APPENDIX 4E

25 August 2022

RESULTS FOR ANNOUNCEMENT TO THE MARKET

humm group limited (ASX: HUM) and its controlled entities (also referred to as the "Group" or "**humm**group") results for announcement to the market are detailed below:

Key information	Year ended 30 June 2022 $m	Year ended 30 June 2021 $m	Change on previous period $m	Change on previous period %
Revenue from ordinary activities	440.4	443.9	(3.5)	(1%)
Net (loss)/profit from ordinary activities after tax attributable to shareholders of humm group limited	(170.3)	60.1	(230.4)	(383%)
Net (loss)/profit for the year attributable to shareholders of humm group limited	(170.3)	60.1	(230.4)	(383%)

Dividends	Amount per security	Franked amount per security
Current period: 2022		
Final dividend: payable 7 October 2022	1.4 cents	100%
Interim dividend: paid on 6 April 2022	1.7 cents	100%
Previous corresponding period: 2021		
Final dividend	-	N/A
Interim dividend	-	N/A

Record Date for Determining Entitlements to the Dividends

1 September 2022 for final FY22 dividend.

Dividend Details

Our final ordinary dividend in respect of the year ended 30 June 2022 will have a record date of 1 September 2022 with payment to be made on 7 October 2022. The Board has determined that the dividend reinvestment plan will not operate in relation to this dividend.

Dividend or Distribution Reinvestment Plan Details

Not applicable.

Brief Explanation on Results

Please refer to the 2022 Condensed Preliminary Final Report, Review of Operations on pages 1 to 13.

Net Tangible Assets Per Security

	Year ended 30 June 2022 $	Year ended 30 June 2021 $
Ordinary shares	101 cents	83 cents

Control Gained or Lost Over Entitles in the Financial Year

Name of entitles where control was gained in the financial year	Date control gained
Nil	N/A

Name of entitles where control was lost in the financial year	Date lost control
Nil	N/A

Investment in Associates and Joint Ventures

Nil.

Other Information

Nil.

humm group

HUMM GROUP LIMITED

CONDENSED PRELIMINARY FINAL REPORT

HUMMGROUP AND ITS CONTROLLED ENTITIES
30 June 2022
ABN 75 122 574 583

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REVIEW OF OPERATIONS

Results and key performance indicators of the current and prior year are set out below on a Cash Net Profit After Tax ("CNPAT") ("Cash NPAT") basis, adjusting Statutory NPAT for the amortisation of acquired intangibles and material infrequent items including the impairment of held for sale investments, redundancy, transaction, impairments, other restructuring costs, share plan cancellation expenses and historical tax matters.

1. GROUP PERFORMANCE

For the year ended 30 June 2022 the Group reported a Cash NPAT of $51.1m down (25.3%) compared with the prior year.

In FY22 **humm**group and Latitude Financial Services ("LFS") entered into a non-binding agreement to sell the **humm** Consumer Finance business to LFS which LFS and **humm**group mutually agreed to terminate on 17 June 2022.

During FY22 operating conditions for the Consumer business were challenging with COVID-19 lockdowns in the first quarter of the financial year reducing the number of trading days for big ticket in-store purchases, adverse weather conditions and restrictions on supply chain impacting solar and home improvement and travel restrictions in place longer than expected. This resulted in volume of $2.4b up 12.9% on the prior year but below expectations. Uncertainty in the economic environment led to weaker confidence and as a result, consumers continued to use funds provided in government stimulus packages to accelerate the pay down of debt leading to reduced receivables balances in the cards portfolio. As a consequence, income was down on the prior year. This combined with investments in new products and markets resulted in Cash NPAT for the Consumer business of $22.4m down 51.4% on the prior year.

The Commercial business continued to perform well due to strong demand for our offering in the SME market and favourable conditions in key sectors of logistics, civil engineering and agriculture which continue to operate uninterrupted benefiting from government investment in infrastructure. Commercial volumes of $1,096m increased 102.9% in FY22 resulting from our 'speed to yes' and 'speed to cash' proposition with the SME broker market in Australia and we are seeing increased momentum in New Zealand as we implement our strategy to build out SME broker led equipment finance. Credit performance continues to be strong with net losses falling to 0.7% of average receivables. Cash NPAT was $28.7m up 28.7% on the prior year.

The operating cost base increased in FY22 due to the absence of JobKeeper and investment in overseas expansion and new products. The Group has refined its strategic settings this year to reflect the shift in the macro-economic environment to refocus on the core instalment products in big ticket BNPL, Credit Cards and continued growth in Commercial. The Group remains well capitalised, with a strong funding position and is well positioned to take advantage of opportunities that emerge during these more challenging times.

FY22 segment Cash NPAT was:

- BNPL of ($17.3m), down ($18.5m) with **humm**® AU 'Big things' delivering $21.2m offset by losses in **humm**® AU 'Little things' ($12.5m), investment in new products **bundll**®, **humm**® NZ and **humm**®pro ($16.9m) and investment in new markets UK and Canada ($9.1m).
- AU Cards of $8.9m, down ($7.9m) driven by lower receivables.
- NZ Cards of $30.8m, up $2.7m, despite lower receivables as a result of reduced credit impairment costs and lower expenses.
- Commercial and Leasing of $28.7m, up $6.4m driven by strong momentum in this business.

During the 6 months ended 30 June 2022, after assessing the Latitude offer together with the structural shift from credit cards to debit cards, the decline in market capitalisation of comparable fintech and BNPL companies and the reduction of interest-bearing balances caused by COVID-19, management determined that the carrying amounts of goodwill and software should be reduced to the recoverable amount, being the higher of the fair value less costs of disposal and value in use. As a result, the Group recognised an impairment expense of intangible assets of $181.2m, including $135.4m of goodwill and $45.8m of software.

During the 6 months ended 30 June 2022, a further impairment of $9.6m was recognised in respect of software assets after having evaluated the strategic priorities of key products and geographies and re-focusing the business back to its core operations. Tax benefit of software impairment of $16.1m was also recognised. During the second half, we have considered the current profit for the NZ Commercial business, the move to broker originated business similar to Australia and associated execution risks, along with a reduction in market multiples over the past six months, an impairment charge of $16.7m was recognised. In addition, the Group reassessed the useful life of merchant and customer relationships and determined that it is appropriate to lower the assumptions to 9 years. An accelerated amortisation of $12.5m was recognised.

Cash earnings per share ("Cash EPS") of 9.5c represents a 31% reduction from the prior comparative period ("pcp") of 13.7c.

SUMMARY FINANCIAL RESULTS

A$m	FY22[1]	FY21[1]	Change $m	Change %
Gross income	440.4	443.9	(3.5)	(0.8)
Net operating income	328.7	342.9	(14.2)	(4.1)
Credit impairment charge	(63.4)	(58.7)	(4.7)	(8.0)
Marketing expenses	(23.9)	(30.0)	6.1	(20.3)
Operating expenses	(174.4)	(156.9)	(17.5)	11.2
Tax expense	(15.9)	(28.9)	13.0	(45.0)
Cash NPAT	**51.1**	**68.4**	**(17.3)**	**(25.3)**

1. Cash NPAT reflects the reported net profit after tax adjusted for material infrequent items and the amortisation of acquired intangibles. The analysis of results is based on Cash NPAT to align to the way the Directors view the business and to better understand the Group's performance. The Directors believe that Cash NPAT is the most appropriate measure of maintainable earnings of the Group and therefore best reflects the core drivers and ongoing influences upon those earnings.

The items below provide a reconciliation between Statutory NPAT and Cash NPAT and are presented on an after-tax basis:

A$m	FY22	FY21
CNPAT	**51.1**	**68.4**
Legal provision	(10.9)	-
Impairment of intangibles	(191.4)	-
Amortisation of acquired intangibles	(10.7)	(2.1)
Transaction and separation costs	(7.6)	-
Redundancy	(0.5)	(1.6)
Loss on sale adjustment and impairment of investment in associate - held for sale	-	(3.9)
Share based payment cancellation expense	-	(1.6)
Other[1]	(0.3)	0.9
Statutory NPAT	**(170.3)**	**60.1**

1. Other includes the reversal of net tax liabilities no longer required, with the resolution of historical tax matters in the year.

KEY PERFORMANCE METRICS

Active customers (m)

Full-year to 30 June

2022	2021	Change %
2.71	2.73	(0.7)

Active customers decreased (0.7%) on pcp, predominantly due to customer attrition in legacy products, offset by continued growth in the BNPL segment. **humm**group benefited from an additional 0.9m app downloads in FY22, a key driver of customer growth.

Distribution partners

Full-year to 30 June

2022	2021	Change %
122,000	106,000	15.1

Distribution partners increased from 106,000 to 122,000, due to strong performance in Commercial, adding to its broker distribution network. This was complemented by growth in BNPL through active targeting of more diverse range of verticals including home and home improvement, healthcare and automotive.

Transaction volume ($b)

Full-year to 30 June

2022	2021	Change %
3.52	2.69	30.9

Transaction volume of $3.52b was up 30.9% on pcp. Commercial volumes increased by 102.9%, benefitting from competitive services and market position, complemented through an enhanced broker channel with small and medium enterprise ("SME") lending.

