 June 2023

8 PROVISION FOR IMPAIRMENT

An increase in allowance for impairment loss of $0.152 million (2022: decrease of $0.438 million) has been recognised within the impairment expense/benefit in the Statements of Comprehensive Income. This provision is in respect of specific debtors and debtors assessed on a collective basis, as described in the accounting policy section of this note.

	Consolidated		Bank	
	2023 $'000	2022 $'000	2023 $'000	2022 $'000
Provision for impairment				
Balance at beginning of period	**1,706**	2,144	**1,706**	2,144
Additional individually assessed impairment	**86**	81	**86**	81
Loans written-off	**(24)**	(129)	**(24)**	(129)
Reversal of individually assessed impairment	**(23)**	(223)	**(23)**	(223)
Changes to modelling assumptions	**120**	17	**120**	17
Decrease in collective impairment	**(7)**	(184)	**(7)**	(184)
Balance at end of period	**1,858**	**1,706**	**1,858**	**1,706**
Individually assessed impairment	**182**	155	**182**	155
Collective impairment	**1,676**	1,551	**1,676**	1,551
Total provision for impairment	**1,858**	**1,706**	**1,858**	**1,706**

2023	Consolidated Entity and Bank			
	Stage 1 12 month ECL $'000	Stage 2 Lifetime ECL $'000	Stage 3 Lifetime ECL $'000	Total (1) $'000
Gross carrying amount as at 1 July 2022	**1,029,195**	**3,861**	**1,736**	**1,034,792**
New loans originated	257,934	-	-	**257,934**
Payments and assets derecognised (excluding write-offs)	(232,726)	(1,649)	(433)	**(234,808)**
Transfers to Stage 1	1,929	(1,101)	(828)	**-**
Transfers to Stage 2	(5,095)	5,095	-	**-**
Transfers to Stage 3	(2,539)	(296)	2,835	**-**
Amounts written-off	-	-	(126)	**(126)**
At 30 June 2023	**1,048,698**	**5,910**	**3,184**	**1,057,792**

2022	Consolidated Entity and Bank			
	Stage 1 12 month ECL $'000	Stage 2 Lifetime ECL $'000	Stage 3 Lifetime ECL $'000	Total (1) $'000
Gross carrying amount as at 1 July 2021	**866,768**	**5,959**	**4,388**	**877,115**
New loans originated	389,349	-	-	**389,349**
Payments and assets derecognised (excluding write-offs)	(224,720)	(3,364)	(3,175)	**(231,259)**
Transfers to Stage 1	2,274	(1,903)	(371)	**-**
Transfers to Stage 2	(3,337)	3,337	-	**-**
Transfers to Stage 3	(1,139)	(168)	1,307	**-**
Amounts written-off	-	-	(413)	**(413)**
At 30 June 2022	**1,029,195**	**3,861**	**1,736**	**1,034,792**

(1) Carrying amount of loans and advances measured at amortised cost.

Notes to the Financial Statements (continued)

For the year ended 30 June 2023

8 PROVISION FOR IMPAIRMENT (continued)

2023	Consolidated Entity and Bank Stage 1 12 month ECL $'000	Stage 2 Lifetime ECL $'000	Stage 3 Lifetime ECL $'000	Total $'000
ECL allowance as at 1 July 2022	**1,443**	**128**	**135**	**1,706**
New loans originated	78	-	-	**78**
Loans repaid	(126)	(68)	(23)	**(217)**
Transfers to Stage 1	28	(38)	(13)	**(23)**
Transfers to Stage 2	(7)	148	-	**141**
Transfers to Stage 3	(6)	(16)	99	**77**
Write-offs	-	-	(24)	**(24)**
Changes to modelling assumptions	99	15	6	**120**
At 30 June 2023	**1,509**	**169**	**180**	**1,858**

2022	Consolidated Entity and Bank Stage 1 12 month ECL $'000	Stage 2 Lifetime ECL $'000	Stage 3 Lifetime ECL $'000	Total $'000
ECL allowance as at 1 July 2021	**1,542**	**178**	**424**	**2,144**
New loans originated	38	-	-	**38**
Loans repaid	(170)	(91)	(223)	**(484)**
Transfers to Stage 1	21	(37)	(31)	**(47)**
Transfers to Stage 2	(6)	93	(6)	**81**
Transfers to Stage 3	(6)	(25)	117	**86**
Write-offs	-	-	(129)	**(129)**
Changes to modelling assumptions	24	10	(17)	**17**
At 30 June 2022	**1,443**	**128**	**135**	**1,706**

The estimation of the fair value of collateral and other security enhancements held against loans and advances in arrears is shown below:

	Consolidated 2023 $'000	Consolidated 2022 $'000	Bank 2023 $'000	Bank 2022 $'000
Past due 30 days and over [1]	**10,384**	**5,519**	**10,384**	**5,519**

(1) The fair value of collateral held for loans less than 30 days past due exceeds the carrying value of loans.

Management monitors the market value of collateral obtained during its review of the adequacy of the allowance for impairment losses.

Notes to the Financial Statements (continued)

For the year ended 30 June 2023

8 PROVISION FOR IMPAIRMENT (continued)

Impact of overlays on the provision for impairment

The following table reflects the split between modelled ECL and other management overlays.

Where there is increased uncertainty regarding the forward-looking economic conditions under AASB 9 or limitations of the historical data used to calibrate the model to current stressed environments, overlays are typically used to address areas of potential risk not captured in the underlying modelled ECL.

	Consolidated		Bank	
	2023 $'000	2022 $'000	2023 $'000	2022 $'000
Modelled provision for ECL	**848**	696	**848**	696
Overlays	**1,010**	1,010	**1,010**	1,010
Total provision for ECL	**1,858**	**1,706**	**1,858**	**1,706**

Accounting policy

Provision for impairment

By providing loans to members the Consolidated Entity bears the risk that the future circumstances of members might change, including their ability to repay their loans in part or in full. While the Consolidated Entity's credit and responsible lending policies aim to minimise this risk, there will always be instances where the Consolidated Entity will not receive the full amount owed and hence a provision for expected credit loss is necessary.

