Annual Financial Report 2020.

Hume Bank

“For 65 years we have been committed to having a positive impact on our customers and their communities.”

Annual Financial Report 2020.

Hume Bank Limited

ABN 85 051 868 556 | AFSL No. 244248

Australian Credit Licence No. 244248

Directors' Report.

The Directors of Hume Bank Limited present their report, together with the financial statements of the Consolidated Entity, being Hume Bank Limited ('the Company') and its controlled entities ('the Group') for the financial year ended 30 June 2020 and the Auditor's report thereon.

Directors

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

Name and Qualifications	Experience and Special Responsibilities
Michael Conrad Gobel B.Sc, MAppFin, GAICD Independent, Non-executive Director.	*Skills, experience and expertise* Michael is an experienced equity funds manager and has provided strategic financial advice to the private business sector, major domestic and international investment funds and government borrowing authorities. Michael is a member of the Victorian Ovens and Murray Regional Partnerships Board and the Economic Development, Infrastructure and Connectivity Committee, which supports the Federal Government's Regional Cities Deal. *Hume Bank Board Committee Membership* Member of the Risk Committee and the Audit Committee. *Term of Office* Director since November 2012. Deputy Chairperson since November 2016. Michael was Chairperson from November 2013 to October 2016 and Deputy Chairperson from November 2012 to November 2013.
Kent Bernard Griffin FIAA, B Economics (Actuarial Studies), GAICD Independent, Non-executive Director.	*Skills, experience and expertise* Kent is the Chief Financial Officer at MLC Life Insurance and brings both corporate leadership and consulting experience within the financial services sector across Australia, Europe and Asia. Kent comes to Hume with a broad-ranging skillset and strengths in leadership, strategy, actuarial, risk, treasury, investor relations and regulatory and capital management in the life insurance, wealth management and banking sectors. Kent is currently a member of the Country Fire Authority Board. *Hume Bank Board Committee Membership* Chairperson of the Risk Committee. Member of the Audit Committee. *Term of Office* Director since November 2018.
Kerry Merle Grigg GAICD, PhD, MComm (Hons) with Distinction, BComm Independent, Non-executive Director.	*Skills, experience and expertise* Kerry is the Global Head of Leadership Development at A.P. Moller - Maersk (listed on the Nasdaq Copenhagen), the world's largest integrated transport and logistics company. In previous roles, Kerry was formerly a Global Talent Director at Mars Incorporated, business consultant to both public and private companies and academic at Charles Sturt University (Albury Campus) and Monash University (Caulfield Campus) in the business disciplines of management, human resource management and marketing. Kerry has deep expertise in human resource management and specifically, organisational development and broad business acumen due to the variety of roles and geographies she has worked across. Kerry has studied, worked and lived in Albury for over forty years and as a result has strong connections with the Hume Bank footprint.

Name and Qualifications	Experience and Special Responsibilities
	Hume Bank Board Committee Membership Chairperson of the Remuneration and Succession Committee. Member of the Audit Committee. *Term of Office* Director since July 2017.
Paul Carrington McGill B. Sc (Melb), GAICD Independent, Non-executive Director.	*Skills, experience and expertise* Paul brings a diverse private sector and management consulting background. He held management consulting roles with both Deloitte and PricewaterhouseCoopers before setting up in private practice. He has advised ASX and SME private sector entities as well as local, state and commonwealth government departments. He has provided consulting advice to boards, committees of management and senior executives across a range of sectors and geographies in areas including strategy, governance and operational improvement. *Hume Bank Board Committee Membership* Member of the Risk Committee and the Remuneration and Succession Committee. *Term of Office* Director since July 2016.
Kay Denise Thawley B.Bus, GAICD Independent, Non-executive Director.	*Skills, experience and expertise* Kay has previously held senior executive roles with National Australia Bank domestically and offshore, was a partner with Deloitte Touche Tohmatsu in financial services and former Chief Executive Officer of Industry Fund Services. Kay is an independent member of the Indigo Shire Audit Committee. *Hume Bank Board Committee Membership* Chairperson of the Audit Committee. Member of the Risk Committee. *Term of Office* Director since August 2014.
Anthony Charles Whiting B Com Independent, Non-executive Director.	*Skills, experience and expertise* Tony has been active in Albury Wodonga's business community for over 20 years as well as having international and national experience in leadership, marketing and strategic development. He has participated at Board level on a number of institutions and has a great interest in the economic development of the Albury Wodonga region. Tony was CEO of The Border Morning Mail Pty Ltd from 1996 to 2007 and holds a Degree in Commerce from the University of NSW. *Hume Bank Board Committee Membership* Member of the Remuneration and Succession Committee. *Term of Office* Director since May 2016. Chairperson since November 2016 and was Deputy Chairperson from May 2016 to November 2016.

Name and Qualifications	Experience and Special Responsibilities
Henrietta Rachel Cruddas B.Sc (Hons), GAICD, LLM (Academique) Independent, Non-executive Director. Retired 1 March 2020	*Skills, experience and expertise* Henri's association with Hume began in 2002 when she joined the staff as Legal and Compliance Manager. She later established her own legal and compliance consultancy business advising small and large retail financial and wealth institutions in Australia and overseas in particular in relation to regulatory change. Henri has been a legal, compliance and risk specialist in the financial services industry over the last 30 years in Australia, the UK and Asia, specialising in retail financial services. She qualified as a solicitor in both Australia and England and Wales and in 2018 completed a Masters in European Banking and Finance Law with the University of Luxembourg. She is currently EMEA Chief Compliance Officer for the payments business of a global online market place. *Hume Bank Board Committee Membership* Previous Chairperson of the Audit Committee and Member of the Risk Committee. *Term of Office* Director from May 2011 to 1 Mach 2020, (apart from a 12 month break in 2012 due to a temporary relocation to Hong Kong). Henri was Deputy Chairperson from November 2013 to November 2015.

Company Secretary

Ms Skye Roberts (BA/LLB, GDipLegalPrac, LLM, GIA) was appointed Company Secretary from 22 July 2019. Ms Roberts joined Hume in July 2019 and has over 10 years in financial service industry experience.

Ms Alison Prentice (Assoc. Dip (Accounting)) was appointed Company Secretary from 1 August 2018. Ms Prentice joined Hume in October 2011 and has over 20 years in financial service industry experience.

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 was as follows:

	Board of Directors	Risk Committee	Audit Committee	Remuneration & Succession Committee
Number of meetings held:	11	4	5	5
Number of meetings attended:				
Michael Conrad Gobel	11	4	5	N/A
Kent Bernard Griffin	9	3 (of 3 eligible)	4	N/A
Kerry Merle Grigg	11	1 (of 1 eligible)	2 (of 2 eligible)	5
Paul Carrington McGill	10	4	N/A	5
Kay Denise Thawley	10	1 (of 1 eligible)	5	3 (of 3 eligible)
Anthony Charles Whiting	11	N/A	N/A	5
Henrietta Rachel Cruddas	6 (of 7 eligible)	3 (of 3 eligible)	3 (of 3 eligible)	N/A

Note: Committee membership is reviewed annually and may affect the number of meetings a Director is eligible to attend. If no eligibility is indicated, the Director was eligible to attend all meetings. "N/A" indicates that the Director was not a member of that Committee at any point during the year.

Corporate Governance Statement

The Board's primary responsibility is to the members of the Company to maintain the Company's success. It approves the strategic direction for the Company, participates in the development of the strategic plan and has authority for its approval. It also approves the annual budget and has responsibility for the appointment, remuneration and performance appraisal of the Chief Executive Officer. The Board delegates responsibility for the management of the Company to the Chief Executive Officer and Senior Management.

The Board generally meets on a monthly basis and conducts an annual evaluation of its own performance and that of individual Directors. An allowance is made for professional development of all Directors and, to assist the Board in the execution of its responsibilities, the Board has established committees as noted below.

Committees of Directors

Audit Committee

The Audit Committee is a Board appointed Committee comprising of four non-executive Directors. Its principal responsibility is to assist the Board to fulfil its corporate governance and oversight responsibilities in relation to the Group's financial reporting, internal control system, risk management framework and internal and external audit functions. The Chief Executive Officer, Internal Auditor and External Auditors are invited to attend meetings however the Committee may meet without them. The Audit Committee is chaired by Kay Thawley.

Risk Committee

The Risk Committee is a Board appointed Committee comprising of four non-executive Directors. Its principal responsibilities are to assist the Board to fulfil its oversight responsibilities in relation to the implementation and operation of the Group's risk management framework and the review of policies which are required under the Group's risk management framework. The Risk Committee also makes recommendations to the Board based on the Group's risk appetite. The Chief Executive Officer will generally attend meetings and the Risk Manager must attend relevant sections of meetings, however the committee may meet without Management. The Risk Committee is chaired by Kent Griffin.

Remuneration & Succession Committee

The Remuneration and Succession Committee is a Board appointed Committee of four non-executive Directors. It is responsible for reviewing the performance of the Chief Executive Officer and making recommendations to the Board regarding his remuneration. It reviews appraisals and remuneration recommendations for the Senior Managers submitted by the Chief Executive Officer and also the Remuneration and Reward Policy which establishes staff remuneration structures. It also develops Board succession planning for consideration by the Board. The Remuneration and Succession Committee is chaired by Kerry Grigg.

Principal activities

The principal activities of the Company during the course of the financial year were those of an Authorised Deposit-taking Institution providing financial products and services to its members.

There were no significant changes in the nature of these activities during the period.

State of affairs

In the opinion of the Directors there were no significant changes in the state of affairs of the Group that occurred during the financial year under review.

Review and results of operations

The Group achieved a profit before income tax of $5.700 million for the year (2019 - $6.913 million). Net profit after income tax was $3.896 million (2019 - $5.009 million). The result was supported by strong business performance which was highlighted by an increase in total assets of 11% or $133.659 million to $1.342 billion, however the overall result was impacted by increased expected credit loss provisions due to the Coronavirus (COVID-19). Net loans and advances outstanding at 30 June 2020 were $951.695 million (2019 - $908.804 million) and deposits from members were $1.241 billion (2019 - $1.113 billion).

All prudential capital requirements have been satisfied throughout the year. A reconciliation of the Company's regulatory capital and other prudential disclosures are published at https://www.humebank.com.au/about-us/corporate-governance/.

Events subsequent to reporting date

There have been no significant events occurring after the balance date which may affect the Group's operations or the results of those operations, except for noting the ongoing COVID-19 pandemic and its associated impact on estimations fundamental to the preparation of the 30 June 2020 financial statements.

Likely developments

There are no known likely developments at the date of this report that will impact on the operations of the Company in a material way.

Directors' benefits

During or since the end of the financial year, no Director of the Group has received or become entitled to receive a benefit (other than a benefit included in the aggregate amount of compensation paid or payable to Key Management Personnel as shown on page 45 of the general purpose financial statements) by reason of a contract entered into by the Group (or an entity that the Group controlled, or a body corporate that was related to the Group when the contract was made, or when the Director received, or became entitled to receive, the benefit) with:

- a Director,
- a firm of which a Director is a member, or
- an entity in which a Director has a substantial financial interest except those outlined in note 30 to the financial statements (page 45).

Lead auditor's independence declaration

The auditor's independence declaration is set out on page 7 and forms part of the Directors' report for the financial year ended 30 June 2020.

Indemnification and insurance of Officers and Auditors

The Company has agreed to indemnify any past, present or future Director, Secretary or Officer of the Company in respect of liabilities to other persons (other than the Company) that may arise from their position as Director, Secretary or Officer of the Company, except where the liability arises out of conduct involving a lack of good faith, negligent or fraudulent behaviour. The Company has entered into an insurance policy to cover the Company's liability under the indemnity. The insurance policy prohibits disclosure of the premium payable under the policy and the nature of the liabilities insured.

The Company has not indemnified its Auditors, Crowe Albury.

Public disclosure of prudential information

Prudential Standard APS 330 Public Disclosure requires the Company to meet minimum requirements for the public disclosure of information. This information is published on the Company's website under Regulatory Disclosures.

Rounding

Hume Bank Limited is a type of Company referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 and therefore the amounts contained in this report and in the financial report have been rounded to the nearest $1,000, or in certain cases, to the nearest dollar.

Signed in accordance with a resolution of the Directors:

Anthony Whiting
Chairman

Michael Gobel
Deputy Chairman

Albury, 24 September 2020

Crowe Albury
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Auditor Independence Declaration under Section 307C of the *Corporations Act 2001* to the Directors of Hume Bank Limited

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2020 there have been no contraventions of:

(1) The auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and

(2) Any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Hume Bank Limited and the entities it controlled during the financial year ended 30 June 2020.

CROWE ALBURY

ALISON FLAKEMORE
Partner

24 SEPTEMBER 2020
ALBURY

The title 'Partner' conveys that the person is a senior member within their respective division, and is among the group of persons who hold an equity interest (shareholder) in its parent entity, Findex Group Limited. The only professional service offering which is conducted by a partnership is the Crowe Australasia external audit division. All other professional services offered by Findex Group Limited are conducted by a privately owned organisation and/or its subsidiaries.

Consolidated Statement of Profit or Loss and Other Comprehensive Income

for the year ended 30 June 2020

	Note	2020 $'000	2019 ** $'000
Interest revenue	2	**39,876**	43,613
Interest expense	2	**(13,256)**	(16,914)
Net interest income		**26,620**	26,699
Non-interest income	3	**5,471**	5,640
Total operating income		**32,091**	32,339
Impairment of loans and advances	12	**(1,981)**	(327)
Other expenses	4	**(24,380)**	(25,099)
Operating profit before fair value adjustments		**5,730**	6,913
Fair value adjustments	5	**(30)**	-
Profit before income tax		**5,700**	6,913
Income tax expense	6	**(1,804)**	(1,904)
Profit for the year		**3,896**	5,009
Other comprehensive income, net of tax			
Items that will not be reclassified subsequently to profit or loss			
Revaluation of property		**371**	-
Gain on investments in equity instruments designated at FVTOCI	24	**27**	63
Items that may be reclassified subsequently to profit or loss			
Change in fair value of cash flow hedges		**-**	-
Other comprehensive income, net of tax		**398**	63
Total comprehensive income for the year attributable to members		**4,294**	5,072

*** The Group has not restated comparatives when initially applying AASB 16 Leases. The comparative information has been prepared under AASB 117 Leases.*

The consolidated statement of profit or loss and other comprehensive income is to be read in conjunction with the accompanying notes set out on pages 12 to 60.

Consolidated Statement of Financial Position

as at 30 June 2020

	Note	2020	2019**
		$'000	$'000
Assets			
Cash and cash equivalents	7	**62,491**	51,865
Receivables due from other financial institutions	8	**90,694**	53,000
Investment securities	9	**222,492**	181,672
Trade and other receivables	10	**1,681**	1,974
Loans and advances	11	**951,695**	908,804
Other investments	13	**325**	295
Investment property	14	**1,740**	1,770
Property, plant and equipment	15	**7,254**	7,269
Intangible assets	16	**283**	385
Right-of-use assets	23	**1,970**	-
Deferred tax assets	17	**1,309**	1,241
Total assets		**1,341,934**	1,208,275
Liabilities			
Deposits from members	18	**1,240,544**	1,112,521
Trade and other payables	19	**11,954**	12,099
Income tax payable	20	**229**	361
Provision for employee benefits	21	**2,039**	2,446
Borrowings	22	**-**	-
Lease liabilities	23	**2,026**	-
Total liabilities		**1,256,792**	1,127,427
Net assets		**85,142**	80,848
Members' funds			
Reserves	24	**4,192**	3,672
Retained earnings	25	**80,950**	77,176
Total members' funds		**85,142**	80,848

*** The Group has not restated comparatives when initially applying AASB 16 Leases. The comparative information has been prepared under AASB 117 Leases.*

The consolidated statement of financial position is to be read in conjunction with the accompanying notes set out on pages 12 to 60.