BNPL grew 21.0% across existing core products and momentum from new products and AU Cards grew 14.7% with stronger 2H22 growth in post-lockdown economy. NZ Cards was impacted by the weakening economic environment, the community outbreak of COVID-19 and regulatory changes in 2H22, keeping volume flat (0.2%). COVID-19 restrictions have affected key long term interest free card partners in travel and as restrictions have eased, we are beginning to see volumes return. Everyday spend volume in both Cards segments increased against pcp.

Cost to income ratio[1]

Full-year to 30 June

2022	2021	Change %
60.3%	54.6%	10.4

1. Cost to income is calculated on a Cash NPAT basis by dividing total costs by net operating income. Cost comprises of marketing and operating expenses, while income comprises of gross income, less interest expense and direct cost of origination.

Cost to income ratio increased 10.4%, largely as a result of investments in offshore expansion and new technology as well as the absence of JobKeeper benefits in FY22 which were received in FY21. This was partly offset by reduced marketing and depreciation expenses. The underlying business continues to benefit from a focus on reducing its core operational costs through automation and self-service models.

App downloads ('000)

Full-year to 30 June

2022	2021	Change %
909	1,117	(18.6)

App downloads decreased (18.6%), on the back of reduced marketing investment and maturing of new products. A key strategy for growth remains driving customer engagement and transaction frequency through digital channels. Investment continues to be made in the digital app experience, which is being reflected by our increasing app store scores. **humm**group continues to focus heavily on driving customer engagement through digital channels.

30+ days arrears

Full-year to 30 June

2022	2021	Change %
1.9%	2.9%	(34.5)

30+ day arrears reduced by (34.5%) due to improving credit quality across the portfolio with the most significant improvements evident in the Cards portfolios. Customers continued to prioritise the repayment of debt combined with credit and fraud enhancements resulted in a reduction in arrears greater than 30 days.

KEY FINANCIAL DRIVERS

Gross income ($m)

Full-year to 30 June

2022	2021	Change %
440.4	443.9	(0.8)

Gross income was flat (down 0.8%) despite strong volume, and receivables growth. In the Consumer Business margin compression from the competitive environment continues to impact income. Fee and other income decreased due to lower late fees in cards as a result of higher payments, and reduced end of life legacy consumer leasing income, offset by increased growth in new fee-oriented products.

Cards receivables reduced over the year as COVID-19, store closures and a more subdued economic environment affected volumes in FY21and FY22. AU Cards has shown signs of recovery in the latter part of the year although closing customer receivables ended 4.3% down, and NZ Cards receivables were down 10.6% as volume were affected by COVID-19 in the community, a weaker economic environment and regulatory changes in New Zealand. BNPL gross income grew 3.4% driven by a 21.0% increase in volumes, partly offset by margin compression and lower fees in **humm** Australia.

Net operating income ($m)

Full-year to 30 June

2022	2021	Change %
328.7	342.9	(4.1)

Net operating income was down (4.1%) due to lower gross income and volume related increases in cost of origination and interest expense.

Credit impairment charge ($m)

Full-year to 30 June

2022	2021	Change %
(63.4)	(58.7)	8.0

Loan impairment expense increased by 8.0%. Net loss decreased by $6.9m, predominantly in Commercial and Cards. The strong credit performance across the portfolio in FY22 was driven by enhanced credit and fraud controls, improved counterparty and security quality in Commercial and strong loss recoveries.

Further there was an associated reduction in the macro overlay provision of $4.7m, compared to a $21.6m release in FY21. Given the uncertain outlook in the economic environment and the residual impacts of COVID-19, the Group continues to hold a macro-provision for potential portfolio credit risks.

Operating, marketing and employment expenses ($m)[1]

Full-year to 30 June

2022	2021	Change %
(198.3)	(186.9)	6.1

1. Presented on a Cash NPAT basis.

Operating, marketing and employment expenses were up 6.1% due to investment in new products and offshore expansion, JobKeeper government incentive payments of $6.1m which benefited FY21 operating expenses and salary inflation. This was offset by a reduction in marketing spend of $6.1m.

EBITDA ($m)

Full-year to 30 June

	2022	2021	Change %
Cash NPAT	51.1	68.4	(25.3)
Tax	15.9	28.9	(45.0)
Depreciation and amortisation	21.5	22.9	(6.1)
Interest of corporate debt	2.6	4.2	(38.1)
Movement in ECL provision	(18.6)	(30.2)	(38.4)
EBITDA excluding provision movements	**72.5**	**94.2**	**(23.0)**

Earnings before interest, tax, depreciation and amortisation ("EBITDA") excluding provision movements, a measure of performance used in corporate debt covenants, was $72.5m at 30 June 2022, down 23.0% versus prior year. Lower net losses were offset by lower net operating income, particularly from AU Cards, which remain impacted by COVID-19 and higher operating expenses resulted in an overall reduction in EBITDA excluding provision movements.

Receivables, chattel loans and customer loans ($m)[1]

As at 30 June

2022	2021	Change %
3,306.8	2,742.6	20.6

1. Excludes other debtors, provision for impairment losses, contract liabilities and unamortised direct transaction costs.

Receivables increased 20.6% from growth in Commercial of 72.2% and BNPL of 1.7%, offset by declines in customer loan balances in AU Cards of (4.3%) and NZ Cards of (10.5%).

Commercial continued the strong momentum from FY21 by increasing lending to SME businesses in Australia through broker channels. The business leveraged its strength in credit decisioning and ability to approve loans faster than its competitors to drive strong growth in the Australian business. Momentum in Commercial New Zealand increased through the year as the business pivots to SME broker led lending. The legacy Consumer leasing business in Australia continued to run down leaving an insignificant receivable balance at June 22.

Increased customer loans in BNPL stemmed from growth in Ireland and new (shorter dated) products, offset by lower receivables in **humm** 'Big things' due to lower in-store activity, lower consumer confidence, the ongoing impacts of COVID-19 including supply chain issues and recent weather events.

Customer loans in the Cards portfolio declined due to customer paydowns and lower volume through FY21 and FY22 from the implications of COVID-19 on travel partners as well as economic uncertainty weighing on consumer confidence in FY22. The paydown in AU Cards predominantly impacted the legacy Once and Lombard portfolios.

Wholesale debt and corporate borrowings ($m)

As at 30 June

	2022	2021	Change %
Secured debt facility	3,025.5	2,406.5	25.7
Corporate debt facility	-	-	-

Secured debt facilities increased 25.7% reflecting an increase in Chattel Loans as well as the introduction of new funding facilities improving funding efficiency across the portfolio.

Goodwill and other intangibles ($m)

As at 30 June

	2022	2021	Change %
Goodwill	84.8	239.2	(64.5)
Other intangible assets	45.4	110.9	(59.1)

Goodwill and other intangibles reduced over the year as the Group recognised an impairment of these assets reflecting the structural shift away from credit to debit cards and the implied value of the organisation following the reduction in market capitalisation of BNPL exposed companies and reduction in receivables following the outbreak of COVID-19. In addition, intangibles relating to the Commercial NZ business were impaired considering the move to broker originated SME lending along with a reduction in market multiples over the past six months. The remaining goodwill is attributed to the NZ Cards segment, which generated $30.8m of Cash NPAT, increasing 9.6% compared to the prior year.

Other intangible assets include merchant and customer relationships, brand names, and capitalised projects.

FUNDING AND CAPITAL

hummgroup maintains a well-established, mature funding platform with a funding plan that supports the Company's growth strategy. **humm**group's funding strategy is focused on retaining committed, capital efficient and cost effective funding facilities to support products across all regions and increasing **humm**group debt capital markets presence. The Group has strong banking relationships across all geographies in which it operates with wholesale debt facilities in place with large local and international banks and fund managers. **humm**group is also supported by numerous institutional investors through its asset-backed securities ("ABS") programs, and provision of mezzanine funding, in both Australia and New Zealand. The Company issued $880.0m of ABS during FY22 with further diversification introduced across its institutional investor base.

At balance sheet date, the Group had $3,921.3m of wholesale debt facilities, with $895.8m of facilities undrawn. The wholesale debt facilities include both public and private debt facilities which are secured against underlying pools of receivables and customer loans. All facilities provide for the ultimate repayment of outstanding debt through collections received in respect of the relevant receivables and customer loans. In some cases, the Group's wholesale debt facilities are structured to include a revolving period during which time committed limits can be drawn and collections can be used to fund originations of new receivables and customer loans, ahead of repayment of outstanding debt. The balance of facilities provide for repayment of outstanding debt in line with repayment of the underlying receivables and customer loans. The Group extended over $1.5b of existing revolving facilities during the reporting period and while recognising the current challenges in debt markets, expect to extend, increase or replace the current revolving facilities as required.

Corporate Debt Facility

The Company syndicated revolving loan facility of $110.0m will assist the Group in prudently managing its liquidity and cashflow needs over the period to June 2024.

The Group has no drawn corporate debt exposure as at 30 June 2022 following the repayment of all corporate debt outstanding during the 30 June 2020 year but has retained this facility to provide liquidity. The Group continues to optimise its capital structure to maximise shareholder value and prudently manage liquidity by accessing capital markets more frequently in greater volume and by increasing capacity in secured debt facilities, including through the introduction of private mezzanine funding.

