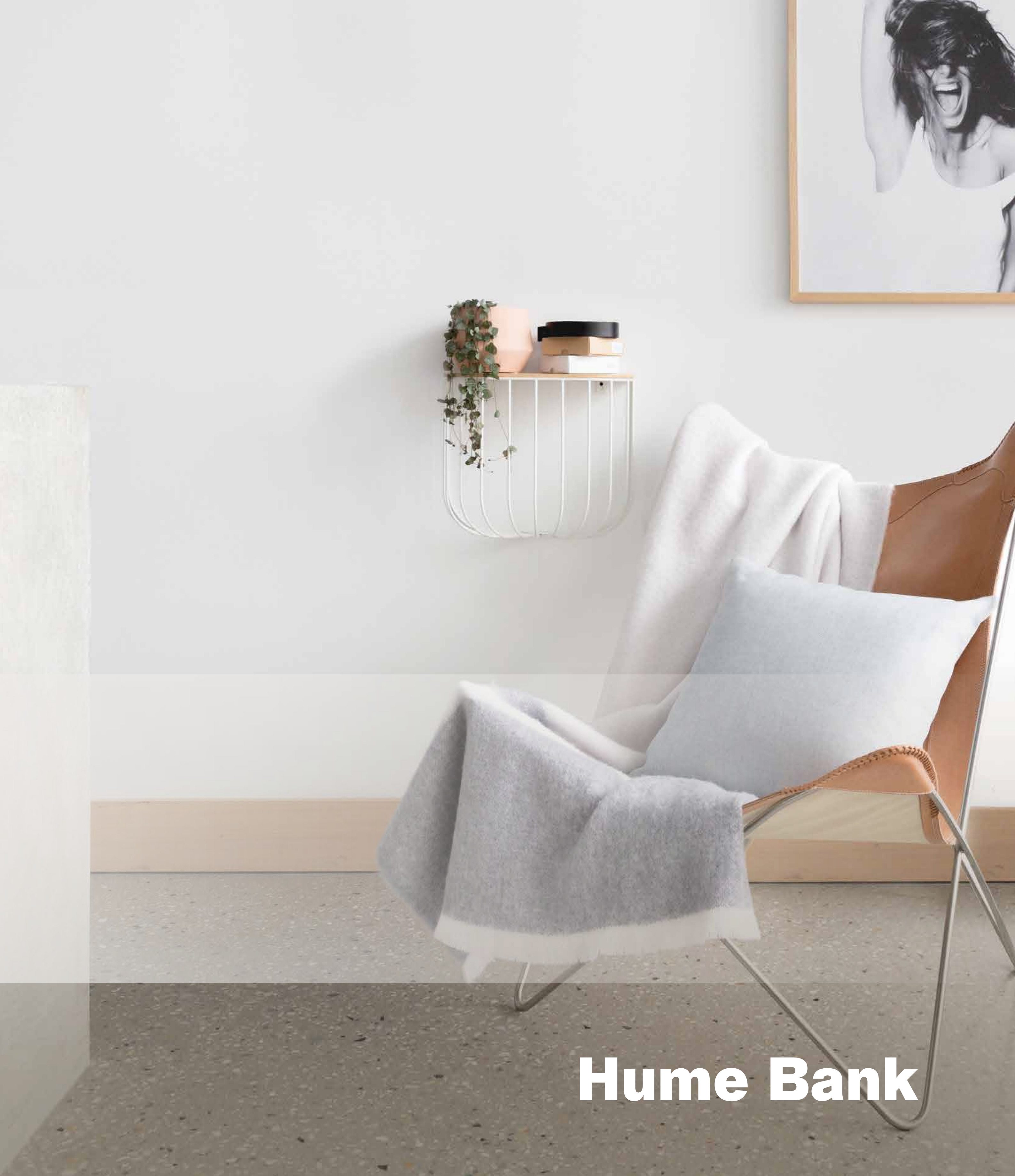
Annual Financial Report 2018



Hume Bank

Customer owned since day dot.
We're not like other banks and we plan to keep it that way.

Contents

Directors' Report

The Directors present their report, together with the financial statements of Hume Bank Limited (the 'company'), for the financial year ended 30 June 2018 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), LLM (Luxembourg) GAICD Independent, non-executive Director.	Financial Services Compliance and Legal adviser. Board member, Chair of Risk Committee and member of Audit Committee since November 2013. 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, Europe and Asia, specialising in global regulatory change projects. She recently completed a Masters in European Banking and Finance Law at the University of Luxembourg.
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 Audit Committee. Michael has provided strategic financial advice to the private business sector, major domestic and international investment funds and government borrowing authorities. Michael is 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 Albury Board. Michael is a former Board member of HotHouse Theatre.
Kerry Merle Grigg BCom, MCom (Marketing) (Hons), PhD, GAICD 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. Chair of the Remuneration & Succession Committee.
Paul Carrington McGill B Sc, MAICD Independent, non-executive Director	Former Consulting Director with Deloitte and Managing Consultant with PricewaterhouseCoopers. Paul has been in private practice as a management consultant with Maakan Advisory since 2009. Founding CEO of ActiveWealth and Chair, Advisory Board for Bridge Road Brewers. Paul is the former Chair, Hothouse Theatre and NED Tourism North East. Board member since July 2016. Member of the Remuneration & Succession and Risk Committees.
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.
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, 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.

Company Secretary

Melissa Ralph BBus (Banking – with distinction), Dip Law (LPAB), 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:	15	5	5	5
Number of meetings attended:				
Henrietta Rachel Cruddas	15	5	5	n/a
Michael Conrad Gobel	15	5	3 (of 2 eligible)	4 (of 3 eligible)
Kerry Merle Grigg	15	n/a	1 (of 0 eligible)	5 (of 4 eligible)
Paul Carrington McGill	14	5	n/a	2 (of 2 eligible)
Leo Francis O'Reilly	15	5	5	n/a
Kay Denise Thawley	15	n/a	5	5
Anthony Charles Whiting	15	n/a	3 (of 3 eligible)	5

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 and ensure compliance. It approves the strategic direction for the company, participates in the development of the strategic plan and has authority for its approval. It also approves the annual budget and has responsibility for the appointment, remuneration and performance appraisal of the Chief Executive Officer. The Board delegates responsibility for the management of the company to the Chief Executive Officer and Senior Management.

