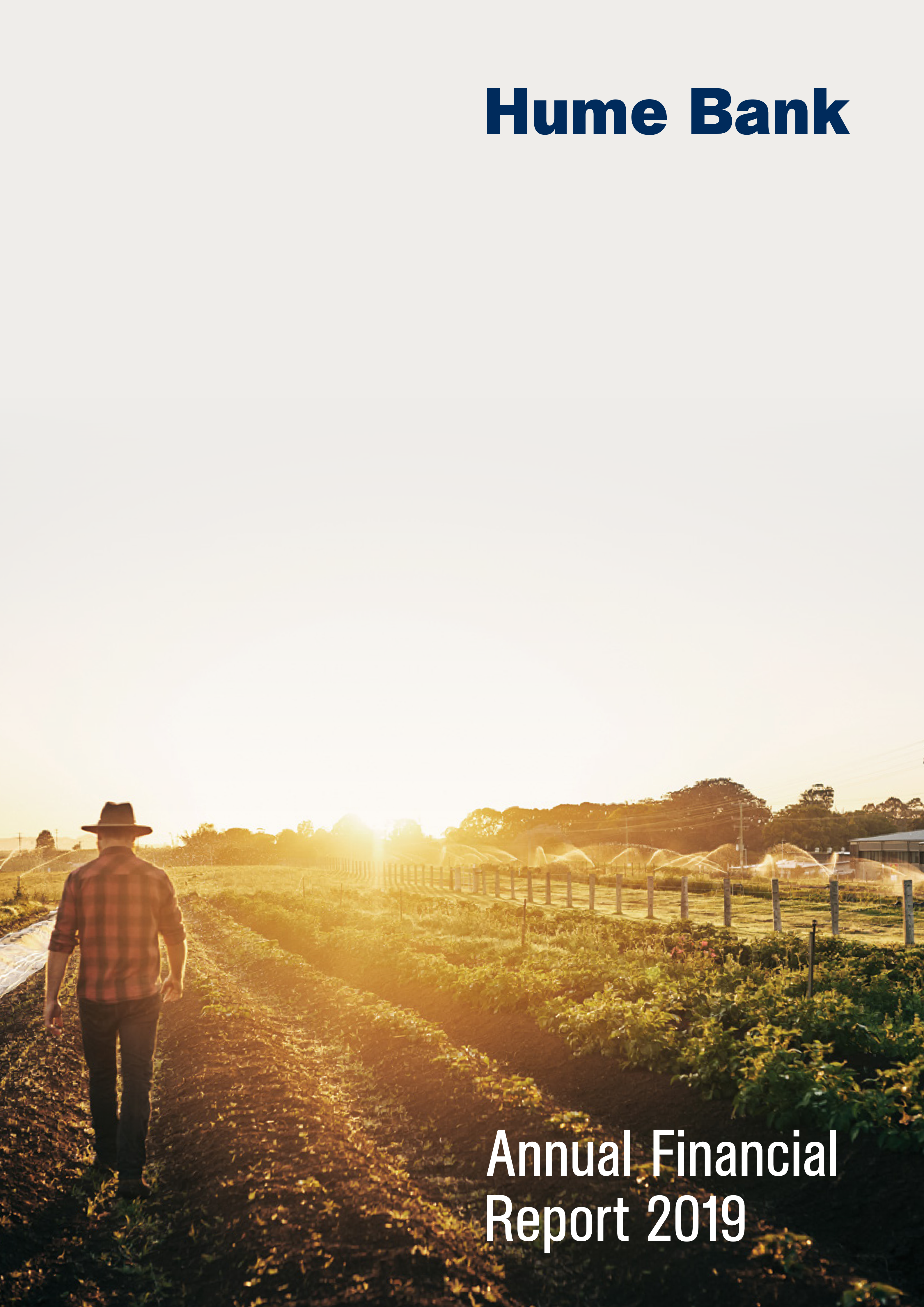
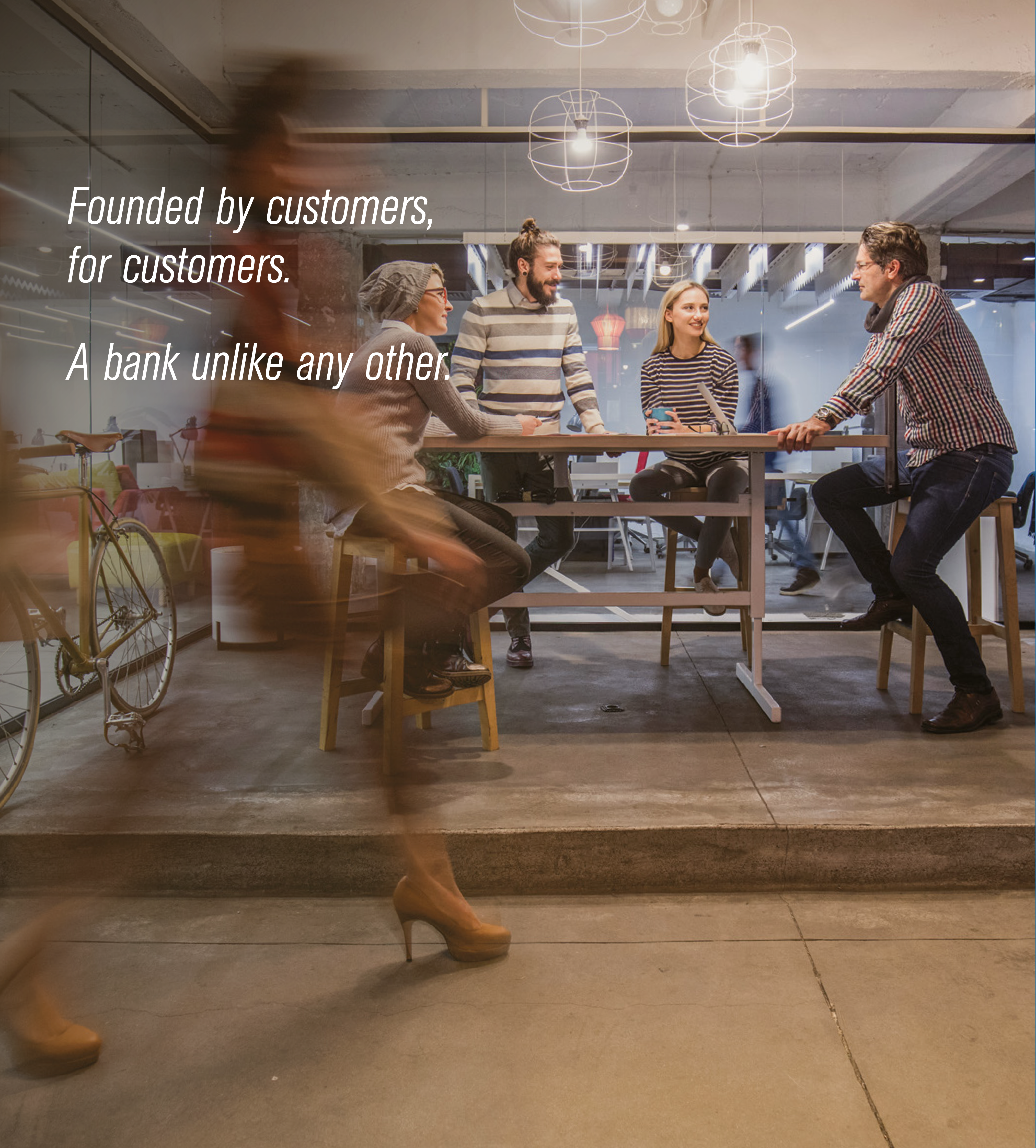
Hume Bank



Annual Financial Report 2019



Hume Bank

Annual Financial Report 2019

Contents

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

Directors' Report

The Directors present their report, together with the financial statements of Hume Bank Limited (the 'company'), for the financial year ended 30 June 2019 and the Auditor's report thereon.