Return on equity ("ROE")[1]

Full-year to 30 June

2022	2021	Change %
7.3%	10.2%	290bps

1. ROE is calculated as Cash NPAT in the year divided by average total equity.

ROE of 7.3% reduced 290bps compared to FY21 due to the decline in Cash NPAT partly offset by lower average equity resulting from asset impairments in FY22.

SHAREHOLDER RETURNS

	2022	2021	2020	2019	2018
TSR[1]	(26.5%)	(4.5%)	(30.4%)	(13.9%)	17.1%
Dividends per share (cents)	3.10	–	3.85	7.70	7.70
Cash EPS (cents)	9.52	13.75	7.31	19.68	23.00
Share price (high)	$1.08	$1.35	$2.47	$2.34	$2.33
Share price (low)	$0.40	$0.87	$0.46	$0.98	$1.44
Share price (close)	$0.41	$0.99	$1.13	$1.63	$2.22

1. Total Shareholder Returns ("TSR") is calculated based on volume weighted average price (VWAP) in the 90-day period up to and including 30 June.

EARNINGS PER SHARE

	Year ended 30 June 2022 Cents	Year ended 30 June 2021 Cents
Basic earnings per share	(35.2)	12.0
Diluted earnings per share	(35.2)	12.0
Cash earnings per share	9.5	13.7

DIVIDENDS ON ORDINARY SHARES

	2022		2021	
	Cents	$m	Cents	$m
Interim dividend (2021: nil)	1.7	8.4	-	-
Final dividend (2021: nil)	1.4	6.9	-	-

2. SEGMENT PERFORMANCE

The Directors consider the business from a product perspective and have identified four reportable segments:

- BNPL (a consolidation of **humm** Australia, New Zealand, UK and Ireland, **bundll**, **humm**pro and FlexiRent Ireland). Strategic decisions have been taken to discontinue **humm**pro and BNPL products in New Zealand and to pause origination of new customers to **bundll** pending the replatforming of this product;
- Australia Cards (**humm**90 (formerly Skye), Lombard and Once;
- New Zealand Cards (including Farmers Finance Card, Farmers Mastercard®, Q Card, Q Mastercard® and Flight Centre Mastercard®); and
- Commercial and Leasing (consisting of Australia and New Zealand Commercial lending and the legacy Consumer Leasing product).

hummgroup's Cash NPAT performance for its four operating segments is summarised in the table below.

A$m	FY22	FY21	Change %
BNPL	(17.3)	1.2	LRG
AU Cards	8.9	16.8	(47.0)
NZ Cards	30.8	28.1	9.6
Total Consumer Cash NPAT	**22.4**	**46.1**	**(51.4)**
Commercial and Leasing	28.7	22.3	28.7
Total Cash NPAT	**51.1**	**68.4**	**(25.3)**

SEGMENT ANALYSIS

BNPL

A$m	FY22	FY21	Change %
Gross income	124.7	120.6	3.4
Net operating income	97.0	90.8	6.8
Credit impairment charge	(38.8)	(33.2)	16.9
Marketing expenses	(13.2)	(13.9)	(5.0)
Operating expenses	(71.7)	(41.9)	71.1
Cash NPAT	**(17.3)**	**1.2**	**LRG**
Volume	1,252.7	1,034.9	21.0
Closing customer loans	**775.5**	**762.7**	**1.7**

Cash NPAT in BNPL was a loss of ($17.3m), down from a profit of $1.2m in FY21. The key movements are:

- BNPL gross income was up 3.4%. Fee and other income grew across the board, in line with volume growth in shorter dated fee-based products. This growth was partially offset by competitive margin pressures in our 'Big things' products.
- Net operating income was up 6.8% with higher gross income and lower interest expense due to improved rates on new borrowings. Cost of origination is marginally lower from lower merchant rebates and cashbacks offset by growth in the portfolio.
- Marketing expenses fell 5.0% following investment in FY21 to increase brand awareness and acquire and activate customers particularly into new products.
- Operating expenses were up (71.1%) in line with increased activity in BNPL predominantly related to investment in overseas expansion ($11.0m) and development of new products.
- Credit impairment charge increased (16.9%) reflecting the growth in new products partly offset by provision releases due to improved arrears and improved recovery rates.

- Volume increased 21.0% driven by growth and associated spend across existing core BNPL products combined with momentum from new products.
- Customer loans increased 1.7% in line with volume growth for the period, with growth in smaller ticket products shortening overall duration of the portfolio.

AU CARDS

A$m	FY22	FY21	Change %
Gross income	75.1	91.1	(17.6)
Net operating income	50.0	68.7	(27.2)
Credit impairment charge	(0.1)	(1.9)	(94.7)
Marketing expenses	(3.2)	(5.2)	(38.5)
Operating expenses	(33.4)	(35.5)	(5.9)
Cash NPAT	**8.9**	**16.8**	**(47.0)**
Volume	478.3	416.9	14.7
Closing customer loans	**435.2**	**454.9**	**(4.3)**

Cash NPAT in AU Cards of $8.9m, down (47.0%) on the prior year. The key movements are:

- Gross income down (17.6%) due to the cumulative impact of subdued volumes through FY21 and FY22 resulting in a decline in receivables as well as the run-down of legacy books of Lombard & Once with balances halving over the year. Volumes were up this year but remained subdued relative to previous years largely driven by ongoing restrictions in the travel sector. This also reduced the interest-bearing portion of the portfolio driving down the yield in the portfolio.
- Net operating income was down (27.2%) mainly due to lower gross income, volume related increases in cost of origination (5.0%) and increase in cost of funds (16.0%) with increased and more efficient funding established through mezzanine finance as well as an increase in base rates in the later part of the year.
- Marketing expenses was 38.5% lower as branding and customer acquisition activities were reduced in FY22 considering the lower growth environment.
- Operating expenses down 5.9% with costs constrained in a lower revenue environment.
- Credit impairment charge decreased 94.7%, due to lower write-offs and higher recoveries, and an increased provision release due to lower receivables and improved arrears and improved recoveries.
- Volume is up 14.7% with higher spend and long-term interest free volume as travel reopened following the lifting of COVID-19 restrictions.
- Closing customer loans were (4.3%) lower, driven by the weaker volumes through FY21 and FY22 and paydowns particularly in legacy products which are in run-off.

NZ CARDS

A$m	FY22	FY21	Change %
Gross income	121.6	135.4	(10.2)
Net operating income	92.3	107.3	(14.0)
Credit impairment charge	(10.6)	(19.4)	(45.4)
Marketing expenses	(6.9)	(8.5)	(18.8)
Operating expenses	(33.0)	(39.3)	(16.0)
Cash NPAT	**30.8**	**28.1**	**9.6**
Volume	693.8	695.4	(0.2)
Closing customer loans	**572.4**	**639.9**	**(10.5)**

Cash NPAT in NZ Cards of $30.8m, up 9.6% on pcp. The key movements are:

- Gross income down (10.2%) driven by lower receivables as consumer confidence remained subdued through FY22 as a result of COVID-19 and the weakening economic outlook.
- Net operating income was (14.0%) lower predominantly due to reduced gross income as well as higher cost of origination (12.7%). Interest expense was relatively flat despite falling receivables as the benefit of lower borrowings was offset by higher cost of funds.
- Marketing expenses were down 18.8% and operating expenses down 16.0% due to reduced activity in a lower growth environment.
- Credit impairment charge was down 45.4%, largely from lower net losses with improved arrears and lower receivables, offset by a reduced macro-provision release compared with FY21.
- Volume was flat as the long-term interest free portfolio continued to be impacted by subdued growth from lower travel related merchant activity. This was offset by Everyday spend volume which was up on FY21.
- Closing customer loans were 10.5% lower than the prior year, in line with weaker volume and paydown activity in FY22. Lower volumes through FY21 and FY22 were driven by COVID-19 related slowdowns, a weaker economic environment in New Zealand, CCCFA regulatory changes and the paydown of interest-bearing balances.

COMMERCIAL AND LEASING

A$m	FY22	FY21	Change %
Gross income	119.0	96.8	22.9
Net operating income	89.4	76.1	17.5
Credit impairment charge	(13.9)	(4.2)	231.0
Marketing expenses	(0.6)	(2.4)	(75.0)
Operating expenses	(36.3)	(40.2)	(9.7)
Cash NPAT	**28.7**	**22.3**	**28.7**
Volume	1,096.3	540.3	102.9
Closing customer loans	**1,523.7**	**885.1**	**72.2**

Cash NPAT in Commercial and Leasing of $28.7m, up 28.7% on pcp. The key movements are:

- Gross income up 22.9% with interest income up 43.9% driven by strong growth in AU Commercial, offset by the run-off of the legacy consumer leasing product and a reduced yield. Gross yield was down on FY21 as a result of a shift to higher quality customers and reducing risk profile of our lending. Fee income was lower reflecting run-off of the legacy consumer leasing business and lower end of term leasing income.
- Net operating income up 17.5% with increased interest expense reflecting increased receivables and higher borrowings from enhanced funding programs partly offset by lower cost of funds.
- Marketing expenses down 75.0% reflecting the prior year allocation of Group rebranding costs which did not occur in FY22.
- Operating expenses were down 9.7% from reduced costs associated with the legacy consumer leasing product in run-off, partially offset by increased activity to support growth in the Commercial business.
- Credit impairment charge increased ($9.7m) as provisioning was booked in line with receivables growth and additional macro provisioning raised to reflect potential challenges to the outlook for small business sector in FY23. Write-offs and recoveries were lower in FY22 despite the growth in the book as a result of improved credit quality of the portfolio.
- New business volume was up 102.9% on the prior year, driven by AU Commercial as the business continued to take market share from larger competitors.
- Closing customer loans up 72.2%, reflective of the strong volume performance.

