Hume Bank

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ANNUAL FINANCIAL REPORT 2014

Hume Bank

Our Values

COMPASSIONATE
We seek to understand and support the needs and goals of customers, each other and the community.

RESPECTFUL
We are inclusive and will act fairly, honestly and with integrity with consideration for others.

ASPIRATIONAL
We empower and challenge each other to deliver operational excellence and will strive to improve everything we do.

COMMITTED
We work together as a team with dedication and loyalty to our organisation and take responsibility for our actions.

RESPONSIVE
We act with purpose, conviction and courage to deliver in a timely manner.

Hume Bank Limited
(Formerly Hume Building Society Ltd)
ABN 85 051 868 556
AFSL No. 244248
Australian Credit Licence No. 244248

Financial Statements

for the year ended 30 June 2014

Contents

Directors' Report

The Directors present their report, together with the financial statements of Hume Bank Limited (the 'Company'), for the financial year ended 30 June 2014 and the Auditor's report thereon.

Directors

The names of the Directors of the Company 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.	Board member since November 2012, Chairman since November 2013 and Deputy Chairman from November 2012 to November 2013. Chairman of the Remuneration and Succession Committee from November 2013 and member of the Audit Committee. Michael has provided strategic financial advice to the private business sector, major domestic and international investment funds and government borrowing authorities. Michael is a former Board member of Hothouse Theatre.
Henrietta Rachel Cruddas B. Sc (Hons), GAICD Independent, non-executive Director. Reappointed to the Board in November 2013.	Solicitor. Board member and Deputy Chairman since November 2013. Previously a Board member from May 2011 to August 2012. Member of the Audit Committee. Henri has been a legal and compliance specialist in the financial services industry for the last 25 years in Australia, the UK and Asia.
Ulf Olof Ericson B. Ec, B. Comm, Grad Dip Advanced Taxation Law, Dip Law (BAB), FCA, MAICD, CTA Independent, non-executive Director.	Chartered Accountant – Partner Huon Partners, Chartered Accountants. Board member since June 1988 and Chairman from August 1998 to June 2012. Member of the Audit Committee. Ulf is the Chairman of the Wodonga Institute of TAFE, the former Chairman of Albury Wodonga Health, member of several committees of Albury Wodonga Health and Board Member of the Community Advisory Board for the Albury Wodonga Campus of the University of NSW Rural Clinical School.
Stuart James Gilchrist B. Eco and Politics Independent, non-executive Director. Resigned from the Board in February 2014.	Director. Board member from March 2007 to February 2014. Chairman from July 2012 to November 2013. Former Chairman of the Remuneration and Succession Committee and former member of the Audit Committee. Stuart has been on the Boards of various Mitre 10 companies for 15 years and was Chairman of Mitre 10 South West Ltd for 4 years.
William Thomas Hanrahan B Bus, B Leg S, Cost Acc P Cert, Dip Sec Inst, S F Fin, FCA, FCPA, FCIS, FAICD, B Rel Studies, Hon Dr Bus CSU. Non-independent, non-executive Director.	Former CEO of the Company for 20 years. Board member since June 1985. Member of the Remuneration and Succession Committee and former member of the Audit Committee. Chairperson of the Albury-Wodonga Corporation for 17 years from 1997 to 2014. Bill has an ongoing association with Charles Sturt University, including a previous period as a member of the University Council, and is currently a member of the Murray Hume Regional Consultative Committee. Bill has also been involved as a member or chair of other Audit Committees.
Leo Francis O'Reilly GAICD Independent, non-executive Director.	Former Chartered Accountant - former partner of an Accounting Firm. Board member since February 1998. Chairman of the Audit Committee. Leo is the Chairman of the AlburyCity Audit Committee, a Director of Hume Medicare Local and Chairman of Hume Medicare Local Audit and Risk Committee.
Karyl Denise Osborne Independent, non-executive Director.	Board member since March 2007. Member of the Remuneration and Succession Committee. Denise is a Councillor of the Greater Hume Shire, Chairman of St Johns Lutheran Primary School Board and is on the Boards/Committees of Back to Reality, Murray Arts, UPA Murray River Region, ATEL, Board of Local Government NSW and Albury-Hume Local Emergency Management.
Feynella Joy Stocker B. Ed, M Ed (Adult Ed) Independent, non-executive Director.	Former Director of Educational Planning and Development, TAFE NSW Riverina Institute. Board member since October 1993. Deputy Chairman from November 2008 to November 2012. Member of the Remuneration and Succession Committee. Former member of the Audit Committee and former Chairman of the former Risk Committee. Joy maintains ongoing involvement with Charles Sturt University and community organisations.

Company Secretary

Mr Andrew Glenn Saxby, B Bus was appointed Company Secretary in June 2004. Mr Saxby is the Chief Executive Officer of the Company.

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	Audit Committee	Remuneration & Succession Committee
Number of meetings held:	15	5	6
Number of meetings attended:			
Henrietta Rachel Cruddas[1]	10	2	n/a
Ulf Olof Ericson	14	5	n/a
Stuart James Gilchrist[2]	10	3	2
Michael Conrad Gobel[3]	15	5	5
William Thomas Hanrahan	15	n/a	6
Leo Francis O'Reilly	15	5	n/a
Karyl Denise Osborne	13	n/a	4
Feynella Joy Stocker	15	n/a	6

1 Appointed to the Board and Audit Committee in November 2013
2 Resigned from the Audit Committee in November 2013 and the Board and Remuneration & Succession Committee in February 2014
3 Appointed to the Remuneration & Succession Committee in November 2013

Corporate Governance Statement

The Board's primary responsibility is to the members of the Company to maintain the Company's success. It 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 oversee the Company's financial reporting and auditing processes. It also enables the Board to assess compliance with internal controls and to provide a forum for contact with the Company's auditors. The Chief Executive Officer, internal and external auditors are invited to attend meetings however the Committee can meet without them. The Committee is chaired by Leo O'Reilly.

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 Committee has been chaired by Michael Gobel since November 2013; prior to which the Committee was chaired by Stuart Gilchrist.

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 Company that occurred during the financial year under review.

Review and results of operations

The Company achieved a profit before income tax of $3.967 million for the year (2013 - $4.248 million). Net profit after income tax was $2.763 million (2013 - $2.955 million). The result was based on an increase in total assets of 2.2% or $19.230 million to $903.173 million on the back of net loan approvals of $127 million (2013 - $135 million). Net loans and advances outstanding at 30 June 2014 were $671.705 million (2013 - $676.302 million) and deposits by customers were $826.973 million (2013 - $809.025 million).

Events subsequent to reporting 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 Company, the results of those operations, or the state of affairs of the Company in future financial years.

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 Company 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 34 of the general purpose financial statements) by reason of a contract entered into by the Company (or an entity that the Company controlled, or a body corporate that was related to the Company 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.

Lead auditor's independence declaration

The lead auditor's independence declaration is set out on page 6 and forms part of the Directors' report for the financial year ended 30 June 2014.

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. 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 Horwath 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

The amounts in the financial statements and Directors' report have been rounded off to the nearest thousand dollars, in accordance with ASIC Class Order 98/100 dated 10 July 1998 (updated by CO 05/641 effective 28 July 2005 and CO 06/51 effective 31 January 2006), unless otherwise stated.

Signed in accordance with a resolution of the Directors:

Michael Gobel Chairman	Henrietta Cruddas Deputy Chairman

Albury, 21 August 2014

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

To: the Directors of Hume Bank Limited (formally Hume Building Society Ltd)

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2014 there have been:

- no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and
- no contraventions of 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 year ended 30 June 2014.

CROWE HORWATH ALBURY

BRADLEY D BOHUN
Partner
Albury, 21 August 2014

Consolidated Statement of Profit or Loss and Other Comprehensive Income

for the year ended 30 June 2014

	Note	2014	2013
		$'000	$'000
Interest revenue	2	**43,895**	48,431
Interest expense	2	**(23,609)**	(28,750)
Net interest income		**20,286**	19,681
Non-interest income	3	**4,237**	3,965
Total operating income		**24,523**	23,646
Impairment of loans and advances	13	**(208)**	(104)
Other expenses	4	**(20,065)**	(19,294)
Operating profit before fair value adjustments		**4,250**	4,248
Fair value adjustments	5	**(283)**	-
Profit before income tax		**3,967**	4,248
Income tax expense	6	**(1,204)**	(1,293)
Profit for the year		**2,763**	2,955
Other comprehensive income			
Revaluation of property		**225**	-
Change in fair value of cash flow hedges		**12**	-
Other comprehensive income, net of tax		**237**	-
Total comprehensive income for the year		**3,000**	2,955

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 11 to 48.

