Members Equity Bank Limited

ABN: 56 070 887 679

Annual Financial Report

For the financial year ended 30 June 2021

Members Equity Bank Limited

Annual financial report for the financial year ended 30 June 2021

General Information

Australian Business Number
56 070 887 679

Directors

J Evans	Chairman (resigned 1 July 2021)
C Bart	(resigned 1 July 2021)
P Everingham	(resigned 1 July 2021)
D Issa	(resigned 1 July 2021)
C Christian	(resigned 31 July 2020)
D Kiers	(appointed 31 July 2020, resigned 1 July 2021, re-appointed 5 August 2021)
J Nesbitt	(resigned 31 December 2020)
J Arthur	(appointed 1 January 2021, resigned 1 July 2021)
D Atkin	(appointed 1 January 2021, resigned 1 July 2021)

P Allaway	Chairman (appointed 1 July 2021)
G Frazis	(appointed 1 July 2021)
K Bailey-Lord	(appointed 1 July 2021, resigned 5 August 2021)
B Carter	(appointed 1 July 2021)
K Penrose	(appointed 1 July 2021)
J Lorimer	(appointed 1 July 2021)
W Negus	(appointed 1 July 2021)
M Rosen	(appointed 1 July 2021)

Chief Executive Officer

A Crane	(appointed 1 August 2020, resigned 1 September 2021)
J McPhee	(resigned 31 July 2020)

Chief Financial Officer

K Christie	(appointed 15 September 2020, resigned 30 June 2021)
A Crane	(resigned 31 July 2020, appointed Chief Executive Officer 1 August 2020)

Company Secretary

N Allton	(appointed 1 July 2021)
F Daly	(appointed 1 July 2021)
T Ooi	(appointed 4 January 2021, resigned 1 July 2021)
J Brand	(resigned 8 January 2021)

Auditors
Deloitte Touche Tohmatsu
477 Collins Street
Melbourne VIC 3000

Registered office
Level 6
100 Skyring Terrace
Newstead QLD 4006

Country of incorporation
Australia

Country of domicile
Australia

Regulatory Disclosures
The regulatory disclosures required by Australian Prudential Regulation Authority (APRA) Prudential Standard APS330 are located on the Company's website at www.mebank.com.au.

Members Equity Bank Limited

Annual financial report
for the financial year ended 30 June 2021

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The directors of Members Equity Bank Limited ("the Company") submit herewith the annual financial report of "the Group" (being the Company and its subsidiaries) for the financial year ended 30 June 2021.

In order to comply with the provisions of the Corporations Act 2001, the directors' report as follows:

Directors
The names of the directors of the Company during or since the end of the financial year are:

J Evans	Chairman (resigned 1 July 2021)
C Bart	(resigned 1 July 2021)
P Everingham	(resigned 1 July 2021)
D Issa	(resigned 1 July 2021)
C Christian	(resigned 31 July 2020)
D Kiers	(appointed 31 July 2020, resigned 1 July 2021, re-appointed 5 August 2021)
J Nesbitt	(resigned 31 December 2020)
J Arthur	(appointed 1 January 2021, resigned 1 July 2021)
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P Allaway	Chairman (appointed 1 July 2021)
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B Carter	(appointed 1 July 2021)
K Penrose	(appointed 1 July 2021)
J Lorimer	(appointed 1 July 2021)
W Negus	(appointed 1 July 2021)
M Rosen	(appointed 1 July 2021)

Principal activities
The principal activities of the Group during the financial year comprised:
- provision of banking services under a banking licence;
- funding, management, and servicing of residential and consumer lending portfolios; and
- carrying out associated funding activities for off balance sheet portfolios.

Dividends
A dividend of $60.0 million was paid on 31 March 2021 (2020: $nil). The directors do not recommend the payment of a dividend in respect of the financial year ended 30 June 2021.

The Group has paid $10,998,456 of fully franked dividends during the year with respect to the perpetual Capital Notes issued (2020: $12,990,576).

Review of operations and results
Profit for the year ended 30 June 2021 was $112.6 million (2020: $80.8 million).

Subsequent events
On 22 February 2021, it was announced that Bank of Queensland Limited (“BOQ”) would acquire 100% of the ordinary share capital in the Company pursuant to a share sale and purchase deed. On 1 July 2021, BOQ completed the acquisition of the Company. The Company continues to operate as a separate Authorised Deposit Taking Institution (ADI) in the short term.

Post-acquisition on 1 July 2021, the Group is in the process of being integrated into BOQ and has been reviewing its Intangible asset balances. The Group has been assessing the impact of accounting policy harmonisation for capitalisation of intangible assets and the strategic direction of certain capital inflight initiatives. In addition, contributing to the development of the BOQ Group technology roadmap. No decisions have been made with regard to future technology projects that would impact intangible assets as at 30 June 2021.

The Group is currently subject to legal proceedings in the Federal Court whereby management estimate the likely outcome for ME Bank is a fine or penalty. Based on additional information received post year end management in conjunction with external legal advice have assessed the matter and concluded a reliable estimate of the potential fines or penalties can be established which have been recorded as at 30 June 2021.

Directors' report (continued)

Impact of COVID-19

The Group has worked closely with regulators, the Australian Banking Association and other key stakeholder on the design and execution of its COVID-19 support for customers. Over the course of the year, the Group has supported its customers through the financial challenges posed by COVID-19 and provided assistance through short term repayment deferrals. The Group remains dedicated to assisting its customers throughout this on-going uncertainty.

In the prior year the Group recorded additional credit provisions of $42 million for the expected loss impact of COVID-19 and continues to maintain this provision in the current financial year. The Group continues to meet and exceed the capital requirements of regulators and has in place a business model and strategy designed to withstand the COVID-19 pandemic.

Corporate governance statement

The Group's approach to corporate governance is based on the belief that in order to encourage the long-term growth of the Group and meet the interests of shareholders, it is important to address the relationships between Board, executive management, shareholders, customers, the community and other stakeholders (including regulators) through appropriate policies and processes. The Board's approach is cognisant of the ASX Corporate Governance Council Corporate Governance Principles and Recommendations and other better practice guides to ensure that the Group's governance standards meet both industry and community expectations. The Board remains committed to achieving the highest standard of internal corporate governance wherever appropriate, including promotion of gender diversity across the organisation. In addition, the Board is governed by the requirements of APRA including those contained in ADI Prudential Standards.

Board Composition

The composition of the Board is determined in accordance with the Company's Constitution and the following guidelines:

- The Board maintains a majority of independent non-executive directors; and
- The Board comprises directors with the right mix of relevant attributes, skills, knowledge and experience.

In accordance with the Board Renewal Policy, the directors are rotated through the mechanisms contained in the Company's Constitution, which require a third of directors to retire in each year, with a three-year rotation period for each director. Directors retiring by rotation may stand for re-appointment. This process is used to periodically review and recommend changes in the composition of the Board. In addition, each director must satisfy the Board’s Fit and Proper Policy.

The Constitution provides, amongst other matters, that directors may not hold office for more than 3 years without standing for re-election. Retiring directors are eligible for re-election.

The Board has a diverse range of experience in banking and financial services as well as in other sectors. The experience of the Board members is set out below.

James Evans - Non-Executive Director
Director since April 2019 (resigned 1 July 2021)
James is a veteran of the Australian business community with over 40 years’ experience, including 30 years in banking and financial services. He brings a wealth of leadership experience, particularly across financial and risk management areas, and has a strong track record leading large complex businesses to deliver profitable and sustainable growth. He worked at Commonwealth Bank for more than 10 years including five as Chief Risk Officer of Wealth Management during which time he held directorships in funds management, general insurance, life insurance and lease financing businesses. Jim has served as the chairman of Suncorp Portfolio Services Limited and as a non-executive director of Australian Infrastructure Fund Limited as well as Hastings Funds Management Limited. He is currently chairman of ASX 200 listed company Pendal Group Limited and its major subsidiary JO Hambro Capital Management Holdings Limited. He is also a non-executive director of Investa Wholesale Funds Management Limited, ICPF Holdings Limited and ASX listed company Autosports Group Ltd.
Prior to his resignation as a Director of the Company on 1 July 2021 following the acquisition of the Company by BOQ, James was Chairman of the Board and was a member of the People & Remuneration, Risk & Compliance and Audit & Governance Committees.

Cheryl Bart AO – Non-Executive Director
Director since July 2016 (resigned 1 July 2021)
Cheryl is a highly accomplished leader across the fields of business, finance, energy, economics, digital, and culture, and as an adventurer and mountain climber. She started her career as a lawyer with Mallesons Stephen Jaques, in the banking and finance practice. Since then she has built and maintained a diverse non-executive director portfolio, and in 2009 Cheryl was awarded an AO for services to South Australia in economic and cultural development, leadership, work with welfare organisations and contribution to sport. Cheryl is currently Chairman of Powering Australian Renewables, Chairman of TEDxSydney and a non-executive director of SG Fleet Group Ltd and Audio Pixels Holding Ltd. Cheryl was a non-executive director for the highly successful Invictus Games 2018, as well as the AFC Asian Cup Australia. Cheryl has a diverse portfolio background, chairing both committees and boards across the utilities, energy, funds management, auto-finance and leasing, broadcasting, technology and infrastructure sectors.
Previous non-executive directorships include Chairman, ANZ Trustees Ltd, Chairman, Environment Protection Authority, Spark Infrastructure Ltd, SA Power, South Australian Film Corporation and the Australian Broadcasting Corporation.

Directors' report (continued)

Cheryl Bart AO – Non-Executive Director (cont)
Director since July 2016 (resigned 1 July 2021)
Prior to her resignation as a Director of the Company on 1 July 2021 following the acquisition of the Company by BOQ, Cheryl was Chairman of the Digital Committee and a member of the People & Remuneration Committee and Special Issues, Regulatory and Compliance Committee.

Christine Christian - Non-Executive Director
Director since November 2012 (resigned 31 July 2020)
Christine was the Chair of the Special Issues Regulatory and Compliance Committee (from its inception on 18 February 2020 until its discontinuation on 31 July 2020) and Chair of the Risk and Compliance Committee and a member of the Audit and Governance Committee until her retirement from the Board in July 2020. Christine is currently Chair of Auctus Investments Limited (ASX:AVC), and holds non-executive director roles with Humm Group Limited (ASX:HUM), Credit Clear Limited (ASX:CCR), Lonsec Financial Group and MaxCap Group. Christine is also President, Library Board of Victoria and Council Member of La Trobe University. She has more than 35 years' experience in senior executive roles in Australia and overseas, primarily in financial services, credit risk, private equity, investment, Government and media – including 14 years as CEO of Dun & Bradstreet Australia and New Zealand, Chair of D&B Consumer Credit Services, and Executive Director of Dun & Bradstreet India.

Peter Everingham - Non-Executive Director
Director since April 2019 (resigned 1 July 2021)
Peter is a seasoned executive with over 25 years' corporate experience including 18 years in the digital sector. Peter is currently a director of Super Retail Group and a director of iCar Asia. He is also a governor and director of the World Wide Fund for Nature, Australia. He was formerly managing director of SEEK Limited's International Division and served as a non-executive director of its education businesses: IDP Education, Online Education Services, and THINK Education. He was also chairman of SEEK's China subsidiary, Zhaopin Limited. Prior to SEEK, Peter was Director of Strategy for Yahoo! in Australia and Southeast Asia.

Prior to his resignation as a Director of the Company on 1 July 2021 following the acquisition of the Company by BOQ, Peter was a member of the Audit & Governance, Digital and People & Remuneration Committees.

David Issa - Non-Executive Director
Director since March 2019 (resigned 1 July 2021)
David is currently a director at Industry Fund Services Limited and IFS Insurance Solutions Pty Ltd, and has over 30 years' experience in the digital, technology, banking and insurance industries. His previous roles include Director of Superpartners, CEO of online consumer networks One Big Switch and FiftyUp Club as well as CEO of Personal Insurance and CIO at Insurance Australia Group. At Westpac Banking Corporation, David held roles including CIO at Institutional Banking Group, Program Director at Westpac Investing, and CEO of the bank's wholly owned software incubator Qvalent.

Prior to his resignation as a Director of the Company on 1 July 2021 following the acquisition of the Company by BOQ, David was Chair of the Risk and Compliance Committee (from 3 August 2020) and a member of the Audit & Governance, Digital, Risk and Compliance and Special Issues, Regulatory and Compliance Committees.

Deborah Kiers - Non-Executive Director
Director since July 2020 (resigned 1 July 2021)(re-appointed 5 August 2021)
Deborah brings over 30 years of strategic, advisory and consulting experience to boards and executive management teams across a wide range of industries including Financial Services, Energy and Resources, Industrials, Property, Infrastructure and Regulated Utilities, both in Australia and internationally. As Managing Director of JMW Consultants (Asia Pacific), Deborah's support for companies included strategic advice, business model transformations, M&A integration, leadership transition and development for CEOs, executive teams and board directors, as well as building synergies between culture, performance and remuneration strategies. Deborah is currently a Non-Executive Director at IFM Investors and holds the position of Chair of the IFM Board Responsible Investment and Sustainability Committee and is a member of the Board Audit and Risk Committee. She is also a Non-Executive Director of the Tiverton Agriculture Impact Fund.

Prior to her resignation as a Director of the Company on 1 July 2021, Deborah was Chair of the People & Remuneration and a member of the Risk and Compliance Committees. Deborah has since been re-appointed to the Board of the Company following her recent appointment to the Board of BOQ where she is a member of the People, Culture & Remuneration, Audit, Risk, Transformation & Technology, Investment, and Nomination & Governance Committees. She is a member of the Company's Audit and Risk and Compliance Committees.