The Board generally meets on a monthly basis and conducts an annual evaluation of its 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 is invited to attend meetings and the Senior Manager responsible for the Risk function 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 Chief Executive Officer and Senior Manager responsible for the Human Resources function are invited to attend meetings and the Executive Manager Enterprise Risk & Compliance must attend relevant sections of meetings, however the committee may meet without Management. The Remuneration and Succession Committee is chaired by Kerry Grigg.

Principal activities

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

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

State of affairs

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

Review and results of operations

The company achieved a profit before income tax of $6.013 million for the year (2017 - $5.729 million). Net profit after income tax was $4.183 million (2017 - $3.938 million). The result was based on an increase in total assets of 4.97% or $52.26 million to $1.104 billion. Net loans and advances outstanding at 30 June 2018 were $831.791 million (2017 - $774.914 million) and deposits from customers were $1.016 billion (2017 - $966.078 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 36 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 38).

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 2018.

Indemnification and insurance of Officers and Auditors

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

The company has not indemnified its Auditors, Crowe 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, 23 August 2018

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 2018 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 2018.

CROWE HORWATH ALBURY

DAVID MUNDAY
Partner

23 AUGUST 2018
ALBURY

Consolidated Statement of Profit or Loss and Other Comprehensive Income

for the year ended 30 June 2018

	Note	2018 $'000	2017 $'000
Interest revenue	2	**41,368**	39,776
Interest expense	2	**(15,605)**	(16,074)
Net interest income		**25,763**	23,702
Non-interest income	3	**5,372**	4,894
Total operating income		**31,135**	28,596
Impairment of loans and advances	13	**(247)**	(115)
Other expenses	4	**(24,875)**	(22,851)
Operating profit before fair value adjustments		**6,013**	5,630
Fair value adjustments	5	**-**	99
Profit before income tax		**6,013**	5,729
Income tax expense	6	**(1,830)**	(1,791)
Profit for the year		**4,183**	3,938
Other comprehensive income, net of tax			
Items that will not be reclassified subsequently to profit or loss			
Revaluation of property		**(159)**	503
Items that may be reclassified subsequently to profit or loss			
Change in fair value of cash flow hedges		**10**	(10)
Other comprehensive income, net of tax		**(149)**	493
Total comprehensive income for the year attributable to members		**4,034**	4,431

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 51.

Consolidated Statement of Financial Position

as at 30 June 2018

	Note	2018	2017
		$'000	$'000
Assets			
Cash and cash equivalents	7	**46,938**	46,807
Receivables due from other financial institutions	8	**39,992**	55,631
Investment securities	9	**172,352**	160,375
Trade and other receivables	10	**1,258**	2,518
Derivative financial instruments	11	**-**	-
Loans and advances	12	**831,791**	774,914
Other investments	14	**204**	204
Investment property	15	**1,770**	1,770
Property, plant and equipment	16	**7,909**	7,781
Intangible assets	17	**748**	758
Deferred tax assets	18	**1,148**	1,092
Total assets		**1,104,110**	1,051,850
Liabilities			
Deposits from members	19	**1,016,352**	966,078
Trade and other payables	20	**9,309**	9,411
Derivative financial instruments	11	**-**	15
Income tax payable	21	**391**	298
Deferred tax liabilities	22	**-**	-
Provision for employee benefits	23	**2,282**	2,307
Borrowings	24	**-**	2,000
Total liabilities		**1,028,334**	980,109
Net assets		**75,776**	71,741
Members' funds			
Reserves	25	**3,494**	3,569
Retained earnings	26	**72,282**	68,172
Total members' funds		**75,776**	71,741

The consolidated statement of financial position is to be read in conjunction with the accompanying notes set out on pages 11 to 51.

Consolidated Statement of Changes in Equity

for the year ended 30 June 2018

	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
2017								
Opening balance at 1 July 2016		64,316	1,363	1,039	593	-	2,995	67,311
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	68,173	1,444	1,542	593	(10)	3,569	71,742
2018								
Opening balance at 1 July 2017		**68,173**	**1,444**	**1,542**	**593**	**(10)**	**3,569**	**71,742**
Net profit for the year		**4,183**	**-**	**-**	**-**	**-**	**-**	**4,183**
Total other comprehensive income		**-**	**-**	**(159)**	**-**	**10**	**(149)**	**(149)**
Transfers to/(from) reserves		**(74)**	**74**	**-**	**-**	**-**	**74**	**-**
Closing balance at 30 June 2018	25, 26	**72,282**	**1,518**	**1,383**	**593**	**-**	**3,494**	**75,776**

The consolidated statement of changes in equity is to be read in conjunction with the accompanying notes set out on pages 11 to 51.

Consolidated Statement of Cash Flows

for the year ended 30 June 2018

	Note	2018 $'000	2017 $'000
Cash flows from operating activities			
Interest received		**41,504**	39,861
Interest paid		**(15,515)**	(16,101)
Other non-interest revenue received		**5,280**	4,545
Cash paid to suppliers and employees		**(23,670)**	(21,468)
Fees and commissions paid		**(51)**	(44)
Income tax paid	21	**(1,797)**	(1,420)
		5,751	5,373
(Increase)/decrease in operating assets:			
Net (increase)/decrease in loans and advances		**(57,124)**	(45,285)
Net increase/(decrease) in deposits		**51,489**	43,069
Net cash flows from operating activities	27(b)	**116**	3,157
Cash flows from investing activities			
Net (increase)/decrease in receivables due from other financial institutions		**2,023**	3,000
Net (increase)/decrease in investments securities		**(10,027)**	(14,977)
Payments for property, plant and equipment		**(1,239)**	(1,815)
Proceeds from sale of property, plant and equipment		**65**	10
Payments for intangible assets		**(472)**	(624)
Net cash flows from investing activities		**(9,650)**	(14,406)
Cash flows from financing activities			
Proceeds from/(payments of) borrowings		**(2,000)**	-
Net cash flows from financing activities		**(2,000)**	-
Net increase/(decrease) in cash held		**(11,535)**	(11,249)
Cash at the beginning of the financial year		**222,769**	234,018
Cash at the end of the financial year	27(a)	**211,234**	222,769

The consolidated statement of cash flows is to be read in conjunction with the accompanying notes set out on pages 11 to 51.