Consolidated Statement of Changes in Equity

for the year ended 30 June 2014

	Note	Retained Earnings $'000	General Reserve for Credit Losses $'000	Asset Revaluation Reserve $'000	Capital Profits Reserve $'000	Cash Flow Hedge Reserve $'000	Total Reserves $'000
2013							
Opening balance at 1 July 2012		51,848	1,130	814	593	-	2,537
Net profit for the year		2,955	-	-	-	-	-
Total other comprehensive income		-	-	-	-	-	-
Transfers to/(from) reserves		(44)	44	-	-	-	44
Closing balance at 30 June 2013	25, 26	54,759	1,174	814	593	-	2,581
2014							
Opening balance at 1 July 2013		**54,759**	**1,174**	**814**	**593**	**-**	**2,581**
Net profit for the year		**2,763**	**-**	**-**	**-**	**-**	**-**
Total other comprehensive income		**-**	**-**	**225**	**-**	**12**	**237**
Transfers to/(from) reserves		**(21)**	**21**	**-**	**-**	**-**	**21**
Closing balance at 30 June 2014	25, 26	**57,501**	**1,195**	**1,039**	**593**	**12**	**2,839**

The consolidated statement of changes in equity is to be read in conjunction with the accompanying notes set out on pages 11 to 48.

Consolidated Statement of Financial Position

as at 30 June 2014

	Note	2014 $'000	2013 $'000
Assets			
Cash and cash equivalents	7	**42,897**	37,575
Receivables due from other financial institutions	8	**67,874**	56,601
Investment securities	9	**108,661**	102,624
Trade and other receivables	10	**1,169**	1,191
Derivative financial instruments	11	**16**	-
Loans and advances	12	**671,705**	676,302
Other investments	14	**204**	204
Investment property	15	**1,746**	-
Property, plant and equipment	16	**6,996**	7,732
Intangible assets	17	**449**	400
Deferred tax assets	18	**1,456**	1,314
Total assets		**903,173**	883,943
Liabilities			
Deposits	19	**826,973**	809,025
Trade and other payables	20	**11,107**	13,032
Income tax payable	21	**571**	456
Deferred tax liabilities	22	**5**	144
Provision for employee benefits	23	**2,177**	1,946
Borrowings	24	**2,000**	2,000
Total liabilities		**842,833**	826,603
Net assets		**60,340**	57,340
Members' funds			
Reserves	25	**2,839**	2,581
Retained earnings	26	**57,501**	54,759
Total members' funds		**60,340**	57,340

The consolidated statement of financial position is to be read in conjunction with the accompanying notes set out on pages 11 to 48.

Consolidated Statement of Cash Flows

for the year ended 30 June 2014

	Note	2014	2013
		$'000	$'000
Cash flows from operating activities			
Interest received		**43,955**	48,393
Interest paid		**(24,604)**	(29,171)
Other non-interest revenue received		**4,190**	4,013
Cash paid to suppliers and employees		**(19,335)**	(16,199)
Fees and commissions paid		**(24)**	(35)
Income tax paid	21	**(1,375)**	(1,318)
		2,807	5,683
(Increase)/decrease in operating assets:			
Net (increase)/decrease in loans and advances		**4,389**	(28,909)
Net increase/(decrease) in deposits		**17,948**	26,817
Net cash flows from operating activities	27(b)	**25,144**	3,591
Cash flows from investing activities			
Net (increase)/decrease in receivables due from other financial institutions		**13,000**	(19,000)
Payments for property, plant and equipment		**(562)**	(1,824)
Proceeds from sale of property, plant and equipment		**22**	117
Payments for intangible assets		**(324)**	(292)
Payments for investment property		**(1,648)**	-
Net cash flows from investing activities		**10,488**	(20,999)
Cash flows from financing activities			
Proceeds from borrowings		**-**	2,000
Net cash flows from financing activities		**-**	2,000
Net increase/(decrease) in cash held		**35,632**	(15,408)
Cash at the beginning of the financial year		**177,800**	193,208
Cash at the end of the financial year	27(a)	**213,432**	177,800

The consolidated statement of cash flows is to be read in conjunction with the accompanying notes set out on pages 11 to 48.

Notes to the Financial Statements

1. SIGNIFICANT ACCOUNTING POLICIES

Reporting entity

Hume Bank Limited (the 'Company') is a company limited by shares and guarantee domiciled in Australia. No shares have been issued. The address of the Company's registered office is 492 Olive Street, Albury, NSW, 2640.

Hume Bank Limited changed its name on 1 July 2014 from Hume Building Society Ltd.

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

Statement of compliance

The financial statements are general purpose financial statements that have been prepared in accordance with Australian Accounting Standards ('AASBs') 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 21 August 2014.

Basis of measurement

The financial statements are presented in Australian dollars.

The financial statements are prepared on the historical cost basis unless otherwise stated.

The Company is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 (updated by CO 05/641 effective 28 July 2005 and CO 06/51 effective 31 January 2006) and in accordance with the Class Order, amounts in the financial statements and Directors' Report have been rounded off to the nearest thousand dollars, unless otherwise stated.

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

Where necessary, comparative information has been reclassified to achieve consistency in disclosure with current financial year amounts and other disclosures.

RBA repurchase securitisation trust consolidation

Hume Bank Limited has initiated the creation 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:

a. The trust meets the definition of a controlled entity; and

b. 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 entity.

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

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

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:

- note 37 - fair value of financial instruments; and
- note 13 - impairment of loans and advances.

Investment in equity securities

Equity investments held for trading are stated at fair value, with any resulting gain or loss recognised in the statement of profit or loss and other comprehensive income. The fair value of equity investments classified as held for trading and available-for-sale is their quoted bid price at balance date.

Equity investments where no market value is readily available are carried at cost less any provision for impairment.

Receivables due from other financial institutions (FI's)

Receivables due from other financial institutions are held-to-maturity investments which the Company has a positive intention and ability to hold to maturity.

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.

Investment securities

Investment securities are held-to-maturity investments which the Company has a positive intention and ability to hold to maturity.

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.

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 Company expects to pay as at reporting date including related on-costs, such as workers compensation insurance and payroll tax.

A provision is recognised for the amount to be paid under short-term cash bonus or profit-sharing plans if the Company 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 Company'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 the Commonwealth Government bonds at the balance date which have maturity dates approximating to the terms of the Company's obligations.

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

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

Loans and advances

Loans and advances are recognised 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 Company'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 15^{th} day of each month. Purchases are granted up to 55 days interest free until the due date for payment. All housing 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.

Loan impairment – collective provision

The collective provision for impairment is determined as per Company policy which is consistent with that required by the Prudential Standards issued by the Australian Prudential Regulatory Authority (APRA). Specific percentages are applied to loan balances outstanding based on the length of time the loans are in arrears and the security held.

Loan impairment – specific provision

Specific impairment of a loan is recognised when there is objective evidence that not all the principal and interest can be collected in accordance with the terms of the loan agreement. Impairment is assessed by specific identification in relation to individual loans.

Reserve for credit losses

Company policy requires that a general reserve for credit losses, sufficient to cover estimated future credit losses, be maintained. This Company maintains a general reserve for credit losses of 0.3% (2013 - 0.3%) of risk weighted assets.

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.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. For the purpose of the statement of cash flows, cash and cash equivalents includes cash balances, call deposits, investment securities and receivables due from other financial institutions that are due to mature in less than three months.

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

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 net within non-interest income in profit or loss.

Intangible assets

Items of computer software which are not integral to the computer hardware owned by the Company 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.

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 Company's investment properties.

