regional australia bank

2016

ANNUAL REPORT

regional australia bank annual report

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DIRECTORS

Graham Olrich
Michael Fenech
Brian Goodall
Kate James
John O'Connor
Alison Sheridan
Geoffrey Thompson

CHIEF EXECUTIVE OFFICER

Kevin Dupé

COMPANY SECRETARY

David Munday

REGISTERED OFFICE

Technology Park
Madgwick Drive
Armidale, NSW, 2350
132 067

SOLICITORS

Wallmans Lawyers
400 King William Street
ADELAIDE SA 5000

BANKERS

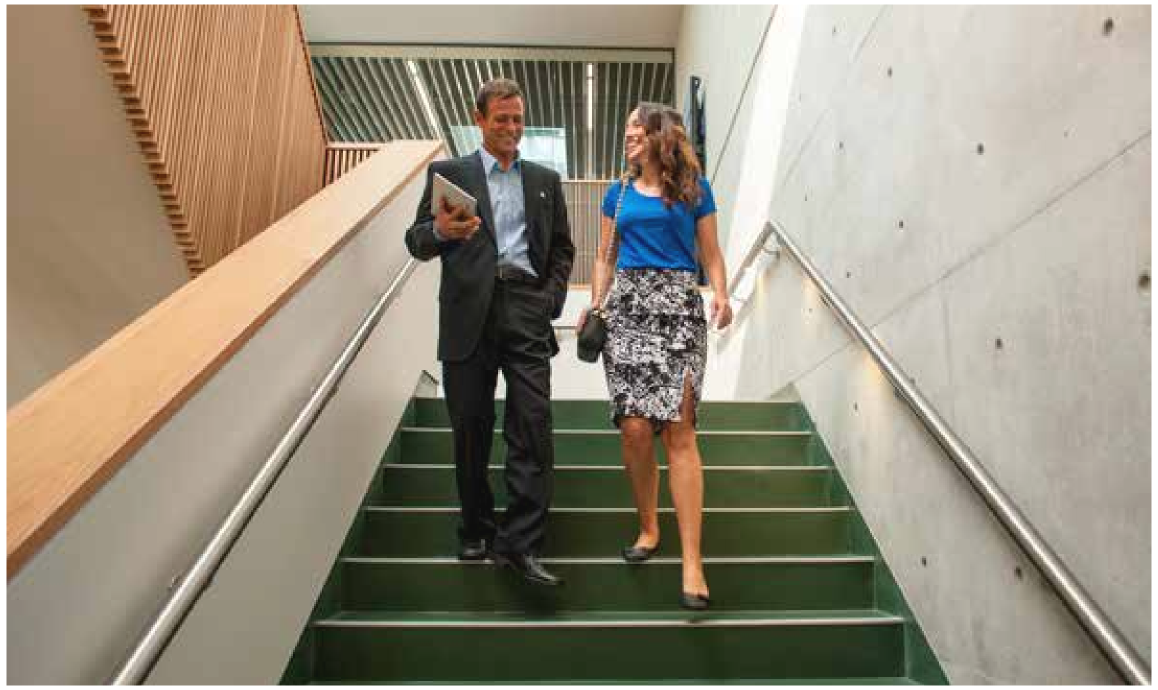
Australian Settlements Ltd (ASL)
16 Thesiger Crt
Deakin, ACT, 2600

Australian and New Zealand Banking
Group Limited (ANZ)
Martin Place
Sydney, NSW, 2000

AUDITORS

KPMG
International Tower
300 Barangaroo Avenue
Sydney, NSW, 2000

04 regional australia bank



Regional Australia Bank is a customer owned bank that has been helping regional Australians achieve their lifestyle goals for almost 50 years. We have a reputation for being flexible, personable and being able to make the complex simple. With our roots in regional NSW and head office located in Armidale, Regional Australia Bank has grown to be one of the premier banking alternatives to the 'Big Four' banks.

Unlike the 'retail' approach taken by many competing institutions, Regional Australia Bank continues to add value to our members by recognising everyone's circumstances are different. This means we can provide personalised financial solutions, working with our members to save them time, money and effort.

Being owned by regional Australians means that the people at Regional Australia Bank understand the connectivity we have between each other, our communities and the environment. We recognise the role a responsible financial institution can play in achieving and maintaining our regional way of life. So, our banking comes packaged with a conscience. Our growing base of members take pride in knowing we maximise our contribution to deliver social and environmental returns to our regional communities at every possible opportunity. Our vision is that Regional Australia Bank will define what it means to be at the heart of our community. We celebrate being regional and continually demonstrate what the added value of being more connected to each other can bring. The success of our business will be determined by how well we extend compassion and share our passion to be the champions for regional prosperity. We aim to be a beacon – a regionally owned and operated 'community chest', that will be a conduit for connecting people and a model for creating better and more sustainable places to live. Being connected with regional Australia and its people is, without doubt, the most compelling and inspiring part of our brand.

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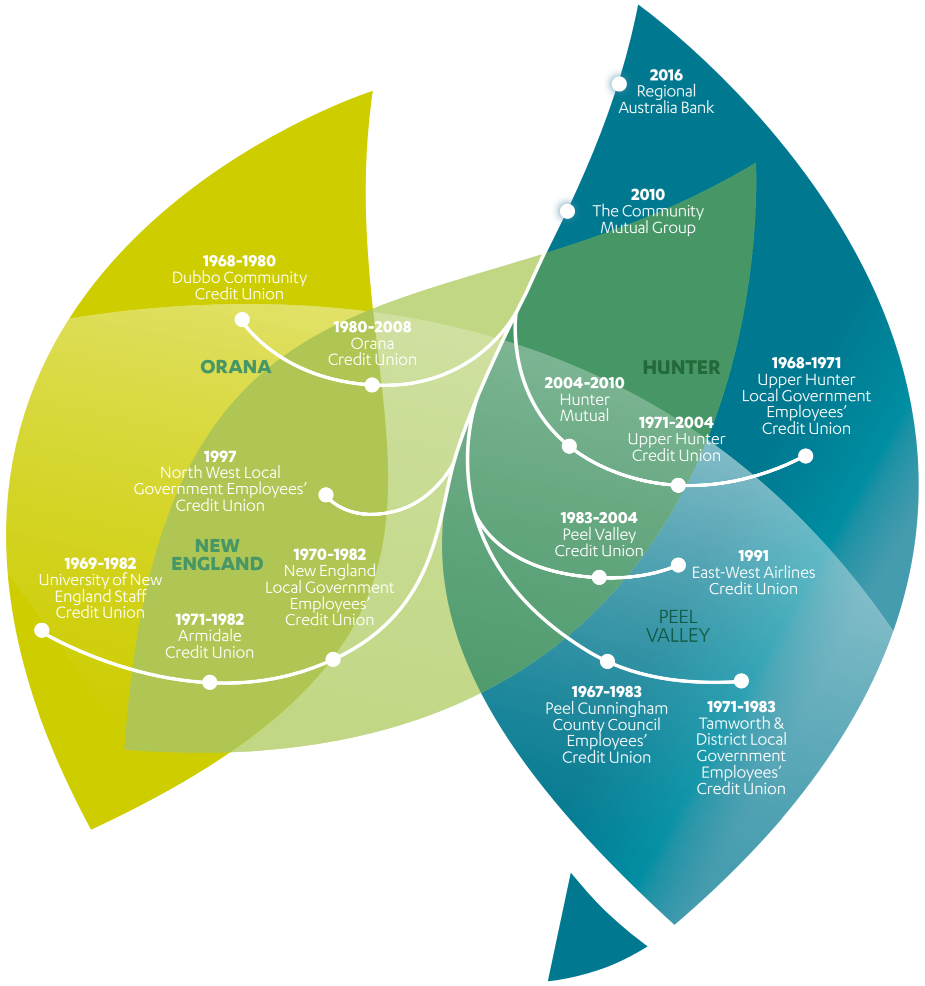
05 our history



"REGIONAL AUSTRALIA BANK IS A CUSTOMER OWNED BANK THAT HAS BEEN HELPING REGIONAL AUSTRALIANS ACHIEVE THEIR LIFESTYLE GOALS FOR ALMOST 50 YEARS. WE HAVE GROWN TO BE ONE OF THE PREMIER BANKING ALTERNATIVES TO THE 'BIG FOUR' BANKS."

06 chairman's report

For the past four years as a Director and now Chair, it has been my privilege to work with the Board and Management to position this organisation as one of the best performing Mutuals in the country. This year, as many of you will now be aware, we have undertaken an exciting rebrand to better reflect our growth, our focus, and connection to our members and our communities. In the lead up to the name change to Regional Australia Bank, we have been working hard to provide the best possible mix of products and services to our members. Today, Regional Australia Bank is something that I am proud of and represents just another success story that you, as Regional Australians, have helped create for the benefit of yourselves and your communities.

In keeping with last year's trend we saw the Reserve Bank in 2015-16 decrease its official cash rate again to historic lows with two 25 basis point cuts to a record low of just 1.50 per cent. Additionally the market endured a once in a century event with the end of the mining construction boom transitioning into mining production and housing driven growth.

Despite these factors the Australian economy has grown by 3 per cent and the record economic expansion has continued for a 25th consecutive year. Likewise, Regional Australia Bank has enjoyed continued growth and to this end we pride ourselves on another solid financial performance again this year. Our growth in loan balances was $87million which is a 10.1 per cent growth. This compares to 6.2% for the total of Australia's credit lending growth and in my opinion is a remarkable achievement. The highly competitive market that we operate in combined with the fact that we do not currently utilise Mortgage Brokers says a lot for the Regional Australia Bank relationship proposition.

Further to loan growth, Regional Australia Bank also improved upon last year's financial metrics of revenue, profit, cost to income, and return on assets (ROA). The Board set the Executive Management Team some challenging targets which were successfully achieved. Our revenue this year exceeded last year by $2 million totalling $43.4 million. Pre-tax profit of $10.6 million exceeded the prior year by $1.7 million, whilst our cost to income came in at 75.6 percent down from 78 percent last year. Everyone involved is very proud of this achievement which, from the data available, places Regional Australia Bank among the top 10 performing mutual banks, credit unions and mutual building societies across Australia.

07

"REGIONAL AUSTRALIA BANK HAS ENJOYED CONTINUED GROWTH AND TO THIS END WE PRIDE OURSELVES ON ANOTHER SOLID FINANCIAL PERFORMANCE AGAIN THIS YEAR."

It is important to note, however, that financial performance alone is not the only measure of success at Regional Australia Bank. Being a proud mutual bank we are also heavily focused on the relationships that we have with our members and local communities, having donated almost $1 million in financial and in-kind assistance. This commitment is evidenced by our Community Partnership Program (CPP) which has once again grown by 30% for the 4th consecutive year. This growth has seen Regional Australia Bank distribute a total of $627,365 back into our communities in this year alone. A further $270,000 was provided in sponsorship across our network and we have continued to support grass roots infrastructure projects in our communities through our heartofourcommunity.com.au platform. In recognition of our initiatives I am pleased to report that we were awarded the "Excellence in Community Involvement" award by the Tamworth Chamber of Commerce.

We have continued to refine how we interact with our members to ensure we meet their demands for new and competitive products and services. The name change has prompted the launch of a new website and the release of an update to our mobile app. We have also introduced a Platinum Rewards Visa Credit Card in partnership with Qantas, and we have continued to optimise our home lending products to make them increasingly competitive against the major banks.

I would like to take this opportunity to express my gratitude for the support of my fellow Board members and the efforts of our CEO Kevin Dupé, as well as his Executive Management team and all the staff at Regional Australia Bank for their contribution to such positive results this year. I am looking forward to continuing to deliver great value under the more unified brand of Regional Australia Bank. It is my vision to ensure we build a reputation for connecting with members in a way other banks cannot. We have always understood that creating value for members, individual and business, is what has made Regional Australia Bank the success story it is today. So while some things have changed, the best things, like bringing value to regional Australians, will remain the same.

Yours sincerely

Graham Olrich
Chairman

board of directors

from left to right:
Dr Alison Sheridan,
Graham Olrich,
Geoffrey Thompson,
Brian Goodall,
Michael Fenech,
Kate James.

GRAHAM OLRICH

Chairman since 2014 - Board Member since 2011

Graham brings a history of strategy, leadership, risk management and business development to the Board. He has over 38 years' experience in the banking sector, 14 of these served as CEO/Managing Director of Credit Union Australia (CUA). Graham runs his own consulting business and has occupied various Board positions over the past 17 years. Key responsibilities on the Board include Ex Officio member of the Corporate Governance Committee, Audit Committee and Risk Committee.

MICHAEL FENECH

Board Member since 2014

Michael brings a broad knowledge of risk management, leadership, and strategy to the Board in broad areas of financial services. Michael has over 34 years' experience in the banking sector across Australia, operating in roles at Executive and Chief Executive level. Michael is actively involved as a consultant to many financial institutions and holds various Board positions. Key responsibilities on the Board include chair and member of the Risk Committee and member of the Audit Committee.

BRIAN GOODALL

Board Member since 1997

Brian operates a Solicitor practice in Dubbo and Warren specialising in commercial and property matters. Key responsibilities on the Board include member of the Corporate Governance Committee and Risk Committee.

KATE JAMES

Board Member since 2008

Kate has experience in small business and corporate governance, and has participated in a number of agriculture and government related consultative committees. As a small business person and agricultural consultant she is well aware of the challenges that face small businesses, particularly in regional and rural areas. Key responsibilities on the Board include member of the Audit Committee and Risk Committee.

GEOFFREY THOMPSON

Board Member since 2008

Geoff is a partner in a successful Accounting firm and has significant experience in providing specialised business advice to some of the Hunter Valley's most significant businesses. Key responsibilities on the Board include chair and member of the Audit Committee and member of the Risk and Corporate Governance Committee.

DR ALISON SHERIDAN

Board Member since 2003

Alison has been involved in delivering management education for more than 25 years. Over this time, her teaching, research and consulting activities have developed with a particular focus on regional context. Alison has held a number of board positions in regional organisations over the past eleven years. Key responsibilities on the Board include chair and member of the Corporate Governance Committee and member of the Risk Committee.

JOHN O'CONNOR*

Board Member since 1974

John has extensive experience in local government engineering and management. Prior to joining the Board of New England Credit Union, John served on the Board of Peel Valley Credit Union for 30 years, with seven years as Chairman. Key responsibilities on the Board include being a member of the Corporate Governance Committee and Audit Committee.

**Retired 27 November 2015.*

executive management

from left to right:
David Munday,
Bill Miller,
Michelle Edmonds,
Campbell Nicoll,
James Harris,
Rob Hale,
Kevin Dupé,
Darren Schaefer.

DAVID MUNDAY

Chief Governance Officer / Company Secretary

David brings over 14 years' experience in the banking sector to his role, providing an extensive knowledge of governance, company secretarial and operational legal matters. David also holds the position of Company Secretary. He has formal qualification in business, law and is a chartered Company Secretary.

BILL MILLER

Chief Sales Officer

Bill brings almost 40 years' experience in banking and finance to the Executive Management team. Prior to Regional Australia Bank, Bill held managerial positions with Colonial State Bank and the Commonwealth Bank.

MICHELLE EDMONDS

Chief Operations Officer

Michelle brings a well-rounded wealth of knowledge to the Executive Management team at Regional Australia Bank. Michelle has over 23 years' experience in the financial sector, 18 of these spent in various Management roles within the Regional Australia Bank.

CAMPBELL NICOLL

Chief Risk Officer

Having over 18 years' experience in Credit Risk Management, Campbell brings a strong economic background to the Executive Management Team. Prior to his role at Regional Australia Bank, Campbell's experience within the financial sector included General Manager positions at ASB Bank (New Zealand) and Bank of South Pacific (Fiji).

JAMES HARRIS

Chief Financial Officer

James has over 20 years' financial experience in the financial services, training and hospitality industries in Australia, Europe and North America. James holds professional qualifications in accounting and finance.

ROB HALE

Chief Information Officer

Rob joined Regional Australia Bank in 2010, having previously worked for organisations including Morgan Stanley, SAI Global and The University of New England. Originally from the UK, Rob has qualifications in Computer Science, Data Warehousing, Business Intelligence and Project and Program Management. An active member of industry forums and groups in the customer owned banking sector, Rob brings over 25 years' experience in international technology and information management roles to the CIO position.

KEVIN DUPÉ

Chief Executive Officer

Kevin brings a strong economic background to Regional Australia Bank. Kevin has over 20 years' experience in the customer owned banking sector, including fifteen years at Regional Australia Bank. Prior to entering the customer owned banking sector, Kevin spent 14 years as a Director in various economic and socioeconomic policy units in the Federal Government.

DARREN SCHAEFER

Chief Marketing Officer

Darren brings an extensive Marketing experience to the Executive Management Team. Prior to his role at Regional Australia Bank, Darren held senior marketing and advertising positions for a number of blue chip firms in Australia and the UK.

"THE SUCCESS OF OUR BUSINESS WILL BE DETERMINED BY HOW WELL WE EXTEND COMPASSION AND SHARE OUR PASSION TO BE THE CHAMPIONS FOR REGIONAL PROSPERITY."

EXCERPT FROM REGIONAL AUSTRALIA BANK VISION.

Guest Speaker Melina Morrison, CEO Business Council of Cooperatives and Mutuals (BCCM) echoes the contribution Regional Australia Bank can make as a member owned regional cooperative.

PEOPLE

DELIVERING MORE VALUE TO MEMBERS WHILST BUILDING A HIGH PERFORMANCE CULTURE

14 member goals

MEMBER GOAL: DELIVER MORE VALUE TO MEMBERS

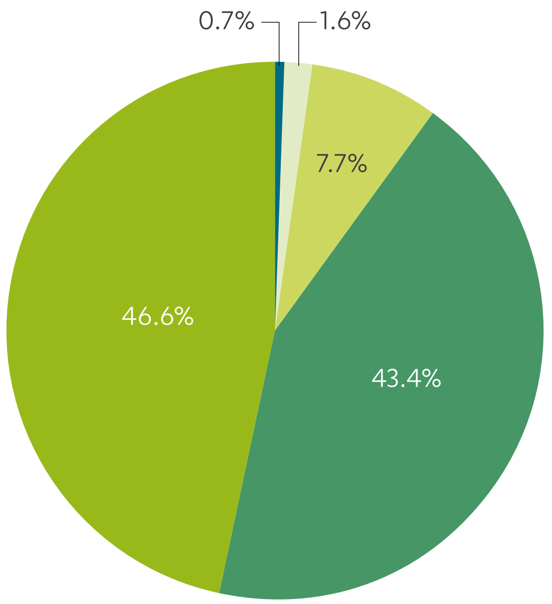
Result: In Progress

REDUCE MEMBER EFFORT

Member effort is designed to provide feedback about the experience a member has had interacting with Regional Australia Bank. A recurrent (and random) 'member effort' survey question has been automated in Internet Banking. In 2013-14 a baseline was established and 92% of respondents either agreed or strongly agreed with the statement that "Regional Australia Bank makes banking easy". In 2015-16 we achieved a strong result of 90%.