3. STRATEGY FOR GROWTH

hummgroup has adapted its strategy this year to respond to changes in the macro-economic and operating environment. We continue to invest in our Consumer and Commercial businesses and have refocused the business on its core offerings of 'Big things', Credit Cards and Commercial. We have narrowed our focus on geography, product, and verticals to concentrate on profit and balance sheet strength to support growth.

CONSUMER FINANCE PRIORITIES

hummgroup Consumer Finance priorities for FY23 are:

- **Aligning to the 'big ticket' core:** Consolidation of BNPL products with greater emphasis on bigger ticket instalment products, a refocus on the Cards portfolios and expansion into new markets. Enhancing origination and credit processes to improve customer experience, continue to lead the market in responsible lending standards by regulating our BNPL products, closure of BNPL in New Zealand, and review of offshore investment levels and return horizons.
- **Technology simplification:** Rationalising our technology, transitioning the domestic BNPL business onto the global BNPL platform, and simplify NZ Cards systems via back book migration and transition to Cloud.
- **Service transformation:** Reducing call volumes through self-serve capability on mobile apps, and consolidation of customer service and collections centres.
- **Improving margin:** Optimising profitability through disciplined management of product and merchant return profiles.

COMMERCIAL FINANCE PRIORITIES

hummgroup Commercial Finance priorities for FY23 are:

- **Growing our presence in chosen sectors:** Expansion of our strong market position in growth sectors and geographies. Increase business development team sizes to extend and build out broker relationships, expanding our broker channel in New Zealand and consider inorganic growth opportunities through targeted acquisitions.
- **Focusing our technology investment on simplification:** Investing in a scalable technology platform to facilitate growth in the Commercial business.
- **Further strengthening our balance sheet:** Enhancing and expanding warehouse facilities, capital management programs and mezzanine funding.
- **Sharpening margin management:** Maintaining hedging strategies with the back book largely hedged. Repricing the front book to reflect implications of rising interest rates. Enhanced credit management and further development of risk based pricing capability.

4. RISKS AND CHALLENGES

hummgroup operates in a highly competitive and rapidly changing sector, which provides both opportunities and challenges. While some of these challenges and risks may be out of the Group's control, **humm**group has made, and continues to make investments in its risk management and control frameworks to ensure we can respond to and mitigate the impact of these risks as they arise, whether they result from regulatory changes, shifts in the competitive environment, or other circumstances over which the Group has no control.

The material business risks for the Group are summarised below.

RISK AREAS	WHAT WE ARE DOING TO MANAGE THE RISK
Capital and funding: Limited access to the capital and funding required to support growth	• Follow a structured program of regular market issuances • Maintain close relationships with core funders • Manage debt levels within acceptable limits
Rising interest rates: Failing to manage the impact of rising interest rates on pricing, funding costs and net interest margin	• Established an Asset and Liability Committee to manage risks • Hedging program to manage interest rate risks • Passing of rate rises to merchants and customers where appropriate
Credit, fraud and AML: Failing to establish and embed processes and tools to support customer identification and credit assessment	• Continual investment in credit and fraud tools and platforms • Undertaking data analysis to better understand customer behaviour and performance
Regulatory: Being unprepared to respond to changes in the regulatory environment and maintain compliance	• Monitoring the regulatory and legislative landscape for material changes • Develop responses in line with regulatory change timetables to efficiently and effectively manage the impact of changes • Continued engagement with local regulatory, industry and other relevant stakeholder groups
Strategic: Lack of understanding or response to the changes in our competitive environment	• Support our teams to look broadly across the payments industry • Regularly discuss strategy and strategic initiatives with the Board • Remain nimble and adaptive in our core business
Technology and investment: Underinvesting in developing and maintaining systems which support innovation and growth	• Define a technology roadmap across the Group • Follow an annual program of capital expenditure across core systems, product innovation and compliance projects
People: Failing to attract and retain culturally aligned staff who can deliver innovative, sustainable and customer focussed payment products and solutions	• Promote our employee value proposition • Are clear and consistent on our culture and values • Structure remuneration to attract and retain talent
Macro-economic: Not identifying larger shifts in the economy or retail environment which threaten our strategy or growth	• Analyse and monitor economic and retail conditions, at a minimum, to identify shifts and take steps to manage potential impacts
Environment and climate: Not understanding or responding to future environmental risks and impacts	• Review processes and practices to reduce impact on the environment • Further develop reporting on our environmental footprint
International expansion: Move into new jurisdictions does not meet management or market expectations	• Establish strong on the ground teams, with clear connection to the Group • Commit resources to build robust business, regulatory and technology foundations

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 June 2022

A$m	Notes	2022	2021
Interest income		341.2	340.6
Fee and other income		99.2	103.3
Gross income		**440.4**	**443.9**
Cost of origination		(27.6)	(26.8)
Interest expense		(84.1)	(74.2)
Net operating income		**328.7**	**342.9**
Credit impairment charge		(63.4)	(58.7)
Employment expenses		(91.6)	(81.1)
Marketing expenses		(23.9)	(30.0)
Operating and other expenses		(88.9)	(65.4)
Depreciation and amortisation expenses		(37.2)	(25.8)
Impairment of goodwill and other intangible assets		(207.5)	-
(Loss)/profit before income tax		**(183.8)**	**81.9**
Income tax benefit/(expense)		13.5	(21.8)
(Loss)/profit for the year attributable to shareholders of humm group limited		**(170.3)**	**60.1**
Other comprehensive income			
Items that may be reclassified to profit and loss:			
Exchange differences on translation of foreign operations		(6.6)	(2.5)
Changes in the fair value of cash flow hedges, net of tax		59.8	13.7
Items that will not be reclassified to profit and loss:			
Changes in fair value of equity investments through other comprehensive income		(0.8)	(1.4)
Other comprehensive income for the year, net of tax		**52.4**	**9.8**
Total comprehensive (expense)/ income for the year attributable to shareholders of humm group limited		**(117.9)**	**69.9**
Earnings per share for (loss)/profit attributable to the ordinary equity holders of the Company:		**Cents**	**Cents**
Basic earnings per share		(35.2)	12.0
Diluted earnings per share		(35.2)	12.0

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2022

A$m	Notes	30 June 2022	30 June 2021 Restated*
Assets			
Cash and cash equivalents		281.0	218.2
Receivables	4	219.8	226.2
Customer loans	4	1,729.6	1,783.1
Chattel loans	4	1,277.9	643.8
Inventories		2.1	1.0
Current tax receivable		5.4	–
Assets classified as held for sale		–	8.5
Equity investment		0.3	1.1
Plant and equipment		3.9	5.2
Right-of-use assets		12.8	15.9
Goodwill and other intangible assets	5	130.2	350.1
Derivative financial instruments		66.0	0.6
Deferred tax asset		37.7	46.3
Total assets		**3,766.7**	**3,300.0**
Liabilities			
Trade and other payables		51.8	56.2
Contract liabilities		11.5	7.8
Lease liabilities		16.0	18.6
Borrowings	6	3,025.5	2,406.5
Current tax liabilities		–	6.4
Provisions	7	32.7	21.8
Derivative financial instruments		–	18.9
Deferred tax liabilities		1.5	4.7
Total liabilities		**3,139.0**	**2,540.9**
Net assets		**627.7**	**759.1**
Equity			
Contributed equity		507.6	507.6
Reserves		45.6	(7.4)
Retained earnings		74.5	258.9
Total equity		**627.7**	**759.1**

* Comparative information has been restated to align the presentation with the current period in respect of the reclassification from Receivables to Chattel Loans.

