annual report

2018

regional australia bank

DIRECTORS

Graham Olrich
Michael Fenech
Brian Goodall
Kate James
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

APJ Law
126/128 Beardy Street
ARMIDALE NSW 2350

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 3
300 Barangaroo Avenue
SYDNEY NSW 2000

regional australia bank

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regional australia bank

Regional Australia Bank is a customer owned bank that has been helping regional Australians achieve their lifestyle goals for 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 become one of the premier banking alternatives to the 'Big Four' banks.

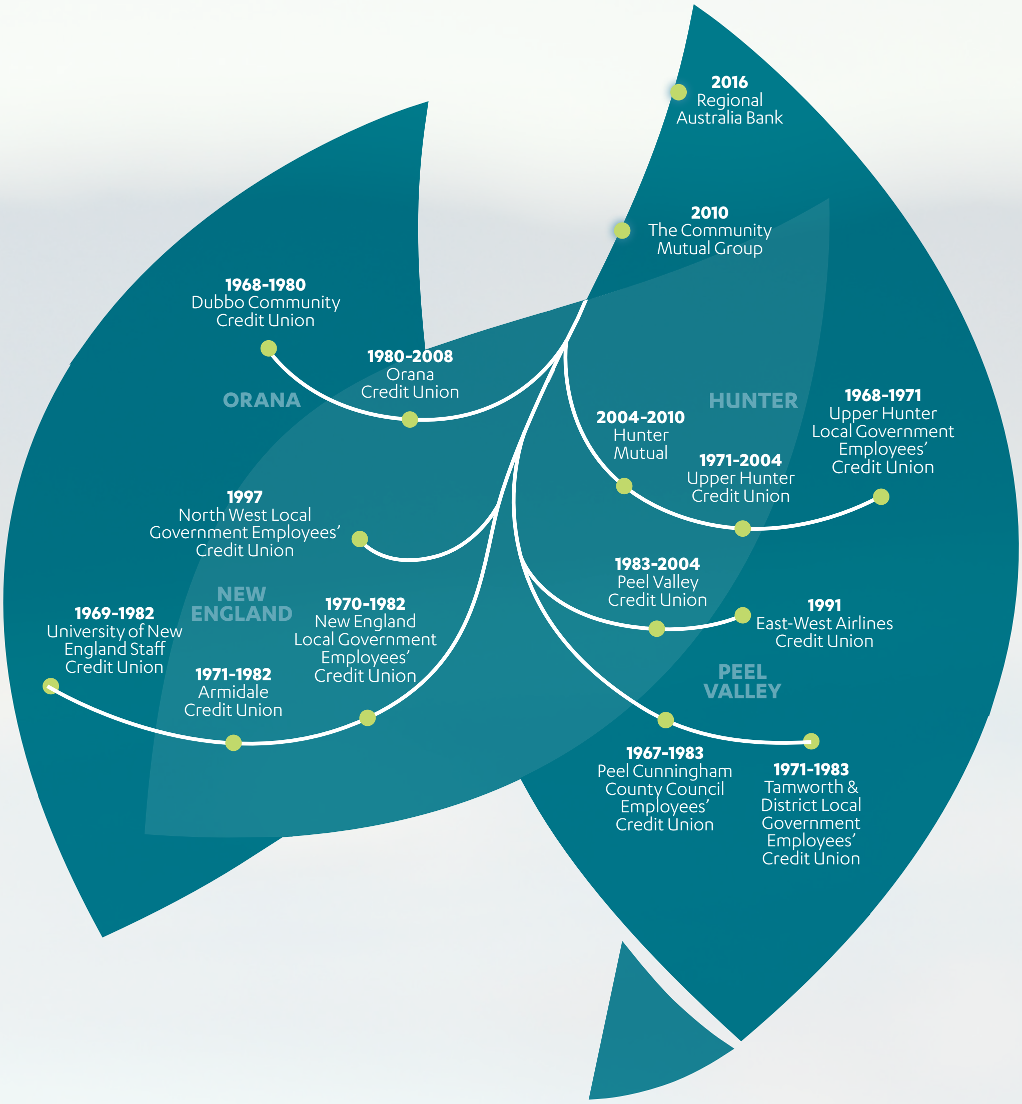
Unlike the 'retail' approach taken by many competing institutions, Regional Australia Bank continues to add value to our customers by recognising everyone's circumstances are different. This means we can provide personalised financial solutions, working with our customers to save them time, money and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

Our growing base of customers 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. Being connected with regional Australia and its people is, without doubt, the most compelling and inspiring part of our brand.

our **history**



"Regional Australia Bank is a **customer owned** bank that has been helping regional Australians achieve their lifestyle goals for over 50 years. We have grown to be one of the premier banking alternatives to the 'big four' banks."

chairman's report

The 2017-18 financial year saw Regional Australia Bank reach a number of milestones worthy of note. The first was that our relatively newly branded organisation of just two years (by name) actually celebrated its 50th anniversary since its humble beginnings in 1967. Regional Australia Bank's proud history is the result of the formation of the Credit Union movement in Australia, which for us began with Tamworth's Peel Cunningham County Council Employees Credit Union (1967), Dubbo Community Credit Union (1968) and Armidale's University of New England Employees Credit Union (1969). A series of mergers since then has resulted in the emergence of what we can now refer to as one of Australia's leading mutual banks, measured not by its size, but on any number of financial and consumer metrics. Many of which are contained within the pages of this year's annual report.

On the financial side, Regional Australia Bank managed to capitalise on the momentum of previous years and continue to reduce its Cost to Income from 73.4% to 70.1%, and increased Return on Assets (ROA) from 0.65% to 0.74% in 2018. We remain content to operate the business at this level of performance recognising that it places Regional Australia Bank as one of the most efficient among its sector peers. Capital adequacy grew to a healthy 16.2% with Return on Equity (ROE) exceeding our target of 8.5%, reaching 8.87% at June 30, 2018.

We added another $80 million to our loan book, which grew organically at 7.5% without the use of a broker network. While loan growth was down on last year's peak of 12.4%, we remained well above credit system growth of 4.5%, which continued to remain relatively sluggish. With respect to mortgage lending, our growth of 9.1% finished well above that of total housing credit growth of 5.6%. Revenue was once again a big driver of performance this year, increasing to $47 million from $44.2 million last year - a record for the business. This contributed to yet another milestone, reaching an after tax profit of almost $10 million for the first time in our fifty year history. While making a profit is good, we understand that it's what you do with it that really counts. As a customer owned bank, our profits are reinvested back into our business rather than distributing them to shareholders. This enables us to provide better value for our customers in the form of; competitive rates and fairer fees, access to branch services in smaller rural areas (where sustainable), providing increasingly more contemporary online services, working through solutions for more complex lending needs and being responsive to member needs more generally. Value of this kind has been well received to date and is reflected in the feedback provided in our annual member survey. The survey, conducted by Roy Morgan Research, revealed a 92% satisfaction rating and a Net Promoter Score (NPS) of 52%. Not surprisingly, our staff remained one of the main reasons for the high scores, with both scores among the highest for banking industry benchmarks in Australia.

Revenue was once again a big driver of performance this year, **increasing to $47 million from $44.2 million last year** - a record for the business.

Board and Management recognise a clear link exists between organisational performance and the level of engagement staff have toward understanding their contribution to its success. To this end, we are pleased to see our staff engagement score make a return to 67% this year, up from 60% in 2017. Research consultant AON, recognises this to be approaching best practice (68%) for the finance industry in Australia and New Zealand.

Continuing the good news story, it is worth noting that we were also able to achieve more milestones via our strategic commitment to Corporate Social Responsibility (CSR). Our corporate philanthropy scaled new heights thanks to the continued growth of our Community Partnership Program. The Program celebrated its 10th year this year and reached over $1 million in donations back to local clubs, community groups and charities around our network. It's a great program, one that we are very proud of and one that really is beginning to make a difference for our regional communities. Pleasingly, this kind contribution to community is beginning to resonate with our membership. In response to the aforementioned Roy Morgan survey, members provided feedback on their perception of our 'new' brand. In the survey, 79% of members said that they see us supporting the community, an increase of 4% on last year and up 21% since records began in 2012. Further, 84% view Regional Australia Bank as a 'modern and contemporary bank', with 64% recognising us as 'different from other banks' (up 3% and 4% respectively). This is encouraging, as differentiation is becoming increasingly important and growth in these areas validates our decision to rebrand and reposition our organisation in August of 2016.

As for the future, we will continue to expand our offering organically, both physically and digitally. We have opened a small loans office in Newcastle earlier this year and are looking to 'step up' our presence on the Coffs Coast. We are continuing to improve our digital banking services with the addition of more functionality and a focus on user experience.

From a regulatory perspective, the findings of the Royal Commission into Financial Services will soon be handed down and this is something that we should not underestimate. Already there is talk of increased regulation, more stringent lending requirements, and of course coupled with that is increased compliance cost. Regional Australia Bank has been proactive in its support of the Customer Owned Banking Association (COBA) in campaigning for 'proportionate regulation,' as have many of our sector peers. Increasingly, the growing cost of compliance combined with the investment required to maintain contemporary banking services is weighing heavily on some institutions in our sector. Pleasingly, Regional Australia Banks continued financial performance is helping to cushion the impact of increased costs, allowing us to continue to deliver tangible value for our members for years to come.