Directors

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

Name and Qualifications	Experience and Special Responsibilities
Henrietta Rachel Cruddas B.Sc (Hons), GAICD, LLM (Academique) Independent, non-executive Director.	*Skills, experience and expertise* Henri's association with Hume began in 2002 when she joined the staff as Legal and Compliance Manager. She later established her own legal and compliance consultancy business advising small and large retail financial and wealth institutions in Australia and overseas in particular in relation to regulatory change. Henri has been a legal, compliance and risk specialist in the financial services industry over the last 30 years in Australia, the UK and Asia, specialising in retail financial services. She qualified as a solicitor in both Australia and England and Wales and in 2018 completed a Masters in European Banking and Finance Law with the University of Luxembourg. She is currently EMEA Chief Compliance Officer for the payments business of a global online market place. *Hume Bank Board Committee Membership* Chairperson of the Audit Committee. Member of the Risk Committee. *Term of Office* Director since May 2011, (apart from a 12 month break in 2012 due to a temporary relocation to Hong Kong). Chairperson of the Audit Committee since November 2018. Henri was Deputy Chairperson from November 2013 to November 2015 and Chairperson of the Risk Committee from December 2014 to November 2018.
Michael Conrad Gobel B.Sc, MAppFin, GAICD Independent, non-executive Director.	*Skills, experience and expertise* Michael is an experienced equity funds manager and has provided strategic financial advice to the private business sector, major domestic and international investment funds and government borrowing authorities. Michael is a member of the Audit Committee of Indigo Power, a member of the Victorian Ovens and Murray Regional Partnerships Board and is on the Phoenix Life Sciences Company Board (Colorado, USA). *Hume Bank Board Committee Membership* Chairperson of the Risk Committee. Member of the Audit Committee. *Term of Office* Director since November 2012. Deputy Chairperson since November 2016. Chairperson of the Risk Committee since November 2018 and member of the Audit Committee since November 2018. Michael was Chairperson from November 2013 to October 2016 and Deputy Chairperson from November 2012 to November 2013.
Kerry Merle Grigg GAICD, PhD, MComm (Hons) with Distinction, BComm Independent, non-executive Director.	*Skills, experience and expertise* Kerry is the Global Head of Leadership Development at A.P. Moller - Maersk (listed on the Nasdaq Copenhagen), the world's largest integrated transport and logistics company. In previous roles, Kerry was formerly a Global Talent Director at Mars Incorporated, business consultant to both public and private companies and academic at Charles Sturt University (Albury Campus) and Monash University (Caulfield Campus) in the business disciplines of management, human resource management and marketing. Kerry has deep expertise in human resource management and specifically, organisational development and broad business acumen due to the variety of roles and geographies she has worked across. Kerry has studied, worked and lived in Albury for over forty years and as a result has strong connections with the Hume Bank footprint. *Hume Bank Board Committee Membership* Chairperson of the Remuneration and Succession Committee. Member of the Risk Committee. *Term of Office* Director since July 2017 and Chairperson of Remuneration and Succession Committee since January 2018.
Paul Carrington McGill B. Sc (Melb), GAICD Independent, non-executive Director	*Skills, experience and expertise* Paul brings a private sector and management consulting background. He held management consulting roles with both Deloitte and PricewaterhouseCoopers before setting up in private practice. He has advised private sector entities as well as local, state and commonwealth government departments. He has provided advice to boards, committees of management and senior executives across a range of sectors and geographies in strategy, governance and operational improvement. Paul has previously held directorships with Tourism North East and the Hothouse Theatre and Chaired the Advisory Committee for Bridge Road Brewers. *Hume Bank Board Committee Membership* Member of the Risk Committee and the Remuneration and Succession Committee. *Term of Office* Director since July 2016.
Leo Francis O'Reilly GAICD Independent, non-executive Director. Retired from the Board in October 2018.	*Skills, experience and expertise* Leo is a 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. *Hume Bank Board Committee Membership* Previously Chairperson of the Audit Committee and Member of the Risk Committee. *Term of Office* Director since February 1998 and Chairperson of the Audit Committee from February 2012 to October 2018. Retired from the Board in October 2018.
Kay Denise Thawley B.Bus, GAICD Independent, non-executive Director.	*Skills, experience and expertise* Kay has previously held senior executive roles with National Australia Bank domestically and offshore, was a partner with Deloitte Touche Tohmatsu in financial services and former Chief Executive Officer of Industry Fund Services. Kay is an independent member of the Indigo Shire Audit Committee. *Hume Bank Board Committee Membership* Member of the Audit Committee and the Remuneration and Succession Committee. *Term of Office* Director since August 2014.

Name and Qualifications	Experience and Special Responsibilities
Anthony Charles Whiting B Com Independent, non-executive Director.	*Skills, experience and expertise* Tony has been active in Albury Wodonga's business community for over 20 years as well as having international and national experience in leadership, marketing and strategic development. He has participated at Board level on a number of institutions and has a great interest in the economic development of the Albury Wodonga region. Tony was CEO of The Border Morning Mail Pty Ltd from 1996 to 2007 and holds a Degree in Commerce from the University of NSW. *Hume Bank Board Committee Membership* Member of the Remuneration and Succession Committee. *Term of Office* Director since May 2016. Chairperson since November 2016 and was Deputy Chairperson from May 2016 to November 2016.
Kent Bernard Griffin FIAA, B Economics (Actuarial Studies), GAICD Independent, non-executive Director.	*Skills, experience and expertise* Kent brings both corporate leadership and consulting experience within the financial services sector across Australia, Europe and Asia. Kent comes to Hume with a broad-ranging skillset and strengths in leadership, strategy, actuarial, risk, treasury, investor relations and regulatory and capital management in the life insurance, wealth management and banking sectors. Kent has previously held directorships in the financial services and not-for-profit sectors. *Hume Bank Board Committee Membership* Member of the Audit Committee. *Term of Office* Director since November 2018.

Company Secretary

Ms Alison Prentice (Assoc. Dip (Accounting)) is the Company Secretary, appointed from 1 August 2018. Ms Prentice joined Hume in October 2011 and has over 20 years in financial service industry experience. Melissa Ralph BBus (Banking – with distinction), Dip Law (LPAB), MAICD, GIACert, was the Company Secretary and resigned 31 July 2018.

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:	13	4	5	5
Number of meetings attended:				
Henrietta Rachel Cruddas	12	4	5	N/A
Michael Conrad Gobel	12	4	5	N/A
Kerry Merle Grigg	12	2 (of 2 eligible)	N/A	5
Paul Carrington McGill	13	4	N/A	5
Kent Bernard Griffin	6 (of 7 eligible)	N/A	3 (of 3 eligible)	N/A
Kay Denise Thawley	13	N/A	5	5
Anthony Charles Whiting	13	N/A	N/A	4
Leo Francis O'Reilly	5 (of 5 eligible)	1 (of 1 eligible)	2 (of 2 eligible)	N/A

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

Corporate Governance Statement

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

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

Committees of Directors

Audit Committee

The Audit Committee is a Board appointed Committee comprising of four non-executive Directors. Its principal responsibility is to assist the Board to fulfil its corporate governance and oversight responsibilities in relation to the 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 Henrietta Cruddas.

Risk Committee

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

Remuneration & Succession Committee

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

Principal activities

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

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

State of affairs

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

Review and results of operations

The company achieved a profit before income tax of $6.913 million for the year (2018 - $6.013 million). Net profit after income tax was $5.009 million (2018 - $4.183 million). The result was based on an increase in total assets of 9.4% or $104.165 million to $1.208 billion. Net loans and advances outstanding at 30 June 2019 were $908.804 million (2018 - $831.791 million) and deposits from customers were $1.113 billion (2018 - $1.016 billion).

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 39 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 29 to the financial statements (page 39).

Lead auditor's independence declaration

The auditor's independence declaration is set out on page 7 and forms part of the Directors' report for the financial year ended 30 June 2019.

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

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

Signed in accordance with a resolution of the Directors:

Anthony Whiting **Chairman**	Michael Gobel **Deputy Chairman**

Albury, 22 August 2019

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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 2019 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 2019.