Impairment

The carrying amounts of the Company's 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 an asset exceeds its recoverable amount. Impairment losses are recognised in the statement of profit or loss and other comprehensive income 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 and other comprehensive income.

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

Derivative financial instruments and hedge accounting

The Company 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 Company 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 the new hedge accounting rules of AASB 9 from 1 January 2014. The new rules replaces the 80-125% range for the hedge effectiveness testing with 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 can be excluded from the hedging instrument and accounted for as costs of hedging. The financial instruments are recognised through assets and liabilities with mark 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 income statement when the forecast transaction is ultimately recognised in the income statement. 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.

Fair value hedge
Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in profit and loss.

Leases

Leases under which the Company 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.

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.

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

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.

Goods and services tax

As a financial institution the Company 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. 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.

Fair value measurement

The Group measures financial instruments, such as, derivatives, and non-financial assets such as investment properties, at fair value at each balance sheet 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 by 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.

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

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 Company 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.

Revenue

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

Fees and commissions
Fees and commissions are recognised as revenues or expenses on an accrual basis.

Rental income
Rental income is recognised in profit or loss on a straight line basis over the term of the lease. Lease incentives granted are recognised as an integral part of the total rental income.

New standards applicable for the current year

The following standards have been adopted for the financial year commencing from the 1 July 2013.

- AASB 10 *Consolidated Financial Statements* - A new standard was issued in August 2012 and is mandatory for annual reporting periods beginning on or after 1 January 2013. It introduces a single “control model' for all entities, including special purpose entities (SPEs), whereby all of the following conditions must be present:
  - Power over investee (whether or not power used in practice) adopted;
  - Exposure, or rights, to variable returns from investee; and
  - Ability to use power over investee to affect the entity's returns from investee.

  This standard is first adopted for the year ended 30 June 2014. There has been no impact on transactions and balances previously recognised in the financial statements.

- AASB 13 *Fair Value Measurement* - A new standard was issued in September 2011 and is mandatory for annual reporting periods beginning on or after 1 January 2013. It defines fair value, and sets out in a singled standard a framework for measuring fair value. AASB 13 requires inputs to all fair value measurements to be categorised in accordance with a fair value hierarchy. It also requires enhanced disclosures regarding all assets and liabilities. When this standard was first adopted on 1 July 2013, additional disclosures have been required about fair values.

- AASB 119 *Employee Benefits* – This standard was re-issued in September 2012 and is mandatory for annual reporting periods beginning on or after 1 January 2013. The standard introduces a number of changes to the accounting and presentation of defined benefit plans. It also changes the definition of short-term and other long-term employee benefits to clarify the distinction between the two. Employee benefits expected to be settled (as opposed to due to settled under current standard) within 12 months after the end of the reporting period are short-term benefits, and therefore not discounted when calculating leave liabilities. Annual leave not expected to be used within 12 months of end of reporting period is to be discounted when calculating leave liability. There was no material effect from this standard when it was first adopted.

New standards and interpretations not yet mandatory

The group has adopted the revisions to AASB 9 in AASB 2013-9 *Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments* from 1 January 2014. This includes the new hedging requirements contained in Chapter 6 which the group has adopted at that date for all prospective hedge relationships. All of the hedge relationships that were entered into before 1 January 2014 have qualified for hedge accounting under the new requirements.

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 Company's operations during the period.

	Average balance $'000	Interest $'000	Average interest rate %
Interest revenue 2014			
Cash at authorised deposit-taking institutions	**38,781**	**970**	**2.50**
Receivables due from other financial institutions	**65,789**	**2,225**	**3.38**
Investment securities	**101,104**	**3,419**	**3.38**
Loans and advances	**671,288**	**37,280**	**5.55**
	876,962	**43,894**	**5.01**
Interest expense 2014			
Customers' deposits	**824,435**	**23,437**	**2.84**
Borrowings	**2,000**	**172**	**8.62**
	826,435	**23,609**	**2.86**
Interest revenue 2013			
Cash at authorised deposit-taking institutions	34,403	1,203	3.50
Receivables due from other financial institutions	62,223	2,472	3.97
Investment securities	101,548	4,034	3.97
Loans and advances	659,597	40,722	6.17
	857,771	48,431	5.65
Interest expense 2013			
Customers' deposits	805,330	28,634	3.56
Borrowings	1,289	116	9.00
	806,619	28,750	3.56

3. NON-INTEREST INCOME

	2014 $'000	2013 $'000
Fees and commissions from customers		
- Loan and overdraft fees	**284**	244
- Transaction fees	**774**	716
- Credit card fees	**13**	10
- Other fees	**489**	487
	1,560	1,457
Fees and commissions from non-customers		
- Fees for service	**817**	836
- Commissions	**1,632**	1,579
	2,449	2,415
Total fees and commissions	**4,009**	3,872
Other non-interest income		
- Income from property	**29**	28
- Bad debts recovered	**14**	30
- Profit on disposal of property, plant and equipment	**9**	10
- Government grants	**20**	20
- Sundry income	**156**	5
	228	93
Total non-interest income	**4,237**	3,965

Government Grants

A Green Building Fund grant of $20,000 (2013 – $20,000) was recognised as other income during the financial year. There are no unfulfilled conditions or other contingencies attached to the grant. The Company did not benefit directly from any other forms of government assistance.

	Note	2014	2013
		$'000	$'000
4. OTHER EXPENSES			
Amortisation – leasehold improvements	16	**147**	184
Amortisation – intangible assets	17	**275**	234
Depreciation			
- Plant and equipment	16	**890**	907
- Buildings	16	**87**	73
Total depreciation		**977**	980
Fees and commissions		**24**	35
Personnel costs			
- Provision for long service leave		**94**	91
- Provision for annual leave		**(7)**	9
- Superannuation contributions		**914**	825
- Salaries and wages		**7,854**	7,680
- Payroll tax		**441**	420
- Other		**870**	611
Total personnel costs		**10,166**	9,636
Marketing expenses		**838**	796
Information technology expenses		**1,059**	959
Occupancy costs			
- Rental – operating leases		**1,249**	1,246
- Other occupancy costs		**1,103**	1,066
Total occupancy costs		**2,352**	2,312
ATM, Eftpos and electronic transaction processing costs		**1,412**	1,364
Other administration expenses		**2,809**	2,785
Loss on disposal of property, plant and equipment		**6**	9
Total other expenses		**20,065**	19,294
5. FAIR VALUE ADJUSTMENTS			
Net fair value adjustment of investment property	15	**208**	-
Net fair value adjustment of property, plant and equipment		**75**	-
		283	-

	Note	2014	2013
		$'000	$'000
6. INCOME TAX EXPENSE			
Income tax expense on profit		**1,204**	1,293
Income tax expense on other comprehensive income		**5**	-
		1,209	1,293
Recognised in statement of profit or loss and other comprehensive income			
Income tax expense comprises amounts set aside as:			
Income tax payable – current year	21	**1,490**	1,375
Under/(over) provision in prior years		**-**	-
Increase/(decrease) in deferred tax liabilities		**(139)**	2
(Increase)/decrease in deferred tax assets		**(142)**	(84)
		1,209	1,293
Reconciliation between tax expense and pre-tax profit			
Profit before income tax		**3,967**	4,248
Prima facie income tax expense calculated at 30%		**1,190**	1,274
Increase/(decrease) in income tax expense due to:			
Non-deductible expenses		**47**	33
Other deductible expenses		**(16)**	(14)
Fair value adjustments		**(17)**	-
Non-assessable income		**-**	-
		1,204	1,293
Income tax (over)/under provided in prior period		**-**	-
Income tax expense attributable to profit		**1,204**	1,293
Dividend franking account			
Franking credits held at balance date		**26,355**	24,979
7. CASH AND CASH EQUIVALENTS			
Cash on hand and at authorised deposit-taking institutions at call		**42,897**	37,575
8. RECEIVABLES DUE FROM OTHER FINANCIAL INSTITUTIONS			
Interest earning deposits		**67,874**	56,601
Maturity analysis			
Not later than 1 month		**42,874**	22,601
Later than 1 and not later than 3 months		**19,000**	15,000
Later than 3 and not later than 12 months		**6,000**	19,000
Later than 1 and not later than 5 years		**-**	-
		67,874	56,601

