Hume Bank

Hume Bank Limited (from 1 July 2014)
Hume Building Society Ltd (to 30 June 2014)
ABN 85 051 868 556
AFSL No. 244248
Australian Credit Licence No. 244248

APS 330 - Public Disclosure of Prudential Information

as at 30th June 2014

Capital Structure as at 30th June 2014

The capital disclosures detailed in the Common Disclosure Template represents the post 1 January 2018 Basel III common disclosure requirements. Hume Bank Limited (Hume) is applying the Basel III regulatory adjustments in full as implemented by APRA. The Common Disclosures Template should be read in conjunction with Hume's Regulatory Balance Sheet and Capital Reconciliation.

APRA Row Ref	Common Disclosure Template		Reconciliation Table Ref or item no. on Balance Sheet
Common Equity Tier 1 capital: instruments and reserves		**A$m**	
1	Directly issued qualifying ordinary shares (and equivalent for mutually-owned entities) capital	-	
2	Retained earnings	57.50	19
3	Accumulated other comprehensive income (and other reserves)	1.64	Table A
4	*Directly issued capital subject to phase out from CET1 (only applicable to mutually-owned companies)*	-	
5	Ordinary share capital issued by subsidiaries and held by third parties (amount	-	
6	**Common Equity Tier 1 capital before regulatory adjustments**	59.14	
Common Equity Tier 1 capital: regulatory adjustments			
7	Prudential valuation adjustments	-	
8	Goodwill (net of related tax liability)	-	
9	Other intangibles other than mortgage servicing rights (net of related tax liability)	-	
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	-	
11	Cash-flow hedge reserve	-	
12	Shortfall of provisions to expected losses	-	
13	Securitisation gain on sale (as set out in paragraph 562 of Basel II framework)	-	
14	Gains and losses due to changes in own credit risk on fair valued liabilities	-	
15	Defined benefit superannuation fund net assets	-	
16	Investments in own shares (if not already netted off paid-in capital on reported balance sheet)	-	
17	Reciprocal cross-holdings in common equity	-	
18	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the ADI does not own more than 10% of the issued share capital (amount above 10% threshold)	-	
19	Significant investments in the ordinary shares of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions (amount above 10% threshold)	-	
20	Mortgage service rights (amount above 10% threshold)	-	

21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	-	
22	Amount exceeding the 15% threshold	-	
23	of which: significant investments in the ordinary shares of financial entities	-	
24	of which: mortgage servicing rights	-	
25	of which: deferred tax assets arising from temporary differences	-	
26	National specific regulatory adjustments (sum of rows 26a, 26b, 26c, 26d, 26e, 26f, 26g, 26h, 26i and 26j)	(1.66)	
26a	of which: treasury shares	-	
26b	of which: offset to dividends declared under a dividend reinvestment plan (DRP), to the extent that the dividends are used to purchase new ordinary shares issued by the ADI	-	
26c	of which: deferred fee income	0.44	Table D
26d	of which: equity investment in financial institutions not reported in rows 18, 19 and 23	(0.20)	7
26e	of which: deferred tax assets not reported in rows 10, 21 and 25	(1.45)	Table C
26f	of which: capitalised expenses	(0.45)	10
26g	of which: investments in commercial (non-financial) entities that are deducted under APRA prudential requirements	-	
26h	of which: covered bonds in excess of asset cover in pools	-	
26i	of which: undercapitalisation of a non-consolidated subsidiary	-	
26j	of which: other national specific regulatory adjustments not reported in rows 26a to 26i	-	
27	Regulatory adjustments applied to Common Equity Tier 1 due to insufficient Additional Tier 1 and Tier 2 to cover deductions	-	
28	**Total regulatory adjustments to Common Equity Tier 1**	(1.66)	
29	**Common Equity Tier 1 Capital (CET1)**	57.48	
Additional Tier 1 Capital: instruments			
30	Directly issued qualifying Additional Tier 1 instruments	-	
31	of which: classified as equity under applicable accounting standards	-	
32	of which: classified as liabilities under applicable accounting standards	-	
33	*Directly issued capital instruments subject to phase out from Additional Tier 1*	-	
34	Additional Tier 1 instruments (and CET1 instruments not included in row 5) issued by subsidiaries and held by third parties (amount allowed in group AT1)	-	
35	*of which: instruments issued by subsidiaries subject to phase out*	-	
36	**Additional Tier 1 Capital before regulatory adjustments**	-	