Notes to the Financial Statements

for the year ended 30 June 2018

CONTENTS OF THE NOTES TO THE FINANCIAL STATEMENTS

Notes to the Financial Statements

for the year ended 30 June 2018

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 23 August 2018.

(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% (2017 - 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.

(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.

(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, using the safe harbour apportionment rate of 18% adopted per Practical Compliance Guideline 2017/15 from 1 July 2017. In addition certain prescribed purchases are subject to reduced input tax credits (RITC), of which 75% of the GST paid is recoverable.

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

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

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

(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 2017 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 2018 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. Specifically, 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.

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

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 Group of the amount expected to be entitled for performing under the contract.	Periods beginning on or after 1 January 2018.	The Group is continuing to seek the information it requires to fully quantify the impact of AASB 15 when the standard is first adopted. While assessments by Management to date have identified that only the non-interest income – commission income stream and related contracts are likely to be impacted by AASB 15, given the value of this income stream the impact is not expected to be material. Specifically, any change is expected to be below 10% of the current commission income recognised and calculated in accordance with AASB 118. No other income streams or contracts have been identified that will likely be materially impacted by the adoption of AASB 15 as most of the Group's revenue arises from the provision of financial services, the recognition of which will be governed by AASB 9. The Group intends to adopt the standard in the 30 June 2019 financial statements, using the modified retrospective approach which means that the cumulative impact of the impact of the adoption will be recognised in retained earnings as of 1 July 2018 and that comparatives will not be restated.
AASB 16 *Leases*:	AASB 16 replaces AASB 117 and some lease-related interpretations. 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 assessment, it is expected that the first-time adoption of AASB 16 for the year ending 30 June 2020 will have a material impact on the transactions and balances recognised in the financial statements, in particular: • lease assets and financial liabilities on the balance sheet will increase by \$3.4m and \$3.4m respectively (based on the facts at the date of the assessment); • the assets will be depreciated over the life of the leases; • lease payments will be split between interest and principal reduction, rather than being included in operating expenses; and • operating cash outflows will be lower and financing cash flows will be higher in the statement of cash flows, as principal repayments on all lease liabilities will now be included in financing activities rather than operating activities. Interest will also be included within financing activities. Note 30 to the financial statements discloses the current value of operating lease commitments which also provides some information on the potential financial impact once the standard is applicable.

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

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.	Based on the assessments undertaken to date, the Group expects when this standard is first adopted for the year ending 30 June 2019, there will be no material impact on the transactions and balances recognised in the financial statements. Specifically, the Group expects no significant change to the loss allowance for loans with any change expected to be below 10% of the current provision calculated in accordance with AASB 139. In adopting the new standard in the 30 June 2019 financial statements, the Group will apply the new rules retrospectively from 1 July 2018 with the practical expedients permitted under the standard. Comparatives will not be restated. The new standard also introduces expanded disclosure requirements and changes in presentation. These may change the nature and extent of the Group's disclosures about its financial instruments, particularly in 30 June 2019 the year of the adoption of the new standard.

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 2018			
Cash at authorised deposit-taking institutions	**44,142**	**457**	**1.04**
Receivables due from other financial institutions	**51,793**	**1,218**	**2.35**
Investment securities	**164,529**	**3,872**	**2.35**
Loans and advances	**800,767**	**35,821**	**4.48**
	1,061,231	**41,368**	**3.90**
Interest expense 2018			
Customers' deposits	**997,313**	**15,529**	**1.56**
Borrowings	**1,077**	**76**	**7.03**
	998,390	**15,605**	**1.56**
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

	2018 $'000	2017 $'000

3. NON-INTEREST INCOME

	2018 $'000	2017 $'000
Fees and commissions from customers		
- Loan and overdraft fees	**590**	518
- Transaction fees	**997**	739
- Credit card fees	**5**	6
- Other fees	**540**	458
	2,132	1,721
Fees and commissions from non-customers		
- Fees for service	**828**	848
- Commissions	**2,011**	1,920
	2,839	2,768
Total fees and commissions	**4,971**	4,489
Other non-interest income		
- Income from property	**43**	53
- Bad debts recovered	**23**	12
- Government grants	**9**	-
- Sundry income	**326**	340
	401	405
Total non-interest income	**5,372**	4,894

4. OTHER EXPENSES

	Note	2018 $'000	2017 $'000
Amortisation – leasehold improvements	16	**77**	48
Amortisation – intangible assets	17	**483**	385
Depreciation			
- Plant and equipment	16	**693**	674
- Buildings	16	**109**	79
Total depreciation		**802**	753
Fees and commissions		**51**	44
Personnel costs			
- Provision for long service leave		**56**	28
- Provision for annual leave		**26**	25
- Superannuation contributions		**1,010**	950
- Termination benefits		**110**	-
- Salaries and wages		**9,822**	9,224
- Payroll tax		**517**	525
- Other		**891**	932
Total personnel costs		**12,432**	11,684
Marketing expenses		**943**	952
Information technology expenses		**1,888**	1,489
Occupancy costs			
- Rental – operating leases		**1,313**	1,336
- Other occupancy costs		**999**	1,028
Total occupancy costs		**2,312**	2,364
ATM, Eftpos and electronic transaction processing costs		**2,854**	2,316
Other administration expenses		**3,025**	2,814
Loss on disposal of property, plant and equipment		**8**	2
Total other expenses		**24,875**	22,851