Overall, it has been another successful year for Regional Australia Bank and it has been a pleasure to serve on the Board as Chairman. I wish to thank my fellow Board members for their contribution, as well as our CEO Kevin Dupé, his Executive Management team and all of our staff who have contributed to such positive results again this year.

Yours sincerely

Graham Olrich
Chairman

board of **directors**

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 almost 40 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 19 years. Key responsibilities on the Board include Ex-officio member of the Audit Committee, Corporate Governance 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 35 years' of experience in the banking sector across Australia, operating in roles at Executive and Chief Executive levels. Michael is actively involved as a consultant to many financial institutions and holds various Board positions. Key responsibilities on the Board include member and Chair of the Audit Committee and member of the Risk Committee.

Brian Goodall

BOARD MEMBER SINCE 1997

Brian has extensive experience in the mutual banking sector with particular emphasis on the legal and compliance areas. He has until recently been the senior partner of a long standing Solicitor practice based in Dubbo specialising in commercial and property matters. Brian is also active in the Australian Institute of Company Directors. His key responsibilities on the Board include member and Chair of the Corporate Governance Committee and member of the Risk Committee.

Kate James

BOARD MEMBER SINCE 2008

Kate has experience in small business and corporate governance. She 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 Corporate Governance Committee and Risk 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 member and Chair of the Risk Committee and member of the Corporate Governance Committee and Audit 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 member of the Audit Committee and Risk Committee.

executive management

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 16 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.

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 25 years' experience in the financial sector, 20 of these spent in various management roles within Regional Australia Bank.

Rob Hale

CHIEF INFORMATION OFFICER

Rob joined Regional Australia Bank in 2010, having previously worked for organisations including Morgan Stanley, RAI Global and the University of New England. Originally from the UK, Rob has qualifications in Computer Science, Data Warehousing, Business Intelligence and Project & 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.

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.

Bill Miller

CHIEF SALES OFFICER

Bill brings over 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.

David Munday

CHIEF GOVERNANCE OFFICER / COMPANY SECRETARY

David brings over 15 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 qualifications in business, law and is a chartered Company Secretary.

Campbell Nicoll

CHIEF RISK OFFICER

Having almost 20 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).

Darren Schaefer

CHIEF MARKETING OFFICER

Darren brings 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.

performance

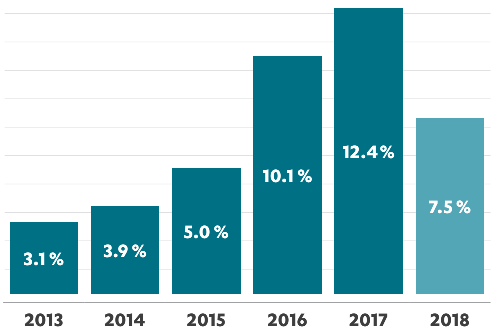
To be financially sustainable allowing delivery of greater value to members into the future

performance summary

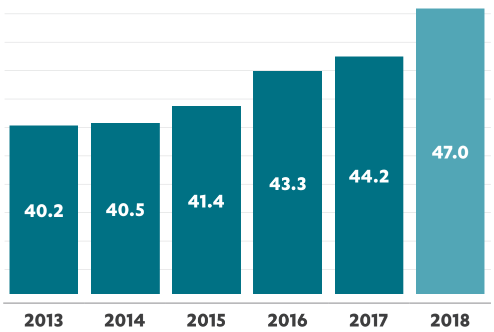
GOAL: TO BE FINANCIALLY SUSTAINABLE ALLOWING DELIVERY OF GREATER VALUE TO MEMBERS INTO THE FUTURE.

RESULT: ACHIEVED

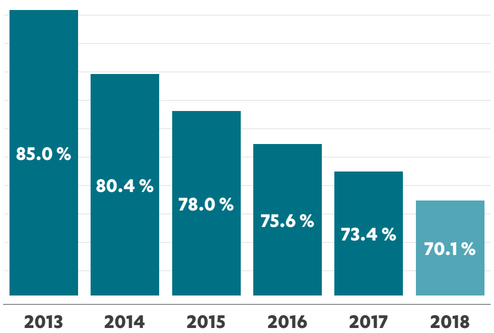
LOAN GROWTH (%)



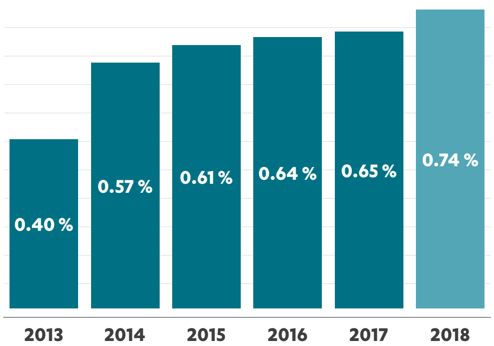
REVENUE ($M)



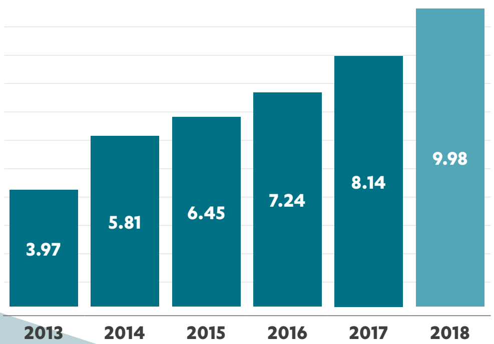
COST TO INCOME (%)



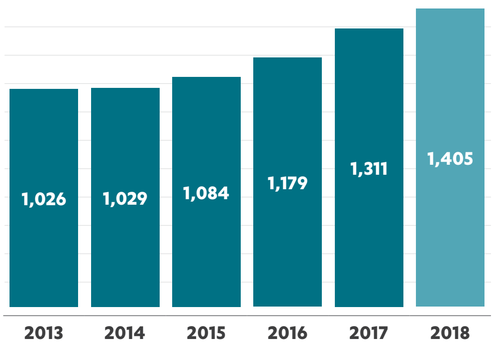
ROA (%)



NET PROFIT AFTER TAX ($M)



TOTAL ASSETS ($M)



corporate governance statement

CREATING VALUE THROUGH STRONG CORPORATE GOVERNANCE

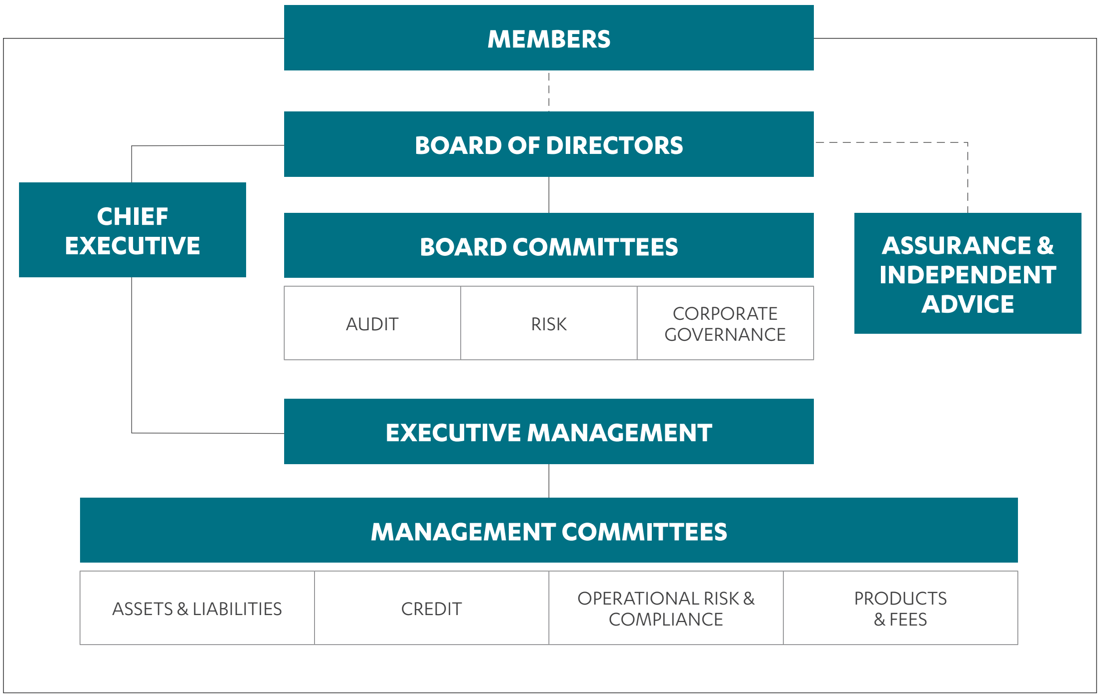
The Board of Regional Australia Bank is committed to excellence in governance standards and practices to ensure the sustainability of its banking performance and long term value to its communities, members and employees.