Directors' report (continued)

John Nesbitt - Non-Executive Director
Director since February 2017 (resigned 31 December 2020)
John was Chair of the Audit and Governance Committee as well as a member of the Risk and Compliance Committee until his retirement from the Board in December 2020, and was a member of the Special Issues Regulatory and Compliance Committee (from 15 June 2020 until its discontinuation on 31 July 2020) and the Nominations Committee (from its reconstitution on 8 June 2020). John retired from all non-executive directorship roles during the 2021 year. John has 45 years' experience in banking and financial services, property, infrastructure, technology and chartered accounting including through his previous roles as CEO of Suncorp Banking and Wealth, Group Chief Financial Officer (CFO) of Suncorp Group Limited as well as Group CFO and Group Executive Private Wealth at Perpetual Limited and CFO roles at Lend Lease Corporation Limited.

John Arthur - Non-Executive Director
Director since 1 January 2021 (resigned 1 July 2021)

John Arthur's career has spanned private practice in the legal profession, senior executive roles, and non-executive directorships of listed public companies. More specifically he has served as a partner of legal firm Freehills, Chairman of legal firm Gilbert + Tobin, General Counsel of Lend Lease Corporation, Managing Director and Chief Executive of the Investa Property Group, and Chief Operating Officer at Westpac Banking Corporation. John also served as a non-executive director of (amongst others) CSR Limited, Rinker Group Limited and EDS Australia Pty Limited. John retired from his executive responsibilities at Westpac Banking Corporation in late 2016. He then consulted to Westpac on a broad range of sensitive issues until late 2020.
John currently Chairs the Board of Sydney Metro, the NSW Government agency responsible for the design, construction and operation of Sydney's new heavy rail network. He is also a member of the Optus Advisory Committee.

Prior to his resignation as a Director of the Company on 1 July 2021 following the acquisition of the Company by BOQ, John was Chair of the Audit & Governance Committee and a member of the Risk and Compliance Committee.

David Atkin - Non Executive Director
Director since 1 January 2021 (resigned 1 July 2021)

David recently served as the Deputy CEO for AMP Capital and was previously the CEO for Cbus (the Super fund for the construction & building industry) for almost 13 years, where he saw membership grow from 500k to over 750k members and assets under management from $12B to 55B$. He was Chair of SuperFriend a not-for-profit mental health foundation focused on creating mentally healthy workplaces until the end of his term in July of this year, a member of the Australian Sustainable Finance Initiative Steering Committee (2018-2020) and has been appointed onto the Climate Council Board in November 2020.
David was also the Australian asset owner representative on the UN PRI Board (2009-2015), an alternate Director on the Australian Council of Superannuation Investors (2013-2020), a member of the Male Champions for Change Initiative (2018-2020) and a Pay Equity Ambassador on behalf of the Workplace Gender Equality Agency (WGEA) (2016-2020). David has a BA Hons University of Melbourne, Master of Arts Latrobe University and a Diploma of Financial Services and was recognised with distinguished alumni award from La Trobe University for his work in sustainable finance field, awarded the FEAL Fund Executive of the Year in 2017 and ASFA Life membership in 2020.

Prior to his resignation as a Director of the Company on 1 July 2021 following the acquisition of the Company by BOQ David was a member of the Digital Committee.

Patrick Allaway - Chairman
Director since 1 July 2021

Patrick was appointed as a Non-Executive Director of the Company on 1 July 2021 following the acquisition of the Company by BOQ. He has extensive senior executive, non-executive, and corporate advisory experience across the financial services, property, media, and retail sectors. Patrick's executive career was in financial services with Citibank and Swiss Bank Corporation (now UBS) working in Sydney, New York, Zurich, and London. He was Managing Director SBC Capital Markets & Treasury with direct responsibility for a global business. Patrick brings over 30 years of experience in financial services across financial markets, capital markets, and corporate advisory. This included an advisory role in the media sector, responding to considerable digital disruption.
He has over 15 years of Non-Executive Director experience and was formerly a Non-Executive Director of Macquarie Goodman Industrial Trust, Metcash Limited, Fairfax Media, Woolworths South Africa, David Jones, Country Road Group, and Nine Entertainment Co. He chaired the Audit & Risk Committees for Metcash, David Jones, and Country Road Group.
Patrick is currently a Non-Executive Director of Allianz Australia and Dexus Funds Management Limited and a member of the Adobe International Advisory Board. He is Chairman of BOQ's Board, Investment, and Nomination & Governance Committees and is a member of BOQ's People, Culture & Remuneration, Audit, Transformation & Technology and Risk Committees.

Patrick is Chair of the Company and a member of the Audit and Risk and Compliance Committees.

Directors' report (continued)

George Frazis- Executive Director
Director since 1 July 2021

George was appointed as an Executive Director of the Company on 1 July 2021 following the acquisition of the Company by BOQ. George joined BOQ as Managing Director and CEO in September 2019 and has over 26 years of corporate experience. He has a long history in Banking and Finance, having worked in the industry for the past 17 years. Most recently he was Chief Executive of Westpac Group's Consumer Bank. Prior to that George was CEO, St. George Banking Group and Chief Executive, Westpac New Zealand Limited.

George has held senior executive roles at National Australia Bank, Commonwealth Bank of Australia, as well as Air New Zealand. He started his career as an officer in the Royal Australian Air Force.

Kathleen Bailey-Lord **–** *Non-Executive Independent Director*
Director since 1 July 2021 (resigned 5 August 2021)

Kathleen was appointed as a Non-Executive Director of the Company on 1 July 2021 following the acquisition of the Company by BOQ. She is an experienced company director and corporate advisor and is currently a Non-Executive Director of Alinta Energy Limited, QBE Insurance (AUSPAC), Melbourne Water, and Monash College. Kathleen was a Non-Executive Director of BOQ from May 2019 until her resignation in August 2021.

She has 20 years of senior executive experience across Australia, New Zealand, and Asia and has led businesses through complex and transformational change, often leveraging digital solutions to enable new business models. Her experience spans the technology industry at IBM, financial services at ANZ Bank, professional services, and marketing/media. Kathleen currently sits on the AICD Victorian Council and the AICD Technology, Governance and Innovation Panel (pro bono roles) and is a member of Chief Executive Women.

Kathleen was a member of the Audit and Risk and Compliance Committees.

Bruce Carter **–** *Non-Executive Independent Director*
Director since 1 July 2021

Bruce was appointed as a Non-Executive Director of the Company on 1 July 2021 following the acquisition of the Company by BOQ. He was a founding Managing Partner of Ferrier Hodgson South Australia, a corporate advisory and restructuring business, and has worked across a number of industries and sectors in the public and private sectors. He has been involved with a number of state government-appointed restructures and reviews, including chairing a task force to oversee the government's involvement in major resource and mining infrastructure projects. Bruce had a central role in a number of key government economic papers, including the Economic Statement on South Australian Prospects for Growth, the Sustainable Budget Commission, and the Prime Minister's 2012 GST Distribution Review. Bruce has worked with all the major financial institutions in Australia. Before Ferrier Hodgson, Bruce was at Ernst & Young for 14 years, including four years as Partner in Adelaide. During his time at Ernst & Young, he worked across the London, Hong Kong, Toronto, and New York offices. He is the Chair of the Australian Submarine Corporation, Aventus Capital Limited and One Rail Australia Boards, and a Non-Executive Director of Crown Resorts Limited, AIG Australia Ltd, and Sage Group Holdings Ltd.

Bruce is a Non-Executive Director of BOQ, is the Chair of its Risk Committee and a member of the Audit, Transformation & Technology, Investment, People, Culture & Remuneration, and Nomination & Governance Committees.

Bruce is Chair of the Company's Risk and Compliance Committee and a member of the Company's Audit Committee.

Karen Penrose **–** *Non-Executive Independent Director*
Director since 1 July 2021

Karen was appointed as a Non-Executive Director of the Company on 1 July 2021 following the acquisition of the Company by BOQ. She is an experienced non-executive director and banker. As a banker, Karen has 20 years of experience leading businesses within Commonwealth Bank of Australia and HSBC and over ten years in accounting and finance roles. She has particular expertise in the financial services, health, property, resources, and energy sectors. Karen is a Non-Executive Director of Vicinity Centres Limited, Ramsay Health Care Limited, Estia Health Limited, and Rugby Australia Limited. She was formerly a Non-Executive Director of AWE Limited, Spark Infrastructure Group, Landcom, and Future Generation Global Investment Company Limited. She is a member of Chief Executive Women.
Karen is a Non-Executive Director of BOQ, is Chair of its Audit Committee and is a member of the People, Culture & Remuneration, Risk, Transformation & Technology, Investment, and Nomination & Governance Committees.

Karen is the Chair of the Company's Audit Committee and is a member of its Risk and Compliance Committee.

Directors' report (continued)

John Lorimer – Non-Executive Independent Director
Director since 1 July 2021

John was appointed as a Non-Executive Director of the Company on 1 July 2021 following the acquisition of the Company by BOQ. He has spent more than 30 years in financial services and held executive roles in Australia, Asia, and Europe. John's most recent executive roles were in the United Kingdom where he was Group Head of Finance and then Group Head of Regulatory Risk and Compliance for Standard Chartered Bank. He also held a number of management positions in the retail bank of Citigroup and served as the Chairman of CAF Bank Limited (a subsidiary of Charities Aid Foundation based in the United Kingdom). In addition, he was a Non-Executive Director of Aberdeen New Dawn Investment Trust plc and International Personal Finance plc.
Currently, John is a Non-Executive Director of Bupa Australia Pty Ltd and Bupa Aged Care Holdings Pty Ltd, Chairman of Bupa (Asia) Ltd, a Non-Executive Director of BOQ and a member of BOQ's Transformation & Technology, Risk, People, Culture & Remuneration, Audit, and Nomination & Governance Committees.

John is a member of the Company's Audit and Risk and Compliance Committees.

Warwick Negus – Non-Executive Independent Director
Director since 1 July 2021

Warwick was appointed as a Non-Executive Director of the Company on 1 July 2021 following the acquisition of the Company by BOQ. He brings more than 30 years of finance industry experience in Asia, Europe, and Australia. His most recent executive roles include Chief Executive Officer of 452 Capital, Chief Executive Officer of Colonial First State Global Asset Management, and Goldman Sachs Managing Director in Australia, London, and Singapore. He was also a Vice President of Bankers Trust Australia and a Director of the University of NSW (UNSW) Foundation and FINSIA.
Warwick is Chair of Pengana Capital Group and a Non-Executive Director of Washington H Soul Pattinson & Co Ltd, Dexus Funds Management Limited, Virgin Australia Holdings Pty Ltd, and Terrace Tower Group. He is a member of the Council of UNSW and Chair of UNSW Global Limited.
Warwick is a Non-Executive Director of BOQ, Chair of its People, Culture & Remuneration Committee and a member of the Audit, Risk, Transformation & Technology, Investment, and Nomination & Governance Committees.

Warwick is a member of the Company's Audit and Risk and Compliance Committees.

Mickie Rosen – Non-Executive Independent Director
Director since 1 July 2021

Mickie was appointed as a Non-Executive Director of the Company on 1 July 2021 following the acquisition of the Company by BOQ. She has three decades of strategy, operating, advisory, and board experience across media, technology, and e-commerce. She has built and led global businesses for iconic brands such as Yahoo, Fox, and Disney, as well as early-stage companies including Hulu and Fandango. Mickie is also a Non-Executive Director of Nine Entertainment Co and Ascendant Digital Acquisition Company in the United States. Until recently, she served on the board of Pandora Media and was the President of Tribune Interactive, the digital arm of Tribune Publishing, and was concurrently the President of the Los Angeles Times. Mickie commenced her career with McKinsey & Company, is based on the West Coast of the United States, and holds an MBA from Harvard Business School.
She is a Non-Executive Director of BOQ, Chair of its Transformation & Technology Committee and member of its Risk, People, Culture & Remuneration, Audit, and Nomination & Governance Committees.

Mickie is a member of the Company's Audit and Risk and Compliance Committees.

<u>Company Secretary</u>
Joanna Brand
Joanna was appointed Company Secretary on 20 June 2019 and resigned on 8 January 2021. Joanna is a lawyer by training. Prior to joining the Company, Joanna worked for Qantas Airways Limited as Chief Legal Counsel for Jetstar Airways.

Tina Ooi
Tina was appointed Company Secretary on 4 January 2021 and resigned on 1 July 2021. Tina is a lawyer by training. Prior to joining the Company, Tina worked for Equity Trustees as Acting Company Secretary.

Nicholas Allton
Group General Counsel and Company Secretary (appointed 1 July 2021)
Nicholas Allton was appointed as Group General Counsel and Company Secretary in July 2021. He is a lawyer by training and has acted as Group General Counsel and Company Secretary for BOQ since February 2021.

Fiona Daly
Company Secretary (appointed 1 July 2021)
Fiona was appointed as Company Secretary on 1 July 2021. Ms Daly is a lawyer by training and has acted as Company Secretary for BOQ since April 2019.

Directors' report (continued)

Board Responsibilities

The primary role of the Board is to protect the rights and interests of the Company and to create value for its shareholders and their members, having due regard to the interests of other stakeholders. The Board has overall responsibility for overseeing the effective management and control of the Company and supervising management's conduct within a control and authority framework, which is designed to enable risk to be prudently and effectively assessed, monitored and managed. The role of the Board is to approve strategic direction, guide and monitor management in achieving its strategic plans, and oversee good governance practice.