Consolidated Statement of Changes in Equity

for the year ended 30 June 2020

	Note	Retained Earnings	General Reserve for Credit Losses	Asset Revaluation Reserve	Financial Asset Reserve	Capital Profits Reserve	Cash Flow Hedge Reserve	Total Reserves	Total Members' Funds
		$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
2019**									
Opening balance at 1 July 2018		72,282	1,518	1,383	-	593	-	3,494	75,776
Effect of adoption of AASB 15	1(z)	-	-	-	-	-	-	-	-
Effect of adoption of AASB 9	12	-	-	-	-	-	-	-	-
Opening balance at 1 July 2018 - Restated		72,282	1,518	1,383	-	593	-	3,494	75,776
Net profit for the year		5,009	-	-	-	-	-	-	5,009
Total other comprehensive income		-	-	-	63	-	-	63	63
Transfers to/(from) reserves		(115)	115	-	-	-	-	115	-
Closing balance at 30 June 2019	24, 25	77,176	1,633	1,383	63	593	-	3,672	80,848
2020									
Opening balance at 1 July 2019		**77,176**	**1,633**	**1,383**	**63**	**593**	**-**	**3,672**	**80,848**
Net profit for the year		**3,896**	**-**	**-**	**-**	**-**	**-**	**-**	**3,896**
Total other comprehensive income		**-**	**-**	**371**	**27**	**-**	**-**	**398**	**398**
Transfers to/(from) reserves		**(122)**	**122**	**-**	**-**	**-**	**-**	**122**	**-**
Closing balance at 30 June 2020	24, 25	**80,950**	**1,755**	**1,754**	**90**	**593**	**-**	**4,192**	**85,142**

*** The Group has not restated comparatives when initially applying AASB 16 Leases. The comparative information has been prepared under AASB 117 Leases.*

The consolidated statement of changes in equity is to be read in conjunction with the accompanying notes set out on pages 12 to 60.

Consolidated Statement of Cash Flows

for the year ended 30 June 2020

	Note	2020	2019**
		$'000	$'000
Cash flows from operating activities			
Interest received		**40,239**	43,629
Interest paid		**(14,688)**	(16,708)
Other non-interest revenue received		**5,392**	4,907
Cash paid to suppliers and employees		**(21,086)**	(20,977)
Fees and commissions paid		**(69)**	(57)
Income tax paid	20	**(2,009)**	(2,055)
		7,779	8,739
(Increase)/decrease in operating assets:			
Net (increase)/decrease in loans and advances		**(44,872)**	(77,339)
Net increase/(decrease) in deposits		**128,022**	96,170
Net cash flows from operating activities	26(b)	**90,929**	27,570
Cash flows from investing activities			
Net (increase)/decrease in receivables due from other financial institutions		**-**	2,977
Net (increase)/decrease in investments securities		**(32,379)**	(5,197)
Payments for property, plant and equipment		**(406)**	(265)
Proceeds from sale of property, plant and equipment		**17**	66
Payments for intangible assets		**(208)**	(116)
Net cash flows from investing activities		**(32,976)**	(2,535)
Cash flows from financing activities			
Proceeds from/(payments of) borrowings		**-**	-
Repayment of lease liabilities		**(1,192)**	-
Net cash flows from financing activities		**(1,192)**	-
Net increase/(decrease) in cash held		**56,761**	25,035
Cash at the beginning of the financial year		**236,269**	211,234
Cash at the end of the financial year	26(a)	**293,030**	236,269

*** The Group has not restated comparatives when initially applying AASB 16 Leases. The comparative information has been prepared under AASB 117 Leases.*

The consolidated statement of cash flows is to be read in conjunction with the accompanying notes set out on pages 12 to 60.

Notes to the Financial Statements

for the year ended 30 June 2020

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1. SIGNIFICANT ACCOUNTING POLICIES

1.1 Reporting entity

Hume Bank Limited (the 'Company') is a company limited by shares and guarantee domiciled in Australia. The Company is a for profit entity for financial reporting purposes under Australian Accounting Standards. No shares have been issued. The address of the Company's registered office is 492 Olive Street, Albury, NSW, 2640.

These consolidated financial statements ('financial statements') comprise Hume Bank Limited, the ultimate parent Company, and its subsidiary (together, the 'Group'). The Group is primarily involved in retail banking.

1.2 Basis of preparation

(a) Statement of compliance

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

The financial statements were authorised for issue by the Board of Directors on 24 September 2020.

(b) Basis of measurement

The financial statements are presented in Australian dollars.

The financial statements are prepared on an accruals basis, and are based on historical costs, unless otherwise stated.

The accounting policies set out below have been applied consistently to all periods presented in the financial statements, unless otherwise stated.

Where necessary, comparative information has been reclassified to achieve consistency in disclosure with current financial year amounts and other disclosures. Refer to note 1 (z) new standards applicable for the current year. Pre 1 July 2019 accounting policies under AASB 139 and AASB 118 are set out in the 30 June 2019 financial statements.

(c) Use of estimates and judgements

The preparation of the financial statements in conformity with AASBs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

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

- notes 12,14 and 15 – Impairment of financial assets;
- notes 14 – fair value of investment property and 15 – fair value of land and buildings
- note 23 – Estimation of the lease term and determination of the appropriate rate to discount the lease payments;
- note 16 estimation of useful life and assessment of future economic benefit of intangible assets; and
- note 35 (d) – Fair value of financial instruments.

Judgement has been exercised in considering the impacts that the Coronavirus (COVID-19) pandemic has had, or may have, on the Group based on known information. The consideration extends to the nature of the products and service offered, customers, staffing and geographic regions in which the Group operates. The key estimates and judgements associated with COVID-19 are detailed in Notes 14 and 15 (regarding fair value of land and buildings) and Note 12 (regarding expected credit loss on loans to members).

1. **SIGNIFICANT ACCOUNTING POLICIES (continued)**

(d) Going concern

The impact of the Coronavirus (COVID-19) pandemic and its impact on the Group's operations has been subject to close consideration in preparing these financial statements. However, there has been a significant amount of scenario testing and forecasting undertaken to provide comfort that there is no material uncertainty in terms of the Group as a "going concern". The scenario testing undertaken indicates that key metrics such as Capital Adequacy and Liquidity are able to be maintained at levels above both statutory requirements and internal benchmarks for the forecasting period.

(e) Consolidation of RBA repurchase securitisation trust

Hume Bank Limited is the beneficiary of a trust which holds rights to a portfolio of residential mortgage secured loans to enable the Company to secure funds from the Reserve Bank of Australia, if required, to meet emergency liquidity requirements. The Company continues to manage these loans and receives all residual benefits from the trust and bears all losses should they arise. Accordingly:

- The trust meets the definition of a controlled entity; and
- As prescribed under the accounting standards, since the Company has not transferred all the risks and rewards to the trust, the assigned loans are retained on the books of the Company and are not de-recognised.

The Group has elected to present one set of financial statements to represent both the Company as an individual entity and the consolidated entity on the basis that the impact of the consolidation is not material to the Group.

The subsidiary member of the Group is known as the Murray Trust Repo Series No. 1.

(f) Investment in equity instruments

Investments in equity instruments that are not held for trading are eligible for an irrevocable election at inception to be measured at Fair Value through Other Comprehensive Income ("FVTOCI"). Subsequent movements in fair value are recognised in other comprehensive income and are never reclassified to profit or loss. Dividends from these investments continue to be recorded as other income within the profit or loss unless the dividend clearly represents return of capital. This category includes unlisted equity securities – Australian Settlements Ltd - that were previously classified as 'available for sale' under AASB 139.

(g) Receivables due from other financial institutions (FI's)

Receivables due from other financial institutions are financial assets held within a business model whose objective is to hold assets to collect contractual cash flows and the contractual terms of the financial asset give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The accrual for interest receivable is calculated on a proportional basis of the expired period of the term of the investment. Interest receivable is included in the amount of receivables in the statement of financial position.

These are initially measured at fair value and subsequently measured at amortised cost. These have been assessed for impairment under AASB 9 'expected credit loss' (ECL) and no impairment is recognised.

(h) Investment securities

Investment securities are financial assets held within a business model whose objective is to hold assets to collect contractual cash flows and the contractual terms of the financial asset give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The accrual for interest receivable is calculated on a proportional basis of the expired period of the term of the investment. Interest receivable is included in the amount of receivables in the statement of financial position.

These are initially measured at fair value and subsequently measured at amortised cost. These have been assessed for impairment under AASB 9 'expected credit loss' (ECL) and no impairment is recognised.

(i) Employee benefits

Wages, salaries and annual leave
Liabilities for employee benefits for wages, salaries and annual leave expected to be settled within 12 months represent present obligations resulting from employees' services provided to reporting date and are calculated at undiscounted amounts based on remuneration wage and salary rates that the Group expects to pay as at reporting date including related on-costs, such as workers compensation insurance and payroll tax.

1. **SIGNIFICANT ACCOUNTING POLICIES (continued)**

A provision is recognised for the amount to be paid under short-term cash bonus or profit-sharing plans if the Group has a present or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Long service leave
The Group's obligation in respect of long service leave is the amount of future benefits that employees have earned in return for their service in the current and prior periods. The obligation is calculated using expected future increases in wage and salary rates including related on-costs and expected settlement dates and is discounted using the rates attached to corporate bonds at the balance date which have maturity dates approximating to the terms of the Group's obligations.

Superannuation plan
Contributions to the employees' superannuation fund are recognised as an expense as they are made.

(j) Loans and advances

Loans and advances are financial assets held within a business model whose objective is to hold assets to collect contractual cash flows and the contractual terms of the financial asset give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Loans and advances are measured at amortised cost using the effective interest rate method, after assessing required provisions for impairment.

The effective interest rate method requires origination fees and associated transaction costs to be capitalised as part of the loan balance and amortised over the expected life of the loan as part of the loan's effective interest rate. The expected life of the loan has been determined based on an analysis of the Group's loan portfolio.

The interest on loans and overdrafts is calculated on the daily balance outstanding and is charged in arrears to a customer's account on the last day of each month. The interest on revolving credit cards is calculated on the daily balance outstanding and is charged in arrears to a customer's account on the 15th day of each month. Purchases are granted up to 55 days interest free until the due date for payment. All residential loans are secured by registered mortgages.

Fees charged on loans after origination of the loan are recognised as income when the service is provided or costs are incurred.

All loans and advances are reviewed and graded according to the determined level of credit risk. The classification adopted is described below:

- Impaired loans – are loans and advances where the recovery of all interest and principal is considered to be reasonably doubtful and hence provisions for impairment are made.

- Assets acquired through the enforcement of security – are assets acquired in full or partial settlement of a loan or similar facility through the enforcement of security arrangements.

- Past-due loans – are loans where payments of principal and/or interest are at least 1 day or more in arrears. Full recovery of both principal and interest is expected. If a provision for impairment is required, the loan is included in impaired loans.

(k) Impairment of financial assets

AASB 9's impairment requirements use more forward looking information to recognise expected credit losses - the 'expected credit loss model' (ECL). Instruments within the scope of the new requirements include loans and advances and other debt-type financial assets measured at amortised cost and FVOCI, trade receivables and loan commitments and some financial guarantee contracts (for the issuer) that are not measured at fair value through profit or loss.

The Group considers a broader range of information when assessing credit risk and measuring expected credit losses, including past events, current conditions, reasonable and supportable forecasts that affect the expected collectability of the future cash flows of the instrument.

In applying this forward-looking approach, a distinction is made between:
- financial instruments that have not deteriorated significantly in credit quality since initial recognition or that have low credit risk (performing loans) ('Stage 1'); and
- financial instruments that have deteriorated significantly in credit quality since initial recognition and whose credit risk is not low ('Stage 2').

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

'Stage 3' covers financial assets that have objective evidence of impairment (loans in default) at the reporting date.

Measurement of ECL
ECL is calculated as the probability of default (PD) x loss given default (LGD) x exposure at default. The credit models are calibrated to reflect PD and LGD estimates based on historical observed experience, as well as reflecting the influence of unbiased forward-looking views of macroeconomic conditions. Further detail is included in note 12.

(l) Reserve for credit losses

Group policy requires that a general reserve for credit losses, sufficient to cover estimated future credit losses, be maintained. This Group maintains a general reserve for credit losses of 0.3% (2019- 0.3%) of risk weighted assets.

(m) Bad Debts

Bad debts are written off when identified. If a provision for impairment has been recognised in relation to a loan, write-offs for bad debts are made against the provision. If no provision for impairment has previously been recognised, write-offs for bad debts are recognised as expenses. A reconciliation in movement of both past due and impaired exposure provision is provided in Note 12.

(n) Property, plant and equipment

Recognition and measurement
Land and buildings are shown at fair value, based on periodic, but at least triennial, valuations by external independent valuers, less subsequent accumulated depreciation for buildings.

All other items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses.

Assets less than $500 are not capitalised.

Revaluation of land and buildings
Any revaluation increment is credited to the asset revaluation reserve in equity, except to the extent that it reverses a revaluation decrement for the same asset previously recognised in profit or loss, in which case the increment is recognised in profit or loss.

Any revaluation decrement is recognised in profit or loss, except to the extent that it offsets a previous revaluation increment for the same asset, in which case the decrement is debited directly to the asset revaluation reserve to the extent of the credit balance existing in the revaluation reserve for that asset.

Any accumulated depreciation as at the revaluation date is eliminated against the gross carrying amounts of the assets and the net amounts are restated to the revalued amounts of the assets.

Depreciation
With the exception of freehold land, depreciation is charged on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Land is not depreciated.

The estimated useful lives are as follows:

• Buildings	40 years
• Plant and equipment	3 – 10 years
• Leasehold improvements	3 – 7 years (the lease term)

The residual value, the useful life and the depreciation method applied to an asset are reassessed at least annually.

Disposal
Gains or losses on disposal are calculated as the difference between the carrying amount of the asset at the time of disposal and the net proceeds on disposal (including incidental costs) and are recognised within non-interest income in profit or loss.

(o) Intangible assets

Items of computer software which are not integral to the computer hardware owned by the Group are classified as intangible assets.

Computer software is amortised over the expected useful life of the software. These lives range from 3 to 5 years.

(p) Investment property

Investment property is property held either to earn rental income or for capital appreciation or both. Investment property is initially measured at cost and subsequently at fair value, with any change therein recognised in profit or loss. Fair values are determined having regard to recent market transactions for similar properties in the same location as the Group's investment properties.

(q) Impairment of non-financial assets

The carrying amounts of the Group's non-financial assets, other than deferred tax assets, are reviewed at each balance date to assess whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is determined.

An impairment loss is recognised whenever the carrying amount of a non-financial asset exceeds its recoverable amount. Impairment losses are recognised in the statement of profit or loss unless an asset has previously been revalued, in which case the impairment loss is recognised as a reversal to the extent of that previous revaluation. Any excess is recognised through the statement of profit or loss.

