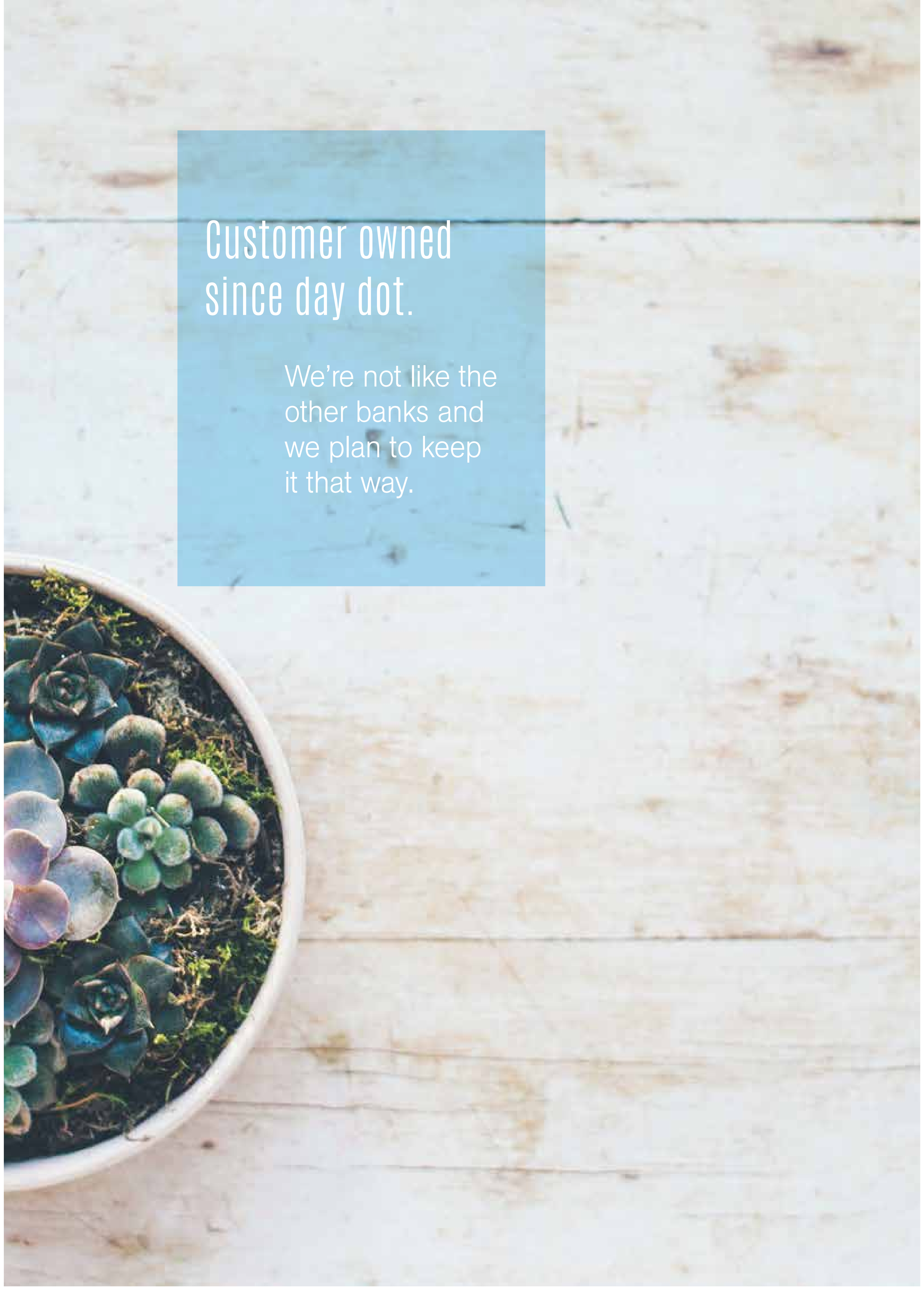
2017
Annual Financial Report

Hume Bank



Financial Report

for the year ended 30 June 2017

Contents

Hume Bank Limited
ABN 85 051 868 556
AFSL No. 244248
Australian Credit Licence No. 244248

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 2017 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
Henrietta Rachel Cruddas B. Sc (Hons), GAICD Independent, non-executive Director.	Solicitor (England and Wales, New South Wales). Board member, chair of Risk Committee and member of Audit Committee since November 2013. Deputy Chairman from November 2013 to October 2015. Previously a Board member from May 2011 to August 2012. Henri has been a legal, compliance and risk adviser to the financial services industry for the last 25 years in Australia, the UK and Asia, specialising in global regulatory change projects.
Ulf Olof Ericson B. Ec, B. Comm, Grad Dip Advanced Taxation Law, Dip Law (BAB), FCA, MAICD, CTA Independent, non-executive Director.	Chartered Accountant – Director ATS Partners, Accounting and Financial Services. Board member June 1988 to November 2016 and Chairman from August 1998 to June 2012. Previously a member of the Risk Committee, the Audit Committee and the Remuneration and Succession Committee. Ulf retired from the Board in November 2016.
Michael Conrad Gobel B.Sc, MAppFin, GAICD Independent, non-executive Director.	Equity Funds Manager Board member since November 2012, Chairman from November 2013 to October 2016, Deputy Chairman from November 2012 to November 2013 and since October 2016. Member of the Risk Committee and the Remuneration and Succession Committee (Chairman of the Remuneration and Succession Committee from November 2013 until November 2014 and acting Chairman of the Committee from July 2017). Michael has provided strategic financial advice to the private business sector, major domestic and international investment funds and government borrowing authorities. Michael is the Deputy Chairman of the Victorian Ovens and Murray Regional Partnerships Board, is on the Latrobe University Regional Advisory Board and is a member of Scots School Board. Michael is a former Board member of Hothouse Theatre.
Kerry Merle Grigg BCom, MCom (Marketing) (Hons), PhD, MAICD Independent, non-executive Director.	Global University Recruitment and Early Talent Pipeline Development Director – Mars Incorporated. Kerry has extensive experience in organisational development. Board member since July 2017. Kerry is also a member of the Wodonga Institute of TAFE Board.
Paul Carrington McGill B Sc Independent, non-executive Director	Former Consulting Director with Deloitte and Managing Consultant with PricewaterhouseCoopers, founding CEO of ActiveWealth, non-executive Director of Tourism North East, Director of Maakan Group Pty Ltd, Chair of HotHouse Theatre and Chair, Advisory Board for Bridge Road Brewers. Board member since July 2016. Member of the Risk Committee.
Leo Francis O'Reilly GAICD Independent, non-executive Director.	Former partner in an international accounting firm, former chartered accountant with supplementary registrations as company auditor, local government (NSW) auditor, insolvency practitioner and licenced dealer's representative. Board member since February 1998. Chairman of the Audit Committee and member of the Risk Committee. Leo is the Chairman of the AlburyCity Audit Committee, a former Director of Hume Medicare Local and former Chairman of Hume Medicare Local Audit and Risk Committee.
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 from October 1993 to June 2017. Deputy Chairman from November 2008 to November 2012, and from October 2015 to May 2016. Previously Chairman of the Remuneration and Succession Committee and member of the Risk Committee. Joy retired from the Board in June 2017.
Kay Denise Thawley B.Bus, GAICD Independent, non-executive Director.	Former Senior Executive with the National Australia Bank, former Partner with Deloitte Touche Tohmatsu and former Chief Executive Officer of Industry Fund Services. Board member since August 2014. Member of the Remuneration & Succession Committee and the Audit Committee. Kay is an Independent Member of the Indigo Shire Audit Committee and a former Director of Wodonga Institute of TAFE.
Anthony Charles Whiting B Com Independent, non-executive Director.	Former CEO of The Border Morning Mail Pty Ltd from 1996-2007, former board member of Wodonga Institute of TAFE, former Director of Mandoe Pty Ltd, Director of Albury-Wodonga Community Media. Appointed to the Board in May 2016. Deputy Chairman since May 2016 and Chairman since October 2016. Member of the Remuneration & Succession Committee and the Audit Committee.