% of Actual Responses

- Strongly Disagree (0.7%)
- Disagree (1.6%)
- Neither Agree nor Disagree (7.7%)
- Agree (43.4%)
- Strongly Agree (46.6%)



COMPETITIVE PRODUCT PORTFOLIO

We launched a new service to help first home buyers enter the property market in the form of a limited guarantee. The Head Start Family Guarantee is a service we provide that benefits the guarantor by reducing their risk of exposure whilst allowing the buyer to get into the property market and achieve independence sooner.

Our pricing for personal loans has been made more competitive with the restructure of our standard car loan and the introduction of the new Accelerator Car Loan for newer model cars.

Home lending interest rates remained under most of the major listed banks advertised rates for standard variable, packaged and basic home loans.

CONTEMPORARY BRANCH NETWORK

The relocation of our branch in Tamworth has continued our efforts to enhance our member experience with efficient, open plan and sustainable branch concepts that seek to better cater for customer needs via a variety of self-service options.

DIGITAL SERVICE UPGRADES

We upgraded our mobile App with PIN and Swipe access; Internet Banking was made accessible to people with visual impairments; making international payments was made easier via a convenient self-service online channel and we also added the ability to send payment receipts when paying individuals within Internet Banking.

regional australia bank annual report

15 staff goals

STAFF GOAL: BUILD A CULTURE TO SUPPORT ORGANISATIONAL STRATEGY

Result: In Progress

At Regional Australia Bank competitive advantage depends on the ability to move quickly, decisively and efficiently in sensing and responding to change. We are continuing to strengthen the Regional Australia Bank vision and purpose of "to be the trusted bank in our communities", incorporating our values of Integrity, Respect and Fairness. Empowering employee behaviours aligned with Regional Australia Bank values and mission are sustainable elements that will lead to overall success and cultural wellbeing.

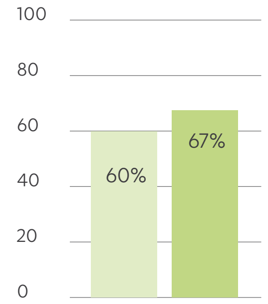
EMPLOYEE ENGAGEMENT = 67%

Regional Australia Bank's work in developing high employee engagement continues, with our annual Employee Engagement Survey being completed for the third time. Although it has slightly dropped since last year (63% to 71% to 67%) This result places Regional Australia Bank in the top quartile for Australian and New Zealand financial institutions. Additionally, this result is significantly higher than the average for Banks and Diversified Financials in Australia and New Zealand (60%).

Importantly, the engagement survey showed that 75% of employees would recommend Regional Australia Bank as an employer to a friend, while 76% of our employees would say great things about working at Regional Australia Bank.

Engagement Score

- Average Financial Institution Australia and New Zealand – (60%).
- Regional Australia Bank 67%



Source: AON Hewitt

Executive Team members serving lunch to congratulate staff on the completion of a major organisational project.

"THE ENGAGEMENT SURVEY SHOWED THAT 75% OF EMPLOYEES WOULD RECOMMEND REGIONAL AUSTRALIA BANK AS AN EMPLOYER TO A FRIEND."

EMPLOYER SUPPORTED VOLUNTEERING

Regional Australia Bank is committed to encouraging staff to make a direct practical difference in the communities in which we live. Regional Australia Bank encourages staff to volunteer in activities that occur during regular work hours and that support and benefit the community. Each staff member is entitled to 16 hours of paid volunteer leave per year. This year, collectively, our staff donated a total of 107 working days to local community initiatives.

EMPLOYEE ASSISTANCE PROGRAM

Regional Australia Bank is committed to providing a safe and healthy working environment for all employees. It is recognised that employees may, from time to time experience problems of a personal nature which impact on their work performance, health or wellbeing.
The aim of the Employee Assistance Program (EAP) is early identification and provision of assistance to help resolve either work-related or personal issues. All consultations are conducted in complete confidence between the employee and the EAP counsellor.

LEARNING AND DEVELOPMENT

Regional Australia Bank is committed to providing learning and development initiatives that reflect our mission, values and culture. This ensures skills and knowledge are maintained and developed to guarantee ongoing competitiveness and adaptability. We believe that learning and development comprises a range of on-the-job and off-the-job approaches for acquiring the necessary skills, knowledge and behaviours required to meet Regional Australia Bank's strategic objectives, which in turn enhance employees' ability to meet current and future role requirements.

PLANET

BECOME A LEADER IN CORPORATE SOCIAL RESPONSIBILITY

planet goals

OUR SUSTAINABILITY VISION

Our vision is that Regional Australia will define what it means to be; at the heart of our community. We will celebrate being regional, and demonstrate what the added value of being more connected to each other can bring to our members, our communities and the environment. The success of our business will be determined by how well we extend compassion, and share our passion to be, the champions for regional prosperity. We will be a beacon - a regionally owned and operated 'community chest,' that will be a conduit for connecting people and a model for creating better and more sustainable places to live.

OUR SUSTAINABILITY POSITION

Regional Australia Bank is deeply connected to its communities in regional Australia because we are wholly owned by regional Australians. This ownership means that we understand the connectivity between each other, our communities and the environment. Our goal is to be a recognised leader in Corporate Social Responsibility and we demonstrate this through our own conduct and approach managing our environmental impact, as well as inspiring and empowering our customers to make ethical decisions. To this end, we aim to ensure the long term prosperity of our members and our communities. We prefer to focus on investing in clean technologies while minimising our own impact on the environment and maximising our social input and returns to our regional communities.

"OUR GOAL IS TO BE A RECOGNISED LEADER IN CORPORATE SOCIAL RESPONSIBILITY. WE DEMONSTRATE THIS THROUGH OUR OWN CONDUCT, AS WELL AS INSPIRING AND EMPOWERING OUR MEMBERS TO MAKE ETHICAL DECISIONS."

GOAL: TO BECOME A LEADER IN CORPORATE SOCIAL RESPONSIBILITY

Result: Achieved

Our programs and initiatives continue to adapt to the ever-changing environment and business landscape; substantially contributing to the environment and the communities in which we exist. Our ongoing commitment and passion is reinforced by our grassroots approach to disadvantaged youth in regional Australia. The effectiveness of the countless initiatives undertaken to minimise our environmental footprint can be reflected in our progression in the Sustainability Advantage Program, soon to be eligible for a Silver accreditation.

ENVIRONMENTAL ACHIEVEMENTS

- Established a 'Green Team' composed of select staff members who will be responsible for championing sustainable initiatives throughout our network.
- Established and engaged with sector based benchmarking measures with other like-minded customer owned banking institutions.
- Major supporter of Macquarie Riversmart and the Wetland Education program in Narromine which educates communities about the river, its ecosystems and the importance of its preservation.
- Proud supporter of Z-NET in partnership with Starfish Initiatives; a pioneering initiative designed to make the town of Uralla the first in Australia to meet all of its own energy needs from renewable sources.
- Continued involvement with the Northern Inland Sustainability Business Network (NISBN).
- For every member that switches to Online Statements, we donate $1 to Landcare NSW that is distributed amongst local Landcare groups. To date, we have donated almost $12,000, which has benefited various conservation, biodiversity and education based programs vital to the future health of our local environments.
- Supporter of Citizens Wildlife Corridors, Sustainable Living Armidale, Northern Tablelands Wildlife Carers and the Armidale Tree Group and Macquarie River 'River Smart'.

planet goals

2015-2016 CARBON EMISSIONS REPORT

Over the past year we have seen a significant reduction in our total carbon emissions, down from 1195 tonnes in 2014/15 to 662 tonnes in 2015/16, with our total carbon emissions down by 59% from our baseline position in 2010-11. On the whole, with the introduction of our new benchmarking measures, we saw reductions across the board in each category except air travel which has remained relatively static over the past 4 years. Over the past year we have seen a significant reduction in our total carbon emissions, down from 1195 tonnes in 2014/15 to 662 tonnes in 2015/16, with our total carbon emissions down by 59% from our baseline position in 2010-11. On the whole, with the introduction of our new benchmarking measures, we saw reductions across the board in each category except air travel which has remained relatively static over the past 4 years.

The reduction in electricity consumption can be attributed primarily to our reduced electricity usage at our head office, thanks in part to the ability to generate our own electricity via PV solar. Refreshing our fleet with more fuel efficient vehicles and training staff online rather than requiring them to attend training at our head office, has seen our fuel usage drop back down to a level similar to 2013/14. Our paper usage has also reduced by more than 45% as a result of continued staff engagement.

Overall we can be proud of our sustainability achievements this year, knowing that there is still much more that we can do moving forward.

"OVER THE PAST YEAR WE HAVE SEEN A SIGNIFICANT REDUCTION IN OUR TOTAL CARBON EMISSIONS, DOWN FROM 1195 TONNES IN 2014/15 TO 662 TONNES IN 2015/16."

A breakdown of the emissions can be seen as follows:

2015-2016 CARBON EMISSIONS

Cause of Emission	Carbon Emissions (tCO_2-e)
Road Travel	82
Air Travel	61
Electricity	513
Paper	6
Total	**662**

COMPARISON OF CARBON EMISSIONS TO BASELINE DATA (TONNES)

2010 - 2011	1606
2011 - 2012	1479
2012 - 2013	1286
2013 - 2014	1017
2014 - 2015	1195
2015-2016	662
Saving in CO2 from 2010-11 to 2015-16	**994 59% saving**

EMISSION BREAKDOWN

Input	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	NET SAVING %
Scope 1 (also referred to as Direct GHG) (tonnes CO2e/FTE)	-	-	-	-	0.5	0.4	14.53
Scope 2 (also referred to as Energy Indirect GHG) (tonnes CO2e/FTE)	-	-	-	-	4.0	2.4	40.54
Scope 3 (also referred to as Other Indirect GHG) (tonnes CO2e/FTE)	-	-	-	-	0.7	0.5	21.30
Paper (no. sheets/FTE)	11523	9093	6792	9339	7721	4107	46.81
Power (kWh/m2)	211.73	193.98	196.56	158.28	156.3	90.14	42.33
Fuel (surface litres/FTE)	155	162	192	165	202	171	15.51
Fuel (Air KM/FTE)	1109	1029	993	925	983	995	-1.25

planet goals

The launch of the heartofourcommunity.com.au Adventure Playground project in Tamworth.

SOCIAL ACHIEVEMENTS

COMMUNITY SUPPORT PROGRAM (SPONSORSHIP & DONATIONS)

In the last 12 months Regional Australia Bank has fulfilled its commitment to donate no less than 5% of profit to local community groups. In doing so, over 300 community organisations benefited from more than $270,000 in sponsorships and donations, including: grass roots sporting, arts, education, employment, environmental, indigenous/cultural, and health related initiatives.

"THE CPP HAS SEEN A PHENOMENAL GROWTH OF 30% TO OVER $627,000. THIS DIRECTLY BENEFITS GRASS ROOTS COMMUNITY ORGANISATIONS."

COMMUNITY PARTNERSHIP PROGRAM (CPP)

Each year, Regional Australia Bank provides essential support to community groups as part of our Community Support Program. The CPP is a suite of access savings accounts that come with a guarantee that Regional Australia Bank will reward a nominated community group with an annual bonus payment. Over the past year the CPP has once again seen a phenomenal growth of 30% to over $627,000. This directly benefits grass roots community organisations around our network.

HEARTOFOURCOMMUNITY.COM.AU

Our 'inspiration engine' heartofourcommunity.com.au continues to perform as an outlet for regional towns and cities to suggest ways to improve their communities. 'Heart of our Community' brings individuals, organisations and communities at large together to achieve common goals.

This year we saw the Armidale Outlaws baseball ' field of dreams' materialise. This saw the reintroduction of an Armidale team (and its new facilities) into the community for the first time in over a decade. This idea received record community engagement figures beating the previous figure of 280 votes over an 18 month period with 528 votes in just 60 days.

PERFORMANCE

BE FINANCIALLY SUSTAINABLE ALLOWING DELIVERY OF GREATER VALUE TO MEMBERS INTO THE FUTURE

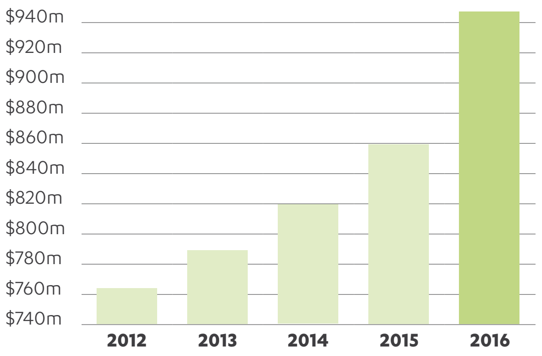
performance

GOAL: BE FINANCIALLY SUSTAINABLE ALLOWING DELIVERY OF GREATER VALUE TO MEMBERS INTO THE FUTURE.

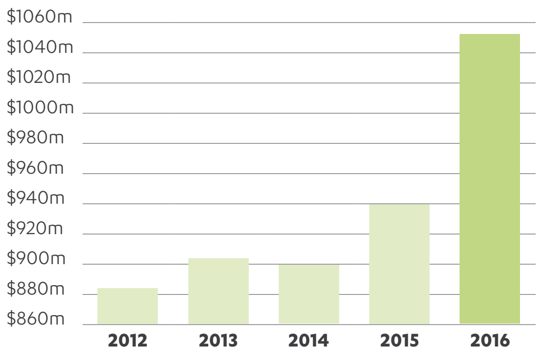
Result: Achieved

Results at a glance:

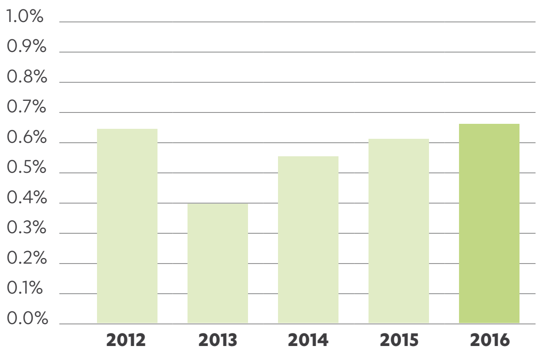
$947m MEMBER LOANS



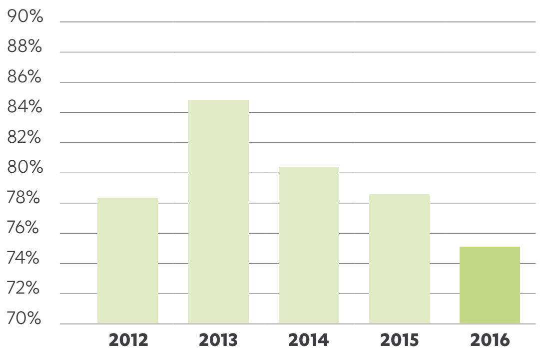
$1053.3m MEMBER DEPOSITS



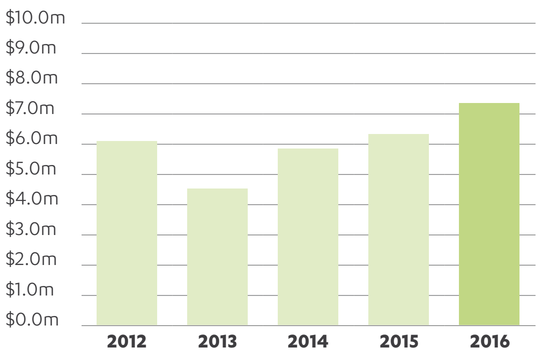
0.66% RETURN ON ASSETS (ROA)



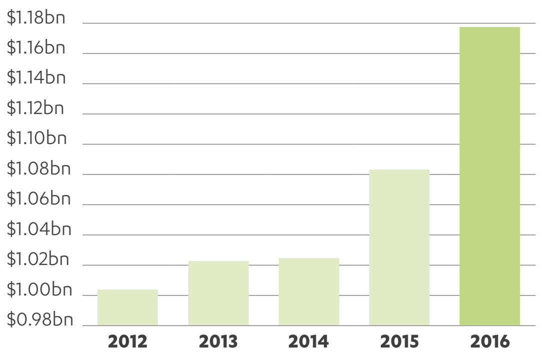
75.6% COST TO INCOME



$7.260m NET PROFIT (AFTER TAX)



$1.179b TOTAL ASSETS



"WE HAVE A STRATEGIC COMMITMENT TO WORK PROCESS INITIATIVES THAT ENSURE A MINIMAL AMOUNT OF EFFORT FOR BOTH STAFF AND MEMBERS."

GOAL: CREATE AND EMBED PROCESSES THAT ENABLE LOW EFFORT FOR ALL USERS

Result: In Progress

At Regional Australia Bank, we have a strategic commitment to ensure that we create and embed work process initiatives that ensure a minimal amount of effort for both staff and members. In 2015-16, we continued to improve our ability to respond to members by:

- introducing DocuSign which has allowed members to sign documents and thereby rapidly accept T&C online and get money in their accounts faster;
- introducing the Regional Australia Bank native mobile App on iOS and Android with rapid PIN and Swipe access;
- adding the ability to send payment receipts when paying individuals within Internet Banking;
- making Internet Banking accessible to people with visual impairments; and
- providing a convenient self-service online channel for international payments.

The Regional Australia Bank native mobile app on IOS and Android.

corporate governance statement

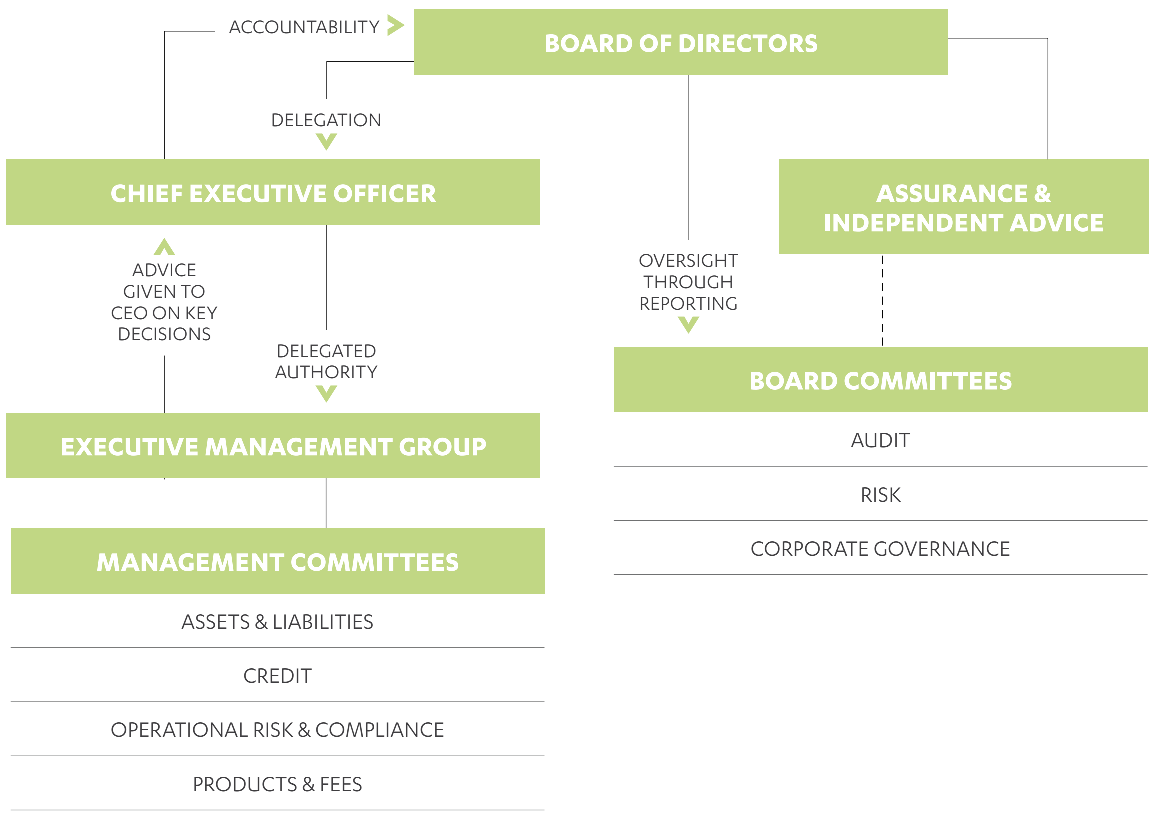
APPROACH TO CORPORATE GOVERNANCE

The Board recognises the importance of a commitment to excellence in governance standards and practices to ensure the sustainability of its banking performance and the commitment to our communities.