Crowe Albury

CROWE HORWATH ALBURY

DAVID MUNDAY
Partner

22 AUGUST 2019
ALBURY

Consolidated Statement of Profit or Loss and Other Comprehensive Income

for the year ended 30 June 2019

	Note	2019 $'000	2018 $'000
Interest revenue	2	**43,613**	41,368
Interest expense	2	**(16,914)**	(15,605)
Net interest income		**26,699**	25,763
Non-interest income	3	**5,640**	5,372
Total operating income		**32,339**	31,135
Impairment of loans and advances	12	**(327)**	(247)
Other expenses	4	**(25,099)**	(24,875)
Operating profit before fair value adjustments		**6,913**	6,013
Fair value adjustments	5	**-**	-
Profit before income tax		**6,913**	6,013
Income tax expense	6	**(1,904)**	(1,830)
Profit for the year		**5,009**	4,183
Other comprehensive income, net of tax			
Items that will not be reclassified subsequently to profit or loss			
Revaluation of property		**-**	(159)
Gain on investments in equity instruments designated at FVTOCI		**63**	-
Items that may be reclassified subsequently to profit or loss			
Change in fair value of cash flow hedges		**-**	10
Other comprehensive income, net of tax		**63**	(149)
Total comprehensive income for the year attributable to members		**5,072**	4,034

The consolidated statement of profit or loss and other comprehensive income is to be read in conjunction with the accompanying notes set out on pages 12 to 54.

Consolidated Statement of Financial Position

as at 30 June 2019

	Note	2019 $'000	2018 $'000
Assets			
Cash and cash equivalents	7	**51,865**	46,938
Receivables due from other financial institutions	8	**53,000**	39,992
Investment securities	9	**181,672**	172,352
Trade and other receivables	10	**1,974**	1,258
Loans and advances	11	**908,804**	831,791
Other investments	13	**295**	204
Investment property	14	**1,770**	1,770
Property, plant and equipment	15	**7,269**	7,909
Intangible assets	16	**385**	748
Deferred tax assets	17	**1,241**	1,148
Total assets		**1,208,275**	1,104,110
Liabilities			
Deposits from members	18	**1,112,521**	1,016,352
Trade and other payables	19	**12,099**	9,309
Income tax payable	20	**361**	391
Provision for employee benefits	21	**2,446**	2,282
Borrowings	22	**-**	-
Total liabilities		**1,127,427**	1,028,334
Net assets		**80,848**	75,776
Members' funds			
Reserves	23	**3,672**	3,494
Retained earnings	24	**77,176**	72,282
Total members' funds		**80,848**	75,776

The consolidated statement of financial position is to be read in conjunction with the accompanying notes set out on pages 12 to 54.

Consolidated Statement of Changes in Equity

for the year ended 30 June 2019

	Note	Retained Earnings $'000	General Reserve for Credit Losses $'000	Asset Revaluation Reserve $'000	Financial Asset Reserve $'000	Capital Profits Reserve $'000	Cash Flow Hedge Reserve $'000	Total Reserves $'000	Total Members' Funds $'000
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	23, 24	72,282	1,518	1,383	-	593	-	3,494	75,776
2019									
Opening balance at 1 July 2018		**72,282**	**1,518**	**1,383**	**-**	**593**	**-**	**3,494**	**75,776**
Effect of adoption of AASB 15	1(z)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Effect of adoption of AASB 9	12	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Opening balance at 1 July 2018 - Restated		**72,282**	**1,518**	**1,383**	**-**	**593**	**-**	**3,494**	**75,776**
Net profit for the year		**5,009**	**-**	**-**	**-**	**-**	**-**	**-**	**5,009**
Total other comprehensive income		**-**	**-**	**-**	**63**	**-**	**-**	**63**	**63**
Transfers to/ (from) reserves		**(115)**	**115**	**-**	**-**	**-**	**-**	**115**	**-**
Closing balance at 30 June 2019	23, 24	**77,176**	**1,633**	**1,383**	**63**	**593**	**-**	**3,672**	**80,848**

The consolidated statement of changes in equity is to be read in conjunction with the accompanying notes set out on pages 12 to 54.

Consolidated Statement of Cash Flows

for the year ended 30 June 2019

	Note	2019 $'000	2018 $'000
Cash flows from operating activities			
Interest received		**43,629**	41,504
Interest paid		**(16,708)**	(15,515)
Other non-interest revenue received		**4,907**	5,280
Cash paid to suppliers and employees		**(20,977)**	(23,670)
Fees and commissions paid		**(57)**	(51)
Income tax paid	20	**(2,055)**	(1,797)
		8,739	5,751
(Increase)/decrease in operating assets:			
Net (increase)/decrease in loans and advances		**(77,339)**	(57,124)
Net increase/(decrease) in deposits		**96,170**	51,489
Net cash flows from operating activities	25(b)	**27,570**	116
Cash flows from investing activities			
Net (increase)/decrease in receivables due from other financial institutions		**2,977**	2,023
Net (increase)/decrease in investments securities		**(5,197)**	(10,027)
Payments for property, plant and equipment		**(265)**	(1,239)
Proceeds from sale of property, plant and equipment		**66**	65
Payments for intangible assets		**(116)**	(472)
Net cash flows from investing activities		**(2,535)**	(9,650)
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		**25,035**	(11,535)
Cash at the beginning of the financial year		**211,234**	222,769
Cash at the end of the financial year	25(a)	**236,269**	211,234

The consolidated statement of cash flows is to be read in conjunction with the accompanying notes set out on pages 12 to 54.

Notes to the Financial Statements
for the year ended 30 June 2019

CONTENTS OF THE NOTES TO THE FINANCIAL STATEMENTS

Notes to the Financial Statements
for the year ended 30 June 2019

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 22 August 2019.

(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, unless otherwise stated.

Where necessary, comparative information has been reclassified to achieve consistency in disclosure with current financial year amounts and other disclosures. Note 1 does not include accounting policies relating to financial years ended 30 June 2018 and previous in relation to AASB 139 Financial Instruments: Recognition and Measurement and AASB 118 Revenue due to the immaterial impact of the new accounting standards (AASB 9 & AASB 15) on transition, effective 1 July 2018. Refer to note 1 (z) new standards applicable for the current year. Pre 1 July 2018 accounting policies under AASB 139 and AASB 118 are set out in the 30 June 2018 financial statements.

(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 12 – Impairment of loans and advances. In the current year the approach to estimation of impairment of loans and advances has been revised following the adoption of AASB 9, effective 1 July 2018; and
- note 34 – Fair value of financial instruments.

(f) Investment in equity instruments

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

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

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

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

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

(h) Investment securities

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

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

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

(i) Employee benefits

Wages, salaries and annual leave

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

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

Long service leave

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

Superannuation plan

Contributions to the employees’ superannuation fund are recognised as an expense as they are made.

(j) Loans and advances

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

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

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

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

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

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

In applying this forward-looking approach, a distinction is made between:

- financial instruments that have not deteriorated significantly in credit quality since initial recognition or that have low credit risk (performing loans) (‘Stage 1’); and
- financial instruments that have deteriorated significantly in credit quality since initial recognition and whose credit risk is not low (‘Stage 2’).

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

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

Measurement of ECL

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

(l) Reserve for credit losses

Group policy requires that a general reserve for credit losses, sufficient to cover estimated future credit losses, be maintained. This Group maintains a general reserve for credit losses of 0.3% (2018 - 0.3%) of risk weighted assets.

(m) Bad Debts

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

(n) Property, plant and equipment

Recognition and measurement

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

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

Assets less than $500 are not capitalised.

Revaluation of land and buildings

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

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

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

Depreciation

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

The estimated useful lives are as follows:

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

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

Disposal

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

(o) Intangible assets

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

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

(p) Investment property

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

(q) Impairment of non-financial assets

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

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

(r) Derivative financial instruments and hedge accounting

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

Cash flow hedges

The Group applies 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 market to market movements in the instruments recognised through reserves for the effective portion of the hedge. The ineffective portion of the hedge is recognised through profit or loss.

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

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

(s) 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.

(t) Income Tax

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

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

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

(u) Borrowings

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

(v) Goods and services tax

As a financial institution the 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.

(w) Fair value measurement

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

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

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

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

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

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

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

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

- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

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

(x) Government grants

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

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

(y) Revenue

Dividends

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

Fees & Commission

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

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

Fees and commission are generally recognised as earned.

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.

(z) New standards applicable for the current year

AASB 15 Revenue from contracts with customers

AASB 15 replaces AASB 118 Revenue, AASB 111 Construction Contracts and several revenue-related Interpretations. The new Standard has been applied as at 1 July 2018 using the modified retrospective approach. Under this method, the cumulative effect of initial application is recognised as an adjustment to the opening balance of retained earnings at 1 July 2018 and comparatives are not restated. In accordance with the transition guidance, AASB 15 has only been applied to contracts that are incomplete as at 1 July 2018.