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2022

2022					
A$m	**Notes**	**Contributed equity**	**Reserves**	**Retained earnings**	**Total**
Balance at the beginning of the year		**507.6**	**(7.4)**	**258.9**	**759.1**
Loss for the year		–	–	(170.3)	(170.3)
Other comprehensive income		–	52.4	–	52.4
Total comprehensive income for the year		**-**	**52.4**	**(170.3)**	**(117.9)**
Transfer to share capital from share-based payment reserve		0.3	(0.3)	–	–
Purchase of treasury shares		(0.3)	–	–	(0.3)
Share based payment expense (net of tax)		–	0.9	–	0.9
Dividends provided for or paid		–	–	(14.1)	(14.1)
Balance at the end of the year		**507.6**	**45.6**	**74.5**	**627.7**

2021					
A$m	**Notes**	**Contributed equity**	**Reserves**	**Retained earnings**	**Total**
Balance at the beginning of the year		**393.1**	**(17.8)**	**203.1**	**578.4**
Profit for the year		–	–	60.1	60.1
Other comprehensive income		–	9.8	–	9.8
Total comprehensive income for the year		**-**	**9.8**	**60.1**	**69.9**
Issuance of shares		112.4	–	–	112.4
Transfer to share capital from share-based payment reserve		2.1	(2.1)	–	–
Share-based payment expense (net of tax)		–	2.7	–	2.7
Dividends provided for or paid		–	–	(4.3)	(4.3)
Balance at the end of the year		**507.6**	**(7.4)**	**258.9**	**759.1**

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

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 30 June 2022

A$m	Notes	2022	2021 Restated*
Cash flows from operating activities			
Interest income received from customers		359.7	349.7
Fee and other income received from customers less cost of origination		73.2	76.9
Payment to suppliers and employees		(217.0)	(176.8)
Borrowing costs		(83.0)	(73.2)
Income taxes paid		(17.5)	(24.0)
Cash inflow from operating activities before movement in customer loans, receivables		**115.4**	**152.6**
Net movement in:			
Customer loans		53.5	(51.8)
Receivables		(55.7)	(31.3)
Chattel loans		(634.1)	(180.1)
Cash outflow from movement in customer loans, receivables and chattel loans		**(636.3)**	**(263.2)**
Net cash outflow from operating activities		**(520.9)**	**(110.6)**
Cash flows from investing activities			
Proceeds from sale of associate		8.5	–
Payment for equity investment		–	(2.2)
Payment for purchase of plant and equipment and software		(23.3)	(29.1)
Net cash outflow from investing activities		**(14.8)**	**(31.3)**
Cash flows from financing activities			
Dividends paid		(14.1)	(19.5)
Proceeds from equity raising, net of transaction costs		–	111.3
Purchase of treasury shares		(0.3)	–
Cash payments relating to lease liabilities		(3.7)	(5.4)
Drawdown of corporate borrowings		–	84.9
Repayment of corporate borrowings		–	(152.3)
Net movement in:			
Non-recourse borrowings		619.0	157.8
Loss reserve on non-recourse borrowings		–	26.6
Net cash inflow from financing activities		**600.9**	**203.4**
Net increase in cash and cash equivalents		65.2	61.5
Cash and cash equivalents at the beginning of the year		218.2	157.5
Effects of exchange rate changes on cash and cash equivalents		(2.4)	(0.8)
Cash and cash equivalents at the end of the year		**281.0**	**218.2**

* Comparative information has been restated to align the presentation with the current period in respect of the reclassification from Receivables to Chattel Loans.

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

NOTES TO THE CONDENSED PRELIMINARY FINAL REPORT

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

The Condensed Preliminary Final Report has been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board and the *Corporations Act 2001*. humm group limited is a for-profit entity for the purpose of preparing the financial statements.

The Consolidated financial statements of **humm**group also comply with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and liabilities (including derivative instruments) at fair value. The Consolidated statement of financial position has been prepared in order of liquidity, including the comparatives.

The Group has elected to restate the comparative financial information for the prior period to change the presentation of items in its financial statements. Unless otherwise stated, comparative information has been restated for any changes to presentation made in the current year.

The disaggregation of amounts receivable and payable in the next 12 months and beyond is outlined in the accompanying notes to the financial statements.

The Company is of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191, relating to the "rounding off" of amounts in the financial statements. Amounts in the financial statements have been rounded off in accordance with that Instrument to the nearest hundred thousand dollars, or in certain cases, to the nearest dollar.

New Australian Accounting Standards and interpretations

The Group applied for the first time certain standards and amendments outlined below, which are effective for annual periods beginning on or after 1 July 2021. Other amendments made to existing standards that were mandatorily effective for the annual reporting period beginning on 1 July 2021 did not result in a material impact to **humm**group's financial statements.

Interest Rate Benchmark Reform – Phase 2: Amendments to AASB 9, AASB 139, AASB 7, AASB 4 and AASB 16

The amendments provide temporary relief which addresses the financial reporting effects when an interbank offered rate ("IBOR") is replaced with an alternative nearly risk-free interest rate ("RFR"). The amendments include the following practical expedients:

- A practical expedient to require contractual changes, or changes to cash flows that are directly required by the reform, to be treated as changes to a floating interest rate, equivalent to a movement in a market rate of interest;
- Permit changes required by IBOR reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued; and
- Provide temporary relief to entities from having to meet the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component.

The Group applied the Phase 2 amendments retrospectively. However, in accordance with the exceptions permitted in the Phase 2 amendments, the Group has elected not to restate comparatives for the prior periods to reflect the application of these amendments. Since the Group had no transactions for which the benchmark rate had been replaced with an alternative benchmark rate as at 30 June 2021 there is no impact on opening equity balances as a result of retrospective application.

COVID-19-Related Rent Concessions beyond 30 June 2021 Amendments to AASB 16

The amendments provide relief to lessees from applying AASB 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the COVID-19 pandemic. The Group has not received COVID-19-related rent concessions and is not affected by this amendment.

BUSINESS COMBINATIONS

The Group accounts for business combinations using the acquisition method when the acquired set of activities and assets meets the definition of a business and control is transferred to the Group. In determining whether a particular set of activities and assets is a business, the Group assesses whether the set of assets and activities acquired includes, at a minimum, an input and substantive process and whether the acquired set has the ability to produce outputs.

The Group has an option to apply a 'concentration test' that permits a simplified assessment of whether an acquired set of activities and assets is not a business. The optional concentration test is met if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets.

The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in profit or loss. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities.

Any contingent consideration is measured at fair value at the date of acquisition. If an obligation to pay contingent consideration that meets the definition of a financial instrument is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, other contingent consideration is remeasured at fair value at each reporting date and subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

INVESTMENTS IN SUBSIDIARIES

Subsidiaries are entities controlled by the Group. The Group 'controls' an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

Non-controlling interest are measured initially at their proportionate share of the acquiree's identifiable net assets at the date of acquisition.

Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

FOREIGN CURRENCY TRANSLATION

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Australian dollars, which is **humm**group's functional and presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using average exchange rates for the respective month (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the date of the transaction). Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates are generally recognised in the Consolidated statement of comprehensive income.

Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss.

Non-monetary items that are measured based on historical cost in a foreign currency are translated using the spot exchange rate at the date of the transaction.

Foreign exchange gains and losses are presented in the Consolidated statement of comprehensive income on a net basis within other income or other expenses.

(c) Group companies

The results and Consolidated statement of financial position of all Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- Assets and liabilities in the Consolidated statement of financial position presented are translated at the closing rate at the date of the Consolidated statement of financial position,
- Income and expenses in the Statement of comprehensive income are translated at average exchange rates for the respective month (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions), and
- All resulting exchange differences are recognised in Other comprehensive income.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other financial instruments designated as hedges of such investments, are recognised in other comprehensive income. When a foreign operation is sold or any borrowings forming part of the net investment are repaid, a proportionate share of such exchange difference is recognised in the Consolidated statement of comprehensive income, as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign entities and as a result are expressed in the functional currency of the foreign operation and translated at the closing rate.

When a foreign operation is disposed, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal.

INDIRECT TAXES

Indirect taxes comprise of the below:

- Goods and Services Tax ("GST") in Australia, New Zealand and Canada; and
- Value Added Tax ("VAT") in Ireland and UK.

Revenues, expenses and assets are recognised net of the amount of indirect taxes, unless the amount incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated exclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the Consolidated statement of financial position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the taxation authority, are presented as operating cash flows.

INVENTORY

Inventory comprises returned rental equipment prior to end of term and inertia assets from matured customer lease contracts. Inventory is recognised at the lower of cost and net realisable value when legal ownership transfers to the Group and is expected to be realised in the next 12 months.

EQUITY INVESTMENT

The Group held a minority investment in an ASX listed fintech, Douugh Limited, carried at fair value based on quoted market price at 30 June 2022 of $0.3m (30 June 2021: $1.1m).

COST OF ORIGINATION

Cost of origination includes placement costs, sales commissions and rebates, and transaction processing costs associated with the Group's revolving products in the Consumer business. Placement costs relate to payments made to merchants to access their customers through e-commerce platforms or in store. Transaction processing costs comprise credit reference costs, bank fees and other transaction processing fees.

GOVERNMENT GRANTS

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received, and the Group will comply with all attached conditions.

Australian JobKeeper subsidies are included in the 'Employment expenses' line item. There are no unfulfilled conditions or other contingencies attaching to these grants.

In 2022, the Group did not receive the subsidies (2021: $6.1m) or any other form of government assistance.

STANDARDS ISSUED BUT NOT YET EFFECTIVE

A number of new standards are effective for annual periods beginning after 1 July 2021 and earlier application is permitted; however, the Group has not early adopted the new or amended standards in preparing these consolidated financial statements. The Group intends to adopt these new and amended standards and interpretations, if applicable, when they become effective.

- *Onerous contracts – Cost of Fulfilling a Contract (Amendments to AASB 137)*

The amendments specify which costs an entity includes in determining the cost of fulfilling a contract for the purpose of assessing whether the contract is onerous. The amendments apply for annual reporting periods beginning on or after 1 January 2022 to contracts existing at the date when the amendments are first applied. At the date of initial application, the cumulative effect of applying the amendments is recognised as an opening balance adjustment to retained earnings or other components of equity, as appropriate. The comparatives are not restated.