Regional Australia Bank operates under the Corporations Act 2001 and the guidelines and foundations of good corporate governance set out by the Australian Prudential Regulation Authority (APRA) and the Australian Securities Investment Commission (ASIC). Guidelines such as the "ASX Corporate Governance Principles and Recommendations" also assists with shaping our practices to ensure a fit for purpose approach is followed.

Regional Australia Bank's Governance Framework has been developed to support its strategic plan, whilst ensuring a clear structure of oversight of key controls. These factors enable Regional Australia Bank to operate, in an effective manner, with prudent risk taking functions that are core to the business. The Board, and each employee, have a responsibility for upholding Regional Australia Bank's values and behaviours which underpin operational activities, provide transparency and protect members' interests: Integrity, Respect, and Fairness. These values embrace Regional Australia Bank's governance principles and assist with ensuring behaviours and practices are appropriate.

The governance framework under which Regional Australia Bank operates is outlined as follows:



FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT

The Board is responsible for ensuring that the foundations for management and oversight are established and operating effectively.

Role of the Board

The Constitution outlines the powers of the Board. The Board's role and responsibilities are set out in the Board Corporate Governance Policy which acts as the Board's Charter. In adopting the Corporate Governance Framework, the Board has a range of policies which detail specific roles and responsibilities, delegations, operation and performance of the Board.

The role and responsibilities of the Board include:

- establishing with management and approving the strategic direction and major initiatives to ensure the success and sustainability of the business;
- monitoring financial performance and maintaining a direct and ongoing dialogue with Regional Australia Bank's auditors;
- overseeing the development of the risk management framework including defining, setting, monitoring and reviewing Regional Australia Bank's risk appetite and risk management strategy;
- monitoring compliance with regulatory and statutory requirements and the implementation of associated policies;
- establishing and monitoring Regional Australia Bank's values, culture, reputation and ethical standards;
- overseeing the development of the Governance Framework; and
- appointing and reviewing the performance of the Chief Executive Officer (CEO).

To ensure the Regional Australia Bank Board is well equipped to discharge its responsibilities, the Board has established guidelines based around skills, knowledge, experience and values for the nomination and selection of Directors and for the operation of the Board. The Board carries out the legal duties of its role in accordance with the values of Integrity, Respect, and Fairness.

Meetings of the full Board are held regularly with Board committees meeting as often as required (no less than four times per year) to carry out their respective functions. The Board has delegated day to day management of Regional Australia Bank to the CEO. The scope of this delegated authority is clearly documented to ensure effective oversight with appropriate empowerment and accountability.

Review of Performance

The Board undertakes an annual performance review process designed to assess the performance and effectiveness of the Board as a whole, the Board committees and each individual Director. Outcomes from each of the individual Director reviews are then reflected in the Board Skills and Assessment Matrix.

The Board is responsible for approving the performance objectives and measures of the CEO. The Board also undertakes an annual performance review for the CEO. The CEO has a similar structured process which periodically evaluates the performance of each individual Executive Manager.

corporate governance statement

STRUCTURING THE BOARD TO ADD VALUE

The Board ensures that, collectively, Directors have a broad range of relevant financial, industry experience and other skills, and expertise to meet Regional Australia Bank's strategic objectives.

The composition of the Board and the election of Directors are determined in accordance with Regional Australia Bank's Constitution, and other statutory and regulatory requirements. The Board is able to appoint two directors at their discretion, allowing the Board the flexibility to be able to source appropriate skills and expertise onto the Board when necessary.

The Board Corporate Governance Committee has been delegated responsibility to review and make recommendations to the Board regarding Board composition, and to assist in the Director nomination process. The Board requires that each of its Directors and Executive Management undertake fit and proper character assessments to ensure compliance with APRA's Prudential Standard *CPS 520 Fit and Proper.*

Details of the Directors' experience and qualifications are set out in the Directors' Report.

Board Committees

The Board is responsible for committee composition, structure and functions. To assist it in discharging its responsibilities and oversight of the business, the Board has established a number of committees, being the Board Audit Committee, Board Risk Committee and the Board Corporate Governance Committee.

Membership of these committees throughout the financial year consisted of the following:

DIRECTOR	BOARD AUDIT COMMITTEE	BOARD RISK COMMITTEE	BOARD CORPORATE GOVERNANCE COMMITTEE
Graham Olrich	Ex-offico Member	Ex-offico Member	Ex-offico Member
Alison Sheridan		Member	Member & Chair
Geoff Thompson	Member & Chair	Member	Member
Michael Fenech	Member	Member & Chair	
Kate James	Member	Member	
Brian Goodall		Member	Member

Each of the Board committees operates within its own terms of reference which set out matters relevant to the composition and responsibilities of that committee.

The Board and its committees are structured to ensure that they are of a size that facilitates effective and efficient decision making; comprise Directors with a broad range of skills and experience from a diverse range of backgrounds appropriate to Regional Australia Bank's business; and that the Board Chairman and the Audit Committee Chairman are independent Directors.

Board Audit Committee

The Board Audit Committee holds meetings as required and assists the Board in fulfilling its statutory and fiduciary duties. The committee provides an objective review of the reporting of financial information and the internal control environment, including an understanding of the financial, tax and accounting risks.

The Head of Internal Audit and Assurance and the External Auditor are both invited to attend meetings at the discretion of the committee.

Board Corporate Governance Committee

The Board Corporate Governance Committee holds meetings as required, with its function designed to assist the Board in ensuring that Regional Australia Bank operates in accordance with a clear, consistent and effective Governance Framework that conforms to Regional Australia Bank's legal and governance obligations and the required standards of corporate behaviour.

The Board Corporate Governance Committee also undertakes the responsibility of assessing all persons, including existing Directors, prior to their appointment or election as a Director as to their fitness and propriety. The committee makes recommendations to the Board on candidates for appointment as Director.

Board Risk Committee

The Board Risk Committee is designed to be an efficient and effective mechanism to bring the transparency, focus and independent judgement needed to oversee the risk management framework. A key part of the committee's responsibility is to evaluate the adequacy and effectiveness of Regional Australia Bank's risk management framework, risk appetite and the appropriateness of the internal control culture. The Board Risk Committee holds meetings as required.

Directors' Independence

APRA's Prudential Standard *CPS 510* on governance mandates that Authorised Deposit Taking Institutions (ADI's) must have a majority of independent Directors at all times. All of the Directors of Regional Australia Bank serve in a non-executive capacity and the Board has adopted specific principles in determining Directors' independence.

The Board assesses independence annually in accordance with its Governance Policy, requiring each Director to disclose all information that could reasonably be considered to influence their capacity to act as an independent Director. Throughout the financial year all current Directors have been assessed as being independent.

corporate governance statement

regional australia bank annual report

Access to Independent Information and Advice

In order to fulfil their responsibilities the Board collectively, and each Director individually, has the right to seek independent professional advice whenever it is considered necessary. Individual Directors may seek independent professional advice on any matter connected with the discharge of their responsibilities to ensure they exercise their objective, unfettered and independent judgement.

In addition, the Board and each of the Board's committees, at the expense of Regional Australia Bank, may obtain relevant professional advice, as required, to assist in undertaking its role. All Directors have unrestricted access to records and information of Regional Australia Bank to assist with discharging their fiduciary duty.

ACTING ETHICALLY AND RESPONSIBLY

The Board, CEO, Executive Management and all employees are responsible for adhering to, and promoting, high standards of ethical behaviour and decision making.

Code of Conduct

In carrying out its role, the Board operates in accordance with approved governance policies and in a manner reflecting Regional Australia Bank's values and behaviours. The Board has developed a Code of Conduct which applies to everyone at Regional Australia Bank. This code is reviewed annually to ensure it reflects the highest level of behaviour and practices and provides a guideline for the standards of ethical behaviour and decision making expected to be displayed by all Regional Australia Bank employees.

The Code of Conduct details standards and expectations around behaviour to ensure that the highest standards are maintained and Regional Australia Bank's reputation enhanced.

Conflict of Interest

In accordance with the Corporations Act 2001 and Regional Australia Bank's Constitution, each Director must ensure that no action or decision is taken that places their interest in front of the interests of Regional Australia Bank. Directors are required to disclose to the Board any material contract in which they may have an interest.

The Board has established a process for the handling of actual or potential conflicts of interest with respect to the activities or decision-making responsibilities of Regional Australia Bank's Directors and Executive Management. In order to ensure that such conflicts are properly identified and managed, all Regional Australia Bank's Directors are required to disclose any conflict of interest (whether actual or potential). Directors are also given the opportunity to declare any interest as a standing item in each of the respective Board committees and Board meeting agendas.

Management Delegation

The Board has delegated authority to achieve Regional Australia Bank's strategic objectives to the CEO. The CEO is responsible for day-to-day leadership and management of Regional Australia Bank's business activities and implementation of Board-approved strategies, policies, resolutions and directions.

As a key operation of the Governance Framework to ensure responsible decision making, the CEO has developed an approvals framework where management committees make recommendations to the CEO in relation to operational matters. Delegations from the CEO to management are clearly documented. They are designed to accelerate decision-making and to improve efficiency in member service and experience.

Whistleblower Protection

Regional Australia Bank has a strong commitment to adherence to a culture of risk management and compliance, ethical behaviour and good corporate governance. Regional Australia Bank's whistleblower protection policy enables individuals to voice concerns or escalate serious matters on a confidential basis, without fear of reprisal, dismissal or discriminatory treatment.

REMUNERATE FAIRLY AND RESPONSIBLY

The Board, through the oversight of the Board Corporate Governance Committee, is responsible for remuneration practices that assist in attracting and retaining Executive Management and other individuals who are critical to Regional Australia Bank's success. It is Regional Australia Bank's objective to provide maximum member benefit from the retention of a high quality Board and Executive Management team by remunerating fairly and responsibly by reference to prevailing market benchmarks and performance.

In accordance with the requirements of APRA's Prudential Standard CPS 510 on governance, Regional Australia Bank has a structure for managing approval of remuneration for Board, the CEO, Executive Management and other individuals that are responsible for managing financial performance and risk management. The Board regularly undertakes an independent review of remuneration to ensure that remuneration practices are prudent and consistent with market practices.

SAFEGUARD INTEGRITY IN FINANCIAL REPORTING

The Board of Regional Australia Bank is committed to ensuring that the financial reports present a true and fair view and are constructed in accordance with applicable accounting rules and policies. The Board, through the responsibility of the Board Audit Committee, maintain a close focus to ensure the external auditor is independent and serves members' interest by knowing the true financial position of Regional Australia Bank.

RECOGNISE AND MANAGE RISK

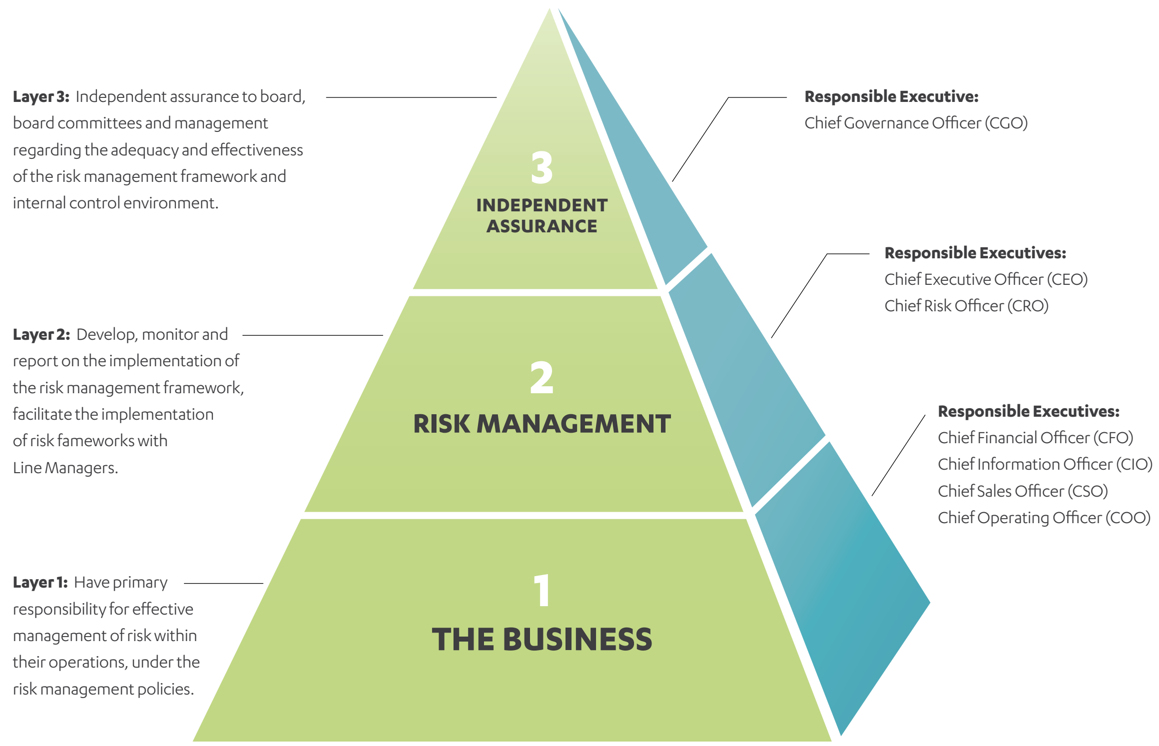
The Regional Australia Bank Board has responsibility for overseeing the establishment and ongoing monitoring of risk management systems and frameworks and for setting Regional Australia Bank's risk appetite and overseeing risks inherent in Regional Australia Bank's business. The Board has delegated to the CEO the responsibility for implementing a system of internal controls to identify and manage these risks.

Each Executive Manager is accountable to the CEO, through the signing of declarations, that the systems of risk management and internal controls under their respective business areas operate effectively to manage the risk Regional Australia Bank faces in its business operations.

There are established policies for oversight and management of material risks. These are embedded as controls to manage Regional Australia Bank's material business risks. Further explanatory notes on the management of risk are included throughout the financial report.

Regional Australia Bank adopts a Three Lines of Defence approach to risk management which assists in ensuring a culture whereby 'risk is everyone's responsibility'. All employees at Regional Australia Bank are responsible for managing risk and operating within the set risk profile.

The approach of the Three Lines of Defence operating structure is outlined as follows:



FINANCIAL REPORT

2015–2016

DIRECTORS REPORT

Your Directors present their report together with the consolidated financial statements of Community Mutual Ltd trading as Regional Australia Bank ("the Company") and the CMG Funding Trust No.1 ("the Trust") for the financial year ended 30 June 2016 and the auditor's report thereon.

The Company is a public company registered under the Corporations Act 2001 (Cth).

The Trust is a Special Purpose Vehicle deemed under the Accounting Standards to be controlled by the Company for the year ended 30 June 2016 (together referred to as "the Group").

Information on Directors

The names of the Directors in office at any time during the year are:

Name	Qualifications	Position	Experience and Special Responsibilities
Graham Olrich	Dip FS, Dip FS (Credit Union Directorship),FAICD, FAMI	Non-Executive Director	- Director since 2011 - Chairman since November 2014 - Ex-officio Member Audit Committee - Ex-officio Member Corporate Governance Committee - Ex-officio Member Risk Committee
Alison Sheridan	BAgEc (Hons) (Syd), PhD (UNE), GAICD	Non-Executive Director	- Director since 2003 - Member & Chair of the Corporate Governance Committee - Member of the Risk Committee
Geoff Thompson	BFin Admin, FCA, GAICD	Non-Executive Director	- Director since 2008 - Member & Chair of the Audit Committee - Member of the Corporate Governance Committee - Member of the Risk Committee
Michael Fenech	B.Ec, MAICD	Non-Executive Director	- Director since 2014 - Member & Chair of the Risk Committee - Member of the Audit Committee
Brian Goodall	B.Ec LLB, GAICD	Non-Executive Director	- Director since 1997 - Member of the Risk Committee - Member of the Corporate Governance Committee
Kate James	BRurSci (UNE), GAICD	Non-Executive Director	- Director since 2008 - Member of the Audit Committee - Member of the Risk Committee
John O'Connor Retired as Director 27/11/2015	LGE, Grad Dip Mgmt & Bus Admin	Non-Executive Director	- Director since 1974 - Member of the Corporate Governance Committee - Member of the Audit Committee

DIRECTORS REPORT Continued

Information on Company Secretary

The Company Secretary is David Munday, LLB, BComm (UNE), Grad Dip Applied Corporate Governance (GIA Syd), AGIA, GAICD. Mr Munday was appointed to the position in 2004.

Information on Board and Committee Meetings

	Board		Corporate Governance		Audit		Risk	
	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend	Attended
Graham Olrich	9	9	4	4	4	4	4	4
Alison Sheridan	9	8	4	4	-	-	4	4
Geoff Thompson	9	8	4	3	4	4	2	1
Michael Fenech	9	9	-	-	4	4	4	4
Brian Goodall	9	9	4	4	-	-	4	4
Kate James	9	8	-	-	4	4	4	4
*John O'Connor	4	3	1	1	2	2	-	-

During the year the following changes to the Committees occurred:

Geoff Thompson joined the Risk Committee on 17 March 2016

*John O'Connor retired from the Board following the Annual General Meeting held on 27 November 2015

Directors Benefits

No Director has received or become entitled to receive, during, or since the end of the financial year, a benefit because of a contract made by the Company with a Director, a firm of which a Director is a member, or an entity in which a Director has a substantial financial interest, other than that disclosed in Note 37 of the financial report.