The adoption of AASB 15 has impacted the timing of recognition for renewal commission. There are no additional performance obligations for the receipt of renewal commission, and hence are considered variable consideration relating to the initial insurance policy. However there is insufficient detail readily available to accurately estimate the most likely amount of renewal commission to recognise each year without a high probability of significant reversal in a subsequent period. Accordingly renewal commission will be recognised in the month the insurance policy is renewed which is consistent with prior years.

The adoption of AASB 15 did not impact the timing or amount of fees and commission income from contracts with customers and the related assets and liabilities of the Group, and as such there was no 1 July 2018 adjustment relating to this standard.

AASB 9 Financial Instruments

AASB 9 Financial Instruments replaces AASB 139 Financial Instruments: Recognition and Measurement. It makes major changes to the previous guidance on the classification and measurement of financial assets and introduces an 'expected credit loss' model for impairment of financial assets.

The Group early adopted some components of 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)

Effective 1 July 2018, when adopting the remainder of AASB 9, the Group has applied transitional relief and opted not to restate prior periods. Application of AASB 9 impairment requirements has not resulted in an adjustment to opening retained earnings as at 1 July 2018.

The Group's financial assets carried at amortised cost and those carried at fair value through other comprehensive income (FVOCI) are subject to AASB 9's new three-stage expected credit loss model. The Group measures loss allowances at an amount equal to lifetime expected credit losses (ECL), except for the following, for which they are measured as 12 months ECL.

- Debt investment securities that are determined to have a low credit risk at the reporting date; and
- Other financial instruments on which credit risk has not significantly increased since initial recognition.

No additional impairment allowance was required to be accounted for via retained earnings as at 1 July 2018 under AASB 9, in respect of loans and advances to members. As a result there was no change to the 30 June 2018 impairment allowance of $0.28 million carried forward to 1 July 2018. Also, no impairment allowance was recognised for other investments. Further detail of how the Group has applied the ECL policy is included in Note 12.

(aa) Changes in accounting policies

Certain accounting standards and interpretations have been published that are not mandatory for the 30 June 2019 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 accounting standards and interpretations not yet adopted

AASB Reference	Nature of Change	Application Date	Impact on Initial Application
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 lease liabilities on the balance sheet will increase by $3.2m and $3.2m 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.

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 2019			
Cash at authorised deposit-taking institutions	**44,101**	**484**	**1.10**
Receivables due from other financial institutions	**59,411**	**1,463**	**2.46**
Investment securities	**175,691**	**4,325**	**2.46**
Loans and advances	**860,441**	**37,341**	**4.35**
	1,139,644	**43,613**	**3.84**
Interest expense 2019			
Customers' deposits	**1,070,393**	**16,914**	**1.58**
Borrowings	**-**	**-**	**-**
	1,070,393	**16,914**	**1.58**
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

3. NON-INTEREST INCOME

	2019 $'000	2018 $'000
Fees and commissions from customers		
- Loan and overdraft fees	**650**	590
- Transaction fees	**996**	997
- Credit card fees	**6**	5
- Other fees	**541**	540
	2,193	2,132
Fees and commissions from non-customers		
- Fees for service	**889**	828
- Commissions	**2,026**	2,011
	2,915	2,839
Total fees and commissions	**5,108**	4,971
Other non-interest income		
- Income from property	**52**	43
- Bad debts recovered	**33**	23
- Government grants	**15**	9
- Sundry income	**432**	326
	532	401
Total non-interest income	**5,640**	5,372

4. OTHER EXPENSES

	Note	2019 $'000	2018 $'000
Amortisation – leasehold improvements	15	**81**	77
Amortisation – intangible assets	16	**414**	483
Depreciation			
- Plant and equipment	15	**687**	693
- Buildings	15	**108**	109
Total depreciation		**795**	802
Fees and commissions		**58**	51
Personnel costs			
- Provision for long service leave		**(1)**	56
- Provision for annual leave		**(13)**	26
- Superannuation contributions		**1,024**	1,010
- Termination benefits		**134**	110
- Salaries and wages		**9,687**	9,822
- Payroll tax		**583**	517
- Other		**793**	891
Total personnel costs		**12,207**	12,432
Marketing expenses		**900**	943
Information technology expenses		**1,955**	1,888
Occupancy costs			
- Rental – operating leases		**1,158**	1,313
- Other occupancy costs		**930**	999
Total occupancy costs		**2,088**	2,312
ATM, Eftpos and electronic transaction processing costs		**3,368**	2,854
Other administration expenses		**3,025**	3,025
Loss on disposal of property, plant and equipment		**28**	8
Total other expenses		**25,099**	24,875

5. FAIR VALUE ADJUSTMENTS

	Note	2019 $'000	2018 $'000
Net fair value adjustment of investment property	14	-	-
Net fair value adjustment of property, plant & equipment	15	-	-
		-	**-**

6. INCOME TAX EXPENSE

Income tax expense on profit		**1,912**	1,819
Under/(over) provision in prior years		**(8)**	11
		1,904	1,830
Recognised in statement of profit or loss and other comprehensive income			
Income tax expense comprises amounts set aside as:			
Income tax payable – current year	20	**2,033**	1,874
Under/(over) provision in prior years		**(8)**	11
Income Tax on other comprehensive income		**(27)**	
Increase/(decrease) in deferred tax liabilities		**-**	-
(Increase)/decrease in deferred tax assets		**(94)**	(55)
		1,904	1,830
Reconciliation between tax expense and pre-tax profit			
Profit before income tax		**6,913**	6,013
Prima facie income tax expense calculated at 27.50% (2018 30%)		**1,901**	1,804
Increase/(decrease) in income tax expense due to:			
Non-deductible expenses		**52**	55
Other deductible expenses		**80**	15
Income tax expense attributable to profit		**2,033**	1,874
Dividend franking account			
Franking credits held at balance date		**34,921**	32,867

7. CASH AND CASH EQUIVALENTS

Cash on hand and at authorised deposit-taking institutions at call	**51,865**	46,938

8. RECEIVABLES DUE FROM OTHER FINANCIAL INSTITUTIONS

	2019 $'000	2018 $'000
Interest earning deposits	**53,000**	39,992
Credit rating of receivables due from other financial institutions		
Authorised Deposit-taking Institutions rated A and above	**-**	5,000
Authorised Deposit-taking Institutions rated below A	**22,008**	10,000
Unrated Authorised Deposit-taking Institutions	**30,992**	24,992
	53,000	39,992

9. INVESTMENT SECURITIES

Negotiable certificates of deposit	**131,405**	127,282
Floating rate notes	**50,267**	45,070
	181,672	172,352
Credit rating of investment securities		
Authorised Deposit-taking Institutions rated A and above	**50,267**	45,070
Authorised Deposit-taking Institutions rated below A	**131,405**	127,282
Unrated Authorised Deposit-taking Institutions	**-**	-
	181,672	172,352

10. TRADE AND OTHER RECEIVABLES

Interest receivable on investments	**662**	679
Sundry debtors, accrued income and prepayments	**1,312**	579
Clearing settlements receivable	**-**	-
	1,974	1,258

11. LOANS AND ADVANCES

	Note	2019 $'000	2018 $'000
Overdrafts and Credit Cards		10,668	11,436
Term loans		897,899	820,224
Loans and advances before deferred fees and costs		908,567	831,660
Deferred loan transaction costs		958	791
Deferred loan origination fees		(488)	(529)
Deferred fixed rate loan renegotiation fees		(5)	(5)
Deferred Upfront Broker Commission		178	156
Total loans and advances		909,210	832,073
Provision for impairment	12	(406)	(282)
Net loans and advances		908,804	831,791

Maturity analysis

	2019 $'000	2018 $'000
Not later than 1 month	17,246	17,617
Later than 1 and not later than 3 months	12,984	12,196
Later than 3 and not later than 12 months	57,601	54,210
Later than 1 and not later than 5 years	276,563	260,520
Later than 5 years	544,816	487,530
	909,210	832,073

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:

	2019 $'000	2018 $'000
-Southern NSW	524,071	489,665
-North East Victoria	300,042	268,679
-Other – non-concentrated	84,454	73,316
	908,567	831,660

Security held against loans and advances

	2019 $'000	2018 $'000
Secured by mortgage over residential property	840,886	761,593
Secured by mortgage over commercial property	40,007	41,176
Total loans and advances secured by real estate	880,893	802,769
Secured by funds	444	726
Partly secured by goods mortgage	11,505	11,444
Wholly unsecured	15,725	16,721
	908,567	831,660

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:

	2019 $'000	2018 $'000
Loan to value ratio of 80% or less	730,030	660,337
Loan to value ratio of more than 80% but mortgage insured	146,782	130,974
Loan to value ratio of more than 80% not mortgage insured	4,081	11,458
	880,893	802,769

	2019 $'000	2018 $'000
Securitised loans		
Securitised loans that do not qualify for derecognition	146,485	149,884

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.