	Note	2014 $'000	2013 $'000
8. RECEIVABLES DUE FROM OTHER FINANCIAL INSTITUTIONS (continued)			
Credit rating of receivables due from other financial institutions			
Authorised Deposit-taking Institutions rated A and above		**33,179**	25,000
Authorised Deposit-taking Institutions rated below A		**10,000**	11,000
Unrated Authorised Deposit-taking Institutions		**24,695**	20,601
		67,874	56,601
9. INVESTMENT SECURITIES			
Negotiable certificates of deposit		**108,661**	102,624
Maturity analysis			
Not later than 1 month		**35,725**	33,703
Later than 1 and not later than 3 months		**72,936**	68,921
Later than 3 and not later than 12 months		**-**	-
Later than 1 and not later than 5 years		**-**	-
		108,661	102,624
Credit rating of investment securities			
Authorised Deposit-taking Institutions rated A and above		**-**	-
Authorised Deposit-taking Institutions rated below A		**108,661**	102,624
Unrated Authorised Deposit-taking Institutions		**-**	-
		108,661	102,624
10. TRADE AND OTHER RECEIVABLES			
Interest receivable on investments		**988**	1,048
Sundry debtors, accrued income and prepayments		**181**	143
		1,169	1,191
11. DERIVATIVE FINANCIAL INSTRUMENTS			
Derivative financial instrument asset			
Interest rate swap contracts – cash flow hedge		**16**	-
Maturity analysis			
Not later than 1 year		**-**	-
Later than 1 and not later than 2 years		**2**	-
Later than 2 and not later than 3 years		**14**	-
		16	-

	Note	2014 $'000	2013 $'000
12. LOANS AND ADVANCES			
Overdrafts and Credit Cards		**9,754**	9,695
Term loans		**662,729**	667,422
Loans and advances before deferred fees and costs		**672,483**	677,117
Deferred loan transaction costs		**404**	391
Deferred loan origination fees		**(846)**	(923)
Deferred fixed rate loan renegotiation fees		**-**	(1)
Total loans and advances		**672,041**	676,584
Provision for impairment	13	**(336)**	(282)
Net loans and advances		**671,705**	676,302
Maturity analysis			
Not later than 1 month		**11,957**	11,823
Later than 1 and not later than 3 months		**4,197**	4,055
Later than 3 and not later than 12 months		**19,567**	18,889
Later than 1 and not later than 5 years		**100,051**	96,772
Later than 5 years		**536,269**	545,045
		672,041	676,584
Concentration of risk			
The loan portfolio of the Company does not include any loan which represents 10% or more of capital.			
The Company has an exposure to groupings of individual loans which concentrate risk and create exposure to particular segments as follows:			
- Southern NSW		**411,031**	417,607
- North East Victoria		**211,297**	207,136
- Other – non-concentrated		**50,155**	52,374
		672,483	677,117
Security held against loans and advances			
Secured by mortgage over residential property		**610,044**	622,553
Secured by mortgage over commercial property		**46,692**	36,397
Total loans and advances secured by real estate		**656,736**	658,950
Secured by funds		**444**	562
Partly secured by goods mortgage		**6,019**	7,252
Wholly unsecured		**9,284**	10,353
		672,483	677,117
Credit quality - loan to value ratio on loans and advances secured by real estate			
It is not practical to value 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		**552,446**	549,166
Loan to value ratio of more than 80% but mortgage insured		**99,254**	104,580
Loan to value ratio of more than 80% not mortgage insured		**5,036**	5,204
		656,736	658,950

	2014 $'000	2013 $'000
12. LOANS AND ADVANCES (continued)		
Securitised loans		
Securitised loans that do not qualifying for derecognition	**114,889**	-

	2014 $'000	2013 $'000
13. IMPAIRMENT OF LOANS AND ADVANCES		
Provision for impairment		
Collective provision	**321**	256
Specific provision	**15**	26
	336	282
Provision for impairment – collective provision		
Opening balance	**256**	215
Bad debts previously provided for written off during the year	**(71)**	(44)
Bad and doubtful debts provided for during the year	**136**	85
Closing balance	**321**	256
Provision for impairment – specific provision		
Opening balance	**26**	30
Bad debts previously provided for written off during the year	**(83)**	(23)
Bad and doubtful debts provided for during the year	**72**	19
Closing balance	**15**	26
Bad and doubtful debts expense comprises:		
Collective provision increase/(decrease)	**136**	85
Specific provision increase/(decrease)	**72**	19
Total bad debts expense/(benefit)	**208**	104
Ageing analysis of loans and advances past due		
Loans and advances past due and not impaired		
Up to 30 days	**15,969**	13,577
More than 30 days but less than 90 days	**4,320**	3,501
More than 90 days but less than 180 days	**965**	1,408
More than 180 days but less than 270 days	**516**	521
More than 270 days but less than 365 days	**10**	301
More than 365 days	**555**	460
Accounts overdrawn and overdrafts over limit less than 14 days	**21**	23
	22,356	19,791

	2014 $'000	2013 $'000
13. IMPAIRMENT OF LOANS AND ADVANCES (continued)		
Loans and advances past due and impaired		
Up to 30 days	**-**	-
More than 30 days but less than 90 days	**-**	-
More than 90 days but less than 180 days	**60**	80
More than 180 days but less than 270 days	**16**	41
More than 270 days but less than 365 days	**34**	20
More than 365 days	**92**	71
Accounts overdrawn and overdrafts over limit less than 14 days	**279**	212
	481	424
Total past due loans and advances	**22,837**	20,215
Security analysis of loans and advances past due		
Loans and advances past due and not impaired		
Secured by mortgage over real estate	**21,874**	19,189
Secured by funds	**-**	-
Partly secured by goods mortgage	**327**	344
Wholly unsecured	**155**	258
	22,356	19,791
Loans and advances past due and impaired		
Secured by mortgage over real estate	**12**	-
Secured by funds	**1**	-
Partly secured by goods mortgage	**152**	147
Wholly unsecured	**316**	277
	481	424
Total past due loans and advances	**22,837**	20,215
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	**243**	87
Net fair value of other assets acquired through the enforcement of security during the financial year	**9**	-

	2014 $'000	2013 $'000

14. OTHER INVESTMENTS

	2014 $'000	2013 $'000
Unlisted shares – at cost	**204**	204

The unlisted shares are measured at cost as their fair value cannot be measured reliably. 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. The Company does not intend to dispose of these shares.

The financial reports of this company record net tangible asset backing of these shares exceeding their cost value. Based on the net assets of the Company, any fair value determination on these shares is likely to be greater than their cost value, but due to the absence of a ready market, a market value is not able to be determined readily.

15. INVESTMENT PROPERTY

	2014 $'000	2013 $'000
Balance at the beginning of the year	**-**	-
Additions	**1,648**	-
Transfer from property, plant and equipment	**306**	-
Fair value adjustments through other comprehensive income	**(208)**	-
Disposals	**-**	-
Balance at the end of the year	**1,746**	-

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 valued in June 2014 by Cosgraves Property Advisers, accredited independent valuers.