Expected Credit Loss (ECL) model

The ECL model applies to all financial assets measured at amortised cost or FVOCI. These include cash and cash equivalents, deposits with other ADIs, investment debt securities and loans and advances to customers. Financial assets are divided into homogenous portfolios based on shared risk characteristics. These include on-balance sheet residential mortgages, commercial mortgages, commercial loans, peer-to-peer lending, personal loans and lines of credit and off-balance sheet undrawn commitments.

For investment debt securities and deposits with other ADIs, the Consolidated Entity has applied the AASB 9 'low credit risk' exemption given their credit risk rating is equivalent to the globally understood definition of 'investment grade'.

Model stages

The ECL model uses a three-stage approach to the recognition of expected credit losses. Financial assets migrate through these three stages based on significant changes in credit risk since origination:

- **Stage 1: Performing loans – 12 months ECL**

  On origination, financial assets recognise an impairment provision equivalent to 12 months ECL, which represents the credit losses expected to arise from defaults occurring over the next 12 months.

- **Stage 2: Performing loans that have experienced a Significant Increase in Credit Risk (SICR) – Lifetime ECL**

  Financial assets that have experienced a SICR are transferred to Stage 2 and recognise an impairment provision equivalent to lifetime ECL. Lifetime ECL represents the credit losses expected to arise from defaults occurring over the remaining life of financial assets.

- **Stage 3: Non-performing loans – Lifetime ECL**

  Financial assets in default recognise a provision equivalent to lifetime ECL. This includes assets that are considered impaired as well as assets that are considered to be in default but are not impaired because, for example, no loss is expected based on the security position.

Assets may move in both directions through the stages of the impairment model. Assets previously in Stage 2 may move back to Stage 1 if it is no longer considered that there has been a SICR, and the impairment provision reverts to 12 months ECL. Similarly, assets in Stage 3 may move back to Stage 1 or Stage 2 if they are no longer assessed to be non-performing.

Notes to the Financial Statements (continued)

For the year ended 30 June 2023

8 PROVISION FOR IMPAIRMENT (continued)

Accounting policy (continued)

Collective and individual assessment

Credit losses for financial assets in Stage 1 and Stage 2 are assessed for impairment collectively, whilst those in Stage 3 are subjected to either collective or individual assessment of expected credit losses.

Significant Increase in Credit Risk (SICR)

When determining whether the risk of default on a financial instrument has increased significantly since origination, the Consolidated Entity uses the criteria of 30 days past due or loans under credit watch as the criteria to identify whether there has been a SICR. Default occurs when there are indicators that a debtor is unlikely to meet contractual credit obligations to the Consolidated Entity in full, or the exposure is 90 days past due. Financial assets, including those that are well secured, are considered credit impaired when they default.

Measurement of ECL

The ECLs are a probability-weighted estimate of the cash shortfalls expected to result from defaults over the relevant timeframe. They are determined by evaluating a range of possible outcomes and taking into account the time value of money, past events, current conditions, and forecasts of future economic conditions.

The ECL is calculated as the product of the following credit risk factors at a facility level, 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 macro-economic variables.

Expected life

When estimating ECL exposures in Stage 2 and 3, the Consolidated Entity considered the expected lifetime over which it is exposed to credit risk. The expected lifetime is determined using a behavioural term, taking into account expected prepayment behaviour and substantial modifications.

Forward-looking macroeconomic information

The measurement of ECL for each stage and the assessment of SICR considers information about past events and current conditions as well as reasonable and supportable projections of future events and economic conditions. The estimation of forward-looking information is a critical accounting judgement. The Consolidated Entity considers three future macroeconomic scenarios, including a base case scenario along with upside and downside scenarios.

The macroeconomic variables used in these scenarios, based on current economic forecasts, include Gross Domestic Product (GDP) growth rates, movements in the official Cash Rate, Unemployment rates, and annual changes in the ASX All-Ordinaries Index.

- **Base case scenario** is the Consolidated Entity's view of the most likely future macro-economic conditions. It reflects management's assumptions used for strategic planning and budgeting.
- **Upside scenario** is based on more optimistic economic events than the base case scenario
- **Downside scenario** is a more severe scenario with ECL higher than those under the current base case scenario.

The macroeconomic scenarios are weighted based on the Consolidated Entity's best estimate of the relative likelihood of each scenario. The requirement to probability-weight future outcomes captures the uncertainty inherent in the credit outlook. The weighting applied to each of the three scenarios is based on management's best estimate of the proportion of potential future loss outcomes that each scenario represents, and takes into account historical frequency, current trends, and forward-looking conditions.

Notes to the Financial Statements (continued)

For the year ended 30 June 2023

8 PROVISION FOR IMPAIRMENT (continued)

Accounting policy (continued)

Forward-looking macroeconomic information (continued)

Where applicable, model adjustments are made to incorporate reasonable and supportable information about known or expected risks that have not been considered in the modelling process. This includes but is not limited to information about emerging risk at a geographical location or a particular portfolio segment level. Judgements can change with time as new information becomes available, which could result in changes to the provision for ECL.

The Executive Risk and Compliance Committee (ERCC) and Board Risk Committee are responsible for approving macroeconomic variables and probability weightings of the three macroeconomic scenarios, as well as all model refinements. The Consolidated Entity's loan loss provision model and assumptions, loan impairment expense and all areas of judgement are reported to the Board.

Key judgements and estimates

Individually assessed allowance for ECL

In estimating individually assessed ECL for Stage 3 exposures, the Consolidated Entity makes judgements and assumptions in relation to expected repayments, the realisable value of collateral, the business or employment prospects for the member, competing claims, and the likely cost and duration of the work-out process.

Collectively assessed allowance for ECL

With the current economic uncertainty driven by the rapidly tightening financial conditions, the continued fallout from Russia's invasion of Ukraine and continued labour shortages there is a clear risk of economic pain for businesses and for households. These risks have been considered and are reflected in the modelling assumptions.

During the financial year ended 30 June 2023 the collectively assessed provision increased from $1.55 million to $1.68 million. This increase in the collective provision in the current financial year was driven by changes in the modelling inputs (increase to the provision) partially offset by a run-off of the Alliance loan portfolio (reduction in the provision).

In estimating collectively assessed ECL, the Consolidated Entity makes judgements and assumptions in relation to the selection of:

- a modelling methodology; and
- inputs for the model, including interdependencies between those inputs.