This includes:

- appointing and, if necessary, removing the Chief Executive Officer (CEO);
- reviewing and approving the 3 year Strategic Business Plan and annual budget;
- providing strategic direction to the Company by engaging with the CEO in the development and oversight of the execution of the 3 year Strategic Business Plan and annual budget;
- monitoring performance against the 3 year Strategic Business Plan and annual budget, and reviewing that performance with the CEO;
- reviewing, approving and overseeing the development of the Company's Risk Management Framework (RMF);
- reviewing and approving major transactions, significant contracts and other significant business decisions for the Company (including acquisitions and divestments), as per the delegations framework;
- ensuring that management decisions are consistent with delegated authorities and the interests of shareholders;
- overseeing the integrity of the Company's accounting and corporate reporting, including the external audit;
- monitoring the effectiveness of the Company's governance practices;
- assisting the CEO in creating the desired staff culture;
- fostering an environment of innovation and deep customer understanding;
- ensuring the Company's shareholders are provided with the appropriate information in a timely manner;
- engaging with the CEO regarding the appointment, and when necessary, replacement of other senior executives;
- supporting the CEO in nurturing staff and developing succession plans;
- approving the remuneration framework;
- overseeing the information security of the Company, including maintaining information security in a manner commensurate with the size and extent of threats to the Company's information assets, and in a way which enables the continued sound operation of the Company; and
- performing such other functions as are prescribed by law or are assigned to the Board.

The Board meets regularly and follows meeting protocols designed to ensure all directors are appropriately informed and properly consider all agenda items.

Role of CEO

The CEO is responsible for the leadership and management of the Group. The Board delegates to the CEO the responsibility for implementing the Group's strategic direction and managing day-to-day operations. The scope and specific limits of the authority delegated to the CEO and the executive team are clearly documented. These delegations balance effective oversight with appropriate empowerment and accountability of management.

Board Committees

To provide for the effective discharge of its corporate governance responsibilities and oversight responsibilities, the Board has established Board Committees. During the year the following Committees were in place:

Audit and Governance Committee

The Audit and Governance Committee's purpose is to:

- provide an objective view of the effectiveness of the Company's financial reporting framework and overall internal control framework;
- review the development of and recommend to the Board corporate governance policies and principles applicable to the Company.

The Committee oversees:

- financial reporting policies and controls;
- compliance with applicable accounting standards to give a true and fair view of the financial position and performance of the Company;
- the integrity of the Company's financial statements;
- the appropriateness of the accounting judgments or choices exercised by management in preparing the financial statements;
- compliance with Australian Prudential Regulation Authority's statutory reporting requirements;
- the effectiveness of the Company's risk management framework;

Directors' report (continued)

- the recommendation for appointment or removal, and annually reviewing the performance and independence (including audit partner rotations) of the Company's external auditor;
- the adequacy, independence and performance of the Company's Internal Audit function;
- the appointment and if necessary removal of the Head of the Internal Audit function.

The Committee is comprised of independent non-executive directors. During the period, the Committee was chaired by John Nesbitt (resigned 31 December 2020) and John Arthur (appointed 1 January 2021) (resigned 1 July 2021).
Following the acquisition of the Company by BOQ, the Board approved certain changes to the Committee's Charter in August 2021, including its change of name to the Audit Committee.

Risk and Compliance Committee
The Risk and Compliance Committee's purpose is to provide objective oversight of the implementation and operation of the Company's risk management framework.

The Committee is responsible for:
- advising the Board on the Company's overall current and future risk appetite and risk management strategy;
- approval of the design, implementation and review of risk management and internal compliance and control systems throughout the Company;
- promotion of a sound risk management culture which takes account of the Company's strategic plan and achieves a balance between risk minimisation and reward for risks accepted.

The Committee is comprised of independent non-executive directors. During the period, the Committee was chaired by Christine Christian (resigned 31 July 2020) and David Issa (appointed as Chair of the Committee on 3 August 2020) (resigned 1 July 2021).

People and Remuneration Committee
The People and Remuneration Committee's purpose is to provide counsel, guidance and oversight of strategic people, cultural and remuneration matters - including strategies, policies and frameworks - which have an enterprise impact and support the Company in achieving its short and long term business objectives while meeting its social licence to operate.

The Committee may make recommendations to the Board in connection with the fitness and propriety of directors.

The Committee is responsible for:
- reviewing and overseeing any matters affecting the capability and organisational culture of the Company with the intention of creating a positive and engaging high performance culture;
- reviewing the Company's recruitment, retention and termination practices and overseeing the annual talent review process and succession planning for Executives and senior leaders;
- receiving updates on proposed changes to organisational structure to support the workplace of the future, including job redesign;
- overseeing the development and application of the Company's Diversity and Inclusion approach and approving targets for achieving diversity and inclusion, and monitoring the Company's progress to meeting them;
- reviewing the Company's workplace and industrial relations strategies, policies and processes in light of relevant legislation;
- reviewing and making recommendations on improving the effectiveness of the Company's Workplace Health and Safety practices, to provide employees with a working environment which is both healthy and safe, including being free from harassment, discrimination and bullying;
- the Company's Remuneration Policy; and
- reviewing and approving the process for the oversight and evaluation of the Board, Board Committees, and directors.

The Committee was comprised of independent non-executive directors. During the period, the Committee was chaired by James Evans (appointed Chair of the Committee 8 June 2020) (resigned as Chair of the Committee 3 August 2020) and Deborah Kiers (appointed as Chair of the Committee 3 August 2020) (resigned 1 July 2021).
Following the acquisition of the Company by BOQ, the Board approved in August 2021 that the People and Remuneration Committee should cease to exist and such matters will be delegated to the BOQ People, Culture and Remuneration Committee.

Digital Committee
The Digital Committee's purpose is to oversee the end-to-end digital delivery of the Company's products and services through:
- monitoring the investment in the IT architecture, infrastructure and support systems to underpin the safe and effective delivery of the Company's products and services;
- receiving regular reporting on the digital ecosystem and customer experience;
- monitoring the development and implementation of the Company's annual Program of Work; and
- monitoring the mitigation and management of risks associated with the above activities.

Directors' report (continued)

Digital Committee (cont.)
The Committee is responsible for:
- receiving updates and, where appropriate, demonstrations about emerging technologies and trends and their potential impact on or application within the Company;
- receiving reports from management regarding the Company's medium to long term (3 – 5 years) technology strategy with reference to changes, trends and emerging technologies, and providing feedback on the strategy;
- overseeing the Company's strategies for the outsourcing of material technology services;
- receiving regular reporting from management on the customer experience delivered by the Company's digital eco-system;
- receiving from management regular reporting on the technology elements delivering, or being delivered by, the Program of Work;
- reviewing, on an annual basis, the performance of the IT department against the strategy;
- identifying and monitoring key risks arising from technology and digital areas and referring them to the Risk and Compliance Committee; and
- monitoring the effectiveness of disaster recovery plans and disaster recovery testing.

The Committee is comprised of independent non-executive directors. During the period the Committee was chaired by Cheryl Bart. Following the acquisition of the Company by BOQ, the Board approved in August 2021 that the Digital Committee should cease to exist and such matters will be delegated to the BOQ Transformation and Technology Committee.

Nominations Committee (committee reconstituted 8 June 2020)
The Nominations Committee's purpose is to make recommendations to the Board in respect of the appointment of new directors. It meets on an as needed basis, and did not meet during the period.

The Committee is comprised of independent non-executive directors, two representatives of the Company's four largest shareholders and one representative nominated by the remaining shareholders. During the period, the Committee was chaired by James Evans (appointed 8 June 2020). Following the acquisition of the Company by BOQ, the Board approved in August 2021 that the Nominations Committee should cease to exist and such matters will be delegated to the BOQ Nomination and Governance Committee.

Special Issues, Regulatory and Compliance Committee (Committee formed 18 February 2020)
The Special Issues, Regulatory and Compliance Committee's purpose was to provide additional oversight of activities to resolve issues that have regulatory and compliance implications. The Committee was comprised of independent non-executive directors. During the period, the Committee was chaired by Christine Christian.
The Committee was dissolved effective 31 July 2020.

Board Performance
The Board meets on a regular basis to address relevant operational and strategic issues affecting the Company. A program is in place for self-evaluation of performance by the Board and each of its Committees.

Board attendance 1 July 2020 to 30 June 2021

	Board Meetings		
	Held	Eligible	Attn'd
J Evans	18	18	18
C Bart	18	18	17
P Everingham	18	18	18
D Issa	18	18	18
C Christian	18	0	0
D Kiers	18	18	18
J Nesbitt	18	9	8
J Arthur	18	9	8
D Atkin	18	9	9

Directors' report (continued)

Board Committee attendance 1 July 2020 to 30 June 2021

	People & Remuneration Committee			Digital Committee			Risk and Compliance Committee			Audit and Governance Committee			Special Issues Regulatory and Compliance Committee		
	Held	Eligible	Attn'd	Held	Eligible	Attn'd	Held	Eligible	Attn'd	Held	Eligible	Attn'd	Held	Eligible	Attn'd
J Evans	6	6	6	-	-	-	7	3	3	5	2	2	-	-	-
C Bart	6	1	1	5	5	5	-	-	-	-	-	-	2	2	1
P Everingham	6	6	6	5	5	4	-	-	-	5	5	5	-	-	-
D Issa	-	-	-	5	5	5	7	7	7	5	5	5	2	2	2
C Christian	-	-	-	-	-	-	7	0	0	-	-	-	2	2	2
D Kiers	6	5	5	-	-	-	7	7	6	-	-	-	-	-	-
J Nesbitt	-	-	-	-	-	-	7	4	4	5	3	3	2	2	2
J Arthur	-	-	-	-	-	-	7	3	3	5	2	2	-	-	-
D Atkin	-	-	-	5	3	3	-	-	-	-	-	-	-	-	-

Nominations Committee
The Committee did not meet during the year. Committee members during the year were J Evans, C Bart and J Nesbitt.

Disclosures by directors
The Board has established procedures for handling matters that may compromise (or be perceived to compromise) the independence and integrity of the Board.

Remuneration of directors and key management personnel
The names, details and aggregate remuneration of directors and key management personnel are set out in Note 27 to the financial statements.

In determining appropriate levels of key management personnel remuneration, the People and Remuneration Committee may engage an external consultant to provide independent advice, to ensure that the compensation is set competitively compared to the market.

Remuneration Framework - Employees
The Company aims to provide remuneration to attract, motivate and reward employees for the delivery of the Company's objectives within its risk appetite and risk framework. The following guiding principles are the foundation of the Company's remuneration and reward approach.

Total reward at the Company will;	Because it will…
Support the strategy	• Encourage performance and behaviours that contribute to the overall achievement of the long-term business strategy of the Company. • Link rewards to the generation of sustainable value for the organisation and its shareholders.
Align to our values	• Encourage performance and behaviours that are consistent with the values and culture of the Company.
Be fair	• Attract, motivate and retain high performers by providing remuneration that is market competitive.
Be transparent	• Be structured in rewards programs that are clearly defined, simple to understand and clearly communicated.
Differentiate performance	• Motivate employees to be high performers who deliver strong sustainable results by differentiating reward for performance, reflecting individual, team and organisational performance.
Embed risk awareness and good governance	• Encourage prudent risk taking within the Company's risk appetite. • Encourage behaviours that support the risk management framework. • Encourage actions clearly focused on the Company's long-term financial soundness.

The Company uses a range of different remuneration elements to effectively reward employees. To ensure fair reward, the Company references market competitive practices to determine which, and how, remuneration elements are used for different jobs.

Directors' report (continued)

Fixed remuneration
Fixed remuneration consists of base pay (including packaged items) and superannuation contributions. It takes into account an individual's roles, responsibilities, experience and skills, and reflects the market competitive value of the skills, expertise and experience required to successfully fulfil the requirements of a job at the Company. The Company's target fixed remuneration position is the median of the financial services market. Fixed remuneration reviews are conducted annually and adjustments are in accordance with the Enterprise Agreement and review guidelines approved by the People and Remuneration Committee.

Short-Term Incentives (STI)
Short-term incentives reflect the relative performance of an employee within his or her job at the Company and the overall performance of the organisation. It is the main mechanism the Company uses to reward and differentiate individual performance. The STI opportunity that is available is linked to the size of the role the individual performs. The main STI program at the Company is the Annual Bonus.

Most employees are eligible to be considered for the Annual Bonus. Where appropriate, the Board approves an Annual Bonus pool that reflects the performance of the Company against the Corporate Scorecard. Individual payments are then allocated to employees based on individual performance against KPIs set for the financial year. Employees with higher performance ratings receive higher incentive payments relative to their peers. Some employees do not receive an incentive due to their performance. Incentive amounts are provided on a pro-rata basis for those who have not worked the full year but who have worked at least 3 months in the year, or work part time. Employees who leave during the year due to redundancy, retrenchment, retirement or death or impairment may be allocated a pro-rata payment based on their service and performance during the financial year.

Remuneration Framework - Directors
Non-executive directors of the Company (excluding the Chairman) are remunerated by way of one base fee (inclusive of the "Superannuation Guarantee Charge" payment, at 9.5% for the period) that is up to 60% of the median paid by Bendigo and Adelaide Bank Limited and BOQ. The base fee for the Chairman is two times the base fee for the other non-executive directors.

In addition to the base fee, non-executive directors who participate on Board Committees may receive additional remuneration as compensation for the additional responsibilities and workload incurred in those roles.

Other Remuneration and Employment Arrangements
Contracts with employees provide for notice periods, which, depending on the level of seniority of the employee, generally range from 2 weeks to 5 weeks and up to 6 months for some very senior employees. All employment contracts permit the Company to terminate for misconduct.

Upon termination, a person will receive their statutory entitlements of accrued annual and long service leave, and payment in lieu of applicable notice periods (except in some cases of termination for serious misconduct).

Termination payments and settlements (other than in relation to statutory entitlements) or retention benefits for all employees are approved by Business Unit Executives, or in the case of the Executives and CEO, the Board.