12. IMPAIRMENT OF LOANS AND ADVANCES

Provision for impairment

	2019	2018
Collective provision	-	242
Specific provision	-	40
Expected credit loss (ECL) allowance	406	-
Closing balance	406	282

The provision for impairment for 2019 is calculated under the expected credit loss regime as applicable after 1 July 2018 (refer below). The comparative amounts and disclosures for 2018 represents incurred impairment provisions under the previous measurement basis as per AASB 139: Financial Instruments: Recognition and Measurement applicable 1 July 2018 (refer 30 June 2018 financial statements).

Amounts arising from ECL

The loss allowance as at 30 June 2019 by class of exposure/asset is summarised in the table below. Comparative amounts for 2018 represent a measurement basis under AASB 139.

	Gross carrying value	ECL allowance	Carrying value	Gross carrying value	Provision for impairment	Carrying value
Loans and advances	2019 $'000	2019 $'000	2019 $'000	2018 $'000	2018 $'000	2018 $'000
Mortgages	879,457	21	879,436	800,538	9	800,529
Personal	18,983	298	18,685	20,099	218	19,881
Overdraft/Overdrawn/ Credit Cards	10,770	87	10,683	11,436	55	11,381
Total	909,210	406	908,804	832,073	282	831,971

12. IMPAIRMENT OF LOANS AND ADVANCES (continued)

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

Loans and advances	Stage 1 12 month ECL 2019 $'000	Stage 2 Lifetime ECL 2019 $'000	Stage 3 Lifetime ECL 2019 $'000	Total 2019 $'000
Residential owner occupier loans				
No indicators of change in credit quality	574,280	-	-	**574,280**
31 to 89 days past due	-	1	-	**1**
In arrears more than twice in last 12 months	-	23,388	-	**23,388**
Hardship and loans subject to modifications	-	2,660	-	**2,660**
90 days or greater past due	-	-	1,192	**1,192**
Residential investment loans				
No indicators of change in credit quality	192,375	-	-	**192,375**
31 to 89 days past due	-	-	-	**-**
In arrears more than twice in last 12 months	-	14,099	-	**14,099**
Hardship and loans subject to modifications	-	798	-	**798**
90 days or greater past due	-	-	-	**-**
Commercial loans				
No indicators of change in credit quality	66,727	-	-	**66,727**
31 to 89 days past due	-	-	-	**-**
In arrears more than twice in last 12 months	-	3,922	-	**3,922**
Hardship and loans subject to modifications	-	-	-	**-**
90 days or greater past due	-	-	15	**15**
Personal loans				
No indicators of change in credit quality	17,637	-	-	**17,637**
31 to 89 days past due	-	63	-	**63**
In arrears more than twice in last 12 months	-	892	-	**892**
Hardship and loans subject to modifications	-	-	-	**-**
90 days or greater past due	-	-	391	**391**
Overdrafts/Overdrawn/Credit Cards				
No indicators of change in credit quality	10,539	-	-	**10,539**
14 to 89 days past due	-	70	-	**70**
90 days or greater past due	-	-	161	**161**
Total	**861,558**	**45,893**	**1,759**	**909,210**

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

2019 – Under AASB 9 requirements

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

2018 – Under AASB 139 requirements	Collective Provision 2018 $'000	Specific Provision 2018 $'000	Total 2018 $'000
Movement category			
Balance at 1 July 2017	191	42	233
Expenses/ (written back) during the year	194	53	247
Bad debts written off through provision	(143)	(55)	(198)
Balance at 30 June 2018	**242**	**40**	**282**

Key assumptions in determining the ECL

Measurement of ECL

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

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

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

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

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

12. IMPAIRMENT OF LOANS AND ADVANCES (continued)

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

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

Grouping of similar assets

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

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

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

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

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

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

Significant increase in credit risk

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

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

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

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

Incorporation of forward-looking information

The approach to determining the ECL includes forward-looking information. The Group has performed historical analysis and identified the key economic variables impacting credit risk and expected credit losses for each portfolio segment. Given the lack of loss experience by the Group and across the wider industry, more emphasis has been applied to the historical data available as opposed to forward looking information. Consideration has also been given to the level of undue cost and effort involved in utilising complex statistical models, which is not considered appropriate for the size and complexity of the portfolio.

The Group has considered other forward-looking considerations such as the impact of future unemployment rates, property prices, regulatory change and external market risk factors, which are not deemed to have a material impact and therefore no adjustment has been made to the ECL for such factors. This is reviewed and monitored for appropriateness on a quarterly basis. The Group considers the ECL to represent its best estimate of the possible outcomes and is aligned with information used by the Group for other purposes such as strategic planning and budgeting. Periodically the Group carries out stress testing of more extreme shocks to calibrate its determination of other potential scenarios.

	2019 $'000	2018 $'000
Ageing analysis of loans and advances past due		
Loans and advances past due and not impaired		
Up to and including 30 days	**15,105**	16,522
More than 30 days but less than 90 days	**4,438**	6,276
More than 90 days but less than 180 days	**1,405**	1,212
More than 180 days but less than 270 days	**354**	11
More than 270 days but less than 365 days	**85**	10
More than 365 days	**161**	3
Accounts overdrawn and overdrafts over limit less than 14 days	**45**	15
	21,593	24,049
Loans and advances past due and impaired		
Up to and including 30 days	**12**	29
More than 30 days but less than 90 days	**3**	9
More than 90 days but less than 180 days	**147**	87
More than 180 days but less than 270 days	**74**	102
More than 270 days but less than 365 days	**118**	77
More than 365 days	**95**	38
Accounts overdrawn and overdrafts over limit less than 14 days	**18**	12
	467	354
Total past due loans and advances	**22,060**	24,403
Security analysis of loans and advances past due		
Loans and advances past due and not impaired		
Secured by mortgage over real estate	**20,272**	23,022
Secured by funds	**-**	-
Partly secured by goods mortgage	**534**	394
Wholly unsecured	**787**	633
	21,593	24,049
Loans and advances past due and impaired		
Secured by mortgage over real estate	**-**	-
Secured by funds	**-**	-
Partly secured by goods mortgage	**161**	116
Wholly unsecured	**306**	238
	467	354
Total past due loans and advances	**22,060**	24,403

12. IMPAIRMENT OF LOANS AND ADVANCES (continued)

	2019 $'000	2018 $'000
Assets acquired through enforcement of security		
Real estate acquired through enforcement of security held at the end of the financial year	-	-
Specific provision for impairment	-	-
Balance at the end of the financial year	-	-
Net fair value of real estate assets acquired through the enforcement of security during the financial year	-	-
Net fair value of other assets acquired through the enforcement of security during the financial year	-	-

13. OTHER INVESTMENTS

	2019 $'000	2018 $'000
Unlisted shares – Australian Settlements Limited (ASL)	295	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.

Management have used unobservable inputs to assess the fair value of the shares. The financial reports of ASL record net tangible asset backing of these shares exceeding their cost value. Based on the net assets of ASL, any fair value determination on these shares is likely to be greater than their cost value. Management has determined that the net tangible asset value of $1.87 per share is a reasonable approximation of fair value based on the likely value available on a sale.

The Group does not intend to dispose of these shares.

14. INVESTMENT PROPERTY

	2019 $'000	2018 $'000
Balance at the beginning of the year	1,770	1,770
Additions	-	-
Transfer from property, plant and equipment	-	-
Fair value adjustments through other comprehensive income	-	-
Fair value adjustments through profit and loss	-	-
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 and 2019 by Taylor Byrne Pty Ltd, accredited independent valuers.

Desktop valuations were also completed for all properties for the year ended 30 June 2019.