	Note	2018 $'000	2017 $'000

5. FAIR VALUE ADJUSTMENTS

	Note	2018	2017
Net fair value adjustment of investment property	15	**-**	24
Net fair value adjustment of property, plant & equipment	16	**-**	75
		-	99

6. INCOME TAX EXPENSE

	Note	2018	2017
Income tax expense on profit		**1,819**	1,786
Under/(over) provision in prior years		**11**	-
Income tax expense on other comprehensive income		**-**	5
		1,830	1,791

Recognised in statement of profit or loss and other comprehensive income

	Note	2018	2017
Income tax expense comprises amounts set aside as:			
Income tax payable – current year	21	**1,874**	1,614
Under/(over) provision in prior years		**11**	16
Increase/(decrease) in deferred tax liabilities		**-**	-
(Increase)/decrease in deferred tax assets		**(55)**	161
		1,830	1,791

Reconciliation between tax expense and pre-tax profit

	2018	2017
Profit before income tax	**6,013**	5,729
Prima facie income tax expense calculated at 30%	**1,804**	1,719
Increase/(decrease) in income tax expense due to:		
Non-deductible expenses	**55**	36
Other deductible expenses	**15**	(141)
Income tax expense attributable to profit	**1,874**	1,614

Dividend franking account

	2018	2017
Franking credits held at balance date	**32,867**	31,068

7. CASH AND CASH EQUIVALENTS

	2018	2017
Cash on hand and at authorised deposit-taking institutions at call	**46,938**	46,807

	2018 $'000	2017 $'000

8. RECEIVABLES DUE FROM OTHER FINANCIAL INSTITUTIONS

	2018	2017
Interest earning deposits	**39,992**	55,631
Credit rating of receivables due from other financial institutions		
Authorised Deposit-taking Institutions rated A and above	**5,000**	19,011
Authorised Deposit-taking Institutions rated below A	**10,000**	16,000
Unrated Authorised Deposit-taking Institutions	**24,992**	20,620
	39,992	55,631

9. INVESTMENT SECURITIES

	2018	2017
Negotiable certificates of deposit	**127,282**	125,332
Floating rate notes	**45,070**	35,043
	172,352	160,375
Credit rating of investment securities		
Authorised Deposit-taking Institutions rated A and above	**45,070**	35,043
Authorised Deposit-taking Institutions rated below A	**127,282**	125,332
Unrated Authorised Deposit-taking Institutions	**-**	-
	172,352	160,375

10. TRADE AND OTHER RECEIVABLES

	2018	2017
Interest receivable on investments	**679**	815
Sundry debtors, accrued income and prepayments	**579**	488
Clearing settlements receivable	**-**	1,215
	1,258	2,518

11. DERIVATIVE FINANCIAL INSTRUMENTS

	2018	2017
(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	2018 $'000	2017 $'000
12. LOANS AND ADVANCES			
Overdrafts and Credit Cards		**11,436**	10,189
Term loans		**820,224**	764,767
Loans and advances before deferred fees and costs		**831,660**	774,956
Deferred loan transaction costs		**791**	665
Deferred loan origination fees		**(529)**	(574)
Deferred fixed rate loan renegotiation fees		**(5)**	(13)
Deferred Upfront Broker Commission		**156**	113
Total loans and advances		**832,073**	775,147
Provision for impairment	13	**(282)**	(233)
Net loans and advances		**831,791**	774,914

Maturity analysis

	2018 $'000	2017 $'000
Not later than 1 month	**17,617**	12,898
Later than 1 and not later than 3 months	**12,196**	5,132
Later than 3 and not later than 12 months	**54,210**	23,862
Later than 1 and not later than 5 years	**260,520**	120,884
Later than 5 years	**487,530**	612,371
	832,073	775,147

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:

	2018 $'000	2017 $'000
- Southern NSW	**489,665**	453,513
- North East Victoria	**268,679**	256,338
- Other – non-concentrated	**73,316**	65,105
	831,660	774,956

Security held against loans and advances

	2018 $'000	2017 $'000
Secured by mortgage over residential property	**761,593**	704,510
Secured by mortgage over commercial property	**41,176**	44,709
Total loans and advances secured by real estate	**802,769**	749,219
Secured by funds	**726**	919
Partly secured by goods mortgage	**11,444**	10,635
Wholly unsecured	**16,721**	14,183
	831,660	774,956

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:

	2018 $'000	2017 $'000
Loan to value ratio of 80% or less	**660,337**	627,206
Loan to value ratio of more than 80% but mortgage insured	**130,974**	110,648
Loan to value ratio of more than 80% not mortgage insured	**11,458**	11,365
	802,769	749,219

12. LOANS AND ADVANCES (continued)

Securitised loans

	2018 $'000	2017 $'000
Securitised loans that do not qualify for derecognition	**149,884**	136,848

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

	2018 $'000	2017 $'000
Collective provision	**242**	191
Specific provision	**40**	42
	282	233

Provision for impairment – collective provision

	2018 $'000	2017 $'000
Opening balance	**191**	195
Bad debts previously provided for written off during the year	**(143)**	(101)
Bad and doubtful debts provided for during the year	**194**	97
Closing balance	**242**	191

Provision for impairment – specific provision

	2018 $'000	2017 $'000
Opening balance	**42**	27
Bad debts previously provided for written off during the year	**(55)**	(2)
Bad and doubtful debts provided for during the year	**53**	17
Closing balance	**40**	42

Bad and doubtful debts expense comprises:

	2018 $'000	2017 $'000
Collective provision increase/(decrease)	**194**	97
Specific provision increase/(decrease)	**53**	17
Bad debts recognised directly to profit or loss	**-**	1
Total bad debts expense/(benefit)	**247**	115

Ageing analysis of loans and advances past due

Loans and advances past due and not impaired

	2018 $'000	2017 $'000
Up to and including 30 days	**16,522**	13,661
More than 30 days but less than 90 days	**6,276**	2,895
More than 90 days but less than 180 days	**1,212**	1,258
More than 180 days but less than 270 days	**11**	34
More than 270 days but less than 365 days	**10**	-
More than 365 days	**3**	607
Accounts overdrawn and overdrafts over limit less than 14 days	**15**	157
	24,049	18,612