Additional Tier 1 Capital: regulatory adjustments			
37	Investments in own Additional Tier 1 instruments	-	
38	Reciprocal cross-holdings in Additional Tier 1 instruments	-	
39	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the ADI does not own more than 10% of the issued share capital (amount above 10% threshold)	-	
40	Significant investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)	-	
41	National specific regulatory adjustments (sum of rows 41a, 41b and 41c)	-	
41a	of which: holdings of capital instruments in group members by other group members on behalf of third parties	-	
41b	of which: investments in the capital of financial institutions that are outside the scope of regulatory consolidations not reported in rows 39 and 40	-	
41c	of which: other national specific regulatory adjustments not reported in rows 41a and 41b	-	
42	Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover deductions	-	
43	**Total regulatory adjustments to Additional Tier 1 capital**	-	
44	**Additional Tier 1 capital (AT1)**	-	
45	**Tier 1 Capital (T1=CET1+AT1)**	57.48	
Tier 2 Capital: instruments and provisions			
46	Directly issued qualifying Tier 2 instruments	-	
47	*Directly issued capital instruments subject to phase out from Tier 2*	1.60	Table B
48	Tier 2 instruments (and CET1 and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties (amount allowed in group T2)	-	
49	of which: instruments issued by subsidiaries subject to phase out	-	
50	Provisions (Reserves)	1.20	Table A
51	**Tier 2 Capital before regulatory adjustments**	2.80	
Tier 2 Capital: regulatory adjustments			
52	Investments in own Tier 2 instruments	-	
53	Reciprocal cross-holdings in Tier 2 instruments	-	
54	Investments in the Tier 2 capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the ADI does not own more than 10% of the issued share capital (amount above 10% threshold)	-	
55	Significant investments in the Tier 2 capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions	-	
56	National specific regulatory adjustments (sum of rows 56a, 56b and 56c)	-	
56a	of which: holdings of capital instruments in group members by other group members on behalf of third parties	-	
56b	of which: investments in the capital of financial institutions that are outside the scope of regulatory consolidation not reported in rows 54 and 55	-	
56c	of which: other national specific regulatory adjustments not reported in rows 56a and 56b	-	
57	**Total regulatory adjustments to Tier 2 capital**	-	
58	**Tier 2 capital (T2)**	2.80	
59	**Total capital (TC=T1+T2)**	60.28	
60	**Total risk-weighted assets based on APRA standards**	398.37	

	Capital Ratios and Buffers		
61	Common Equity Tier 1 (as a percentage of risk-weighted assets)	14.43%	
62	Tier 1 (as a percentage of risk-weighted assets)	14.43%	
63	Total capital (as a percentage of risk-weighted assets)	15.13%	
64	Buffer requirement (minimum CET1 requirement of 4.5% plus capital conservation buffer of 2.5% plus any countercyclical buffer requirements expressed as a percentage of risk-weighted assets)	7.00%	
65	*of which: capital conservation buffer requirement*	2.50%	
66	*of which: ADI-specific countercyclical buffer requirements*	0.00%	
67	*of which: G-SIB buffer requirement (not applicable)*		
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk-weighted assets)	7.13%	
National minima (if different from Basel III)			
69	National Common Equity Tier 1 minimum ratio (if different from Basel III minimum)		
70	National Tier 1 minimum ratio (if different from Basel III minimum)		
71	National total capital minimum ratio (if different from Basel III minimum)		
Amount below thresholds for deductions (not risk-weighted)			
72	Non-significant investments in the capital of other financial entities	-	
73	Significant investments in the ordinary shares of financial entities	-	
74	Mortgage servicing rights (net of related tax liability)	-	
75	Deferred tax assets arising from temporary differences (net of related tax liability)	-	
Applicable caps on the inclusion of provisions in Tier 2			
76	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardised approach (prior to application of cap)	1.20	
77	Cap on inclusion of provisions in Tier 2 under standardised approach	1.20	
78	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to internal ratings-based approach (prior to application of cap)	-	
79	Cap for inclusion of provisions in Tier 2 under internal ratings-based approach	-	
Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2018 and 1 Jan 2022)			
80	*Current cap on CET1 instruments subject to phase out arrangements*	-	
81	*Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities*	-	
82	*Current cap on AT1 instruments subject to phase out arrangements*	-	
83	*Amount excluded from AT1 instruments due to cap (excess over cap after redemptions and maturities)*	-	
84	*Current cap on T2 instruments subject to phase out arrangements*	-	
85	*Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)*	-	