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

	2019 $'000	2018 $'000
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:		
Within 1 year	19	18
Later than 1 and not later than 2 years	-	10
Later than 2 and not later than 5 years	-	-
Aggregate lease payments receivable at balance date	19	28
Amount recognised in profit and loss for investment properties		
Rental income	51	36
Direct operating expenses	(12)	(3)
Net rental income received	39	33

15. PROPERTY, PLANT AND EQUIPMENT

	2019 $'000	2018 $'000
Land and buildings		
At fair value	5,693	5,693
Provision for depreciation	(216)	(108)
Total freehold land and buildings	5,477	5,585
Leasehold improvements		
At cost	1,216	1,321
Provision for amortisation	(1,078)	(1,130)
Total leasehold improvements	138	191
Plant and equipment		
At cost	7,181	7,617
Provision for depreciation	(5,527)	(5,484)
Total plant and equipment	1,654	2,133
Total property, plant and equipment at net book value	7,269	7,909

Reconciliations

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

	2019 $'000	2018 $'000
Land and buildings		
Carrying amount at the beginning of the year	5,585	5,690
Additions	-	163
Transfer to investment property	-	-
Fair value adjustments through other comprehensive income	-	(159)
Fair value adjustments through profit and loss	-	-
Depreciation	(108)	(109)
Carrying amount at the end of the year	5,477	5,585

15. PROPERTY, PLANT AND EQUIPMENT (continued)

	2019 $'000	2018 $'000
Leasehold improvements		
Carrying amount at the beginning of the year	**191**	132
Additions	**28**	136
Disposals	**-**	-
Amortisation	**(81)**	(77)
Carrying amount at the end of the year	**138**	191
Plant and equipment		
Carrying amount at the beginning of the year	**2,133**	1,959
Additions	**237**	940
Disposals	**(29)**	(73)
Depreciation	**(687)**	(693)
Carrying amount at the end of the year	**1,654**	2,133

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.

16. INTANGIBLE ASSETS

	2019 $'000	2018 $'000
Computer software and licences		
At cost	**3,748**	3,724
Provision for amortisation	**(3,363)**	(2,976)
	385	748

Reconciliations

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

	2019 $'000	2018 $'000
Computer software and licences		
Carrying amount at the beginning of the year	**748**	758
Additions	**116**	473
Disposals	**(65)**	-
Amortisation	**(414)**	(483)
Carrying amount at the end of the year	**385**	748

17. DEFERRED TAX ASSETS

	2019 $'000	2018 $'000
Deferred tax assets	**1,241**	1,148
Deferred tax assets are attributable to the following:		
Property, plant and equipment and intangible assets	**296**	348
Investment property	**64**	65
Provisions for employee benefits	**740**	580
Provision for impairment on loans	**122**	86
Expenses not currently deductible	**19**	69
	1,241	1,148

18. DEPOSITS

	2019 $'000	2018 $'000
Call deposits	**578,150**	539,953
Term deposits	**534,371**	476,399
	1,112,521	1,016,352
Concentration of deposits		
Southern NSW	**700,069**	640,013
North East Victoria	**333,798**	306,308
Other – non-concentrated	**78,654**	70,031
	1,112,521	1,016,352

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

19. TRADE AND OTHER PAYABLES

	2019 $'000	2018 $'000
Accrued interest payable	**3,520**	3,313
Creditors and other liabilities	**8,579**	5,996
	12,099	9,309

20. INCOME TAX PAYABLE

	2019 $'000	2018 $'000
Income tax payable	**361**	391
Movement during the year was as follows:		
Balance at the beginning of the year	**391**	298
Current year's income tax expense on profit before tax	**2,033**	1,874
Income tax paid – Current year	**(1,672)**	(1,483)
Income tax paid – Prior year	**(383)**	(314)
Under/(over) provision in prior period	**(8)**	16
Balance at the end of the year	**361**	391

21. PROVISION FOR EMPLOYEE BENEFITS

	2019 $'000	2018 $'000
Salaries, wages and other benefits accrued	**514**	337
Provision for annual leave	**768**	780
Provision for long service leave	**1,164**	1,165
	2,446	2,282

Included in employee benefits is a non-current amount of $469,649 (2018 - $394,344) relating to long service leave.

22. BORROWINGS

	2019 $'000	2018 $'000
Subordinated debt	**-**	-
Movement during the year was as follows:		
Balance at the beginning of the year	**-**	2,000
Increase due to debt issued	**-**	-
(Decrease) due to debt redeemed	**-**	(2,000)
Balance at the end of the year	**-**	-

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

23. RESERVES

	2019 $'000	2018 $'000
General reserve for credit losses	**1,633**	1,518
Asset revaluation reserve	**1,383**	1,383
Financial assets reserve	**63**	-
Capital profits reserve	**593**	593
Cash flow hedge reserve	**-**	-
	3,672	3,494
Movements in reserves		
General reserve for credit losses		
Balance at the beginning of the year	**1,518**	1,444
Transfer from retained earnings	**115**	74
Balance at the end of the year	**1,633**	1,518
This reserve is required to be maintained to comply with Group policy.		
Asset revaluation reserve		
Balance at the beginning of the year	**1,383**	1,542
Total other comprehensive income	**-**	(159)
Balance at the end of the year	**1,383**	1,383
This reserve includes gains made on property when a revaluation is carried out in line with Group policy.		
Financial assets reserve		
Balance at the beginning of the year	**-**	-
Total other comprehensive income	**63**	-
Balance at the end of the year	**63**	-
This reserve includes gains made on financial assets when a revaluation is carried out in line with Group policy.		
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.		

	2019 $'000	2018 $'000
Cash flow hedge reserve		
Balance at the beginning of the year	**-**	(10)
Total other comprehensive income	**-**	10
Balance at the end of the year	**-**	-

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

24. RETAINED EARNINGS

	2019 $'000	2018 $'000
Retained earnings at the beginning of the year	**72,282**	68,173
Net profit attributable to members	**5,009**	4,183
Transfers from/(to) reserves	**(115)**	(74)
Retained earnings at the end of the year	**77,176**	72,282

25. 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:

	2019 $'000	2018 $'000
Cash on hand and at authorised deposit-taking institutions	**51,865**	46,938
Receivables due from other financial institutions less than 3 months	**53,000**	37,015
Investment securities less than 3 months	**131,404**	127,281
	236,269	211,234
(b) Reconciliation of cash flows from operating activities		
Profit for the year	**5,009**	4,183
Non-cash items		
Charge for bad and doubtful debts	**327**	247
Depreciation	**795**	802
Amortisation of leasehold improvements	**81**	77
Amortisation of intangible assets	**414**	483
Provision for employee entitlements	**(14)**	82
(Profit) on disposal of plant and equipment	**-**	-
Loss on disposal of plant and equipment	**28**	8
Fair value adjustments	**-**	-
Changes in assets and liabilities		
Interest receivable	**16**	136
Other receivables	**(733)**	(92)
Interest payable	**206**	91
Income tax payable	**(57)**	92
Trade and other payables	**2,583**	(191)
Provision for employee benefits	**178**	(107)
Deferred tax assets	**(94)**	(60)
Deferred tax liabilities	**-**	-
	8,739	5,751
Net (increase)/decrease in loans and advances	**(77,339)**	(57,124)
Net increase/(decrease) in deposits	**96,170**	51,489
Net cash flow from operating activities	**27,570**	116

26. AUDITOR'S REMUNERATION

	2019 $	2018 $
Amounts received or due and receivable by the External Auditor of the Group for:		
– audit of the financial statements of the Group	**83,290**	81,966
– other services in relation to the Group	**37,441**	58,421
	120,731	140,387

27. 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:

	2019 $'000	2018 $'000
Approved but undrawn loans and credit limits	**77,145**	63,331
Security analysis of credit-related commitments		
Secured by mortgage over real estate	**56,448**	43,393
Secured by funds	**864**	838
Partly secured by goods mortgage	**67**	139
Wholly unsecured	**19,766**	18,961
	77,145	63,331

Financial guarantees

	2019 $'000	2018 $'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.	**1,766**	1,824
Security analysis of financial guarantees		
Secured by mortgage over real estate	**786**	1,013
Secured by funds	**972**	803
Wholly unsecured	**8**	8
	1,766	1,824

Other commitments

The Group signed a commitment deed with SocietyOne, dated 25 January 2017. As at 30 June 2019 the funded amount included in loans and advances (Note 11) was $1,285,009 (2018 - $2,337,775) and there is no remaining undrawn commitment to SocietyOne as at 30 June 2019.