13. IMPAIRMENT OF LOANS AND ADVANCES (continued)

	2018 $'000	2017 $'000
Loans and advances past due and impaired		
Up to and including 30 days	**29**	19
More than 30 days but less than 90 days	**9**	21
More than 90 days but less than 180 days	**87**	128
More than 180 days but less than 270 days	**102**	47
More than 270 days but less than 365 days	**77**	11
More than 365 days	**38**	70
Accounts overdrawn and overdrafts over limit less than 14 days	**12**	16
	354	312
Total past due loans and advances	**24,403**	18,924

Security analysis of loans and advances past due

	2018 $'000	2017 $'000
Loans and advances past due and not impaired		
Secured by mortgage over real estate	**23,022**	18,031
Secured by funds	**-**	-
Partly secured by goods mortgage	**394**	338
Wholly unsecured	**633**	243
	24,049	18,612
Loans and advances past due and impaired		
Secured by mortgage over real estate	**-**	5
Secured by funds	**-**	-
Partly secured by goods mortgage	**116**	117
Wholly unsecured	**238**	190
	354	312
Total past due loans and advances	**24,403**	18,924

Assets acquired through enforcement of security

	2018 $'000	2017 $'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	**-**	-

14. OTHER INVESTMENTS

	2018 $'000	2017 $'000
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.

15. INVESTMENT PROPERTY

	2018 $'000	2017 $'000
Balance at the beginning of the year	**1,770**	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**	1,770

Valuations

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

The investment properties were valued in June 2017 and appraised in June 2018 by Taylor Byrne Pty Ltd, accredited independent valuers.

Desktop valuations were also completed for all properties for the year ended 30 June 2018.

The directors do not believe there has been a material movement in fair value since the 30 June 2017 valuation date.

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:

	2018 $'000	2017 $'000
Within 1 year	**18**	39
Later than 1 and not later than 2 years	**10**	18
Later than 2 and not later than 5 years	**-**	10
Aggregate lease payments receivable at balance date	**28**	67

Amount recognised in profit and loss for investment properties

	2018 $'000	2017 $'000
Rental income	**36**	35
Direct operating expenses	**(3)**	(15)
Net rental income received	**33**	20

16. PROPERTY, PLANT AND EQUIPMENT

	2018 $'000	2017 $'000
Land and buildings		
At fair value	**5,693**	5,690
Provision for depreciation	**(108)**	-
Total freehold land and buildings	**5,585**	5,690
Leasehold improvements		
At cost	**1,321**	1,500
Provision for amortisation	**(1,130)**	(1,368)
Total leasehold improvements	**191**	132
Plant and equipment		
At cost	**7,617**	7,279
Provision for depreciation	**(5,484)**	(5,320)
Total plant and equipment	**2,133**	1,959
Total property, plant and equipment at net book value	**7,909**	7,781

Reconciliations

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

	2018 $'000	2017 $'000
Land and buildings		
Carrying amount at the beginning of the year	**5,690**	4,610
Additions	**163**	581
Transfer to investment property	**-**	-
Fair value adjustments through other comprehensive income	**(159)**	503
Fair value adjustments through profit and loss	**-**	75
Depreciation	**(109)**	(79)
Carrying amount at the end of the year	**5,585**	5,690
Leasehold improvements		
Carrying amount at the beginning of the year	**132**	153
Additions	**136**	27
Disposals	**-**	-
Amortisation	**(77)**	(48)
Carrying amount at the end of the year	**191**	132
Plant and equipment		
Carrying amount at the beginning of the year	**1,959**	1,438
Additions	**940**	1,205
Disposals	**(73)**	(10)
Depreciation	**(693)**	(674)
Carrying amount at the end of the year	**2,133**	1,959

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

	2018 $'000	2017 $'000
Computer software and licences		
At cost	**3,724**	3,251
Provision for amortisation	**(2,976)**	(2,493)
	748	758

Reconciliations

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

	2018 $'000	2017 $'000
Computer software and licences		
Carrying amount at the beginning of the year	**758**	520
Additions	**473**	623
Disposals	**-**	-
Amortisation	**(483)**	(385)
Carrying amount at the end of the year	**748**	758

18. DEFERRED TAX ASSETS

	2018 $'000	2017 $'000
Deferred tax assets	**1,148**	1,092
Deferred tax assets are attributable to the following:		
Property, plant and equipment and intangible assets	**348**	326
Investment property	**65**	68
Provisions for employee benefits	**580**	572
Provision for impairment on loans	**86**	70
Borrowing costs	**-**	2
Expenses not currently deductible	**69**	49
Interest rate swaps	**-**	5
	1,148	1,092

	2018 $'000	2017 $'000
19. DEPOSITS		
Call deposits	**539,953**	511,815
Term deposits	**476,399**	454,263
	1,016,352	966,078
Concentration of deposits		
Southern NSW	**640,013**	621,967
North East Victoria	**306,308**	276,718
Other – non-concentrated	**70,031**	67,393
	1,016,352	966,078

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

	2018 $'000	2017 $'000
20. TRADE AND OTHER PAYABLES		
Accrued interest payable	**3,313**	3,223
Creditors and other liabilities	**5,996**	6,188
	9,309	9,411
21. INCOME TAX PAYABLE		
Income tax payable	**391**	298
Movement during the year was as follows:		
Balance at the beginning of the year	**298**	88
Current year's income tax expense on profit before tax	**1,874**	1,614
Income tax paid – Current year	**(1,483)**	(1,316)
Income tax paid – Prior year	**(314)**	(104)
Under/(over) provision in prior period	**16**	16
Balance at the end of the year	**391**	298
22. DEFERRED TAX LIABILITIES		
Deferred tax liabilities	**-**	-
23. PROVISION FOR EMPLOYEE BENEFITS		
Salaries, wages and other benefits accrued	**337**	444
Provision for annual leave	**780**	754
Provision for long service leave	**1,165**	1,109
	2,282	2,307

Included in employee benefits is a non-current amount of $394,344 (2017 - $394,000) relating to long service leave.