(r) Derivative financial instruments and hedge accounting

The Group enters into derivatives such as interest rate swaps to manage its exposure to interest rate risk. Interest rate swaps relate to contractual agreements between two parties to exchange streams of payments over time based on specified notional amounts, in relation to movements in a specified underlying index such as interest rate. The Group either receives or pays a floating rate of interest in return for paying or receiving, respectively, a fixed rate of interest. The payment flows are usually netted against each other, with the difference being paid by one party to the other. Derivatives are recognised at fair value and are classified as trading except where they are designated as a part of an effective hedge relationship and classified as hedging derivatives. The carrying value of derivatives is remeasured at fair value throughout the life of the contract. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Cash flow hedges
The Group applies hedge accounting rules under AASB 9 *Financial Instruments*. The Group applies an objectives-based test that focuses on the economic relationship between the hedged item and the hedging instrument, and the effect of credit risk on that economic relationship. Also, in regards to risk component it is designated as the hedged item, not only for financial items, but also for non-financial items, provided the risk component is separately identifiable and reliably measured. The time value of an option, the forward element of a forward contract and any foreign currency basis spread are excluded from the hedging instrument and accounted for as costs of hedging. The financial instruments are recognised through assets and liabilities with market to market movements in the instruments recognised through reserves for the effective portion of the hedge. The ineffective portion of the hedge is recognised through profit or loss.

The carrying value of the hedged item is not adjusted. Amounts accumulated in equity are transferred to profit or loss in the period(s) in which the hedged item will affect profit or loss (e.g. when the forecast hedged variable cash flows are recognised within profit or loss).

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised in the profit or loss when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was recognised in equity is immediately transferred to profit or loss.

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

(s) Leases

Policy applicable after 1 July 2019
Group as a lessee
At inception of a contract, the Group assesses whether a lease exists – i.e. whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Group has elected to separate non-lease components from lease components and has accounted for payments separately, rather than as a single component.

At the lease commencement, the Group recognises a right-of-use asset and associated lease liability for the lease term. The lease term includes extension periods where the Group believes it is reasonably certain that the option will be exercised.

The right-of-use asset using the cost model where cost on initial recognition comprises: the lease liability, initial direct costs, prepaid lease payments, estimated cost of removal and restoration, less any lease incentives. The right-of-use is depreciated over the lease term on a straight-line basis and assessed for impairment in accordance with the impairment of asset accounting policy.

The lease liability is initially recognised at the present value of the remaining lease payments at the commencement of the lease. The discount rate is the rate implicit in the lease, however where this cannot be readily determined then the Group's incremental borrowing rate is used. Typically the Group uses its incremental borrowing rate as the discount rate.

Subsequent to initial recognition, the lease liability is measured at amortised cost using the effective interest rate method. The lease liability is re-measured whether there is a lease modification, or change in estimate of the lease term or index upon which the lease payments are based (e.g. CPI).

Where the lease liability is re-measured, the right-of-use asset is adjusted to reflect the re-measurement.

The Group has elected to apply the exceptions to lease accounting for both short-term leases (i.e. leases with a term of less than or equal to 12 months) and leases of low-value assets (defined by the Group as $10,000). The Group recognises the payments associated with these leases as an expense on a straight-line basis over the lease term.

Intangible assets such as software licences continue to be accounted for under AASB 138 *Intangible Assets*, regardless of whether the arrangement would otherwise meet the AASB 16 *Leases* definition.

Group as a lessor
The lease is classified as either an operating or finance lease at inception date, based on whether substantially all of the risks and rewards incidental to ownership of the asset have been transferred to the lessee. If the risks and rewards have been transferred then the lease is classified as a finance lease, otherwise it is an operating lease.

When the Group has a sub-lease over an asset and is the intermediate lessor then the head lease and sub-lease are accounted for separately. The classification of the sub-lease is based on the right-of-use asset which arises from the head lease rather than the useful life of the underlying asset.

If the lease contains lease and non-lease components then the non-lease components are accounted for in accordance with AASB 15 *Revenue from Contracts with Customers*. The lease income is recognised on a straight-line basis over the lease term.

Policy applicable before 1 July 2019
Leases under which the Group assumes substantially all the risks and benefits of ownership are classified as finance leases. Other leases are classified as operating leases.

Operating leases
Payments made under operating leases are recognised in profit or loss on a straight line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the lease term.

(t) Income Tax

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

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

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(u) Borrowings

All borrowings are initially recognised at fair value. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised as an expense in the period in which it is incurred. Interest payable is included in the amount of payables in the statement of financial position.

(v) Goods and services tax

As a financial institution the Group is input taxed on all income except for income from commissions, rents and some fees. An input taxed supply is not subject to GST collection, and similarly the GST paid on related or apportioned purchases cannot be recovered. As some income is charged GST, the GST on purchases are generally recovered on a proportionate basis, using the safe harbour apportionment rate of 18% adopted per Practical Compliance Guideline 2017/15 from 1 July 2017. In addition certain prescribed purchases are subject to reduced input tax credits (RITC), of which 75% of the GST paid is recoverable.

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

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the statement of financial position.

Cash flows are included in the statement of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

(w) Fair value measurement

The Group measures financial instruments, such as, derivatives, equity instruments and non-financial assets such as investment properties, at fair value at each reporting date.

Fair value is the price 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. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible to the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

(x) 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.

Government grants relating to the purchase of property, plant and equipment are included in liabilities as deferred income and are credited to profit or loss on a straight-line basis over the estimated useful lives of the related assets.

As part of its response to COVID-19, the Australian Government, in March 2020, announced various stimulus measures to ease the burden experienced by businesses as a result of the economic fallout from the coronavirus lockdown and social distancing measures.

The ‘Boosting Cash Flow for Employers’ measure provided a tax-free ‘payment’ to eligible businesses with aggregated annual turnover of less than $50 million if they employed people between 1 January 2020 and 30 June 2020. The scheme works as follows:

- Initial cash flow boost – 100% of PAYG withheld for January to June 2020 (maximum of $50,000, minimum of $10,000); and
- Additional cash flow boost – equal to the initial cash flow boost, received over two instalments as part of the June 2020 Business Activity Statement (BAS) and the September 2020 BAS (i.e. 50% in each BAS).

As both the ‘initial cash flow boost’ and ‘additional cash flow boost’ are effectively a waiver of the whole, or part, of the PAYG liability, the amount of the ‘payment’ is recognised as a reduction in the PAYG liability and grant income under AASB 120 Accounting for Government Grants and Disclosure of Government Assistance because these cash flow boosts are being provided by the Government in return for compliance with conditions relating to the operating activities of the entity.

The Group received an initial cash flow boost of $50,000 upon lodgement of its March 2020 BAS. The Group is expected to receive an additional cash flow boost of $50,000 over two instalments, being the June 2020 and September 2020 BAS’s.

(y) Revenue

Dividends
Revenue from dividends is recognised net of franking credits when the dividends are received.

Fees & Commission
The Group earns fee and commission income from a diverse range of financial services it provides to its customers. Fees and commission is recognised at an amount that reflects the consideration to which the Group expects to be entitled in exchange for providing the services.

The performance obligations, as well as the timing of their satisfaction, are identified, and determined, at the inception of the contract.

Fee income relating to deposit or loan accounts is either:

- Transaction based and therefore recognised when the performance obligation related to the transaction is fulfilled, or
- Related to performance obligations carried out over a period of time, therefore recognised on a systemic basis over the life of the agreement as the services are provided.

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

Commission income, which includes insurance and financial planning advice, is recognised when the performance obligation is satisfied, as detailed below:

- Insurance commission income is recognised when the insurance policy is issued. Insurance Commission income for renewals is recognised on receipt as there is insufficient detail readily available to estimate the most likely amount of income without a high probability of a significant reversal in a subsequent period. The receipt of renewal commission income is outside the control of the Group, and is a key judgement area; and
- For financial planning commission income, the upfront fee is recognised when the customer is referred to the financial planner. Any ongoing trail and productivity payments are recognised on receipt as there is insufficient detail readily available to estimate the most likely amount of income without a high probability of a significant reversal in a subsequent period. The receipt of ongoing commission income is outside the control of the Group, and is a key judgement area.

Rental income
Rental income is recognised in profit or loss on a straight line basis over the term of the lease.

(z) New standards applicable for the current year

The Group has adopted all of the new or amended Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period.

AASB 16 Leases

General impact of initial application
AASB 16 *Leases* replaced AASB 117 *Leases* from 1 July 2019.

AASB 16 introduces new or amended requirement with respect to lease accounting. It introduces significant changes to the lessee accounting by removing the distinction between operating and finance leases and requiring the recognition of a right-of-use account and a lease liability at the lease commencement for all leases, except for short-term leases and leases of low value assets.

In contrast to lessee accounting, the requirements for lessor accounting have remained largely unchanged.

Details of these new requirements are described in Note 1(s), including the recognition exemptions to lease accounting as a lessee for low-value assets and short-term leases.

The impact of the adoption of AASB 16 on the Group's financial statements is described below.

Financial impact on initial application
When adopting AASB 16, the Group has applied the modified retrospective (cumulative catch -up) method from 1 July 2019, and therefore the comparative information has not been restated and continues to be reported under AASB 117 *Leases* and related Interpretations.

The impact of adoption as at 1 July 2019 on assets and liabilities is detailed below:

	Note	Original 30 June 2019 balance (under AASB 117)	Change	New 1 July 2019 balance (under AASB 16)
Right-of-use assets	23	-	3,201	3,201
Lease liabilities	23	-	(3,201)	(3,201)
Net impact		**-**	**-**	**-**

As at 1 July 2019, the Group's right-of-use assets relate to leased properties used by the Group as member service centres, ATM site rentals and an equipment and service lease.

The Group has presented right-of-use assets and the lease liabilities on the face of the statement of financial position. The support the additional disclosure requirements introduced by AASB 16, the financial statements have a new dedicated leasing note (refer to Note 23).

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

The application of AASB 16 has also had an impact on the statement of cash flows, as detailed below:

- Short-term lease payments and payments for leases of low-value assets are including as part of operating activities, under payments to suppliers and employees;
- Cash paid for the interest portion of lease liability is included as part of operating activities; and
- Cash payments for the principal portion for lease liabilities is included as part of financing activities.

Under AASB 117, all lease payments on operating leases were presented as part of cash flows from operating activities.

The adoption of AASB 16 did not have an impact on net cash flows.

The following transition methods and practical expedients within AASB 16 were applied in adopting the standard:

- The Group measured the lease liability at the present value of remaining lease payments, discounted using the Group's incremental borrowing rate at the date of initial application (1 July 2019). The incremental borrowing applied at 1 July 2019 was 6.6%;
- The Group recognised the right-of-use asset at an amount equal to the lease liability;
- The Group applied a single discount rate to the portfolio of property leases, as they were assessed as having reasonably similar characteristics;
- The Group elected not to apply the requirements of AASB 16 to leases for which the assessed lease term is within 12 months of the date of initial application. These are accounted for the same way as short-term leases; and
- The Group used hindsight in determining the lease term, when the contracts contained extension options.

In selecting which practical expedients to apply, the Group has focused on reducing the complexity of implementation.

Reconciliation to previously reported operating lease commitments note

	$'000
Operating lease commitments note from 2019 financial statements (gross)	2,582
Less: discounting impact using 1 July 2019 incremental borrowing rate of 6.6%	(145)
Less: Short Term and Low Value Lease Commitments	(158)
Less: non-lease components included in note from 2019 financial statements	(65)
Operating lease commitments note from 2019 financial statements (discounted)	**2,214**
Add: impact from inclusion of extension options that the Group is 'reasonably certain' to exercise	987
Lease liabilities as at 1 July 2019 (under AASB 16)	**3,201**

Lease liabilities as at 1 July 2019 under AASB 16 is higher than the discounted lease commitments note under AASB 117, due to AASB 16 requiring the Group to include lease extension terms where the Group is 'reasonably certain' to exercise the option. The AASB 117 disclosure is only based on the non-cancellable period.

There are 'reasonably certain' extension options for all the property leases, which have extended the assessed lease terms significantly under AASB 16. The extended term means an increased lease liability. Details of the extension options are detailed at Note 23.

(aa) New accounting standards and interpretations not yet adopted

There are no new accounting standards or interpretations expected to have any significant impact on the Group's financial report that are issued and not yet applicable.

2. INTEREST REVENUE AND INTEREST EXPENSE

The following tables show the average balance for each of the major categories of interest-bearing assets and liabilities, the amount of interest revenue or expense and the average interest rate. Most averages are monthly averages. Daily or weekly averages are also used provided they are representative of the Group's operations during the period.

	Average balance $'000	Interest $'000	Average interest rate %
Interest revenue 2020			
Cash at authorised deposit-taking institutions	**48,246**	**237**	**0.49**
Receivables due from other financial institutions	**81,361**	**1,082**	**1.33**
Investment securities	**193,748**	**2,576**	**1.33**
Loans and advances	**931,608**	**35,981**	**3.86**
	1,254,963	**39,876**	**3.18**
Interest expense 2020			
Customers' deposits	**1,182,753**	**13,096**	**1.11**
Borrowings	**-**	**-**	**-**
Lease liabilities	**2,486**	**160**	**6.45**
	1,185,239	**13,256**	**1.12**
Interest revenue 2019			
Cash at authorised deposit-taking institutions	44,101	484	1.10
Receivables due from other financial institutions	59,411	1,463	2.46
Investment securities	175,691	4,325	2.46
Loans and advances	860,441	37,341	4.35
	1,139,644	43,613	3.84
Interest expense 2019			
Customers' deposits	1,070,393	16,914	1.58
Borrowings	-	-	-
	1,070,393	16,914	1.58

	2020	2019
	$'000	$'000

3. NON-INTEREST INCOME

Revenue under AASB 15 Revenue from contracts with customers		
Fees and commissions from customers		
- Loan and overdraft fees	**664**	650
- Transaction fees	**1,064**	996
- Credit card fees	**8**	6
- Other fees	**482**	541
	2,218	2,193
Fees and commissions from non-customers		
- Fees for service	**900**	889
- Commissions	**1,950**	2,026
	2,850	2,915
Total fees and commissions	**5,068**	5,108
Other sources of income:		
- Income from property	**41**	52
- Bad debts recovered	**33**	33
- Net gain from sale of property, plant and equipment	**11**	-
- Government grants	**55**	15
- Sundry income	**263**	432
	403	532
Total non-interest income	**5,471**	5,640

4. OTHER EXPENSES

	Note	2020 $'000	2019 $'000
Amortisation – leasehold improvements	15	**54**	81
Amortisation – intangible assets	16	**309**	414
Depreciation			
- Plant and equipment	15	**625**	687
- Buildings	15	**108**	108
Depreciation of right-of-use assets	23	**1,249**	-
Total depreciation		**1,982**	795
Fees and commissions		**69**	58
Personnel costs			
- Provision for long service leave		**26**	(1)
- Provision for annual leave		**(2)**	(13)
- Superannuation contributions		**1,054**	1,024
- Termination benefits		**-**	134
- Salaries and wages		**10,025**	9,687
- Payroll tax		**463**	583
- Other		**229**	793
Total personnel costs		**11,795**	12,207
Marketing expenses		**1,103**	900
Information technology expenses		**2,056**	1,955
Occupancy costs			
- Rental – operating leases		**221**	1,158
- Other occupancy costs		**883**	930
Total occupancy costs		**1,104**	2,088
ATM, Eftpos and electronic transaction processing costs		**3,058**	3,368
Other administration expenses		**2,850**	3,205
Loss on disposal of property, plant and equipment		**-**	28
Total other expenses		**24,380**	25,099