Leasing arrangements

The investment properties are leased to tenants under short term operating leases with rentals payable monthly. Minimum lease payments receivable on leases of investment properties are as follows:

	2014 $'000	2013 $'000
Within 1 year	**25**	4
Later than 1 and not later than 2 years	**25**	-
Later than 2 and not later than 5 years	**54**	-
Aggregate lease payments receivable at balance date	**104**	4

Amount recognised in profit and loss for investment properties

	2014 $'000	2013 $'000
Rental income	**27**	27
Direct operating expenses	**(5)**	(7)
Net rental income received	**22**	20

16. PROPERTY, PLANT AND EQUIPMENT

	2014 $'000	2013 $'000
Land and buildings		
At fair value	**4,760**	5,139
Provision for depreciation	**-**	(141)
Total freehold land and buildings	**4,760**	4,998
Leasehold improvements		
At cost	**1,454**	1,454
Provision for amortisation	**(1,233)**	(1,086)
Total leasehold improvements	**221**	368
Plant and equipment		
At cost	**7,205**	7,002
Provision for depreciation	**(5,190)**	(4,636)
Total plant and equipment	**2,015**	2,366
Total property, plant and equipment at net book value	**6,996**	7,732

Reconciliations

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

	2014 $'000	2013 $'000
Land and buildings		
Carrying amount at the beginning of the year	**4,998**	4,077
Additions	**5**	994
Transfer to investment property	**(306)**	-
Fair value adjustments through other comprehensive income	**225**	-
Fair value adjustments through profit and loss	**(75)**	-
Depreciation	**(87)**	(73)
Carrying amount at the end of the year	**4,760**	4,998
Leasehold improvements		
Carrying amount at the beginning of the year	**368**	554
Additions	**-**	105
Disposals	**-**	(107)
Amortisation	**(147)**	(184)
Carrying amount at the end of the year	**221**	368
Plant and equipment		
Carrying amount at the beginning of the year	**2,366**	2,558
Additions	**558**	725
Disposals	**(19)**	(10)
Depreciation	**(890)**	(907)
Carrying amount at the end of the year	**2,015**	2,366

	2014 $'000	2013 $'000

16. PROPERTY, PLANT AND EQUIPMENT (continued)

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 valued in June 2014 by Cosgraves Property Advisers, accredited independent valuers.

17. INTANGIBLE ASSETS

Computer software and licences		
At cost	**2,330**	2,134
Provision for amortisation	**(1,881)**	(1,734)
	449	400

Reconciliations

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

Computer software and licences		
Carrying amount at the beginning of the year	**400**	342
Additions	**324**	292
Disposals	**-**	-
Amortisation	**(275)**	(234)
Carrying amount at the end of the year	**449**	400

18. DEFERRED TAX ASSETS

Deferred tax assets	**1,456**	1,314
Deferred tax assets are attributable to the following:		
Plant and equipment and intangible assets	**478**	445
Property and investment property	**102**	-
Provisions for employee benefits	**540**	521
Provision for impairment on loans	**101**	85
Borrowing Costs	**13**	17
Expenses not currently deductible	**56**	51
Deferred loan fees and transaction costs	**133**	160
Deferred income	**33**	35
	1,456	1,314

	2014 $'000	2013 $'000

19. DEPOSITS

Call deposits	**336,123**	303,589
Term deposits	**490,850**	505,436
	826,973	809,025
Maturity analysis		
Not later than 1 month	**455,847**	449,242
Later than 1 and not later than 3 months	**209,608**	221,752
Later than 3 and not later than 12 months	**142,865**	128,272
Later than 1 and not later than 5 years	**18,653**	9,759
	826,973	809,025
Concentration of deposits		
Southern NSW	**538,854**	527,638
North East Victoria	**222,497**	214,133
Other – non-concentrated	**65,622**	67,254
	826,973	809,025

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

20. TRADE AND OTHER PAYABLES

Accrued interest payable	**4,804**	5,798
Creditors and other liabilities	**6,303**	7,234
	11,107	13,032

21. INCOME TAX PAYABLE

Income tax payable	**571**	456
Movement during the year was as follows:		
Balance at the beginning of the year	**456**	399
Current year's income tax expense on profit before tax	**1,490**	1,375
Income tax paid – Current year	**(919)**	(919)
Income tax paid – Prior year	**(456)**	(399)
Under/(over) provision in prior period	**-**	-
Balance at the end of the year	**571**	456

	2014 $'000	2013 $'000

22. DEFERRED TAX LIABILITIES

	2014 $'000	2013 $'000
Deferred tax liabilities	**5**	144
Deferred tax liabilities are attributable to the following:		
Accrual of short-term bills	**-**	144
Derivative financial instruments	**5**	-
	5	144

23. PROVISION FOR EMPLOYEE BENEFITS

	2014 $'000	2013 $'000
Salaries, wages and other benefits accrued	**377**	233
Provision for annual leave	**753**	760
Provision for long service leave	**1,047**	953
	2,177	1,946

Included in employee benefits is a non-current amount of $382,000 (2013 - $334,000) relating to long service leave.

24. BORROWINGS

	2014 $'000	2013 $'000
Subordinated debt	**2,000**	2,000
Movement during the year was as follows:		
Balance at the beginning of the year	**2,000**	-
Increase due to debt issued	**-**	2,000
Balance at the end of the year	**2,000**	2,000
Maturity analysis		
Not later than 1 month	**-**	-
Later than 1 and not later than 3 months	**-**	-
Later than 3 and not later than 12 months	**-**	-
Later than 1 and not later than 5 years	**-**	-
Later than 5 years	**2,000**	2,000
	2,000	2,000

The company entered into an agreement to issue subordinated debt in November 2012. The debt instrument has a maturity date of 10 years but may be redeemed earlier subject to prior approval by APRA.

25. RESERVES

	2014 $'000	2013 $'000
General reserve for credit losses	**1,195**	1,174
Asset revaluation reserve	**1,039**	814
Capital profits reserve	**593**	593
Cash flow hedge reserve	**12**	-
	2,839	2,581

Movements in reserves

	2014 $'000	2013 $'000
General reserve for credit losses		
Balance at the beginning of the year	**1,174**	1,130
Transfer from retained earnings	**21**	44
Balance at the end of the year	**1,195**	1,174

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

	2014 $'000	2013 $'000
Asset revaluation reserve		
Balance at the beginning of the year	**814**	814
Total other comprehensive income	**225**	-
Balance at the end of the year	**1,039**	814

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

	2014 $'000	2013 $'000
Capital profits reserve		
Balance at the beginning of the year	**593**	593
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.

	2014 $'000	2013 $'000
Cash flow hedge reserve		
Balance at the beginning of the year	**-**	-
Total other comprehensive income	**12**	-
Balance at the end of the year	**12**	-

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

26. RETAINED EARNINGS

	2014 $'000	2013 $'000
Retained earnings at the beginning of the year	**54,759**	51,848
Net profit attributable to members	**2,763**	2,955
Transfers from/(to) reserves	**(21)**	(44)
Retained earnings at the end of the year	**57,501**	54,759

	2014 $'000	2013 $'000
27. STATEMENT OF CASH FLOWS		
(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	**42,897**	37,575
Receivables due from other financial institutions less than 3 months	**61,874**	37,601
Investment securities less than 3 months	**108,661**	102,624
	213,432	177,800
(b) Reconciliation of cash flows from operating activities		
Profit for the year	**2,763**	2,955
Non-cash items		
Charge for bad and doubtful debts	**208**	104
Depreciation	**977**	980
Amortisation of leasehold improvements	**147**	184
Amortisation of intangible assets	**275**	234
Provision for employee entitlements	**87**	100
(Profit) on disposal of plant and equipment	**(9)**	(10)
Loss on disposal of plant and equipment	**6**	9
Fair value adjustments	**283**	-
Changes in assets and liabilities		
Interest receivable	**60**	(38)
Other receivables	**(38)**	58
Interest payable	**(994)**	(422)
Income tax payable	**115**	57
Trade and other payables	**(931)**	1,497
Provision for employee benefits	**144**	57
Deferred tax assets	**(142)**	(84)
Deferred tax liabilities	**(144)**	2
	2,807	5,683
Net (increase)/decrease in loans and advances	**4,389**	(28,909)
Net increase/(decrease) in deposits	**17,948**	26,817
Net cash flow from operating activities	**25,144**	3,591

	2014 $	2014 $
28. AUDITOR'S REMUNERATION		
Amounts received or due and receivable by the External Auditor of the Group for:		
– audit of the financial statements of the Group	**66,140**	62,552
– other services in relation to the Group	**24,652**	17,061
	90,792	79,613

29. EMPLOYEE BENEFITS

Superannuation commitments

The Company contributes to the Hume Bank Staff Superannuation Fund which is an accumulation fund. The benefits provided are based on the amounts credited to each staff member's account in the fund. No actuarial assessment is required. Where applicable, the Company contributed 9.25% (2013 – 9.00%) of each fund staff member's gross salary to cover its occupational superannuation obligations. Staff members may contribute to the fund on a voluntary basis. Staff may request the Company to contribute to an alternative accumulated superannuation fund.