Indemnifying Directors, Officers or Auditors

Insurance premiums have been paid to insure each of the Directors and Officers of the Company, against any costs and expenses incurred by them in defending any legal proceeding arising out of their conduct while acting in their capacity as an officer of the Company. In accordance with normal commercial practice, disclosure of the premium amount and the nature of the insured liabilities is prohibited by a confidentiality clause in the contract.

No cover has been provided for the benefit of the auditors of the Company.

Principal Activities

The principal activities of the Company during the year were the provision of retail and commercial financial services to members in the form of taking deposits and giving financial accommodation as prescribed by the Constitution.

Review of Operations

The profit of the Company for the year before income tax is $10.59mil (2015: $9.04mil) representing an excellent result in a difficult economic environment.

Dividend on Tier 1 Shares

Dividends paid during the year on the issued permanent preference shares was $3.58 (2015: $3.92) per share amounting to a total dividend of $523,395 (2015: $572,335).

Significant Changes in State of Affairs

There were no significant changes in the state of affairs of the Company during the financial year.

Significant Events After the Balance Date

On 8 August 2016 Community Mutual Ltd began trading as Regional Australia Bank. It is not expected that this change will significantly impact the operation of the Company or Group.

On 15 August 2016 the Trust substituted cash for additional loans with Community Mutual Ltd. The result of this will have the following effect on the Trust.

Assets:	**$**
Reduction in Cash	16,384,189
Increase in Loans	16,384,189

There were no other significant changes in the state of affairs of the Group during the course of the year.

DIRECTORS REPORT Continued

Likely Developments and Expected Results

No other matter, circumstance or likely development in the operations has arisen since the end of the financial year that has significantly affected or may significantly affect:

(i) the operations of the Group;

(ii) the results of those operations; or

(iii) the state of affairs of the Company.

in the financial years subsequent to this financial year.

Rounding

The financial report is presented in Australian Dollars and all values are rounded to the nearest thousand dollars ($'000) unless otherwise stated under the option available to the Company under ASIC Corporations (Rounding in financial / directors reports) Instruments 2016/191.

Non-Audit Services

The following non-audit services were provided by the Company's auditor, KPMG. The Directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The nature and scope of each type of non-audit service provided means that auditor independence was not compromised.

KPMG received or are due to receive the following amounts for the provision of non-audit services for the year ended 30 June 2016:

	$
Taxation Services	36,700
Advisory Services	20,400
Total	**57,100**

Auditor's Independence Declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out following the Directors' Report.

Public Prudential Disclosures

As an Authorised Deposit taking Institution (ADI) regulated by the Australian Prudential Regulation Authority (APRA), the Company is required to publicly disclose certain information in respect of:

- Consolidated equity and regulatory capital;
- Risk exposure and assessment, and
- Remuneration disclosures.

The disclosures are to be found on the Company's website:
www.regionalaustraliabank.com.au/about-us/corporate-documents/reports/prudential-information-disclosures

The report is made in accordance with a resolution of the Board of Directors and is signed for and on behalf of the Directors.

Graham Olrich
Director

Geoff Thompson
Director

Date: 30 September 2016

KPMG

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

To: the directors of Community Mutual Ltd

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2016 there have been:

(i) no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and

(ii) no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

KPMG

Michael O Connell
Partner

Sydney
30 September 2016

FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the Year Ended 30 June 2016

	Notes	Consolidated 2016 $'000	Parent 2016 $'000	Consolidated 2015 $'000	Parent 2015 $'000
Interest income	5	56,174	59,273	57,735	58,967
Interest expense	6	(20,014)	(25,233)	(23,403)	(25,539)
Net interest income		**36,160**	**34,040**	**34,332**	**33,428**
Non-interest income	7a	7,244	9,364	7,108	7,993
Net operating income		**43,404**	**43,404**	**41,440**	**41,421**
Impairment loss on loans and advances	8a	(992)	(992)	(1,136)	(1,136)
Employee benefits expense	8b	(17,376)	(17,376)	(16,387)	(16,387)
Occupancy expense	8c	(2,388)	(2,388)	(2,708)	(2,708)
Depreciation and amortisation expense	8d	(1,166)	(1,166)	(1,535)	(1,535)
Information technology and communication expense	8e	(3,875)	(3,875)	(3,839)	(3,839)
Other operating expenses	8f	(7,019)	(7,019)	(6,795)	(6,776)
Total operating expenses		(32,816)	(32,816)	(32,400)	(32,381)
Profit before income tax		**10,588**	**10,588**	**9,040**	**9,040**
Income tax expense	9	(3,262)	(3,262)	(2,593)	(2,593)
Net profit after tax attributable to members		**7,326**	**7,326**	**6,447**	**6,447**
Other comprehensive income					
Revaluation of Available-For-Sale Financial Assets	7b	-	-	312	312
Revaluation of Property, Plant and Equipment	7b	(395)	(395)	-	-
Income tax relating to components of other comprehensive income	18	118	118	(93)	(93)
Other comprehensive income for the year net of tax		**(277)**	**(277)**	**219**	**219**
Total comprehensive income for the year		**7,049**	**7,049**	**6,666**	**6,666**

The accompanying notes should be read in conjunction with these financial statements

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 30 June 2016

	Notes	Consolidated 2016 $'000	Parent 2016 $'000	Consolidated 2015 $'000	Parent 2015 $'000
ASSETS					
Cash and cash equivalents	11	93,978	76,551	64,429	63,033
Trade and other receivables	12	8,316	10,518	6,649	7,064
Loans and advances to members	13	947,000	1,068,000	860,448	893,670
Available-For-Sale Financial Assets	14	625	625	625	625
Held To Maturity Financial Assets	15	118,871	118,871	141,545	141,545
Property, plant and equipment	16	6,238	6,238	6,737	6,737
Intangible assets	17	553	553	429	429
Deferred tax assets	18	2,071	2,071	1,928	1,928
Loss reserve loan	19	1,460	1,460	1,460	1,460
Total Assets		**1,179,112**	**1,284,887**	**1,084,250**	**1,116,491**
LIABILITIES					
Deposits	20	1,053,280	1,053,280	947,938	947,938
Trade and other payables	21	19,153	19,222	21,162	21,161
Current tax Liabilities		591	591	1,105	1,105
Provisions	22	3,020	3,020	2,795	2,795
Finance Lease Liabilities	23	52	52	214	214
Other Borrowings	24	-	105,706	-	32,242
Subordinated debt	25	3,979	3,979	3,962	3,962
Total Liabilities		**1,080,075**	**1,185,850**	**977,176**	**1,009,417**
Net Assets		**99,037**	**99,037**	**107,074**	**107,074**
EQUITY					
Preference shares	26	-	-	14,563	14,563
Redeemable member shares	27	674	674	679	679
Reserves	28	766	766	1,043	1,043
Retained earnings	29	89,146	89,146	82,338	82,338
Contributed Equity	30	8,451	8,451	8,451	8,451
Total Equity		**99,037**	**99,037**	**107,074**	**107,074**

The accompanying notes should be read in conjunction with these financial statements

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
As at 30 June 2016

Parent

	Notes	Contributed Equity $'000	Preference Shares $'000	Member Shares $'000	Other Reserves $'000	Retained Earnings $'000	Total $'000
Balance at 1 July 2014		8,451	14,527	630	824	76,548	100,980
Total Net profit after tax attributable to members		-	-	-	-	6,447	6,447
Amortisation of preference share discount		-	36	-	-	-	36
Revaluation of Available-For-Sale Financial Assets		-	-	-	219		219
Transfer to capital account on redemption of shares				49	-	(49)	-
Adjustment for prior year errors		-	-	-	-	(36)	(36)
Transactions with preference shareholders	10(a)	-	-	-	-	(572)	(572)
Balance at 30 June 2015		8,451	14,563	679	1,043	82,338	107,074

	Notes	**Contributed Equity** $'000	**Preference Shares** $'000	**Member Shares** $'000	**Other Reserves** $'000	**Retained Earnings** $'000	**Total** $'000
Balance at 1 July 2015		8,451	14,563	679	1,043	82,338	107,074
Total Net profit after tax attributable to members		-	-	-	-	7,326	7,326
Amortisation of preference share discount		-	37	-	-	-	37
Revaluation of Property, Plant and Equipment		-	-	-	(277)	-	(277)
Transfer to capital account on redemption of shares		-	-	(5)	-	5	-
Transactions with preference shareholders	10(a)	-	(14,600)	-	-	(523)	(15,123)
Balance at 30 June 2016		**8,451**	**-**	**674**	**766**	**89,146**	**99,037**

Consolidated

	Notes	Contributed Equity $'000	Preference Shares $'000	Member Shares $'000	Other Reserves $'000	Retained Earnings $'000	Total $'000
Balance at 1 July 2014		8,451	14,527	630	824	76,548	100,980
Total Net profit after tax attributable to members		-	-	-	-	6,447	6,447
Amortisation of preference share discount		-	36	-	-	-	36
Revaluation of Available-For-Sale Financial Assets		-	-	-	219	-	219
Transfer to capital account on redemption of shares			-	49	-	(49)	-
Adjustment for prior year errors		-	-	-	-	(36)	(36)
Transactions with preference shareholders	10(a)	-	-	-	-	(572)	(572)
Balance at 30 June 2015		**8,451**	**14,563**	**679**	**1,043**	**82,338**	**107,074**

	Notes	**Contributed Equity** $'000	**Preference Shares** $'000	**Member Shares** $'000	**Other Reserves** $'000	**Retained Earnings** $'000	**Total** $'000
Balance at 1 July 2015		8,451	14,563	679	1,043	82,338	107,074
Total Net profit after tax attributable to members		-	-	-	-	7,326	7,326
Amortisation of preference share discount		-	37	-	-	-	37
Revaluation of Property, Plant and Equipment		-	-	-	(277)	-	(277)
Transfer to capital account on redemption of shares		-	-	(5)	-	5	-
Transactions with preference shareholders	10(a)	-	(14,600)	-	-	(523)	(15,123)
Balance at 30 June 2016		**8,451**	**-**	**674**	**766**	**89,146**	**99,037**

The accompanying notes should be read in conjunction with these financial statements

CONSOLIDATED STATEMENT OF CASH FLOWS
For the Year Ended 30 June 2016

	Notes	Consolidated 2016 $'000	Parent 2016 $'000	Consolidated 2015 $'000	Parent 2015 $'000
CASH FLOW FROM OPERATING ACTIVITIES					
Interest received		55,665	58,764	57,735	58,967
Dividends received		19	19	37	37
Fees and commissions received		5,414	5,414	6,639	6,639
Other income		520	853	432	1,317
Interest paid		(20,014)	(25,233)	(23,403)	(25,539)
Payments to suppliers and employees		(34,002)	(33,932)	(30,035)	(26,248)
Income taxes paid		(3,425)	(3,425)	(2,745)	(2,745)
(Increase)/Decrease in operating assets					
Net increase in member loans		(86,552)	(174,330)	(41,430)	(29,707)
Increase/(Decrease) in operating liabilities					
Net increase in member deposits		105,342	105,342	47,784	47,784
Net increase in borrowings (securitisation)		-	73,464	-	(11,424)
Net cash provided (used) by operating activities	**32(c)**	**22,967**	**6,936**	**15,014**	**19,081**
CASH FLOW FROM INVESTING ACTIVITIES					
Proceeds from sale of investments due from other financial institution investments		-	-	6,000	6,000
Payments for held-to-maturity financial assets		22,821	22,821	(42,946)	(42,946)
Proceeds from sale of property, plant and equipment		(1)	(1)	44	44
Payments for property, plant and equipment		(679)	(679)	(1,290)	(1,290)
Purchase of intangible assets		(406)	(406)	(305)	(305)
Net cash (used in) investing activities		**21,735**	**21,735**	**(38,497)**	**(38,497)**
CASH FLOW FROM FINANCING ACTIVITIES					
Repayments and interest on finance leases		(47)	(47)	(123)	(123)
Net proceeds of subordinated debt issue		17	17	17	17
Net proceeds from buy-back of preference share issue		(14,600)	(14,600)	-	-
Dividends paid		(523)	(523)	(572)	(572)
Net cash (used in) financing activities		**(15,153)**	**(15,153)**	**(678)**	**(678)**
Total net increase (decrease) in cash held		29,549	13,518	(24,161)	(20,094)
Cash at the beginning of year		64,429	63,033	88,590	83,127
Cash and cash equivalents at the end of year	**11**	**93,978**	**76,551**	**64,429**	**63,033**

The accompanying notes should be read in conjunction with these financial statements

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

NOTE 1 CORPORATE INFORMATION

The financial statements of Community Mutual Ltd trading as Regional Australia Bank ("the Company") for the year ended 30 June 2016 were authorised for issuance in accordance with a resolution of the Directors on 30 September 2016.

Community Mutual Ltd is a company domiciled in Australia.

The consolidated financial statements as at and for the year ended 30 June 2016 comprise Community Mutual Ltd ("the Company") and the CMG Funding Trust No.1 ("the Trust"), a Special Purpose Vehicle deemed under the Accounting Standards to be controlled by the Company for the year ended 30 June 2016 (together referred to as the "Group"). The Group is a for-profit entity and primarily is involved in the provision of financial products, services and associated activities to Members. The members are the owners of the Company.

The registered office is at Suite 4, Technology Park, Madgwick Drive, Armidale NSW 2350.

The nature of the operations and principal activities of the Group are described in the Directors' Report.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Preparation

The consolidated financial statements of the Company are general purpose financial statements which have been prepared in accordance with the requirements of the Corporations Act 2001, Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board. The financial statements have been prepared on a historical cost basis, except for land and buildings and available-for-sale instruments, which have been measured at fair value.

The functional and reporting currency is Australian Dollars.

Prepared in accordance with ASIC Corporations (Rounding in Financial Directors Reports) Instrument 2016/191 issued by the Australian Securities and Investments Commission, relating to the 'rounding off' of amounts in the financial statements. Amounts in the financial statements have been rounded off in accordance with that Instrument to the nearest thousand dollars, or in certain cases, to the nearest dollar.

(b) Statement of Compliance with IFRS

The financial statements comply with Australian Accounting Standards as issued by the Australian Accounting Standards Board and International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

(c) Basis of Consolidation

The consolidated financial statements include those of the Company and a Special Purpose Vehicle (the CMG Funding Trust No. 1, the securitisation trust) which relates to the issuance of residential mortgage-backed securities (RMBS). RMBS are issued by the securitisation trust and held by the Company for entering into potential repurchase agreement with the Reserve Bank of Australia for short term funding requirements. The securitisation trust is consolidated, as the Company has the power to govern the financial and operating policies so as to obtain benefits from its activities. The securitisation trust's underlying assets, liabilities, revenues, expenses and cash flows are reported in the Consolidated Statement of Profit or loss and Other Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity and Statement of Cash Flows. All inter-company transactions and balances have been eliminated on consolidation including any unrealised profit.

(d) Segment Reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker has been identified as Mr Kevin Dupé, Chief Executive Officer of the Group.

As internal reporting to the Chief Executive Officer is on a 'whole of business' basis, the Group considers there to be one reportable segment.

(e) Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured.

The following specific recognition criteria must also be met before revenue is recognised:

(i) Interest and similar income

Interest income is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial instrument over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to the net carrying amount of the financial asset or financial liability.

Loan interest is calculated on the basis of daily balance outstanding and is charged in arrears to a member's account on the last day of each month. Interest income on impaired loans is recognised using the original effective interest rate.

(ii) Fees and commission income

The Group earns fee and commission income from a diverse range of services it provides to its members. Income is brought to account on an effective interest rate basis once a right to receive consideration has been established.

(iii) Dividend income

Dividend income is recorded in non-interest income when the Group's right to receive the payment is established.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Income Tax

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the applicable income tax rate adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period.
Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax base of assets and liabilities and their carrying amounts in the financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

(g) Leases

Leases of property, plant and equipment are recognised as a financial lease where the Group, as lessee, has substantially all the risks and rewards of ownership. These are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised as an expense.

A financial lease is derecognised when the obligation under the liability is discharged, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability, and the difference in the respective carrying amounts is recognised in the statement of profit or loss and other comprehensive income.

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term.

Leases, in which a significant portion of risks and rewards are not transferred to the Group or lessee are classified as operating leases. Operating lease payments are recognised as an expense in the statement of profit or loss and other comprehensive income on a straight-line basis over the lease term.

(h) Business Combinations

The acquisition method of accounting is used to account for all business combinations. The consideration transferred for the acquisition of a subsidiary comprises the fair values of the assets transferred, the liabilities incurred and the equity interests issued. Acquisition costs are expensed as incurred. Identifiable assets acquired and liabilities assumed in a business combination are, with limited exception, measured initially at fair value at the acquisition date.

The excess of the consideration transferred and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the entity's share of the net identifiable assets is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the subsidiary acquired and the measurement of all amounts has been reviewed, the difference is recognised directly in the statement of profit or loss and other comprehensive income as a bargain purchase.

(i) Contributed Equity

Contributed Equity reflects the addition to equity arising from the application of AASB 3 for business combinations, when two mutual entities combine the acquirer is required to recognise the acquiree's net assets as a direct addition to equity in its Statement of Financial Position.

(j) Impairment of loans and advances

The Group assesses at each balance date whether there is any objective evidence that a loan and advance to a member, or a group of loans and advances, is impaired. A loan and advance, or a group of loans and advances, is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the loan and advance or group of loans and advances that can be reliably estimated. Objective evidence of impairment may include indications that the borrower, or a group of borrowers is experiencing financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial restructure and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or decreased by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to 'bad debts recovered'.

Bad debts are written off when identified. Identification may include: bankruptcy, clearout or unlikelihood of recovery. 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 in the Statement of Profit or Loss and Other Comprehensive Income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Cash and cash equivalents

Cash and short-term deposits in the statement of financial position comprise cash at bank and in hand and short term deposits with an original maturity of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in values.

For the purposes of the Statement of Cash Flows, cash and cash equivalents consist of cash and cash equivalents net of outstanding bank overdrafts.

(l) Due from other financial institutions

Receivables due from other financial institutions are primarily settlement account balances due from banks, building societies and credit unions. They are brought to account at the gross value of the outstanding balance. Interest is brought to account in the Statement of Profit or Loss and Other Comprehensive Income as interest income when earned.

(m) Trade and other receivables

Trade and other receivables include amounts owed to the Group for services provided, accrued interest on loans and advances, investments, unpresented cheques and deposits not yet banked on the bank account and reimbursements of expenses incurred on behalf of a third party. Trade and other receivables includes interest accrued on investments which is received on maturity. Amounts due for services provided are normally settled in 30 days.

Trade and other receivables are initially recorded at cost including transaction costs. At reporting date, trade and other receivables are measured at amortised cost, less any allowance for impairment or uncollectability.

(n) Loans and advances

Loans and advances to members, including loans to Key Management personnel, are assets with fixed or determinable payments and fixed maturities that are not quoted in an active market. Such assets are measured at amortised cost using the effective interest method, less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the effective interest rate.

(o) Renegotiated loans

Where possible, the Group seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, the loan is no longer considered past due. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original effective interest rate.