	Note	2020	2019
		$'000	$'000

5. FAIR VALUE ADJUSTMENTS

	Note	2020	2019
Net fair value adjustment of investment property	14	**(30)**	-
Net fair value adjustment of property, plant & equipment	15	**-**	-
		(30)	-

6. INCOME TAX EXPENSE

	Note	2020	2019
Income tax expense on profit		**1,804**	1,912
Under/(over) provision in prior years		**-**	(8)
		1,804	1,904

Recognised in statement of profit or loss and other comprehensive income

	Note	2020	2019
Income tax expense comprises amounts set aside as:			
Income tax payable – current year	20	**1,877**	2,033
Under/(over) provision in prior years		**-**	(8)
Income Tax on other comprehensive income		**(5)**	(27)
Increase/(decrease) in deferred tax liabilities		**-**	-
(Increase)/decrease in deferred tax assets		**(269)**	(94)
Adjustment to deferred tax assets resulting from a reduction in tax rate		**201**	-
		1,804	1,904

Reconciliation between tax expense and pre-tax profit

	Note	2020	2019
Profit before income tax		**5,700**	6,913
Prima facie income tax expense calculated at 27.50% (2019 27.5%)		**1,568**	1,901
Increase/(decrease) in income tax expense due to:			
Non-deductible expenses		**43**	52
Other deductible expenses		**193**	80
Income tax expense attributable to profit		**1,804**	2,033

Dividend franking account

	Note	2020	2019
Franking credits held at balance date		**36,930**	34,921

7. CASH AND CASH EQUIVALENTS

	Note	2020	2019
Cash on hand and at authorised deposit-taking institutions at call		**62,491**	51,865

	2020	2019
	$'000	$'000

8. RECEIVABLES DUE FROM OTHER FINANCIAL INSTITUTIONS

	2020	2019
Interest earning deposits	**90,694**	53,000
Credit rating of receivables due from other financial institutions		
Authorised Deposit-taking Institutions rated A and above	**-**	-
Authorised Deposit-taking Institutions rated below A	**54,524**	22,008
Unrated Authorised Deposit-taking Institutions	**36,170**	30,992
	90,694	53,000

9. INVESTMENT SECURITIES

	2020	2019
Negotiable certificates of deposit	**139,846**	131,405
Floating rate notes	**77,388**	50,267
Fixed rate notes	**5,258**	-
	222,492	181,672
Credit rating of investment securities		
Authorised Deposit-taking Institutions & Government Authorities rated A and above	**82,646**	50,267
Authorised Deposit-taking Institutions & Government Authorities rated below A	**139,846**	131,405
Unrated Authorised Deposit-taking Institutions & Government Authorities	**-**	-
	222,492	181,672

10. TRADE AND OTHER RECEIVABLES

	2020	2019
Interest receivable on investments	**300**	662
Sundry debtors, accrued income and prepayments	**1,381**	1,312
	1,681	1,974

	Note	2020	2019
		$'000	$'000
11. LOANS AND ADVANCES			
Overdrafts and Credit Cards		**8,668**	10,668
Term loans		**944,483**	897,899
Loans and advances before deferred fees and costs		**953,151**	908,567
Deferred loan transaction costs		**987**	958
Deferred loan origination fees		**(423)**	(488)
Deferred fixed rate loan renegotiation fees		**(20)**	(5)
Deferred upfront broker commission		**200**	178
Total loans and advances		**953,895**	909,210
Provision for impairment	12	**(2,200)**	(406)
Net loans and advances		**951,695**	908,804

Maturity analysis

Not later than 1 month	**15,184**	17,246
Later than 1 and not later than 3 months	**12,827**	12,984
Later than 3 and not later than 12 months	**56,784**	57,601
Later than 1 and not later than 5 years	**272,002**	276,563
Later than 5 years	**597,098**	544,816
	953,895	909,210

Concentration of risk

The loan portfolio of the Group does not include any loan which represents 10% or more of capital.

The Group has an exposure to groupings of individual loans which concentrate risk and create exposure to particular segments as follows:

- Southern NSW	**520,465**	524,071
- North East Victoria	**311,765**	300,042
- Other – non-concentrated	**120,921**	84,454
	953,151	908,567

Security held against loans and advances

Secured by mortgage over residential property	**890,801**	840,886
Secured by mortgage over commercial property	**37,631**	40,007
Total loans and advances secured by real estate	**928,432**	880,893
Secured by funds	**232**	444
Partly secured by goods mortgage	**10,920**	11,505
Wholly unsecured	**13,567**	15,725
	953,151	908,567

Credit quality - loan to value ratio on loans and advances secured by real estate

It is not practical to revalue all collateral as at the balance date due to the variety of assets and their nature and condition. A breakdown of the quality of the mortgage security on a portfolio basis is as follows:

Loan to value ratio of 80% or less	**759,047**	730,030
Loan to value ratio of more than 80% but mortgage insured	**159,686**	146,782
Loan to value ratio of more than 80% not mortgage insured	**9,699**	4,081
	928,432	880,893

	2020	2019
	$'000	$'000

11. LOANS AND ADVANCES (continued)

Securitised loans

	2020	2019
Securitised loans that do not qualify for derecognition	**211,200**	146,485

The Group established the Murray Trust Repo Series No.1 in 2014, an internal securitisation entity for the purpose of emergency liquidity support in the event of a systemic liquidity crisis. The Class A notes are currently eligible for repurchase by the Reserve Bank of Australia should the need arise. From time to time, the Bank will top up the Murray Trust Repo Series No. 1 notes by securitising additional residential mortgages as existing loans pay down.

As there has been no transfer of the risks or rewards of ownership of the securitised loans and other relevant assets or liabilities, the Murray Trust Repo Series No.1 is consolidated within the Bank, forming the Group.

12. IMPAIRMENT OF LOANS AND ADVANCES

Provision for impairment

	2020	2019
Expected credit loss (ECL) allowance	**453**	406
COVID-19 ECL overlay allowance	**1,747**	-
Closing balance	**2,200**	406

The provision for impairment for 2020 is calculated under the expected credit loss regime as applicable after 1 July 2018 (refer below). A COVID-19 ECL overlay allowance has been provisioned for loans that have sought relief for deferred repayments, interest only modifications, exposures to high risk industries and forward looking economic indicators.

The reconciliation from the opening to the closing balance of the allowance for impairment by class of financial instrument is shown in the table below.

2020 **Loans and advances**	**Stage 1** **12 month ECL** **2020** **$'000**	**Stage 2** **Lifetime ECL** **2020** **$'000**	**Stage 3** **Lifetime ECL** **2020** **$'000**	**Total** **2020** **$'000**
Balance at 1 July	**-**	**106**	**300**	**406**
Changes in ECL Allowance	**-**	**-**	**-**	**-**
Transfers between stages	**-**	**-**	**-**	**-**
Net movement due to change in credit risk (P&L)	**898**	**648**	**201**	**1,747****
Write offs through provision	**-**	**-**	**(186)**	**(186)**
Movement due to increase in loans and advances (P&L)	**8**	**(35)**	**259**	**233****
Balance at 30 June 2020	**906**	**719**	**574**	**2,200**

** Total impairment of loans and advances expense of $1,981K per Consolidated Statement of Profit or Loss and Other Comprehensive Income

12. IMPAIRMENT OF LOANS AND ADVANCES (continued)

2019 Loans and advances	Stage 1 12 month ECL 2019 $'000	Stage 2 Lifetime ECL 2019 $'000	Stage 3 Lifetime ECL 2019 $'000	Total 2019 $'000
Balance at 1 July per AASB 139	-	-	-	282
Adjustment on initial application of AASB 9	-	-	-	-
Balance at 1 July per AASB 9	-	97	185	282
Changes in ECL Allowance	-	-	-	-
Transfers between stages	-	-	-	-
Net movement due to change in credit risk	-	-	-	-
Write offs	-	-	(202)	(202)
Movement due to increase in loans and advances	-	9	317	326
Balance at 30 June 2019	-	106	300	406

30 June 2020

Amounts arising from ECL

The loss allowance as at 30 June 2020 by class of exposure/asset is summarised in the table below.

Loans and advances	**Gross carrying value 2020 $'000**	**ECL allowance 2020 $'000**	**COVID-19 ECL overlay allowance 2020 $'000**	**Carrying value 2020 $'000**	Gross carrying value 2019 $'000	ECL allowance 2019 $'000	Carrying value 2019 $'000
Mortgages	**927,654**	**24**	**715**	**926,915**	879,457	21	879,436
Personal	**17,573**	**340**	**716**	**16,517**	18,983	298	18,685
Overdraft/Overdrawn/Credit Cards	**8,668**	**89**	**316**	**8,263**	10,770	87	10,683
Total	**953,895**	**453**	**1,747**	**951,695**	909,210	406	908,804

12. IMPAIRMENT OF LOANS AND ADVANCES (continued)

An analysis of the Group credit risk exposure per class of financial assets and 'stage' without reflecting the effects of any collateral or other credit enhancements is demonstrated in the following tables. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts.

30 June 2020	**Stage 1**	**Stage 2**	**Stage 3**	
	12 month ECL	**Lifetime ECL**	**Lifetime ECL**	**Total**
Loans and advances	**2020**	**2020**	**2020**	**2020**
	$'000	**$'000**	**$'000**	**$'000**
Residential owner occupier loans	**599,841**	**43,657**	**2,269**	**645,767**
Residential investment loans	**191,544**	**18,519**	**263**	**210,326**
Commercial loans	**60,647**	**9,783**	**1,131**	**71,561**
Personal loans	**16,084**	**1,083**	**406**	**17,573**
Overdrafts/Overdrawn/Credit Cards	**8,533**	**52**	**83**	**8,668**
Total	**876,649**	**73,094**	**4,152**	**953,895**

30 June 2019	Stage 1	Stage 2	Stage 3	
	12 month ECL	Lifetime ECL	Lifetime ECL	Total
Loans and advances	2019	2019	2019	2019
	$'000	$'000	$'000	$'000
Residential owner occupier loans	574,280	26,049	1,192	601,521
Residential investment loans	192,375	14,897	-	207,272
Commercial loans	66,727	3,922	15	70,664
Personal loans	17,637	955	391	18,983
Overdrafts/Overdrawn/Credit Cards	10,539	70	161	10,770
Total	861,558	45,893	1,759	909,210

Key assumptions in determining the ECL

Measurement of ECL

The key inputs into the measurement of ECL include the following variables:

- probability of default (PD);
- loss given default (LGD);
- exposure at default (EAD); and
- discounting.

These parameters are generally derived from internal analysis, management judgements and other historical data. They are adjusted to reflect forward-looking information as described below.

- PD estimates are calculated based on arrears over 90 days and other loans and facilities where the likelihood of future payments is low. The definition of default is consistent with the definition of default used for internal credit risk management and regulatory reporting purposes. Instruments which are 90 days past due are generally considered to be in default.

- LGD is the magnitude of the likely loss if there is a default. The Group estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD percentage applied considers the structure of the loan, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset. For loans secured by retail property, Loan to Value Ratios (LVR) are a key parameter in determining LGD. LGD estimates are recalibrated for different economic scenarios and, for real estate lending, to reflect possible changes in property prices. They are calculated on a discounted cash flow basis using the effective interest rate as the discounting factor.

12. IMPAIRMENT OF LOANS AND ADVANCES (continued)

- EAD represents the expected exposure in the event of a default. The Group derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract including amortisation. The EAD of a financial asset is its gross carrying amount. For lending commitments and financial guarantees, the EAD includes the amount drawn, as well as potential future amounts that may be drawn under the contract, which are estimated based on historical observations and future expectations.

- Where appropriate, in calculating the ECL, future cash flows are discounted at the original effective interest rate of the exposure.

Grouping of similar assets

Since the loans are homogenous in terms of borrower type and contractual repayment terms, the portfolio is currently managed through the dissection of the portfolio arrears reports. The Group has grouped exposures by type on the basis of shared risk characteristics that include:

- instrument type;
- collateral type;
- LVR ratio for retail mortgages;

The Group has elected to use the following segments when assessing credit risk for Stages 1 and 2 of the impairment model:

- Residential owner occupied mortgages
- Residential investment mortgages
- Commercial loans
- Personal loans
- Other – representing credit cards, overdrafts.

Stage 3 of the impairment model is assessed on an individual basis.

The groupings are subject to regular review to ensure that exposures within a particular group remain appropriately homogeneous.

Significant increase in credit risk

In assessing significant increases in credit risk where a loan or group of loans must move to Stage 2 the following factors have been considered in the Group's current model.

- Loans more than 30 days past due (excluding credit cards and overdrafts)
- Loans with more than 2 instances of arrears experience in the previous 12 months
- Loans with approved hardship or modified terms

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group historical experience and expert judgement, relevant external factors and including forward-looking information.

The Group presumes that the credit risk on a financial asset has increased significantly since initial recognition when the exposure is more than 30 days past due unless the Group has reasonable and supportable information that demonstrates otherwise.

12. IMPAIRMENT OF LOANS AND ADVANCES (continued)

In determining whether the risk of default has increased significantly since recognition, the Group considers both quantitative and qualitative factors. These include when a loan has been past due more than 2 times within the last 12 months, when there has been a declaration of hardship and/or or the loan has been restructured, and when a loan is more than 30 days past due. Any declaration of hardship or restructure due to the COVID-19 pandemic has also been considered for any significant increase in credit risk.

Incorporation of forward-looking information and sensitivity analysis
The uncertainty in the current environment due to the COVID-19 pandemic introduced significant estimation uncertainty in relation to the measurement of the Group's allowance for expected credit losses which could result in an understatement or overstatement due to the following factors:

- The extent and duration of measures to stop or reduce the speed and spread of the COVID-19 virus;
- The extent and duration of the economic downturn, along with the time required for economic activity to recover; and
- The effectiveness and extent of continued government stimulus measures, in particular their impact on the magnitude of economic downturn and the extent and duration of the recovery.

The Group has prepared a sensitivity analysis over the allowance for expected credit losses taking into consideration the following scenarios across the Group's loan portfolio. The scenarios, including its underlying indicators, have been developed using a combination of publicly available data, internal forecasts and third-party information to form the base case scenario. These comprise:

- Base Case — this scenario was prepared using reasonable and supportable information that is relevant and available without undue cost or effort at balance date. The Group took into consideration COVID-19 hardship loans and high risk industry exposures and segmented these in the COVID-19 ECL overlay. Exposures took into consideration discounted security values, the borrower's reliance on relief (i.e. JobKeeper, JobSeeker and Superannuation early access), the borrower's account conduct (i.e. advance position and continuing to make repayments), and the outlook of the borrower's capacity to repay or return to principal and interest repayments upon expiry of relief. PD & LGD default rates for these segments in the overlay took into consideration forecast unemployment rates and property price declines.

- Worse than Base Case — this scenario considered increased unemployment rates and further deterioration in property prices from the base case resulting in increased PD & LGD rates.

- Severe Case –this scenario considered further increased unemployment rates and deterioration in property prices resulting in increased PD & LGD rates.

The results of the sensitivity analysis performed, taking into consideration a probability weighted average of each different scenario eventuating, showed that the effect was material compared to the Group's base case allowance for expected credit losses. The Group has elected to use the base case to measure its expected credit loss allowance at 30 June 2020.