Indemnification and insurance of directors, officers and auditors
During the financial year, the Company paid a premium in respect of a contract insuring the directors (as shown above) and officers of the Group, against a liability incurred in that role, to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

The Company has not otherwise during or since the financial year (except to the extent permitted by law) indemnified or agreed to indemnify an officer or auditor of the Company or of any related body corporate against a liability incurred as such an officer or auditor.

Auditor independence
The auditor's independence declaration is included on page 10 of the Annual Financial Report.

Non-audit services
Non-audit services were provided by the Company's auditor as disclosed in Note 30 to the financial statements.

Directors' report (continued)

Rounding off of amounts
The Company is a company of the kind referred to in Australian Securities and Investments Commission (ASIC) Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191, dated 24 March 2016, and in accordance with that Corporations Instrument amounts in the financial report are rounded off to the nearest thousand dollars, unless otherwise indicated.

Signed in accordance with a resolution of the directors made pursuant to section 298(2) of the Corporations Act 2001.

On behalf of the Directors

Chairman
22 September 2021

Deloitte.

Deloitte Touche Tohmatsu
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22 September 2021

The Board of Directors
Members Equity Bank Limited
Level 28, 360 Elizabeth Street
MELBOURNE VIC 3000

Dear Board Members

Auditor's Independence Declaration to Members Equity Bank Limited

In accordance with section 307C of the *Corporations Act 2001*, I am pleased to provide the following declaration of independence to the directors of Members Equity Bank Limited.

As lead audit partner for the audit of the financial reports of Members Equity Bank Limited for the financial year ended 30 June 2021, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- any applicable code of professional conduct in relation to the audit.

Yours sincerely

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

M Stretton

Mark Stretton
Partner
Chartered Accountants

Deloitte Touche Tohmatsu
ABN 74 490 121 060

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Independent Auditor's Report to the Member of Members Equity Bank Limited

Opinion

We have audited the financial reports of Members Equity Bank Limited (the "Company") and its subsidiaries (the "Group") which comprise the Group and the Company's statements of financial position as at 30 June 2021, the statements of profit or loss and other comprehensive income, the statements of changes in equity and the statements of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information, and the directors' declaration.

In our opinion, the accompanying financial reports of the Group and the Company are in accordance with the *Corporations Act 2001*, including:

- Giving a true and fair view of the Group and the Company's financial position as at 30 June 2021 and of their financial performance for the year then ended; and
- Complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Reports* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional & Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the financial reports in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Company (the "directors"), would be in the same terms if given to the directors as at the time of this auditor's report.

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

Other Information

The directors are responsible for the other information. The other information comprises the information included in the Group and Company's Annual Financial Report for the year ended 30 June 2021, but does not include the financial reports and our auditor's report thereon.

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

In connection with our audit of the financial reports, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial reports or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Deloitte.

Responsibilities of the Directors for the Financial Reports

The directors are responsible for the preparation of the financial reports that give a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial reports that give a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial reports, the directors are responsible for assessing the ability of the Group and the Company to continue as a going concerns, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or the Company or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Reports

Our objectives are to obtain reasonable assurance about whether the financial reports as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial reports.

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

- Identify and assess the risks of material misstatement of the financial reports, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group or the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group or the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial reports or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group or the Company to cease to continue as going concerns.

- Evaluate the overall presentation, structure and content of the financial reports, including the disclosures, and whether the financial reports represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the Group financial report. We are responsible for the direction, supervision and performance of the Group's audit. We remain solely responsible for our audit opinion.

Deloitte.

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

DELOITTE TOUCHE TOHMATSU

Mark Stretton
Partner
Chartered Accountants

Melbourne, 22 September 2021

Directors' declaration

The directors declare that:

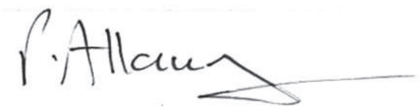
(a) in the directors' opinion, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable;

(b) in the directors' opinion, the attached financial statements and notes thereto are in accordance with the Corporations Act 2001, including compliance with accounting standards and giving a true and fair view of the financial position and performance of the Company and the consolidated entity; and

(c) in the directors' opinion, the attached financial statements and notes thereto are in compliance with International Financial Reporting Standards, as stated in Note 3 to the financial statements.

Signed in accordance with a resolution of the directors made pursuant to s.295(5) of the Corporations Act 2001.

On behalf of the Directors



Chairman
22 September 2021

Statement of profit or loss and other comprehensive income for the financial year ended 30 June 2021

	Notes	Consolidated 2021 $'000	Consolidated 2020 $'000	Company 2021 $'000	Company 2020 $'000
Interest and similar income	5	819,700	1,102,422	818,748	1,082,217
Interest and similar expense	5	(346,104)	(645,353)	(518,260)	(766,365)
Net interest income		473,596	457,069	300,488	315,852
Funds management fee income	5	50	820	22,433	18,058
Other operating income	5	20,857	20,588	197,877	121,026
Total net operating income		494,503	478,477	520,798	454,936
Expenses					
Operating expenses	5	310,590	268,605	306,130	264,487
Impairment on intangibles	13	767	4,323	767	4,323
Impairment losses (reversal) / charges	5	(6,471)	59,553	(6,474)	59,553
Project expenses	5	26,641	30,348	26,641	30,348
Total expenses		331,527	362,829	327,064	358,711
Profit before income tax		162,976	115,648	193,734	96,225
Income tax expense	6	50,389	34,801	57,847	28,974
Profit for the year		112,587	80,847	135,887	67,251
Other comprehensive income					
Items that may be reclassified subsequently to profit or loss					
Net fair value gain/(loss) on FVTOCI financial assets, net of tax		3,988	102	3,988	102
Cash flow hedges - effective portion of changes in fair values, net of tax		43,533	3,415	22,728	13,931
Total comprehensive income for the year		160,108	84,364	162,603	81,284

Notes to the financial statements are included on pages 22 to 70.

Members Equity Bank Limited

Statement of financial position
as at 30 June 2021

	Notes	Consolidated 2021 $'000	Consolidated 2020 $'000	Company 2021 $'000	Company 2020 $'000
Assets					
Cash and cash equivalents	23(a)	976,698	1,423,655	345,499	951,902
Investments	7	3,113,362	3,233,937	3,113,362	3,233,937
Derivatives	16	10	804	10	565
Trade and other receivables	8	3,751	4,184	5,086	5,431
Current tax assets	6	-	-	-	246
Loans and advances	9	25,403,597	26,615,476	25,527,881	26,752,352
Investment in controlled entities	10	-	-	102	102
Property plant and equipment	12	72,840	15,185	72,840	15,185
Intangible assets	13	112,044	102,528	112,044	102,528
Deferred tax assets	6	43,703	54,681	43,703	54,675
Other assets	14	15,220	14,399	15,220	14,399
Total assets		29,741,225	31,464,849	29,235,747	31,131,322
Liabilities					
Deposits and other borrowings	15	27,977,927	29,771,024	27,483,967	29,465,219
Derivatives	16	26,026	82,663	13,767	39,148
Trade and other payables	17	51,738	22,190	55,921	44,996
Current tax liabilities	6	9,372	1,076	9,372	-
Provisions	18	30,408	31,252	30,408	31,252
Total liabilities		28,095,471	29,908,205	27,593,435	29,580,615
Net assets		1,645,754	1,556,644	1,642,312	1,550,707
Equity					
Issued capital	19	1,105,459	1,105,459	1,105,459	1,105,459
Reserves	20	(1,281)	(49,034)	6,848	(20,099)
Retained earnings		541,576	500,219	530,005	465,347
Total equity		1,645,754	1,556,644	1,642,312	1,550,707
Book value per share		$ 148.99	$ 140.93		

Notes to the financial statements are included on pages 22 to 70.

Members Equity Bank Limited

Statement of changes in equity
for the financial year ended 30 June 2021

		Consolidated					
	Notes	Issued capital $'000	Retained earnings $'000	General reserve for credit losses $'000	Investment revaluation reserve $'000	Cash flow hedge reserve $'000	Total $'000
Balance at 1 July 2019		1,105,459	420,532	19,622	4,244	(64,586)	1,485,271
Issue of capital notes	19	-	-	-	-	-	-
Dividends paid	21	-	(12,991)	-	-	-	(12,991)
Transfer to/(from) general reserve for credit losses	20	-	11,831	(11,831)	-	-	-
Other comprehensive income for the year		-	-	-	102	-	102
Other comprehensive expense for the year		-	-	-	-	3,415	3,415
Profit for the year		-	80,847	-	-	-	80,847
Balance at 30 June 2020		1,105,459	500,219	7,791	4,346	(61,171)	1,556,644
Balance at 1 July 2020		1,105,459	500,219	7,791	4,346	(61,171)	1,556,644
Issue of capital notes	19	-	-	-	-	-	-
Dividends paid	21	-	(70,998)	-	-	-	(70,998)
Transfer to/(from) general reserve for credit losses	20	-	(232)	232	-	-	-
Other comprehensive income for the year		-	-	-	3,988	43,533	47,521
Other comprehensive expense for the year		-	-	-	-	-	-
Profit for the year		-	112,587	-	-	-	112,587
Balance at 30 June 2021		1,105,459	541,576	8,023	8,334	(17,638)	1,645,754

		Company					
	Notes	Issued capital $'000	Retained earnings $'000	General reserve for credit losses $'000	Investment revaluation reserve $'000	Cash flow hedge reserve $'000	Total $'000
Balance at 1 July 2019		1,105,459	399,255	19,619	4,245	(46,164)	1,482,414
Issue of capital notes	19	-	-	-	-	-	-
Dividends paid	21	-	(12,991)	-	-	-	(12,991)
Transfer to/(from) general reserve for credit losses		-	11,832	(11,832)	-	-	-
Other comprehensive income for the year		-	-	-	102		102
Other comprehensive expense for the year		-	-	-	-	13,931	13,931
Profit for the year		-	67,251	-	-	-	67,251
Balance at 30 June 2020		1,105,459	465,347	7,787	4,347	(32,233)	1,550,707
Balance at 1 July 2020		1,105,459	465,347	7,787	4,347	(32,233)	1,550,707
Issue of capital notes	19	-	-	-	-	-	-
Dividends paid	21	-	(70,998)	-	-	-	(70,998)
Transfer to/(from) general reserve for credit losses		-	(231)	231	-	-	-
Other comprehensive income for the year		-	-	-	3,988	22,728	26,716
Other comprehensive expense for the year		-	-	-	-	-	-
Profit for the year		-	135,887	-	-	-	135,887
Balance at 30 June 2021		1,105,459	530,005	8,018	8,335	(9,505)	1,642,312

Notes to the financial statements are included on pages 22 to 70.

Statement of cash flows
for the financial year ended 30 June 2021

		Consolidated		Company	
		2021	2020	2021	2020
	Notes	$'000	$'000	$'000	$'000
Cash flows from operating activities					
Profit before tax		162,976	115,648	193,734	96,225
Adjustments for:					
Change in operating assets	23(c)	1,340,856	(67,754)	1,353,361	(121,777)
Change in operating liabilities	23(d)	(1,829,428)	797,916	(2,032,137)	704,287
Non-cash items included in profit before tax	23(e)	49,465	109,969	49,465	109,969
Income tax payments		(51,481)	(1,615)	(51,481)	443
Net cash provided/(used in) by operating activities		(327,612)	954,164	(487,058)	789,147
Cash flows from investing activities					
Purchase of plant and equipment	12	(3,461)	(5,930)	(3,461)	(5,930)
Purchase of intangible assets	13	(36,580)	(34,017)	(36,580)	(34,017)
Dividends received		-	-	-	-
Net cash used in investing activities		(40,041)	(39,947)	(40,041)	(39,947)
Cash flows from financing activities					
Payments of lease liabilities including finance cost		(8,306)	(17,461)	(8,306)	(17,461)
Proceeds from issue of capital notes	19	-	-	-	-
Dividends paid on fully paid ordinary shares		(60,000)	-	(60,000)	-
Dividends paid on capital notes	21	(10,998)	(12,991)	(10,998)	(12,991)
Redemption of subordinated debt		-	(300,000)	-	(300,000)
Net cash provided by financing activities		(79,304)	(330,452)	(79,304)	(330,452)
Net increase in cash		(446,957)	583,765	(606,403)	418,748
Cash and cash equivalents at the beginning of the financial year		1,423,655	839,890	951,902	533,154
Cash and cash equivalents at the end of the financial year	23(a)	976,698	1,423,655	345,499	951,902

Notes to the financial statements are included on pages 22 to 70.

1 General information

Members Equity Bank Limited ("the Company") is a public company incorporated in Australia. The principal activities of the Company and its subsidiaries ("the Group") are the provision of banking services under a banking licence; funding, management, and servicing of residential, and consumer lending portfolios; and carrying out associated funding activities for off balance sheet portfolios.

2 Application of new and revised Accounting Standards

The Group has adopted the amendments included in AASB 2019-1 for the first time in the current year. The adoption has resulted in consequential amendments to affected Australian Accounting Standards, Interpretations and other pronouncements to reflect the issuance of the Conceptual Framework for Financial Reporting (Conceptual Framework) by the AASB. Key changes include:
(i) Update numerous pronouncements to refer to the new Conceptual Framework for Financial Reporting or to clarify which version of the Framework is being referenced. These amendments apply to for-profit private sector entities that have public accountability and are required by legislation to comply with Australian Accounting Standards and other for-profit entities that voluntarily elect to apply the new Conceptual Framework: and
(ii) Permit other entities to continue using the Framework for the Preparation and Presentation of Financial Statements adopted by the AASB in 2004.