Company Secretary

Mrs Melissa Ralph BBus (Banking – with distinction), MAICD, GIACert, is the Company Secretary, appointed from 19 October 2015.

Directors Meetings

The Number of meetings of Directors (including meetings of committees of Directors) held during the year and the number of meetings attended by each Director was as follows:

	Board of Directors	Risk Committee	Audit Committee	Remuneration & Succession Committee
Number of meetings held:	14	4	5	5
Number of meetings attended:				
Henrietta Rachel Cruddas	13	4	5	n/a
Ulf Olof Ericson	5 (of 6 eligible)	n/a	3 (of 3 eligible)	2 (of 2 eligible)
Michael Conrad Gobel	12	3	1 (of 1 eligible)	5
Paul Carrington McGill	13	3	n/a	n/a
Leo Francis O'Reilly	13	3	5	n/a
Feynella Joy Stocker	12	1 (of 1 eligible)	1 (of 1 eligible)	5
Kay Denise Thawley	14	1 (of 1 eligible)	5	3 (of 3 eligible)
Anthony Charles Whiting[1]	14	1 (of 1 eligible)	4	n/a

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

Corporate Governance Statement

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

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

Committees of Directors

Audit Committee

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

Risk Committee

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

Remuneration & Succession Committee

The Remuneration and Succession Committee is a Board appointed Committee of four non-executive Directors. It is responsible for reviewing the performance of the Chief Executive Officer and making recommendations to the Board regarding his remuneration. It reviews appraisals and remuneration recommendations for the Senior Managers submitted by the Chief Executive Officer and also the Remuneration and Reward Policy which establishes staff remuneration structures. It also develops Board succession planning for consideration by the Board. The Remuneration and Succession Committee was chaired by Joy Stocker until her retirement from the Board in June 2017, and is currently chaired in an acting capacity by Michael Gobel.

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 $5.729 million for the year (2016 - $5.324 million). Net profit after income tax was $3.938 million (2016 - $3.707 million). The result was based on an increase in total assets of 4.70% or $47.27 million to $1.052 billion on the back of net loan approvals of $205 million (2016 - $196 million). Net loans and advances outstanding at 30 June 2017 were $774.914 million (2016 - $729.744 million) and deposits from customers were $966.078 million (2016 - $923.336 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 35 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 except those outlined in note 31 to the financial statements (page 37).

Lead auditor's independence declaration

The auditor's independence declaration is set out on page 6 and forms part of the Directors' report for the financial year ended 30 June 2017.

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

Signed in accordance with a resolution of the Directors:

Anthony Whiting Chairman	Michael Gobel Deputy Chairman

Albury, 17 August 2017

Crowe Horwath.
PART OF FINDEX

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

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2017 there have been no contraventions of:

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

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

This declaration is in respect of Hume Bank Limited and the entities it controlled during the financial year ended 30 June 2017.

CROWE HORWATH ALBURY

DAVID MUNDAY
Partner

Dated at Albury this 17th day of August 2017.

Consolidated Statement of Profit or Loss and Other Comprehensive Income

for the year ended 30 June 2017

	Note	2017	2016
		$'000	$'000
Interest revenue	2	**39,776**	40,644
Interest expense	2	**(16,074)**	(18,048)
Net interest income		**23,702**	22,596
Non-interest income	3	**4,894**	4,462
Total operating income		**28,596**	27,058
Impairment of loans and advances	13	**(115)**	35
Other expenses	4	**(22,851)**	(21,769)
Operating profit before fair value adjustments		**5,630**	5,324
Fair value adjustments	5	**99**	-
Profit before income tax		**5,729**	5,324
Income tax expense	6	**(1,791)**	(1,617)
Profit for the year		**3,938**	3,707
Other comprehensive income, net of tax			
Items that will not be reclassified subsequently to profit or loss			
Revaluation of property		**503**	-
Items that may be reclassified subsequently to profit or loss			
Change in fair value of cash flow hedges		**(10)**	(50)
Other comprehensive income, net of tax		**493**	(50)
Total comprehensive income for the year attributable to members		4,431	3,657

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 49.

Consolidated Statement of Financial Position

as at 30 June 2017

	Note	2017	2016
		$'000	$'000
Assets			
Cash and cash equivalents	7	**46,807**	41,861
Receivables due from other financial institutions	8	**55,631**	63,019
Investment securities	9	**160,375**	157,203
Trade and other receivables	10	**2,518**	2,831
Derivative financial instruments	11	**-**	-
Loans and advances	12	**774,914**	729,744
Other investments	14	**204**	204
Investment property	15	**1,770**	1,746
Property, plant and equipment	16	**7,781**	6,201
Intangible assets	17	**758**	520
Deferred tax assets	18	**1,092**	1,249
Total assets		**1,051,850**	1,004,578
Liabilities			
Deposits from members	19	**966,078**	923,336
Trade and other payables	20	**9,411**	9,277
Derivative financial instruments	11	**15**	-
Income tax payable	21	**298**	88
Deferred tax liabilities	22	**-**	-
Provision for employee benefits	23	**2,307**	2,567
Borrowings	24	**2,000**	2,000
Total liabilities		**980,109**	937,268
Net assets		**71,741**	67,310
Members' funds			
Reserves	25	**3,569**	2,995
Retained earnings	26	**68,172**	64,315
Total members' funds		**71,741**	67,310

The consolidated statement of financial position is to be read in conjunction with the accompanying notes set out on pages 11 to 49.

Consolidated Statement of Changes in Equity

for the year ended 30 June 2017

	Note	Retained Earnings	General Reserve for Credit Losses	Asset Revaluation Reserve	Capital Profits Reserve	Cash Flow Hedge Reserve	Total Reserves	Total Members' Funds
		$'000	$'000	$'000	$'000	$'000	$'000	$'000
2016								
Opening balance at 1 July 2015		60,674	1,297	1,039	593	50	2,979	63,653
Net profit for the year		3,707	-	-	-	-	-	3,707
Total other comprehensive income		-	-	-	-	(50)	(50)	(50)
Transfers to/(from) reserves		(66)	66	-	-	-	66	-
Closing balance at 30 June 2016	25, 26	64,315	1,363	1,039	593	-	2,995	67,310
2017								
Opening balance at 1 July 2016		**64,315**	**1,363**	**1,039**	**593**	**-**	**2,995**	**67,310**
Net profit for the year		**3,938**	**-**	**-**	**-**	**-**	**-**	**3,938**
Total other comprehensive income		**-**	**-**	**503**	**-**	**(10)**	**493**	**493**
Transfers to/(from) reserves		**(81)**	**81**	**-**	**-**	**-**	**81**	**-**
Closing balance at 30 June 2017	25, 26	**68,172**	**1,444**	**1,542**	**593**	**(10)**	**3,569**	**71,741**

The consolidated statement of changes in equity is to be read in conjunction with the accompanying notes set out on pages 11 to 49.

Consolidated Statement of Cash Flows

for the year ended 30 June 2017

	Note	2017	2016
		$'000	$'000
Cash flows from operating activities			
Interest received		**39,861**	40,505
Interest paid		**(16,101)**	(18,780)
Other non-interest revenue received		**4,545**	4,468
Cash paid to suppliers and employees		**(21,468)**	(20,399)
Fees and commissions paid		**(44)**	(27)
Income tax paid	21	**(1,420)**	(1,653)
		5,373	4,114
(Increase)/decrease in operating assets:			
Net (increase)/decrease in loans and advances		**(45,285)**	(51,682)
Net increase/(decrease) in deposits		**43,069**	49,623
Net cash flows from operating activities	27(b)	**3,157**	2,055
Cash flows from investing activities			
Net (increase)/decrease in receivables due from other financial institutions		**3,000**	16,000
Net (increase)/decrease in investments securities		**(14,977)**	(20,065)
Payments for property, plant and equipment		**(1,815)**	(469)
Proceeds from sale of property, plant and equipment		**10**	4
Payments for intangible assets		**(624)**	(267)
Payments for investment property		**-**	-
Net cash flows from investing activities		**(14,406)**	(4,797)
Cash flows from financing activities			
Proceeds from borrowings		**-**	-
Net cash flows from financing activities		**-**	-
Net increase/(decrease) in cash held		**(11,249)**	(2,742)
Cash at the beginning of the financial year		**234,018**	236,760
Cash at the end of the financial year	27(a)	**222,769**	234,018

The consolidated statement of cash flows is to be read in conjunction with the accompanying notes set out on pages 11 to 49.