Given the economic uncertainties and the judgement applied to factors used in determining the expected default of borrowers in future period, expected credit losses reported by the Group should be considered as a best estimate within a range of possibilities. The rapidly evolving consequences of COVID-19 and government, business and consumer responses could result in adjustments to the allowance within the next financial year.

The Group also holds a general reserve for credit losses as an additional allowance for bad debts to comply with prudential requirements. Refer to Note 24 for details on this reserve.

12. IMPAIRMENT OF LOANS AND ADVANCES (continued)

	2020	2019
	$'000	$'000
Ageing analysis of loans and advances past due		
Loans and advances past due and not impaired		
Up to and including 30 days	**6,406**	15,105
More than 30 days but less than 90 days	**1,613**	4,438
More than 90 days but less than 180 days	**693**	1,405
More than 180 days but less than 270 days	**281**	354
More than 270 days but less than 365 days	**3**	85
More than 365 days	**53**	161
Accounts overdrawn and overdrafts over limit less than 14 days	**185**	45
	9,234	21,593
Loans and advances past due and impaired		
Up to and including 30 days	**2**	12
More than 30 days but less than 90 days	**21**	3
More than 90 days but less than 180 days	**69**	147
More than 180 days but less than 270 days	**81**	74
More than 270 days but less than 365 days	**100**	118
More than 365 days	**140**	95
Accounts overdrawn and overdrafts over limit less than 14 days	**7**	18
	420	467
Total past due loans and advances	**9,654**	22,060

	2020	2019
Security analysis of loans and advances past due		
Loans and advances past due and not impaired		
Secured by mortgage over real estate	**8,612**	20,272
Secured by funds	**-**	-
Partly secured by goods mortgage	**173**	534
Wholly unsecured	**449**	787
	9,234	21,593
Loans and advances past due and impaired		
Secured by mortgage over real estate	**-**	-
Secured by funds	**-**	-
Partly secured by goods mortgage	**163**	161
Wholly unsecured	**257**	306
	420	467
Total past due loans and advances	**9,654**	22,060

12. IMPAIRMENT OF LOANS AND ADVANCES (continued)

	2020 $'000	2019 $'000
Assets acquired through enforcement of security		
Real estate acquired through enforcement of security held at the end of the financial year	-	-
Specific provision for impairment	-	-
Balance at the end of the financial year	-	-
Net fair value of real estate assets acquired through the enforcement of security during the financial year	-	-
Net fair value of other assets acquired through the enforcement of security during the financial year	-	-

13. OTHER INVESTMENTS

	2020 $'000	2019 $'000
Unlisted shares – Australian Settlements Limited (ASL)	**325**	295

The shares are in a company that supplies services to Authorised Deposit-taking Institutions and is regulated by APRA. The shares are not tradeable and are not redeemable.

Management have used unobservable inputs to assess the fair value of the shares. The financial reports of ASL record net tangible asset backing of these shares exceeding their cost value. Based on the net assets of ASL, any fair value determination on these share is likely to be greater than their cost value. Management has determined that the net tangible asset value of $2.17 per share is a reasonable approximation of fair value based on the likely value available on a sale.

The Group does not intend to dispose of these shares.

14. INVESTMENT PROPERTY

	2020 $'000	2019 $'000
Balance at the beginning of the year	**1,770**	1,770
Additions	**-**	-
Transfer from property, plant and equipment	**-**	-
Fair value adjustments through other comprehensive income	**-**	-
Fair value adjustments through profit and loss	**(30)**	-
Disposals	**-**	-
Balance at the end of the year	**1,740**	1,770

Valuations

The valuation basis of investment properties is fair value being the amounts for which the properties could be exchanged between willing parties in an arm's length transaction, based on current market prices in an active market for similar properties in the same location and condition, subject to similar leases and takes into consideration occupancy rates and returns on investments.

The investment properties were subject to a full independent valuation in May 2020 and desktop valuations were also completed for all properties for the year ended 30 June 2020, by Herron Todd White Pty Ltd, accredited independent valuers. The directors do not believe there has been a material movement in fair value since the 30 June 2020 valuation date.

14. INVESTMENT PROPERTY (continued)

The valuation was performed during the COVID-19 pandemic, with limited market activity and low sales volumes. While the valuer's independent valuation report did not indicate impairment of land and buildings, it does present estimation uncertainty regarding the valuation of land and buildings by acknowledging that past cycles indicate a lag for property markets to react to economic events, and that the extent of any decline in value is presently uncertain, and may depend on the length of the COVID-19 pandemic.

The fair value assessed may change significantly and unexpectedly over a relatively short period of time (including as a result of factors that could not reasonably have been aware of as at the date of valuation). Refer to Note 1 (p), Note 1 (w) and Note 36 for further information on fair value measurement.

15. PROPERTY, PLANT AND EQUIPMENT

	2020	2019
	$'000	$'000
Land and buildings		
At fair value	**5,740**	5,693
Provision for depreciation	**-**	(216)
Total freehold land and buildings	**5,740**	5,477
Leasehold improvements		
At cost	**1,350**	1,216
Provision for amortisation	**(1,132)**	(1,078)
Total leasehold improvements	**218**	138
Plant and equipment		
At cost	**7,293**	7,181
Provision for depreciation	**(5,997)**	(5,527)
Total plant and equipment	**1,296**	1,654
Total property, plant and equipment at net book value	**7,254**	7,269

Reconciliations

Reconciliations of the carrying amounts for each class of property, plant and equipment are set out below:

	2020	2019
Land and buildings		
Carrying amount at the beginning of the year	**5,477**	5,585
Additions	**-**	-
Transfer to investment property	**-**	-
Fair value adjustments through other comprehensive income	**371**	-
Fair value adjustments through profit and loss	**-**	-
Depreciation	**(108)**	(108)
Carrying amount at the end of the year	**5,740**	5,477
Leasehold improvements		
Carrying amount at the beginning of the year	**138**	191
Additions	**134**	28
Disposals	**-**	-
Amortisation	**(54)**	(81)
Carrying amount at the end of the year	**218**	138

15. PROPERTY, PLANT AND EQUIPMENT (continued)

	2020 $'000	2019 $'000
Plant and equipment		
Carrying amount at the beginning of the year	**1,654**	2,133
Additions	**273**	237
Disposals	**(6)**	(29)
Depreciation	**(625)**	(687)
Carrying amount at the end of the year	**1,296**	1,654

Valuations

The valuation basis of land and buildings is fair value being the amounts for which the assets could be exchanged between willing parties in an arm's length transaction, based on current prices in an active market for similar properties in the same location and condition.

The freehold land and buildings were subject to a full independent valuation in May 2020 and desktop valuations were also completed for all properties for the year ended 30 June 2020, by Herron Todd White Pty Ltd, accredited independent valuers. The directors do not believe there has been a material movement in fair value since the 30 June 2020 valuation date.

The valuation was performed during the COVID-19 pandemic, with limited market activity and low sales volumes. While the valuer's independent valuation report did not indicate impairment of land and buildings, it does present estimation uncertainty regarding the valuation of land and buildings by acknowledging that past cycles indicate a lag for property markets to react to economic events, and that the extent of any decline in value is presently uncertain, and may depend on the length of the COVID-19 pandemic.

The fair value assessed may change significantly and unexpectedly over a relatively short period of time (including as a result of factors that could not reasonably have been aware of as at the date of valuation). Refer to Note 1 (n), Note 1 (w) and Note 36 for further information on fair value measurement.

16. INTANGIBLE ASSETS

	2020 $'000	2019 $'000
Computer software and licences		
At cost	**3,956**	3,748
Provision for amortisation	**(3,673)**	(3,363)
	283	385

Reconciliations

Reconciliations of the carrying amounts for each class of intangible assets are set out below:

	2020 $'000	2019 $'000
Computer software and licences		
Carrying amount at the beginning of the year	**385**	748
Additions	**207**	116
Disposals	**-**	(65)
Amortisation	**(309)**	(414)
Carrying amount at the end of the year	**283**	385

17. DEFERRED TAX ASSETS

	2020 $'000	2019 $'000
Deferred tax assets	**1,309**	1,241
Deferred tax assets are attributable to the following:		
Property, plant and equipment and intangible assets	**91**	296
Investment property	**63**	64
Provisions for employee benefits	**512**	740
Provision for impairment on loans	**572**	122
Lease assets	**15**	-
Expenses not currently deductible	**56**	19
	1,309	1,241

18. DEPOSITS

	2020 $'000	2019 $'000
Call deposits	**705,326**	578,150
Term deposits	**535,218**	534,371
	1,240,544	1,112,521
Concentration of deposits		
Southern NSW	**783,008**	700,069
North East Victoria	**371,504**	333,798
Other – non-concentrated	**86,032**	78,654
	1,240,544	1,112,521

The Group's deposit portfolio does not include any deposit which represents 5% or more of total liabilities.

19. TRADE AND OTHER PAYABLES

	2020 $'000	2019 $'000
Accrued interest payable	**2,088**	3,520
Creditors and other liabilities	**9,866**	8,579
	11,954	12,099

20. INCOME TAX PAYABLE

	2020 $'000	2019 $'000
Income tax payable	**229**	361
Movement during the year was as follows:		
Balance at the beginning of the year	**361**	391
Current year's income tax expense on profit before tax	**1,877**	2,033
Income tax paid – Current year	**(1,649)**	(1,672)
Income tax paid – Prior year	**(360)**	(383)
Under/(over) provision in prior period	**-**	(8)
Balance at the end of the year	**229**	361

21. PROVISION FOR EMPLOYEE BENEFITS

	2020 $'000	2019 $'000
Salaries, wages and other benefits accrued	**84**	514
Provision for annual leave	**766**	768
Provision for long service leave	**1,189**	1,164
	2,039	2,446

Included in employee benefits is a non-current amount of $445,053 (2019 - $469,649) relating to long service leave.

	2020	2019
	$'000	$'000
22. BORROWINGS		
Subordinated debt	**-**	-
Movement during the year was as follows:		
Balance at the beginning of the year	**-**	-
Increase due to debt issued	**-**	-
(Decrease) due to debt redeemed	**-**	-
Balance at the end of the year	**-**	-

The Group entered into an agreement to issue subordinated debt in November 2012. The debt instrument was redeemed at its first call notice date on 9th November 2017 after seeking approval by APRA. The Group does not hold borrowings as at 30 June 2020.

23. LEASES

The Group has applied AASB 16 *Leases* using the modified retrospective (cumulative catch -up) method from 1 July 2019, and therefore the comparative information has not been restated and continues to be reported under AASB 117 *Leases* and related Interpretations.

(a) Group as a lessee

Nature of the leasing activities
The Group leases properties used as customer service branches and ATM site rentals. These branches and ATM's are located in:

- New South Wales – 9 branches, 13 ATMs
- Victoria – 4 branches, 8 ATMs

Terms and conditions of leases
There are 7 leases on a month by month basis, while the other 28 leases have initial terms of between 1 and 6 years. Some of the leases include extension options – as detailed in a below section.

The leases contain an annual pricing mechanism based on CPI movements at each anniversary of the lease inception, or a fixed rate designed to estimate a CPI movement. There are no non-index (i.e. CPI) related variable lease payments associated with these property leases.

There are no leases not yet commenced to which the Group is committed.

Right-of-use assets

	2020	2019
	$'000	$'000
At cost	**3,219**	-
Accumulated depreciation	**(1,249)**	-
Balance at end of the year	**1,970**	-

Reconciliation of the carrying amount of each class of right-of-use assets is set out below:

	Plant and Equipment $'000	Land and buildings $'000	Total $'000
Balance at 1 July 2019	**-**	**-**	**-**
Depreciation charge	**(355)**	**(894)**	**(1,249)**
Additions to right- of-use assets	**826**	**2,276**	**3,102**
Reductions in right-of-use assets due to changes in lease liability	**79**	**38**	**117**
Impairment of right-of-use assets	**-**	**-**	**-**
Balance at 30 June 2020	**550**	**1,420**	**1,970**

23. LEASES (continued)

Lease liabilities

	2020
	$'000
Current	
Not later than 1 year	**918**
Non-current	
Later than 1 year	**1,108**
Total	**2,026**

The maturity analysis of lease liabilities based on contractual undiscounted cash flows is shown in the table below:

	2020
	$'000
Not later than 1 year	**913**
Later than 1 year and not later than 5 years	**1,119**
Later than 5 years	**252**
Total	**2,284**

The Group does not face a significant liquidity risk with regards to its lease liabilities. Lease liabilities are monitored within the Group's finance function.

Extension options
A number of the building leases contain extension options which allow the Group to extend the lease term by beyond the non-cancellable period. These option periods range from 2 years to 6 years across these leases.

The Group includes options in the leases to provide flexibility and certainty to the Group operations and reduce costs of moving premises, and the extension options are at the Group's discretion.

At commencement date and each subsequent reporting date, the Group assesses where it is reasonably certain that the extension options will be exercised.

There is no potential future lease payments not included in the lease liabilities, as the Group has assessed that the exercise of each option is reasonably certain as a balance date.

Income statement
The amounts recognised in the Statement of Profit or Loss and Other Comprehensive Income relating to leases where the Group is a lessee are shown below:

	2020
	$'000
Interest expense on lease liabilities	**160**
Depreciation expense on right-of-use assets	**1,249**
Rental expense relating to variable lease payments not included in the measurement of lease liabilities	**-**
Rental expense relating to short-term leases	**111**
Rental expense relating to low-value assets	**16**
Income from sub-leasing right-of-use assets	**-**
Total expenses recognised for leases	**1,536**

Exemptions applied
The Group has applied the exemptions relating to short-term leases and leases of low-value assets, as described at Note 1(s).

As at 30 June 2020, the Group is not committed to any short-term leases and $30,089 to low-value assets.

23. LEASES (continued)

Key assumptions used in calculations

The calculation of the right-of-use assets and lease liabilities are dependent on the following critical accounting judgements:

- **Assessment of lease term** – as discussed above, this considers consideration of extension options on a lease by lease basis.
- **Determination of the appropriate rate to discount the lease payments** – The Group has used its incremental borrowing rate, as the rate implicit in the leases is not known. The Group's assessed incremental borrowing rate as at 1 July 2019 on adoption was 6.6%. This was determined based on consideration of reference rates for commercial lending, lease term and a lease specific adjustment considering the 'secured borrowing' element of the leases.

(b) Group as a lessor

OPERATING LEASES

Nature of the leasing activities

The Group receives rental income from various tenants who lease a portion of the land and buildings owned by the Group. These leases have been classified as operating leases for financial reporting purposes and the assets are included as investment properties in the Statement of Financial Position (refer Note 14).

Terms and conditions of leases

These operating lease contracts contain extension options at the right of the lessee. All contracts contain market review clauses in the event that the lessee exercises its options to renew. The lessee does not have an option to purchase the property at the expiry of the lease period.

The Group manages the risk associated with the underlying investment property via appropriate insurance coverage and use of real estate agents where appropriate.