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). The Board takes an active role in ensuring corporate governance best practice.

Regional Australia Bank's Governance Framework has been developed to support its strategic plan, whilst ensuring a clear structure of oversight of key controls and effective leadership. These factors enable Regional Australia Bank to operate, in an effective manner, with prudent management. 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 Board ensures effective control of the corporate governance framework through effective delegation, risk management and a system of assurance regarding financial and non-financial reporting.

Corporate governance framework:



FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT

The Board is responsible for ensuring that the foundations for management and oversight are established and operating effectively. This involves having the right strategy, culture, risk appetite and governance structure.

Role of the Board

The Board's role and responsibilities are set out in the Board Corporate Governance Policy. This document acts as the Board's Charter and adopts the Corporate Governance Framework. The Board also has a range of policies which detail the purpose, specific roles and responsibilities, delegations, operation and performance of the Board. These outline that the Board is responsible for:

- establishing the strategic direction, major initiatives and objectives of Regional Australia Bank and monitoring the implementation of those strategies and objectives;
- 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).

Assisting the Board in discharging its responsibilities, the Board has established guidelines designed 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 foundation 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. Importantly, 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, the Board committees and each individual Director.

The framework used to evaluate the performance of each individual Director is based on the expectation they are performing their duties in the best interest of members, in accordance with Regional Australia Bank's values, their respective duties and obligations as a director and the bank's strategic objectives. Outcomes from each of the individual Director reviews is then reflected in the Board Skills and Assessment Matrix.

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

Every three years, the performance of the Board, the Board committees and each individual Director is assessed using an external independent facilitator.

STRUCTURING THE BOARD TO ADD VALUE

Board Skills, Experience and Diversity

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

The composition of the Board is determined against the Board's skills and experience requirements. The election of Directors is determined in accordance with Regional Australia Bank's Constitution, and other statutory and regulatory requirements. Directors are either member elected or are appointed by the Board 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 diversity, 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 EXPERIENCE, SKILLS AND DIVERSITY

Collectively a strong balance of experience, skills and diversity to deliver long term value creation

EXPERIENCE	Financial Legal and Compliance Banking Working in a Regional Context Experience as a Director	
SKILLS	Leadership Strategy Risk Management Digitisation Governance	
TENURE	9 years and more 6 to 8 years 3 to 5 years Less than 3 years	4 1 1 0
DIVERSITY	Female Male Composition 4 member elected 2 board appointed	33% 67%

Board Committees

To assist the Board in discharging its responsibilities and oversight of the business, it has established a number of committees with specific structure and functional requirements. These committees are the Board Audit Committee, Board Risk Committee and the Board Corporate Governance Committee.

Each of the Board committees operates within its own terms of reference which set out their purpose and 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, Audit Committee Chair and Risk Committee Chair 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 committee monitors legal and regulatory developments relating to the governance framework to ensure it is operating against best practice.

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.

The Board Corporate Governance Committee also comprises the Board Remuneration Committee. This committee makes recommendations to the Board on the remuneration to be paid to Directors, the CEO and Executive Managers, to ensure it remains market-competitive and adheres to legislative requirements.

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. The committee's responsibility are to evaluate the adequacy and effectiveness of Regional Australia Bank's risk management framework, risk appetite and the appropriateness of the risk 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 current financial year all current Directors have been assessed as being independent.

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, the Board's committees and individual Directors, at the expense of Regional Australia Bank, may obtain relevant professional advice, as required, to assist in undertaking their 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 – OUR GUIDING PRINCIPLES

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 and instils 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 for 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 the CEO to ensure Regional Australia Bank's strategic objectives are met. The CEO who 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

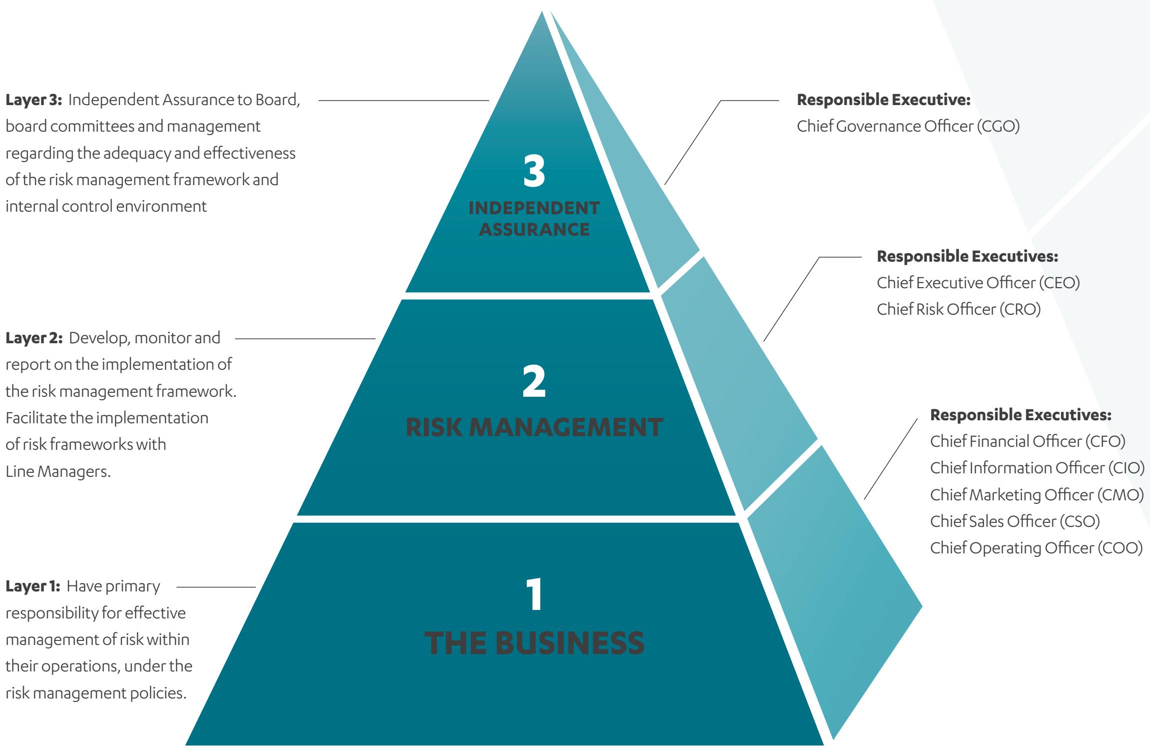
The Regional Australia Bank Board has responsibility for overseeing the establishment and ongoing monitoring of risk management systems and frameworks and for setting Regional Australia Bank's risk appetite and overseeing risks inherent in Regional Australia Bank's business. The Board has delegated to 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 operates using a Three Lines of Defence approach to risk management which assists in ensuring a strong risk culture. All employees at Regional Australia Bank are responsible for managing risk and operating within the set risk profile of the bank.

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



financial report

2017-2018

DIRECTOR'S REPORT

The Directors present their report together with the consolidated financial statements of Regional Australia Bank Ltd ("the Company") and the CMG Funding Trust No.1 ("the Trust") for the financial year ended 30 June 2018 and the auditor's report.

The Company is a public company registered under the Corporations Act 2001 (Cth). On 1 May 2018 Regional Australia Bank Ltd changed name from Community Mutual Ltd.

The Trust is a Special Purpose Vehicle deemed under the Accounting Standards to be controlled by the Company for the year ended 30 June 2018 (together referred to as "the Group").

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 Regional Australia Bank's Constitution.

Results

The profit of the Company for the year before income tax is $14.05mil (2017: $11.76mil) representing an excellent result in a difficult economic environment.

Director's Qualifications, Experience and Special Responsibilities

At the date of this report, the Board comprises six Non-Executive Directors.
The names of the Directors in office at any time during the year, together with details of their qualifications, experience and special responsibilities are as follows:

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 Risk Committee - Member of the Corporate Governance Committee - Member of the Audit Committee
Geoff Thompson	BFin Admin, FCA, GAICD	Non-Executive Director	- Director since 2008 - Member of the Audit Committee - Member of the Risk Committee
Michael Fenech	B.Ec, GAICD	Non-Executive Director	- Director since 2014 - Member & Chair of the Audit Committee - Member of the Risk Committee
Brian Goodall	B.Ec LLB, GAICD	Non-Executive Director	- Director since 1997 - Member of the Risk Committee - Member & Chair of the Corporate Governance Committee
Kate James	BRurSci (UNE), GAICD	Non-Executive Director	- Director since 2008 - Member of the Corporate Governance Committee - Member of the Risk Committee

DIRECTOR'S REPORT Continued

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	8	8	4	4	4	4	4	4
Alison Sheridan	8	7	4	4	2	2	4	4
Geoff Thompson	8	6	2	1	4	4	4	3
Michael Fenech	8	8	-	-	4	4	4	4
Brian Goodall	8	7	4	4	-	-	4	4
Kate James	8	8	2	2	2	2	4	4

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.

Director's 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 E2 of the financial report.