Notes to the Financial Statements

for the year ended 30 June 2017

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Notes to the Financial Statements

for the year ended 30 June 2017

1. SIGNIFICANT ACCOUNTING POLICIES

(a) Reporting entity

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

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

(b) Statement of compliance

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

The financial statements were authorised for issue by the Board of Directors on 17 August 2017.

(c) Basis of measurement

The financial statements are presented in Australian dollars.

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

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

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

(d) RBA repurchase securitisation trust consolidation

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

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

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

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

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) 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 36 - fair value of financial instruments; and
- note 13 - impairment of loans and advances.

(f) Investment in equity securities

Equity investments are stated at fair value, with any resulting gain or loss recognised in the profit or loss. 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.

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

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

The receivables also meet the characteristics test.

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

These are initially measured at fair value and subsequently measured at amortised cost.

(h) Investment securities

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

The investment securities also meet the characteristics test.

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

These are initially measured at fair value and subsequently measured at amortised cost.

(i) Employee benefits

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

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

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

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

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Loans and advances

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

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

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

(k) Loan impairment – collective provision

The collective provision for impairment is determined as per Group 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.

(l) 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.

(m) Reserve for credit losses

Group policy requires that a general reserve for credit losses, sufficient to cover estimated future credit losses, be maintained. This Group maintains a general reserve for credit losses of 0.3% (2016 - 0.3%) of risk weighted assets.

(n) 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.

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) Property, plant and equipment

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

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

Assets less than $500 are not capitalised.

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

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

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

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

The estimated useful lives are as follows:

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

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

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

(p) Intangible assets

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

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

(q) Investment property

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

(r) Impairment

The carrying amounts of the Group'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 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.

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

(s) Derivative financial instruments and hedge accounting

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

Cash flow hedges
The Group applies the new hedge accounting rules of AASB 9 from 1 January 2014. The new rules replace the 80-125% range rule previously used for 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 profit or loss when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was recognised in equity is immediately transferred to profit or loss.

(t) Leases

Leases under which the Group assumes substantially all the risks and benefits of ownership are classified as finance leases. Other leases are classified as operating leases.

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

(u) 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)

(v) 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.

(w) 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.

(x) Fair value measurement

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

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

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

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

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

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

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

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

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

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

(y) Government grants

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

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

(z) 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.

(aa) New standards applicable for the current year

There were no new or revised accounting standards applicable for the financial year commencing from 1 July 2016 that had any significant impact on the financial statements of the Group.

(bb) Changes in accounting policies

Certain accounting standards and interpretations have been published that are not mandatory for the 30 June 2017 reporting period. The Group's assessment of the impact of these new standards and interpretations is set out below. Changes that are not likely to materially impact the financial report of the Group have not been reported.

New standards and interpretations not yet mandatory

The Group early adopted AASB 9 (2010) in 2014. The Group 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 classification and measurement requirements and the new hedging requirements contained in Chapter 6 which the Group adopted at that date for all prospective hedge relationships.

New accounting standards and interpretations not yet adopted

AASB Reference	Nature of Change	Application date	Impact on Initial Application
AASB 15 *Revenue from Contracts with Customers*	AASB 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces most of the existing standards and interpretations relating to revenue recognition including AASB 118 Revenue. The standard shifts the focus from the transaction level to a contract-based approach. Recognition is determined based on what the customer expects to be entitled to, while measurement encompasses estimation by the Company of the amount expected to be entitled for performing under the contract.	Periods beginning on or after 1 January 2018.	Based upon a preliminary assessment, the Standard is not expected to have a material impact upon the transactions and balances recognised when it is first adopted, as most of the Group's revenue arises from the provision of financial services which are governed by AASB 9 *Financial Instruments*. AASB 9 continues the effective interest rate method for financial instruments carried at amortised cost. There are limited revenue transactions of the Group are impacted by AASB 15.

AASB Reference	Nature of Change	Application date	Impact on Initial Application
AASB 9 *Financial Instruments*	AASB 9 replaces the existing guidance in AASB 139 *Financial Instruments: Recognition and Measurement*. AASB 9 includes revised guidance on the classification and measurement of financial instruments, as well as the general hedge accounting requirements. As outlined above, the Group has early adopted these components of the standard. Furthermore, AASB 9 introduces a new 'expected' credit loss model for calculating impairment on financial assets. This moves away from the current 'incurred' loss model required under AASB 139. Under the expected credit loss model, the Group will be required to consider a broader range of information when assessing credit risk and measuring expected credit losses including past experience of historical losses for similar financial instruments.	Periods beginning on or after 1 January 2018.	The Group has conducted a high-level diagnostic on the impact of this standard. This highlighted that the move to an expected credit loss model for impairment will impact the Group, with earlier recognition of expected credit losses. This is expected to impact the level of the provision for impairment (at Note 12) and the general reserve for credit losses (at Note 25). The quantitative impact of the expected credit loss model has not yet been determined by the Group. Management are developing an implementation project to quantify the impact of this standard during the 2018 financial year. To date, management have focused on analysing past history credit losses to enable a starting point for this implementation project.
AASB 16 *Leases*:	AASB 16 requires all leases to be accounted for 'on-balance sheet' by lessees, other than short term and low value asset leases. It also provides new guidance on the application of the definition of lease and on sale and lease back accounting and requires new and different disclosures about leases.	Periods beginning on or after 1 January 2019.	Based on the Group's preliminary assessments, the likely impact on the transactions and balances recognised will be: • an increase in property, plant and equipment and a corresponding increase in financial liabilities; • the assets will be depreciated over the life of the leases; and • lease payments will be split between interest and principal reduction, rather than being included in operating expenses. Currently the Group leases a number of properties. The quantitative impact of this standard has not yet been determined by the Group. Management are developing an implementation project to quantify the impact of this standard during the 2018 financial year.

2. INTEREST REVENUE AND INTEREST EXPENSE

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

	Average balance $'000	Interest $'000	Average interest rate %
Interest revenue 2017			
Cash at authorised deposit-taking institutions	**31,736**	**397**	**1.25**
Receivables due from other financial institutions	**69,255**	**1,689**	**2.44**
Investment securities	**158,127**	**3,856**	**2.44**
Loans and advances	**748,282**	**33,834**	**4.52**
	1,007,400	**39,776**	**3.95**
Interest expense 2017			
Customers' deposits	**946,459**	**15,919**	**1.68**
Borrowings	**2,000**	**155**	**7.76**
	948,459	**16,074**	**1.69**
Interest revenue 2016			
Cash at authorised deposit-taking institutions	39,613	936	2.36
Receivables due from other financial institutions	79,677	2,111	2.65
Investment securities	147,303	3,902	2.65
Loans and advances	699,569	33,695	4.82
	966,162	40,644	4.21
Interest expense 2016			
Customers' deposits	907,368	17,884	1.97
Borrowings	2,000	164	8.20
	909,368	18,048	1.98