Income statement

The amounts recognised in the Statement of Profit or Loss and Other Comprehensive Income relating to operating leases where the Group is a lessor (i.e. investment properties) are shown below:

	2020	2019
	$'000	$'000
Lease/rental income (excluding variable lease payments not dependent on an index or rate)	**39**	51
Total lease/rental income relating to investment properties	**39**	51
Direct operating expenses (including repairs & maintenance) arising from investment property that generated rental income during the period	**7**	12
Total direct operating expenses relating to investment properties	**7**	12

Maturity analysis of lease payments receivable showing the undiscounted lease payments to be received after reporting date for operating leases:

	2020	2019
	$'000	$'000
< 1 year	**-**	19
1 - 2 years	**-**	-
2 - 3 years	**-**	-
3 - 4 years	**-**	-
4 - 5 years	**-**	-
> 5 years	**-**	-
Total undiscounted lease payments receivable	**-**	19

FINANCE LEASES

Nature of the leasing activities

The Group is not the lessor in any arrangements assessed as a finance lease.

24. RESERVES

	2020	2019
	$'000	$'000
General reserve for credit losses	**1,755**	1,633
Asset revaluation reserve	**1,754**	1,383
Financial assets reserve	**90**	63
Capital profits reserve	**593**	593
Cash flow hedge reserve	**-**	-
	4,192	3,672

Movements in reserves

General reserve for credit losses

Balance at the beginning of the year	**1,633**	1,518
Transfer from retained earnings	**122**	115
Balance at the end of the year	**1,755**	1,633

This reserve is required to be maintained to comply with Group policy.

Asset revaluation reserve

Balance at the beginning of the year	**1,383**	1,383
Total other comprehensive income	**371**	-
Balance at the end of the year	**1,754**	1,383

This reserve includes gains made on property when a revaluation is carried out in line with Group policy.

Financial assets reserve

Balance at the beginning of the year	**63**	-
Total other comprehensive income	**27**	63
Balance at the end of the year	**90**	63

This reserve includes gains made on financial assets when a revaluation is carried out in line with Group policy.

Capital profits reserve	**593**	593
Balance at the beginning of the year	**-**	-
Transfer from retained earnings	**-**	-
Transfer from fair value reserve	**-**	-
Balance at the end of the year	**593**	593

This reserve includes the cumulative capital profits made on the disposal of assets.

Cash flow hedge reserve

Balance at the beginning of the year	**-**	-
Total other comprehensive income	**-**	-
Balance at the end of the year	**-**	-

This reserve represents hedging gains and losses recognised on the effective portion of cash flow hedges.

25. RETAINED EARNINGS

Retained earnings at the beginning of the year	**77,176**	72,282
Net profit attributable to members	**3,896**	5,009
Transfers from/(to) reserves	**(122)**	(115)
Retained earnings at the end of the year	**80,950**	77,176

		2020	2019
26.	**STATEMENT OF CASH FLOWS**	**$'000**	$'000
(a)	**Reconciliation of cash**		
	Cash as at the end of the financial year as shown in the statement of cash flows is reconciled to the related items in the financial statements as follows:		
	Cash on hand and at authorised deposit-taking institutions	**62,491**	51,865
	Receivables due from other financial institutions less than 3 months	**90,694**	53,000
	Investment securities less than 3 months	**139,845**	131,404
		293,030	236,269
(b)	**Reconciliation of cash flows from operating activities**		
	Profit for the year	**3,896**	5,009
	Non-cash items		
	Charge for bad and doubtful debts	**1,981**	327
	Depreciation	**1,982**	795
	Amortisation of leasehold improvements	**54**	81
	Amortisation of intangible assets	**309**	414
	Provision for employee entitlements	**24**	(14)
	(Profit) on disposal of plant and equipment	**(11)**	-
	Loss on disposal of plant and equipment	**-**	28
	Fair value adjustments	**30**	-
	Changes in assets and liabilities		
	Interest receivable	**362**	16
	Other receivables	**(68)**	(733)
	Interest payable	**(1,432)**	206
	Income tax payable	**(132)**	(57)
	Trade and other payables	**1,286**	2,583
	Provision for employee benefits	**(430)**	178
	Deferred tax assets	**(72)**	(94)
	Deferred tax liabilities	**-**	-
		7,779	8,739
	Net (increase)/decrease in loans and advances	**(44,872)**	(77,339)
	Net increase/(decrease) in deposits	**128,022**	96,170
	Net cash flow from operating activities	**90,929**	27,570

27. AUDITOR'S REMUNERATION

	2020	2019
Amounts received or due and receivable by the External Auditor of the Group for:	**$**	$
– audit of the financial statements of the Group	**85,597**	83,290
– other services in relation to the Group	**45,498**	37,441
	131,095	120,731

28. CONTINGENT LIABILITIES AND CREDIT COMMITMENTS

In the normal course of business the Group enters into various types of contracts that give rise to contingent or future obligations. These contracts generally relate to the financing needs of customers. The Group uses the same credit policies and assessment criteria in making commitments and conditional obligations for off-balance sheet risks as it does for on-balance sheet loan assets. The Group holds collateral supporting these commitments where it is deemed necessary.

	2020	2019
Credit-related commitments	**$'000**	$'000
Binding commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. They include undrawn balances of overdrafts and credit cards:		
Approved but undrawn loans and credit limits	**86,857**	77,145
Security analysis of credit-related commitments		
Secured by mortgage over real estate	**63,837**	56,448
Secured by funds	**1,051**	864
Partly secured by goods mortgage	**282**	67
Wholly unsecured	**21,687**	19,766
	86,857	77,145
Financial guarantees		
Financial guarantees written are conditional commitments issued by the Group to guarantee the performance of a customer to a third party. Security is generally held for these guarantees.	**1,891**	1,766
Security analysis of financial guarantees		
Secured by mortgage over real estate	**826**	786
Secured by funds	**1,057**	972
Wholly unsecured	**8**	8
	1,891	1,766

Other commitments

The Group signed a commitment deed with SocietyOne, dated 25 January 2017. As at 30 June 2020 the funded amount included in loans and advances (Note 11) was $614,461 (2019 - $1,285,009) and there is no remaining undrawn commitment to SocietyOne as at 30 June 2020.

29. COMMITMENTS

Capital expenditure commitments

	2020	2019
Estimated capital expenditure contracted for at balance date but not provided for:		
– payable within one year	**833**	175

30. KEY MANAGEMENT PERSONNEL DISCLOSURE

Key management personnel compensation

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly and has been taken to comprise the Directors and the member/s of the Executive Management team who are responsible for the day to day financial and operational management of the Group.

The aggregate compensation of key management personnel during the year comprising amounts paid, payable or provided for was as follows:

	2020	2019
	$	$
Short-term employee benefits		
- Directors	**481,939**	488,951
- Other key management personnel	**1,723,559**	1,901,731
Post-employment benefits – superannuation contributions		
- Directors	**45,392**	46,456
- Other key management personnel	**115,046**	146,992
Other long-term benefits – net increase/(decrease) in long service leave provision		
- Directors	**-**	-
- Other key management personnel	**(7,773)**	(109,080)
Termination benefits		
- Directors	**-**	-
- Other key management personnel	**-**	124,759
	2,358,163	2,599,809

Short term employee benefits include (where applicable) wages, salaries, paid annual and sick leave, bonuses and the value of fringe benefits received but excludes out of pocket expense reimbursements. Post-employment benefits – superannuation contributions include salary sacrificed superannuation amounts.

The members of the Group at the previous Annual General Meeting approved the remuneration of Directors for the period.

Loans to key management personnel and other related parties

Loan transactions with key management personnel and related parties are as follows:

	2020		2019	
	$		$	
	Mortgage Secured Loans	**Revolving Credit (unsecured)**	Mortgage Secured Loans	Revolving Credit (unsecured)
Loans to Directors				
Funds available to be drawn	**513,501**	**9,016**	411,314	8,957
Balance at reporting date	**1,393,517**	**984**	1,553,039	1,043
Loans advanced (including redraws)	**84,255**	**1,204**	255,512	18,273
Loan repayments	**314,600**	**1,275**	299,972	16,890
Interest and other revenue earned	**70,822**	**12**	71,823	10

30. KEY MANAGEMENT PERSONNEL DISCLOSURE (continued)

	2020 **$** **Mortgage Secured Loans**	**Revolving Credit (unsecured)**	2019 $ Mortgage Secured Loans	Revolving Credit (unsecured)
Loans to Director related parties				
Funds available to be drawn	**-**	**4,047**	-	3,669
Balance at reporting date	**-**	**953**	-	1,331
Loans advanced (including redraws)	**-**	**7,819**	-	21,009
Loan repayments	**-**	**8,209**	-	24,492
Interest and other revenue earned	**-**	**12**	-	35
Loans to other key management personnel				
Funds available to be drawn	**84,536**	**879**	25,294	759
Balance at reporting date	**2,318,515**	**5,121**	1,890,100	5,241
Loans advanced (including redraws)	**900,546**	**51,542**	695,967	65,008
Loan repayments	**277,829**	**51,675**	214,111	65,306
Interest and other revenue earned	**68,116**	**13**	70,952	25
Loans to other key management personnel related parties				
Funds available to be drawn	**67,371**	**-**	70,516	-
Balance at reporting date	**158,803**	**-**	163,556	-
Loans advanced (including redraws)	**19,050**	**-**	29,582	-
Loan repayments	**29,800**	**-**	85,482	-
Interest and other revenue earned	**5,997**	**-**	6,602	-

The Group's policy for lending to key management personnel is that all loans are approved on the same terms and conditions which apply to customers for each class of loan.

There are no loans to either Directors or other key management personnel that are impaired in relation to the loan balances or interest.

There are no benefits or concessional terms and conditions applicable to the close family members or other related parties of key management personnel.

There are no loans to close family relatives or other related parties of key management personnel which are impaired in relation to the loan balances or interest.

30. KEY MANAGEMENT PERSONNEL DISCLOSURE (continued)

Deposits from key management personnel and other related parties

Details of deposits from key management personnel and related parties are as follows:

	2020	2019
	$	$
Deposits outstanding at balance date:		
- Directors	**406,773**	174,126
- Director related parties	**26,300**	23,417
- Other key management personnel	**9,699**	61,535
- Other key management personnel related parties	**110,900**	110,524
Interest paid on deposits:		
- Directors	**966**	1,759
- Director related parties	**45**	283
- Other key management personnel	**68**	77
- Other key management personnel related parties	**1,440**	2,109

The Group's policy on deposit accounts from key management personnel and their related parties is that all transactions are on the same terms and conditions as those entered into by other customers.

Other transactions with related parties

There are no benefits paid or payable to close family members or other related parties of key management personnel other than those disclosed in this note.

There are no service contracts to which key management personnel, their close family members or other related parties are an interested party other than those disclosed in this note.

31. OUTSOURCING ARRANGEMENTS

The Group has an economic dependency on First Data Resources Australia Limited for the provision of ATM, Eftpos and VISA network services, ANZ Bank for cheque clearing services and Ultradata Australia Pty Ltd for computer software services.

32. SEGMENT INFORMATION

The Group operates exclusively in the finance industry within Australia.

33. TRANSFER OF FINANCIAL ASSETS

The Group has established arrangements for the transfer of loan contractual benefits of interest, fees and repayments to support ongoing liquidity facilities. These arrangements are with the Murray Trust Repo Series No. 1 for securing the ability to obtain liquid funds from the Reserve Bank in the event of a liquidity crisis. These loans are not de-recognised as the Group retains the benefits of the Trust until such time as a drawing is required.

Only residential mortgages that meet specified criteria, are eligible to be transferred into the Trust.

	2020	2019
	$'000	$'000
Securitised loans retained on the balance sheet (not de-recognised)		
The values of securitised loans which are not qualifying for de-recognition as the conditions do not meet the criteria in the accounting standards are set out below. 98% of the loans are variable interest rate loans, hence the book value of the loans transferred equates to the fair value of those loans.		
The associated liabilities are equivalent to the book value of the loans reported.		
Balance sheet values		
Loans	**211,155**	146,485
Fair value of associated liabilities	**(211,155)**	(146,485)
Net	**-**	-
Carrying amount of the loans as at the time of transfer	**220,000**	156,239

Repurchase obligations Murray Trust Repo Series No. 1

The Murray Trust Repo Series No. 1 is a trust established by the Group to facilitate liquidity requirements of APRA's prudential standards. The trust has an independent Trustee. In the case of the Murray Trust Repo Series No. 1, the Group receives A Notes eligible to be sold to the Reserve Bank Australia should the liquidity needs not be satisfied by normal operational liquidity and unsecured B Notes. The A Notes are secured by residential mortgages.

The Group has financed the loans and receives the net income from the Trust after expenses. The Group has an obligation to manage and maintain the portfolio of loans in the Trust. The Group retains the credit risk of losses arising from loan default or security decline and the interest rate risk from movements in market interest rates.

If a portion of the value of the portfolio in the Murray Trust Repo Series No. 1 fails to meet the Trust's criteria, the Group is obliged to repurchase those loans and may substitute equivalent qualifying loans into the Trust.

34. FINANCIAL RISK MANAGEMENT

(a) Overview

The Board is ultimately responsible for the Group's risk management framework and the oversight of it.

The Board is directly responsible for the Group's strategy and has adopted a risk appetite statement, business plan and risk management strategy.

The Board Risk Committee on an annual basis (or more frequently where required) reviews the Group's risk appetite statement and risk management strategy.

The Group adopts a Three Lines of Defence approach to risk management which reinforces a risk culture where all employees are responsible for identifying and managing risk and operating within the Group's risk appetite. The Group embeds risk culture and maintains an awareness of risk management responsibilities through regular communication, training and other targeted approaches that support the risk management framework.

Senior management are responsible for implementing the Group's risk management strategy and risk management framework and for developing policies, controls, processes and procedures for identifying and managing risk in all of the Group's activities.

The Board's Risk Committee assists the Board to fulfil its oversight of the implementation and operation of the Group's risk management framework and the review and approval of associated policies. The Chief Risk Officer assists the Board Risk Committee and senior management to develop and maintain best practice risk management frameworks whilst promoting a sustainable risk and compliance culture. As part of their participation in the decision-making process, the Chief Risk Officer provides effective challenge to ensure that material decisions are risk-based.

The Board's Audit Committee oversees management's compliance with the Group's risk management policies and procedures. The Board Audit Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Board Audit Committee.

(b) Objectives and policies

Managing the risks that affect the Group is a fundamental activity and the success of risk management involves taking an integrated balanced approach to risk and return and assists in mitigating potential loss or damage while optimising growth opportunity.

The Group's risk appetite statement defines the level of risk that the Group is willing to accept to meet its strategic objectives and outlines the desire to minimise the impact of incidents that may have a material impact on the results. The risk appetite statement sets the context for the Group's strategy, financial and capital forecasting processes and is further defined by the identification of key risk types applicable to the Group.

The Group's activities expose it to a variety of financial risks: credit risk, operational risk, liquidity risk, market risk and capital risk. The Group's overall financial risk system focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. The Group manages these risks on a daily basis through the operational responsibility of the Executive and senior management and the functioning Risk Management Committee (RMC) and the Asset and Liability Committee (ALCO).

The Board or delegated Board Committee approves key policies and processes including the internal capital adequacy assessment process, the internal liquidity assessment process and reviews the outcomes of stress testing completed.

An overview of risk management approaches to the Group's key financial risk types are detailed below.

Further quantitative disclosures are included throughout these financial statements.

(c) Credit risk

Credit risk is the risk of failure by a counterparty to perform according to a contractual arrangement. This risk applies to loans and advances, off balance sheet exposures (such as guarantees), acceptances, and liquidity investments.

Credit risk arises principally from the Group's loans, advances and liquid investments.