Capital Instruments

Disclosure template for main features of Regulatory Capital instruments		
1	Issuer	Hume Building Society Ltd
2	Unique identifier	n/a
3	Governing law(s) of the instrument	New South Wales
	Regulatory treatment	
4	Transitional Basel III rules	Tier 2
5	Post-transitional Basel III rules	Ineligible
6	Eligible at solo/group/group & solo	Solo and group
7	Instrument type	Subordinated notes
8	Amount recognised in Regulatory Capital	$1.6m
9	Par value of instrument	$2.0m
10	Accounting classification	Liability - amortised cost
11	Original date of issuance	9th November 2012
12	Perpetual or dated	Dated
13	Original maturity date	9th November 2022
14	Issuer call subject to prior supervisory approval	Yes
15	Optional call date	9th November 2017, multiples of $100,000
16	Subsequent call dates	Quarterly (interest payment dates), multiples of $100,000
	Coupons/dividends	
17	Fixed or floating	Floating
18	Coupon rate	BBSW plus Margin of 593bps
19	Existence of dividend stopper	n/a
20	Fully discretionary, partially discretionary or mandatory	Mandatory
21	Existence of step up or incentive to redeem	No
22	Noncumulative or cumulative	Noncumulative
23	Convertible or non-convertible	Non-convertible
24	If convertible, conversion trigger(s)	n/a
25	If convertible, fully or partially	n/a
26	If convertible, conversion rate	n/a
27	If convertible, mandatory or optional conversion	n/a
28	If convertible, specify instrument type convertible into	n/a
29	If convertible, specify issuer of instrument it converts into	n/a
30	Write-down feature	No
31	If write-down, write-down trigger(s)	n/a
32	If write-down, full or partial	n/a
33	If write-down, permanent or temporary	n/a
34	If temporary write-down, description of write up mechanism	n/a
35	Position in subordination hierarchy in liquidation	Unsecured, ranks behind creditors
36	Non-compliant transitioned features	Yes
37	If yes, specify non-compliant features	No write down or convertible to equity feature

Capital Adequacy as at 30th June 2014

	$
Capital requirements for credit risk	
Claims on ADIs	42,165,333
Claims secured by residential mortgages	217,870,220
Other retail claims	63,994,427
Other assets	9,909,942
Off balance sheet exposures	10,208,862
Total capital requirement for credit risk	344,148,784
Capital requirements for operational risk	
Capital requirement for operational risk	54,220,886
Total capital requirements (Risk Weighted Assets)	**398,369,670**

Capital adequacy ratio	
Common Equity Tier 1 capital adequacy ratio	14.43%
Tier 1 capital adequacy ratio	14.43%
Total capital adequacy ratio	15.13%

Credit Risk as at 30th June 2014

Total gross credit risk exposure	**Gross Exposure**	**Average over the quarter**
	$	**$**
On balance sheet		
Cash, ADI deposits and investment securities	219,431,167	222,655,162
Loans and advances	672,147,270	670,798,050
Other assets	9,909,942	9,531,884
Total on balance sheet credit risk exposures	901,488,379	902,985,096
Off balance sheet		
Loans approved not yet advanced	21,082,795	19,283,244
Guarantees	1,945,833	2,032,546
Undrawn credit limits	26,510,967	26,383,205
Forward asset purchase	-	-
Interest rate contracts	91,233	97,705
Total off balance sheet credit risk exposures	49,630,828	47,796,700
Total credit risk exposures	**951,119,207**	**950,781,796**

Credit risk exposure by portfolio	**Gross exposure**	**Average over the quarter**
	$	**$**
Cash and Claims on ADIs	219,431,167	222,655,163
Claims secured by residential mortgages	635,306,367	632,227,408
Other retail claims	86,380,498	86,269,636
Other assets	10,001,175	9,629,589
Total credit risk exposures	951,119,207	950,781,796

Credit risk exposure by portfolio	**Impaired facilities**	**Past due facilities**	**Specific provision**	**Charges for specific provisions**	**Write-offs**
	$	**$**	**$**	**$**	**$**
Cash and Claims on ADIs					
Claims secured by residential mortgages	4,002	2,036,376	4,002	(30,116)	26,634
Other retail claims	481,647	491,915	331,636	31,010	33,862
Other assets					
Total credit risk exposures	485,649	2,528,291	335,638	894	60,496

General reserve for credit losses	**$**
General reserve for credit losses	1,195,109

Securitisation Exposures as at 30th June 2014

Hume has established an internal securitisation of residential mortgages, linked to a repurchase agreement facility with the Reserve Bank of Australia, as a liquidity contingency. Hume has not derecognised these loans from the statement of financial position. No capital releif has been obtained under APS 120 Securitisation.