	2018 $'000	2017 $'000
24. BORROWINGS		
Subordinated debt	**-**	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	**-**	-
(Decrease) due to debt redeemed	**(2,000)**	-
Balance at the end of the year	**-**	2,000

The Group entered into an agreement to issue subordinated debt in November 2012. The debt instrument was redeemed at its first call notice date on 9th November 2017 after seeking approval by APRA.

	2018 $'000	2017 $'000
25. RESERVES		
General reserve for credit losses	**1,518**	1,444
Asset revaluation reserve	**1,383**	1,542
Capital profits reserve	**593**	593
Cash flow hedge reserve	**-**	(10)
	3,494	3,569

Movements in reserves

	2018 $'000	2017 $'000
General reserve for credit losses		
Balance at the beginning of the year	**1,444**	1,363
Transfer from retained earnings	**74**	81
Balance at the end of the year	**1,518**	1,444

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

	2018 $'000	2017 $'000
Asset revaluation reserve		
Balance at the beginning of the year	**1,542**	1,039
Total other comprehensive income	**(159)**	503
Balance at the end of the year	**1,383**	1,542

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

	2018 $'000	2017 $'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.

	2018 $'000	2017 $'000
Cash flow hedge reserve		
Balance at the beginning of the year	**(10)**	-
Total other comprehensive income	**10**	(10)
Balance at the end of the year	**-**	(10)

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

	2018 $'000	2017 $'000

26. RETAINED EARNINGS

	2018 $'000	2017 $'000
Retained earnings at the beginning of the year	**68,173**	64,316
Net profit attributable to members	**4,183**	3,938
Transfers from/(to) reserves	**(74)**	(81)
Retained earnings at the end of the year	**72,282**	68,173

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:

	2018 $'000	2017 $'000
Cash on hand and at authorised deposit-taking institutions	**46,938**	46,807
Receivables due from other financial institutions less than 3 months	**37,015**	50,631
Investment securities less than 3 months	**127,281**	125,331
	211,234	222,769

(b) Reconciliation of cash flows from operating activities

	2018 $'000	2017 $'000
Profit for the year	**4,183**	3,938
Non-cash items		
Charge for bad and doubtful debts	**247**	114
Depreciation	**802**	753
Amortisation of leasehold improvements	**77**	48
Amortisation of intangible assets	**483**	385
Provision for employee entitlements	**82**	54
(Profit) on disposal of plant and equipment	**-**	-
Loss on disposal of plant and equipment	**8**	2
Fair value adjustments	**-**	(99)
Changes in assets and liabilities		
Interest receivable	**136**	85
Other receivables	**(92)**	(348)
Interest payable	**91**	(27)
Income tax payable	**92**	210
Trade and other payables	**(191)**	411
Provision for employee benefits	**(107)**	(314)
Deferred tax assets	**(60)**	161
Deferred tax liabilities	**-**	-
	5,751	5,373
Net (increase)/decrease in loans and advances	**(57,124)**	(45,285)
Net increase/(decrease) in deposits	**51,489**	43,069
Net cash flow from operating activities	**116**	3,157

28. AUDITOR'S REMUNERATION

	2018 $	2017 $
Amounts received or due and receivable by the External Auditor of the Group for:		
– audit of the financial statements of the Group	**81,966**	78,843
– other services in relation to the Group	**58,421**	43,408
	140,387	122,251

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:

	2018 $'000	2017 $'000
Approved but undrawn loans and credit limits	**63,331**	63,211
Security analysis of credit-related commitments		
Secured by mortgage over real estate	**43,393**	42,688
Secured by funds	**838**	897
Partly secured by goods mortgage	**139**	172
Wholly unsecured	**18,961**	19,454
	63,331	63,211

Financial guarantees

	2018 $'000	2017 $'000
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.	**1,824**	1,388
Security analysis of financial guarantees		
Secured by mortgage over real estate	**1,013**	872
Secured by funds	**803**	508
Wholly unsecured	**8**	8
	1,824	1,388

Other commitments

The Group signed a commitment deed with SocietyOne, dated 25 January 2017. As at 30 June 2018 the funded amount included in loans and advances (Note 12) was $2,337,775 and there is no remaining undrawn commitment to SocietyOne as at 30 June 2018.

	2018	2017
	$'000	$'000

30. COMMITMENTS

Capital expenditure commitments

	2018 $'000	2017 $'000
Estimated capital expenditure contracted for at balance date but not provided for:		
– payable within one year	**-**	185

Operating leases (non-cancellable)

	2018 $'000	2017 $'000
Future operating lease commitments not provided for in the financial statements and payable:		
– within 1 year	**1,568**	1,704
– later than 1 and not later than 2 years	**1,255**	1,621
– later than 2 and not later than 5 years	**941**	2,152
– later than 5 years	**-**	-
Aggregate lease expenditure contracted for at balance date	**3,764**	5,477

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:

	2018	2017
	$	$
Short-term employee benefits		
- Directors	**460,254**	417,890
- Other key management personnel	**1,895,827**	1,779,985
Post-employment benefits – superannuation contributions		
- Directors	**72,854**	129,665
- Other key management personnel	**166,278**	157,260
Other long-term benefits – net increase/(decrease) in long service leave provision		
- Directors	**-**	-
- Other key management personnel	**18,366**	(17,787)
Termination benefits		
- Directors	**-**	-
- Other key management personnel	**-**	-
	2,613,579	2,467,013

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

The members of the 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:

	2018		2017	
	$		$	
	Mortgage Secured Loans	**Revolving Credit (unsecured)**	Mortgage Secured Loans	Revolving Credit (unsecured)
Loans to Directors				
Funds available to be drawn	**487,619**	**14,016**	489,403	4,750
Balance at reporting date	**1,525,675**	**3,844**	504,967	2,750
Loans advanced (including redraws)	**1,124,594**	**34,709**	1,498,894	36,284
Loan repayments	**167,714**	**34,001**	999,706	36,925
Interest and other revenue earned	**63,829**	**25**	4,985	2
Loans to Director related parties				
Funds available to be drawn	**-**	**220**	-	4,273
Balance at reporting date	**-**	**4,780**	-	727
Loans advanced (including redraws)	**-**	**24,571**	-	10,760
Loan repayments	**-**	**20,518**	23,015	9,886
Interest and other revenue earned	**-**	**-**	11,713	-
Loans to other key management personnel				
Funds available to be drawn	**109,389**	**10,445**	60,372	18,298
Balance at reporting date	**1,802,604**	**5,555**	2,005,431	3,702
Loans advanced (including redraws)	**580,444**	**69,948**	1,129,053	103,225
Loan repayments	**353,684**	**68,225**	403,810	103,817
Interest and other revenue earned	**78,085**	**148**	62,055	42
Loans to other key management personnel related parties				
Funds available to be drawn	**40,173**	**-**	-	-
Balance at reporting date	**212,854**	**-**	-	-
Loans advanced (including redraws)	**232,608**	**-**	-	-
Loan repayments	**24,830**	**-**	-	-
Interest and other revenue earned	**5,076**	**-**	-	-

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:

	2018	2017
	$	$
Deposits outstanding at balance date:		
- Directors	**163,975**	223,616
- Director related parties	**33,847**	480,876
- Other key management personnel	**133,934**	388,485
- Other key management personnel related parties	**150,225**	153,576
Interest paid on deposits:		
- Directors	**3,307**	4,047
- Director related parties	**663**	11,525
- Other key management personnel	**3,832**	3,037
- Other key management personnel related parties	**2,503**	1,725

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

Other transactions with related parties

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

There are no service contracts to which key management personnel, their close family members or other related parties are an interested party other than those disclosed in this note (2017 - $128,131).

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.

	2018	2017
	$'000	$'000
Securitised loans retained on the balance sheet (not de-recognised)		

The values of securitised loans which are not qualifying for de-recognition as the conditions do not meet the criteria in the accounting standards are set out below. 98.0% 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.

	2018	2017
Balance sheet values		
Loans	**149,884**	136,848
Fair value of associated liabilities	**(149,884)**	(136,848)
Net	**-**	-
Carrying amount of the loans as at the time of transfer	**158,002**	148,081

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 Board's 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 Board Risk Committee and senior management to develop and maintain best practice risk management frameworks whilst promoting a sustainable risk and compliance culture. As part of their participation in the decision-making process, the 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 Board Audit Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Board Audit Committee.

(b) Objectives and policies

Managing the risks that affect the 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.

Credit risk – loans and advances

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

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

The 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;
- Review of compliance with the above policies; and
- A regular review of compliance with these policies is conducted by Internal Audit.

Credit concentration risk

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

The 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 listed banks, Australian Settlements Limited, Federal and State Governments to a maximum of 50% of capital. Given the high quality and/or relatively short duration of these investments, the 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 2018, the company held 16.88% of total adjusted liabilities as MLH qualifying assets (2017 – 16. 67%). The average during the financial year was 17.07% (2017 – 16.32%).

The company also maintains 1.80% of total adjusted liabilities as MLH qualifying assets (2017 – 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.

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 2018, the Company held $147.642 million (2017 – $133.354 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 an externally supplied interest rate risk model and managed within established limits.

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

The Company's VaR measure as at 30 June 2018 using a 20 day holding period, 99% confidence level and a 250 day observation period, was 0.54% of capital. VaR as at 30 June 2017 was 0.15% of capital, using different parameters.

The Company's EaR measure as at 30 June 2018 using a shift in interest rates of 200 basis points for one year, EaR was a $4,324,910 variation or 15.24% from the base case. EaR as at 30 June 2017 was a $5,661,193 variation or 22.46% from the base case, using different 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.

(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.

35. FINANCIAL RISK MANAGEMENT (continued)

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

	2018	2017
	$'000	$'000
Tier 1 capital		
Common equity tier 1 capital		
Retained earnings	**72,282**	68,172
Capital profits reserve	**593**	593
Deferred fee income	**(413)**	(191)
Asset revaluation reserve	**1,383**	1,542
Cash flow hedge reserve	**-**	(10)
	73,845	70,106
Less prescribed deductions	**(2,100)**	(2,055)
Net tier 1 capital	**71,745**	68,051
Tier 2 capital		
General reserve for credit losses	**1,518**	1,444
Subordinated debt	**-**	1,000
Net tier 2 capital	**1,518**	2,444
Total capital	**73,263**	70,495
Risk profile		
Credit risk	**440,094**	418,818
Operational risk	**65,745**	62,428
Total risk weighted assets	**505,839**	481,246
Capital adequacy ratio	**14.48%**	14.60%

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 115 days with effective interest rates of 1.25% to 2.80% (2017: 1.25% to 2.60%).
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 36(d). Interest revenue is recognised when earned.	Investment securities have an average maturity of 223 days and effective interest rates of 2.27% to 3.12% (2017: 2.08% to 2.68%).
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.

36. FINANCIAL INSTRUMENTS (continued)

(b) Effective interest rates and repricing analysis

Interest rate risk in the statement of financial position arises from the potential for a change in interest rates to have an adverse affect on the net interest earnings in the current reporting period and in future years. Interest rate risk arises from the structure and characteristics of the Group's assets, liabilities and equity, and in the mismatch in repricing dates of its assets and liabilities. The tables for both the 2017 and 2018 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	%
2018									
Financial assets									
Cash and cash equivalents	**36,630**						**10,308**	**46,938**	**1.36**
Receivables due from FI's	**6,992**	**6,000**	**27,000**					**39,992**	**2.44**
Investment securities		**73,673**	**98,679**					**172,352**	**2.53**
Trade and other receivables							**1,258**	**1,258**	**n/a**
Derivative financial assets								**-**	**n/a**
Loans and advances	**563,621**	**6,546**	**16,825**	**61,596**	**182,233**	**839**	**131**	**831,791**	**4.51**
Other investments							**204**	**204**	**n/a**
Total financial assets	**607,243**	**86,219**	**142,504**	**61,596**	**182,233**	**839**	**11,901**	**1,092,535**	
Financial liabilities									
Deposits	**539,953**	**106,086**	**209,250**	**148,074**	**12,989**			**1,016,352**	**1.56**
Trade and other payables							**9,310**	**9,310**	**n/a**
Derivative financial liabilities								**-**	**n/a**
Subordinated debt								**-**	**n/a**
Total financial liabilities	**539,953**	**106,086**	**209,250**	**148,074**	**12,989**	**-**	**9,310**	**1,025,662**	