34. FINANCIAL RISK MANAGEMENT (continued)

Credit risk – loans and advances

Credit risk on loans and advances is the risk of losses from loans and advances which is reduced by assessing the character of borrowers, their capacity to service the debt and the nature and quality of security taken.

The method of managing credit risk on loans and advances is by way of strict adherence to the credit assessment policies before the loan is approved and continued monitoring of loan repayments thereafter.

The Group has established policies over:

- Credit assessment and approval of loans and facilities including acceptable assessment and security requirements. Credit assessment includes ensuring borrowers are creditworthy and capable of meeting the loan repayments;
- Requirements for lenders' mortgage insurance;
- Acceptable exposure limits to individual borrowers, non-mortgage secured loans and advances, commercial lending and industry groups considered at high risk of default;
- Reassessment and review of credit exposures on certain loans and advances;
- Establishment of appropriate provisions to recognise the impairment of loans and facilities;
- Debt recovery procedures;
- Review of compliance with the above policies; and
- A regular review of compliance with these policies is conducted by Internal Audit.

Credit concentration risk

Credit concentration risk is the risk of losses from large exposures and / or high correlation between exposures that increase the potential or actual losses that are sustained because of particular adverse circumstances. Exposures to individual large borrowers, industry sectors, geographic location, customer demographics and certain products can increase the chance of loss.

The Group minimises concentrations of credit risk in relation to loans and advances receivable by lending to a large number of customers within each specified category. The majority of customers are concentrated in the North-east Victoria and Southern NSW region. Details of concentrations of credit risk on loans and advances receivable are set out in the notes. For financial assets recognised on balance sheet, the maximum exposure to credit risk equals their carrying amount. Credit risk also includes off balance sheet exposures such as approved but undrawn loans and credit limits that are disclosed in note 28 contingent liabilities and credit commitments.

Credit risk - liquid investments

Liquid investments risk is the risk of financial loss from liquid investments held and is reduced by the nature and credit rating of the investee and the limits of concentration to each entity. The Board's appetite is to maintain counterparty limits with Australian listed banks, Australian Settlements Limited, Federal and State Governments to a maximum of 50% of capital. Given the high quality and/or relatively short duration of these investments, the Group does not expect any counterparty to fail to meet its obligation. Details of exposures to liquidity investments are set out in the notes.

(d) Market risk and hedging policy

Market risk is the risk that fluctuating interest rates lead to a change in underlying value of assets and liabilities as well as an increase/decrease in profit.

Market risk comprises:

(a) general market risk in relation to interest rates, equities, foreign exchange and commodities; and
(b) specific risk in relation to the impact of interest rates or equity positions on the value of securities.

The Group does not have any trading activities or hold any foreign exchange or commodity positions.

Market risk arising from movements in interest rates is addressed separately under interest rate risk in the banking book.

Interest rate risk in the banking book

Interest rate risk in the banking book arises due to movements in interest rates where there is a mismatch in asset and liability maturities.

The Group maintains a balanced 'on book' hedging strategy by ensuring the net difference between asset and liability maturities are not excessive. The Group does not trade the financial instruments, it holds and is not exposed to currency risk.

34. FINANCIAL RISK MANAGEMENT (continued)

The difference between asset and liability maturities is monitored monthly to identify any large exposure to interest rate movements. This monitoring will also seek to address excess to within acceptable levels via existing products. Interest rate swaps can also be used to reduce the gaps between assets and liabilities. Details of the interest rate risk profile are set out in note 35(b).

Value at Risk (VaR) and Earnings at Risk (EaR) are calculated monthly using an externally supplied interest rate risk model and managed within established limits.

An independent risk management consultant also conducts an independent benchmarking review of the risk management profile annually. The Board monitors these risks through the independent reports and other management reports.

The Group's VaR measure as at 30 June 2020 using a 20 day holding period, 99% confidence level and a 250 day observation period, was 0.53% of capital. VaR as at 30 June 2019 was 0.21% of capital, using the same parameters.

The Group's EaR measure as at 30 June 2020 using a shift in interest rates of 200 basis points for one year, EaR was a $529,174 variation or 1.87% from the base case. EaR as at 30 June 2019 was a $2,797,073 variation or 10.02% from the base case, using the same parameters.

(e) Liquidity risk

Liquidity risk is the risk that there is insufficient funds in a given period to meet the operational and funding needs of the Group in both normal and an adverse operating environment.

The Group manages liquidity risk by:

- Monitoring actual daily cash flows and longer term forecasted cash flows;
- Monitoring the maturity profiles of financial assets and liabilities;
- Maintaining adequate cash reserves; and
- Monitoring the prudential and other liquidity ratios daily.

The Group is required to maintain at least 9% of total adjusted liabilities as highly liquid assets capable of being converted to cash within 24 hours to satisfy APRA's prudential standards to qualify as Minimum Liquid Holdings asset (MLH). However, the Group's policy requires a minimum of 12% of liabilities to be held in MLH qualifying assets to maintain adequate funds to meet customer withdrawal requests. Should the liquidity ratio fall below the Group's trigger levels, Management and the Board are to address the matter and ensure that more liquid funds are obtained from new deposits and borrowing facilities available.

As at 30 June 2020, the Group held 18.73% of total adjusted liabilities as MLH qualifying assets (2019 – 16.32%). The average during the financial year was 17.76% (2019 – 16.93%).

<u>Term Funding Facility</u>

The Group also has access to $27.9m via the Term Funding Facility ("TFF") provided by the RBA.

On 19 March 2020, the RBA announced it was establishing a Term Funding Facility (TFF) for ADIs to reinforce the benefits to the economy of a lower RBA cash rate and encourage ADIs to support businesses. The facility provides three-year funding via repurchase transactions with the RBA at a cost of 0.25% and is available to be drawn through to the end of March 2021. On 30 March 2020, APRA announced that the benefit from the Initial Allowance of the TFF could be included in the reporting of Minimum Liquidity Holdings (MLH) from 31 March 2020 subject to having the necessary unencumbered collateral to access the facility. On 16 April 2020, APRA extended this treatment to include the Additional Allowance of the TFF.

The Group has not drawn down on their TFF allowance of $27.9m either as at 30 June 2020 or as of the date of signing this report.

The total MLH ratio including the TFF as at 30 June 2020 is 20.66%, with an average during the financial year of 18.25%.

The maturity profile of the financial assets and financial liabilities, based on the contractual repayment terms are set out in the notes.

34. FINANCIAL RISK MANAGEMENT (continued)

Internal securitisation and RBA repurchase

Securitisation risk is the risk of potential loss associated with securitisation activities.

The Group maintains an internal securitisation facility to enable it to secure funds from the Reserve Bank of Australia, if required, to meet emergency liquidity requirements. As at 30 June 2020, the Group held $216.500 million (2019 – $144.104 million) of securities available to be used for RBA repurchase to meet emergency liquidity requirements.

In accordance with APS 120 - Securitisation, no additional capital will be held for the risks posed by the securitisation activity, as this is an internal securitisation activity. The Group remains exposed to the credit risk arising from the assets (securitised loans).

(f) Operational risk

Operational risk is the risk of direct or indirect loss from inadequate or failed internal processes, systems, human error, inadequate staff resourcing, or from external events. The definition includes legal risk and reputational risk.

The Group's objective is to manage operational risk to balance the avoidance of both financial losses through implementation of controls and avoidance of procedures that inhibit innovation, creativity and service. These risks are managed and monitored through internal controls that are based on written programs, methodologies, policies, procedures, guidelines and a governance structure that provides an appropriate segregation of duties, and the implementation of policies and systems to reduce the likelihood of incidents occurring and minimise the consequences of them if they do occur.

The Group manages these risks on a daily basis through the operational responsibilities of senior management under policies approved by the Board covering specific areas, such as outsourcing risk, fraud risk and business continuity risk and the functioning Risk Management Committee.

(g) Regulatory & compliance risk

Regulatory & compliance risk is the risk of failing to comply with regulatory requirements.

The Group's compliance program identifies the key legislative and regulatory obligations that impact the Group and identifies the measures in place to ensure compliance with them.

(h) Strategic Risk

Strategic risk is the risk to current or prospective earnings and capital and the long-term performance and viability of the Group resulting from unexpected or adverse changes in the business environment with respect to the economy, the political landscape, regulation, technology, social mores, the actions of competitors and business decisions.

Strategic risk is constantly considered through business strategy sessions and, where applicable, is monitored via a quarterly risk report.

(i) Capital risk

Capital risk is the risk that there is insufficient capital available to protect against unexpected loss.

The Group policy is to maintain a strong capital base and to maintain a balance between profitability and benefits provided to customers by way of better interest rates, lower fees, convenient locations and superior service.

The Group's capital management objectives are to:
- Ensure there is sufficient capital to support the Group's operational requirements;
- Maintain sufficient capital to exceed internal and externally imposed capital requirements; and
- Safeguard the Group's ability to continue as a going concern in all types of market conditions.

The Group is subject to minimum capital requirements imposed by APRA based on the guidelines developed by the Basel Committee on Banking Supervision. The Group reports to APRA under Basel III capital requirements and uses the standardised approach for credit and operational risk.

APRA requires Authorised Deposit-taking Institutions ("ADIs") to have a minimum ratio of capital to risk weighted assets of 8%. In addition, APRA imposes ADI specific minimum capital ratios which may be higher than these levels.

34. FINANCIAL RISK MANAGEMENT (continued)

The Board approved internal capital assessment process requires capital to be well above the regulatory required level.

The Group's capital contains tier 1 and tier 2 capital. Tier 1 capital can contain both common equity tier 1 capital and additional tier 1 capital. Common equity tier 1 capital comprises the highest quality components of capital that fully satisfy all of the following characteristics:
(a) provide a permanent and unrestricted commitment of funds;
(b) are freely available to absorb losses;
(c) do not impose any unavoidable servicing charge against earnings; and
(d) rank behind the claims of depositors and other creditors in the event of winding-up of the issuer.

Common equity tier 1 capital consists of retained earnings and reserves. Deductions from tier 1 capital are made for intangible assets, certain capitalised expenses, deferred tax assets and equity investments in other ADIs.

Tier 2 capital includes the reserve for credit losses and tier 2 capital instruments including subordinated debt. Tier 2 capital instruments combine the features of debt and equity in that they are structured as debt instruments, but exhibit some of the loss absorption features of equity.

	2020	2019
	$'000	$'000
Capital adequacy ratio calculation		
Tier 1 capital		
<u>Common equity tier 1 capital</u>		
Retained earnings	**80,950**	77,176
Capital profits reserve	**593**	593
Deferred fee income	**(744)**	(643)
Asset revaluation reserve	**1,754**	1,383
Financial asset reserve	**90**	63
Cash flow hedge reserve	**-**	-
	82,643	78,572
Less prescribed deductions	**(1,918)**	(1,921)
Net tier 1 capital	**80,725**	76,651
Tier 2 capital		
General reserve for credit losses (trf from retained earnings)	**1,755**	1,633
General reserve for credit losses (trf from provisions)	**1,674**	-
Subordinated debt	**-**	-
Net tier 2 capital	**3,429**	1,633
Total capital	**84,154**	78,284
Risk profile		
Credit risk	**510,681**	474,813
Operational risk	**74,327**	69,501
Total risk weighted assets	**585,008**	544,314
Capital adequacy ratio	**14.38%**	14.38%

35. FINANCIAL INSTRUMENTS

(a) Terms, conditions and accounting policies

The Group's accounting policies, including the terms and conditions of each class of financial asset, financial liability and equity instrument, both recognised and unrecognised at the balance date, are as follows:

Recognised financial instruments	Note	Accounting policies	Terms and conditions
Financial assets			
Loans and advances	11	The loan and overdraft interest is calculated on the daily balance outstanding and is charged in arrears to a customer's account on the last day of each month. Credit card interest is charged in arrears on daily balance outstanding on revolving credit cards on the 15th day of the month. Loans and advances are recorded at their recoverable amount. For further details on the classification of loans refer to note 1.	All residential loans are secured by registered mortgages. The remaining loans are assessed on an individual basis but most are also secured by registered mortgages. Where appropriate, residential loans are covered by mortgage insurance.
Receivables due from other financial institutions	8	Receivables due from other financial institutions are financial assets held within a business model whose objective is to hold assets to collect contractual cash flows and the contractual terms of the financial asset gives rise to cash flows that are solely payments of principal and interest. Interest revenue is recognised when earned.	Receivables due from other financial institutions have an average maturity of 87 days with effective interest rates of 0.10% to 1.70% (2019: 1.00% to 2.60%).
Other investments	13	Other investments are stated at fair value, with any resulting gain or loss recognised in other comprehensive income. Dividends are recognised when earned.	
Investment Securities	9	Investment securities are financial assets held within a business model whose objective is to hold assets to collect contractual cash flows and the contractual terms of the financial asset gives rise to cash flows that are solely payments of principal and interest. Fair value is stated in note 35(d). Interest revenue is recognised when earned.	Investment securities have an average maturity of 319 days and effective interest rates of 0.25% to 5.50% (2019: 1.48% to 2.79%).
Financial liabilities			
Deposits	18	Deposits are recorded at the principal amount. Interest is calculated on the daily balance outstanding.	Details of maturity terms are set out in note 18.
Trade and other payables	19	Liabilities are recognised for amounts to be paid in the future for goods and services received, whether or not billed to the Group.	Trade liabilities are normally settled on 30-day terms.
Subordinated debt	22	Subordinated debt is recorded at the principal amount. Interest is calculated on the daily balance outstanding.	Details of maturity terms are set out in note 22.

35. **FINANCIAL INSTRUMENTS (continued)**

(b) **Effective interest rates and repricing analysis**

Interest rate risk in the statement of financial position arises from the potential for a change in interest rates to have an adverse affect on the net interest earnings in the current reporting period and in future years. Interest rate risk arises from the structure and characteristics of the Group's assets, liabilities and equity, and in the mismatch in repricing dates of its assets and liabilities. The tables for both the 2019 and 2020 financial years detail the exposure of the Group's assets and liabilities to interest rate risk. The amount shown represents the face value of assets and liabilities.

The interest rate shown is the effective interest rate or weighted average effective interest rate in respect of a class of assets or liabilities. For floating rate instruments the rate is the current market rate; for fixed rate instruments the rate is a historical rate. The bandings reflect the earlier of the next contractual repricing date or the maturity date of the asset or liability.

	Floating Rate	**Within 1 month**	**From 1 to 3 months**	**From 3 to 12 months**	**From 1 to 5 years**	**More than 5 years**	**Non-interest bearing**	**Total carrying amount**	**Weighted average effective interest rate**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**%**
2020									
Financial assets									
Cash and cash equivalents	**51,888**						**10,603**	**62,491**	**0.30**
Receivables due from FI's	**22,694**	**22,000**	**46,000**					**90,694**	**1.05**
Investment securities		**102,164**	**115,070**	**5,258**				**222,492**	**0.71**
Trade and other receivables							**1,681**	**1,681**	**n/a**
Loans and advances	**641,325**	**44,353**	**7,328**	**45,929**	**213,119**	**1,097**	**(1,456)**	**951,695**	**3.62**
Other investments							**325**	**325**	**n/a**
Total financial assets	**715,907**	**168,517**	**168,398**	**51,187**	**213,119**	**1,097**	**11,153**	**1,329,378**	
Financial liabilities									
Deposits	**705,326**	**107,877**	**231,743**	**178,569**	**17,029**			**1,240,544**	**1.12**
Trade and other payables							**11,954**	**11,954**	**n/a**
Total financial liabilities	**705,326**	**107,877**	**231,743**	**178,569**	**17,029**	**-**	**11,954**	**1,252,498**	

2019									
Financial assets									
Cash and cash equivalents	41,703						10,162	51,865	1.19
Receivables due from FI's	7,000	18,000	28,000					53,000	2.11
Investment securities		77,877	103,795					181,672	2.01
Trade and other receivables							1,974	1,974	n/a
Loans and advances	641,325	10,450	15,885	89,871	150,601	435	237	908,804	4.38
Other investments							295	295	n/a
Total financial assets	690,028	106,327	147,680	89,871	150,601	435	12,668	1,197,610	
Financial liabilities									
Deposits	578,150	107,638	217,241	190,630	18,863			1,112,522	1.58
Trade and other payables							12,099	12,099	n/a
Total financial liabilities	578,150	107,638	217,241	190,630	18,863	-	12,099	1,124,621	

n/a – not applicable for non-interest bearing financial instruments.