Type of Securitisation Exposure	**Exposure**
	$
Residential mortgage loans securitised during current quarter	-
Residential mortgage securitised loans - on balance sheet exposures at end of quarter	114,888,605

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Regulatory Capital Reconciliation as at 30th June 2014

Row Ref	Balance Sheet	2014 A$m	Common Disclosure Reference
	Assets		
1	Cash and cash equivalents	42.90	
2	Receivables due from other financial institutions	67.87	
3	Investment securities	108.66	
4	Trade and other receivables	1.17	
5	Derivative financial instruments	0.02	
6	Loans and advances	671.70	see Table D
7	Other investments	0.20	Row 26d
8	Investment property	1.75	
9	Property, plant and equipment	6.99	
10	Intangible assets	0.45	Row 26f
11	Deferred tax assets	1.46	see Table C
	Total assets	**903.17**	
	Liabilities		
12	Deposits	826.97	
13	Trade and other payables	11.11	
14	Income tax payable	0.57	
15	Deferred tax liabilities	0.01	see Table C
16	Provision for employee benefits	2.17	
17	Borrowings	2.00	see Table B
	Total liabilities	**842.83**	
	Net assets	**60.34**	
	Members' funds		
18	Reserves	2.84	see Table A
19	Retained earnings	57.50	Row 2
	Total members' funds	**60.34**	

Reconciliation between Common Disclosures Template and Balance Sheet

Table A: Reserves	A$m	Common Disclosure Reference
Asset revaluation reserve	1.04	
Capital profits reserve	0.59	
Cash flow hedge reserve	0.01	
Total Tier 1 reserves	**1.64**	Row 3
General reserve for credit losses (included in Tier 2)	1.20	Row 50
Total reserves per balance sheet	**2.84**	

Table B: Subordinated Debt	A$m	Common Disclosure Reference
Borrowings per balance sheet	2.00	
Less: regulatory amortisation (Basel III transitional)	(0.40)	
Total Subordinated Debt (included in Tier 2)	**1.60**	Row 47

Table C: Deferred Tax Assets	A$m	Common Disclosure Reference
Future income tax benefit per balance sheet	1.46	
Deferred tax liability per balance sheet	(0.01)	6
Total deferred tax assets (Tier 1 adjustments)	**1.45**	Row 26e

Table D: Loans & Advances: Deferred Loan Fees	A$m	Common Disclosure Reference
Loans & advances before deferred fees and costs	672.48	
Less: deferred loan fees (net)	(0.44)	Row 26c
Less: provision for impairment	(0.34)	
Total loans & advances per balance sheet	**671.70**	

Remuneration Disclosures

Qualitative Disclosures

(a)

Hume's Remuneration and Succession Committee oversees the Bank's remuneration process.

Hume's Remuneration and Succession Committee Charter is reviewed annually and was last approved by the Board on the 16th October 2014. The charter outlines the purpose, responsibilities, membership and meeting requirements of the Committee.

The purpose of the Remuneration and Succession Committee is to assist the Board by:
- Making recommendations on the suitability of candidates for Director and CEO vacancies;
- Conducting annual review of fit and proper and independence; and
- Reviewing remuneration and making recommendations to the Board.

The members of the Remuneration and Succession Committee during the year were:
- Michael Conrad Gobel (Chairperson) - Independent Non-Executive Director (member from November 2013)
- Stuart James Gilchrist - Independent Non-Executive Director (member until February 2014)
- William Thomas Hanrahan - Non-Independent Non-Executive Director
- Karyl Denise Osborne - Independent Non-Executive Director
- Feynella Joy Stocker - Independent Non-Executive Director

The Remuneration and Succession Committee Charter requires the committee to meet as required, but at least bi-annually.

No external consultants have been engaged in connection with Hume's remuneration process during the past year. Industry benchmarks and externally available data are used to obtain industry and other relevant comparisons.

Hume's Remuneration and Reward Policy was approved by the Board in April 2014. This policy provides a framework for attracting and retaining staff by offering a competitive remuneration and reward structure. The policy applies to all staff.

The number of Senior Managers and Material Risk Takers are as follows:

Type of employees	Number
Senior Managers	6
Material Risk Takers	Nil
Total Senior Managers and Material Risk Takers	6

Hume's Senior Managers are responsible for planning, directing and controlling the activities of the company and include the Chief Executive Officer, General Manager Finance and Administration, General Manager Customer Service, Sales and Marketing, General Manager Information Technology, General Manager Human Resources and Risk Manager.