Directors, Officers or Auditors Indemnity

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.

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

There have been no significant events occurring after balance date which may affect the companies operations or results of those operations.

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.

DIRECTOR'S REPORT Continued

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 / director's 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 2018:

	$
Taxation Services	22,758
Advisory Services	46,125
Total	**68,883**

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 Director's 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

Signed in accordance with a resolution of the Board of Directors.

Graham Olrich
Director

Michael Fenech
Director

Date: 28 September 2018

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

To the Directors of Regional Australia Bank Ltd

I declare that, to the best of my knowledge and belief, in relation to the audit of Regional Australia Bank Ltd for the financial year ended 30 June 2018 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

Michael O Connell

Partner

Sydney

28 September 2018

Financial Statements

Notes to the Consolidated Financial Statements

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the Year Ended 30 June 2018

		Consolidated		Parent	
	Notes	**2018 $'000**	**2017 $'000**	**2018 $'000**	**2017 $'000**
Interest income	B1	60,759	56,922	64,284	60,128
Interest expense	B1	(20,929)	(19,860)	(26,988)	(25,265)
Net interest income		**39,830**	**37,062**	**37,296**	**34,863**
Non-interest income	B1	7,182	7,146	9,669	9,345
Net operating income		**47,012**	**44,208**	**46,965**	**44,208**
Impairment loss on loans and advances	C2 b)	(736)	(1,064)	(736)	(1,064)
Employee benefits expense	E1 a)	(16,887)	(16,673)	(16,887)	(16,673)
Occupancy expense		(2,273)	(2,286)	(2,273)	(2,286)
Depreciation and amortisation expense		(1,454)	(1,354)	(1,454)	(1,354)
Information technology and communication expense		(4,350)	(3,703)	(4,350)	(3,703)
Member transaction costs		(2,778)	(3,142)	(2,778)	(3,142)
Other operating expenses		(4,488)	(4,231)	(4,441)	(4,231)
Total operating expenses		(32,966)	(32,453)	(32,919)	(32,453)
Profit before income tax		**14,046**	**11,755**	**14,046**	**11,755**
Income tax expense	B2 a)	(4,062)	(3,612)	(4,062)	(3,612)
Net profit after tax attributable to members		**9,984**	**8,143**	**9,984**	**8,143**
Other comprehensive income					
Revaluation of Available-For-Sale Financial Assets	C3	250	4	250	4
Revaluation of Property, Plant and Equipment		730	-	730	-
Income tax relating to components of other comprehensive income	B2 b)	(294)	(1)	(294)	(1)
Other comprehensive income for the year, net of tax		**686**	**3**	**686**	**3**
Total comprehensive income for the year		**10,670**	**8,146**	**10,670**	**8,146**

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 30 June 2018

		Consolidated		Parent	
	Notes	2018 $'000	2017 $'000	2018 $'000	2017 $'000
ASSETS					
Cash and cash equivalents	B3	80,233	89,212	74,974	82,665
Held-To-Maturity Financial Assets	C4	163,725	138,654	163,725	138,654
Loans and advances to members	C2	1,144,110	1,064,096	1,282,810	1,202,796
Trade and other receivables	C6	5,910	8,409	6,360	8,671
Available-For-Sale Financial Assets	C3	1,379	1,129	1,379	1,129
Land and buildings	F4	3,000	2,424	3,000	2,424
Plant and equipment		2,715	3,544	2,715	3,544
Intangible Assets - computer software		862	892	862	892
Current Tax assets		1,311	436	1,311	436
Deferred tax assets	B2 b)	1,294	2,214	1,294	2,214
Total Assets		**1,404,539**	**1,311,010**	**1,538,430**	**1,443,425**
LIABILITIES					
Deposits	C1	1,269,157	1,176,723	1,269,157	1,176,723
Trade and other payables	C7	14,401	20,027	14,401	20,032
Employee Benefits	E1 b)	2,969	2,704	2,969	2,704
Provisions		160	380	160	380
Other Borrowings	C2 h)	-	-	133,891	132,410
Subordinated debt	D2	-	3,994	-	3,994
Total Liabilities		**1,286,687**	**1,203,828**	**1,420,578**	**1,336,243**
Net Assets		**117,852**	**107,182**	**117,852**	**107,182**
EQUITY					
Redeemable member shares	D3	678	657	678	657
Reserves	D4	1,454	768	1,454	768
Retained earnings		107,269	97,306	107,269	97,306
Contributed Equity		8,451	8,451	8,451	8,451
Total Equity		**117,852**	**107,182**	**117,852**	**107,182**

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
As at 30 June 2018

Consolidated

	Contributed Equity	Preference Shares	Member Shares	Other Reserves	Retained Earnings	Total
	$'000	$'000	$'000	$'000	$'000	$'000
Balance at 1 July 2016	8,451	-	674	766	89,146	99,037
Total Net profit after tax attributable to members	-	-	-	-	8,143	8,143
Revaluation of Available-For-Sale Financial Assets	-	-	-	2	-	2
Transfer to capital account on redemption of shares	-	-	(17)	-	17	-
Balance at 30 June 2017	**8,451**	**-**	**657**	**768**	**97,306**	**107,182**

	Contributed Equity	Preference Shares	Member Shares	Other Reserves	Retained Earnings	Total
	$'000	$'000	$'000	$'000	$'000	$'000
Balance at 1 July 2017	8,451	-	657	768	97,306	107,182
Total Net profit after tax attributable to members	-	-	-	-	9,984	9,984
Revaluation of Available-For-Sale Financial Assets	-	-	-	175	-	175
Revaluation of Property, Plant and Equipment	-	-	-	511	-	511
Transfer to capital account on redemption of shares	-	-	21	-	(21)	-
Balance at 30 June 2018	**8,451**	**-**	**678**	**1,454**	**107,269**	**117,852**

Parent

	Contributed Equity	Preference Shares	Member Shares	Other Reserves	Retained Earnings	Total
	$'000	$'000	$'000	$'000	$'000	$'000
Balance at 1 July 2016	8,451	-	674	766	89,146	99,037
Total Net profit after tax attributable to members	-	-	-	-	8,143	8,143
Revaluation of Available-For-Sale Financial Assets	-	-	-	2	-	2
Transfer to capital account on redemption of shares	-	-	(17)	-	17	-
Balance at 30 June 2017	**8,451**	**-**	**657**	**768**	**97,306**	**107,182**

	Contributed Equity	Preference Shares	Member Shares	Other Reserves	Retained Earnings	Total
	$'000	$'000	$'000	$'000	$'000	$'000
Balance at 1 July 2017	8,451	-	657	768	97,306	107,182
Total Net profit after tax attributable to members	-	-	-	-	9,984	9,984
Revaluation of Available-For-Sale Financial Assets	-	-	-	175	-	175
Revaluation of Property, Plant and Equipment	-	-	-	511	-	511
Transfer to capital account on redemption of shares	-	-	21	-	(21)	-
Balance at 30 June 2018	**8,451**	**-**	**678**	**1,454**	**107,269**	**117,852**

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

CONSOLIDATED STATEMENT OF CASH FLOWS
For the Year Ended 30 June 2018

		Consolidated		Parent	
	Notes	2018	2017	2018	2017
CASH FLOW FROM OPERATING ACTIVITIES		$'000	$'000	$'000	$'000
Interest received		60,372	57,124	63,898	60,329
Dividends received		31	-	31	-
Fees and commissions received		10,586	6,403	6,417	5,539
Other income		371	305	6,837	5,309
Interest paid		(20,929)	(19,860)	(26,988)	(25,264)
Payments to suppliers and employees		(36,798)	(30,502)	(36,755)	(30,568)
Income taxes paid		(5,441)	(4,752)	(5,441)	(4,752)
(Increase)/Decrease in operating assets					
Net increase in member loans		(80,014)	(117,097)	(80,014)	(134,797)
Increase/(Decrease) in operating liabilities					
Net increase in member deposits		92,434	123,443	92,434	123,443
Net increase in borrowings (securitisation)		-	-	1,481	26,705
Net cash provided (used) by operating activities	B3 c)	**20,612**	**15,064**	**21,900**	**25,944**
CASH FLOW FROM INVESTING ACTIVITIES					
Payments for held-to-maturity financial assets		(24,538)	(19,339)	(24,538)	(19,339)
Payments for available-for-sale financial assets		-	(500)	-	(500)
Proceeds from sale of property, plant and equipment		33	80	33	80
Payments for property, plant and equipment		(627)	(787)	(627)	(787)
Purchase of intangible assets		(465)	(759)	(465)	(759)
Net cash (used in) investing activities		**(25,597)**	**(21,305)**	**(25,597)**	**(21,305)**
CASH FLOW FROM FINANCING ACTIVITIES					
Net proceeds (repayment) of subordinated debt issue		(3,994)	15	(3,994)	15
Net proceeds from buy-back of preference share issue		-	1,460	-	1,460
Net cash (used in) financing activities		**(3,994)**	**1,475**	**(3,994)**	**1,475**
Total net increase (decrease) in cash held		(8,979)	(4,766)	(7,691)	6,114
Cash at the beginning of year		89,212	93,978	82,665	76,551
Cash and cash equivalents at the end of year	B3 a)	**80,233**	**89,212**	**74,974**	**82,665**

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

A ABOUT THIS REPORT

Corporate Information

The financial statements of Regional Australia Bank Ltd ("the Company") for the year ended 30 June 2018 were authorised for issuance in accordance with a resolution of the Directors on 28 September 2018.