International Financial Reporting Standards Interpretations Committee final agenda decisions not yet adopted
'In April 2021, the International Financial Reporting Standards Interpretations Committee (IFRIC) issued a final agenda decision, Configuration or customisation costs in a cloud computing arrangement. The decision discusses whether configuration or customisation expenditure relating to cloud computing arrangements is able to be recognised as an intangible asset and if not, over what time period the expenditure is expensed.
The Group's accounting policy has historically been to capitalise all costs related to cloud computing arrangements as intangible assets in the Statement of Financial Position. The adoption of this agenda decision could result in a reclassification of these intangible assets to either a prepaid asset in the Statement of Financial Position and/or recognition as an expense in the Statement of Comprehensive Income, impacting both the current and/or prior periods presented.
As at 30 June 2021 the Group has not adopted this IFRIC agenda decision. The Group has commenced a review process to quantify the impact of this agenda decision in the financial statements and have identified $22m of intangible assets relating to cloud computing arrangements which have been capitalised on the Statement of Financial Position and are subject to a detailed assessment.

3 Significant accounting policies

Statement of compliance

These financial statements are general purpose financial statements which have been prepared in accordance with the Corporations Act 2001, Accounting Standards and Interpretations, and comply with other requirements of the law. The financial statements comprise the consolidated financial statements of the Group and the Company. For the purposes of preparing the consolidated financial statements, the Company is a for-profit entity. Accounting Standards include Australian Accounting Standards. Compliance with Australian Accounting Standards ensures that the financial statements and notes of the Group comply with International Financial Reporting Standards ('IFRS').

The financial statements were authorised for issue by the directors on 22 September 2021.

Basis of preparation

The financial report has been prepared on the basis of historical cost, except for certain investments and derivative financial instruments, which have all been measured at fair value. Historical cost is based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis.
The Company is a company of the kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instruments 2016/191, dated 24 March 2016, and in accordance with that Corporations Instrument amounts in the financial report are rounded off to the nearest thousand dollars, unless otherwise indicated.

3 Significant accounting policies (continued)

The amendments to the Corporations Act 2001 in June 2010 removed the requirement to prepare parent entity financial statements where consolidated financial statements are prepared. However, the Company has complied with ASIC Class Order [CO 10/654] to include parent entity financial statements in the financial reports.

Comparative information has been restated to accord with changes in presentations made in the current year, except where otherwise stated.

(a) Basis of consolidation
The financial information in the consolidated financial statements includes the parent company, Members Equity Bank Limited, together with its consolidated subsidiaries, including structured entities controlled by the Company (see Note 10).

Subsidiaries
Subsidiaries are investees controlled by the Company. The Company controls an investee if it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date when control ceases.

Loss of control
When the Company loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related non-controlling interest and other components of equity. Any resulting gain or loss is recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

Transactions eliminated on consolidation
Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

(b) Goods and services tax
Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except:
(i) where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as a non-income tax expense; and
(ii) for receivables and payables which are recognised inclusive of GST. The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables.

Cash flows are included in the statement of cash flows on a gross basis. The GST component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the taxation authority is classified within operating cash flows.

(c) Recognition of income and expenses
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.

Interest and similar income and expense
For all financial instruments measured at amortised cost and interest bearing financial assets classified as fair value to other comprehensive income, interest income or expense is recorded using the effective interest rate (EIR), which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the EIR, but not future credit loss.

Distribution from unit trusts
Distribution income is recognised on a receivable basis as of the distribution date for all securitisation funds of which the Company is an income beneficiary.

Dividend income
Dividend income is recognised on a receivable basis as of the dividend declaration date by the subsidiaries.

3 Significant accounting policies (continued)

Revenue from contracts with customers
The key judgements in applying AASB 15 include the timing and amount of variable consideration to be recognised in relation to performance fees; determining whether multiple services provided in a single contract are distinct; and determining when incurred expenses can be presented net of any associated revenue.

The Group's revenue applicable to contracts with customers is primarily in the nature of fees and other operating income as presented in the income statement.

Funds management fee income
The Group has assessed that the performance obligations are satisfied over time, and that the method currently used to recognise income will continue to be appropriate under AASB 15.

Other operating income - interchange fee income
The Group has assessed that the performance obligations are satisfied at a point in time, and that the method currently used to recognise income will continue to be appropriate under AASB 15.

Other operating income - income from certain exclusivity contracts
The Group has assessed that the performance obligations are satisfied at a point in time. Hence, revenue can only be recognised when the performance obligations are met.

Other operating income - account transaction and service fee
The Group has assessed that this income is recognised on a range of banking products when services are delivered.

(d) Income tax
Income tax expense comprises current and deferred tax. It is recognised in profit or loss except to the extent that it relates to items recognised directly in equity or in other comprehensive income (OCI).

Current tax
Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to the tax payable or receivable in respect of previous years. It is measured using tax rates enacted or substantively enacted at the reporting date.

Deferred tax
Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, deferred tax liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on the tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax liabilities and assets are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

3 Significant accounting policies (continued)

(e) Cash and cash equivalents
Cash comprises cash on hand and demand deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Cash and cash equivalents are carried at amortised cost in the statement of financial position.

(f) Fair value measurement
The Group measures certain financial instruments, such as investments and derivatives, at fair value at each balance sheet date. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value of instruments that are quoted in active markets is determined using the quoted prices where they represent those at which regularly and recently occurring transactions take place.

If there is no quoted price in an active market, then the Group uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

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

- Level 1: Quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2: Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable; and
- Level 3: Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

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

(g) Financial instruments

<u>Classification and subsequent measurement:</u>

Financial assets
The three classification categories for financial assets are; amortised cost, fair value through other comprehensive income (FVTOCI) and fair value through profit or loss (FVTPL). The classification is based on the business model under which the financial asset is managed and its contractual cash flows.

(i) Amortised cost
A financial asset is measured at amortised cost if both of the following conditions are met:
  - the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
  - the contractual terms of the financial asset give rise on specified dates to cash flows that meet the sole payment of principal and interest (SPPI) requirements.

(ii) Fair value through other comprehensive income (FVTOCI)
A financial asset is measured at FVTOCI if both of the following conditions are met:
  - the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
  - the contractual terms of the financial asset give rise on specified dates to cash flows that meet the SPPI requirements.

Changes in the fair value of debt financial assets that are classified as FVTOCI are recognised in other comprehensive income (OCI), except for the recognition of expected credit losses (ECL), interest revenue and foreign exchange gains and losses which are recognised in the income statement.

Expected credit losses are recognised both in the income statement and OCI. When debt financial assets at FVTOCI are derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from OCI to 'Other operating income' in the income statement. Interest income from these financial assets is included in 'Interest and similar income' using the effective interest rate (EIR) method.

3 Significant accounting policies (continued)

(iii) Fair value through profit or loss (FVTPL)
Financial assets that are not measured at amortised cost or FVTOCI are measured at FVTPL. Equity financial assets are measured at FVTPL unless the Group irrevocably elects to present subsequent changes in the fair value in OCI. This election is made on an individual instrument basis and upon realisation of the equity instrument, the fair value gain or loss is transferred from a reserve account directly to retained earnings. The Group has not made this election for its equity instruments.

The Group may also irrevocably elect to classify a financial asset as FVTPL if doing so eliminates or significantly reduces an accounting mismatch. Interest income from these financial assets is included in 'Interest and similar income'.

<u>Business model assessment</u>
The Group determines the business model at the level that reflects how groups of financial assets are managed. In determining the business model, all relevant evidence that is available at the date of assessment is used including:
- how the performance of the financial assets held within that business model are evaluated and reported to the Group's key management personnel;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way in which those risks are managed; and
- how managers of the business are compensated (for example, whether compensation is based on the fair value of the assets managed or on the contractual cash flows collected).

The Group exercises judgement to determine the appropriate level at which to assess its business models and its business objectives with respect to financial assets.

Financial liabilities
The Group's financial liabilities are measured at amortised cost.

<u>Impairment</u>
The Group applies a three-stage approach to measuring the ECL based on changes in the financial asset's underlying credit risk and includes forward-looking or macroeconomic information. Where ECL is modelled collectively for portfolios of exposures, it is modelled as the product of the probability of default (PD), the loss given default (LGD), and the exposure at default (EAD). The calculation of ECL requires judgement and the choice of inputs, estimates, and assumptions used involve uncertainty at the time that they are made. Outcomes within the next financial period that are different from management's assumptions and estimates could result in changes to the timing and amount of ECL to be recognised.

The determination of the ECL, which is unbiased and probability weighted, and incorporates all available information relevant to the assessment, including information about past events, current conditions, and reasonable and supportable information about future events, time value of money and economic conditions at the reporting date.

The ECL is determined with reference to the following stages:

(a) *Stage 1: 12 month ECL*
At initial recognition, and for financial assets for which there has not been a significant increase in credit risk (SICR) or for those financial assets for which there has been an increase in credit risk but for which the credit risk is considered to be low, ECL is determined based on PD over the next 12 months and the life time losses associated with such PD, adjusted for forward looking estimates (FLE).

Interest income is determined with reference to the financial asset's EIR and the financial asset's gross carrying amount.

(b) *Stage 2: Lifetime ECL not credit impaired*
Where there has been a SICR, the ECL is determined with reference to the financial asset's lifetime PD and the lifetime losses associated with that PD, adjusted for FLE. The Group assesses whether there has been a SICR since initial recognition based on qualitative, quantitative, and reasonable and supportable FLE that includes significant management assumptions. Use of more alternative criteria could result in significant changes to the timing and amount of ECL to be recognised. Lifetime ECL is generally determined based on the contractual maturity of the financial asset.

Interest income is determined with reference to the financial asset's EIR and the financial asset's gross carrying amount.

3 Significant accounting policies (continued)

(c) *Stage 3: Lifetime ECL credit impaired*
Financial assets are classified as stage 3 where they are determined to be credit impaired, which generally matches the Australian Prudential Regulatory Authority (APRA) definition of default which includes exposures that are at least 90 days past due, and where the obligor is unlikely to pay without recourse against available collateral.

The ECL for credit impaired financial assets is generally measured as the difference between the contractual and expected cash flows from the individual exposure, discounted using the EIR for that exposure. For credit impaired exposures that are modelled collectively, ECL is measured as the product of the lifetime PD, LGD, and EAD, adjusted for FLE. When a financial asset is classified in stage 3 for impairment, subsequent interest income is recognised in the statement of profit or loss by applying the effective interest rate to the net carrying amount of the financial asset.

Modified financial assets and financial liabilities at amortised cost
A financial instrument is modified when its original contractual cash flows are renegotiated or modified. A financial instrument that is renegotiated is derecognised if the existing agreement is cancelled and a new agreement is made on substantially different terms or if the existing terms are modified such that the renegotiated loan is substantially different from the existing financial instrument. When the modification does not result in derecognition, a gain or loss is recognised in the income statement as the difference between the financial instrument's original contractual cash flows and the modified cash flows discounted at the original EIR. Where the modification results in derecognition, a newly recognised financial asset is assessed to determine whether it is required to be classified as purchased or originated credit-impaired (POCI) financial assets.

Derecognition of financial assets
The Group derecognises a financial asset when the contractual cash flows from the asset expire or it transfers its rights to receive contractual cash flows from the financial asset in a transaction in which substantially all the risks and rewards of ownership are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

Hedge accounting
The Group uses a macro cash flow hedge by entering into interest rate swap contracts to hedge its portfolio of liabilities The International Accounting Standards Board (IASB) has a separate project to confirm the accounting for macro hedging. Whilst the macro hedge accounting project is on-going, adopters of AASB 9 may, as an accounting policy choice, continue to apply the macro fair value hedge accounting model for interest rate risk in AASB 139. The Group has elected to continue its macro cash flow hedge accounting under AASB 139.

(h) Repurchase agreements
Securities sold under agreements to repurchase are retained within FVTOCI investments and are accounted for accordingly in line with Note 3(g). Liability accounts are used to record the obligation to repurchase.

(i) Plant, equipment and leasehold improvements
Plant, equipment and leasehold improvements are stated at cost less accumulated depreciation and impairment. Cost includes expenditure that is directly attributable to the acquisition or construction of the item. In the event that settlement of all or part of the purchase consideration is deferred, cost is determined by discounting the amounts payable in the future to their present value as at the date of acquisition.

Depreciation is provided on plant and equipment. Depreciation is calculated on a straight-line basis so as to write off the net cost or other revalued amount of each asset over its expected useful life to its estimated residual value. Leasehold improvements are depreciated over the period of the lease or estimated useful life, whichever is the shorter, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each annual reporting period, with the effect of any changes recognised on a prospective basis.

The gain or loss arising on disposal or retirement of an item of plant and equipment is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in profit or loss.

The following useful lives are used in the calculation of depreciation:

Computer equipment	2 - 3 years
Furniture & equipment	4 - 10 years
Motor vehicles	3 - 5 years

3 Significant accounting policies (continued)

(j) Intangible assets
Intangible assets are identifiable non-monetary assets without physical substance. They are recognised when the Group is able to demonstrate its intention and ability to complete the development, use the software in a manner that will generate future economic benefits, and can reliably measure the costs to complete the development.

All intangible assets are tested for impairment when there is an indication that an asset carrying amount may be greater than its recoverable amount. The recoverable amount is determined using the market approach valuation methodology (refer Note 13). Intangibles are stated at capitalised cost less accumulated amortisation and any accumulated impairment loss.

<u>Core banking software</u>
The core banking software relates to the software that performs the core operations of banking including the recording of transactions, interest calculations on loans and deposits, customer records, balance of payments and withdrawals.

Costs that are directly attributable to the acquisition and development of the core banking software are capitalised and amortised over ten years, being the license term of the core banking system.

<u>Other software</u>
Other software includes costs of acquiring or internally developing software that is not core banking software. Other software is amortised over a period of three to five years.

(k) Leasing
The Group's leasing arrangements relate to property lease contracts. At the inception of a contract the Group assesses whether the contract contains a lease. At lease commencement date a right-of-use (ROU) asset and related lease liability are recognised in the financial position. The lease liability is measured at the present value of future lease payments discounted at the incremental borrowing rate for the lease term. The right-of-use asset is initially measured at cost, which is equivalent to the lease liability.