(b)

Hume's Remuneration and Reward Policy affirms its commitment to fairly remunerating and rewarding employees in accordance with their contribution and responsibility.

Hume aims to develop and grow as a viable Bank that attracts, retains and motivates talented employees. It adopts remuneration practices that takes into consideration a competitive employment market, sustaining business profitability and supporting the Risk Management Framework. To this end, and within the bounds set by legislation and other industrial agreements, Hume sets remuneration policy to support a productive and performance focused culture.

The Remuneration and Reward Policy was reviewed by the Remuneration and Succession Committee in April 2014 before being considered by the Board in April 2014. The scope of the policy was updated to include an assessment of the Remuneration and Rewards Policy’s effectiveness and compliance with the requirements of CPS510.

Risk and financial control personnel are paid a fixed remuneration that reflects their core performance requirements and expectations associated with the particular position. These personnel may be eligible to be paid an annual bonus as outlined in section (d). The annual bonus incorporates Hume's overall financial performance and performance against other non financial Key Performance Indicators (KPI's) and not departmental performance. KPI's for these roles do not include sales, marketing or other risk-taking related outcomes.

(c)	Hume's Risk Management Framework identifies that offering uncompetitive remuneration will impact Hume's ability to recruit and retain skilled employees. As such, Hume's Remuneration and Reward Policy supports the Risk Management Framework to ensure that quality employees are employed, retained and are appropriately remunerated in accordance with their responsibilities and experience. It also recognises that Hume must adopt remuneration practices that strike a balance between sustaining business profitability and managing in a competitive employment market. The key measures used to take into account these risks and how they affect remuneration include: • Annual external benchmarking surveys to ensure appropriate remuneration practices are maintained; • Annual employee engagement survey (which measures employee engagement with remuneration and reward practices) to identify any areas of concern and implement actions to address those concerns; and • Annual employee appraisals to ensure that performance demonstrates the skills and experiences required of the role and meet Hume's strategic objectives. The nature of and type of these measures have not changed over the past year.
(d)	Hume's remuneration comprises of the following: <u>Fixed component</u> Consisting of salary and wages, FBT benefits, leave entitlements and employer superannuation contributions. <u>Variable component (annual bonus)</u> An annual bonus is offered to all staff, including senior managers, but excluding the CEO, to recognise the contribution staff make to the overall business results. The objective of the bonus is to engage staff with the total business performance and payment will be made upon the achievement of both corporate Key Performance Indicators (KPIs) and individual performance as determined through appraisal results. The quantum of total and individual bonus payments varies depending upon Company and individual performance.
(e)	There is currently no mechanism for Hume to reward longer-term performance. Remuneration is based on a fixed salary provided to the Senior Manager and is approved by the CEO or the Board within the guidelines established in the Remuneration and Reward Policy. There is no deferred remuneration provided to managers other than the employee statutory entitlements.
(f)	The annual bonus is generally paid in cash. With prior agreement, the bonus, or part thereof, may be paid directly to the employee's superannuation fund or converted to additional leave.

Qualitative Disclosures

(g) During the year, the Remuneration and Succession Committee met six times. The remuneration paid to its members was as follows:

Remuneration to the Remunerations and Succession Committee Members	**$**
Total Remuneration and Succession Committee fees	42,750
Other remuneration	228,585
Total remuneration	271,335

(h)

Senior Managers	**No.**	**$**
Variable remuneration paid - annual bonus	5	20,599
Guarantee bonuses	-	-
Sign-on award	-	-
Severance payment	-	-

(i)

Senior Managers	**$**
Deferred remuneration outstanding	-
Deferred remuneration paid	-

(j)

Senior Managers - Total Value of Remuneration Awards for the Current Financial Year	**Unrestricted ($)**	**Deferred ($)**
Fixed Remuneration		
Cash based	1,026,940	-
Shares	-	-
Other	206,944	-
Variable Remuneration		
Cash based	19,581	-
Shares	-	-
Other	1,018	-
Total	1,254,483	-

(k)

Senior Managers	**$**
Total amount of outstanding deferred remuneration and retained remuneration exposed to ex post explicit and/or implicit adjustments.	-
Total amount of reductions during the financial year due to ex pose explicit adjustments.	-
Total amount of reductions during the financial year due to ex post implicit adjustments.	-