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3. NON-INTEREST INCOME

	2017 $'000	2016 $'000
Fees and commissions from customers		
- Loan and overdraft fees	**518**	478
- Transaction fees	**739**	618
- Credit card fees	**6**	9
- Other fees	**458**	435
	1,721	1,540
Fees and commissions from non-customers		
- Fees for service	**848**	785
- Commissions	**1,920**	1,931
	2,768	2,716
Total fees and commissions	**4,489**	4,256
Other non-interest income		
- Income from property	**53**	59
- Bad debts recovered	**12**	13
- Sundry income	**340**	134
	405	206
Total non-interest income	**4,894**	4,462

	Note	2017 $'000	2016 $'000
4. OTHER EXPENSES			
Amortisation – leasehold improvements	16	**48**	120
Amortisation – intangible assets	17	**385**	325
Depreciation			
- Plant and equipment	16	**674**	698
- Buildings	16	**79**	75
Total depreciation		**753**	773
Fees and commissions		**44**	27
Personnel costs			
- Provision for long service leave		**28**	5
- Provision for annual leave		**25**	(12)
- Superannuation contributions		**950**	997
- Termination benefits		-	172
- Salaries and wages		**9,224**	8,783
- Payroll tax		**525**	512
- Other		**932**	860
Total personnel costs		**11,684**	11,317
Marketing expenses		**952**	970
Information technology expenses		**1,489**	1,244
Occupancy costs			
- Rental – operating leases		**1,336**	1,316
- Other occupancy costs		**1,028**	1,030
Total occupancy costs		**2,364**	2,346
ATM, Eftpos and electronic transaction processing costs		**2,316**	1,932
Other administration expenses		**2,814**	2,715
Loss on disposal of property, plant and equipment		**2**	-
Total other expenses		**22,851**	21,769

	Note	2017 $'000	2016 $'000
5. FAIR VALUE ADJUSTMENTS			
Net fair value adjustment of investment property	15	**24**	-
Net fair value adjustment of property, plant & equipment	16	**75**	-
		99	-
6. INCOME TAX EXPENSE			
Income tax expense on profit		**1,786**	1,617
Income tax expense on other comprehensive income		**5**	(21)
		1,791	1,596
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	**1,614**	1,412
Under/(over) provision in prior years		**16**	(38)
Increase/(decrease) in deferred tax liabilities		**-**	-
(Increase)/decrease in deferred tax assets		**161**	222
		1,791	1,596
Reconciliation between tax expense and pre-tax profit			
Profit before income tax		**5,729**	5,324
Prima facie income tax expense calculated at 30%		**1,719**	1,596
Increase/(decrease) in income tax expense due to:			
Non-deductible expenses		**36**	37
Other deductible expenses		**(17)**	(16)
Fair value adjustments		**53**	-
		1,791	1,617
Income tax (over)/under provided in prior period		**16**	(38)
Income tax expense attributable to profit		**1,807**	1,579
Dividend franking account			
Franking credits held at balance date		**31,068**	29,649
7. CASH AND CASH EQUIVALENTS			
Cash on hand and at authorised deposit-taking institutions at call		**46,807**	41,861

		2017 $'000	2016 $'000
8.	**RECEIVABLES DUE FROM OTHER FINANCIAL INSTITUTIONS**		
	Interest earning deposits	**55,631**	63,019
	Credit rating of receivables due from other financial institutions		
	Authorised Deposit-taking Institutions rated A and above	**19,011**	14,022
	Authorised Deposit-taking Institutions rated below A	**16,000**	20,000
	Unrated Authorised Deposit-taking Institutions	**20,620**	28,997
		55,631	63,019
9.	**INVESTMENT SECURITIES**		
	Negotiable certificates of deposit	**125,332**	137,138
	Floating rate notes	**35,043**	20,065
		160,375	157,203
	Credit rating of investment securities		
	Authorised Deposit-taking Institutions rated A and above	**35,043**	20,065
	Authorised Deposit-taking Institutions rated below A	**125,332**	137,138
	Unrated Authorised Deposit-taking Institutions	**-**	-
		160,375	157,203
10.	**TRADE AND OTHER RECEIVABLES**		
	Interest receivable on investments	**815**	899
	Sundry debtors, accrued income and prepayments	**488**	140
	Clearing settlements receivable	**1,215**	1,792
		2,518	2,831
11.	**DERIVATIVE FINANCIAL INSTRUMENTS**		
	(a) Derivative financial instrument - Asset		
	Interest rate swap contracts – cash flow hedge	**-**	-
	(b) Derivative financial instrument - Liability		
	Interest rate swap contracts – cash flow hedge	**15**	-
	Maturity analysis		
	Not later than 1 year	**-**	-
	Later than 1 and not later than 2 years	**15**	-
	Later than 2 and not later than 3 years	**-**	-
		15	-

		Note	2017 $'000	2016 $'000
12.	**LOANS AND ADVANCES**			
	Overdrafts and Credit Cards		**10,189**	10,130
	Term loans		**764,767**	719,854
	Loans and advances before deferred fees and costs		**774,956**	729,984
	Deferred loan transaction costs		**665**	530
	Deferred loan origination fees		**(574)**	(631)
	Deferred fixed rate loan renegotiation fees		**(13)**	(1)
	Deferred Upfront Broker Commission		**113**	84
	Total loans and advances		**775,147**	729,966
	Provision for impairment	13	**(233)**	(222)
	Net loans and advances		**774,914**	729,744
	Maturity analysis			
	Not later than 1 month		**12,898**	12,578
	Later than 1 and not later than 3 months		**5,132**	4,659
	Later than 3 and not later than 12 months		**23,862**	21,640
	Later than 1 and not later than 5 years		**120,884**	111,888
	Later than 5 years		**612,371**	579,201
			775,147	729,966

Concentration of risk

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

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

	2017 $'000	2016 $'000
- Southern NSW	**453,513**	424,595
- North East Victoria	**256,338**	240,533
- Other – non-concentrated	**65,105**	64,856
	774,956	729,984

Security held against loans and advances	2017 $'000	2016 $'000
Secured by mortgage over residential property	**704,510**	664,311
Secured by mortgage over commercial property	**44,709**	45,731
Total loans and advances secured by real estate	**749,219**	710,042
Secured by funds	**919**	872
Partly secured by goods mortgage	**10,635**	8,706
Wholly unsecured	**14,183**	10,364
	774,956	729,984

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:

	2017 $'000	2016 $'000
Loan to value ratio of 80% or less	**627,206**	597,042
Loan to value ratio of more than 80% but mortgage insured	**110,648**	102,800
Loan to value ratio of more than 80% not mortgage insured	**11,365**	10,200
	749,219	710,042

	2017 $'000	2016 $'000

12. LOANS AND ADVANCES (continued)

Securitised loans

	2017 $'000	2016 $'000
Securitised loans that do not qualify for derecognition	**136,848**	123,258

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

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

13. IMPAIRMENT OF LOANS AND ADVANCES

Provision for impairment

	2017 $'000	2016 $'000
Collective provision	**191**	195
Specific provision	**42**	27
	233	222

Provision for impairment – collective provision

	2017 $'000	2016 $'000
Opening balance	**195**	306
Bad debts previously provided for written off during the year	**(101)**	(52)
Bad and doubtful debts provided for during the year	**97**	(59)
Closing balance	**191**	195

Provision for impairment – specific provision

	2017 $'000	2016 $'000
Opening balance	**27**	39
Bad debts previously provided for written off during the year	**(2)**	(36)
Bad and doubtful debts provided for during the year	**17**	24
Closing balance	**42**	27

Bad and doubtful debts expense comprises:

	2017 $'000	2016 $'000
Collective provision increase/(decrease)	**97**	(59)
Specific provision increase/(decrease)	**17**	24
Bad debts recognised directly to profit or loss	**1**	-
Total bad debts expense/(benefit)	**115**	(35)