Regional Australia Bank Ltd changed company name from Community Mutual Ltd on 1 May 2018 and is a company domiciled in Australia.

The consolidated financial statements as at and for the year ended 30 June 2018 comprise Regional Australia Bank 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 2018 (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 Technology Park, Madgwick Drive, Armidale NSW 2350.

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

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.

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.

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, Consolidated Statement of Financial Position, Consolidated Statement of Changes in Equity and Consolidated Statement of Cash Flows. All inter-company transactions and balances have been eliminated on consolidation including any unrealised profit.

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.

Accounting Policies

(i) Financial Assets

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; and
- 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.

(ii) 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.

Other significant accounting policies can be found next to the note to which they relate.

A ABOUT THIS REPORT (Continued)

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) 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.

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.

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.

New accounting standards and interpretations

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 July 2018. The Group's assessment of these new standards and interpretations is set out below:

i) AASB 9 Financial Instruments

AASB 9 Financial Instruments (AASB 9) became effective for the Group on 1 July 2018 and addresses classification and measurement of financial instruments, impairment of financial assets and general hedge accounting. The Group has determined that AASB9 will have an impact with regards to the following:

Loan impairment provisions
AASB 9 introduces a new expected credit loss ("ECL") model and requires the categorisation of the loan book into 12 months ECL and lifetime ECL. The 12 months ECL is from the date a financial asset is first recognised ("Stage 1"), lifetime ECL if the credit risk on that financial asset has significantly increased since the initial recognition ("Stage 2") and for assets that are assessed as credit impaired ("Stage 3"). The Group engaged an independent expert to prepare an initial gap analysis and impact assessment. The Group is now preparing a new model resulting from the application of AASB 9 and the impact is currently assessed to be up to an increase of $1,400,000 to loan impairment provisions, which once the quantification of is finalised, will be adjusted through equity on 1 July 2018.

C*lassification and measurement of financial instruments*
Under AASB 9, the Held-to-Maturity (HTM) and Available-for-Sale (AFS) asset categories will no longer be used as classifications for financial instruments. The new standard requires assets to be classified as either Amortised Cost, Fair Value Through Profit and Loss (FVTPL) and Fair Value Through Other Comprehensive Income (FVTOCI). Financial instruments whose classification are no longer allowed under AASB 9 require assessment to determine their new classification and fair value going forward. The Group have considered the changes required in classification and measurement of financial instruments. At reporting date the fair value of HTM and AFS financial instruments is not materially different from their carrying amount. The assessment of the impact of the classification and measurement requirements on loans and receivables is ongoing.

Hedging
The Group does not currently have any hedge position and thus AASB 9 hedging provisions are not applicable.

ii) AASB 15 Revenue from Contracts with Customers

AASB 15 Revenue from Contract with Customers (AASB 15) became effective for the Group on 1 July 2018 and applies to contracts with customers (except for contracts that are within the scope of the standards on leases and financial instruments). It replaces existing revenue recognition guidance, including AASB 118 Revenue, AASB 111 Construction Contracts and IFRIC 13 Customer Loyalty Programmes.

The Group has evaluated data sources & systems capabilities. Interest income is the primary source of revenue for the Group which falls under the effective interest method under AASB 9 and outside the scope of AASB15. Certain loan interest and commission payment arrangements require individual assessment to accurately reflect treatment of these revenue streams under AASB 15, however it is not likely that these inputs will be material.

iii) AASB 16 Leases

AASB 16 Leases (AASB 16) introduces a single lessees accounting model that requires a lessees to recognise assets (right to use an underlying asset) and liabilities (obligation to make lease payments) for all leases with a term of more than 12 months unless the underlying asset is of low value.

AASB 16 is effective for annual reporting periods beginning on or after 1 June 2019. The Group is currently assessing the potential quantitative impact of the application of AASB 16.

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

Events After Balance Sheet Date

There have been no significant events occurring after balance date which may effect either the Company's operations of results of operations or the Company's state of affairs.

B OUR BUSINESS PERFORMANCE

B1 INCOME AND INTEREST EXPENSE

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 once a right to receive consideration has been established.

	Consolidated		Parent	
	2018	2017	2018	2017
	$'000	$'000	$'000	$'000
Interest Income				
Cash and cash equivalents	1,705	1,314	1,705	1,314
Held to Maturity Financial Assets	3,921	3,559	3,921	3,559
Loans and advances to members	54,621	51,506	54,605	51,506
Interest income accrued on impaired financial assets	204	223	204	223
Other interest income	308	320	103	129
Interest income on notes receivable from securitisation trust	-	-	3,746	3,397
Total interest income	**60,759**	**56,922**	**64,284**	**60,128**
Interest Expense				
Deposits	20,797	19,500	20,796	19,500
Lease Liabilities	-	4	-	4
Subordinated debt	126	340	126	340
Other Borrowings	-	-	6,060	5,405
Amortisation of debt raising facility	6	16	6	16
Total interest expense	**20,929**	**19,860**	**26,988**	**25,265**
Net Interest Income	**39,830**	**37,062**	**37,296**	**34,863**
Non-Interest Income				
Loan fees	1,332	1,285	1,208	1,285
Transaction fees	3,176	3,410	3,176	3,410
Insurance commissions	1,056	1,071	1,056	1,071
Payment Systems Income	1,247	1,074	1,247	1,074
Bad debts recovered	231	223	231	223
Other non-interest income	140	83	2,751	2,282
Total non-interest income	**7,182**	**7,146**	**9,669**	**9,345**
Total Net Operating Income	**47,012**	**44,208**	**46,965**	**44,208**

B2 TAX

a) Income Tax

The income tax expense or income 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 the 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.

	Consolidated		**Parent**	
	2018	**2017**	**2018**	**2017**
Numerical reconciliation of income tax expense to prima facie tax payable:	**$'000**	**$'000**	**$'000**	**$'000**
Profit from continuing operations before income tax expense	14,046	11,755	14,046	11,755
Prima facie tax calculated at 30% payable on the profit (2017: 30%)	4,213	3,526	4,214	3,526
Add tax effect of:				
Imputation credits	(9)	-	(9)	-
Sundry items	129	86	129	86
(Over)/Under-provision for income tax in prior year	(271)	-	(271)	-
Income tax attributable to profit	**4,062**	**3,612**	**4,062**	**3,612**
Current tax charge	3,436	3,637	3,436	3,637
Deferred Tax	626	(144)	626	(144)
	4,062	**3,494**	**4,062**	**3,494**

b) Deferred Tax Assets and Liabilities

The balance comprises temporary differences attributable to:

	Consolidated 2018	**Consolidated 2017**	**Parent 2018**	**Parent 2017**
Deferred tax assets				
Plant, property and equipment	-	532	-	532
Doubtful debts	710	820	710	820
Employee leave benefits	891	811	891	811
Accrued expenses	41	31	41	31
Other	48	114	48	114
	1,690	2,308	1,690	2,308
Deferred tax liabilities				
AFS investment	(168)	(94)	(168)	(94)
Property Plant and Equipment	(219)		(219)	
Other	(9)	-	(9)	-
	(396)	(94)	(396)	(94)
Net deferred tax assets	1,294	2,214	1,294	2,214
Movements:				
Opening balance at 1 July	2,214	2,071	2,214	2,071
Credited/(charged) to the income statement	(626)	144	(626)	144
Closing balance at 30 June	1,294	2,214	1,294	2,214
Deferred tax assets to be recovered after more than 12 months	89	145	89	145
Deferred tax assets to be recovered within 12 months	1,601	2,163	1,601	2,163
	1,690	2,308	1,690	2,308
Deferred tax liabilities to be recovered after more than 12 months	-	94	-	94
Deferred tax liabilities to be recovered within 12 months	396	-	396	-
	396	94	396	94

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

c) Franking Account

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

	Consolidated 2018	**Consolidated 2017**	**Parent 2018**	**Parent 2017**
Franking account balance as at the end of the financial year at 30% (2017: 30%)	41,054	36,257	41,054	36,257
Franking credits that will arise from payment of income tax payable as at the end of the financial year	4,316	4,797	4,316	4,797
Franking credits that will arise from receipt of dividends recognised as receivables as at the end of the financial year	13	-	13	-
Franking account balance for future reporting periods	**45,383**	**41,054**	**45,383**	**41,054**

B3 CASH AND CASH EQUIVALENTS

Cash and short-term deposits in the consolidated 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 Consolidated Statement of Cash Flows, cash and cash equivalents consist of cash and cash equivalents net of outstanding bank overdrafts.

a) Parent and Consolidated Reconciliations of cash

For the purposes of the consolidated 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 consolidated statement of cash flows is reconciled to the related items in the consolidated statement of financial position as follows:

	Consolidated		Parent	
	2018 $'000	2017 $'000	2018 $'000	2017 $'000
Cash on hand	11,454	14,311	6,195	7,764
Short term deposits	68,779	74,901	68,779	74,901
Total cash and cash equivalents	**80,233**	**89,212**	**74,974**	**82,665**

The entity's exposure to interest rate risk is discussed in Note C5. 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.

b) Cash flows presented on a net basis

Cash flows arising from the following activities are presented on a net basis in the consolidated 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; and
- provision of member loans and the repayment of such loans.