30. CONTINGENT LIABILITIES AND CREDIT COMMITMENTS

In the normal course of business the Company 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 Company 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 Company holds collateral supporting these commitments where it is deemed necessary.

	2014 $'000	2013 $'000
Credit-related commitments		
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	**47,632**	42,331
Security analysis of credit-related commitments		
Secured by mortgage over real estate	**32,580**	28,264
Secured by funds	**854**	830
Partly secured by goods mortgage	**42**	59
Wholly unsecured	**14,156**	13,178
	47,632	42,331
Financial guarantees		
Financial guarantees written are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. Security is generally held for these guarantees.	**1,946**	2,185
Security analysis of financial guarantees		
Secured by mortgage over real estate	**1,420**	1,692
Secured by funds	**518**	485
Wholly unsecured	**8**	8
	1,946	2,185

	2014	2013
	$'000	$'000

31. COMMITMENTS

Capital expenditure commitments

	2014 $'000	2013 $'000
Estimated capital expenditure contracted for at balance date but not provided for:		
– payable within one year	**156**	174

Operating leases (non-cancellable)

	2014 $'000	2013 $'000
Future operating lease commitments not provided for in the financial statements and payable:		
– within 1 year	**1,386**	1,351
– later than 1 and not later than 2 years	**811**	1,233
– later than 2 and not later than 5 years	**763**	1,113
– later than 5 years	**11**	80
Aggregate lease expenditure contracted for at balance date	**2,971**	3,777

32. 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 Company, directly or indirectly and has been taken to comprise the Directors and the members of the Senior Management team who are responsible for the day to day financial and operational management of the Company.

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

	2014	2013
	$	$
Short-term employee benefits		
- Directors	**333,801**	339,019
- Other key management personnel	**1,134,506**	1,075,987
Post-employment benefits – superannuation contributions		
- Directors	**146,116**	99,101
- Other key management personnel	**100,393**	94,277
Other long-term benefits – net increase in long service leave provision		
- Directors	**-**	-
- Other key management personnel	**19,584**	40,071
	1,734,400	1,648,455

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.

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

32. KEY MANAGEMENT PERSONNEL DISCLOSURE (continued)

Loans to key management personnel and other related parties

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

	2014 $		2013 $	
	Mortgage Secured Loans	**Revolving Credit (unsecured)**	Mortgage Secured Loans	Revolving Credit (unsecured)
Loans to Directors				
Funds available to be drawn	**-**	**18,161**	-	23,492
Balance at reporting date	**181,840**	**2,339**	178,892	1,508
Loans advanced (including redraws)	**-**	**22,854**	8,800	27,491
Loan repayments	**607,004**	**22,023**	30,835	30,942
Interest and other revenue earned	**17,928**	**-**	14,422	126
Loans to Director related parties				
Funds available to be drawn	**-**	**7,528**	-	1,307
Balance at reporting date	**473,747**	**472**	322,460	693
Loans advanced (including redraws)	**405,615**	**16,888**	6,221	2,911
Loan repayments	**274,066**	**17,300**	340,676	2,713
Interest and other revenue earned	**19,738**	**191**	34,925	3
Loans to other key management personnel				
Funds available to be drawn	**-**	**41,340**	-	28,935
Balance at reporting date	**2,165,531**	**13,660**	2,246,615	26,065
Loans advanced (including redraws)	**23,770**	**140,171**	534,002	149,316
Loan repayments	**231,520**	**152,576**	175,150	153,167
Interest and other revenue earned	**126,666**	**-**	111,365	-

The Company'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.

32. 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:

	2014	2013
	$	$
Deposits outstanding at balance date:		
- Directors	**133,870**	179,411
- Director related parties	**3,347,643**	9,414,320
- Other key management personnel	**267,054**	253,618
- Other key management personnel related parties	**392,191**	322,616
Interest paid on deposits:		
- Directors	**4,043**	3,136
- Director related parties	**317,211**	462,025
- Other key management personnel	**2,110**	2,009
- Other key management personnel related parties	**12,623**	11,508

The Company'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.

33. OUTSOURCING ARRANGEMENTS

The Company 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.

34. SEGMENT INFORMATION

The Company operates exclusively in the finance industry within Australia.

35. TRANSFER OF FINANCIAL ASSETS

The Company has established arrangements for the transfer of loan contractual benefits of interest and repayments to support ongoing liquidity facilities. These arrangements are with the Murray Trust 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 Company retains the benefits of the Trust until such time as a drawing is required.

Only residential mortgage-backed securities (RMBS) that meet specified criteria, are eligible to be transferred into the Trust.

35. TRANSFER OF FINANCIAL ASSETS (continued)

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. The majority 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.

	2014	2013
	$'000	$'000
Balance sheet values		
Loans	**114,889**	-
Fair value of associated liabilities	**(114,889)**	-
Net	-	-
Carrying amount of the loans as at the time of transfer	**124,009**	-

Repurchase obligations Murray Trust

The Murray Trust is a trust established by the Company to facilitate liquidity requirements of APRA's prudential standards. The trust has an independent Trustee. In the case of the Murray Trust, the Company receives notes eligible to be sold to the Reserve Bank should the liquidity needs not be satisfied by normal operational liquidity. The notes are secured over residential mortgage-backed securities (RMBS).

The Company has financed the loans and receives the net gains or losses from the Trust after trustee expenses. The Company has an obligation to manage the portfolio of the loans in the trust and to maintain the pool of eligible secured loans at the value equivalent to the value of the notes received. The Company 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 trust fails to meet the Trust's criteria, the Company is obliged to repurchase those loans and may substitute equivalent qualifying loans into the trust.

Parent entity disclosure

On the basis that the above loans are not derecognised, for the purpose of compliance with regulation 2M.3.01 of the Corporations Regulations 2001, there is no difference between the reported results on a consolidated basis and the results of the parent entity.

36. FINANCIAL RISK MANAGEMENT

Overview

The Board has overall responsibility for the establishment and oversight of the risk management framework. The Board has adopted an overarching risk management policy and framework suitable for the risk profile of the Company.

Risk management policies are established to identify and analyse the risks faced by the Company and to set appropriate risk limits and controls. Procedures are in place to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities. The Company, through staff training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Board oversees the development of the risk management framework in relation to the risks faced by the Company. It also reviews and approves policies to require adherence to the requirements of the risk framework.

The Company's risk management system incorporates a thorough analysis of all risks identified that are likely to have an impact. Controls that mitigate risk are implemented and tested and are supported by documented policies and procedures.

The Company's Audit Committee oversees management's compliance with the Company's risk management policies and procedures. The 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 Audit Committee.

Objectives and policies

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

- Credit risk;
- Operational risk;
- Liquidity risk;
- Market risk;
- Capital risk;
- Regulatory & compliance risk; and
- Strategic risk.

The Board's role includes approving key policies and processes including the internal capital adequacy assessment process, the internal liquidity assessment process and in doing so reviewing the outcomes of stress testing completed.

An overview of risk management approaches to the Company's key risk types are detailed below. Further quantitative disclosures are included throughout these financial statements.

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, receivables due form other financial institutions and investment securities.

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

36. RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk – loans and advances

The risk of losses from loans and advances 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 Company has established policies over:

- Credit assessment and approval of loans and facilities including acceptable risk assessment and security requirements. Credit assessment includes ensuring borrowers are creditworthy and capable of meeting the loan repayments;
- Requirements for lenders' mortgage insurance;
- Limits of acceptable exposure to individual borrowers, non-mortgage secured loans and advances, commercial lending and industry groups considered at high risk of default;
- Reassessing and reviewing the credit exposures on certain loans and advances;
- Establishing appropriate provisions to recognise the impairment of loans and facilities;
- Debt recovery procedures; and
- Review of compliance with the above policies.

A regular review of compliance with these policies is conducted by Internal Audit.

The Company 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.

Credit risk – liquid investments

The risk of financial loss from liquid investments held 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 banks to a maximum of 50% of capital and other non-bank financial institutions to a maximum of 20% of capital, dependent upon their credit rating. Given the high quality and/or relatively short duration of these investments, the Company does not expect any counterparty to fail to meet its obligation. Details of exposures to liquidity investments are set out in notes.