The ROU asset is depreciated on a straight-line basis over the shorter of the lease term or the useful life of the asset, adjusted for any re-measurements of the lease liability modifications.
The Group presents ROU assets in Property, Plant and Equipment (refer to note 12) and lease liabilities in Deposits and other Borrowings (refer to Note 15).

(l) Employee benefits
<u>Short-term and long-term employee benefits</u>
A liability is recognised for benefits accruing to employees in respect of wages and salaries, annual leave and sick leave in the period the related service is rendered.

Liabilities recognised in respect of short-term employee benefits, are measured at their nominal values using the remuneration rate expected to apply at the time of settlement. Liabilities recognised in respect of long term employee benefits are measured as the present value of the estimated future cash outflows to be made by the Group in respect of services provided by employees up to reporting date.

<u>Termination benefit</u>
A liability for a termination benefit is recognised at the earlier of when the Group can no longer withdraw the offer of the termination benefit and when the entity recognises any related restructuring costs.

(m) Provisions
Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

3 Significant accounting policies (continued)

(n) Financial liabilities

Initial recognition and subsequent measurement

The Group initially recognises deposits, debt securities issued, and subordinated liabilities on the date on which they are originated. All other financial liabilities are recognised on the trade date, which is the date on which the Group becomes a party to the contractual provisions of the instruments.

A financial liability is measured initially at fair value and, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue. The Group classifies its financial liabilities, other than loan commitments, as measured at amortised cost or fair value through profit or loss.

Deposits and other borrowings

Deposits and other borrowings comprise negotiable certificates of deposit, term deposits, saving deposits, cheque and other demand deposits, securities sold under agreements to repurchase, unsecured guaranteed notes and secured borrowings. Deposits and other borrowings are recognised at inception at fair value plus directly attributable transaction costs and subsequently at amortised cost. Interest and yield related fees are recognised in the profit or loss based upon the effective interest rate method.

Mortgage backed securities

Mortgage backed securities relates to securities issued by securitisation trusts where the Group has assessed that it retains substantially all the risks and rewards of ownership and continues to control the transferred assets. They are brought to account at fair value plus directly attributable transaction costs and subsequently measured at amortised cost. Interest is taken to the statement of profit or loss and other comprehensive income using the EIR method when incurred.

Derecognition of financial liabilities

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire.

(o) Derivatives held for risk management and hedge accounting

The Group uses derivatives such as interest rate swaps and futures to hedge its exposure to interest rate risks arising from operating, financing and investing activities. Derivatives are recorded at fair value and carried as assets when their fair value is positive and as liabilities when their fair value is negative. Changes in the fair value of derivatives, other than those designated as hedging instruments (refer paragraph below), are included in 'Other operating income'.

Hedge accounting

From 1 July 2014, the Group designates certain derivatives held for risk management as hedging instruments in qualifying cash flow hedging relationships in accordance with AASB 139 'Financial Instruments: Recognition and Measurement'. On initial designation of the hedge, the Group formally documents the relationship between the hedging instruments and hedge items, including the risk management objective and strategy in undertaking the hedge, together with the method that will be used to assess the effectiveness of the hedging relationship.

The Group makes an assessment, both at inception of the hedge relationship and on an ongoing basis, of whether the hedging instruments are expected to be highly effective in offsetting the changes in cash flows of the respective hedged items during the period for which the hedge is designated, and whether the actual results of each hedge are within a range of 80-125%. The effective portion of the gain or loss on the hedging instrument is initially recognised directly in equity in the cash flow hedge reserve. The ineffective portion of the gain or loss on the hedging instrument is recognised immediately in other operating income in the statement of profit or loss.

When the hedged forecasted variable cash flow affects the profit or loss statement, the gain or loss on the hedging instrument is transferred from equity to the corresponding income or expense line of the income statement. When a hedging instrument expires, or is sold, terminated, exercised, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss that has been recognised in other comprehensive income at that time remains in other comprehensive income and is recognised when the hedged forecast transaction is ultimately recognised in the statement of profit or loss. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognised immediately in profit or loss.

(p) Capital notes

Capital notes are classified as an equity instrument in accordance with the substance of the contractual terms of the instrument, and are recognised in equity at fair value plus directly attributable transaction costs (net of deferred tax) and subsequently measured at amortised cost. Capital notes issued provide note holders the right to dividend payments which are residual interests in the assets of ME after deducting all of its liabilities (before common equity holders). Any dividends, losses and gains relating to the capital note instrument are recognised in retained earnings, net of deferred tax.

4 Use of judgements and estimates

In preparing these financial statements, management has made judgements, estimates and assumptions that affect the application of the Group's accounting policies and the reported amount of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

(a) Judgements

Information about judgements made in applying accounting policies that have the most significant effects on the amounts recognised in the consolidated financial statements are set out below.

Determination of control over investees

Management applies its judgement to determine whether the control indicators set out in Note 3(a) indicate that the Group controls a securitisation vehicle or an investment fund.

Securitisation vehicle

Certain securitisation vehicles sponsored by the Group under its securitisation programme are run according to predetermined criteria that are part of the initial design of the vehicles. In addition, the Group is exposed to variability of returns from the vehicles through its holding of income units in the vehicles.

Outside the day-to-day servicing of the housing loans (which is carried out by the Group under a servicing contract), key decisions are usually required only when housing loans in the vehicles go into default. Therefore, in considering whether it has control, the Group considers whether it manages the key decisions that most significantly affect these vehicles' returns. As a result, the Group has concluded that it controls these vehicles (see Note 10).

Investment funds

The Group acts as fund manager to a number of investment funds. Determining whether the Group controls such an investment fund usually focuses on the assessment of the aggregate economic interests of the Group in the fund (comprising any carried interests and expected management fees) and the investors' rights to remove the fund manager. For all funds managed by the Group, the investors are able to vote by 75% majority to remove the Group as fund manager without cause, and the Group does not have any economic interest in the funds. As a result, the Group has concluded that it acts as agent for the investors in all cases, and therefore has not consolidated these funds (see Note 10 and Note 11).

Determination of the useful life for the core banking system

The license period for the core banking system based on the agreement in place is ten years, which is used as an indicator and proxy to determine its useful life. Hence, the Group has determined that the useful life of the core banking system is 10 years.

Determination of amortisation period of loan origination costs

During the year, the Group has maintained the amortisation period for home loan and personal loan origination costs to be 5.5 years (2020: 5.5 years) and 2.6 years (2020: 2.6 years) respectively.

(b) Assumptions and estimation uncertainties

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the next financial year is set out below.

Impairment losses on loans and advances

Impairment allowance for loans and advances represent management's best estimate of losses incurred in the loan portfolios at the end of the reporting period. Management is required to exercise judgement in making assumptions and estimations when calculating impairment allowances on both individually and collectively assessed loans and advances (see Note 3(g)).

Fair value of financial instruments

Management use their judgement in selecting an appropriate valuation technique for financial assets not quoted in an active market. Valuation techniques commonly used by market practitioners are applied. Financial assets are valued using a discounted cash flow analysis based on assumptions supported, where possible, by observable market prices or rates (see Note 3(f)).

Impairment of intangible assets

Assessment for impairment of intangible assets has been considered and concluded by management. Refer to Note 13 for further details.

5 Revenue and expenses

	Consolidated		Company	
	2021	**2020**	**2021**	**2020**
	$'000	**$'000**	**$'000**	**$'000**
Interest and similar income				
Deposits with other financial institutions	540	2,397	167	1,341
Loans and advances	793,213	976,614	794,097	977,861
Investment securities	21,518	48,765	21,416	47,494
	815,271	1,027,776	815,680	1,026,696
Interest rate swap contracts	4,429	74,646	3,068	55,521
	819,700	1,102,422	818,748	1,082,217
Interest and similar expense				
Deposits and other borrowings	271,543	504,364	480,266	672,092
Subordinated borrowings	-	2,039	-	2,039
	271,543	506,403	480,266	674,131
Interest rate swap contracts	74,561	138,950	37,994	92,234
	346,104	645,353	518,260	766,365
Funds management fee income	50	820	22,433	18,058
Other operating income				
Fee income	20,141	19,180	15,400	15,726
Other income	3,384	3,372	3,384	3,286
Cumulative gains reclassified from equity on				
- Disposal of FVTOCI investments	2,601	1,670	2,634	1,626
(Loss) / gains from investments	(4,621)	5,716	(4,621)	5,716
Fair value movement in derivatives	(648)	(9,350)	(648)	(9,350)
Distribution from unit trusts	-	-	175,828	104,022
Dividend income from subsidiary	-	-	5,900	-
	20,857	20,588	197,877	121,026
Operating expenses				
Staff and related costs	142,195	141,901	142,195	141,901
General administrative expenses	113,468	77,589	109,008	73,471
Transaction fee expenses	14,216	13,433	14,216	13,433
Depreciation and amortisation of:				
- Plant and equipment	11,568	14,522	11,568	14,522
- Intangibles	26,297	18,121	26,297	18,121
Loss on disposal of:				
- Plant and equipment	-	6	-	6
- Intangibles	-	-	-	-
Property related expenses	2,846	3,033	2,846	3,033
	310,590	268,605	306,130	264,487
Impairment losses (reversal) / charges				
Loans and advances (refer to Note 25(a))	(7,034)	58,980	(7,034)	58,980
Overdrawn savings accounts	563	573	560	573
	(6,471)	59,553	(6,474)	59,553
Project expenses				
Program of work	26,641	30,348	26,641	30,348
	26,641	30,348	26,641	30,348

6 Income taxes

	Consolidated		Company	
	2021	2020	2021	2020
	$'000	$'000	$'000	$'000
Income tax recognised in profit or loss				
Tax expense comprises:				
Current tax expense	59,775	47,191	58,322	45,869
Adjustment recognised in the current year in relation to the current tax of prior years	2	(46)	2	(46)
Deferred tax expense/(income) relating to the origination and reversal of temporary differences	(9,388)	(12,344)	(477)	(16,849)
Total tax expense	50,389	34,801	57,847	28,974
The prima facie income tax expense on pre-tax accounting profit from operations reconciles to the income tax expense in the financial statements as follows:				
Profit from operations	162,976	115,648	193,734	96,225
Income tax expense calculated at 30%	48,893	34,695	58,120	28,868
Effect of expenses/(income) that are not deductible/(assessable) in determining taxable profit	1,494	152	(275)	152
	50,387	34,847	57,845	29,020
Adjustment recognised in the current year in relation to the current tax of prior years	2	(46)	2	(46)
Income tax expense recognised in profit or loss	50,389	34,801	57,847	28,974

The tax rate used in the above reconciliation is the corporate tax rate of 30% payable by Australian corporate entities on the taxable profits under Australian tax law. There has been no change in the corporate tax rate when compared with the previous reporting period.

Income tax recognised in other comprehensive income (OCI)
The following current and deferred amounts were charged/(credited) directly to other comprehensive income during the year:

	Consolidated		Company	
	2021	2020	2021	2020
	$'000	$'000	$'000	$'000
Deferred tax				
Revaluations of FVTOCI financial assets	(1,709)	(44)	(1,709)	(44)
Cash flow hedges	(18,657)	(1,464)	(9,740)	(5,970)
	(20,366)	(1,508)	(11,449)	(6,014)
Current tax assets				
Prepaid income tax	-	-	-	246
Current tax liabilities				
Income tax payable	9,372	1,076	9,372	-

6 Income taxes (continued)

Deferred tax assets

	Consolidated			
	Opening balance $'000	Recognised in profit or loss $'000	Recognised in OCI $'000	Closing balance $'000
2021				
Temporary differences				
Accrued expenses	653	4,094	-	4,747
Provisions	8,742	(313)	-	8,429
Plant and equipment and intangible assets	(3,610)	966	-	(2,644)
FVTPL financial assets	(5,054)	5,054	-	-
FVTOCI financial assets	(1,863)	-	(1,709)	(3,572)
Derivatives	470	(403)	-	67
Cash flow hedges	22,312	3,096	(18,657)	6,751
Impairment allowance	28,566	(3,428)	-	25,138
Other	4,465	322	-	4,787
	54,681	9,388	(20,366)	43,703

	Consolidated			
	Opening balance $'000	Recognised in profit or loss $'000	Recognised in OCI $'000	Closing balance $'000
2020				
Temporary differences				
Accrued expenses	1,830	(1,177)	-	653
Provisions	8,980	(238)	-	8,742
Plant and equipment and intangible assets	(3,667)	57	-	(3,610)
FVTPL financial assets	(7,210)	2,156	-	(5,054)
FVTOCI financial assets	(1,819)	-	(44)	(1,863)
Derivatives	452	18	-	470
Cash flow hedges	27,747	(3,971)	(1,464)	22,312
Impairment allowance	12,929	15,637	-	28,566
Other	4,603	(138)	-	4,465
	43,845	12,344	(1,508)	54,681

	Company			
	Opening balance $'000	Recognised in profit or loss $'000	Recognised in OCI $'000	Closing balance $'000
2021				
Temporary differences				
Accrued expenses	647	4,100	-	4,747
Provisions	8,742	(313)	-	8,429
Plant and equipment and intangible assets	(3,610)	966	-	(2,644)
FVTPL financial assets	(5,054)	5,054	-	-
FVTOCI financial assets	(1,863)	-	(1,709)	(3,572)
Derivatives	470	(403)	-	67
Cash flow hedges	9,913	3,162	(9,740)	3,336
Impairment allowance	28,566	(3,428)	-	25,138
Other	4,464	323	-	4,787
Temporary differences relating to the securitisation trusts	12,400	(8,984)	-	3,416
	54,675	477	(11,449)	43,703

6 Income taxes (continued)

	Company			
	Opening balance $'000	Recognised in profit or loss $'000	Recognised in OCI $'000	Closing balance $'000
2020				
Temporary differences				
Accrued expenses	1,826	(1,179)	-	647
Provisions	8,980	(238)	-	8,742
Plant and equipment and intangible assets	(3,666)	56	-	(3,610)
FVTPL financial assets	(7,210)	2,156	-	(5,054)
FVTOCI financial assets	(1,819)	-	(44)	(1,863)
Derivatives	451	19	-	470
Cash flow hedges	19,854	(3,971)	(5,970)	9,913
Impairment allowance	12,929	15,637	-	28,566
Other	4,603	(139)	-	4,464
Temporary differences relating to the securitisation trusts	7,892	4,508	-	12,400
	43,840	16,849	(6,014)	54,675

7 Investments

	Consolidated		Company	
	2021 $'000	2020 $'000	2021 $'000	2020 $'000
Amortised cost investments				
Mortgage backed securities	79,938	34,658	79,938	34,658
FVTOCI investments				
Treasury notes and semi-government securities	2,415,102	1,415,953	2,415,102	1,415,953
Corporate floating rate notes	490,897	733,308	490,897	733,308
Mortgage backed securities	124,324	150,503	124,324	150,503
	3,030,323	2,299,764	3,030,323	2,299,764
FVTPL investments				
Government securities	101	896,515	101	896,515
Unlisted equity	3,000	3,000	3,000	3,000
	3,113,362	3,233,937	3,113,362	3,233,937

8 Trade and other receivables

	Consolidated		Company	
	2021 $'000	2020 $'000	2021 $'000	2020 $'000
Management fee income receivable (see Note 11) (i)	-	13	-	60
Interest receivable	-	18	-	15
Other receivables (ii)	3,751	4,153	5,086	5,356
	3,751	4,184	5,086	5,431

(i) The balance represents consideration outstanding in relation to transactions with ME Portfolio Management Limited, with the balance settled on a monthly basis.