Ageing analysis of loans and advances past due

Loans and advances past due and not impaired

	2017 $'000	2016 $'000
Up to 30 days	**13,661**	14,485
More than 30 days but less than 90 days	**2,895**	4,474
More than 90 days but less than 180 days	**1,258**	585
More than 180 days but less than 270 days	**34**	550
More than 270 days but less than 365 days	-	261
More than 365 days	**607**	176
Accounts overdrawn and overdrafts over limit less than 14 days	**157**	270
	18,612	20,801

	2017 $'000	2016 $'000

13. IMPAIRMENT OF LOANS AND ADVANCES (continued)

Loans and advances past due and impaired

	2017 $'000	2016 $'000
Up to 30 days	**19**	20
More than 30 days but less than 90 days	**21**	2
More than 90 days but less than 180 days	**128**	244
More than 180 days but less than 270 days	**47**	32
More than 270 days but less than 365 days	**11**	51
More than 365 days	**70**	93
Accounts overdrawn and overdrafts over limit less than 14 days	**16**	12
	312	454
Total past due loans and advances	**18,924**	21,255

Security analysis of loans and advances past due

Loans and advances past due and not impaired

	2017 $'000	2016 $'000
Secured by mortgage over real estate	**18,031**	20,281
Secured by funds	**-**	-
Partly secured by goods mortgage	**338**	308
Wholly unsecured	**243**	212
	18,612	20,801

Loans and advances past due and impaired

	2017 $'000	2016 $'000
Secured by mortgage over real estate	**5**	210
Secured by funds	**-**	-
Partly secured by goods mortgage	**117**	101
Wholly unsecured	**190**	143
	312	454
Total past due loans and advances	**18,924**	21,255

Assets acquired through enforcement of security

	2017 $'000	2016 $'000
Real estate acquired through enforcement of security held at the end of the financial year	**-**	-
Specific provision for impairment	**-**	-
Balance at the end of the financial year	**-**	-
Net fair value of real estate assets acquired through the enforcement of security during the financial year	**-**	-
Net fair value of other assets acquired through the enforcement of security during the financial year	**-**	2

	2017 $'000	2016 $'000
14. OTHER INVESTMENTS		
Unlisted shares	**204**	204

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 Group does not intend to dispose of these shares.

	2017 $'000	2016 $'000
15. INVESTMENT PROPERTY		
Balance at the beginning of the year	**1,746**	1,746
Additions	**-**	-
Transfer from property, plant and equipment	**-**	-
Fair value adjustments through other comprehensive income	**-**	-
Fair value adjustments through profit and loss	**24**	-
Disposals	**-**	-
Balance at the end of the year	**1,770**	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 2017 and appraised in June 2017 by Taylor Byrne Pty Ltd, 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:

	2017 $'000	2016 $'000
Within 1 year	**39**	28
Later than 1 and not later than 2 years	**18**	26
Later than 2 and not later than 5 years	**10**	5
Aggregate lease payments receivable at balance date	**67**	59

Amount recognised in profit and loss for investment properties

	2017 $'000	2016 $'000
Rental income	**35**	38
Direct operating expenses	**(15)**	(3)
Net rental income received	**20**	35

	2017 $'000	2016 $'000
16. PROPERTY, PLANT AND EQUIPMENT		
Land and buildings		
At fair value	**5,690**	4,760
Provision for depreciation	**-**	(150)
Total freehold land and buildings	**5,690**	4,610
Leasehold improvements		
At cost	**1,500**	1,557
Provision for amortisation	**(1,368)**	(1,404)
Total leasehold improvements	**132**	153
Plant and equipment		
At cost	**7,279**	7,366
Provision for depreciation	**(5,320)**	(5,928)
Total plant and equipment	**1,959**	1,438
Total property, plant and equipment at net book value	**7,781**	6,201

Reconciliations

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

	2017 $'000	2016 $'000
Land and buildings		
Carrying amount at the beginning of the year	**4,610**	4,685
Additions	**581**	-
Transfer to investment property	**-**	-
Fair value adjustments through other comprehensive income	**503**	-
Fair value adjustments through profit and loss	**75**	-
Depreciation	**(79)**	(75)
Carrying amount at the end of the year	**5,690**	4,610
Leasehold improvements		
Carrying amount at the beginning of the year	**153**	252
Additions	**27**	21
Disposals	**-**	-
Amortisation	**(48)**	(120)
Carrying amount at the end of the year	**132**	153
Plant and equipment		
Carrying amount at the beginning of the year	**1,438**	1,693
Additions	**1,205**	447
Disposals	**(10)**	(4)
Depreciation	**(674)**	(698)
Carrying amount at the end of the year	**1,959**	1,438

	2017 $'000	2016 $'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 2017 by Taylor Byrne Pty Ltd, accredited independent valuers. In the opinion of the Directors there have been no significant changes in market value since this date.

17. INTANGIBLE ASSETS

Computer software and licences	2017 $'000	2016 $'000
At cost	**3,251**	2,885
Provision for amortisation	**(2,493)**	(2,365)
	758	520

Reconciliations

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

Computer software and licences	2017 $'000	2016 $'000
Carrying amount at the beginning of the year	**520**	578
Additions	**623**	267
Disposals	**-**	-
Amortisation	**(385)**	(325)
Carrying amount at the end of the year	**758**	520

18. DEFERRED TAX ASSETS

	2017 $'000	2016 $'000
Deferred tax assets	**1,092**	1,249
Deferred tax assets are attributable to the following:		
Property, plant and equipment and intangible assets	**326**	448
Investment property	**68**	102
Provisions for employee benefits	**572**	543
Provision for impairment on loans	**70**	67
Borrowing costs	**2**	5
Expenses not currently deductible	**49**	84
Interest rate swaps	**5**	-
Deferred income	**-**	-
	1,092	1,249

	2017 $'000	2016 $'000

19. DEPOSITS

	2017 $'000	2016 $'000
Call deposits	**511,815**	480,891
Term deposits	**454,263**	442,445
	966,078	923,336
Concentration of deposits		
Southern NSW	**621,967**	597,575
North East Victoria	**276,718**	257,968
Other – non-concentrated	**67,393**	67,793
	966,078	923,336

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

20. TRADE AND OTHER PAYABLES

	2017 $'000	2016 $'000
Accrued interest payable	**3,223**	3,250
Creditors and other liabilities	**6,188**	6,027
	9,411	9,277

21. INCOME TAX PAYABLE

	2017 $'000	2016 $'000
Income tax payable	**298**	88
Movement during the year was as follows:		
Balance at the beginning of the year	**88**	367
Current year's income tax expense on profit before tax	**1,614**	1,412
Income tax paid – Current year	**(1,316)**	(1,324)
Income tax paid – Prior year	**(104)**	(329)
Under/(over) provision in prior period	**16**	(38)
Balance at the end of the year	**298**	88

22. DEFERRED TAX LIABILITIES

	2017 $'000	2016 $'000
Deferred tax liabilities	**-**	-

23. PROVISION FOR EMPLOYEE BENEFITS

	2017 $'000	2016 $'000
Salaries, wages and other benefits accrued	**444**	758
Provision for annual leave	**754**	729
Provision for long service leave	**1,109**	1,080
	2,307	2,567

Included in employee benefits is a non-current amount of $394,000 (2016 - $374,000) relating to long service leave.

	2017 $'000	2016 $'000
24. BORROWINGS		
Subordinated debt	**2,000**	2,000
Movement during the year was as follows:		
Balance at the beginning of the year	**2,000**	2,000
Increase due to debt issued	**-**	-
Balance at the end of the year	**2,000**	2,000

The Group 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.

	2017 $'000	2016 $'000
25. RESERVES		
General reserve for credit losses	**1,444**	1,363
Asset revaluation reserve	**1,542**	1,039
Capital profits reserve	**593**	593
Cash flow hedge reserve	**(10)**	-
	3,569	2,995
Movements in reserves		
General reserve for credit losses		
Balance at the beginning of the year	**1,363**	1,297
Transfer from retained earnings	**81**	66
Balance at the end of the year	**1,444**	1,363

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

	2017 $'000	2016 $'000
Asset revaluation reserve		
Balance at the beginning of the year	**1,039**	1,039
Total other comprehensive income	**503**	-
Balance at the end of the year	**1,542**	1,039

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

	2017 $'000	2016 $'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.