(p) Investments and other financial assets

Investments and financial assets are categorised as either financial assets at fair value, held to maturity investments or available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Designations are re-evaluated each financial year-end.

(i) Held to maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held to maturity when the Group has the positive intention and ability to hold to maturity. Investments that are intended to be held-to-maturity are subsequently measured at amortised cost. This cost is computed as the amount initially recognised minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of the difference between the initially recognised amount and the maturity amount. For investments carried at amortised cost, gains or losses are recognised in the statement of profit or loss and other comprehensive income when the investments are derecognised or impaired, as well as through the amortisation process.

(ii) Available-for-sale investments

Available-for-sale investments are non-derivative financial assets, principally equity securities that are designated as available-for-sale. After initial recognition available-for-sale securities are measured at fair value with gains or losses being recognised as other comprehensive income until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in other comprehensive income is recognised in the statement of profit or loss and other comprehensive income.

The fair value of investments that are actively traded in organised financial markets are determined by reference to quoted market bid prices at the close of business on the balance sheet date. For investments with no active market, fair values are determined using valuation techniques. Refer to Note 3 (d).

In the case of debt instruments classified as available-for-sale investments, impairment is assessed on the same criteria as financial assets carried at amortised cost. Future interest income is based on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of revenue. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the statement of profit and loss and other comprehensive income, the impairment loss is reversed through the statement of profit and loss and other comprehensive income.

(iii) Recognition and derecognition

All regular way purchases and sales of financial assets are recognised on the trade date i.e., the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets under contracts that require delivery of the assets within the period established generally by regulation or convention in the market place.

A financial asset is derecognised where:

- the rights to receive cash flows from the asset have expired;
- either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(q) Property, plant and equipment

Each category of plant and equipment is stated at cost less accumulated depreciation and any accumulated impairment losses. Changes in the expected useful life are accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates.

(i) Property

Land and buildings are measured at fair value, based on periodic but at least triennial valuations by external independent valuers, less subsequent depreciation on buildings and less any impairment losses recognised after the date of revaluation. The fair value is reassessed prior to sale.

Any revaluation decrease is recognised in profit or loss, except to the extent that it offsets a previous revaluation increase for the same asset, in which case the decrease is debited directly to other comprehensive income and 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.

Upon disposal or derecognition, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

(ii) Plant and Equipment

Plant and equipment are measured on the historical cost basis less depreciation and impairment losses.

The carrying amount of property, plant and equipment is reviewed annually to ensure it is not in excess of the recoverable amount of these assets. The recoverable amount is assessed on the basis of expected net cash flows that will be received from the asset's employment and subsequent disposal.

Any decrease in the carrying amount is recognised as an impairment expense in the Statement of Profit or Loss and Other Comprehensive Income in the reporting period in which the impairment loss occurs. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

(iii) Disposal

An item of property, plant and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal.

Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit and loss in the year the asset is derecognised.

(iv) Depreciation

Depreciation is calculated using the straight-line method to write down the cost of property, plant and equipment to the residual values over their estimated useful lives. Land is not depreciated. The estimated useful lives are as follows:

• Buildings	25 to 40 years
• Furniture, Fittings & Leasehold Improvements	5 to 15 years
• Office equipment	3 to 15 years
• Motor Vehicles	6 years
• Leased plant & equipment	3 to 8 years

(r) Intangible assets

Intangible assets relate to the value of computer software. Intangible assets acquired are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

Costs incurred in developing products or systems and costs incurred in acquiring software and licenses that will contribute to future period financial benefits through revenue generation and/or cost reduction are capitalised to software and systems.

Amortisation is calculated using the straight line method to write down the cost of intangible assets to their residual values over their estimated useful lives as follows:

• Computer Software	3 years

(s) Impairment of assets

The Group assesses at each reporting date or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount and the difference is recognised as the impairment loss.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment was recognised. The carrying amount of the asset is increased to its recoverable amount.

(t) Member deposits

All member deposits are initially recognised at the fair value of the amount received. After initial recognition, deposits are subsequently measured at amortised cost using the effective interest method.

Interest is calculated on the daily balance and posted to the accounts periodically, or on maturity of the term deposit. Interest on savings is brought to account on an accrual basis. Interest is recognised on an effective interest basis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(u) Trade and other payables

Trade payables and other payables are carried at amortised cost and represent accrued interest on deposits and liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services. Trade liabilities are normally settled within 30 days.

(v) Subordinated debt

All subordinated debts are initially recognised at fair value, net of transaction costs incurred. Subordinated debts are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit and loss over the period of the borrowings using the effective interest method.

Subordinated debt costs are amortised over the life of the debt.

(w) Provision for Employee benefits

Liabilities for wages and salaries and annual leave are expected to be settled within 12 months of the reporting date after the end of the period in which the employees render related service are recognised in respect of employees' services up to the reporting date. They are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating sick leave are recognised when the leave is taken and are measured at the rates paid or payable. The liability for annual leave is recognised in the provision for annual leave.

The liability for long service leave is not expected to be settled within 12 months after the end of the period in which the employees render the related service recognised in the provision for long service leave and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using the corporate bond rate at reporting date on national government bonds with terms to maturity that match, as closely as possible, to the estimated future cash flows.

Contributions are made by the Group to an employee's superannuation fund and are charged to the Statement of Profit or Loss and Other Comprehensive Income as incurred.

(x) Other Provisions

The Group creates a provision for the present value of anticipated costs of future restoration of leased branch premises (Make Good Provision). The provision includes future cost estimates associated with dismantling furniture and fittings. An asset is created as a result of this provision which is included in leasehold improvements. This asset is amortised over the effective remaining life of each lease. The calculation of this provision requires assumptions which may result in future actual expenditure differing from the amounts currently provided. The provision recognised for each branch is periodically reviewed and updated based on the facts and circumstances available at the time. Changes to the estimated future costs for branches are recognised in the statement of financial position by adjusting both the expense or asset (if applicable) and provision.

Provisions are recognised when the Group has a legal or constructive obligation to make a future sacrifice of economic benefits to other entities as a result of past events. It is probable that a future sacrifice of economic benefits will be required and a reliable estimate can be made of the amount of the obligation.

(y) Goods and services tax (GST)

As a financial institution the Group is input taxed on all income except for income from commissions and some fees. An input tax supply is not subject to GST collection, and similarly the GST paid on related or apportioned purchases cannot be recovered. As some income is charged GST, the GST on purchases are generally recovered on a proportionate basis. In addition certain prescribed purchases are subject to reduced input tax credits (RITC), of which 75% of the GST paid is recoverable.

Revenue, expenses and assets are recognised net of the amount of GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the Statement of Financial Position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the taxation authority, are presented as operating cash flows.

(z) New accounting standards and interpretations

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 July 2016, and have not been applied in preparing these financial statements. The Group's assessment of the impact of these new standards and interpretations is set out below:

i) AASB 9 Financial Instruments (2014)

AASB 9, approved in December 2014, replaces the existing guidance in AASB 139 Financial Instruments: Recognition and Measurement. AASB 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from AASB 139.

AASB 9 is effective for annual reporting periods beginning on or after 1 January 2018. The Group is assessing the potential impact on its financial statements resulting from the application of AASB 9.

ii) AASB 15 Revenue from Contracts with Customers

AASB 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including AASB 118 Revenue, AASB 111 Construction Contracts and IFRIC 13 Customer Loyalty Programmes.

AASB 15 is effective for annual reporting periods beginning on or after 1 January 2018. The Group is assessing the potential impact on its financial statements resulting from the application of AASB 15.

iii) AASB 16 Leases

IFRS 16 provides a new model for accounting for leases. The standard removes the classification of leases as either operating leases or finance leases - for the lessee - effectively treating all leases as finance leases. Short-term leases (less than 12 months) and leases of low-value assets are exempt from the lease accounting requirements.

AASB 16 is effective for annual reporting periods beginning on or after 1 June 2019.

The Company and the Trust do not plan to adopt these standards early.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

NOTE 3 FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: interest rate risk, credit risk, liquidity risk and operational risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. The Group uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity in the case of interest rate risk and ageing analysis for credit risk.

The Group manages these risks on a daily basis through the operational responsibilities of Executive and Senior Management and the functioning of the Asset and Liability Committee (ALCo), the Credit Committee, the Product & Fee Committee, and the Operational Risk & Compliance Committee and under policies approved by the Board after recommendation from the Audit Committee or Risk Committee.

The Group holds the following financial instruments:

	Consolidated	Parent	Consolidated	Parent
	2016 $'000	2016 $'000	2015 $'000	2015 $'000
Financial Assets				
Cash and cash equivalents	93,978	76,551	64,429	63,033
Trade and other receivables	8,316	10,518	6,649	7,064
Loans and advances to members	947,000	1,068,000	860,448	893,670
Available-For-Sale Financial Assets	625	625	625	625
Held To Maturity Financial Assets	118,871	118,871	141,545	141,545
Loss reserve loan	1,460	1,460	1,460	1,460
	1,170,250	1,276,025	1,075,156	1,107,397
Financial Liabilities				
Deposits	1,053,280	1,053,280	947,938	947,938
Trade and other payables	19,153	19,222	21,162	21,161
Lease Liabilities	52	52	214	214
Subordinated debt	3,979	3,979	3,962	3,962
Other borrowings	-	105,706	-	32,242
	1,076,464	1,182,239	973,276	1,005,517

(a) Interest Rate Risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The board has established limits on Value at Risk (VaR) and interest rate gaps for stipulated periods. Positions are monitored on a daily basis and hedging strategies are considered to ensure positions are maintained within the established limits.

(i) Value at Risk (VaR)

VaR is a statistical measure of the potential loss expected due to a change in market conditions arising from currently held positions, given a certain confidence level and holding period. VaR is presented as a dollar amount and is based on historically observed volatility. The holding period represents the implied liquidation period of the portfolio. It is the number of days required to either liquidate a portfolio or hedge the risk within the portfolio. The observation period is the number of days over which the previous market data (interest rates) is observed to predict the future. The 99% confidence level is the degree of confidence with which the VaR number will not be exceeded. A 99% confidence level implies that for 99 out of 100 observations, the market value based loss will not be greater than the VaR number.

As a normal distribution is used, the standard deviation of the portfolio is multiplied by 2.33 to achieve a 99% confidence level. A proxy set of interest rates must be used to estimate the changes in the yield curve. The proxy curve used by the Group is the interbank yield curve constructed from the official cash rate, BBSW and swap rates.

Since VaR is an integral part of the Group's interest rate risk management, VaR limits have been established for all non-trading operations and exposures are reviewed monthly against the limits by management.

VaR exposure at 30 June 2016	301	301	628	628
Average monthly VaR exposure	428	428	805	805
Maximum monthly VaR exposure	534	534	1,341	1,341
Minimum monthly VaR exposure	301	301	564	564

(ii) Sensitivity

The following table demonstrates the sensitivity to a reasonable change in interest rates, with all other variables held constant, of the Group's statement of profit and loss and other comprehensive income. This methodology was also applied in previous years.

The sensitivity of the statement is the effect of the assumed changes in interest rates on the net income for one year, based on floating rate non-trading financial assets and liabilities held at year end.

1% shift upwards of interest rate impact to income statement	(682)	(682)	(1,408)	(1,408)
1% shift downwards of interest rate impact to income statement	682	682	1,408	1,408

(iii) Prepayment Risk

Prepayment risk is the risk that the Group will incur a financial loss because its members and counterparties repay or request repayment earlier or later than expected, such as fixed rate mortgages. The Group is not exposed to significant prepayment risk given that its fixed rate portfolio is 21.82% (2015: 26.37%) of its total loan portfolio.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

NOTE 3 FINANCIAL RISK MANAGEMENT (Continued)

(b) Credit Risk

Credit risk is the risk that the Group will incur a loss when its members, clients or counterparties fail to discharge their contractual obligations. The Group manages and controls credit risk by setting limits for individual counterparties, geographical and industry concentrations and monitoring these exposures.

The Group has established a credit control review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. Credit limits are established by use of a comprehensive assessment process. The credit control review process allows the Group to assess the potential loss as a result of the risks to which it is exposed and take corrective action.

(i) Maximum exposure to credit risk

Maximum exposure to credit risk before collateral held or other credit enhancements:

	Consolidated	Parent	Consolidated	Parent
	2016	2016	2015	2015
Credit risk exposures relating to on balance sheet assets:	**$'000**	**$'000**	**$'000**	**$'000**
Cash and cash equivalents	93,978	76,551	64,429	63,033
Trade receivables	8,316	10,518	6,649	7,064
Loans and advances to members	949,381	1,070,381	862,638	895,860
Available-For-Sale Financial Assets	625	625	625	625
Held To Maturity Financial Assets	118,871	118,871	141,545	141,545
Loss reserve loan	1,460	1,460	1,460	1,460
Total on balance sheet	1,172,631	1,278,406	1,077,346	1,109,587
Credit risk				
Guarantees	801	801	952	952
Loan repayments in advance	68,411	68,411	60,879	60,879
Undrawn loan commitments	50,851	50,851	45,168	45,168
Total off balance sheet	120,063	120,063	106,999	106,999
Total on and off balance sheet	1,292,694	1,398,469	1,184,345	1,216,586

(ii) Collateral

The amount and type of collateral required depends on an assessment of the credit risk of the member. Guidelines are in place with regards to the acceptability of types of collateral and valuation parameters.

The main types of collateral obtained are as follows:

- for commercial lending, charges over real estate properties and inventory;
- for retail lending, mortgages over residential properties.

Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for impairment losses.

The terms and conditions are specific to individual loan and security types.

It is the Group's policy to dispose of repossessed collateral in an orderly fashion. The proceeds are used to reduce or repay the outstanding claim. The Group does not occupy repossessed properties for business use.

During the financial period the Group realised $335,800 (2015:$62,000) of real estate and other assets through the enforcement of security. As at period-end, the market value of assets owned by the Group was $Nil (2015:$570,000). The Group uses external agents to realise the value as soon as practicable, generally at auction, to settle indebtedness. Any surplus funds are returned to the borrower or are otherwise dealt with in accordance with appropriate insolvency regulations.

(iii) Impairment assessment

The main considerations for loan impairment assessment are as follows:

- whether any payments of principal or interest are overdue; or
- there are any known difficulties in the cash flows of counterparties; or
- infringements of the original terms of the contract.

The Group addressed impairment assessment in two areas: individually assessed allowances and collectively assessed allowances.

(iv) Individually assessed allowances

The Group determines the allowances appropriate for each individually significant loan or advance on an individual basis. Objective evidence includes the timing of expected cash flows, the availability of other financial support and the realisable value of collateral. The impairment losses are evaluated at each reporting date, unless unforeseen circumstances require more careful attention.

(v) Collectively assessed allowances

Allowances are assessed collectively for losses on loans and advances that are not individually significant and for individually significant loans and advances where there is no objective evidence of individual impairment. Allowances are evaluated on each reporting date with each portfolio being separately reviewed.

The collective assessment takes account of impairment that is likely to be present in the portfolio. Impairment losses are estimated by taking into consideration the following information: historical losses on the portfolio, current economic conditions, the approximate delay between the time a loss is likely to have been incurred and the time it will be identified as requiring an individually assessed impairment allowance, and expected receipts and recoveries once impaired. Management is responsible for calculating the length of the emergence period which can extend for as long as eighteen months. The impaired allowance is then reviewed by the Credit Committee to ensure alignment with the Group's overall policy objectives.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

NOTE 3 FINANCIAL RISK MANAGEMENT (Continued)

(b) Credit Risk (continued)

(vi) Analysis of age of financial assets that are past due but not impaired

Parent and Consolidated

30 June 2016	1 to 30 days	30 to 60 days	60 to 90 days	90+ days	Total
	$'000	$'000	$'000	$'000	$'000
Loans and advances to members					
Personal Loans	1,832	590	447	-	2,869
Mortgage Loans	8,066	1,197	2,508	2,441	14,212
Commercial Loans	980	155	431	264	1,830
Revolving Credit	259	93	100	-	452
Total	**11,137**	**2,035**	**3,486**	**2,705**	**19,363**

Parent and Consolidated

30 June 2015	1 to 30 days	30 to 60 days	60 to 90 days	90+ days	Total
	$'000	$'000	$'000	$'000	$'000
Loans and advances to members					
Personal Loans	2,425	697	278	-	3,400
Mortgage Loans	10,441	2,312	1,466	2,532	16,751
Commercial Loans	1,424	165	260	440	2,289
Revolving Credit	314	63	14	-	391
Total	**14,604**	**3,237**	**2,018**	**2,972**	**22,831**

(vii) Analysis of financial assets individually determined to be impaired

Parent and Consolidated	**2016**			**2015**		
	Gross Impaired Assets	Individually Assessed Provisions	Net Impaired Assets	Gross Impaired Assets	Individually Assessed Provisions	Net Impaired Assets
	$'000	**$'000**	**$'000**	$'000	$'000	$'000
Loans and advances to members	4,928	1,391	3,537	4,276	926	3,350
Financial assets individually assessed as impaired	**4,928**	**1,391**	**3,537**	**4,276**	**926**	**3,350**

(viii) Credit quality of financial assets

The credit quality of investments that are neither past due nor impaired can be assessed by reference to external credit ratings (if available):

	Consolidated	**Parent**	**Consolidated**	**Parent**
	2016	**2016**	**2015**	**2015**
	$'000	**$'000**	**$'000**	**$'000**
AAA	-	-	-	-
AA	78,328	60,901	45,488	44,092
A	76,289	76,289	107,127	107,127
BBB	19,085	19,085	22,481	22,481
Unrated	38,998	38,998	30,878	30,878
	212,700	195,273	205,974	204,578

The portfolio composition of loans and advances to members are as follows:

Parent and Consolidated

30 June 2016	Housing	Commercial	Personal	Total
	$'000	$'000	$'000	$'000
Loans	760,455	89,915	73,357	923,727
Revolving Credit and Overdrafts	5,061	9,987	10,606	25,654
Total Balances	**765,516**	**99,902**	**83,963**	**949,381**
Percentage of portfolio	**80.6%**	**10.5%**	**8.8%**	**100.0%**
Maximum percentage under policy	**100.0%**	**17.0%**	**30.0%**	-

30 June 2015	Housing	Commercial	Personal	Total
	$'000	$'000	$'000	$'000
Loans	677,087	88,722	71,032	836,841
Revolving Credit and Overdrafts	5,154	9,187	11,456	25,797
Total Balances	**682,241**	**97,909**	**82,488**	**862,638**
Percentage of portfolio	**79.1%**	**11.3%**	**9.6%**	**100.0%**
Maximum percentage under policy	**100.0%**	**17.0%**	**30.0%**	-

Loans and Advances to members are disclosed in more detail in Note 14.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

NOTE 3 FINANCIAL RISK MANAGEMENT (Continued)

(c) Liquidity Risk

Liquidity risk is the risk that the Group will be unable to meet its payment obligations when they fall due under normal and stress circumstances. To limit this risk, management has wholesale funding sources in addition to its core deposit base, manages assets with liquidity in mind and monitors future cash flows and liquidity on a daily basis. This incorporates an assessment of expected cash flows.