	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
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	

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
2018								
Financial assets								
Cash and cash equivalents	**46,984**						**46,984**	**46,938**
Receivables due from FI's	**13,038**	**18,136**	**6,044**	**3,020**			**40,238**	**39,992**
Investment securities	**54,149**	**74,176**	**20,862**	**25,724**			**174,911**	**172,352**
Trade and other receivables	**579**						**579**	**1,258**
Derivative financial assets							**-**	**-**
Loans and advances	**20,642**	**18,316**	**80,587**	**385,914**	**534,283**		**1,039,742**	**831,791**
Other investments						**204**	**204**	**204**
Total financial assets	**135,392**	**110,628**	**107,493**	**414,658**	**534,283**	**204**	**1,302,658**	**1,092,404**
Financial liabilities								
Deposits	**647,219**	**211,398**	**151,397**	**13,447**			**1,023,461**	**1,016,352**
Trade and other payables	**5,996**						**5,996**	**9,310**
Subordinated debt							**-**	**-**
Derivative financial liabilities							**-**	**-**
On balance sheet	**653,215**	**211,398**	**151,397**	**13,447**			**1,029,457**	**1,025,662**
Undrawn credit commitments	**63,331**						**63,331**	**63,331**
Total financial liabilities	**716,546**	**211,398**	**151,397**	**13,447**			**1,092,788**	**1,088,993**

	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
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

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 2018 $'000	2017 $'000	Aggregate net fair value 2018 $'000	2017 $'000
Financial assets					
Cash and cash equivalents	7	**46,938**	46,807	**46,984**	46,853
Receivables due from other financial institutions	8	**39,992**	55,631	**40,112**	56,021
Investment securities	9	**172,352**	160,375	**172,759**	160,840
Trade and other receivables	10	**1,258**	2,518	**579**	1,703
Derivative financial assets	11	**-**	-	**-**	-
Loans and advances	12	**831,791**	774,914	**845,189**	780,414
Other investments	14	**204**	204	**204**	204
Total financial assets		**1,092,535**	1,040,449	**1,105,827**	1,046,035
Financial liabilities					
Deposits	19	**1,016,352**	966,078	**1,013,079**	973,033
Trade and other payables	20	**9,310**	9,411	**9,310**	9,411
Derivative financial liabilities	11	**-**	15	**-**	15
Subordinated debt	24	**-**	2,000	**-**	2,000
Total financial liabilities		**1,025,662**	977,504	**1,022,389**	984,459

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.

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.

2018	**Note**	**Fair value measurement using Level 1 $'000**	**Level 2 $'000**	**Level 3 $'000**	**Total $'000**
Assets measured at fair value					
Derivative financial instruments	11	-	**-**	**-**	**-**
Investment property	15	-	**1,770**	**-**	**1,770**
Land and buildings	16	-	**5,585**	**-**	**5,585**
Other investments		-	-	**204**	**204**
Total assets measured at fair value		-	**7,355**	**204**	**7,559**
Assets for which fair values are disclosed					
Cash and cash equivalents		-	**46,984**	**-**	**46,984**
Receivables due from other financial institutions		-	**40,112**	**-**	**40,112**
Investment securities		-	**172,759**	**-**	**172,759**
Trade and other receivables		-	-	**579**	**579**
Loans and advances		-	-	**845,189**	**845,189**
Total assets for which fair value is disclosed		-	**259,855**	**845,768**	**1,105,623**
Liabilities measured at fair value					
Derivative financial instruments	11	-	**-**	**-**	**-**
Total liabilities measured at fair value		-	**-**	**-**	**-**
Liabilities for which fair values are disclosed					
Deposits		-	**1,013,079**	**-**	**1,013,079**
Trade and other payables		-	**-**	**9,310**	**9,310**
Subordinated debt		-	**-**	**-**	**-**
Total liabilities for which fair value is disclosed		-	**1,013,079**	**9,310**	**1,022,389**

There have been no transfers between levels during the year.

37. FAIR VALUE MEASUREMENT (Continued)

2017	Note	Fair value measurement using Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Assets measured at fair value					
Derivative financial instruments	11	-	-	-	-
Investment property	15	-	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.

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.

	2018 **$'000**	2017 $'000
Results of the parent entity		
Profit for the year	**4,183**	3,938
Other comprehensive income	**(149)**	493
Total comprehensive income for the year	**4,034**	4,431
Financial position of the parent entity		
Total assets	**1,104,110**	1,051,850
Total liabilities	**1,028,334**	980,109
Retained earnings	**72,282**	68,172
Reserves	**3,494**	3,569
Commitments for the acquisition of property, plant & equipment	**-**	185

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 51, 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 2018 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, 23 August 2018

Crowe Horwath.
PART OF FINDEX

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Independent Auditor's Report

To the Members of Hume Bank Ltd

Opinion

We have audited the financial report of Hume Bank Ltd (the Company), which comprises the consolidated statement of financial position as at 30 June 2018, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

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

(a) giving a true and fair view of the consolidated Company's financial position as at 30 June 2018 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 information contained in the Company's Annual Report for the year ended 30 June 2018, but does not include the financial report and our auditor's report thereon.

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

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

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

Responsibilities of the Directors for the Financial Report

The directors of the 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.

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

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

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

CROWE HORWATH ALBURY

DAVID MUNDAY
Partner

23 August 2018
Albury

Hume Bank

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