	2017 $'000	2016 $'000
Cash flow hedge reserve		
Balance at the beginning of the year	**-**	50
Total other comprehensive income	**(10)**	(50)
Balance at the end of the year	**(10)**	-

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

	2017 $'000	2016 $'000
26. RETAINED EARNINGS		
Retained earnings at the beginning of the year	**64,315**	60,674
Net profit attributable to members	**3,938**	3,707
Transfers from/(to) reserves	**(81)**	(66)
Retained earnings at the end of the year	**68,172**	64,315

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:

	2017 $'000	2016 $'000
Cash on hand and at authorised deposit-taking institutions	**46,807**	41,861
Receivables due from other financial institutions less than 3 months	**50,631**	55,019
Investment securities less than 3 months	**125,331**	137,138
	222,769	234,018

(b) Reconciliation of cash flows from operating activities

	2017 $'000	2016 $'000
Profit for the year	**3,938**	3,707
Non-cash items		
Charge for bad and doubtful debts	**114**	(35)
Depreciation	**753**	773
Amortisation of leasehold improvements	**48**	120
Amortisation of intangible assets	**385**	325
Provision for employee entitlements	**54**	(7)
(Profit) on disposal of plant and equipment	**-**	-
Loss on disposal of plant and equipment	**2**	-
Fair value adjustments	**(99)**	-
Changes in assets and liabilities		
Interest receivable	**85**	(139)
Other receivables	**(348)**	6
Interest payable	**(27)**	(732)
Income tax payable	**210**	(258)
Trade and other payables	**411**	(191)
Provision for employee benefits	**(314)**	323
Deferred tax assets	**161**	222
Deferred tax liabilities	**-**	-
	5,373	4,114
Net (increase)/decrease in loans and advances	**(45,285)**	(51,682)
Net increase/(decrease) in deposits	**43,069**	49,623
Net cash flow from operating activities	**3,157**	2,055

	2017	2016
	$	$

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	**78,843**	75,442
– other services in relation to the Group	**43,408**	25,593
	122,251	101,035

	2017	2016
	$'000	$'000

29. 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.

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	**63,211**	51,354

Security analysis of credit-related commitments

Secured by mortgage over real estate	**42,688**	33,776
Secured by funds	**897**	911
Partly secured by goods mortgage	**172**	187
Wholly unsecured	**19,454**	16,480
	63,211	51,354

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.	**1,388**	1,455

Security analysis of financial guarantees

Secured by mortgage over real estate	**872**	844
Secured by funds	**508**	603
Wholly unsecured	**8**	8
	1,388	1,455

Other commitments

The Group has signed a commitment deed with SocietyOne, dated 25 January 2017, for a total commitment value of $2.5m. As at 30 June 2017 the funded amount included in loans and advances (Note 12) was $1,512,994 and there is a remaining undrawn commitment to SocietyOne of $987,006 as at 30 June 2017 (included in this note as undrawn loans and credit commitments).

	2017	2016
	$'000	$'000

30. COMMITMENTS

Capital expenditure commitments

Estimated capital expenditure contracted for at balance date but not provided for:		
– payable within one year	**185**	241

Operating leases (non-cancellable)

Future operating lease commitments not provided for in the financial statements and payable:		
– within 1 year	**1,704**	1,445
– later than 1 and not later than 2 years	**1,621**	1,201
– later than 2 and not later than 5 years	**2,152**	2,046
– later than 5 years	**-**	-
Aggregate lease expenditure contracted for at balance date	**5,477**	4,692

31. 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 member/s of the Executive 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:

	2017	2016
	$	$
Short-term employee benefits		
- Directors	**417,890**	424,488
- Other key management personnel	**1,779,985**	1,502,800
Post-employment benefits – superannuation contributions		
- Directors	**129,665**	126,426
- Other key management personnel	**157,260**	137,861
Other long-term benefits – net increase/(decrease) in long service leave provision		
- Directors	**-**	-
- Other key management personnel	**(17,787)**	(36,463)
Termination benefits		
- Directors	**-**	-
- Other key management personnel	**-**	172,198
	2,467,013	2,327,310

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.

31. 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:

	2017		2016	
	$		$	
	Mortgage Secured Loans	**Revolving Credit (unsecured)**	Mortgage Secured Loans	Revolving Credit (unsecured)
Loans to Directors				
Funds available to be drawn	**489,403**	**4,750**	46,865	16,373
Balance at reporting date	**504,967**	**2,750**	795	4,127
Loans advanced (including redraws)	**1,498,894**	**36,284**	-	38,429
Loan repayments	**999,706**	**36,925**	167,548	37,751
Interest and other revenue earned	**4,985**	**2**	2,983	-
Loans to Director related parties				
Funds available to be drawn	**-**	**4,273**	-	13,160
Balance at reporting date	**-**	**727**	202,120	(160)
Loans advanced (including redraws)	**-**	**10,760**	-	28,272
Loan repayments	**23,015**	**9,886**	498,716	34,978
Interest and other revenue earned	**11,713**	**-**	17,401	48
Loans to other key management personnel				
Funds available to be drawn	**60,372**	**18,298**	141,670	12,748
Balance at reporting date	**2,005,431**	**3,702**	1,217,764	4,252
Loans advanced (including redraws)	**1,129,053**	**103,225**	1,367,789	171,668
Loan repayments	**403,810**	**103,817**	686,369	166,157
Interest and other revenue earned	**62,055**	**42**	85,606	124

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.

31. 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:

	2017	2016
	$	$
Deposits outstanding at balance date:		
- Directors	**223,616**	303,342
- Director related parties	**480,876**	2,809,991
- Other key management personnel	**388,485**	119,858
- Other key management personnel related parties	**153,576**	275,953
Interest paid on deposits:		
- Directors	**4,047**	3,281
- Director related parties	**11,525**	78,747
- Other key management personnel	**3,037**	364
- Other key management personnel related parties	**1,725**	13,821

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

During the 2017 financial year, the Bank purchased supplies to the value of $128,131 from a related party company of a director. The director was a minority shareholder and director of the related party company. Amounts were billed based on arm's length rates for such supplies and were due and payable under normal payment terms following the Bank's standard procurement processes and a competitive supplier selection process. As at balance date $nil was payable to the related party by the Bank.

32. OUTSOURCING ARRANGEMENTS

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

33. SEGMENT INFORMATION

The Group operates exclusively in the finance industry within Australia.

34. 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.

	2017	2016
	$'000	$'000
Securitised loans retained on the balance sheet (not de-recognised)		
The values of securitised loans which are not qualifying for de-recognition as the conditions do not meet the criteria in the accounting standards are set out below. 99.1% of the loans are variable interest rate loans, hence the book value of the loans transferred equates to the fair value of those loans. The associated liabilities are equivalent to the book value of the loans reported.		
Balance sheet values		
Loans	**136,848**	123,258
Fair value of associated liabilities	**(136,848)**	(123,258)
Net	-	-
Carrying amount of the loans as at the time of transfer	**148,081**	131,898

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 fails to meet the Trust's criteria, the company is obliged to repurchase those loans and may substitute equivalent qualifying loans into the trust.

35. FINANCIAL RISK MANAGEMENT

(a) Overview

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

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

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

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

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

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

The Board'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.

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

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

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

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

Further quantitative disclosures are included throughout these financial statements.

(c) Credit risk

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

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

35. FINANCIAL RISK MANAGEMENT (continued)

Credit risk – loans and advances

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

Credit concentration risk

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

The 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. For financial assets recognised on balance sheet, the maximum exposure to credit risk equals their carrying amount. Credit risk also includes off balance sheet exposures such as approved but undrawn loans and credit limits that are disclosed in note 30 contingent liabilities and credit commitments.