The Group maintains a portfolio of high quality liquid assets that can be easily liquidated in the event of an unforeseen interruption to cash flow. The Group also has lines of credit that it can access to meet its liquidity needs. The liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general and specifically to the Group. The most important of these is to maintain minimum regulatory limits on the ratio of net liquid assets to customer liabilities, set to reflect market conditions. Net liquid assets consists of cash and short term bank deposits available for immediate sale.

In order to minimise the risk of the Group's liquidity ratio falling below minimum regulatory limits the Board has determined a target liquidity ratio of 12%. In the event that the Group's liquidity ratio falls below 12%, or is considered to be at risk of falling below that level, specific remedial measures are required to be taken by the Board and management.

The liquidity ratio during the year was as follows:

	2016	**2015**
	%	**%**
30 June	13.79	15.93
Average during the period	14.50	14.90
Highest	16.39	16.39
Lowest	13.13	13.87

Maturities of financial liabilities

The table below analyses the entity's financial liabilities into relevant maturity groupings as follows:
(a) based on their contractual maturities, and
(b) based on the remaining period to the expected settlement date.

The amounts disclosed in the table are the contractual undiscounted cash flows.

Consolidated

Financial Liabilities	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	No Maturity	Total
As at 30 June 2016	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Deposits	638,956	208,887	175,611	29,826	-	-	1,053,280
Trade and other payables	-	19,153	-	-	-	-	19,153
Lease Liability	-	52	-	-	-	-	52
Subordinated debt	-	-	-	4,000	-	-	4,000
Total financial liabilities	**638,956**	**228,092**	**175,611**	**33,826**	**-**	**-**	**1,076,485**
Contingent liabilities	801	-	-	-	-	-	801
Commitments	103,398	15,864	988	1,517	-	-	121,767
Total other liabilities	**104,199**	**15,864**	**988**	**1,517**	**-**	**-**	**122,568**

Parent

Financial Liabilities	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	No Maturity	Total
As at 30 June 2016	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Deposits	638,956	208,887	175,611	29,826	-	-	1,053,280
Trade and other payables	-	19,222	-	-	-	-	19,222
Lease Liability	-	52	-	-	-	-	52
Other Borrowings	-	-	-	-	105,706	-	105,706
Subordinated debt	-	-	-	4,000	-	-	4,000
Total financial liabilities	**638,956**	**228,161**	**175,611**	**33,826**	**105,706**	**-**	**1,182,260**
Contingent liabilities	801	-	-	-	-	-	801
Commitments	103,398	15,864	988	1,517	-	-	121,767
Total other liabilities	**104,199**	**15,864**	**988**	**1,517**	**-**	**-**	**122,568**

Consolidated

Financial Liabilities	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	No Maturity	Total
As at 30 June 2015	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Deposits	543,709	195,710	179,066	29,453	-	-	947,938
Trade and other payables	-	21,162	-	-	-	-	21,162
Lease Liability	-	61	133	20	-	-	214
Subordinated debt	-	-	-	4,000	-	-	4,000
Total financial liabilities	**543,709**	**216,933**	**179,199**	**33,473**	**-**	**-**	**973,314**
Contingent Liabilities	952	-	-	-	-	-	952
Commitments	96,732	9,315	1,328	2,505	-	-	109,880
Total other liabilities	**97,684**	**9,315**	**1,328**	**2,505**	**-**	**-**	**110,832**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

NOTE 3 FINANCIAL RISK MANAGEMENT (Continued)

(c) Liquidity Risk (Continued)

Parent

Financial Liabilities	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	No Maturity	Total
As at 30 June 2015	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Deposits	543,709	195,710	179,066	29,453	-	-	947,938
Trade and other payables	-	21,161	-	-	-	-	21,161
Lease Liability	-	61	133	20	-	-	214
Other Borrowings	-	-	-	-	32,242	-	32,242
Subordinated debt	-	-	-	4,000	-	-	4,000
Total financial liabilities	**543,709**	**216,932**	**179,199**	**33,473**	**32,242**	**-**	**1,005,555**
Contingent liabilities	952	-	-	-	-	-	952
Commitments	96,732	9,315	1,328	2,505	-	-	109,880
Total other liabilities	**97,684**	**9,315**	**1,328**	**2,505**	**-**	**-**	**110,832**

(d) Fair Value Measurements

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement for disclosure purposes.

AASB 13 Financial Instruments: Disclosures, requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

(a) quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);

(b) inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices)(level 2), and

(c) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (level 3).

Investments in unlisted equity investments with a carrying value of $625,714 (2015: $625,714) were included in Available-for-Sale Investments as at 30 June 2016. In 2015 the holding of Indue Ltd shares were revalued based on recent share rights issue prices. The valuation took into account the dilution following the take up of rights issued in 2015, refer Note 14.
All Available for Sale assets are categorised as level 3 within the fair value hierarchy of ASSB 13. There is no immediate intention to dispose of these investments.

(e) Operational Risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Group cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Group is able to manage the risks. Controls include effective segregation of duties, access to systems, authorisation and reconciliation procedures, staff training and assessment processes including the use of internal audit.

The Group manages these risks on a daily basis through the operational responsibilities of Executive and Senior management and the functioning of the Operational Risk & Compliance Committee (ORCC) under policies approved by the Board after recommendation from the Audit Committee or Risk Committee covering specific areas, such as outsourcing risk, fraud risk and business continuity risk.

(f) Capital Management

The Group maintains an actively managed capital base to cover risks inherent in its business. The adequacy of the Group's capital is monitored using, among other measures, the rules and ratios established by the Australian Prudential Regulation Authority (APRA).

The primary objectives of the Group's capital management are to ensure that the Group complies with externally imposed capital requirements and that the Group maintains healthy capital ratios in order to support its activities.

During the past year the Group has complied in full with all its externally imposed capital requirements.

Although the Group actively monitors and manages its risk exposure in each of these areas, the Group does not calculate and determine its minimum capital needs by allocating a specific value or 'capital charge' to each type of risk. Rather, the Board has resolved that the Group will maintain, based on the outcomes of its annual capital planning processes, an 'internal minimum' target capital ratio (TCR) of 14%.

For capital adequacy purposes, authorised deposit-taking institutions must hold a minimum amount of Common Equity Tier 1 capital and Additional Tier 1 capital. In addition, they may include an amount of Tier 2 capital as part of their required capital holdings, up to the limits specified in the Prudential Standard.

The Prudential Standard sets out the essential characteristics that an instrument must have to qualify as Tier 1 or Tier 2 capital for inclusion in the capital base for assessing Level 1 and Level 2 capital adequacy.

Tier 1 capital comprises the highest quality capital components. Tier 2 capital includes other components that, to varying degrees, fall short of the quality of Tier 1 capital but nonetheless contribute to the overall strength of an institution as a going concern.

For capital adequacy purposes, the capital base at Level 1 and Level 2 is defined as the sum of Common Equity Tier 1, Additional Tier 1 and Tier 2 capital after all specified deductions and adjustments, subject to the various limits that apply.

	Consolidated	**Consolidated**
	2016	**2015**
	$'000	**$'000**
Common Equity Tier 1 Capital	91,189	86,173
Additional Tier 1 Capital	-	7,610
Tier 2 Capital	6,220	6,694
Total Capital	**97,409**	**100,477**
Risk Weighted Assets	628,587	573,527
Risk-based Capital Ratio	**15.50%**	**17.52%**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

NOTE 4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

In the process of applying the Group's accounting policies, management has used its judgements and made estimates in determining the amounts recognised in the financial statements. The most significant use of judgements and estimates are as follows:

(i) Classification and valuation of investments

The Group has classified investments in unlisted securities as available-for-sale investments and movements in fair value are recognised directly in equity. The fair values of unlisted securities not traded in an active market are recorded at historical cost as this is deemed to be the most reliable method to determine a valuation that would reflect fair value.

(ii) Recovery of deferred tax assets

Deferred tax assets are recognised for deductible temporary differences as management considers that it is probable that future taxable profits will be available to utilise those temporary differences.

(iii) Impairment of non-financial assets other than goodwill

The Group assesses impairment of all assets at each reporting date by evaluating conditions specific to the Group and to the particular asset that may lead to impairment. These include product performance, technology, economic and political environments and future product expectations. If an impairment trigger exists the recoverable amount of the asset is determined. This involves value in use calculations, which incorporate a number of key estimates and assumptions.

(iv) Long service leave provision

As discussed in Note 2 (w), the liability for long service leave is recognised and measured at the present value of the estimated future cash flows to be made in respect of all employees at balance date. In determining the present value of the liability, attrition rates and pay increases through promotion and inflation have been taken into account.

(v) Estimation of useful lives of assets

The estimation of the useful lives of assets is based on historical experience as well as manufacturers' warranties (for plant and equipment), lease terms (for leased equipment) and turnover policies (for motor vehicles). In addition, the condition of the assets is assessed at least once every year and considered against the remaining useful life. Adjustments to useful life are made when considered necessary. Depreciation charges are included in Note 8.

(vi) Impairment of loans and advances

The Group reviews any doubtful loans at each reporting date to assess whether an allowance for impairment should be recorded in the statement of profit or loss and other comprehensive income. In particular, judgement by management is required in the estimation of the amount and timing of future cash flows when determining the level of allowance required. Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

In addition to specific allowances against individually significant loans and advances, the Group also makes a collective impairment allowance against exposures which, although not specifically identified as requiring a specific allowance, have a greater risk of default than when originally granted. This takes into consideration factors such as deterioration in industry, as well as identified structural weaknesses or deterioration in cash flows.

(vii) Asset revaluations

Any property revaluation increment is credited to the asset revaluation reserve included in the equity section of the statement of financial position, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in the statement of profit or loss and other comprehensive income, in which case the increase is recognised in profit or loss.

(viii) Make good provisions

A provision has been made for the present value of anticipated costs of future restoration of leased branch premises. The provision includes future cost estimates associated with dismantling furniture and fittings. The calculation of this provision requires assumptions which may result in future actual expenditure differing from the amounts currently provided. The provision is recognised for each branch where applicable, and reviewed periodically based on the facts and circumstances available at the time. Changes to the estimated future costs for branches are recognised in the statement of financial position by adjusting both the expense or asset (if applicable) and provision.

(ix) Annual leave provision

As discussed in Note 2 (w), the liability for annual leave is recognised and measured at the amounts expected to be settled within the 12 months of the reporting date. They are measured at the amounts expected to be paid when the liabilities are settled.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including reasonable expectations of future events. Management believes the estimates in preparing the financial statements are reasonable. Actual results in the future may differ from those reported.

		Consolidated	**Parent**	**Consolidated**	**Parent**
		2016	**2016**	**2015**	**2015**
		$'000	**$'000**	**$'000**	**$'000**
NOTE 5	**INTEREST INCOME**				
	Cash and cash equivalents	1,808	1,808	2,458	2,383
	Held to Maturity Financial Assets	3,989	3,989	4,171	4,171
	Loans and advances to members	50,162	50,162	50,894	50,894
	Interest income accrued on impaired financial assets	180	180	165	165
	Other interest income	35	35	48	48
	Interest income on notes receivable from securitisation trust	-	3,099	-	1,307
	Total interest income	**56,174**	**59,273**	**57,735**	**58,967**
NOTE 6	**INTEREST EXPENSE**				
	Deposits	19,609	19,609	22,971	22,971
	Lease Liabilities	17	17	37	37
	Subordinated debt	328	328	342	342
	Other Borrowings	-	5,219	-	2,136
	Amortisation of debt raising facility	60	60	53	53
	Total interest expense	**20,014**	**25,233**	**23,403**	**25,539**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

		Consolidated 2016 $'000	Parent 2016 $'000	Consolidated 2015 $'000	Parent 2015 $'000
NOTE 7					
(a)	**NON-INTEREST INCOME**				
	Loan fees	1,209	1,209	1,127	1,127
	Transaction fees	3,435	3,435	3,593	3,593
	Insurance commissions	1,183	1,183	842	842
	Other commissions	877	877	821	821
	Bad debts recovered	215	215	198	198
	Gain on sale of Property, Plant & Equipment	-	-	59	59
	Rental income	19	19	1	1
	Dividend income	19	19	37	37
	Insurance profit share	-	-	256	256
	Other non-interest income	287	2,407	174	1,059
	Total non-interest income	**7,244**	**9,364**	**7,108**	**7,993**
(b)	**OTHER COMPREHENSIVE INCOME**				
	Revaluation of available-for-sale financial assets	-	-	312	312
	Revaluation of Property, Plant and Equipment	(395)	(395)	-	-
	Income Tax relating to components of other comprehensive income	118	118	(93)	(93)
		(277)	**(277)**	**219**	**219**
NOTE 8	**OPERATING EXPENSES**				
(a)	*Bad and doubtful debts*				
	Change in provision for impairment of loans & advances	191	191	222	222
	Bad debts written off directly	801	801	914	914
		992	**992**	**1,136**	**1,136**
(b)	*Employee benefits expense*				
	Salaries and wages	13,764	13,764	13,168	13,168
	Superannuation expense	1,183	1,183	1,223	1,223
	Other employee benefits expense	2,429	2,429	1,996	1,996
		17,376	**17,376**	**16,387**	**16,387**
(c)	*Office occupancy expense*				
	Rental expense on operating leases	1,663	1,663	1,890	1,890
	Other office occupancy costs	725	725	818	818
		2,388	**2,388**	**2,708**	**2,708**
(d)	*Depreciation and amortisation expense*				
	Depreciation of buildings and plant & equipment	875	875	1,142	1,142
	Depreciation on make good assets	9	9	86	86
	Amortisation of intangible assets	282	282	307	307
		1,166	**1,166**	**1,535**	**1,535**
(e)	*Information technology and communications expense*				
	Hardware and software maintenance	2,593	2,593	2,483	2,483
	Communications expense	1,228	1,228	1,272	1,272
	Other information technology expense	54	54	84	84
		3,875	**3,875**	**3,839**	**3,839**
(f)	*Other expenses*				
	Marketing and promotional expenses	1,466	1,466	1,227	1,227
	Securitisation administration costs	10	10	66	66
	Board and committee expenses	296	296	310	310
	Licences audit and risk	462	462	721	721
	Member transaction costs	3,237	3,237	2,712	2,712
	Loan administration costs	220	220	216	216
	General administrative expenses	706	706	909	890
	Loss on sale of assets	1	1	-	-
	Motor vehicle expenses	149	149	165	165
	Other operating expenses	472	472	469	469
		7,019	**7,019**	**6,795**	**6,776**
	Total operating expenses	**32,816**	**32,816**	**32,400**	**32,381**
NOTE 9	**INCOME TAX**				
(a)	*Income tax expense*				
	Current tax charge	3,287	3,287	2,788	2,788
	Deferred Tax	(25)	(25)	(195)	(195)
		3,262	**3,262**	**2,593**	**2,593**
	Deferred income tax (revenue) expense included in the income tax expense:				
	Decrease (increase) in deferred tax assets	(138)	(138)	43	43
	(Decrease) increase in deferred tax liabilities	(5)	(5)	(145)	(145)
		(143)	(143)	(102)	(102)
(b)	*Numerical*				
	Profit from continuing operations before income tax expense	10,588	10,588	9,040	9,040
	Prima facie tax calculated at 30% payable on the profit (2015: 30%)	3,176	3,176	2,712	2,712
	Add tax effect of:				
	Imputation credits	(6)	(6)	(11)	(11)
	Sundry items	92	92	(108)	(108)
	Income tax attributable to profit	**3,262**	**3,262**	**2,593**	**2,593**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

NOTE 10 DIVIDENDS PAID

(a) Recognised amounts

Dividends are payable in arrears on 30 June, 30 September, 31 December and 31 March in each year that the permanent preference shares are on issue.

Dividends paid on permanent preference shares (fully franked) are as follows:

		Consolidated 2016 $'000	Parent 2016 $'000	Consolidated 2015 $'000	Parent 2015 $'000
30/09/2015	90.69 cents (2015 : 100.48)	132	132	147	147
31/12/2015	91.22 cents (2015 : 101.10)	133	133	148	148
31/03/2016	93.63 cents (2015 : 99.42)	137	137	145	145
30/06/2016	82.95 cents (2015 : 91.01)	121	121	132	132
Total dividends paid		**523**	**523**	**572**	**572**

The payment of dividends on permanent preference shares is at the discretion of the directors and, if paid, is on a quarterly basis at a floating rate equal to three month Australian Financial Markets Association (AFMA) BBSW reference rate plus an average margin of 3.92% per annum multiplied by (1-T) where T is the prevailing Australian corporate tax rate at the time of payment of the dividend.

Dividends may only be paid out of distributable profits. Distributable profits refers to the profits after tax of the Group for the 12 month period ending 30 June.

The payment of a dividend is also subject to the Group having profits available for the payment of a dividend as required by the Corporations Act 2001 and such payment not exceeding 100% of the Group's annual profit after tax in any year.

(b) Tax rate used

The tax rate at which paid dividends have been franked is 30% (2015: 30%).

(c) Balance of franking account at year-end adjusted

The amount of franking credits available for the subsequent financial year are:

	Consolidated 2016 $'000	Parent 2016 $'000	Consolidated 2015 $'000	Parent 2015 $'000
Franking account balance as at the end of the financial year at 30% (2015: 30%)	32,547	32,547	30,031	30,031
Franking credits that will arise from payment of income tax payable as at the end of the financial year	3,926	3,926	2,745	2,745
Franking credits that will arise from receipt of dividends recognised as receivables as at the end of the financial year	8	8	16	16
Franking debits that will arise from payment of dividends as at the end of the financial year	(224)	(224)	(245)	(245)
Franking account balance for future reporting periods	**36,257**	**36,257**	**32,547**	**32,547**

NOTE 11 CASH AND CASH EQUIVALENTS

	Consolidated 2016 $'000	Parent 2016 $'000	Consolidated 2015 $'000	Parent 2015 $'000
Cash on hand	25,726	8,299	9,097	7,701
Short term deposits	68,252	68,252	55,332	55,332
Total cash and cash equivalents	**93,978**	**76,551**	**64,429**	**63,033**

The entity's exposure to interest rate risk is discussed in Note 3. The maximum exposure to credit risk at the end of the reporting period is the carrying amount of each class of cash and cash equivalents mentioned above.

NOTE 12 TRADE AND OTHER RECEIVABLES

	Consolidated 2016 $'000	Parent 2016 $'000	Consolidated 2015 $'000	Parent 2015 $'000
Accrued Interest (incl loss reserve loan) and other accrued income	867	867	358	358
Sundry debtors and settlement accounts	7,312	7,299	5,906	5,904
Intercompany receivable from securitisation trust	-	2,215	-	417
Prepayments	137	137	385	385
Total trade and other receivables	**8,316**	**10,518**	**6,649**	**7,064**

There were no receivables past due at balance date.