- *Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to AASB 112)*

The amendments narrow the scope of the initial recognition exemption to exclude transactions that give rise to equal and offsetting temporary differences – e.g. leases. The amendments apply for annual reporting periods beginning on or after 1 January 2023. For leases, the associated deferred tax asset and liabilities will need to be recognised from the beginning of the earliest comparative period presented, with any cumulative effect recognised as an adjustment to retained earnings or other components of equity at that date. For all other transactions, the amendments apply to transactions that occur after the beginning of the earliest period presented. The Group accounts for deferred tax on leases applying the 'integrally linked' approach, resulting in a similar outcome to the amendments, except that the deferred tax impacts are presented net in the Consolidated statement of financial position. Under the amendments, the Group will recognise a separate deferred tax asset and a deferred tax liability. There will be no impact on retained earnings on adoption of the amendments.

The following new and amended standards are not expected to have a significant impact on the Group's consolidated financial statements.

- *Annual Improvements to Australian Accounting Standards 2018–2020.*
- *Property, Plant and Equipment: Proceeds before Intended Use (Amendments to AASB 116).*
- *Reference to Conceptual Framework (Amendments to AASB 3).*
- *Classification of Liabilities as Current or Non-current (Amendments to AASB 101).*
- *AASB 17 Insurance Contracts and amendments to AASB 17 Insurance Contracts.*
- *Disclosure of Accounting Policies (Amendments to AASB 101 and Australian Practice Statement 2).*
- *Definition of Accounting Estimates (Amendments to AASB 108).*
- *AASB 2014-10 Amendments to AASs – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture.*

2. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Management believes that the estimates used in preparing these Financial Statements are reasonable. Actual results in the future may differ from those reported and it is therefore reasonably possible, on the basis of existing knowledge, that outcomes within the next financial year that are different from management's assumptions and estimates could require an adjustment to the carrying amounts of the reported assets and liabilities in future reporting periods.

Despite positive signs of returning to pre-pandemic life emerging, the COVID-19 pandemic continues to have an impact on global economies and remains a source of uncertainty. Certain sectors, including tourism and transport, hospitality, retail, personal services and commercial property, are not expected to return to pre-COVID-19 activity levels in the short-term.

Apart from the lingering economic effects of COVID-19, the Group continues to navigate amongst geopolitical and economic headwinds that have emerged from the war in Ukraine, supply chain disruptions, rising interest rates and inflation, expected decline in consumer confidence and discretionary spending, as well as tightened capital markets. Given the dynamic and evolving nature of these uncertainties, the Group continues to incorporate estimate assumptions and judgement into the measurement calculations.

Where specific areas of judgement and uncertainty exist due to COVID-19, we have included increased disclosure in the accompanying notes to the financial statements.

For personal use only

Information about judgements made in applying accounting policies that have the most significant effects on the amounts recognised in the financial statements is included in the following notes:

EXPECTED CREDIT LOSSES

The Group estimates expected losses on its customer loans, finance lease receivables and chattel loans in accordance with the policy.

Expected Credit Loss ("ECL") models are expected to be subject to a higher than usual level of uncertainty during this period. In this environment the application of judgement is required in order to reflect evolving uncertainties and risks.

This judgement has been applied in the form of the re-assessment of macro-economic model overlays including scenario weightings and hardship and watchlist overlays.

ASSESSMENT OF IMPAIRMENT OF GOODWILL, ACQUIRED INTANGIBLES, INVESTMENTS IN SUBSIDIARIES, INVESTMENT IN ASSOCIATES AND CAPITALISED SOFTWARE

The Group performs an annual assessment as to whether there has been any impairment of its goodwill and indefinite life intangible assets. In addition, the Group uses judgement to perform an impairment assessment of other assets in the event it identifies indicators of impairment. Details of the basis of performance of the assessment of goodwill and the assumptions made are set out in note 5.

ESTIMATION OF UNGUARANTEED RESIDUALS ON LEASES

The Group regularly reviews the estimated value of unguaranteed lease residuals based on its prior experience for similar contracts. Where applicable, residual values are set at rates ranging between 0% and 20% depending on asset type and the duration of the contract.

ACQUIRED INTANGIBLE ASSETS

The assets and liabilities of businesses acquired through a business combination are to be measured at their acquisition date fair values. The Group applies judgements in selecting valuation techniques and setting valuation assumptions to determine the acquisition date fair values and to estimate the useful lives of these assets as set out in note 5.

Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the statement of profit or loss in the expense category that is consistent with the function of the intangible assets.

SHARE-BASED PAYMENT EXPENSE

In determining the share-based payments expense for the year, the Group makes various assumptions in determining the fair value of the instruments, the probability of non-market vesting conditions being met, and the likelihood of employees meeting tenure conditions.

TAXATION

Judgement is required in determining provisions held in respect of uncertain tax positions. The Group estimates its tax liabilities based on its understanding of the relevant tax law in each of the countries in which it operates and seeks independent advice to support the assessment where required.

PROVISION FOR CUSTOMER REMEDIATION

Judgement is required in determining provisions held in respect of customer and other remediation obligations. The Group estimates these provisions based on its understanding of likely outcome, considering expert opinions and on-going discussions with regulatory bodies. Refer note 7.

LITIGATION PROVISION

Litigation provision involves judgement regarding the timing and outcome of future events, including estimates of expenditure required to satisfy such obligations. Where relevant, expert legal advice has been obtained. In light of such advice, provision and disclosures have been made as appropriate.

3. SEGMENT INFORMATION

a) Description of segments

Management has determined the operating segments based on the reports reviewed by the Directors that are used to make strategic decisions. In addition to statutory profit after tax, the Directors assess the business on a Cash NPAT basis. Cash NPAT is defined as statutory profit after tax, adjusted for the after-tax effect of material infrequent items that the Directors believe do not reflect ongoing operations of the Group, and amortisation of acquired intangible assets.

The Directors consider the business from a product perspective and have identified four reportable segments:

- Humm Consumer Finance ("HCF") including:
  - BNPL (a consolidation of **humm** Australia and New Zealand, Ireland FlexiFi and legacy FlexiRent Ireland, **bundll** and **humm**pro),
  - New Zealand Cards (including Farmers, Q Card, Flight Centre Mastercard),
  - Australia Cards (**humm**90, legacy Lombard and Once),
- Commercial and Leasing (consisting of Australia and New Zealand Commercial Lending and the legacy consumer leasing product).

The Group operates in Australia, New Zealand, Ireland, UK and Canada. The operating segments are identified according to the nature of the products and services provided, with New Zealand Cards disclosed separately (based on its product offering) and Ireland included within BNPL.

The segment information provided to the Chief Operating Decision Makers for the reportable segments for the year ended 30 June 2022 is as below:

b) Operating segments

Year ended 30 June 2022

A$m	Notes	BNPL	AU Cards	NZ Cards	Commercial & Leasing	Total
Interest income		87.8	56.1	102.5	94.8	341.2
Fee and other income		36.9	19.0	19.1	24.2	99.2
Gross income		**124.7**	**75.1**	**121.6**	**119.0**	**440.4**
Cost of origination		(10.3)	(8.4)	(8.9)	-	(27.6)
Interest expense		(17.4)	(16.7)	(20.4)	(29.6)	(84.1)
Net operating income		**97.0**	**50.0**	**92.3**	**89.4**	**328.7**
Credit impairment charge		(38.8)	(0.1)	(10.6)	(13.9)	(63.4)
Marketing expenses		(13.2)	(3.2)	(6.9)	(0.6)	(23.9)
Employment, operating and depreciation expenses		(73.5)	(37.0)	(36.0)	(56.2)	(202.7)
Amortisation of acquired intangible assets		-	-	(15.0)	-	(15.0)
Impairment of intangibles		(73.4)	(31.6)	(85.8)	(16.7)	(207.5)
Statutory (loss)/profit before income tax		**(101.9)**	**(21.9)**	**(62.0)**	**2.0**	**(183.8)**
Income tax benefit/(expense)		22.8	(0.6)	(4.3)	(4.4)	13.5
Statutory (loss)/profit for the year		**(79.1)**	**(22.5)**	**(66.3)**	**(2.4)**	**(170.3)**
Infrequent items, net of tax:						
Amortisation of acquired intangible assets		-	-	10.7	-	10.7
Impairment of intangibles		61.3	27.9	85.5	16.7	191.4
Other[1]		0.5	3.5	0.9	14.4	19.3
Cash net (loss)/profit after tax		**(17.3)**	**8.9**	**30.8**	**28.7**	**51.1**
Total segment receivables at 30 June 2022[2]		**775.5**	**435.2**	**572.4**	**1,523.7**	**3,306.8**
ECL provision, unamortised direct transaction costs, contract liabilities and other debtors						(79.5)
Total receivables, chattel loans and customer loans per the Consolidated statement of financial position						**3,227.3**
Fee and other income:						
Account servicing fees		30.3	8.7	10.3	1.5	50.8
Transaction processing fees		5.4	9.4	6.9	1.1	22.8
Leasing related income		-	-	-	21.1	21.1
Other fees and income		1.2	0.9	1.9	0.5	4.5
Total fee and other income		**36.9**	**19.0**	**19.1**	**24.2**	**99.2**

1. Other includes legal provision, **humm**group's consumer finance business ("HCF") related transaction and separation costs, customer remediation programme and other adjustments.
2. Total segment receivables at 30 June 2022 include contract liabilities.