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

	Consolidated 2018 $'000	Consolidated 2017 $'000	Parent 2018 $'000	Parent 2017 $'000
Profit after income tax	9,984	8,143	9,984	8,143
Non-cash flows in profit after income tax:				
Net movement in revaluation of property, plant and equipment and investments	686	3	686	3
Amortisation of Intangible Assets	424	420	424	420
Amortisation of Debt Raising facility	6	17	6	17
Depreciation	1,030	934	1,030	934
Net movement in Provision for loan impairment	(95)	418	(95)	418
Changes in assets and liabilities:				
(Increase) in member loans (gross)	(79,919)	(117,515)	(79,919)	(135,215)
(Increase)/decrease in receivables	2,499	(92)	2,311	1,848
(Increase)/decrease in other assets	(295)	(485)	(295)	(485)
(Increase)/decrease in available-for-sale	-	-	-	-
(Increase)/decrease in deferred tax asset	618	(138)	618	(138)
Increase/(decrease) in provisions	45	64	45	63
Increase/(decrease) in deposits	92,434	123,443	92,434	123,443
Increase/(decrease) in income taxes payable	(878)	(1,027)	(878)	(1,027)
Increase/(decrease) in deferred tax liability	(302)	5	(302)	5
Increase/(decrease) in other borrowings (securitisation)	-	-	1,481	26,705
Increase/(decrease) in trade and other payables	(5,625)	874	(5,630)	810
Net cash provided by (used in) operating activities	**20,612**	**15,064**	**21,900**	**25,944**

C BANKING ACTIVITIES AND RISK MANAGEMENT

C1 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 expense on savings is brought to account on an accrual basis. Interest is recognised on an effective interest basis.

	Consolidated		Parent	
	2018 $'000	**2017 $'000**	**2018 $'000**	**2017 $'000**
Member call deposits (including members' shares)	766,654	701,995	766,654	701,995
Member term deposits	502,503	474,728	502,503	474,728
Total Deposits	**1,269,157**	**1,176,723**	**1,269,157**	**1,176,723**
a) *Deposit Maturity analysis*				
At call	766,654	701,995	766,654	701,995
Not longer than 3 months	224,498	208,778	224,498	208,778
Longer than 3 months and not longer than 6 months	122,827	119,129	122,827	119,129
Longer than 6 months and not longer than 12 months	109,089	102,567	109,089	102,567
Longer than 12 months	46,089	44,254	46,089	44,254
	1,269,157	**1,176,723**	**1,269,157**	**1,176,723**

C2 LOANS AND ADVANCES TO MEMBERS

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.

Loans and advances to members				
Personal Loans	73,109	77,474	73,109	77,474
Mortgage Loans	935,006	856,961	935,006	856,961
Commercial Loans	113,502	105,638	113,502	105,638
Revolving Credit	25,198	26,823	25,198	26,823
Total loans and advances	**1,146,815**	**1,066,896**	**1,146,815**	**1,066,896**
Notes receivable from securitisation trust	-	-	138,700	138,700
Total provision for impairment	(2,705)	(2,800)	(2,705)	(2,800)
Net loans and advances to members	**1,144,110**	**1,064,096**	**1,282,810**	**1,202,796**

a) 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 consolidated 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.

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, clear-out 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.

C2 LOANS AND ADVANCES TO MEMBERS (Continued)

a) Impairment of loans and advances (Continued)

Provision for impairments on loans and advances to members

	Parent and Consolidated				
	Personal Loans 2018 $'000	Mortgage Loans 2018 $'000	Commercial Loans 2018 $'000	Revolving Credit 2018 $'000	Total $'000
At 1 July 2017	578	1,049	1,116	57	**2,800**
Charge/(Recovery) for the year	468	10	(532)	(41)	**(95)**
At 30 June 2018	**1,046**	**1,059**	**584**	**16**	**2,705**
Individual impairment	-	737	441	-	**1,178**
Collective impairment	1,046	322	143	16	**1,527**
	1,046	**1,059**	**584**	**16**	**2,705**
Gross amount of loans in arrears	4,874	23,366	2,529	659	31,428

	Parent and Consolidated				
	Personal Loans 2017 $'000	Mortgage Loans 2017 $'000	Commercial loans 2017 $'000	Revolving Credit 2017 $'000	Total $'000
At 1 July 2016	390	1,001	956	34	**2,381**
Charge for the year	188	48	160	23	**419**
At 30 June 2017	**578**	**1,049**	**1,116**	**57**	**2,800**
Individual impairment	-	742	764	-	**1,506**
Collective impairment	578	307	352	57	**1,294**
	578	**1,049**	**1,116**	**57**	**2,800**
Gross amount of loans in arrears	4,242	16,424	2,359	716	23,741

	Consolidated		Parent	
	2018	**2017**	**2018**	**2017**
b) Bad and Doubtful Debts	**$'000**	**$'000**	**$'000**	**$'000**
Change in provision for impairment of loans & advances	(95)	419	(95)	419
Bad debts written off directly	831	645	831	645
	736	**1,064**	**736**	**1,064**

	Parent and Consolidated 2018	Parent and Consolidated 2017
c) Loan Maturity Analysis	**$'000**	**$'000**
Not longer than 3 months	8,984	7,344
Longer than 3 months and not longer than 12 months	7,979	9,993
Longer than 12 months and not longer than 5 years	107,757	103,368
Longer than 5 years	1,022,095	946,191
Total gross loans and advances to members	**1,146,815**	**1,066,896**
d) Loan Security dissection		
Secured by mortgage over Commercial property	84,088	81,279
Secured by mortgage over real estate	978,176	896,398
Partly secured by goods mortgage	47,531	54,865
Wholly unsecured	37,020	34,354
Total gross loans and advances to members	**1,146,815**	**1,066,896**

e) Loan to valuation ratio

The Group accepts a number of methods to value collateral for supporting loans. Real estate is valued utilising a licensed panel of valuers, the purchase price of arms length residential sales, Valuer General notices and market appraisals from real estate agents (a lower loan to valuation ratio is applied). 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:

Loan to valuation ratio of less than 80%	874,797	809,401
Loan to valuation ratio of more than 80% but mortgage insured	129,912	108,655
Loan to valuation ratio of more than 80% but not mortgage insured	57,556	59,671
Total loans secured by mortgage over real estate and commercial property	**1,062,265**	**977,727**

C2 LOANS AND ADVANCES TO MEMBERS (Continued)

f) 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 Northern NSW.

	Parent and Consolidated 2018 $'000	Parent and Consolidated 2017 $'000
New South Wales	1,082,662	1,012,363
Other	64,153	54,533
Total	**1,146,815**	**1,066,896**

g) Off-Balance sheet arrangements

The Group has arrangements with Integris Securitisation Services Pty Limited and Trinity Limited (arrangements with Trinity Limted ceased on 26 March 2018) 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 2018 is $863,124 (2017: $1,272,355).

h) 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's 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 $35,865,128 loans was transferred to the trust and the balance of securitised loans is $133,890,848 (2017: $132,410,609).

	Consolidated		Parent	
	2018	2017	2018	2017
	$'000	$'000	$'000	$'000
Loans assigned to the securitisation trust	-	-	133,891	132,410

C3 AVAILABLE-FOR-SALE FINANCIAL ASSETS

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 consolidated statement of profit or loss and other comprehensive income.

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 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 inputs for valuation techniques if available or historical cost. Refer to Note C5 (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 consolidated statement of profit and loss and other comprehensive income, the impairment loss is reversed through the consolidated statement of profit and loss and other comprehensive income.

	Consolidated		Parent	
	2018	2017	2018	2017
	$'000	$'000	$'000	$'000
Shares in unlisted companies				
Indue Ltd	872	623	872	623
Australian Settlements Limited	3	2	3	2
SocietyOne Holdings Pty Ltd	500	500	500	500
	1,375	1,125	1,375	1,125
Shares in listed companies				
Auswide Bank Ltd	4	4	4	4
Total available-for-sale financial assets	**1,379**	**1,129**	**1,379**	**1,129**

The fair value of the shareholding of Indue Ltd was based on a Net Asset Valuation basis performed in 2018 on a Net Assets and external valuation basis. Indue Ltd and Australia Settlements Limited were created to supply services to mutual banks, credit unions & building societies, they do not have an independent business focus. Australia Settlements Limited share are unlisted, not redeemable and valued on a historical cost basis. The shares in Indue Ltd and Australia Settlements Limited are held to enable the Group to receive essential banking services.