With the exception of the intercompany receivable from the securitisation trust, the majority of trade and other receivables are collectable within 12 months.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

NOTE 13 LOANS AND ADVANCES TO MEMBERS

	Consolidated 2016	Parent 2016	Consolidated 2015	Parent 2015
Loans and advances to members	**$'000**	**$'000**	**$'000**	**$'000**
Personal Loans	71,512	71,512	71,032	71,032
Mortgage Loans	762,300	762,300	677,087	677,087
Commercial Loans	89,915	89,915	88,722	88,722
Revolving Credit	25,654	25,654	25,797	25,797
Total loans and advances	**949,381**	**949,381**	**862,638**	**862,638**
Notes receivable from securitisation trust	-	121,000	-	33,222
Provision for impairment				
Personal Loans	(391)	(391)	(508)	(508)
Mortgage Loans	(1,000)	(1,000)	(1,144)	(1,144)
Commercial Loans	(956)	(956)	(522)	(522)
Revolving Credit	(34)	(34)	(16)	(16)
Total provision for impairment	**(2,381)**	**(2,381)**	**(2,190)**	**(2,190)**
Net loans and advances to members	**947,000**	**1,068,000**	**860,448**	**893,670**

(a) Provision for impairments on loans and advances to members

	Parent and Consolidated				
	Personal Loans 2016 $'000	Mortgage Loans 2016 $'000	Commercial Loans 2016 $'000	Revolving Credit 2016 $'000	Total $'000
At 1 July 2015	508	1,144	522	16	**2,190**
Charge for the year	(118)	(143)	434	18	**191**
At 30 June 2016	**390**	**1,001**	**956**	**34**	**2,381**
Individual impairment	-	695	696	-	**1,391**
Collective impairment	390	306	260	34	**990**
	390	**1,001**	**956**	**34**	**2,381**
Gross amount of loans in arrears	3,937	15,444	3,131	830	23,341

	Parent and Consolidated				
	Personal Loans 2015 $'000	Mortgage Loans 2015 $'000	Commercial loans 2015 $'000	Revolving Credit 2015 $'000	Total 2015 $'000
At 1 July 2014	619	1,089	182	78	**1,968**
Charge for the year	(111)	55	340	(62)	**222**
At 30 June 2015	**508**	**1,144**	**522**	**16**	**2,190**
Individual impairment	101	666	159	-	**926**
Collective impairment	407	478	363	16	**1,264**
	508	**1,144**	**522**	**16**	**2,190**
Gross amount of loans in arrears	4,474	19,551	3,035	1,762	28,822

Consolidated	Parent and Consolidated 2016	Parent and Consolidated 2015
(b) Maturity Analysis	**$'000**	**$'000**
Not longer than 3 months	2,617	3,987
Longer than 3 months and not longer than 12 months	4,713	6,053
Longer than 12 months and not longer than 5 years	92,884	89,108
Longer than 5 years	849,167	763,490
Total gross loans and advances to members	**949,381**	**862,638**
(c) Security dissection		
Secured by mortgage over Commercial property	73,345	79,200
Secured by mortgage over real estate	793,918	701,126
Partly secured by goods mortgage	54,061	57,848
Wholly unsecured	28,057	24,464
Total gross loans and advances to members	**949,381**	**862,638**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

NOTE 13 LOANS AND ADVANCES TO MEMBERS (Continued)

The Group accepts a number of methods to value collateral for supporting loans. Real estate is valued utilising the purchase price of arms length residential sales, market appraisals from real estate agents (a lower loan to valuation ratio is applied) and a licensed panel of valuers where security is non residential, of high value or remotely located. Motor vehicles are valued by reference to an independent valuation guide.

It is impractical to provide a period end valuation of the security held against loans due to the large number of assets to be valued to arrive at the amount. A breakdown of the loan to valuation ratio on loans secured by mortgages over real estate, on a portfolio basis is as follows:

	Parent and Consolidated 2016	Parent and Consolidated 2015
(d) Loan to valuation ratio	**$'000**	**$'000**
Loan to valuation ratio of less than 80%	724,365	664,546
Loan to valuation ratio of more than 80% but mortgage insured	85,507	67,036
Loan to valuation ratio of more than 80% but not mortgage insured	57,445	48,794
Total loans secured by mortgage over real estate and commercial property	**867,317**	**780,376**

(e) Concentration of loans

- There were no loans to individual or related groups of members which exceed 10% of member funds in aggregate.
- There is no concentration of loans to individual members employed in a particular industry.
- Loans to members are concentrated solely in Australia and principally in the Central West, North and North West of NSW.

	2016	2015
New South Wales	902,163	820,950
Other	47,218	41,688
Total	**949,381**	**862,638**

(f) Off-Balance sheet arrangements

The Group has arrangements with Integris Securitisation Services Pty Limited and Trinity Limited whereby it acts as an agent to promote loans on their behalf, for on sale to an investment trust. The Group also manages the portfolio on behalf of the trust. The amount of securitised loans under management as at 30 June 2016 is $1,514,301 (2015: $1,837,498).

(g) Self Securitisation

The Company has established the Trust to provide access to emergency liquidity support in the event of a systemic liquidity crisis. The Trust is in substance controlled by the Company. Accordingly, the Trust is consolidated into the Company financial statements. The Company sells the rights to future cash flows of eligible residential home loans into the Trust and receives funds equal to the aggregated outstanding balances on all loans which the Trust has purchased and subsequently issued Notes for investors to invest in. Two classes of notes were issued by the Trust and both are fully owned by the Company. Whilst the rights to the underlying cash flows have been transferred, the Company has been appointed to service the loans and must continue to manage the loans as if it were the lender. Accordingly, the mortgage loans and associated financial liability from the Trust on transfer of the loans are recognised in the Company's financial statements. During the financial year an additional balance of $107,657,555 loans was transferred to the trust and the balance of securitised loans is $105,705,986 (30 June 2015: $32,241,840).

NOTE 14 AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Consolidated 2016 $'000	Parent 2016 $'000	Consolidated 2015 $'000	Parent 2015 $'000
Shares in unlisted companies				
Indue Ltd	623	623	623	623
Australian Settlements Limited	2	2	2	2
Total available-for-sale financial assets	**625**	**625**	**625**	**625**

The fair value of the shareholding of the Indue investment was based on a Net Asset Valuation basis performed in 2015 on a Net Assets basis and rights issue share price. The valuation took into account dilution of the full take up rights issued in January 2015. These companies were created to supply services to mutual banks, credit unions & building societies, they do not have an independent business focus. These shares are held to enable the Group to receive essential banking services – refer to Note 38. The shares are unlisted and are not redeemable.

NOTE 15 HELD TO MATURITY FINANCIAL ASSETS

	Consolidated 2016	Parent 2016	Consolidated 2015	Parent 2015
ADI debt securities	118,871	118,871	141,545	141,545
Total Held-to-maturity financial assets	**118,871**	**118,871**	**141,545**	**141,545**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

		Consolidated	Parent	Consolidated	Parent
NOTE 16	**PROPERTY, PLANT AND EQUIPMENT**	**2016**	**2016**	**2015**	**2015**
(a)	**Fixed assets**	**$'000**	**$'000**	**$'000**	**$'000**
	Land & buildings				
	At valuation	2,500	2,500	3,369	3,369
	Less accumulated depreciation	(35)	(35)	(452)	(452)
		2,465	**2,465**	**2,917**	**2,917**
	Furniture, fittings & leasehold improvements				
	At cost	6,432	6,432	6,114	6,114
	Less accumulated depreciation	(3,650)	(3,650)	(3,356)	(3,356)
		2,782	**2,782**	**2,758**	**2,758**
	Office equipment				
	At cost	2,329	2,329	2,122	2,122
	Less accumulated depreciation	(1,862)	(1,862)	(1,579)	(1,579)
		467	**467**	**543**	**543**
	Motor vehicles				
	At cost	552	552	308	308
	Less accumulated depreciation	(86)	(86)	(10)	(10)
		466	**466**	**298**	**298**
	Leased plant & equipment				
	Capitalised leased assets	1,249	1,249	1,508	1,508
	Less accumulated amortisation	(1,191)	(1,191)	(1,287)	(1,287)
		58	**58**	**221**	**221**
	Net Fixed Assets	**6,238**	**6,238**	**6,737**	**6,737**

(b) Movements in carrying amounts

Reconciliations of the carrying amounts of each class of property, plant and equipment between the beginning and end of the current financial year are set out below.

	Parent and Consolidated					
2016	**Land & Buildings**	**Furniture, Fittings & Leasehold Improvements**	**Office Equipment**	**Motor Vehicles**	**Leased Plant and Equipment**	**Total**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Balance at the beginning of the year	2,917	2,758	543	298	221	**6,737**
Transfers	(22)	157	-	114	(114)	**135**
Revaluation increment (decrement)	(395)	-	-	-	-	**(395)**
Additions	-	311	208	160	-	**679**
Disposals	-	-	-	(30)	(13)	**(43)**
Depreciation expense	(35)	(444)	(284)	(76)	(36)	**(875)**
Carrying amount	**2,465**	**2,782**	**467**	**466**	**58**	**6,238**

	Parent and Consolidated					
2015	**Land & Buildings**	**Furniture, Fittings & Leasehold Improvements**	**Office Equipment**	**Motor Vehicles**	**Leased Plant and Equipment**	**Total**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Balance at the beginning of the year	3,040	2,456	828	-	470	**6,794**
Transfers	-	-	-	73	(73)	**-**
Additions	9	878	184	235	-	**1,306**
Disposals	-	-	(98)	-	(37)	**(135)**
Depreciation expense	(132)	(576)	(371) -	10	(139)	**(1,228)**
Carrying amount	**2,917**	**2,758**	**543**	298	**221**	**6,737**

(c) Revaluations

The revaluation was made in accordance with a policy to revalue land and buildings every three years and prior to sale. The Armidale head office property revaluation was based on an independent assessment by MVS National Valuations and Property Consulting as at August 2015.

		Consolidated	Parent	Consolidated	Parent
NOTE 17	**INTANGIBLE ASSETS**	**2016**	**2016**	**2015**	**2015**
		$'000	**$'000**	**$'000**	**$'000**
	Computer software				
	At cost	2,421	2,421	2,015	2,015
	Less accumulated amortisation	(1,868)	(1,868)	(1,586)	(1,586)
		553	**553**	**429**	**429**

	Parent and Consolidated	Parent and Consolidated
Movements in carrying value	**2016**	**2015**
	$'000	**$'000**
Computer software		
Balance at the beginning of the year	429	431
Additions	406	305
Amortisation expense	(282)	(307)
Carrying amount	**553**	**429**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

		Consolidated	Parent	Consolidated	Parent
NOTE 18	**DEFERRED TAX ASSETS AND LIABILITIES**	**2016**	**2016**	**2015**	**2015**
	The balance comprises temporary differences attributable to:	**$'000**	**$'000**	**$'000**	**$'000**
	Deferred tax assets				
	Plant, property and equipment	492	492	499	499
	Doubtful debts	715	715	657	657
	Employee leave benefits	794	794	729	729
	Accrued expenses	57	57	37	37
	Other	112	112	110	110
		2,170	2,170	2,032	2,032
	Deferred tax liabilities				
	AFS investment	(93)	(93)	(93)	(93)
	Other	(6)	(6)	(11)	(11)
		(99)	(99)	(104)	(104)
	Net deferred tax assets	2,071	2,071	1,928	1,928
	Movements:				
	Opening balance at 1 July	1,928	1,928	1,826	1,826
	Credited/(charged) to the income statement	25	25	195	195
	Credited/(charged) to other comprehensive income	118	118	(93)	(93)
	Closing balance at 30 June	2,071	2,071	1,928	1,928
	Deferred tax assets to be recovered after more than 12 months	57	169	37	37
	Deferred tax assets to be recovered within 12 months	2,113	2,001	1,995	1,995
		2,170	2,170	2,032	2,032
	Deferred tax liabilities to be recovered after more than 12 months	99	99	104	104
	Deferred tax liabilities to be recovered within 12 months	-	-	-	-
		99	99	104	104

The deductible temporary differences and tax losses do not expire under current tax legislation.

NOTE 19	**LOSS RESERVE LOAN**				
	Preference share loss reserve loan	1,460	1,460	1,460	1,460
	Total loss reserve loan	1,460	1,460	1,460	1,460

On 21 June 2006, the Company issued 115,000 preference shares, each having an issue price of $100. The Company obtained a further 31,000 shares through acquisitions bringing the total holding to 146,000 shares. These were all issued to the Australian Mutual T1 Capital Funding Trust No 1 (AMCFT). These preference shares were eligible for buyback by the Company on their anniversary. The Company bought back the preference shares on 21st June 2016.

The Company has also advanced a loan to AMCFT for the amount of $1,460,000. The principal amount of the preference share loss reserve loan is being treated, for accounting purposes, as an unpaid component of the $14.6 million preference share issue. In the event that the Company does not pay a dividend on the preference shares, the Company is not required to pay, or deliver to the holder of those shares, any amounts or benefits. However, a non-payment of a dividend by the Company may result in the Company not receiving, from the Trust, an amount of interest that it would otherwise have received on the preference share loss reserve loan.

These loans have been provided on the following terms and conditions:

- the loans are unsecured;
- interest is due and payable to the Company quarterly in arrears (by AMCFT), on the dates and at the rate specified in the loan agreements. The rate of interest payable on both loans is specified in the contracts as 0.125% above the applicable 90 day AFMA BBSW reference rate, as determined on the first day of each quarterly interest period;
- interest may not be received on the loans (on one or more of the quarterly interest payment dates) if the Company does not pay a dividend on the preference shares, and
- the AMCFT is not required to make any repayments of principal on the loans until the borrowers have fully satisfied certain payment obligations to third parties, as set out in the loss reserve loan agreements.

The Loss Reserve Loan remains outstanding until certain payment obligations to third parties have been satisfied which is expected to be completed in the 2017 financial year.

NOTE 20	**DEPOSITS**				
	Member call deposits (including members' shares)	638,956	638,956	543,709	543,709
	Member term deposits	414,324	414,324	404,229	404,229
	Total Deposits	**1,053,280**	**1,053,280**	**947,938**	**947,938**
(a)	***Maturity analysis***				
	At call	638,955	638,955	543,709	543,709
	Not longer than 3 months	208,888	208,888	195,710	195,710
	Longer than 3 months and not longer than 6 months	103,818	103,818	100,658	100,658
	Longer than 6 months and not longer than 12 months	71,793	71,793	78,408	78,408
	Longer than 12 months	29,826	29,826	29,453	29,453
		1,053,280	**1,053,280**	**947,938**	**947,938**
(b)	***Concentration of Deposits***				

There are no groups that represent in excess of 10% of total liabilities.

There are no significant groups of members concentrated in any particular industry.

New South Wales	1,014,537	1,014,537	923,070	923,070
Queensland	20,064	20,064	15,299	15,299
Other	4,772	4,772	3,306	3,306
ACT	846	846	1,105	1,105
Western Australia	1,891	1,891	1,727	1,727
Victoria	9,701	9,701	1,248	1,248
South Australia	452	452	650	650
Tasmania	582	582	680	680
Northern Territory	435	435	853	853
	1,053,280	**1,053,280**	**947,938**	**947,938**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

NOTE 21 TRADE AND OTHER PAYABLES

	Consolidated 2016	Parent 2016	Consolidated 2015	Parent 2015
	$'000	$'000	$'000	$'000
Accrued interest payable	4,640	4,640	5,566	5,566
Prepaid income	694	694	752	752
Sundry creditors and accrued expenses	2,396	2,396	1,831	1,830
Clearing accounts	11,423	11,423	13,013	13,013
Payable to securitisation trust	-	69	-	-
Total trade and other payables	**19,153**	**19,222**	**21,162**	**21,161**

NOTE 22 PROVISIONS

	Consolidated 2016	Parent 2016	Consolidated 2015	Parent 2015
Current				
Annual leave	980	980	929	929
Long service leave	1,287	1,287	1,141	1,141
Total current provisions	**2,267**	**2,267**	**2,070**	**2,070**
Non-current				
Make good	374	374	366	366
Long service leave	379	379	359	359
Total non current provisions	**753**	**753**	**725**	**725**
Total provisions	**3,020**	**3,020**	**2,795**	**2,795**

(a) ***Movements in provisions***

Movements in each class of provision during the financial year, other than provisions relating to employee benefits, are set out below:

Make good provision	**Parent and Consolidated**	**Parent and Consolidated**
At 1 July 2015	366	395
Utilised	(7)	(56)
Raised during the year	15	27
At 30 June 2016	**374**	**366**

NOTE 23 FINANCE LEASE LIABILITIES

	Consolidated 2016	Parent 2016	Consolidated 2015	Parent 2015
	$'000	$'000	$'000	$'000
Current lease liabilities	52	52	194	194
Non-current lease liabilities	-	-	20	20
Total Finance lease liabilities	**52**	**52**	**214**	**214**

NOTE 24 OTHER BORROWINGS

	Consolidated 2016	Parent 2016	Consolidated 2015	Parent 2015
Loans assigned to the securitisation trust	-	105,706	-	32,242

NOTE 25 SUBORDINATED DEBT

	Consolidated 2016	Parent 2016	Consolidated 2015	Parent 2015
Balance at the beginning of the year	3,962	3,962	3,945	3,945
Write back of debt raising discount	17	17	17	17
Balance at end of year	**3,979**	**3,979**	**3,962**	**3,962**

In November 2012 the Company issued subordinated debt instruments with an aggregate issuance price of $4.0 million and for net proceeds (after transaction costs) of $3,917,113.

The subordinated debt instruments were issued on the following terms and conditions:
- issued in Australian dollars;
- unsecured debt instruments;
- may be redeemed by the Company subject to APRA approval;
- interest is payable quarterly in arrears at 90 day AFMA BBSW reference rate + 593 basis points;
- the instrument may be redeemed after the initial 5 years; and
- matures in 2022.

NOTE 26 PREFERENCE SHARES

	Consolidated 2016	Parent 2016	Consolidated 2015	Parent 2015
Balance at beginning of year	14,563	14,563	14,527	14,527
Write back of debt raising discount	37	37	36	36
Buy-back of issuance	(14,600)	(14,600)	-	-
Balance at end of year	**-**	**-**	**14,563**	**14,563**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

NOTE 26 PREFERENCE SHARES (Continued)

The Company issued preference shares with an aggregate issuance price of $14.6 million and for net proceeds (after transaction costs) of $14,239,160 on 21 June 2006. The preference shares were issued on terms consistent with the provisions of the Company's Constitution. Commensurate with the issuance of the preference shares to Australian Mutual T1 Capital Funding Trust No 1 (AMCFT), the Company also agreed to lend AMCFT an amount of $1.460 million (being 10% of the aggregate issuance price of the shares), on terms set out in a loss reserve loan agreement. Refer to Note 20.

These shares have been recognised as equity under the accounting standards. The effective nature of the share issuance transaction, when viewed together with the loss reserve loan advanced by the Company to AMCFT (refer to Note 20), is that the Company has issued preference shares with an aggregate issuance price of $14.6 million, but with the amount of the loss reserve loan constituting an unpaid component of the share issue. In the event that the Company does not pay a dividend on the preference shares, the Company is not required to pay, or deliver to the holder of those shares, any amounts or benefits.