Year ended 30 June 2021

A$m	Notes	BNPL	AU Cards	NZ Cards	Commercial & Leasing	Total
Interest income		91.2	70.4	113.1	65.9	340.6
Fee and other income		29.4	20.7	22.3	30.9	103.3
Gross income		**120.6**	**91.1**	**135.4**	**96.8**	**443.9**
Cost of origination		(10.9)	(8.0)	(7.9)	-	(26.8)
Interest expense		(18.9)	(14.4)	(20.2)	(20.7)	(74.2)
Net operating income		**90.8**	**68.7**	**107.3**	**76.1**	**342.9**
Credit impairment charge		(33.2)	(1.9)	(19.4)	(4.2)	(58.7)
Marketing expenses		(13.9)	(5.2)	(8.5)	(2.4)	(30.0)
Employment, operating and depreciation expenses		(43.1)	(38.7)	(41.1)	(46.5)	(169.4)
Amortisation of acquired intangible assets		–	–	(2.9)	–	(2.9)
Statutory profit before income tax		**0.6**	**22.9**	**35.4**	**23.0**	**81.9**
Income tax expense		(0.5)	(9.8)	(10.6)	(0.9)	(21.8)
Statutory profit for the year		**0.1**	**13.1**	**24.8**	**22.1**	**60.1**
Infrequent items, net of tax:						
Amortisation of acquired intangible assets		–	–	2.1	–	2.1
Redundancy and restructure		0.5	0.4	0.4	0.3	1.6
Impairment and initial profit on sale adjustment to held for sale investment in associate		–	–	–	3.9	3.9
Other[1]		0.6	3.3	0.8	(4.0)	0.7
Cash net profit after tax		**1.2**	**16.8**	**28.1**	**22.3**	**68.4**
Total segment receivables at 30 June 2021[2]		**762.7**	**454.9**	**639.9**	**885.1**	**2,742.6**
ECL provision, unamortised direct transaction costs, contract liabilities and other debtors						(89.5)
Total receivables, chattel loans and customer loans per the Consolidated statement of financial position						**2,653.1**
Fee and other income:						
Account servicing fees		22.2	10.0	11.5	2.7	46.4
Transaction processing fees		5.9	9.9	6.8	2.6	25.2
Leasing related income		–	–	–	25.1	25.1
Share of profit after tax from investment in associate		–	–	–	(0.5)	(0.5)
Other fees and income		1.3	0.8	4.0	1.0	7.1
Total fee and other income		**29.4**	**20.7**	**22.3**	**30.9**	**103.3**

1. Other includes:
   - The share-based payment expense recognised during the year due to the cancellation of the Group's FY20 TIP with hurdles being significantly out of the money as a result of COVID-19 and actions taken in response to this. The plan was cancelled as it no longer served as a suitable retention tool for participants; and
   - The reversal of net tax liabilities no longer required, with the resolution of historical tax matters in the year.

4. RECEIVABLES, CUSTOMER LOANS AND CHATTEL LOANS

ACCOUNTING POLICY

Financial assets are grouped into the following classes:

Financial assets at amortised costs

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at fair value through profit and loss ("FVTPL"):

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All financial assets not classified as measured at amortised cost or fair value through other comprehensive income ("FVOCI") as described above are measured at FVTPL. This includes all derivative financial assets. On initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

The Group has two classes of assets measured at amortised cost being chattel loans and customer loans.

i) Customer loans

Customer loans are financial assets for which the contractual cash flows are solely repayments of principal and interest and that are held in a business model with the objective of collecting contractual cash flows.

Customer loans are initially recognised at fair value plus transaction costs directly attributable to the origination of the loan or advance. Subsequently, customer loans are measured at amortised cost using the effective interest rate method, net of any provision for credit impairment.

ii) Chattel loans

Chattel loans are secured equipment finance arrangements, measured at amortised cost. The Group may take possession of the financed asset in circumstances where the customer is unable to meet financial commitments under the terms of the loan contract. Income is recognised on an effective interest basis.

Finance lease receivables

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

When the Group acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease.

To classify each lease, the Group makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, the Group considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

Lease assets are initially recognised at the net investment in the lease and comprise of fixed payments due from customers and guaranteed residual values. Initial direct costs are included in the initial measurement of the net investment in the lease and form part of the effective interest rate calculation.

The Group applies the derecognition and impairment requirements in AASB 9 to the net investment in the lease. The Group further regularly reviews estimated unguaranteed residual values used in calculating the gross investment in the lease.

Receivables

A$m	2022	2021 Restated
Finance lease receivables	215.5	214.6
Other debtors	4.3	11.6
Total receivables	**219.8**	**226.2**

Receivables and chattel loans

A$m	2022	2021 Restated
Gross investment in finance lease receivables before residuals	234.1	246.6
Guaranteed residuals	2.4	3.8
Unguaranteed residuals	16.8	23.7
Gross investment in finance lease receivables	**253.3**	**274.1**
Gross investment in chattel loans	**1,562.0**	**793.4**
Gross finance lease receivables and chattel loans	**1,815.3**	**1,067.5**
Unamortised initial direct transaction costs	11.9	6.6
Unearned future income	(289.7)	(170.6)
Net investment in finance lease receivables and chattel loans before expected credit allowance	**1,537.5**	**903.5**
Expected credit allowance	(39.8)	(33.5)
Net investment in finance lease receivables and chattel loans	**1,497.7**	**870.0**

Customer loans

A$m	2022	2021 Restated
Gross customer loans	1,862.7	1,951.5
Unearned future income	(74.4)	(86.4)
Net customer loans before credit allowance	**1,788.3**	**1,865.1**
Expected credit allowance	(58.7)	(82.0)
Net investment in customer loans	**1,729.6**	**1,783.1**

Maturity profile

The following tables set out a maturity profile of finance lease receivables, chattel loans and customer loans before provision for doubtful debts or expected credit allowance:

Finance lease receivables and other debtors

A$m	2022	2021 Restated
Less than 1 year	101.3	131.6
Between 1 and 2 years	64.4	70.8
Between 2 and 3 years	38.3	31.1
Between 3 and 4 years	21.8	12.0
Between 4 and 5 years	10.2	4.4
More than 5 years	0.5	0.5
Unguaranteed residual value	16.8	23.7
Unearned future income	(29.2)	(39.2)
Net investment in finance lease receivables and other debtors before expected credit allowances	**224.1**	**234.9**

Chattel loans

A$m	2022	2021 Restated
Due within one year	420.1	224.6
Due after one year but no later than five years	1,153.8	575.4
Unearned future income	(260.5)	(131.4)
Net investment in chattel loans before expected credit allowances	**1,313.4**	**668.6**

Customer loans

A$m	2022	2021 Restated
Due within one year	1,301.9	1,450.2
Due after one year but not later than five years	560.4	501.2
Due greater than five years	0.4	0.1
Unearned future income	(74.4)	(86.4)
Net customer loans	**1,788.3**	**1,865.1**

5. GOODWILL AND OTHER INTANGIBLE ASSETS

ACCOUNTING POLICY

Goodwill

Goodwill arises on the acquisition of an entity and represents the excess of the consideration paid over the fair value of the identifiable net assets acquired. Goodwill is measured at cost less accumulated impairment losses, and is tested annually for impairment or more frequently if events or changes in circumstances indicate that they might be impaired.

Other intangible assets

a) IT development and software

Costs incurred on software development projects (relating to the design and testing of new or improved software products) are recognised as intangible assets when it is probable that the project will be a success considering its commercial and technical feasibility and its costs can be measured reliably. The expenditure capitalised comprises all directly attributable costs, including direct labour. Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Capitalised development costs are recorded as an intangible asset and amortised using straight line method from the point at which the asset is ready for use over its useful life from 3 to 7 years. Software maintenance costs are expensed as incurred.

Configuration or customisation costs in a Cloud Computing Arrangement are recognised as an intangible asset only if the implementation activities create an intangible asset that the entity controls and the intangible asset meets the recognition criteria. Costs that do not result in the creation of intangible assets are expensed as incurred, unless they are paid to the suppliers of the Software-as-a-Service ("SaaS") arrangement to significantly customise the cloud-based software for the Group, in which case the costs are recorded as a prepayment for the service and amortised over the expected renewable term of the arrangement.

b) Merchant and customer relationships

Merchant and customer relationships acquired as part of a business combination are recognised separately from goodwill. The assets are measured at fair value at the date of acquisition less accumulated amortisation and impairment losses. Amortisation is calculated based on the timing of the projected cash flows of the relationships.

Merchant relationships: from 3 to 9 years (2021: 3 to 27 years)
Customer relationships: from 3 to 9 years (2021: 3 to 15 years)

Impairment of goodwill and intangible assets

Goodwill and intangibles are measured at cost less accumulated amortisation/impairment losses. An impairment loss recognised for goodwill is not reversed in subsequent periods.