28. COMMITMENTS

	2019 $'000	2018 $'000
Capital expenditure commitments		
Estimated capital expenditure contracted for at balance date but not provided for:		
– payable within one year	**175**	-
Operating leases (non-cancellable)		
Future operating lease commitments not provided for in the financial statements and payable:		
– within 1 year	**1,436**	1,568
– later than 1 and not later than 2 years	**806**	1,255
– later than 2 and not later than 5 years	**340**	941
– later than 5 years	**-**	-
Aggregate lease expenditure contracted for at balance date	**2,582**	3,764

29. 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:

	2019 $	2018 $
Short-term employee benefits		
- Directors	**488,951**	460,254
- Other key management personnel	**1,901,731**	1,895,827
Post-employment benefits – superannuation contributions		
- Directors	**46,456**	72,854
- Other key management personnel	**146,992**	166,278
Other long-term benefits – net increase/(decrease) in long service leave provision		
- Directors	**-**	-
- Other key management personnel	**(109,080)**	18,366
Termination benefits		
- Directors	**-**	-
- Other key management personnel	**124,759**	-
	2,599,809	2,613,579

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.

29. 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:

	2019 $		2018 $	
	Mortgage Secured Loans	**Revolving Credit (unsecured)**	Mortgage Secured Loans	Revolving Credit (unsecured)
Loans to Directors				
Funds available to be drawn	**411,314**	**8,957**	487,619	14,016
Balance at reporting date	**1,553,039**	**1,043**	1,525,675	3,844
Loans advanced (including redraws)	**255,512**	**18,273**	1,124,594	34,709
Loan repayments	**299,972**	**16,890**	167,714	34,001
Interest and other revenue earned	**71,823**	**10**	63,829	25
Loans to Director related parties				
Funds available to be drawn	**-**	**3,669**	-	220
Balance at reporting date	**-**	**1,331**	-	4,780
Loans advanced (including redraws)	**-**	**21,009**	-	24,571
Loan repayments	**-**	**24,492**	-	20,518
Interest and other revenue earned	**-**	**35**	-	-
Loans to other key management personnel				
Funds available to be drawn	**25,294**	**759**	109,389	10,445
Balance at reporting date	**1,890,100**	**5,241**	1,802,604	5,555
Loans advanced (including redraws)	**695,967**	**65,008**	580,444	69,948
Loan repayments	**214,111**	**65,306**	353,684	68,225
Interest and other revenue earned	**70,952**	**25**	78,085	148
Loans to other key management personnel related parties				
Funds available to be drawn	**70,516**	**-**	40,173	-
Balance at reporting date	**163,556**	**-**	212,854	-
Loans advanced (including redraws)	**29,582**	**-**	232,608	-
Loan repayments	**85,482**	**-**	24,830	-
Interest and other revenue earned	**6,602**	**-**	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.

Deposits from key management personnel and other related parties

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

	2019 $	2018 $
Deposits outstanding at balance date:		
- Directors	**174,126**	163,975
- Director related parties	**23,417**	33,847
- Other key management personnel	**61,535**	133,934
- Other key management personnel related parties	**110,524**	150,225
Interest paid on deposits:		
- Directors	**1,759**	3,307
- Director related parties	**283**	663
- Other key management personnel	**77**	3,832
- Other key management personnel related parties	**2,109**	2,503

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.

30. 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.

31. SEGMENT INFORMATION

The Group operates exclusively in the finance industry within Australia.

32. 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.

	2019 $'000	2018 $'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.		
Balance sheet values		
Loans	**146,485**	149,884
Fair value of associated liabilities	**(146,485)**	(149,884)
Net	**-**	-
Carrying amount of the loans as at the time of transfer	**156,239**	158,002

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.

33. 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 Chief Risk Officer assists the Board Risk Committee and senior management to develop and maintain best practice risk management frameworks whilst promoting a sustainable risk and compliance culture. As part of their participation in the decision-making process, the Chief Risk Officer provides effective challenge to ensure that material decisions are risk-based.

The Board's Audit Committee oversees management's compliance with the 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 Risk Management Committee (RMC) and the Asset and Liability Committee (ALCO).

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

An overview of risk management approaches to the 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.

33. FINANCIAL RISK MANAGEMENT (continued)

Credit risk – loans and advances

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

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

The 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 27 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 2019, the company held 16.32% of total adjusted liabilities as MLH qualifying assets (2018 – 16. 88%). The average during the financial year was 16.93% (2018 – 17.07%).

The company also maintains 1.80% of total adjusted liabilities as MLH qualifying assets (2018 – 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 2019, the Company held $144.104 million (2018 – $147.642 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 34(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 2019 using a 20 day holding period, 99% confidence level and a 250 day observation period, was 0.21% of capital. VaR as at 30 June 2018 was 0.54% of capital, using different parameters.

The company's EaR measure as at 30 June 2019 using a shift in interest rates of 200 basis points for one year, EaR was a $2,797,073 variation or 10.02% from the base case. EaR as at 30 June 2018 was a $4,324,910 variation or 15.24% from the base case, using different parameters.

33. 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 and the functioning Risk Management Committee.

(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.

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.

Capital adequacy ratio calculation	**2019 $'000**	2018 $'000
Tier 1 capital		
Common equity tier 1 capital		
Retained earnings	**77,176**	72,282
Capital profits reserve	**593**	593
Deferred fee income	**(643)**	(413)
Asset revaluation reserve	**1,383**	1,383
Financial asset reserve	**63**	-
Cash flow hedge reserve	**-**	-
	78,572	73,845
Less prescribed deductions	**(1,921)**	(2,100)
Net tier 1 capital	**76,651**	71,745
Tier 2 capital		
General reserve for credit losses	**1,633**	1,518
Subordinated debt	**-**	-
Net tier 2 capital	**1,633**	1,518
Total capital	**78,284**	73,263
Risk profile		
Credit risk	**474,813**	440,094
Operational risk	**69,501**	65,745
Total risk weighted assets	**544,314**	505,839
Capital adequacy ratio	**14.38%**	14.48%

34. FINANCIAL INSTRUMENTS

(a) Terms, conditions and accounting policies

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

Recognised financial instruments	Note	Accounting policies	Terms and conditions
Financial assets			
Loans and advances	11	The loan and overdraft interest is calculated on the daily balance outstanding and is charged in arrears to a customer's account on the last day of each month. Credit card interest is charged in arrears on daily balance outstanding on revolving credit cards on the 15th day of the month. Loans and advances are recorded at their recoverable amount. For further details on the classification of loans refer to note 1.	All 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 financial assets held within a business model whose objective is to hold assets to collect contractual cash flows and the contractual terms of the financial asset gives rise to cash flows that are solely payments of principal and interest. Interest revenue is recognised when earned.	Receivables due from other financial institutions have an average maturity of 83 days with effective interest rates of 1.00% to 2.60% (2018: 1.25% to 2.80%).
Other investments	13	Other investments are stated at fair value, with any resulting gain or loss recognised in other comprehensive income. Dividends are recognised when earned.	
Investment Securities	9	Investment securities are financial assets held within a business model whose objective is to hold assets to collect contractual cash flows and the contractual terms of the financial asset gives rise to cash flows that are solely payments of principal and interest. Fair value is stated in note 34(d). Interest revenue is recognised when earned.	Investment securities have an average maturity of 255 days and effective interest rates of 1.48% to 2.79% (2018: 2.27% to 3.12%).
Financial liabilities			
Deposits	18	Deposits are recorded at the principal amount. Interest is calculated on the daily balance outstanding.	Details of maturity terms are set out in note 18.
Trade and other payables	19	Liabilities are recognised for amounts to be paid in the future for goods and services received, whether or not billed to the Group.	Trade liabilities are normally settled on 30-day terms.
Subordinated debt	22	Subordinated debt is recorded at the principal amount. Interest is calculated on the daily balance outstanding.	Details of maturity terms are set out in note 22.