Key judgements and assumptions, and changes

Determining when a SICR has occurred

Judgement is involved in setting the rules and trigger points to determine whether there has been a SICR since initial recognition of a loan. The effectiveness of SICR criteria is monitored on an ongoing basis. The Consolidated Entity uses the criteria of 30 days past due or loans under credit watch as the criteria for determining whether there has been a SICR.

There have been no changes to the rules and trigger points used to determine whether a SICR has occurred in the year ended 30 June 2023.

Measuring both 12-month and lifetime ECLs

The PD, LGD and EAD credit risk parameters used in determining ECL are point-in-time measures reflecting forward-looking information determined by management. Judgement is involved in determining which forward-looking information variables are relevant for particular lending portfolios.

The PD, EAD and LGD models are subject to the Consolidated Entity's policies that stipulate periodic model monitoring, periodic revalidation and defines approval procedures and authorities. There were no material changes to the policies during the year end 30 June 2023.

Notes to the Financial Statements (continued)

For the year ended 30 June 2023

8 PROVISION FOR IMPAIRMENT (continued)

Key judgements and estimates (continued)

Key judgements and assumptions, and changes (continued)

Measuring both 12-month and lifetime ECLs (continued)

In addition, judgement is required where behavioural characteristics are applied in estimating the lifetime of a facility to be used in measuring ECL.

There were no material changes to behavioural lifetime estimates during the year ended 30 June 2023.

Base case economic forecast

The Consolidated Entity derives a forward-looking base case economic scenario which reflects its view of the most likely future macro-economic conditions.

There have been no changes to the types of forward-looking variables (key economic drivers) used as model inputs in the current year.

As at 30 June 2023, the base case assumptions have been updated to reflect the evolving economic climate. This includes an assessment of central bank policies, governments' actions, and the response of regulators and business.

Probability weightings of macroeconomic scenarios

Probability weighting of each economic scenario is determined by management considering the risks and uncertainties surrounding the base case economic scenario at each measurement date.

The Consolidated Entity continued to implement a modelled approach incorporating historical, current, and forward-looking macroeconomic indicators to determine the probability weightings.

Management temporary adjustments

Management temporary adjustments to the allowance for impairment are used in circumstances where it is judged that the existing inputs, assumptions, and model methodology do not capture all the risk factors relevant to the Consolidated Entity's lending portfolios. The use of management temporary adjustments may impact the amount of ECL recognised.

The uncertainty associated with the new emerging risks are not fully incorporated into the existing ECL model. Accordingly, management overlays have been applied to ensure provisions are appropriate. These overlays, which add to the modelled ECL provision have been made for risks particular to less seasoned products, for loan portfolios in run-off, and products where the risk profile has been increased in part by the extent of growth experienced in the current year and uncertainties driven by macro-economic changes.

The table below reflects the sensitivity of the ECL allowance to key factors used in determining it.

ECL sensitivity (weightings applied to scenarios)

	Total ECL $'000	Impact $'000
Reported probability weighted ECL	1,858	-
100% Upside scenario ECL	1,285	(573)
100% Central (base case) scenario ECL	1,543	(315)
100% Downside scenario ECL	2,268	410

Notes to the Financial Statements (continued)

For the year ended 30 June 2023

9 PROPERTY, PLANT AND EQUIPMENT

	Consolidated		Bank	
	2023 $'000	2022 $'000	2023 $'000	2022 $'000
Plant and equipment				
At cost	**512**	558	**512**	558
Accumulated depreciation	**(286)**	(284)	**(286)**	(284)
Net carrying amount	**226**	**274**	**226**	**274**
Leasehold improvements				
At cost	**2,158**	2,158	**2,158**	2,158
Accumulated depreciation	**(1,259)**	(989)	**(1,259)**	(989)
Net carrying amount	**899**	**1,169**	**899**	**1,169**
Right-of-use asset				
At cost	**8,404**	8,418	**8,404**	8,418
Accumulated depreciation	**(4,921)**	(3,876)	**(4,921)**	(3,876)
Net carrying amount	**3,483**	**4,542**	**3,483**	**4,542**
Total property, plant and equipment				
At cost	**11,074**	11,134	**11,074**	11,134
Accumulated depreciation	**(6,466)**	(5,149)	**(6,466)**	(5,149)
Net carrying amount	**4,608**	**5,985**	**4,608**	**5,985**
Reconciliation of carrying amounts at the beginning and end of the period				
Plant and equipment				
Opening balance	**274**	196	**274**	196
- Additions	**98**	224	**98**	224
- Transfers in	**-**	5	**-**	5
- Disposals (net of accumulated depreciation)	**-**	(3)	**-**	(3)
- Depreciation charge for the year	**(146)**	(148)	**(146)**	(148)
Closing balance	**226**	**274**	**226**	**274**
Leasehold property improvements				
Opening balance	**1,169**	1,439	**1,169**	1,439
- Additions	**-**	-	**-**	-
- Disposals (net of accumulated depreciation)	**-**	-	**-**	-
- Depreciation charge for the year	**(270)**	(270)	**(270)**	(270)
Closing balance	**899**	**1,169**	**899**	**1,169**
Right-of-use asset				
Opening balance	**4,542**	5,648	**4,542**	5,648
- Effect of remeasurement	**(15)**	(56)	**(15)**	(56)
- Additions	**-**	-	**-**	-
- Disposals (net of accumulated depreciation)	**-**	-	**-**	-
- Depreciation charge for the year	**(1,044)**	(1,050)	**(1,044)**	(1,050)
Closing balance	**3,483**	**4,542**	**3,483**	**4,542**

Notes to the Financial Statements (continued)

For the year ended 30 June 2023

9 PROPERTY, PLANT AND EQUIPMENT (continued)

Accounting policy

Property, plant and equipment

Property, plant, and equipment are stated at cost, including direct and incremental acquisition costs, less accumulated depreciation and impairment if required. Subsequent costs are capitalised where it enhances the asset. Depreciation is calculated using the straight-line method over the asset's estimated useful economic life.

The useful lives of major depreciable asset categories are as follows:

Office equipment and furniture	2 to 8 years
Computer hardware	2 to 5 years
Leasehold improvements	4 to 8 years (1)

(1) Calculated as the shorter of the useful life or the remaining lease term.