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

The recoverable amount of an asset is the higher of an asset's fair value less costs to sell and value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows, which are largely independent of the cash inflows from other assets or groups of assets' cash-generating units ("CGUs"). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting period.

Recoverable amounts of CGUs

The recoverable amount is based on a value in use calculation using cash flow projections based on management forecasts, the basis of which have been endorsed by the board. The cash flow projections incorporate a probability weighted assessment of a potential downside scenario to arrive at the most likely outcome. Cash flows for a further two-year period are extrapolated using declining growth rates appropriate for the industries and jurisdictions in which the business resides, which do not exceed the long-term average for the sectors and economies in which the CGUs operate. In the final year, a terminal growth rate is applied in perpetuity. These forecasts use management estimates to determine income, expenses, capital expenditure and cash flows for each CGU.

Discount rate

The discount rate reflects the market determined, risk adjusted, post-tax discount rate and is adjusted for specific risks relating to the CGUs and the countries in which they operate.

Critical accounting judgements and estimates

The measurement of goodwill is subject to a number of key judgements and estimates. These include:

- the allocation of goodwill to CGUs on initial recognition
- the re-allocation of goodwill in the event of disposal or reorganisation
- the appropriate cash flows, growth rates and discount rates.

Further details about these items are provided below.

Intangible assets with indefinite useful lives are not amortised, but are tested for impairment annually as at 30 June or when indicators of impairment exist.

After assessing the Latitude offer together with the structural shift from credit cards to debit cards, the decline in market capitalisation of comparable fintech and BNPL companies and the reduction of interest bearing balances caused by COVID-19, management determined that the carrying amount should be reduced to the recoverable amount, being the higher of the fair value less costs of disposal and value in use. As a result, the Group recognised $135.4m goodwill impairment expense in relation to the consumer business. During the second half, we have considered the current profit for the NZ Commercial business, the move to broker originated business similar to Australia and associated execution risks, along with a reduction in market multiples over the past six months, an impairment charges of $16.7 million was recognised.

Similar to the rationale outlined above, $45.8m of software impairment was recognised following the Latitude offer. A further impairment of $9.6m was recognised during the year in respect to software assets after having evaluated the strategic priorities of key products and geographies.

In addition, the Group reassessed the useful life of merchant and customer relationships and determined that it is appropriate to lower the assumptions from 27 and 15 years respectively to 9 years. An accelerated amortisation of $12.5m was recognised accordingly.

Reconciliation of carrying amount

2022

A$m	Goodwill	IT development & software	Merchant & customer relationships & other rights	Brand name	Total
Balance at the beginning of the year	**239.2**	**78.2**	**28.7**	**4.0**	**350.1**
Additions	-	22.6	-	-	22.6
Impairment	(152.1)	(55.4)	-	-	(207.5)
Amortisation	-	(17.2)	(15.0)	-	(32.2)
Effect of movements in exchange rates	(2.3)	(0.1)	(0.3)	(0.1)	(2.8)
Balance at the end of year	**84.8**	**28.1**	**13.4**	**3.9**	**130.2**

2021

A$m	Goodwill	IT development & software	Merchant & customer relationships & other rights	Brand name	Total
Balance at the beginning of the year	**239.9**	**66.5**	**31.7**	**4.1**	**342.2**
Additions	–	29.1	–	–	29.1
Amortisation	–	(17.4)	(2.9)	–	(20.3)
Effect of movements in exchange rates	(0.7)	–	(0.1)	(0.1)	(0.9)
Balance at the end of year	**239.2**	**78.2**	**28.7**	**4.0**	**350.1**

Goodwill balance by CGU

A$m	2022	2021
BNPL – **humm** AU	–	30.7
AU Cards	–	18.9
NZ Commercial	–	17.8
NZ Cards	84.8	171.8
Total	**84.8**	**239.2**

The key assumptions used in determining value in use for 30 June 2022 are:

Assumption	How determined
Forecast revenues and expenses	Forecast revenues and expenses for FY24 and FY25 beyond the financial year forecast period have been extrapolated using declining growth rates such that the long-term terminal growth rates are as follows: • BNPL – N/A (2021: 1.7%) • AU Cards – N/A (2021: 1.7%) • NZ Commercial – N/A (2021: 1.7%) • NZ Cards – 1% (2021: 1.7%)
Long-term growth rate	The above long-term growth rate for each of the CGUs does not exceed the long-term average growth rate for the sector/industry in which the CGU operates.
Cost of Equity Capital	The discount rate applied to the cash flows of each CGU is based on the risk free rate for 10-year Commonwealth Government bonds, adjusted for a risk premium to reflect both the increased risk of investing in equities and the risk of the specific Group operating company. In making this adjustment, inputs required are the equity markets risk premium (that is the required increased return required over and above a risk free rate by an investor who is investing in the market as a whole) and the risk adjustment, beta, applied to reflect the risk of the specific Group operating company relative to the market as a whole, giving rise to the CGU-specific Cost of Equity Capital. Geared cash flows are used to calculate recoverable amounts for all CGUs. The pre-tax discount rates used for impairment testing are as follows: • BNPL – N/A (2021: 11.8%) • AU Cards – N/A (2021: 11.8%) • NZ Commercial – N/A (2021: 10.4%) • NZ Cards – 13.5% (2021: 11.1%)

Sensitivity conclusion

The Directors and management have considered and assessed reasonably possible changes for other key assumptions and have not identified any instances that could cause the carrying amounts of all CGUs to exceed their respective recoverable amounts.

6. BORROWINGS

ACCOUNTING POLICY

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the Consolidated statement of comprehensive income over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities, which are not an incremental cost relating to the actual draw-down of the facility, are recognised as prepayments and amortised on a straight-line basis over the term of the facility.

Borrowings are removed from the Consolidated statement of financial position when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in the Consolidated statement of comprehensive income.

Secured loans, which comprise of wholesale and private debt facilities are secured against underlying pools of chattel loans, finance lease receivables and customer loans. The terms of these debt facilities vary depending on the nature of the facility and the type of assets held in these facilities. These facilities provide for the ultimate repayment of borrowings through receipts from customers in respect of the relevant chattel loans, finance lease receivables and customer loans held in these facilities.

Private warehouse debt facilities are typically structured to include a revolving period during which debt can be drawn to fund originations of new chattel mortgages, finance lease receivables and customer loans, ahead of the repayment of outstanding debt. It is typical for these revolving periods to continue to be extended, as required, by agreement between the Group and the relevant funder. Warehouse facilities with aggregate limits of $738.3m (drawn to $434.9m as at 30 June 2022) have revolving periods expiring within 12 months. The debt drawn under these facilities is not contractually due for repayment upon expiry of the revolving period but is subject to repayment over subsequent periods of up to 3 years after the expiry of the revolving period (such period being the amortisation period). During the amortisation period, debt can no longer be drawn and all receipts from customers are directed to repayment of the outstanding debt.

Public debt arrangements are structured to provide for repayment of outstanding loans in line with the repayment of the chattel loan, finance lease receivables and customer loans held in these facilities. In addition, there is one public debt arrangement structured to include a revolving period, which can be extended further.

A$m	2022	2021
Secured loans	3,025.5	2,406.5
Total borrowings	**3,025.5**	**2,406.5**

Assets pledged as security

The loans subject to recourse funding arrangements are secured by payments receivable in respect of the underlying lease and loan receivable contracts.

Financing arrangements

Unrestricted access was available at balance date to the following lines of credit:

A$m	2022	2021
Total loan facilities available	3,921.3	3,381.2
Loan facilities used at balance date	(3,025.5)	(2,406.5)
Loan facilities unused at balance date	**895.8**	**974.7**

7. PROVISIONS

ACCOUNTING POLICY

Provisions for legal claims, service warranties and make good obligations are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the balance date. The discount rate used to determine the present value reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

Employee benefits include:

i) Short-term obligations

Liabilities for wages and salaries, including non-monetary benefits and annual leave expected to be settled within 12 months after the end of the period in which the employees render the related service, are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liability for annual leave is recognised as a provision in the Consolidated statement of financial position. All other short-term employee benefit obligations are presented as payables.

ii) Other long-term employee benefit obligations

The liability for long service leave and annual leave which is not expected to be settled within 12 months after the end of the period in which the employees render the related service is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the end of the reporting period using the projected unit credit method.

Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the end of the reporting period on government bonds with terms and currencies that match, as closely as possible, the estimated future cash outflows.

iii) Profit-sharing and bonus plans

The Group recognises a liability and an expense for bonuses that takes into consideration the Group's Cash NPAT and other short-term incentive scorecard hurdles. The Group recognises a provision where contractually obliged to settle the liability or where there is a past practice that has created a constructive obligation for settlement.

A$m	Notes	2022	2021
Annual leave		4.4	4.5
Long service leave		2.1	1.9
Outstanding claims liability		0.2	0.5
Unearned premium liability		–	0.2
Customer remediation		–	1.3
Make good provision		0.4	0.9
Undrawn exposure on customer loans		10.1	12.5
Litigation provision		15.5	–
Total provisions		**32.7**	**21.8**

$21.3m (30 June 2021: $7.4m) of provisions are due for settlement in the next twelve months, including annual leave liabilities, premium and claim liabilities and make good provisions.

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