(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 2018 and 2019 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	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	%
2019									
Financial assets									
Cash and cash equivalents	**41,703**						**10,162**	**51,865**	**1.19**
Receivables due from FI's	**7,000**	**18,000**	**28,000**					**53,000**	**2.11**
Investment securities		**77,877**	**103,795**					**181,672**	**2.01**
Trade and other receivables							**1,974**	**1,974**	**N/A**
Loans and advances	**641,325**	**10,450**	**15,885**	**89,871**	**150,601**	**435**	**237**	**908,804**	**4.38**
Other investments							**295**	**295**	**N/A**
Total financial assets	**690,028**	**106,327**	**147,680**	**89,871**	**150,601**	**435**	**12,668**	**1,197,610**	
Financial liabilities									
Deposits	**578,150**	**107,638**	**217,241**	**190,630**	**18,863**			**1,112,522**	**1.58**
Trade and other payables							**12,099**	**12,099**	**N/A**
Total financial liabilities	**578,150**	**107,638**	**217,241**	**190,630**	**18,863**	**-**	**12,099**	**1,124,621**	
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
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
Total financial liabilities	539,953	106,086	209,250	148,074	12,989	-	9,310	1,025,662	

N/A – not applicable for non-interest bearing financial instruments.

34. 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 $'000	1 to 3 months $'000	From 3 to 12 months $'000	From 1 to 5 years $'000	More than 5 years $'000	No maturity $'000	Total cash flows $'000	Total carrying amount $'000
2019								
Financial assets								
Cash and cash equivalents	**51,907**						**51,907**	**51,865**
Receivables due from FI's	**25,115**	**28,154**					**53,269**	**53,000**
Investment securities	**54,155**	**78,150**	**15,719**	**36,297**			**184,321**	**181,672**
Trade and other receivables	**1,312**						**1,312**	**1,974**
Loans and advances	**20,387**	**19,335**	**85,065**	**406,682**	**594,507**		**1,125,976**	**908,804**
Other investments						**295**	**295**	**295**
Total financial assets	**152,876**	**125,639**	**100,784**	**442,979**	**594,507**	**295**	**1,417,080**	**1,197,610**
Financial liabilities								
Deposits	**578,972**	**224,877**	**222,875**	**94,171**			**1,120,895**	**1,112,521**
Trade and other payables	**8,579**						**8,579**	**12,099**
On balance sheet	**587,551**	**224,877**	**222,875**	**94,171**			**1,129,474**	**1,124,620**
Undrawn credit commitments	**77,145**						**77,145**	**77,145**
Total financial liabilities	**664,696**	**224,877**	**222,875**	**94,171**	**-**	**-**	**1,206,619**	**1,201,765**
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
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
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

(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 2019 $'000	Total carrying amount 2018 $'000	Aggregate net fair value 2019 $'000	Aggregate net fair value 2018 $'000
Financial assets					
Cash and cash equivalents	7	**51,865**	46,938	**51,907**	46,984
Receivables due from other financial institutions	8	**53,000**	39,992	**53,182**	40,112
Investment securities	9	**181,672**	172,352	**182,209**	172,759
Trade and other receivables	10	**1,974**	1,258	**1,312**	579
Loans and advances	11	**908,804**	831,791	**924,980**	845,189
Other investments	13	**295**	204	**295**	204
Total financial assets		**1, 197, 610**	1,092,535	**1,213,885**	1,105,827
Financial liabilities					
Deposits	18	**1,112,521**	1,016,352	**1,115,029**	1,013,079
Trade and other payables	19	**12,099**	9,310	**12,099**	9,310
Total financial liabilities		**1,124,620**	1,025,662	**1,127,128**	1,022,389

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.

34. FINANCIAL INSTRUMENTS (continued)

Other investments

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

Deposits

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

Trade and other payables

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

Subordinated debt

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

35. FAIR VALUE MEASUREMENT

Fair value hierarchy

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

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

There have been no transfers between levels during the year.

		Fair value measurement using			
2018	**Note**	**Level 1 $'000**	**Level 2 $'000**	**Level 3 $'000**	**Total $'000**
Assets measured at fair value					
Investment property	14	-	1,770	-	1,770
Land and buildings	15	-	5,585	-	5,585
Other investments	13	-	-	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 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.

36. 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.

	2019 $'000	2018 $'000
Results of the parent entity		
Profit for the year	**5,009**	4,183
Other comprehensive income	**63**	(149)
Total comprehensive income for the year	**5,072**	4,034
Financial position of the parent entity		
Total assets	**1,208,275**	1,104,110
Total liabilities	**1,127,427**	1,028,334
Retained earnings	**77,176**	72,282
Reserves	**3,672**	3,494
Commitments for the acquisition of property, plant & equipment	**-**	-

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

Directors' Declaration

In the opinion of the Directors of Hume Bank Limited:

1. the financial statements and notes, set out on pages 8 to 54, 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 2019 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, 22 August 2019

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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 2019, 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 2019 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 2019, 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.

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

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

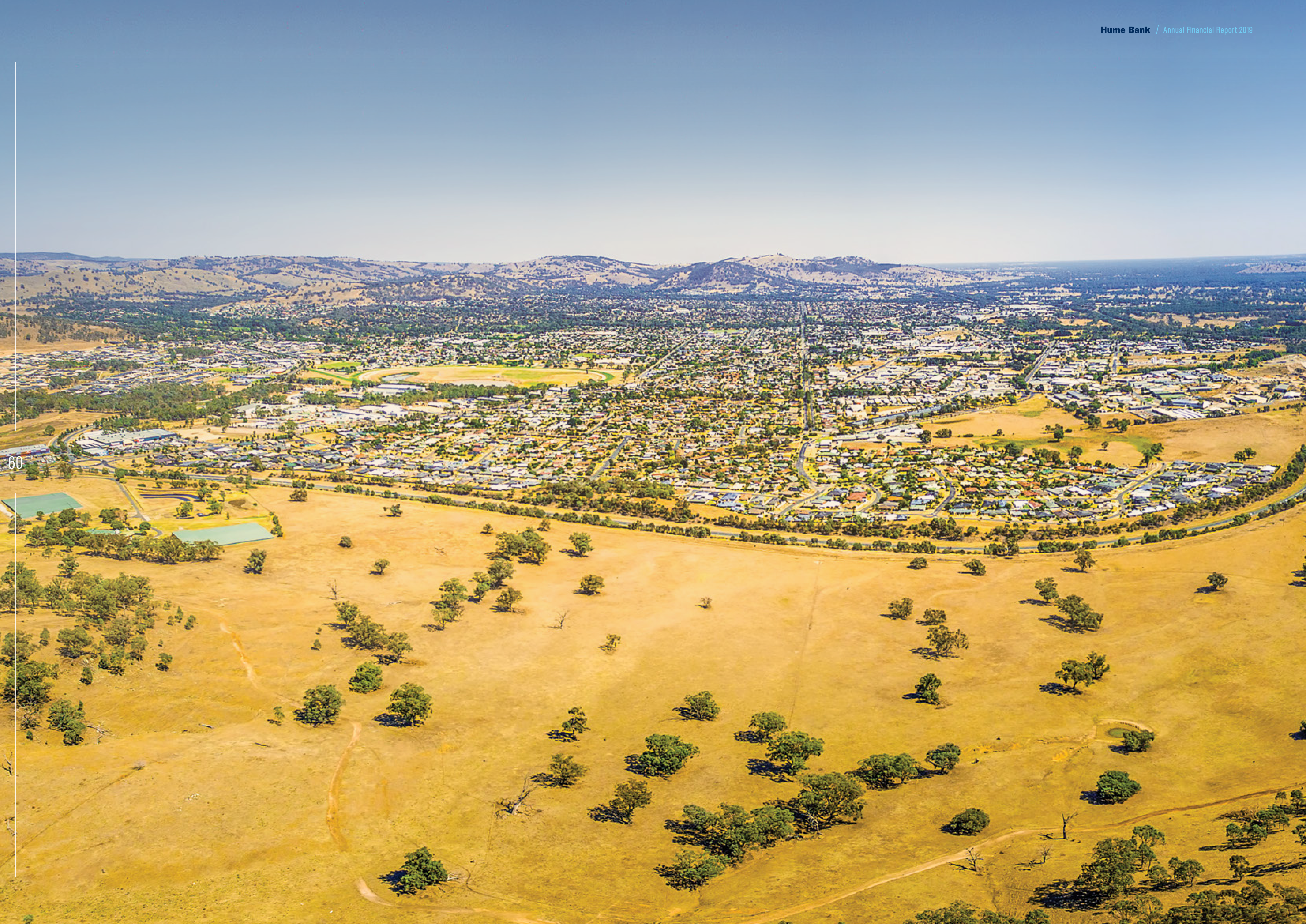
Crowe Albury

CROWE ALBURY

David Munday

DAVID MUNDAY
Partner

22 August 2019
Albury



Hume Bank

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