Assets that cost less than $300 are expensed immediately.

Property, plant, and equipment are derecognised upon disposal or where no further future economic benefits are expected from its use or disposal. Upon derecognition, any resulting gain or loss, calculated as the difference between the net disposal proceeds and the carrying amount of the asset, is included in profit and loss in the Statements of Comprehensive Income.

Right-of-use asset

Definition of a lease

The Consolidated Entity assesses whether a contract is, or contains, a lease using the definition of a lease in AASB 16 *Leases*. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

As a lessee

As at 30 June 2023, the Consolidated Entity had contracted a lease for its head office only. A right-of-use asset and a lease liability is recognised at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of the costs to restore the underlying asset, less any lease incentives received.

Subsequently, the right-of-use asset is depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful life of the right-of-use asset is determined on the same basis as those of property, plant, and equipment. In addition, the right-of-use asset is periodically adjusted for certain remeasurements of the lease liability.

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

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

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

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset.

The Consolidated Entity presents right-of-use assets in Property, Plant and Equipment (Note 9) and lease liabilities within Borrowings (Note 14) in the Statements of Financial Position.

Notes to the Financial Statements (continued)

For the year ended 30 June 2023

9 PROPERTY, PLANT AND EQUIPMENT (continued)

Accounting policy (continued)

As a lessee (continued)

Under AASB 16, right-of-use assets are tested for impairment in accordance with AASB 136 *Impairment of Assets*. This replaces the previous requirement to recognise a provision for onerous lease contracts.

For short-term leases (lease term of 12 months or less) and leases of low-value items (such as personal computers and office furniture), the Consolidated Entity has opted to recognise a lease expense on a straight-line basis as permitted by AASB 16. This expense is presented within administration expenses in the Statements of Comprehensive Income.

10 INTANGIBLE ASSETS

	Consolidated		Bank	
	2023	2022	2023	2022
	$'000	$'000	$'000	$'000
Work in progress				
Net carrying amount - at cost	**183**	340	**183**	340
Computer software				
- Cost	**2,233**	1,979	**2,233**	1,979
- Accumulated amortisation	**(1,682)**	(1,550)	**(1,682)**	(1,550)
Net carrying amount	**551**	429	**551**	429
Intangible assets	**734**	**769**	**734**	**769**
Reconciliation of carrying amount at the beginning and end of the period				
Work in progress				
Opening balance	**340**	340	**340**	340
- Additions	**431**	5	**431**	5
- Transfers out	**(328)**	(5)	**(328)**	(5)
- Disposals	**(260)**	-	**(260)**	-
Closing balance	**183**	**340**	**183**	**340**
Computer software				
Opening balance	**429**	595	**429**	595
- Additions	**-**	48	**-**	48
- Transfers in	**328**	-	**328**	-
- Amortisation	**(206)**	(214)	**(206)**	(214)
Closing balance	**551**	**429**	**551**	**429**

Notes to the Financial Statements (continued)

For the year ended 30 June 2023

10 INTANGIBLE ASSETS (continued)

Accounting policy

Intangible assets

Intangible assets are identifiable non-monetary assets without physical substance. They are recognised only if it is probable the asset will generate future economic benefits for the Consolidated Entity.

Intangible assets include certain internal and external costs incurred in acquiring and developing software that are capitalised and amortised over the estimated useful life on a straight-line basis.

Software projects are amortised over two to five years.

Software maintenance is expensed as incurred.

All intangible assets must be tested for impairment when there is an indication that the carrying amount may be greater than the recoverable amount.

11 OTHER ASSETS

	Consolidated		Bank	
	2023 $'000	2022 $'000	2023 $'000	2022 $'000
Prepayments	**742**	834	**742**	834
Sundry debtors	**99**	87	**2,973**	3,429
Other assets	**841**	**921**	**3,715**	**4,263**

Accounting policy

Other assets

Other assets are recognised on an accrual or service performed basis and amortised over the period in which the economic benefits from these assets are received.

Notes to the Financial Statements (continued)

For the year ended 30 June 2023

FINANCIAL LIABILITIES

Accounting policy

Financial liabilities – General

Outlined below is a description of how the Consolidated Entity classifies and measures financial liabilities relevant to the subsequent note disclosures.

Classification and measurement

Financial liabilities are measured at amortised cost, or fair value through profit and loss (FVTPL) when they are held for trading.

Additionally, financial liabilities can be designated at FVTPL where:

- The designation eliminates or significantly reduces an accounting mismatch which would otherwise arise
- A group of financial liabilities are managed, and their performance is evaluated, on a fair value basis in accordance with a documented risk management strategy; or
- The financial liability contains one or more embedded derivatives, unless the embedded derivative:
  - does not significantly modify the cash flows that otherwise would be required by the contract; or
  - is closely related to the host financial instrument.

Derecognition of a financial liability

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of the existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability, and the difference in the respective carrying amount is recognised in the Statements of Comprehensive Income.

Notes to the Financial Statements (continued)

For the year ended 30 June 2023

12 DEPOSITS

	Consolidated		Bank	
	2023 $'000	2022 $'000	2023 $'000	2022 $'000
Call deposits	**316,967**	332,957	**316,967**	332,957
Retail term deposits	**682,976**	567,469	**682,976**	567,469
Wholesale term deposits	**60,807**	156,098	**60,807**	156,098
Negotiable certificates of deposit	**123,531**	-	**123,531**	-
Withdrawable shares	**51**	50	**51**	50
Deposits	**1,184,332**	**1,056,574**	**1,184,332**	**1,056,574**
(a) Maturity analysis: Deposits				
At call	**317,018**	333,007	**317,018**	333,007
< 3 months	**469,631**	434,324	**469,631**	434,324
3 to 6 months	**266,143**	198,499	**266,143**	198,499
6 to 12 months	**126,197**	82,474	**126,197**	82,474
1 to 5 years	**5,343**	8,270	**5,343**	8,270
> 5 years	**-**	-	**-**	-
Deposits	**1,184,332**	**1,056,574**	**1,184,332**	**1,056,574**
(b) Fair value				
The fair values of deposits are as follows:				
- Call deposits	**316,967**	332,957	**316,967**	332,957
- Term deposits	**741,737**	721,335	**741,737**	721,335
- Negotiable certificates of deposit	**123,483**	-	**-**	-
- Withdrawable shares	**51**	50	**51**	50
Total fair value of deposits	**1,182,238**	**1,054,342**	**1,058,755**	**1,054,342**

Information regarding the interest rate risk and liquidity and funding risk related to deposits is set out in Note 2(a) and 2(c) respectively.