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 Company in both normal and an adverse operating environment.

The Company 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 Company is required to maintain at least 9% of total adjusted liabilities as assets capable of being converted to cash within 24 hours to satisfy APRA's prudential standards, however, the Board requires 12% of liabilities to be held in liquid assets to maintain adequate funds to meet customer withdrawal requests. Should the liquidity ratio fall below this level, 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 2014, the Company held 15.55% of total adjusted liabilities as liquid assets (2013 – 15.69%). The average during the financial year was 16.16% (2013 – 16.18%).

The Company also maintains 1.80% of total adjusted liabilities as liquid assets (2013 – 1.80%) as part of an internal standby facility.

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

36. RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Internal securitisation and RBA repurchase

During the year the Company completed a project which involved the creation of a trust to hold rights to a portfolio of mortgage secured loans to enable the Company to secure funds from the Reserve Bank of Australia, if required, to meet emergency liquidity requirements. As at 30 June 2014, the Company held $112.919 million (2013 – Nil) of securities available to be used for RBA repurchase to meet emergency liquidity requirements.

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.

The Company does not trade in the financial instruments it holds and is not exposed to currency risk. It is exposed to interest rate risk arising from changes in market interest rates due to the mismatches between the repricing date of assets and liabilities.

Interest rate risk in the banking book

The Company predominately maintains a balanced 'on book' hedging strategy by ensuring the net difference between asset and liability maturities are not excessive. The gap is monitored monthly to identify any large exposure to interest rate movements and to rectify the excess through interest rate swaps and targeted fixed interest rate products available through investment assets and term deposits liabilities to rectify the imbalance to within acceptable levels. Details of the interest rate risk profile are set out in note 37(b).

Value at Risk (VaR) and Earnings at Risk (EaR) are calculated monthly using internal models and managed within established limits. The model and limits have been reviewed by external specialist auditors.

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

Based on independent VaR calculations as at 30 June 2014 using a 20 day holding period, 99% confidence level and a 250 day observation period, the VaR was 0.30% of capital. VaR as at 31 March 2013 was 1.48% of capital using the same parameters.

Based on independent EaR calculations as at 30 June 2014 using a shift in interest rates of 200 basis points for one year, EaR was a $4,922,266 variation or 23.79% from the base case. EaR as at 31 March 2013 was a $3,266,490 variation or 16.30% from the base case, using the same parameters.

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 Company's objective is to manage operational risk to balance the avoidance of financial losses through implementation of controls and the avoidance of procedures that inhibit innovation, creativity and service. Operational risks are managed through the implementation of policies and systems to monitor the likelihood of events and minimise the consequences of them should they occur. Systems of internal control are enhanced through:

- Segregation of duties between employees and functions, including approval and processing duties;
- Documented policies and procedures, employee job descriptions and responsibilities to reduce the incidence of errors and inappropriate behaviour;
- Implementation of a compliance culture and awareness of the duty to report exceptions and breaches;
- Effective dispute resolution procedures to respond to customer complaints; and
- Effective insurance arrangements to reduce the impact of losses.

The Company has an extensive business continuity policy and plan which is regularly tested to provide assurance that the Company's operations can be maintained.

Contracts with service providers are maintained. Key contracts include service level agreements and, where appropriate, penalties for non-compliance.

36. RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Regulatory & compliance risk

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

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

Strategic Risk

Strategic risk is the risk to current or prospective earnings and capital and the long-term performance and viability of the Company 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. Additional commentary on emerging issues is included in the monthly report.

Capital risk

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

Company 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 Company's capital management objectives are to:

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

The Company is subject to minimum capital requirements imposed by APRA based on the guidelines developed by the Basel Committee on Banking Supervision. The Company 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.

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

The Company'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.

	2014 $'000	2013 $'000

36. RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Capital adequacy ratio calculation

	2014 $'000	2013 $'000
Tier 1 capital		
Common equity tier 1 capital		
Retained earnings	**57,501**	54,759
Capital profits reserve	**593**	593
Deferred fee income	**442**	533
Asset revaluation reserve	**1,039**	814
Cash flow hedge reserve	**12**	-
	59,587	56,699
Less prescribed deductions	**(2,105)**	(1,774)
Net tier 1 capital	**57,482**	54,925
Tier 2 capital		
General reserve for credit losses	**1,195**	1,174
Subordinated debt	**1,600**	1,800
Net tier 2 capital	**2,795**	2,974
Total capital	**60,277**	57,899
Risk profile		
Credit risk	**344,149**	340,351
Operational risk	**54,221**	50,894
Total risk weighted assets	**398,370**	391,245
Capital adequacy ratio	**15.13%**	14.80%

Crowe Horwath

37. FINANCIAL INSTRUMENTS

(a) Terms, conditions and accounting policies

The Company'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	12	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 housing 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, housing loans are covered by mortgage insurance.
Receivables due from other financial institutions	8	Receivables due from other financial institutions are held to maturity and are stated at cost. Interest revenue is recognised when earned.	Receivables due from other financial institutions have an average maturity of 11 days with effective interest rates of 2.25% to 3.56% (2013: 2.50% to 4.16%).
Other investments	14	Other investments are carried at the lower of cost or recoverable amount. Interest is recognised when earned.	
Negotiable certificates of deposit	9	Negotiable certificates of deposit are held to maturity and are stated at cost. Fair value is stated in note 37(d). Interest revenue is recognised when earned.	Negotiable certificates of deposit have an average maturity of 91 days and effective interest rates of 2.97% to 3.21% (2013: 3.11% to 3.70%).
Derivative financial assets	11	Derivative financial instruments are carried at their fair value.	
Financial liabilities			
Deposits	19	Deposits are recorded at the principal amount. Interest is calculated on the daily balance outstanding or the minimum monthly balance.	Details of maturity terms are set out in note 19.
Trade and other payables	20	Liabilities are recognised for amounts to be paid in the future for goods and services received, whether or not billed to the Company.	Trade liabilities are normally settled on 30-day terms.
Subordinated debt	24	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 24.

37. 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 Company's assets, liabilities and equity, and in the mismatch in repricing dates of its assets and liabilities. The tables for both the 2013 and 2014 financial years detail the exposure of the Company'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.

	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	%
2014								
Financial assets								
Cash and cash equivalents	34,266					8,631	42,897	2.92
Receivables due from FI's	42,874	19,000	6,000				67,874	3.36
Negotiable certificates of deposit	35,725	72,936					108,661	3.11
Trade and other receivables						1,169	1,169	n/a
Derivative financial assets	16						16	n/a
Loans and advances	579,913	5,640	25,622	61,229	79	(778)	671,705	5.49
Other investments						204	204	n/a
Total financial assets	692,794	97,576	31,622	61,229	79	9,226	892,526	
Financial liabilities								
Deposits	455,847	209,608	142,865	18,653			826,973	2.61
Trade and other payables						11,107	11,107	n/a
Subordinated debt		2,000					2,000	8.64
Total financial liabilities	455,847	211,608	142,865	18,653	-	11,107	840,080	

2013								
Financial assets								
Cash and cash equivalents	26,627					10,948	37,575	3.15
Receivables due from FI's	22,601	17,000	17,000				56,601	3.84
Negotiable certificates of deposit	33,703	68,921					102,624	3.44
Trade and other receivables						1,191	1,191	n/a
Derivative financial assets							-	n/a
Loans and advances	600,670	3,796	27,213	45,368	70	(815)	676,302	5.81
Other investments						204	204	n/a
Total financial assets	683,601	89,717	44,213	45,368	70	11,528	874,497	
Financial liabilities								
Deposits	449,242	221,752	128,272	9,759			809,025	3.12
Trade and other payables						13,032	13,032	n/a
Subordinated debt		2,000					2,000	8.75
Total financial liabilities	449,242	223,752	128,272	9,759	-	13,032	824,057	