SocietyOne is an unlisted finance company and the shares are valued at historical cost which is deemed to be the most reliable estimate of fair value.

Auswide Bank Ltd is listed on the Australia Stock Exchange (ASX: ABA) and shares are valued at market price as at the balance date.

C4 HELD-TO-MATURITY FINANCIAL ASSETS

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.

	Consolidated		Parent	
	2018	2017	2018	2017
	$'000	$'000	$'000	$'000
ADI debt securities	163,725	138,654	163,725	138,654
Total held-to-maturity financial assets	**163,725**	**138,654**	**163,725**	**138,654**

C5 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 value of the Groups instruments held at 30 June 2018 is per the consolidated statement of financial position.

a) 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	
	2018	**2017**	**2018**	**2017**
Credit risk exposures relating to on balance sheet assets:	**$'000**	**$'000**	**$'000**	**$'000**
Cash and cash equivalents	80,233	89,212	74,974	82,665
Trade and other receivables	5,910	8,409	6,360	8,671
Loans and advances to members	1,146,815	1,066,896	1,285,515	1,205,596
Available-For-Sale Financial Assets	1,379	1,129	1,379	1,129
Held To Maturity Financial Assets	163,725	138,654	163,725	138,654
Total on balance sheet	1,398,062	1,304,300	1,531,953	1,436,715
Credit risk exposures relating to off balance sheet assets:				
Guarantees	1,639	885	1,639	885
Loan Repayments in advance	67,231	61,760	67,231	61,760
Undrawn loan commitments	61,153	57,259	61,153	57,259
Total off balance sheet	130,023	119,904	130,023	119,904
Total on and off balance sheet	1,528,085	1,424,204	1,661,976	1,556,619

(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; and
- 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 $15,000 (2017:$62,500) of real estate and other assets through the enforcement of security. As at period-end, the market value of assets in possession by the Group was $565,000 (2017:$10,000). 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) 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.

(iv) 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.

(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.

C5 FINANCIAL RISK MANAGEMENT (Continued)

a) Credit Risk (Continued)

(vi) 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.

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

30 June 2018	Parent and Consolidated				
	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	2,730	583	231	-	3,544
Mortgage Loans	17,424	2,047	1,215	982	21,668
Commercial Loans	790	22	-	199	1,011
Revolving Credit	259	34	13	-	306
Total	**21,203**	**2,686**	**1,459**	**1,181**	**26,529**

30 June 2017	Parent and Consolidated				
	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	2,014	437	307	-	2,758
Mortgage Loans	10,112	1,360	1,285	2,291	15,048
Commercial Loans	834	376	184	208	1,602
Revolving Credit	236	7	2	-	245
Total	**13,196**	**2,180**	**1,778**	**2,499**	**19,653**

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

Parent and Consolidated	2018			2017		
	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	6,007	1,178	4,829	6,346	1,506	4,840
Financial assets individually assessed as impaired	**6,007**	**1,178**	**4,829**	**6,346**	**1,506**	**4,840**

(ix) 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	
	2018	**2017**	**2018**	**2017**
	$'000	**$'000**	**$'000**	**$'000**
AAA	2,003	-	2,003	-
AA	112,357	90,870	107,106	84,323
A	62,583	78,038	62,583	78,038
BBB	25,040	25,620	25,040	25,620
Unrated	41,967	33,338	41,967	33,338
	243,950	227,866	238,699	221,319

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

30 June 2018	Parent and Consolidated			
	Housing	Commercial	Personal	Total
	$'000	$'000	$'000	$'000
Loans	935,006	113,502	73,109	1,121,617
Revolving Credit and Overdrafts	3,622	10,135	11,441	25,198
Total Balances	**938,628**	**123,637**	**84,550**	**1,146,815**
Percentage of portfolio	**81.8%**	**10.8%**	**7.4%**	**100.0%**
Maximum percentage under policy	**100.0%**	**17.0%**	**30.0%**	

30 June 2017	Housing	Commercial	Personal	Total
	$'000	$'000	$'000	$'000
Loans	856,006	106,789	77,221	1,040,016
Revolving Credit and Overdrafts	4,755	10,381	11,744	26,880
Total Balances	**860,761**	**117,170**	**88,965**	**1,066,896**
Percentage of portfolio	**80.7%**	**11.0%**	**8.3%**	**100.0%**
Maximum percentage under policy	**100.0%**	**17.0%**	**30.0%**	

C5 FINANCIAL RISK MANAGEMENT (Continued)

b) 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 and emergency funding tools 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:

	2018	2017
	%	%
30 June	15.25	14.51
Average during the period	15.03	14.58
Highest	16.57	16.53
Lowest	13.83	13.18

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.

Parent & Consolidated

Financial Liabilities	On demand	Less than 3 months	3 to 12 months	1 to 5 years	No Maturity	Total
As at 30 June 2018	$'000	$'000	$'000	$'000	$'000	$'000
Deposits	766,654	224,498	231,916	46,089	-	1,269,157
Trade and other payables	14,401	-	-	-	-	14,401
Subordinated debt	-	-	-	-	-	-
Total financial liabilities	**781,055**	**224,498**	**231,916**	**46,089**	**-**	**1,283,558**
Contingent liabilities	1,639	-	-	-	-	1,639
Commitments	106,886	21,498	201	1,237	-	129,822
Total other liabilities	**108,525**	**21,498**	**201**	**1,237**	**-**	**131,461**

Parent & Consolidated

Financial Liabilities	On demand	Less than 3 months	3 to 12 months	1 to 5 years	No Maturity	Total
As at 30 June 2017	$'000	$'000	$'000	$'000	$'000	$'000
Deposits	701,995	208,777	221,696	44,255	-	1,176,723
Trade and other payables	20,022	-	-	-	-	20,022
Subordinated debt	-	4,000	-	-	-	4,000
Total financial liabilities	**722,017**	**212,777**	**221,696**	**44,255**	**-**	**1,200,745**
Contingent Liabilities	885	-	-	-	-	885
Commitments	98,362	20,657	573	943	-	120,535
Total other liabilities	**99,247**	**20,657**	**573**	**943**	**-**	**121,420**

i) The table excludes a parent liability of $133,890,848 (2017: $132,410,609) over 5 years for self securitised mortgage loans referred to in Note C2 h)

C5 FINANCIAL RISK MANAGEMENT (Continued)

c) 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.

	Consolidated		Parent	
	2018	**2017**	**2018**	**2017**
	$'000	**$'000**	**$'000**	**$'000**
VaR exposure at 30 June	194	338	194	338
Average monthly VaR exposure	307	275	307	275
Maximum monthly VaR exposure	370	338	370	338
Minimum monthly VaR exposure	194	225	194	225

(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	(453)	(466)	(453)	(466)
1% shift downwards of interest rate impact to income statement	453	466	453	466

d) Fair Value Measurements of financial assets and liabilities

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).

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.

Held-to-maturity Financial Assets

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

Loans and advances to members

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.

Available-for-sale financial assets

Investments in unlisted and listed equity investments with a carrying value of $1,378,911 (2017: $1,125,714) were included in Available-for-Sale Investments as at 30 June 2018.
In 2018 the fair holding of Indue Ltd shares were revalued based on a Net Asset and external valuation basis.
All Available for Sale assets other than Auswide Bank Ltd (level 1) are categorised as level 3 within the fair value hierarchy of AASB 13. There is no immediate intention to dispose of these investments.

Deposits

For variable deposits, the carrying amount is a reasonable esimate of the fair value. The fair value for fixed deposits have been discounted using cash flow modelling.

As at 30 June 2018 and 2017 fair value approximates carrying value for all financial assets and financial liabilities.

C5 FINANCIAL RISK MANAGEMENT (Continued)

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.

C6 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.

	Consolidated		Parent	
	2018	2017	2018	2017
	$'000	$'000	$'000	$'000
Accrued Interest and other accrued income	1,161	665	1,161	665
Sundry debtors and settlement accounts	4,248	7,142	4,248	7,142
Intercompany receivable from securitisation trust	-	-	450	262
Prepayments	501	602	501	602
Total trade and other receivables	**5,910**	**8,409**	**6,360**	**8,671**

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.

C7 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.

Accrued interest payable	5,625	4,917	5,625	4,917
Sundry creditors and accrued expenses	2,080	2,630	2,080	2,630
Clearing accounts	6,696	12,480	6,696	12,480
Payable to securitisation trust	-	-	-	5
Total trade and other payables	**14,401**	**20,027**	**14,401**	**20,032**

D CAPITAL MANAGEMENT

D1 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 activities 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 *APS 110: Capital Adequacy* .

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 2018 $'000	Consolidated 2017 $'000
Common Equity Tier 1 Capital	110,731	100,039
Additional Tier 1 Capital	-	-
Tier 2 Capital	3,085	5,840
Total Capital	**113,816**	**105,879**
Risk Weighted Assets	702,472	668,981
Risk-based Capital Ratio	**16.20%**	**15.83%**

D2 SUBORDINATED DEBT

In November 2012 the Company issued subordinated debt instruments with an aggregate issuance price of $4,000,000 and for net proceeds (after transaction costs) of $3,917,113.