Accounting policy

Deposits

Deposits include terms deposits and other demand deposits from members and wholesale money market counterparties.

Deposits are initially recognised at fair value less directly attributable transaction costs.

Subsequent to initial recognition, they are measured at amortised cost.

Interest incurred is recognised within net interest income in the Statements of Comprehensive Income using the effective interest method.

Notes to the Financial Statements (continued)

For the year ended 30 June 2023

13 TRADE PAYABLES

	Consolidated		Bank	
	2023 $'000	2022 $'000	2023 $'000	2022 $'000
Creditors and accruals	**4,154**	**3,391**	**3,392**	**3,108**
Undiscounted maturity analysis: Creditors and accruals				
< 3 months	**3,066**	2,716	**2,419**	2,433
> 3 months	**1,088**	675	**973**	675
Creditors and accruals	**4,154**	**3,391**	**3,392**	**3,108**

Accounting policy

Trade payables

The payables are non-trade, non-interest bearing and have an average term of 14 days.

Due to the short-term nature of these payables, their carrying value (contractual value) is deemed to approximate their fair value.

14 BORROWINGS

	Consolidated		Bank	
	2023 $'000	2022 $'000	2023 $'000	2022 $'000
(a) Borrowings				
Lease liability	**3,892**	4,904	**3,892**	4,904
Term Funding Facility	**35,996**	46,088	**35,996**	46,088
Bank borrowings	**140,927**	152,533	**-**	-
Borrowings	**180,815**	**203,525**	**39,888**	**50,992**

The Consolidated Entity's interest-bearing bank borrowings relate to funding provided to Portavia Trust No.1 from Westpac Banking Corporation. The Portavia Trust No.1 facility from Westpac is typically renewed annually, and its next maturity date is 18 June 2024. The Term Funding Facility is a three-year facility, with the tranches set to mature between 3 July 2023 to 13 May 2024. The undiscounted values are assumed to approximate the fair values.

In the current year, the Consolidated Entity incurred interest on the lease liability of $107,197 (2022: $130,928).

Notes to the Financial Statements (continued)

For the year ended 30 June 2023

14 BORROWINGS (continued)

	Consolidated		Bank	
	2023	2022	2023	2022
	$'000	$'000	$'000	$'000
(b) Inter-entity borrowings				
Inter-entity borrowings	**-**	**-**	**160,019**	**170,457**

The inter-entity borrowings in the Bank relates to loans sold to the Portavia Trust No.1.

(c) Maturity analysis: Interest-bearing borrowings

	Consolidated		Bank	
	2023	2022	2023	2022
	$'000	$'000	$'000	$'000
Lease liability	**3,892**	4,904	**3,892**	4,904
Term Funding Facility	**35,996**	46,088	**35,996**	46,088
Bank borrowings	**140,927**	152,533	**-**	-
Inter-entity borrowings	**-**	-	**160,019**	170,457
Borrowings	**180,815**	**203,525**	**199,907**	**221,449**
Maturity analysis: Borrowings				
< 3 months	**18,145**	268	**18,145**	268
3 to 6 months	**5,306**	276	**5,306**	276
> 6 months	**157,364**	202,981	**176,456**	220,905
Borrowings	**180,815**	**203,525**	**199,907**	**221,449**

(d) Fair values

Due to the short-term nature of these borrowings, the carrying amount of the Consolidated Entity's bank facility balances, including the overdraft, approximate their fair values.

Notes to the Financial Statements (continued)

For the year ended 30 June 2023

14 BORROWINGS (continued)

(e) Financing facilities available

At reporting date, the following facilities were available

	Consolidated		Bank	
	2023 $'000	2022 $'000	2023 $'000	2022 $'000
Total facilities				
Term Funding Facility	**35,825**	45,925	**35,825**	45,925
Bank borrowings	**175,000**	175,000	**-**	-
Total facilities	**210,825**	**220,925**	**35,825**	**45,925**
Facilities used at reporting date				
Term Funding Facility	**35,825**	45,925	**35,825**	45,925
Bank borrowings	**140,927**	152,533	**-**	-
Facilities used at reporting date	**176,752**	**198,458**	**35,825**	**45,925**
Facilities unused at reporting date				
Term Funding Facility	**-**	-	**-**	-
Bank borrowings	**34,073**	22,467	**-**	-
Facilities unused at reporting date	**34,073**	**22,467**	**-**	**-**

(f) Assets pledged as security

At the reporting date, residential mortgage-backed securities issued by Portavia Trust No.2 were pledged as security for the Reserve Bank of Australia's Term Funding Facility (2023: $46.1 million; 2022: $59.4 million).

(g) Interest rate risk

Information regarding the interest rate risk of the interest-bearing loans and borrowings is set out in Note 2(a).

(h) Defaults and breaches

During the current and prior years, there were no defaults or breaches on any of the loans or loan conditions.

Accounting policy

Bank borrowings

Bank borrowings are initially recognised at their fair values less directly attributable transaction costs.

Subsequent to initial recognition, they are measured at amortised cost.

Interest incurred is recognised within Net interest income using the effective interest method.

Lease liability

The accounting policy for the recognition and measurement criteria for the lease liability is set out in Note 9.