Credit risk - liquid investments

Liquid investments risk is the risk of financial loss from liquid investments held and is reduced by the nature and credit rating of the investee and the limits of concentration to each entity. The Board's appetite is to maintain counterparty limits with Australian banks to a maximum of 50% of capital and other non-bank financial institutions to a maximum of 30% 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 the notes.

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

As at 30 June 2017, the company held 16.67% of total adjusted liabilities as MLH qualifying assets (2016 -- 16.74%). The average during the financial year was 16.32% (2016 - 16.50%).

The company also maintains 1.80% of total adjusted liabilities as MLH qualifying assets (2016 – 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.

35. FINANCIAL RISK MANAGEMENT (continued)

Internal securitisation and RBA repurchase

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

The company maintains an internal securitisation facility to enable it to secure funds from the Reserve Bank of Australia, if required, to meet emergency liquidity requirements. As at 30 June 2017, the Company held $133.354 million (2016 – $120.224 million) of securities available to be used for RBA repurchase to meet emergency liquidity requirements.

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

(e) Market risk and hedging policy

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

Market risk comprises:

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

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

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

Interest rate risk in the banking book

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

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

The difference between asset and liability maturities is monitored monthly to identify any large exposure to interest rate movements. This monitoring will also seek to address excess to within acceptable levels via existing products. Interest rate swaps can also be used to reduce the gaps between assets and liabilities. Details of the interest rate risk profile are set out in note 36(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 risk management consultant also conducts an independent benchmarking review of the risk management profile annually. The Board monitors these risks through the independent reports and other management reports.

Based on independent VaR calculations as at 30 June 2017 using a 20 day holding period, 99% confidence level and a 250 day observation period, the VaR was 0.15% of capital. VaR as at 30 June 2016 was 0.63% of capital using the same parameters.

Based on independent EaR calculations as at 30 June 2017 using a shift in interest rates of 200 basis points for one year, EaR was a $5,661,193 variation or 22.46% from the base case. EaR as at 30 June 2016 was a $5,621,999 variation or 22.93% from the base case, using the same parameters.

35. FINANCIAL RISK MANAGEMENT (continued)

(f) Operational risk

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

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

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

(g) 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.

(h) 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.

(i) Capital risk

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

The 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.

35. FINANCIAL RISK MANAGEMENT (continued)

Capital adequacy ratio calculation

	2017 $'000	2016 $'000
Tier 1 capital		
Common equity tier 1 capital		
Retained earnings	**68,172**	64,315
Capital profits reserve	**593**	593
Deferred fee income	**(191)**	18
Asset revaluation reserve	**1,542**	1,039
Cash flow hedge reserve	**(10)**	-
	70,106	65,965
Less prescribed deductions	**(2,055)**	(1,973)
Net tier 1 capital	**68,051**	63,992
Tier 2 capital		
General reserve for credit losses	**1,444**	1,363
Subordinated debt	**1,000**	1,200
Net tier 2 capital	**2,444**	2,563
Total capital	**70,495**	66,555
Risk profile		
Credit risk	**418,818**	394,828
Operational risk	**62,428**	59,437
Total risk weighted assets	**481,246**	454,265
Capital adequacy ratio	**14.65%**	14.65%

36. FINANCIAL INSTRUMENTS

(a) Terms, conditions and accounting policies

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

Recognised financial instruments	Note	Accounting policies	Terms and conditions
Financial assets			
Loans and advances	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 amortised cost. Interest revenue is recognised when earned.	Receivables due from other financial institutions have an average maturity of 153 days with effective interest rates of 1.25% to 2.60% (2016: 1.50% to 3.10%).
Other investments	14	Other investments are stated at fair value, with any resulting gain or loss recognised in the profit or loss. Interest is recognised when earned.	
Investment Securities	9	Investment securities are held to maturity and are stated at amortised cost. Fair value is stated in note 37(d). Interest revenue is recognised when earned.	Investment securities have an average maturity of 202 days and effective interest rates of 2.08% to 2.68% (2016: 2.36% to 3.15%).
Derivative financial assets	11	Derivative financial instruments (interest rate swaps) are carried at their fair value.	Interest rate swaps are reset every three months. Details of maturity terms are set out in note 11.
Financial liabilities			
Deposits	19	Deposits are recorded at the principal amount. Interest is calculated on the daily balance outstanding.	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 Group.	Trade liabilities are normally settled on 30-day terms.
Derivative financial liabilities	11	Derivative financial instruments (interest rate swaps) are carried at their fair value.	Interest rate swaps are reset every three months. Details of maturity terms are set out in note 11.
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.

(b) Effective interest rates and repricing analysis

Interest rate risk in the statement of financial position arises from the potential for a change in interest rates to have an adverse affect on the net interest earnings in the current reporting period and in future years. Interest rate risk arises from the structure and characteristics of the Group's assets, liabilities and equity, and in the mismatch in repricing dates of its assets and liabilities. The tables for both the 2016 and 2017 financial years detail the exposure of the Group's assets and liabilities to interest rate risk. The amount shown represents the face value of assets and liabilities.

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

	Floating Rate	Within 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	Non-interest bearing	Total carrying amount	Weighted average effective interest rate
	$'000	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**%**
2017									
Financial assets									
Cash and cash equivalents	**34,685**						**12,122**	**46,807**	**1.46**
Receivables due from FI's	**6,631**	**16,000**	**31,000**	**2,000**				**55,631**	**2.44**
Investment securities		**60,699**	**99,676**					**160,375**	**2.44**
Trade and other receivables							**2,518**	**2,518**	**n/a**
Derivative financial assets									**n/a**
Loans and advances	**532,443**	**10,921**	**16,286**	**72,456**	**141,658**	**1,191**	**(41)**	**774,914**	**4.58**
Other investments							**204**	**204**	**n/a**
Total financial assets	**573,759**	**87,620**	**146,962**	**74,456**	**141,658**	**1,191**	**14,803**	**1,040,449**	
Financial liabilities									
Deposits	**511,815**	**101,415**	**189,104**	**151,794**	**11,950**			**966,078**	**1.68**
Trade and other payables							**9,411**	**9,411**	**n/a**
Derivative financial liabilities							**15**	**15**	**n/a**
Subordinated debt			**2,000**					**2,000**	**7.64**
Total financial liabilities	**511,815**	**101,415**	**191,104**	**151,794**	**11,950**	-	**9,426**	**977,504**	
2016									
Financial assets									
Cash and cash equivalents	32,328						9,533	41,861	2.49
Receivables due from FI's	4,019	19,000	32,000	8,000				63,019	2.65
Investment securities		71,595	85,608					157,203	2.65
Trade and other receivables							2,831	2,831	n/a
Derivative financial assets									
Loans and advances	488,691	4,598	11,687	93,484	130,944	580	(240)	729,744	4.86
Other investments							204	204	n/a
Total financial assets	525,038	95,193	129,295	101,484	130,944	580	12,328	994,862	
Financial liabilities									
Deposits	480,891	95,997	193,205	136,563	16,680			923,336	1.97
Trade and other payables							9,277	9,277	n/a
Subordinated debt			2,000					2,000	8.20
Total financial liabilities	480,891	95,997	195,205	136,563	16,680	-	9,277	934,613	