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. The company exercised its discretion to redeem, in full, the subordinated debt instruments on 20 December 2017 following APRA approval. Subordinated debt costs were amortised over the life of the debt.

	Consolidated 2018 $'000	Consolidated 2017 $'000	Parent 2018 $'000	Parent 2017 $'000
Balance at end of year	**-**	**3,994**	**-**	**3,994**

The subordinated debt instruments were issued on the following terms and conditions:

- issued in Australian dollars;
- unsecured debt instruments;
- 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 (from November 2017);
- may be redeemed by the Company subject to APRA approval; and
- matures in 2022.

D3 REDEEMABLE MEMBER SHARES

	Consolidated 2018	Consolidated 2017	Parent 2018	Parent 2017
Opening balance	657	674	657	674
Transfer from/(to) retained earnings	21	(17)	21	(17)
Closing balance	**678**	**657**	**678**	**657**

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.

D4 RESERVES

	Consolidated		Parent	
	2018	2017	2018	2017
Other reserves	$'000	$'000	$'000	$'000
Land and Buildings revaluation reserve	1,058	547	1,058	547
Available-for-sale investments revaluation reserve	396	221	396	221
Total other reserves	**1,454**	**768**	**1,454**	**768**
Movements:				
Land and Buildings revaluation reserve				
Opening balance	547	547	547	547
Movement in Land and Building revaluation reserve	511	-	511	-
Balance at end of year	**1,058**	**547**	**1,058**	**547**
Available-for-sale investments revaluation reserve				
Opening balance	221	219	221	219
Movement in Available for sale investments revlauation reserve	175	2	175	2
Balance at end of year	**396**	**221**	**396**	**221**

E EMPLOYEE BENEFITS

E1 EMPLOYEE BENEFITS

	Consolidated		Parent	
	2018	2017	2018	2017
a) Employee benefits expense	$'000	$'000	$'000	$'000
Salaries and wages	13,326	13,539	13,326	13,539
Superannuation expense	1,172	1,150	1,172	1,150
Other employee benefits expense	2,389	1,984	2,389	1,984
	16,887	**16,673**	**16,887**	**16,673**

b) Provision for Employee benefits

Liabilities for wages, 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. In determining the present value of the liability, attrition rates and pay increases through promotion and inflation have been taken into account. 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.

Current				
Annual leave	1,102	1,027	1,102	1,027
Long service leave	1,397	1,290	1,397	1,290
Total current provisions	**2,499**	**2,317**	**2,499**	**2,317**
Non-current				
Long service leave	470	387	470	387
Total non current provisions	**470**	**387**	**470**	**387**
Total provisions	**2,969**	**2,704**	**2,969**	**2,704**

E2 RELATED PARTY DISCLOSURES

a) 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	Consolidated and Parent
	2018	2017
	$	$
Short-term employee benefits	2,867,599	2,680,679
Superannuation contributions	187,583	180,886
Total remuneration of Key Management Personnel	**3,055,182**	**2,861,565**

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

E2 RELATED PARTY DISCLOSURES (Continued)

b) Loans to Key Management Personnel (KMP)

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 (a) above.

There are no benefits or concessional terms and conditions applicable to the close family members of the Key Management Personnel.

	Consolidated and Parent 2018 $	Consolidated and Parent 2017 $
(i) The aggregate value of loans to Key Management Personnel as at balance date:	6,713,034	6,270,667
(ii) The total value of revolving credit facilities to Key Management Personnel as at balance date:	65,000	50,000
(iii) Less amounts drawn down and included in total loans above	(14,024)	(18,633)
Net revolving credit facilities available	**50,976**	**31,367**
Fixed term loans disbursed to Key Management Personnel during the year	1,166,000	1,874,528
Average balance of revolving credit facilities	29,292	16,170
Total loans disbursed to Key Management Personnel	**1,195,292**	**1,890,698**
Interest and other revenue earned on loans and revolving credit facilities to Key Management Personnel	205,698	208,078
Provision for doubtful debts of Key Management Personnel	-	-

c) Deposits from Key Management Personnel

	2018 $	2017 $
Total value of term and savings deposits from Key Management Personnel	725,484	871,747
Total interest paid on deposits to Key Management Personnel	9,098	19,676

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.

d) 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 that are an interested party.

F OTHER DISCLOSURES

F1 REMUNERATION OF AUDITORS

	Consolidated		Parent	
	2018	**2017**	**2018**	**2017**
Remuneration of the auditor for:	**$**	**$**	**$**	**$**
● Statutory & Regulatory Audits	176,000	161,385	176,000	161,385
● Advisory Services	46,125	9,738	46,125	9,738
● Taxation Services	22,758	12,300	22,758	12,300
Total remuneration of auditors	**244,883**	**183,423**	**244,883**	**183,423**

F2 COMMITMENTS

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

a) 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 ten 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.

	Consolidated		Parent	
	2018	**2017**	**2018**	**2017**
Future minimum rentals payable under non-cancellable operating leases are as follows:	**$'000**	**$'000**	**$'000**	**$'000**
Not longer than 1 year	201	573	201	573
Longer than 1 and not longer than 5 years	1,237	943	1,237	943
Total operating lease commitments	**1,438**	**1,516**	**1,438**	**1,516**

b) 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	21,498	20,657	21,498	20,657
Loan Repayments in advance	67,231	61,760	67,231	61,760
Undrawn lines of commitment	39,655	36,602	39,655	36,602
	128,384	**119,019**	**128,384**	**119,019**

F3 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 $1,638,888 (2017: $885,096).

F4 LAND AND BUILDINGS

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.

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

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.

The Armidale head office property was last revalued based on an independent assessment by MVS National Valuations and Property Consulting as at June 2018.

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.

	Consolidated		Parent	
	2018	2017	2018	2017
(a) Land and buildings	**$'000**	**$'000**	**$'000**	**$'000**
At valuation	3,000	2,500	3,000	2,500
Less accumulated depreciation	-	(76)	-	(76)
	3,000	**2,424**	**3,000**	**2,424**

(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
2018	**Land & Buildings**
	$'000
Balance at the beginning of the year	2,424
Revaluation increment	618
Depreciation expense	(42)
Carrying amount	**3,000**

	Parent and Consolidated
2017	**Land & Buildings**
	$'000
Balance at the beginning of the year	2,465
Depreciation expense	(41)
Carrying amount	**2,424**

DECLARATION BY DIRECTORS

The Directors of Regional Australia Bank 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 2018 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; and

(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

Michael Fenech
Director

28 September 2018

KPMG

Independent Auditor's Report

To the members of Regional Australia Bank Ltd

Opinion

We have audited the ***Financial Report*** of Regional Australia Bank Ltd (the Company).

In our opinion, the accompanying Financial Report of the Company is in accordance with the *Corporations Act 2001*, including:

- giving a true and fair view of the ***Group*** and ***Company***'s financial position as at 30 June 2018 and of their financial performance for the year ended on that date; and
- complying with *Australian Accounting Standards* and the *Corporations Regulations 2001*.

The ***Financial Report*** comprises:

- Statements of financial position as at 30 June 2018;
- Statements of profit or loss and other comprehensive income, statements of changes in equity, and statements of cash flows for the year then ended;
- Notes including a summary of significant accounting policies;
- Directors' Declaration.

The ***Group*** consists of the Company and the entities it controlled at the year-end or from time to time during the financial year.

Basis for opinion

We conducted our audit in accordance with *Australian Auditing Standards*. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Financial Report* section of our report.

We are independent of the Group and Company in accordance with the *Corporations Act 2001* and the ethical requirements of the *Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the Financial Report in Australia. We have fulfilled our other ethical responsibilities in accordance with the Code.

Other Information

Other Information is financial and non-financial information in Regional Australia Bank Ltd's annual reporting which is provided in addition to the Financial Report and the Auditor's Report. The Directors are responsible for the Other Information.

Our opinion on the Financial Report does not cover the Other Information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the Financial Report, our responsibility is to read the Other Information. In doing so, we consider whether the Other Information is materially inconsistent with the Financial Report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We are required to report if we conclude that there is a material misstatement of this Other Information, and based on the work we have performed on the Other Information that we obtained prior to the date of this Auditor's Report we have nothing to report.

Responsibilities of the Directors for the Financial Report

The Directors are responsible for:

- preparing the Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001*
- implementing necessary internal control to enable the preparation of a Financial Report that gives a true and fair view and is free from material misstatement, whether due to fraud or error
- assessing the Group and Company's ability to continue as a going concern and whether the use of the going concern basis of accounting is appropriate. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Group and Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Financial Report

Our objective is:

- to obtain reasonable assurance about whether the Financial Report as a whole is free from material misstatement, whether due to fraud or error; and
- to issue an Auditor's Report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with *Australian Auditing Standards* will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the Financial Report.

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

KPMG

Michael O Connell

Partner

Sydney

28 September 2018

notes

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