The preference shares were issued on the following terms and conditions:
- unsecured and undated;
- 146,000 issued shares, each with an issue price of $100;
- are non-voting in the hands of the holder;
- cannot be redeemed by the holder;
- can be bought back by the Company after 2016 subject to APRA approval;
- dividends may be payable, subject to available profits and Board approval, at the frequency, and at the rate and amount, as set out in the terms of issue (Refer Note 10(a));
- in respect of payment of dividends, rank ahead of member shares, and
- in the event of a winding-up, rank behind member shares and are unable to participate in any distribution of surplus.
- On 21 June 2016 the Company exercised its option to buy back the preference shares following APRA approval.

NOTE 27 REDEEMABLE MEMBER SHARES

	Consolidated 2016	Parent 2016	Consolidated 2015	Parent 2015
	$'000	$'000	$'000	$'000
Opening balance	679	679	630	630
Transfer from retained earnings	(5)	(5)	49	49
Closing balance	**674**	**674**	**679**	**679**

Under the *Corporations Act 2001* member shares are classified as redeemable preference shares. The redemption of these shares is required under the Act to be made from profits. The value of the shares that have been paid to members is in accordance with the terms and conditions of the share issue and the redemption account represents the amount of profits appropriated. No dividends were paid or are payable to the relevant holders.

NOTE 28 RESERVES

	Consolidated 2016	Parent 2016	Consolidated 2015	Parent 2015
Other reserves				
Land and Buildings revaluation reserve	547	547	824	824
Available-for-sale investments revaluation reserve	219	219	219	219
Total other reserves	**766**	**766**	**1,043**	**1,043**
Movements:				
Land and Buildings revaluation reserve				
Opening balance	824	824	824	824
Movement in Land and Building revaluation reserve	(277)	(277)	-	-
Balance at end of year	**547**	**547**	**824**	**824**
Available-for-sale investments revaluation reserve				
Opening balance	219	219	-	-
Additions	-	-	219	219
Balance at end of year	**219**	**219**	**219**	**219**

NOTE 29 RETAINED EARNINGS

	Consolidated 2016	Parent 2016	Consolidated 2015	Parent 2015
Opening balance	82,338	82,338	76,548	76,548
Net profit attributable to members	7,326	7,326	6,447	6,447
Transfer to member share capital account	5	5	(49)	(49)
Prior period corrections*	-	-	(36)	(36)
Dividends paid	(523)	(523)	(572)	(572)
Total retained earnings	**89,146**	**89,146**	**82,338**	**82,338**

NOTE 30 CONTRIBUTED EQUITY

	Consolidated 2016	Parent 2016	Consolidated 2015	Parent 2015
Opening balance	8,451	8,451	8,451	8,451
Balance at end of year	**8,451**	**8,451**	**8,451**	**8,451**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

NOTE 31 REMUNERATION OF AUDITORS

	Consolidated	Parent	Consolidated	Parent
	2016	2016	2015	2015
Remuneration of the auditor for:	$	$	$	$
● KPMG Statutory & Regulatory Audits	159,000	159,000	146,500	146,500
● PwC Statutory & Regulatory Audits	-	-	91,500	91,500
● KPMG Advisory Services	20,400	20,400	-	-
● KPMG Taxation Services	36,700	36,700	10,000	10,000
● KPMG Securitisation Services	-	-	19,500	19,500
● PwC Taxation Services	-	-	4,000	4,000
Total remuneration of auditors	**216,100**	**216,100**	**271,500**	**271,500**

NOTE 32 STATEMENT OF CASH FLOWS

(a) Parent and Consolidated Reconciliations of cash

For the purposes of the statement of cash flows, cash includes cash on hand, cash equivalents and 'at call' deposits, net of overdrafts with other financial institutions. Cash at the end of the financial year as shown in the statement of cash flows is reconciled to the related items in the statement of financial position as follows:

	Consolidated	Parent	Consolidated	Parent
	2016	2016	2015	2015
	$'000	$'000	$'000	$'000
Cash liquid assets	93,978	76,551	64,429	63,033
	93,978	**76,551**	**64,429**	**63,033**

(b) Cash flows presented on a net basis

Cash flows arising from the following activities are presented on a net basis in the statement of cash flows:
- customer deposits in and withdrawals from savings, money market and other deposit accounts;
- sales and purchases of maturing certificates of deposit;
- provision of member loans and the repayment of such loans.

(c) Reconciliation of cash flow from operations with profit after income tax

Profit after income tax	7,326	7,326	6,447	6,447
Non-cash flows in profit after income tax:				
Net movement in revaluation of property, plant and equipment and investments	(277)	(277)	-	-
Amortisation of Intangible Assets	282	282	307	307
Amortisation of Debt Raising facility	60	60	53	53
Depreciation	884	884	1,228	1,228
Net movement in Provision for loan impairment	191	191	222	222
Changes in assets and liabilities:				
(Increase) in member loans (gross)	(86,742)	(174,520)	(41,208)	(29,485)
(Increase)/decrease in receivables	(1,667)	(3,454)	(647)	3,646
(Increase)/decrease in other assets	9	9	80	80
(Increase)/decrease in available-for-sale	(0)	(0)	(312)	(312)
(Increase)/decrease in deferred tax asset	(138)	(138)	43	43
Increase/(decrease) in provisions	225	225	(53)	(53)
Increase/(decrease) in deposits	105,342	105,342	47,784	47,784
Increase/(decrease) in income taxes payable	(514)	(514)	(43)	(43)
Increase/(decrease) in deferred tax liability	(5)	(5)	(145)	(145)
Increase/(decrease) in other borrowings (securitisation)	-	73,464	-	(11,424)
Increase/(decrease) in trade and other payables	(2,009)	(1,939)	1,258	733
Net cash provided by (used in) operating activities	**22,967**	**6,936**	**15,014**	**19,081**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

NOTE 33 MATURITY PROFILE OF FINANCIAL LIABILITIES

Monetary liabilities have differing maturity profiles depending on the contractual term. The following table shows the period in which different monetary liabilities held will mature and be eligible for renegotiation or withdrawal.

Consolidated	Less than 1 month	1 - 3 months	3 - 12 months	1-5 years	over 5 years	No Maturity	Total
2016	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Deposits	638,956	208,887	175,611	29,826	-	-	**1,053,280**
Trade and other payables	19,153	-	-	-	-	-	**19,153**
Lease Liabilities	34	18	-	-	-	-	**52**
Other Borrowings	-	-	-	-	-	-	**-**
Subordinated debt	-	-	-	3,979	-	-	**3,979**
Total Liabilities	**658,143**	**208,905**	**175,611**	**33,805**	**-**	**-**	**1,076,464**

Parent	Less than 1 month	1 - 3 months	3 - 12 months	1-5 years	over 5 years	No Maturity	Total
2016	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Deposits	638,956	208,887	175,611	29,826	-	-	**1,053,280**
Trade and other payables	19,222	-	-	-	-	-	**19,222**
Lease Liabilities	34	18	-	-	-	-	**52**
Other Borrowings	-	-	-	-	105,706	-	**105,706**
Subordinated debt	-	-	-	3,979	-	-	**3,979**
Total Liabilities	**658,212**	**208,905**	**175,611**	**33,805**	**105,706**	**-**	**1,182,239**

Consolidated	Less than 1 month	1 - 3 months	3 - 12 months	1-5 years	over 5 years	No Maturity	Total
2015		$'000	$'000	$'000	$'000	$'000	$'000
Deposits	543,709	195,710	179,066	29,453	-	-	**947,938**
Trade and other payables	21,162	-	-	-	-	-	**21,162**
Lease Liabilities	31	30	133	20	-	-	**214**
Other Borrowings	-	-	-	-	-	-	**-**
Subordinated debt	-	-	-	3,962	-	-	**3,962**
Total Liabilities	**564,902**	**195,740**	**179,199**	**33,435**	**-**	**-**	**973,276**

Parent	Less than 1 month	1 - 3 months	3 - 12 months	1-5 years	over 5 years	No Maturity	Total
2015		$'000	$'000	$'000	$'000	$'000	$'000
Deposits	543,709	195,710	179,066	29,453			**947,938**
Trade and other payables	21,161	-	-	-	-	-	**21,161**
Lease Liabilities	31	30	133	20	-	-	**214**
Other Borrowings	-	-	-	-	32,242	-	**32,242**
Subordinated debt	-	-	-	3,962	-	-	**3,962**
Total Liabilities	**564,901**	**195,740**	**179,199**	**33,435**	**32,242**	**-**	**1,005,517**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

NOTE 34 FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value estimates were determined by the following methodologies and assumptions:

Liquid assets and receivables from other financial institutions

The carrying values of cash, cash equivalents, liquid assets, and receivables due from other financial institutions approximate their fair value as they are short term in nature or are receivable on demand.

Loans and advances

The carrying value of loans, advances and other receivables is net of specific provisions for impairment.

For variable loans, excluding impaired loans, the carrying amount is a reasonable estimate of net fair value. The fair value for fixed rate loans have been discounted using cash flow modelling.

Lease Liabilities

The carrying value of lease liabilities are included at contracted value of the lease period.

Held to maturity Financial Assets

The fair value of held to maturity financial assets was calculated using market rates.

As at 30 June 2016 and 2015 fair value approximates carrying value for all financial assets and financial liabilities.

NOTE 35 COMMITMENTS

To meet the financial needs of members, the Group enters into lease commitments. Even though these obligations may not be recognised on the statement of financial position, they do contain credit risk and are therefore part of the overall risk of the Group.

(a) Finance lease commitments

The Group has finance leases and hire purchase contracts for various items of plant and equipment. These lease contracts expire within 5 years, with repayments payable monthly in advance. The Group has the option to purchase the plant and equipment at the expiry of the lease at an agreed residual value. There are no escalation clauses.

Commitments under finance leases at the reporting date are payable as follows:

Parent and Consolidated	**2016 $'000**	**2015 $'000**
Motor vehicles		
Not later than 1 year	52	194
Later than 1 year and not later than 5 years	-	20
Minimum lease payments	52	214
Total lease commitments	52	214

Commitments on finance leases are determined at the inception of the lease, the discount rate used in calculating the present value of the minimum lease payment is the interest rate implicit in the lease.

(b) Operating Lease Commitments

The Group has entered into commercial leases on certain commercial properties from which branches operate. These leases have a remaining term of between one and twelve years with a renewal option included at the end of the term of the lease in some of the agreements. There are no restrictions placed upon the Group by entering into these leases.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

NOTE 35 COMMITMENTS (Continued)

	Consolidated 2016 $'000	**Parent 2016 $'000**	**Consolidated 2015 $'000**	**Parent 2015 $'000**
Future minimum rentals payable under non-cancellable operating leases are as follows:				
Not longer than 1 year	988	988	1,328	1,328
Longer than 1 and not longer than 5 years	1,517	1,517	2,505	2,505
Longer than 5 years	-	-	-	-
Total operating lease commitments	**2,505**	**2,505**	**3,833**	**3,833**

(c) Undrawn Loan Commitments

Commitments to extend credit represent contractual commitments to make loans and revolving credits. Commitments generally have fixed expiry dates, or other termination clauses. Since commitments may expire without being drawn upon, the total contract amounts do not necessarily represent future cash requirements.

However, the potential credit loss is less than the total unused commitment since most commitments to extend credit are contingent upon members maintaining specific standards. The Group monitors the term to maturity of credit commitments because longer term commitments generally have a greater degree of credit risk than shorter term commitments.

Loans approved but not funded	15,864	15,864	9,315	9,315
Loan repayments in advance	68,411	68,411	60,879	60,879
Undrawn lines of commitment	34,987	34,987	35,853	35,853
	119,262	**119,262**	**106,047**	**106,047**

NOTE 36 CONTINGENT LIABILITIES

Financial Guarantees

Letters of guarantee commit the Group to make payments on behalf of customers in the event of a specific act, generally related to contract performance. Guarantees carry the same credit risk as loans. The guarantees committed to by the Group are secured by term deposit.

The amount guaranteed at balance date is limited to $800,838 (2015: $952,199).

NOTE 37 RELATED PARTY DISCLOSURES

(a) Directors

The names of the directors of the Group who have held office during the financial year are:

Graham Olrich - Chairman	Alison Sheridan - Director
Kate James - Director	Michael Fenech - Director
Geoff Thompson - Director	John O'Connor - Director (retired 27 Nov 2015)
Brian Goodall - Director	

(b) Remuneration of Key Management Personnel (KMP)

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including any Director of that entity. Key management personnel has been taken to comprise the Directors and members of the Executive Management Team responsible for the day to day financial management and operational management of the Group.

The aggregate compensation of Key Management personnel during the year comprising amounts paid or payable or provided for was as follows:

	Consolidated and Parent 2016 $	**Consolidated and Parent 2015 $**
● short-term employee benefits	2,364,735	2,248,407
● superannuation contributions	172,250	164,144
Total remuneration of key personnel	**2,536,985**	**2,412,551**

Remuneration shown as short term benefits means (where applicable) wages, salaries, paid annual leave and paid sick leave, profit-sharing and bonuses, value of fringe benefits received, but excludes out of pocket expense reimbursements.

(c) Loans to Key Management Personnel

All loans disbursed to Key Management personnel were approved on the same terms and conditions, which are applicable to members for each class of loan. There are no loans that are impaired in relation to the loan balances with Key Management personnel.

Key Management personnel who are not directors receive a concessional rate of interest on their loans and facilities. These benefits, where subject to fringe benefits tax, are included in the remuneration in (b) above.

There are no benefits or concessional terms and conditions applicable to the close family members of the Key Management personnel. There are no loans that are impaired in relation to the loan balances with close family relatives of directors and Key Management personnel.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

		Consolidated and Parent	Consolidated and Parent
NOTE 37	**RELATED PARTY DISCLOSURES (Continued)**		
(c)	**Loans to Key Management Personnel (Continued)**	**2016** **$**	**2015** **$**
	(i) The aggregate value of loans to Key Management personnel as at balance date:	5,498,270	3,967,312
	(ii) The total value of revolving credit facilities to Key Management personnel as at balance date:	105,500	49,500
	(iii) Less amounts drawn down and included in total loans above.	(19,901)	(30,393)
	Net revolving credit facilties available	**85,599**	**19,107**
	Fixed term loans disbursed to Key Management personnel during the year.	1,349,538	887,000
	Average balance of revolving credit facilities.	23,478	29,530
	Total loans disbursed to Key Management personnel	**1,373,016**	**916,530**
	Interest and other revenue earned on loans and revolving credit facilities to Key Management personnel.	213,382	170,867
	Provision for doubtful debts of Key Management personnel.	-	-
(d)	**Deposits from Key Management Personnel**		
	Total value of term and savings deposits from Key Management personnel .	904,717	653,706
	Total interest paid on deposits to key management personnel.	11,801	13,575

Directors have received interest on deposits with the Group during the financial year. Interest has been paid on terms and conditions no more favourable than those available on similar transactions to members of the Group.

The Group's policy for receiving deposits from other related parties and in respect of other related party transactions, is that all transactions are approved and deposits accepted on the same terms and conditions that apply to members for each type of deposit.

(e) Other transactions of Key Management Personnel

There are no benefits paid or payable to the close family members of the Key Management personnel.

Apart from the above transactions, there are no service contracts to which Key Management personnel or their close family members are an interested party.

NOTE 38 DEPENDENCY

The Group has a dependency on the following suppliers of service:

(a) Ultradata

This entity provides and maintains the core banking software utilised by the Group.

(b) Trulioo

This entity provides online verification of members for AML compliance.

(c) Australian Settlements Limited (ASL)

This entity provides the Group with services to carry out Real Time Gross Settlements (RTGS), High Value Payment, ATM, Bpay, Card, Chequing, Direct Entry, EFTPOS Acquiring and Fraud Solution services, including provision of an Exchange Settlement Account.

(d) ASX Austraclear

This entity provides the Group with services to carry out Real Time Gross Settlements (RTGS).

(e) Australia and New Zealand Banking Group Limited (ANZ)

This entity provides the Group with services in the form of agency clearing and enhanced cheque clearing settlement.

(f) Transaction Solutions Limited (TAS)

This entity provides the Group with facilities management services for production and disaster recovery across information and communication technologies.

(g) First Data Resources Australia Ltd

This entity provides the Group with transaction processing and switching services.

(h) Giesecke & Devrient Australasia Pty Ltd (G&D)

This entity provides chip and magnetic stripe cards and associated services for use by members of the Group.

(i) The Australian Postal Corporation

This entity provides agency banking services through Bank@Post to members of the Group.

NOTE 39 EVENTS AFTER BALANCE SHEET DATE

On 8 August 2016 Community Mutual Ltd began trading as Regional Australia Bank. It is not expected that this change will significantly impact the operations of the Group or consolidated entity.

On 15 August 2016 the Securitisation Trust substituted cash for additional loans with Community Mutual Ltd (refer to note 13(g)). The result of this will have the following effect on the Securitisation Trust.

Assets:	$
Reduction in Cash	16,384,189
Increase in Loans	16,384,189

DECLARATION BY DIRECTORS

The Directors of Community Mutual Ltd (the Company) declare that in the opinion of the Directors:

(a) The financial statements and notes of the Company are in accordance with the Corporations Act 2001, including:

(i) giving a true and fair view of the financial position of the Company as at 30 June 2016 and of its performance for the year ended on that date; and

(ii) complying with Accounting Standards and *Corporations Regulations 2001;*

(b) There are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable;

(c) Note 2(b) confirms that the financial statements comply with International Financial Reporting Standards as issued by the International Standards Board.

This declaration is made in accordance with a resolution of the Board of Directors.

Graham Olrich
Director

Geoff Thompson
Director

30 September 2016

Independent auditor's report to the members of Community Mutual Ltd

Report on the financial report

We have audited the accompanying financial report of Community Mutual Ltd (the Company), which comprises the statements of financial position as at 30 June 2016, and statements of profit and loss and other comprehensive income, statements of changes in equity and statements of cash flows for the year ended on that date, notes 1 to 38 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the Company and the Group comprising the Company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility 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 is free from material misstatement whether due to fraud or error. In note 2(b), the directors also state, in accordance with Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with International Financial Reporting Standards.

Auditor's responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We performed the procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001* and Australian Accounting Standards, a true and fair view which is consistent with our understanding of the Company's and the Group's financial position and of their performance.

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

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

Auditor's opinion

In our opinion:

(a) the financial report of Community Mutual Ltd is in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the Company's and the Group's financial positions as at 30 June 2016 and of their performance for the year ended on that date; and

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

(b) the financial report also complies with International Financial Reporting Standards as disclosed in note 2(b).

KPMG

KPMG

Michael O Connell
Partner

Sydney
30 September 2016

regional australia bank annual report

notes

Head Office
Technology Park, Madgwick Drive, Armidale NSW 2350
PO Box U631, University of New England NSW 2351
Telephone 132 067 **Email** enquiries@regionalaustraliabank.com.au
Web regionalaustraliabank.com.au