35. FINANCIAL INSTRUMENTS (continued)

(c) Maturity profile of financial assets and liabilities

Monetary assets and liabilities have differing maturity profiles depending on the contractual term and in the case of loans the repayment amount and frequency. The table below shows the period in which different monetary assets and liabilities held will mature and be eligible for renegotiation or withdrawal. In the case of loans, the table shows the period over which the principal outstanding will be repaid based on the remaining period to the repayment date assuming contractual repayments are maintained, and is subject to change in the event that current repayment conditions are varied. Financial assets and liabilities are at the undiscounted values (including future interest expected to be earned or paid). Accordingly these values will not agree to the statement of financial position.

	Within 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	No maturity	Total cash flows	Total carrying amount
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
2020								
Financial assets								
Cash and cash equivalents	**62,505**						**62,505**	**62,491**
Receivables due from FI's	**44,790**	**46,111**					**90,901**	**90,694**
Investment securities	**70,084**	**75,078**	**14,692**	**63,891**			**223,745**	**222,492**
Trade and other receivables	**1,381**						**1,381**	**1,681**
Loans and advances	**17,993**	**18,508**	**81,207**	**387,956**	**641,706**		**1,147,370**	**951,695**
Other investments						**325**	**325**	**325**
Total financial assets	**196,753**	**139,697**	**95,899**	**451,847**	**641,706**	**325**	**1,526,227**	**1,329,378**
Financial liabilities								
Deposits	**568,721**	**245,499**	**244,003**	**187,268**			**1,245,491**	**1,240,544**
Trade and other payables	**9,866**						**9,866**	**11,954**
On balance sheet	**578,587**	**245,499**	**244,003**	**187,268**			**1,255,358**	**1,252,498**
Undrawn credit commitments	**86,857**						**86,857**	**86,857**
Total financial liabilities	**665,444**	**245,499**	**244,003**	**187,268**	**-**	**-**	**1,342,214**	**1,339,355**

2019								
Financial assets								
Cash and cash equivalents	51,907						51,907	51,865
Receivables due from FI's	25,115	28,154					53,269	53,000
Investment securities	54,155	78,150	15,719	36,297			184,321	181,672
Trade and other receivables	1,312						1,312	1,974
Loans and advances	20,387	19,335	85,065	406,682	594,507		1,125,976	908,804
Other investments						295	295	295
Total financial assets	152,876	125,639	100,784	442,979	594,507	295	1,417,080	1,197,610
Financial liabilities								
Deposits	578,972	224,877	222,875	94,171			1,120,895	1,112,521
Trade and other payables	8,579						8,579	12,099
On balance sheet	587,551	224,877	222,875	94,171			1,129,474	1,124,620
Undrawn credit commitments	77,145						77,145	77,145
Total financial liabilities	664,696	224,877	222,875	94,171	-	-	1,206,619	1,201,765

35. FINANCIAL INSTRUMENTS (continued)

(d) Net fair values

The aggregate net fair values of financial assets and financial liabilities, both recognised and unrecognised, at the balance date, are as follows:

Financial instruments	Note	Total carrying amount		Aggregate net fair value	
		2020 $'000	2019 $'000	**2020 $'000**	2019 $'000
Financial assets					
Cash and cash equivalents	7	**62,491**	51,865	**62,505**	51,907
Receivables due from other financial institutions	8	**90,694**	53,000	**90,858**	53,182
Investment securities	9	**222,492**	181,672	**222,381**	182,209
Trade and other receivables	10	**1,681**	1,974	**1,381**	1,312
Loans and advances	11	**951,695**	908,804	**971,473**	924,980
Other investments	13	**325**	295	**325**	295
Total financial assets		**1,329,378**	1,197,610	**1,348,923**	1,213,885
Financial liabilities					
Deposits	18	**1,240,544**	1,112,521	**1,245,077**	1,115,029
Trade and other payables	19	**11,954**	12,099	**11,954**	12,099
Total financial liabilities		**1,252,498**	1,124,620	**1,257,031**	1,127,128

The following methods and assumptions are used to determine the net fair values of financial assets and liabilities:

Recognised financial instruments

Cash and liquid assets and interest earning deposits

The carrying amounts approximate fair value because they have either a short term to maturity or are receivable on demand.

Receivables due from financial institutions

Fair value has been determined on the basis of the present value of expected future cash flows under the terms and conditions of each financial asset.

Investment securities

Fair value has been determined on the basis of the present value of expected future cash flows under the terms and conditions of each financial asset.

Trade and other receivables

The carrying amount approximates fair value as they are short-term in nature. Interest receivable is included as part of the fair value of the various financial instruments.

Derivative financial instruments

Fair value is determined using the present value of the future cash flows the Group expects to pay or receive based upon current interest rates. This value is equivalent to the amount that the Group would need to pay or receive to terminate the swap.

Loans and advances

The fair value of loans receivable (excluding impaired loans) are estimated using a method not materially different from discounted cash flow analysis, based on current incremental lending rates for similar types of lending arrangements. The net fair value of impaired loans was calculated using a method not materially different from discounting expected cash flows using a rate which includes a premium for the uncertainty of the flows.

35. FINANCIAL INSTRUMENTS (continued)

Other investments

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

Deposits

The fair value of deposits are estimated using a method not materially different from discounted cash flow analysis, based on current incremental deposit rates. The Group has assessed its own credit risk in regards to the fair value of deposits, and has assessed that no material valuation adjustment is required.

Trade and other payables

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

Subordinated debt

The fair value of subordinated debt is estimated using a method not materially different from discounted cash flow analysis, based on current market rates for similar arrangements.

36. FAIR VALUE MEASUREMENT

Fair value hierarchy

The following table provides the fair value measurement hierarchy of the Group's assets and liabilities.

		Fair value measurement using			
	Note	**Level 1**	**Level 2**	**Level 3**	**Total**
2020		**$'000**	**$'000**	**$'000**	**$'000**
Assets measured at fair value					
Investment property	14	**-**	**1,740**	**-**	**1,740**
Land and buildings	15	**-**	**5,740**	**-**	**5,740**
Other investments	13	**-**	**-**	**325**	**325**
Total assets measured at fair value		**-**	**7,480**	**325**	**7,805**
Assets for which fair values are disclosed					
Cash and cash equivalents		**-**	**62,505**	**-**	**62,505**
Receivables due from other financial institutions		**-**	**90,858**	**-**	**90,858**
Investment securities		**-**	**222,381**	**-**	**222,381**
Trade and other receivables		**-**	**-**	**1,381**	**1,381**
Loans and advances		**-**	**-**	**971,473**	**971,473**
Total assets for which fair value is disclosed		**-**	**375,744**	**972,854**	**1,348,598**
Liabilities for which fair values are disclosed					
Deposits		**-**	**1,245,077**	**-**	**1,245,077**
Trade and other payables	19	**-**	**-**	**11,954**	**11,954**
Total liabilities for which fair value is disclosed		**-**	**1,245,077**	**11,954**	**1,257,031**

There have been no transfers between levels during the year.

36. FAIR VALUE MEASUREMENT (Continued)

2019	Note	Fair value measurement using Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Assets measured at fair value					
Investment property	14	-	1,770	-	1,770
Land and buildings	15	-	5,477	-	5,477
Other investments	13	-	-	295	295
Total assets measured at fair value		-	7,247	295	7,542
Assets for which fair values are disclosed					
Cash and cash equivalents		-	51,907	-	51,907
Receivables due from other financial institutions		-	53,182	-	53,182
Investment securities		-	182,209	-	182,209
Trade and other receivables		-	-	1,312	1,312
Loans and advances		-	-	924,980	924,980
Total assets for which fair value is disclosed		-	287,298	926,292	1,213,590
Liabilities for which fair values are disclosed					
Deposits		-	1,115,029	-	1,115,029
Trade and other payables		-	-	12,099	12,099
Total liabilities for which fair value is disclosed		-	1,115,029	12,099	1,127,128

There have been no transfers between levels during the year.

37. PARENT ENTITY DISCLOSURES

As at, and throughout the financial year, the parent of the Group was Hume Bank Limited.

On the basis that the securitised loans are not derecognised, there is no difference between the reported results on a consolidated basis and the results of the parent entity.

	2020 $'000	2019 $'000
Results of the parent entity		
Profit for the year	**3,896**	5,009
Other comprehensive income	**27**	63
Total comprehensive income for the year	**3,923**	5,072
Financial position of the parent entity		
Total assets	**1,341,934**	1,208,275
Total liabilities	**1,256,792**	1,127,427
Retained earnings	**80,950**	77,176
Reserves	**4,192**	3,672
Commitments for the acquisition of property, plant & equipment	**-**	-

The parent entity prepares its statement of financial position on a liquidity basis and therefore current assets and liabilities are not identified.

38. EVENTS SUBSEQUENT TO BALANCE DATE

There has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the Directors, to affect substantially the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial years, except for noting the ongoing COVID-19 pandemic and its associated impact on estimations fundamental to the preparation of the 2020 financial statements.

Directors' Declaration

In the opinion of the Directors of Hume Bank Limited:

1. the financial statements and notes, set out on pages 8 to 60, are in accordance with the *Corporations Act 2001*, including:

   (a) giving a true and fair view of the financial position of the Company and Consolidated Entity as at 30 June 2020 and of their performance, for the financial year ended on that date; and

   (b) complying with Australia Accounting Standards and the *Corporations Regulations 2001*; and

2. the financial statements also comply with International Financial Reporting Standards; and

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

Signed in accordance with a resolution of Directors:

Anthony Whiting
Chairman

Michael Gobel
Deputy Chairman

Albury, 24 September 2020

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Independent Auditor's Report

To the Members of Hume Bank Ltd

Opinion

We have audited the financial report of Hume Bank Limited (the Company and its subsidiaries, 'the Group'), which comprises the consolidated statement of financial position as at 30 June 2020, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

(a) giving a true and fair view of the Group's financial position as at 30 June 2020 and of its financial performance for the year then ended; and

(b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of 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* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter – uncertainties of COVID-19 impacts

We draw attention to Note 1.2 (c) Basis of preparation under the heading 'Use of estimates and judgments' in the consolidated financial statements. This note describes the significant areas of estimation, uncertainty and critical judgments used within the financial statements, and the increased relevance in the ongoing COVID-19 pandemic environment. Our opinion is not modified in respect of this matter.

Other Information

The directors are responsible for the other information. The other information comprises the directors' report information contained in the Group's annual report for the year ended 30 June 2020 but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Financial Report

The directors of the Group are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and 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 this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during the audit.

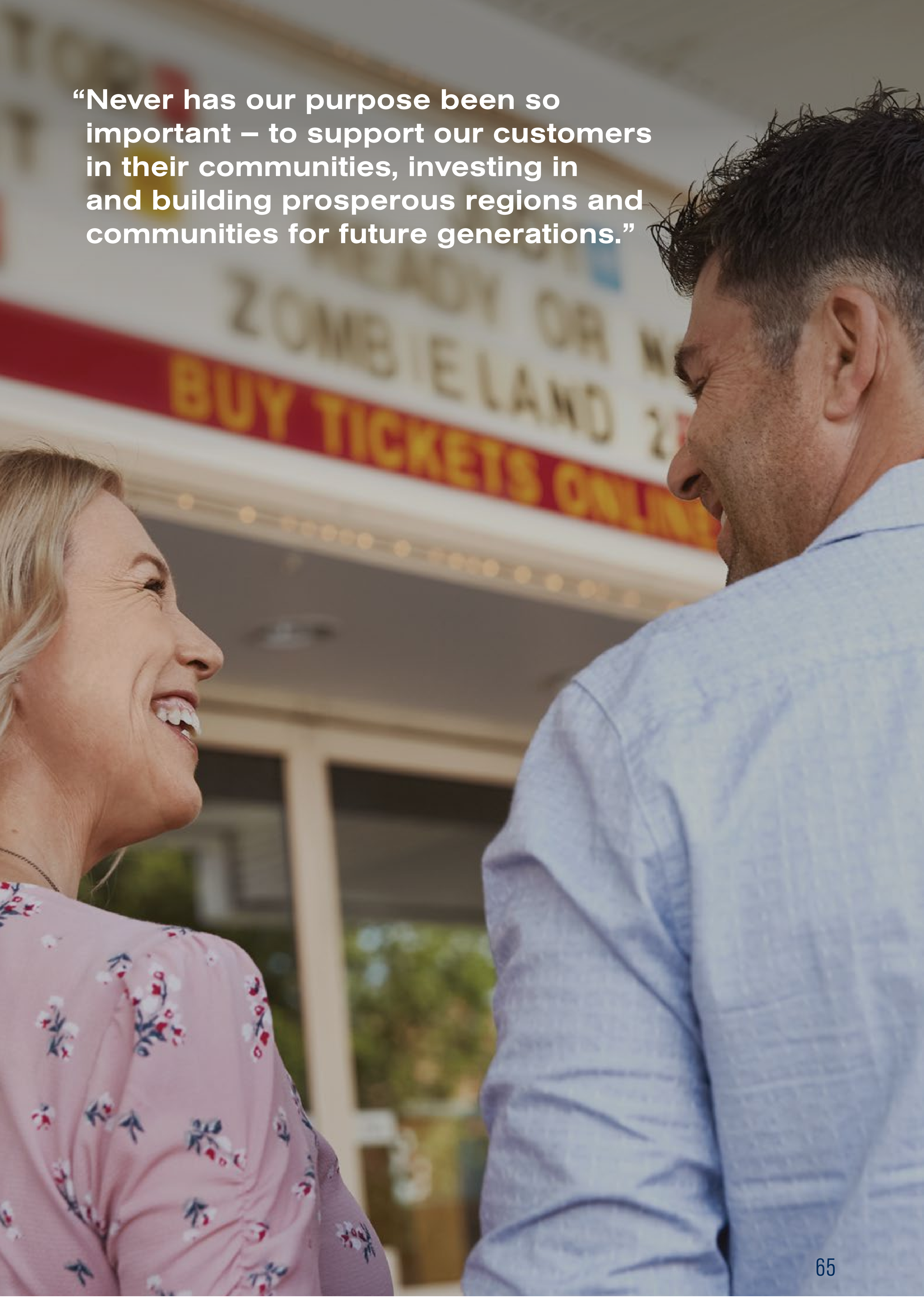
Crowe Albury

CROWE ALBURY

ALISON FLAKEMORE
Partner

24 September 2020
Albury

"Never has our purpose been so important – to support our customers in their communities, investing in and building prosperous regions and communities for future generations."



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