Notes to the Financial Statements (continued)

For the year ended 30 June 2023

15 PROVISIONS

	Consolidated		Bank	
	2023	2022	2023	2022
	$'000	$'000	$'000	$'000
Annual leave	**496**	603	**496**	603
Long service leave	**630**	545	**630**	545
Lease make-good	**404**	404	**404**	404
Provisions	**1,530**	**1,552**	**1,530**	**1,552**
Reconciliation of carrying amount at the beginning and end of the period				
Annual leave				
Opening balance	**603**	501	**603**	501
- Arising during the year	**675**	613	**675**	613
- Utilised	**(782)**	(511)	**(782)**	(511)
Closing balance	**496**	**603**	**496**	**603**
Long service leave				
Opening balance	**545**	452	**545**	452
- Arising during the year	**98**	120	**98**	120
- Utilised	**(13)**	(27)	**(13)**	(27)
Closing balance	**630**	**545**	**630**	**545**
Lease make-good				
Opening balance	**404**	404	**404**	404
- Arising during the year	**-**	-	**-**	-
- Utilised	**-**	-	**-**	-
Closing balance	**404**	**404**	**404**	**404**

In accordance with the lease agreement, the Consolidated Entity must restore the leased premises in Sydney to its original condition at the end of the lease term. No additional provisions were raised during the year ended 30 June 2023 (2022: $nil) in respect of the Consolidated Entity's obligation to restore the leased office premises at the completion of the lease per the requirements of the contract.

Accounting policy

Provisions

Provisions are recognised for present obligations arising from past events where a payment to settle the obligation is probable and can be reliably estimated. When payments to settle amounts are expected to be greater than one year in the future, they are then discounted using a market observable rate.

Provisions for employee entitlements (annual leave and long service leave)

The provision is calculated based on expected payments. Where the payments are expected to be more than one year in the future, these factor in the expected period of service by employees, as well as salary increases. These future obligations are discounted using a market observable rate.

Notes to the Financial Statements (continued)

For the year ended 30 June 2023

15 PROVISIONS (continued)

Accounting policy (continued)

Lease make-good

The provision reflects the present value of the estimated costs to be incurred in restoring the leased site to the condition required by the terms and conditions of the lease upon completion of the lease.

16 RESERVES

	Consolidated $'000	Bank $'000
Cash flow hedge reserve		
At 30 June 2021	**(37)**	**-**
- Net unrealised gain on cash flow hedges net of tax	37	-
- Net (loss)/gain on cash flow hedges reclassified to profit or loss	-	-
At 30 June 2022	**-**	**-**
- Net unrealised gain on cash flow hedges net of tax	-	-
- Net (loss)/gain on cash flow hedges reclassified to profit or loss	-	-
At 30 June 2023	**-**	**-**

A General Reserve for Credit Losses (GRCL) for regulatory purposes of $2,074,092 (2022: $1,976,642) is reflected in retained earnings.

Accounting policy

Reserves

Retained earnings

Retained earnings includes the accumulated profits for the Consolidated Entity including certain amounts recognised directly in retained earnings.

Cash flow hedge reserve

The cash flow hedge reserve is used to record fair value gains or losses associated with the effective portion of designated cash flow hedging instruments. Amounts are reclassified to profit or loss in the Statements of Comprehensive Income when the hedge transaction impacts profit or loss.

Notes to the Financial Statements (continued)

For the year ended 30 June 2023

17 CAPITAL MANAGEMENT

The Consolidated Entity is licensed as an Authorised Deposit-taking Institution (ADI) under the Banking Act and is subject to prudential supervision by APRA. APRA has issued a series of prudential standards to implement the Basel III capital framework.

The Basel III Standards include APS 110 *Capital Adequacy*, which:

(i) Imposes on the Board a duty to ensure that the Consolidated Entity maintains an appropriate level and quality of capital commensurate with the level and extent of the risks to which the Consolidated Entity is exposed from its activities; and

(ii) Obliges the Consolidated Entity to have an Internal Capital Adequacy Assessment Process (ICAAP) in place.

There are three pillars to the Basel III capital framework:

Pillar 1

Involves specific capital charges for credit risk, operational risk, and the risk of financial market trading activities.

Pillar 2

Involves the Consolidated Entity making an assessment of any additional capital necessary to cover other risks not included in Pillar 1.

Pillar 3

Involves increased reporting by the Consolidated Entity to APRA.

The Consolidated Entity's regulatory capital is analysed into two tiers:

- Tier 1 capital: Includes general reserves and current year earnings.
- Tier 2 capital: Includes tier 2 capital of the GRCL.

Various limits are applied to elements of the capital base. APRA may require an ADI to hold more than 50% of its required prudential capital in the form of Tier 1 capital and there are restrictions on the amount of collective impairment allowances that may be included as part of Tier 2 capital. Other deductions from capital include deferred tax assets and intangible assets.

	2023 $'000	2022 $'000
Regulatory capital		
Tier 1 capital	113,571	109,423
Tier 2 capital	3,753	3,548
Regulatory capital	**117,324**	**112,971**
Risk weighted assets	**671,599**	**702,567**
Capital adequacy ratios	**17.47%**	**16.08%**

During the period, the Consolidated Entity has complied with all externally imposed capital requirements.

Notes to the Financial Statements (continued)

For the year ended 30 June 2023

18 NOTES TO THE STATEMENTS OF CASH FLOWS

(a) Reconciliation of net profit after tax to net cash flows from operations

	Consolidated		Bank	
	2023 $'000	2022 $'000	2023 $'000	2022 $'000
Profit for the year	**4,573**	3,910	**4,573**	3,910
Adjustments for:				
Depreciation and amortisation	**1,666**	1,681	**1,666**	1,681
Bad debts written-off	**206**	509	**206**	509
Net loss on disposal of property, plant and equipment	**-**	3	**-**	3
Movement in allowance for impairment loss	**152**	(438)	**152**	(438)
Changes in assets and liabilities				
Increase in other assets	**(843)**	(1,250)	**(843)**	(1,250)
Increase in deferred tax assets	**(436)**	(7)	**(436)**	(7)
Increase in loans and advances	**(110,659)**	(199,670)	**(110,659)**	(199,670)
Decrease in current tax liability	**(538)**	(911)	**(538)**	(911)
(Decrease)/increase in provisions	**(22)**	195	**(22)**	195
Increase/(decrease) in trade creditors and other liabilities	**1,312**	499	**1,303**	(743)
Increase in deposits	**127,758**	252,545	**127,758**	252,545
Net cash flows from operating activities	**23,169**	**57,066**	**23,160**	**55,824**

Accounting policy

Statements of Cash Flows

In the Statements of Cash Flows:

- Gross GST cash flows are included; and
- GST cash flows resulting from investing and financing activities are included in operating cash flows.