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

37. 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
2014								
Financial assets								
Cash and cash equivalents	42,988						42,988	42,897
Receivables due from FI's	43,184	19,277	6,105				68,566	67,874
Negotiable certificates of deposit	36,000	73,500					109,500	108,661
Trade and other receivables	134						134	1,169
Derivative financial assets	2						2	16
Loans and advances	14,963	10,340	46,023	226,871	583,812		882,009	671,705
Other investments						204	204	204
Total financial assets	137,271	103,117	52,128	226,871	583,812	204	1,103,403	892,526
Financial liabilities								
Deposits	457,741	212,919	147,120	19,641			837,421	826,973
Trade and other payables	6,303						6,303	11,107
Subordinated debt		43	130	691	2,580		3,444	2,000
On balance sheet	464,044	212,962	147,250	20,332	2,580	-	847,168	840,080
Undrawn credit commitments	47,632						47,632	47,632
Total financial liabilities	511,676	212,962	147,250	20,332	2,580	-	894,800	887,712

2013								
Financial assets								
Cash and cash equivalents	37,670						37,670	37,575
Receivables due from FI's	22,779	15,193	19,478				57,450	56,601
Negotiable certificates of deposit	34,000	69,500					103,500	102,624
Trade and other receivables	121						121	1,191
Derivative financial assets							-	-
Loans and advances	15,030	10,599	47,098	232,279	595,667		900,673	676,302
Other investments						204	204	204
Total financial assets	109,600	95,292	66,576	232,279	595,667	204	1,099,618	874,497
Financial liabilities								
Deposits	451,391	225,587	133,276	10,286			820,540	809,025
Trade and other payables	7,234						7,234	13,032
Subordinated debt		44	131	700	2,763		3,638	2,000
On balance sheet	458,625	225,631	133,407	10,986	2,763	-	831,412	824,057
Undrawn credit commitments	42,331						42,331	42,331
Total financial liabilities	500,956	225,631	133,407	10,986	2,763	-	873,743	866,388

37. 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 2014 $'000	Total carrying amount 2013 $'000	Aggregate net fair value 2014 $'000	Aggregate net fair value 2013 $'000
Financial assets					
Cash and cash equivalents	7	**42,897**	37,575	**42,988**	37,670
Receivables due from other financial institutions	8	**67,874**	56,601	**68,121**	57,113
Negotiable certificates of deposit	9	**108,661**	102,624	**109,122**	103,118
Trade and other receivables	10	**1,169**	1,191	**134**	122
Derivative financial instruments	11	**16**	-	**16**	-
Loans and advances	12	**671,705**	676,302	**671,214**	685,645
Other investments	14	**204**	204	**204**	204
Total financial assets		**892,526**	874,497	**891,799**	883,872
Financial liabilities					
Deposits	19	**826,973**	809,025	**823,755**	810,929
Trade and other payables	20	**11,107**	13,032	**11,107**	13,032
Subordinated debt	24	**2,000**	2,000	**2,000**	2,000
Total financial liabilities		**840,080**	824,057	**836,862**	825,961

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

Trading securities are carried at net market/net fair value.

Negotiable certificates of deposits

Trading securities are carried at net market/net fair value.

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 Company expects to pay or receive based upon current interest rates. This value is equivalent to the amount that Company would need to pay 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.

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 Company 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.

38. FAIR VALUE MEASUREMENT

Fair value hierarchy

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

2014	Note	Fair value measurement using Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Assets measured at fair value					
Derivative financial instruments	11	-	16	-	16
Investment property	15	-	1,746	-	1,746
Land and buildings	16	-	4,760	-	4,760
Total assets measured at fair value		-	6,522	-	6,522
Assets for which fair values are disclosed					
Cash and cash equivalents		-	42,988	-	42,988
Receivables due from other financial institutions		-	68,121	-	68,121
Negotiable certificates of deposit		-	109,122	-	109,122
Trade and other receivables		-	-	134	134
Loans and advances		-	-	671,214	671,214
Other investments		-	-	204	204
Total assets for which fair value is disclosed		-	220,231	671,552	891,783
Liabilities for which fair values are disclosed					
Deposits		-	823,755	-	823,755
Trade and other payables		-	-	11,107	11,107
Subordinated debt		-	2,000	-	2,000
Total liabilities for which fair value is disclosed		-	825,755	11,107	836,862

There have been no transfers between levels during the year.

38. **FAIR VALUE MEASUREMENT (Continued)**

2013	Note	Fair value measurement using Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Assets measured at fair value					
Derivative financial instruments	11	-	-	-	-
Investment property	15	-	-	-	-
Land and buildings	16	-	4,998	-	4,998
Total assets measured at fair value		-	4,998	-	4,998
Assets for which fair values are disclosed					
Cash and cash equivalents		-	37,670	-	37,670
Receivables due from other financial institutions		-	57,113	-	57,113
Negotiable certificates of deposit		-	103,118	-	103,118
Trade and other receivables		-	-	122	122
Loans and advances		-	-	685,645	685,645
Other investments		-	-	204	204
Total assets for which fair value is disclosed		-	197,901	685,971	883,872
Liabilities for which fair values are disclosed					
Deposits		-	810,929	-	810,929
Trade and other payables		-	-	13,032	13,032
Subordinated debt		-	2,000	-	2,000
Total liabilities for which fair value is disclosed		-	812,929	13,032	825,961

There have been no transfers between levels during the year.

Directors' Declaration

In the opinion of the Directors of Hume Bank Limited:

1. the financial statements and notes, set out on pages 7 to 48, 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 2014 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:

Michael Gobel
Chairman

Henrietta Cruddas
Deputy Chairman

Albury, 21 August 2014

Crowe Horwath.

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Independent Auditor's report to the members of Hume Bank Limited (formally Hume Building Society Ltd)

Report on the financial statements

We have audited the accompanying financial statements of Hume Bank Limited (formally Hume Building Society) (the Company), which comprises the consolidated statement of financial position as at 30 June 2014, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended on that date, a summary of significant accounting policies and other explanatory notes 1 to 38 and the directors' declaration set out on pages 7 to 49.

Directors' responsibility for the financial statements

The Directors of the Company are responsible for the preparation of the financial statements that give a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001 and for such internal controls as the Directors determine is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error. In Note 1, the Directors also state, in accordance with Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with International Financial Reporting Standards.

Auditor's responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation of the financial statements that give a true and fair view 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 entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial statements.

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

Crowe Horwath.

Auditor's opinion

In our opinion:

(a) the financial statements of Hume Bank Limited (formally Hume Building Society Ltd) are in accordance with the *Corporations Act 2001*, including:

  (i) giving a true and fair view of the Consolidated Entity's financial position as at 30 June 2014 and of their performance for the year ended on that date; and

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

(b) the financial statements also comply with *International Financial Reporting Standards* as disclosed in Note 1.

CROWE HORWATH ALBURY

BRADLEY D BOHUN
Partner
Albury, 21 August 2014

Senior Managers

ANDREW SAXBY Chief Executive Officer
JESSIE ARNEY General Manager Human Resources
WAYNE NAGLE General Manager Finance and Administration
ALISON PRENTICE Risk Manager
DAVID ROWE General Manager Information Technology
MELISSA SWEETLAND General Manager Customer Service, Sales and Marketing

Management Team

OLYMPIA ANDRONICOS Regional Manager Southern NSW
DYANI BONACCI Marketing Manager
CARLY BROWN Regional Manager Victoria
JUDY CLOHESY Administrative Services and Facilities Manager
ALISON EATON Human Resources Manager
DALE JOHNSTONE Financial and Management Accountant
JARROD O'NEILL Finance Manager
TYLER PEACHEY Credit Manager
KEVIN PHILLIPS Management Accountant
BILL QUINN Information Technology Manager
MELISSA RALPH Compliance Manager
JUSTIN RYNEHART Regional Manager Riverina
JASON WOOLHOUSE Product Manager

Service Centres

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Phone (02) 6939 7442 Fax (02) 6926 6936

Southcity Shopping Centre
1 Tanda Place, Glenfield Park NSW 2650
Phone (02) 6939 7441 Fax (02) 6971 2897

Regional

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HOWLONG
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JINDERA
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YACKANDANDAH
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NATIONAL CARBON OFFSET STANDARD CONSUMER
Hume Bank Limited uses National Carbon Offset Standard
Certified ENVI Recycled Super Smooth carbon neutral paper
An Australian Government Initiative