(ii) Other receivables generally consist of GST receivable from ATO, receivables from debtors and cash clearing counterparties. They are non-interest bearing and are usually receivable on demand.

9 Loans and advances

	Consolidated 2021 $'000	Consolidated 2020 $'000	Company 2021 $'000	Company 2020 $'000
Credit cards	133,218	140,880	133,218	140,880
Personal loans	94,051	126,060	94,051	126,060
Residential home loans	25,260,121	26,443,753	25,260,121	26,443,812
Intercompany loans	-	-	124,284	136,817
	25,487,390	26,710,693	25,611,674	26,847,569
Less:				
Allowance for impairment losses	(83,793)	(95,217)	(83,793)	(95,217)
	25,403,597	26,615,476	25,527,881	26,752,352
Individual impairment	6,258	6,474	6,258	6,474
Collective impairment	77,535	88,743	77,535	88,743
	83,793	95,217	83,793	95,217

10 Investment in controlled entities

	Consolidated 2021 $'000	Consolidated 2020 $'000	Company 2021 $'000	Company 2020 $'000
Investment at cost	-	-	102	102

The controlled entities of the Company are:

		Country of incorporation	Ownership interest 2021	Ownership interest 2020
Subsidiary				
ME Portfolio Management Limited (in liquidation)	(i)	Australia	100%	100%
Securitisation (refer Note 4(a))				
SMHL Series Securitisation Fund 2013-1 (closed)	(ii)	Australia	0%	100%
SMHL Series Securitisation Fund 2014-1 (closed)	(ii)	Australia	0%	100%
SMHL Series Private Placement 2014-2	(ii)	Australia	100%	100%
SMHL Series Securitisation Fund 2015-1	(ii)	Australia	100%	100%
SMHL Series Securitisation Fund 2016-1	(ii)	Australia	100%	100%
SMHL Series Securitisation Fund 2017-1	(ii)	Australia	100%	100%
SMHL Series Private Placement Trust 2017-2	(ii)	Australia	100%	100%
SMHL Series 2018-1 Fund	(ii)	Australia	100%	100%
SMHL Series Securitisation Fund 2018-2	(ii)	Australia	100%	100%
SMHL Series Private Placement Trust 2019-1	(ii)	Australia	100%	100%
SMHL Series Securitisation Fund 2019-1	(ii)	Australia	100%	100%
SMHL Series Private Placement 2019-2	(ii)	Australia	100%	100%
SMHL Securitisation Trust 2020-1	(ii)	Australia	100%	0%

(i) Member of the tax-consolidated group of which Members Equity Bank Limited is the head entity.
(ii) The Company holds the residual income units.

11 Involvement with unconsolidated structured entities

The table below describes the types of structured entities that the Group does not consolidate but in which it holds an interest.

Type of structured entity	Nature of activities	Interest held by the Group
Securitisation trusts for housing loans	Management and administration of housing loan portfolios. The trusts are financed through the issue of mortgage backed securities to investors.	• Management and service fees
Managed fund	Management and administration of financial assets. The fund is financed through the issue of bonds and units to investors.	• Management and service fees

The table below sets out an analysis of the carrying amount of interests held by the Group in unconsolidated structured entities. The maximum exposure to loss is the carrying amount of the assets held.

	Trade & other receivables	
	2021	2020
	$'000	$'000
Securitisation trusts for residential home loans	-	6
Managed fund	-	7
	-	13

The table below sets out details of fees received from unconsolidated structured entities.

Fee income earned from securitisation trusts	46	809
Fee income earned from managed fund	4	11
	50	820

12 Property plant and equipment

	Consolidated and Company				
	Motor vehicles	Computer equipment	Furniture & equipment	Right-of-use assets	Total
	$'000	$'000	$'000	$'000	$000
Gross carrying amount					
Balance at 1 July 2019	1,882	3,195	27,013	-	32,090
Additions	169	5,514	247	17,219	23,149
Disposals	(9)	-	-	-	(9)
Balance at 30 June 2020	2,042	8,709	27,260	17,219	55,230
Additions	-	2,284	1,177	65,762	69,223
Disposals	-	-	-	-	-
Balance at 30 June 2021	2,042	10,993	28,437	82,981	124,453
Accumulated depreciation					
Balance at 1 July 2019	29	2,406	23,088	-	25,523
Depreciation expense	367	1,618	3,490	9,047	14,522
Disposals	-	-	-	-	-
Balance at 30 June 2020	396	4,024	26,578	9,047	40,045
Depreciation expense	367	2,489	316	8,396	11,568
Disposals	-	-	-	-	-
Balance at 30 June 2021	763	6,513	26,894	17,443	51,613
Net book value					
As at 30 June 2020	1,646	4,685	682	8,172	15,185
As at 30 June 2021	1,279	4,480	1,543	65,538	72,840

13 Intangible assets

	Consolidated and Company		
	Core banking software $'000	Other software $'000	Total $'000
Gross carrying amount			
Balance at 1 July 2019	70,626	110,671	181,297
Additions	-	38,340	38,340
Disposal	-	-	-
Impairment on intangibles	-	(4,323)	(4,323)
Balance at 30 June 2020	70,626	144,688	215,314
Additions	-	36,580	36,580
Disposal	-	-	-
Impairment on intangibles	-	(767)	(767)
Balance at 30 June 2021	70,626	180,501	251,127
Accumulated amortisation			
Balance at 1 July 2019	34,036	60,629	94,665
Amortisation expenses	6,632	11,489	18,121
Disposal	-	-	-
Balance at 30 June 2020	40,668	72,118	112,786
Amortisation expenses	6,632	19,665	26,297
Disposal	-	-	-
Balance at 30 June 2021	47,300	91,783	139,083
Net book value			
As at 30 June 2020	29,958	72,570	102,528
As at 30 June 2021	23,326	88,718	112,044

The Group carries out annual impairment testing for its intangible assets as required by AASB 136 'Impairment of Assets'. The intangible assets do not individually generate independent cashflows, and have therefore in accordance with AASB 136 been tested as part of a single cash-generating unit (CGU), consisting of all the Group's banking operations. The Group considers the relationship between its independent fair value and its book value when reviewing for indicators of impairment.

The independent fair value of the Group's banking operations (CGU) for 30 June 2021 has been determined on the basis of the recent acquisition price paid by Bank of Queensland for the Group. The value of the Group's equity is below the acquisition price therefore resulting in no indication of impairment.

14 Other assets

	Consolidated		Company	
	2021 $'000	2020 $'000	2021 $'000	2020 $'000
Prepayments	15,220	14,399	15,220	14,399
	15,220	14,399	15,220	14,399

15 Deposits and other borrowings

	Consolidated		Company	
	2021	2020	2021	2020
	$'000	$'000	$'000	$'000
Unsecured - at amortised cost				
Retail customer deposits	9,157,214	8,650,311	9,157,214	8,650,311
Business customer deposits	3,267,035	1,838,941	3,267,035	1,838,941
Superannuation banking deposits	927,455	1,095,794	927,455	1,095,794
Advised and corporate deposits	4,804,601	5,578,049	4,804,601	5,578,049
Institutional borrowings	3,638,880	4,620,481	3,638,880	4,620,481
Treasury borrowings	1,155,211	921,607	1,155,211	921,607
Medium term notes (i)	400,634	951,451	400,634	951,451
Other Borrowings	164	-	-	-
	23,351,194	23,656,634	23,351,030	23,656,634
Secured - at amortised cost				
Mortgage backed securities (ii)	4,560,292	6,106,041	-	-
Liabilities to the securitisation trusts (iii)	-	-	4,066,496	5,800,236
	4,560,292	6,106,041	4,066,496	5,800,236
Lease liability (iv)	66,441	8,349	66,441	8,349
Total deposits and other borrowings	27,977,927	29,771,024	27,483,967	29,465,219

(i) Medium term notes include interest payable and deferred expenses directly attributable to its issuance, with a face value of $400,000,000 which is non current.

(ii) Mortgage backed securities relate to securities issued by securitisation trusts where the Group has assessed that it retains substantially all the risks and rewards of ownership and continues to control the transferred assets. The holders of these securities have recourse only to the assets in the relevant securitisation trusts.

(iii) Liabilities to the securitisation trusts represent the residential home loans that are securitised into the special purpose securitisation vehicles as described in Note 4(a).

(iv) Lease liabilities include right-of-use liabilities recognised under AASB 16 Leases, with $6,832,000 classified as current, with the remaining $59,609,000 classified as non current.

16 Derivatives

The Group makes use of derivative instruments for risk management purposes, in particular interest rate risk, and future exposure to foreign currency liability. This risk is managed using interest rate swap contracts, futures contracts and foreign exchange contracts.

<u>Interest rate swaps</u>
Interest rate swaps relate to contracts taken out by the Group with other financial institutions in which the Group either receives or pays a floating rate of interest, respectively, in return for paying or receiving a fixed rate of interest. The payment flows are usually netted against each other, with the difference being paid by one party to the other.

Under the terms of the International Swaps and Derivatives Association (ISDA) Collateral Guidelines for the interest rate swap contracts, the balance of the cash collateral received by the Group as at 30 June 2021 is $nil (2020: $nil).

In addition, the Group has pledged cash collateral under the terms of the ISDA Collateral Guidelines. As at 30 June 2021, the Group has pledged cash collateral to the value of $16,190,000 (2020: $72,970,000).

All interest rate swap contracts exchanging floating rate interest amounts for fixed rate interest amounts are designated as cash flow hedges in order to reduce the Group's cash flow exposure resulting from variable interest rates on interest-bearing liabilities.

16 Derivatives (continued)

Interest rate swap contracts held-for-trading activities relate to contracts entered into for risk management purposes that do not meet the AASB 9 'Financial Instruments' hedge accounting criteria, specifically basis swap contracts.

Futures contracts

Futures contracts are taken out by the Group to hedge against interest rate risks inherent in investments held for trading, which are fair valued to profit and loss.

Foreign exchange contracts

The Group has taken out foreign exchange forward contracts to hedge against exposure to foreign currency cash outflows. As the cash outflow is highly probable, this is subject to cash flow hedge accounting under AASB 139 'Financial Instruments'.

	Consolidated			
	2021 Fair value assets $'000	2021 Fair value liabilities $'000	2020 Fair value assets $'000	2020 Fair value liabilities $'000
Derivatives held for hedging - cash flow hedges				
Interest rate swaps	-	25,754	239	80,735
Foreign exchange contracts	-	25	316	-
Derivatives held for trading - fair value through profit and loss				
Interest rate basis swaps	10	247	32	1,928
Futures	-	-	217	-
	10	26,026	804	82,663

	Consolidated Notional values of derivatives	
	2021 $'000	2020 $'000
Derivatives held for hedging - cash flow hedges		
Interest rate swaps	4,506,500	5,442,000
Foreign exchange contracts	870	7,083
Derivatives held for trading - fair value through profit and loss		
Interest rate basis swaps	1,100,000	2,700,000
Futures	-	706,700
	5,607,370	8,855,783

	Company			
	2021 Fair value assets $'000	2021 Fair value liabilities $'000	2020 Fair value assets $'000	2020 Fair value liabilities $'000
Derivatives held for hedging - cash flow hedges				
Interest rate swaps	-	13,495	-	37,220
Foreign exchange contracts	-	25	316	-
Derivatives held for trading - fair value through profit and loss				
Interest rate basis swaps	10	247	32	1,928
Futures	-	-	217	-
	10	13,767	565	39,148

16 Derivatives (continued)

	Company Notional values of derivatives 2021 $'000	2020 $'000
Derivatives held for hedging - cash flow hedges		
Interest rate swaps	1,110,000	1,921,000
Foreign exchange contracts	870	7,083
Derivatives held for trading - fair value through profit and loss		
Interest rate basis swaps	1,100,000	2,700,000
Futures	-	706,700
	2,210,870	5,334,783

17 Trade and other payables

	Consolidated		Company	
	2021	2020	2021	2020
	$'000	$'000	$'000	$'000
Creditors and accruals	51,545	20,633	51,080	20,191
Other payables	193	1,557	4,841	24,805
	51,738	22,190	55,921	44,996

18 Provisions

	Consolidated		Company	
	2021	2020	2021	2020
	$'000	$'000	$'000	$'000
Employee benefits (i)	29,520	30,392	29,520	30,392
Other provisions (ii)	888	860	888	860
	30,408	31,252	30,408	31,252

	Consolidated & Company		
	Employee benefits	Other provisions	Total
	$'000	$'000	$'000
Balance 1 July 2020	30,391	861	31,252
Additional provisions made in the period	25,225	36	25,261
Amounts used during the period	(26,124)	-	(26,124)
Unused amounts reversed during the period	-	(9)	(9)
Increase/(decrease) during the period in the discounted amount arising from the passage of time and the effect of any change in the discount rate	28	-	28
Balance 30 June 2021	29,520	888	30,408

(i) Employee benefits are expected to be settled within a year with the exception of provisions for long service leave which amounted to $10,590,088 (2020: $9,989,183).