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

36. 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**
2017								
Financial assets								
Cash and cash equivalents	**46,853**						**46,853**	**46,807**
Receivables due from FI's	**22,755**	**28,276**	**2,086**	**3,055**			**56,172**	**55,631**
Investment securities	**46,098**	**80,130**	**677**	**36,094**			**162,999**	**160,375**
Trade and other receivables	**1,703**						**1,703**	**2,518**
Derivative financial assets								
Loans and advances	**15,810**	**11,068**	**49,399**	**241,334**	**658,229**		**975,840**	**774,914**
Other investments						**204**	**204**	**204**
Total financial assets	**133,219**	**119,474**	**52,162**	**280,483**	**658,229**	**204**	**1,243,771**	**1,040,449**
Financial liabilities								
Deposits	**614,239**	**191,122**	**155,318**	**12,354**			**973,033**	**966,078**
Trade and other payables	**6,188**						**6,188**	**9,411**
Subordinated debt		**38**	**115**	**611**	**2,054**		**2,818**	**2,000**
Derivative financial liabilities	**4**		**11**	**8**			**23**	**15**
On balance sheet	**620,431**	**191,160**	**155,444**	**12,973**	**2,054**	-	**982,062**	**977,504**
Undrawn credit commitments	**63,211**						**63,211**	**63,211**
Total financial liabilities	**683,642**	**191,160**	**155,444**	**12,973**	**2,054**	-	**1,045,273**	**1,040,715**

2016								
Financial assets								
Cash and cash equivalents	41,910						41,910	41,861
Receivables due from FI's	23,190	32,267	5,134	3,122			63,713	63,019
Investment securities	62,078	76,073	453	21,181			159,785	157,203
Trade and other receivables	1,932						1,932	2,831
Derivative financial assets								
Loans and advances	15,392	10,389	46,308	229,334	623,687		925,110	729,744
Other investments						204	204	204
Total financial assets	144,502	118,729	51,895	253,637	623,687	204	1,192,654	994,862
Financial liabilities								
Deposits	577,990	195,417	139,947	17,302			930,656	923,336
Trade and other payables	6,027						6,027	9,277
Subordinated debt		40	118	631	2,215		3,004	2,000
On balance sheet	584,017	195,457	140,065	17,933	2,215	-	939,687	934,613
Undrawn credit commitments	51,354						51,354	51,354
Total financial liabilities	635,371	195,457	140,065	17,933	2,215	-	991,041	985,967

36. FINANCIAL INSTRUMENTS (continued)

(d) Net fair values

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

Financial instruments	**Note**	**Total carrying amount**		**Aggregate net fair value**	
		2017 $'000	2016 $'000	**2017 $'000**	2016 $'000
Financial assets					
Cash and cash equivalents	7	**46,807**	41,861	**46,853**	41,910
Receivables due from other financial institutions	8	**55,631**	63,019	**56,021**	63,354
Investment securities	9	**160,375**	157,203	**160,840**	157,745
Trade and other receivables	10	**2,518**	2,831	**1,703**	1,932
Derivative financial assets	11	**-**	-	**-**	-
Loans and advances	12	**774,914**	729,744	**780,414**	733,475
Other investments	14	**204**	204	**204**	204
Total financial assets		**1,040,449**	994,862	**1,046,035**	998,620
Financial liabilities					
Deposits	19	**966,078**	923,336	**973,033**	923,691
Trade and other payables	20	**9,411**	9,277	**9,411**	9,277
Derivative financial liabilities	11	**15**	-	**15**	-
Subordinated debt	24	**2,000**	2,000	**2,000**	2,000
Total financial liabilities		**977,504**	934,613	**984,459**	934,968

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

Recognised financial instruments

Cash and liquid assets and interest earning deposits

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

Receivables due from financial institutions

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

Investment securities

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

Trade and other receivables

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

Derivative financial instruments

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

Loans and advances

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

36. FINANCIAL INSTRUMENTS (continued)

Other investments

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

Deposits

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

Trade and other payables

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

Subordinated debt

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

37. FAIR VALUE MEASUREMENT

Fair value hierarchy

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

		Fair value measurement using			
2017	**Note**	**Level 1 $'000**	**Level 2 $'000**	**Level 3 $'000**	**Total $'000**
Assets measured at fair value					
Derivative financial instruments	11	-	-	-	-
Investment property	15	-	**1,770**	-	**1,770**
Land and buildings	16	-	**5,690**	-	**5,690**
Other investments				**204**	**204**
Total assets measured at fair value		-	**7,460**	**204**	**7,604**
Assets for which fair values are disclosed					
Cash and cash equivalents		-	**46,853**	-	**46,853**
Receivables due from other financial institutions		-	**56,021**	-	**56,021**
Investment securities		-	**160,840**	-	**160,840**
Trade and other receivables		-	-	**1,703**	**1,703**
Loans and advances		-	-	**780,414**	**780,414**
Total assets for which fair value is disclosed		-	**263,714**	**782,117**	**1,045,831**
Liabilities measured at fair value					
Derivative financial instruments	11	-	**15**	-	**15**
Total liabilities measured at fair value		-	**15**	-	**15**
Liabilities for which fair values are disclosed					
Deposits		-	**973,033**	-	**973,033**
Trade and other payables		-	-	**9,411**	**9,411**
Subordinated debt		-	**2,000**	-	**2,000**
Total liabilities for which fair value is disclosed		-	**975,033**	**9,411**	**984,444**

There have been no transfers between levels during the year.

37. FAIR VALUE MEASUREMENT (Continued)

		Fair value measurement using			
2016	**Note**	**Level 1 $'000**	**Level 2 $'000**	**Level 3 $'000**	**Total $'000**
Assets measured at fair value					
Derivative financial instruments	11	-	-	-	-
Investment property	15	-	1,746	-	1,746
Land and buildings	16	-	4,760	-	4,760
Other investments				204	204
Total assets measured at fair value		-	6,506	204	6,710
Assets for which fair values are disclosed					
Cash and cash equivalents		-	41,910	-	41,910
Receivables due from other financial institutions		-	63,354	-	63,354
Investment securities		-	157,745	-	157,745
Trade and other receivables		-	-	1,932	1,932
Loans and advances		-	-	733,475	733,475
Total assets for which fair value is disclosed		-	263,009	735,407	998,416
Liabilities for which fair values are disclosed					
Deposits		-	923,691	-	923,691
Trade and other payables		-	-	9,277	9,277
Subordinated debt		-	2,000	-	2,000
Total liabilities for which fair value is disclosed		-	925,691	9,277	934,968

There have been no transfers between levels during the year.

38. PARENT ENTITY DISCLOSURES

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

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

	2017 $'000	2016 $'000
Results of the parent entity		
Profit for the year	**3,938**	3,707
Other comprehensive income	**493**	(50)
Total comprehensive income for the year	**4,431**	3,657
Financial position of the parent entity		
Total assets	**1,051,850**	1,004,578
Total liabilities	**980,109**	937,268
Retained earnings	**68,172**	64,315
Reserves	**3,569**	2,995
Commitments for the acquisition of property, plant & equipment	**185**	241

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

Directors' Declaration

In the opinion of the Directors of Hume Bank Limited:

1. the financial statements and notes, set out on pages 7 to 49, 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 2017 and of their performance, for the financial year ended on that date; and

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

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

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

Signed in accordance with a resolution of Directors:

Anthony Whiting Chairman	Michael Gobel Deputy Chairman

Albury, 17 August 2017

Crowe Horwath.
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Independent Auditor's Report to the Members of Hume Bank Limited

Opinion

We have audited the financial report of Hume Bank Limited (the Company), which comprises the consolidated statement of financial position as at 30 June 2017, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in members' equity and the consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration of the consolidated entity comprising the Company and the entities it controlled at the year's end or from time to time during the financial year.

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

(a) giving a true and fair view of the consolidated entity's financial position as at 30 June 2017 and of its financial performance for the year then ended; and

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

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Company in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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

Other Information

The directors are responsible for the other information. The other information comprises the directors report included in the Company's annual report for the year ended 30 June 2017, but does not include the financial report and our auditor's report thereon.

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

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

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

Crowe Horwath.
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Responsibilities of the Directors for the Financial Report

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

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

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/auditors_files/ar3.pdf. This description forms part of our auditor's report.

CROWE HORWATH ALBURY

DAVID MUNDAY

Partner

Dated at Albury this 17th day of August 2017.

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