Notes to the Financial Statements (continued)

For the year ended 30 June 2023

18 NOTES TO THE STATEMENTS OF CASH FLOWS (continued)

(b) Reconciliation of movements of liabilities to cash flows from financing activities

Consolidated	Borrowings $'000	Total $'000
Balance at 30 June 2021	**160,992**	**160,992**
Proceeds from debt securities issuance	43,429	43,429
Proceeds from borrowings	-	-
Repayment of debt securities	-	-
Payment of lease liabilities	(928)	(928)
Total change from financing cash flows	**42,501**	**42,501**
Liability-related		
Movement in accrued interest	88	88
Effect of remeasurement	(56)	(56)
Total liability-related other changes	**32**	**32**
Balance at 30 June 2022	**203,525**	**203,525**
Proceeds from debt securities issuance	84,062	84,062
Repayment of borrowings	(10,100)	(10,100)
Repayment of debt securities	(95,667)	(95,667)
Payment of lease liabilities	(998)	(998)
Total change from financing cash flows	**(22,703)**	**(22,703)**
Liability-related		
Movement in accrued interest	8	8
Effect of remeasurement	(15)	(15)
Total liability-related other changes	**(7)**	**(7)**
Balance at 30 June 2023	**180,815**	**180,815**

Bank	Inter-entity Borrowings $'000	Borrowings $'000	Total $'000
Balance at 30 June 2021	**128,716**	**51,888**	**180,604**
Proceeds from borrowings	41,741	-	41,741
Payment of lease liabilities	-	(928)	(928)
Total change from financing cash flows	**41,741**	**(928)**	**40,813**
Liability-related			
Movement in accrued interest	-	88	88
Effect of remeasurement	-	(56)	(56)
Total liability-related other changes	**-**	**32**	**32**
Balance at 30 June 2022	**170,457**	**50,992**	**221,449**
Repayment of borrowings	(10,439)	(10,100)	(20,539)
Payment of lease liabilities	-	(998)	(998)
Total change from financing cash flows	**(10,439)**	**(11,098)**	**(21,537)**
Liability-related			
Movement in accrued interest	1	9	10
Effect of remeasurement	-	(15)	(15)
Total liability-related other changes	**1**	**(6)**	**(5)**
Balance at 30 June 2023	**160,019**	**39,888**	**199,907**

Notes to the Financial Statements (continued)

For the year ended 30 June 2023

19 COMMITMENTS AND CONTINGENCIES

(a) Commitments

		Consolidated		Bank	
		2023 $'000	2022 $'000	2023 $'000	2022 $'000
(i)	**Capital expenditure commitments**				
	Contracted but not provided for and payable within one year	-	-	-	-
(ii)	**Outstanding loan commitments** (1)				
	Member loans approved but not funded	**55,347**	39,030	**55,347**	39,030
	Undrawn reverse mortgage loans	**131,245**	56,035	**131,245**	56,035
	Total outstanding loan commitments	**186,592**	**95,065**	**186,592**	**95,065**
(iii)	**Outstanding line of credit commitments**				
	Member line of credit facilities approved but not funded	**32,604**	45,618	**32,604**	45,618
(iv)	**Outstanding redraw commitments**				
	Member loan facilities where the outstanding loan balance is lower than the scheduled balance and the prepaid amount is subject to being redrawn	**58,566**	68,134	**58,566**	68,134

(1) There is no certainty that all unfunded loans will ultimately be funded.

The Consolidated Entity retains the right, at any time, to reduce or withdraw an approved line of credit limit or facility.

(b) Contingencies

The Consolidated Entity is not aware of any contingencies comprising possible obligations or assets arising from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events.

Accounting policy

Commitments and contingencies

Undrawn loan commitments

The Consolidated Entity issues loan commitments. Undrawn loan commitments are commitments under which, over the duration of the commitment, the Consolidated Entity is required to provide a loan with pre-specified terms to the customer.

These contracts are in the scope of the ECL requirements under AASB 9.

The nominal contractual value of undrawn loan commitments, where the loan agreed to be provided is on market terms, are not recorded in the Statements of Financial Position. The nominal values of these commitments are disclosed in Note 19(a).

Commitments and contingencies are disclosed net of GST.

Notes to the Financial Statements (continued)

For the year ended 30 June 2023

20 AUDITOR'S REMUNERATION

The auditor for the Consolidated Entity is KPMG. All fees paid in 2023 and 2022 were payable to KPMG.

	Consolidated		Bank	
	2023	2022	2023	2022
	$	$	$	$
Audit and review services				
Audit and review of financial statements	**164,065**	144,615	**164,065**	144,615
Assurance services				
Regulatory assurance services	**56,430**	56,226	**56,430**	56,226
Other services				
Taxation advice and tax compliance services	**16,877**	16,716	**16,877**	16,716
Auditor's remuneration	**237,372**	**217,557**	**237,372**	**217,557**

21 KEY MANAGEMENT PERSONNEL

(a) Compensation of key management personnel

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

	Consolidated		Bank	
	2023	2022	2023	2022
	$	$	$	$
Short-term benefits	**2,253,057**	2,107,191	**2,253,057**	2,107,191
Post employment	**197,663**	182,775	**197,663**	182,775
Other Long-term benefits	**39,046**	114,609	**39,046**	114,609
	2,489,766	**2,404,575**	**2,489,766**	**2,404,575**

In the above table, remuneration shown as short-term benefits means (where applicable) wages, salaries, paid sick leave, bonuses, value of fringe benefits received, but excludes out of pocket expense reimbursements.

Post-employment benefits include superannuation benefits.

Other long-term employee benefits include long-term incentives, long-service leave and annual leave.

All remuneration to Directors was approved by the Members at the previous Annual General Meeting of the Consolidated Entity.

Notes to the Financial Statements (continued)

For the year ended 30 June 2023

21 KEY MANAGEMENT PERSONNEL (continued)

(b) Loans to key management personnel

	Consolidated		Bank	
	2023	2022	2023	2022
	$	$	$	$
(i) The aggregate value of loans to key management personnel as at balance date amounted to:				
Personal loans - secured	**-**	-	**-**	-
Term Loans - secured	**2,402,771**	1,772,142	**2,402,771**	1,772,142
	2,402,771	**1,772,142**	**2,402,771**	**1,772,142**
(ii) During the year the aggregate value of loans disbursed to key management personnel amounted to:				
Personal loans - secured	**-**	-	**-**	-
Term Loans - secured	**949,463**	100,000	**949,463**	100,000
	949,463	**100,000**	**949,463**	**100,000**
(iii) During the year the aggregate value of repayments received totalled	**377,007**	**120,791**	**377,007**	**120,791**
(iv) Interest and other revenue earned on loans and revolving credit facilities to key management personnel	**58,174**	**34,082**	**58,174**	**34,082**

Secured loans are secured against residential property. All loans advanced to Key Management Personnel are to be settled in cash and are issued under the same terms and conditions as other Members.

Terms and conditions of loans

The Consolidated Entity's policy for lending to Key Management Personnel is that all loans are approved, and deposits accepted, on the same terms and conditions that applied to Members for each class of loan or deposit. There are no impaired loans relating to loan balances with Key Management Personnel.

(c) Other transactions and balances with key management personnel and their related parties

	Consolidated		Bank	
	2023	2022	2023	2022
	$	$	$	$
Total value of term and savings deposits from key management personnel	**863,844**	791,609	**863,844**	791,609
Total interest paid on deposits to key management personnel	**2,072**	1,519	**2,072**	1,519

The Consolidated Entity's policy for receiving deposits from Key Management Personnel is that all transactions are approved, and deposits accepted, on the same terms and conditions that applied to Members for each type of deposit. There are no benefits paid or payable to the close family members of Key Management Personnel.

Notes to the Financial Statements (continued)

For the year ended 30 June 2023

22 CONSOLIDATED ENTITIES

Details of controlled entities are as follows:

Name of Entity	% Holdings		Note
	2023	2022	
Portavia Trust No. 1	**100**	100	(1)(2)
Portavia Trust No. 2	**100**	100	(1)(3)

(1) The Bank holds 100% of participating residual income units.

(2) Established 9 December 2011.

(3) Established 10 July 2013.

Accounting policy

Consolidated entities

Portavia Trust No.1

The derecognition criteria outlined on pages 39 and 54 have not been fully satisfied in respect of Portavia Trust No.1. Therefore, eligible financial assets and liabilities of this special purpose entity continue to be included in the financial statements of both the Bank and Consolidated Entity.

Portavia Trust No.2

Although the Bank has transferred its contractual rights to receive the cash flows from the securitised mortgages to Portavia Trust No.2, the Bank has substantially retained all risks and rewards of these cash flows through its ownership of the note investment and residual income units.

The residual income units issued by the Trust entitle the Bank to any residual income or loss of the Trust after all costs of the Trust have been met, and the note investments provide the Bank with interest income. As such the eligible financial assets and liabilities do not meet the criteria for derecognition and continue to be included in the financial statements of both the Bank and Consolidated Entity.

23 SUBSEQUENT EVENTS

There have been no significant events from 30 June 2023 to the date of signing this report.

Notes to the Financial Statements (continued)

For the year ended 30 June 2023

24 ECONOMIC DEPENDENCY

The term “economic dependency” means that a change in existing relationships could have an economic effect on the Consolidated Entity. It does not mean that the Consolidated Entity is economically supported by the listed organisations in any way, whether financially or by guarantee, other than by means of normal commercial arrangements.

The Consolidated Entity has an economic dependency on the following:

Australian Settlements Limited (ASL)

This company provides a range of transactional settlement support processes, particularly in relation to the Consolidated Entity's Visa Debit Card offering.

Commonwealth Bank of Australia (CBA)

CBA is a provider of banking facilities to the Consolidated Entity.

Data Action Pty Limited

This company provides and maintains the core banking system and internet banking utilised by the Consolidated Entity.

National Australia Bank (NAB)

NAB is a provider of banking facilities to the Consolidated Entity.

Reserve Bank of Australia (RBA)

The Consolidated Entity has access to the RBA's "repo" arrangement, which allows it to draw funding at short notice under a crisis liquidity situation, at the discretion of the RBA.

The Consolidated Entity also has access to the RBA’s Term Funding Facility (TFF), which is a three-year funding facility.

Westpac Banking Corporation (WBC)

WBC provides a debt warehouse facility for the Portavia Trust No.1.

Directors' Decaration

In accordance with a resolution of the Directors of Gateway Bank Limited, I state that:

In the opinion of the Directors:

(b) the financial statements and notes of the Bank and Consolidated Entity for the year ended 30 June 2023, as set out on pages 8 to 69, are in accordance with the *Corporations Act 2001*, including:

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

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

(c) the financial statements and notes also comply with the International Financial Reporting Standards as disclosed in the Notes to the Financial Statements; and

(d) there are reasonable grounds to believe that the Consolidated Entity will be able to pay its debts as and when they become due and payable.

On behalf of the Board

P M Schiller
Chair
Sydney, 19 September 2023

Independent Auditor's Report

Independent Auditor's Report

To the members of Gateway Bank Ltd

Opinions

We have audited the consolidated Financial Report of Gateway Bank Ltd (the Group Financial Report). We have also audited the Financial Report of Gateway Bank Ltd (the Company Financial Report).

In our opinion, each of the accompanying Group Financial Report and Company Financial Report 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 their 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 Comprehensive Income, Statements of Changes in Equity, and Statements of Cash Flows for the year then ended
- Notes including a summary of significant accounting policies
- Directors' Declaration.

The ***Group*** consists of Gateway Bank Ltd (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 Gateway Bank Ltd's annual reporting which is provided in addition to the Financial Reports and the Auditor's Report. The Directors are responsible for the Other Information.

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

Independent Auditor’s Report (continued)

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.

Responsibilities of the Directors for the Financial Reports

The Directors are responsible for:

- preparing the Financial Reports that give a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001;*
- implementing necessary internal control to enable the preparation of Financial Reports that give a true and fair view and are free from material misstatement, whether due to fraud or error; and
- assessing the Group and 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 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 Report is located at the *Auditing and Assurance Standards Board* website at:
http://www.auasb.gov.au/auditors_responsibilities/ar3.pdf.
This description forms part of our Auditor’s Report.

KPMG

Richard Drinnan
Partner
Wollongong
19 September 2023


VISA


VISA
Debit

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Climate Active Carbon Neutral ORGANISATION