(ii) Other provisions predominantly relate to the make good provision for all premises leased by the Group throughout Australia.

19 Issued capital

	Consolidated		Company	
	2021	2020	2021	2020
	$'000	$'000	$'000	$'000
11,045,873 fully paid ordinary shares (2020: 11,045,873)	807,921	807,921	807,921	807,921
30,000 fully paid capital notes (2020: 30,000)	297,538	297,538	297,538	297,538
	1,105,459	1,105,459	1,105,459	1,105,459

	2021		2020	
	No.	$'000	No.	$'000
Movement in issued capital of fully paid shares				
Beginning of the financial year	11,045,873	807,921	11,045,873	807,921
Issue of new shares	-	-	-	-
End of the financial year	11,045,873	807,921	11,045,873	807,921
Movement in issued capital of fully paid capital notes				
Beginning of the financial year	30,000	30,000	30,000	20,000
Issue of new notes	-	-	-	10,000
End of the financial year	30,000	30,000	30,000	30,000

Fully paid ordinary shares carry one vote per share and carry a right to dividends.

20 Reserves

	Consolidated		Company	
	2021	2020	2021	2020
	$'000	$'000	$'000	$'000
Debt instruments at FVTOCI reserve	8,334	4,346	8,335	4,347
General reserve for credit losses	8,023	7,791	8,020	7,787
Cash flow hedge reserve	(17,638)	(61,171)	(9,507)	(32,233)
	(1,281)	(49,034)	6,848	(20,099)

Debt instruments FVTOCI reserve

The debt instruments at FVTOCI reserve includes all changes in the fair value of investments in debt instruments except for impairment based on the three-stage expected credit loss model, foreign exchange gains and losses and interest income. The changes recognised in the reserve are transferred to profit or loss when the asset is derecognised or impaired.

	Consolidated	Company
	Debt instruments FVTOCI reserve	Debt instruments FVTOCI reserve
	$'000	$'000
Balance as at 1 July 2020	4,346	4,347
Revaluation gains/(losses) recognised in OCI, net of tax	5,831	5,831
Transferred to income statement upon derecognition, net of tax	(1,843)	(1,843)
Balance as at 30 June 2021	8,334	8,335

General reserve for credit losses

APRA requires the Group to establish a general reserve under APS220 Credit Quality, for credit losses to cover future expected losses not yet identified, which are inherent in its lending activities.

Cash flow hedge reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of hedging instruments used in cash flow hedges pending subsequent recognition in profit or loss as the hedge cash flows affect profit or loss (see Note 3(o)).

21 Dividends

Dividends of $60,000,000 have been paid or declared since the start of the financial year (2020: $nil) with respect to the ordinary fully paid shares. From 1 July 2011, the Company and its subsidiary have formed a tax-consolidated group with the Company as the head entity. Accordingly, all franking credits in the subsidiary are transferred to the head entity franking account.

The Group has paid $10,998,456 of fully franked dividends with respect to the perpetual Capital Notes issued (2020: $12,990,576).

	Company	
	2021	2020
	$'000	$'000
Adjusted franking account balance	258,767	229,418

22 Commitments

	Consolidated		Company	
	2021	2020	2021	2020
	$'000	$'000	$'000	$'000
Undrawn credit				
Residential home loans	569,202	439,009	569,202	439,009
Credit cards	250,363	261,587	250,363	261,587
Personal loans	-	-	-	-
	819,565	700,596	819,565	700,596

23 Notes to the statement of cash flows

(a) Reconciliation of cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents includes cash on hand and in banks and investments at call in money market instruments. Cash and cash equivalents at the end of the financial year as shown in the statement of cash flows is reconciled to the related items in the statement of financial position as follows:

<u>Cash and cash equivalents</u>

	Consolidated		Company	
	2021	2020	2021	2020
	$'000	$'000	$'000	$'000
Cash at bank	476,480	616,848	179,563	281,908
Deposits at call	500,218	806,807	165,936	669,994
	976,698	1,423,655	345,499	951,902

(b) Cash balance not available for use in (a)				
First Home Owners Grants held on behalf of customers	50	10	50	10
Cash at bank and deposits at call within securitisation trusts (i)	417,673	464,700	-	-
	417,723	464,710	50	10

(i) Represents cash balances held within controlled securitisation trusts that are only available for use in accordance with the terms of the Trust Deeds.

23 Notes to the statement of cash flows (continued)

	Consolidated		Company	
	2021	2020	2021	2020
	$'000	$'000	$'000	$'000
(c) Change in operating assets				
Investments	120,575	347,516	120,575	347,516
Derivatives assets	794	2,981	555	2,746
Trade and other receivables	433	5,336	345	4,994
Loans and advances	1,204,909	(424,209)	1,217,501	(477,655)
Other assets	10,157	476	10,397	476
Movement in other comprehensive income before income tax:				
- FVTOCI financial assets	3,988	146	3,988	146
	1,340,856	(67,754)	1,353,361	(121,777)
(d) Change in operating liabilities				
Deposits and other borrowings	(1,854,414)	863,516	(2,042,569)	758,553
Derivatives liabilities	(56,637)	(15,881)	(25,381)	(32,035)
Trade and other payables	29,547	(18,308)	10,923	(6,087)
Provisions	8,311	17	1,931	17
Subordinated debt	-	(1,118)	-	(1,118)
Movement in other comprehensive income before income tax -				
- Cash flow hedges	43,765	(30,310)	22,959	(15,043)
	(1,829,428)	797,916	(2,032,137)	704,287

	Consolidated		Company	
	2021	2020	2021	2020
	$'000	$'000	$'000	$'000
(e) Non-cash items included in profit before tax				
Depreciation of plant and equipment, including right-of-use assets	11,568	14,522	11,568	14,522
Amortisation of intangible assets	26,297	18,121	26,297	18,121
Loss on disposal of plant and equipment, and intangible assets	767	9	767	9
Impairment (gains) / losses	(11,424)	52,118	(11,424)	52,118
Amortisation of capitalised transaction costs	21,621	33,306	21,621	33,306
ROU - Lease expense	-	(8,112)	-	(8,112)
ROU - Lease interest	636	-	636	-
ROU - Lease liability	-	-	-	-
ROU - Lease prepayments	-	5	-	5
	49,465	109,969	49,465	109,969
(f) Operating cash flows from interest				
Interest received	904,083	1,167,979	902,059	1,145,831
Interest paid	352,239	686,297	521,267	807,583

24 Financial instruments

	Consolidated		Company	
	2021	2020	2021	2020
	$'000	$'000	$'000	$'000
(a) Categories of financial instruments				
Financial assets				
Cash and cash equivalents	976,698	1,423,655	345,499	951,902
Investments				
Amortised cost financial asset	79,938	34,658	79,938	34,658
FVTOCI financial assets	3,030,323	2,299,764	3,030,323	2,299,764
FVTPL financial assets	3,101	899,515	3,101	899,515
Derivatives				
Designated hedge accounting relationship	-	555	-	316
FVTPL derivatives	10	249	10	249
Trade and other receivables	3,751	4,184	5,086	5,431
Loans and advances	25,403,597	26,615,476	25,527,881	26,752,352

	Consolidated		Company	
	2021	2020	2021	2020
	$'000	$'000	$'000	$'000
Financial liabilities				
Derivatives				
Designated hedge accounting relationship	25,779	80,735	13,520	37,220
FVTPL derivatives	247	1,928	247	1,928
Deposits and other borrowings	27,977,927	29,771,024	27,483,967	29,465,219
Trade and other payables	51,738	22,190	55,921	44,996

The Group's principal financial assets comprise cash and cash equivalents, treasury notes and semi-government securities, government securities, bank bills, commercial paper, fixed term deposits, floating rate notes, mortgage backed securities, residential home loans, credit cards, and personal loans. The principal financial liabilities comprise of retail and business deposits, negotiable certificates of deposit, medium term notes and subordinated debt. The main purpose of holding these financial instruments is to generate a return on the capital invested by shareholders by earning a net interest margin. The Group has various other financial instruments such as receivables and payables, which arise directly from its operations.

(b) Fair value of financial instruments

The Group measures fair value using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements (see Note 3(f)).

Valuation techniques include net present value and discounted cash flow models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premium used in estimating discount rates and bond prices.

The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the assets or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

24 Financial instruments (continued)

The Group uses widely recognised valuation models for determining the fair value of financial instruments such as FVTOCI financial assets and interest rate swaps that use only observable market data and require little management judgement and estimation. Observable prices or model inputs are usually available in the market for listed debt securities, and simple over-the-counter derivatives such as interest rate swaps. Availability of observable market prices and model inputs reduces the need for management judgement and estimation and also reduces the uncertainty associated with determining fair values. Availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

	Consolidated			
	Level 1	Level 2	Level 3	Total
	$'000	$'000	$'000	$'000
30 June 2021				
Financial Assets				
Investments				
FVTOCI financial assets:				
Treasury notes and semi-government securities	-	2,415,102	-	2,415,102
Corporate floating rate notes	-	490,897	-	490,897
Mortgage backed securities	-	124,324	-	124,324
FVTPL financial assets:				
Government Securities	-	101	-	101
Unlisted equity	-	-	3,000	3,000
	-	3,030,424	3,000	3,033,424
Derivatives				
Designated hedge accounting relationship	-	-	-	-
FVTPL derivatives	-	10	-	10
	-	10	-	10
Financial liabilities				
Derivatives				
Designated hedge accounting relationship	-	25,779	-	25,779
FVTPL derivatives	-	247	-	247
	-	26,026	-	26,026

24 Financial instruments (continued)

	Consolidated			
	Level 1	**Level 2**	**Level 3**	**Total**
	$'000	**$'000**	**$'000**	**$'000**
30 June 2020				
Financial assets				
Investments				
FVTOCI financial assets:				
Treasury notes and semi-government securities	-	1,415,953	-	1,415,953
Corporate floating rate notes	-	733,308	-	733,308
Mortgage backed securities	-	150,503	-	150,503
FVTPL financial assets:				
Government securities	-	896,515	-	896,515
Unlisted equity	-	-	3,000	3,000
	-	3,196,279	3,000	3,199,279
Derivatives				
Designated hedge accounting relationship	-	555	-	555
FVTPL derivatives	-	249	-	249
	-	804	-	804
Financial liabilities				
Derivatives				
Designated hedge accounting relationship	-	80,735	-	80,735
FVTPL derivatives	-	1,928	-	1,928
	-	82,663	-	82,663

The Group does not have any financial instruments measured at level 1 and there were no transfers between level 1, 2, and 3 during the financial year.

	Company			
	Level 1	**Level 2**	**Level 3**	**Total**
	$'000	**$'000**	**$'000**	**$'000**
30 June 2021				
Financial Assets				
Investments				
FVTOCI financial assets:				
Treasury notes and semi-government securities	-	2,415,102	-	2,415,102
Corporate floating rate notes	-	490,897	-	490,897
Mortgage backed securities	-	124,324	-	124,324
FVTPL financial assets:				
Government Securities	-	101	-	101
Unlisted equity	-	-	3,000	3,000
	-	3,030,424	3,000	3,033,424
Derivatives				
Designated hedge accounting relationship	-	-	-	-
FVTPL derivatives	-	10	-	10
	-	10	-	10
Financial liabilities				
Derivatives				
Designated hedge accounting relationship	-	13,520	-	13,520
FVTPL derivatives	-	247	-	247
	-	13,767	-	13,767

24 Financial instruments (continued)

	Company			
	Level 1	Level 2	Level 3	Total
	$'000	$'000	$'000	$'000
30 June 2020				
Financial Assets				
Investments				
FVTOCI financial assets:				
Treasury notes and semi-government securities	-	1,415,953	-	1,415,953
Corporate floating rate notes	-	733,308	-	733,308
Mortgage backed securities	-	150,503	-	150,503
FVTPL financial assets:				
Government Securities	-	896,515	-	896,515
Unlisted equity	-	-	3,000	3,000
	-	3,196,279	3,000	3,199,279
Derivatives				
Designated hedge accounting relationship	-	316	-	316
FVTPL derivatives	-	249	-	249
	-	565	-	565
Financial liabilities				
Derivatives				
Designated hedge accounting relationship	-	37,220	-	37,220
FVTPL derivatives	-	1,928	-	1,928
	-	39,148	-	39,148

The Company does not have any financial instruments measured at level 1 and there were no transfers between level 1, 2 and 3 during the financial year.

Except as detailed in the following tables, the carrying amounts of financial assets and financial liabilities in the financial statements approximate their fair values:

		Consolidated			
	Book Value	Level 1	Level 2	Level 3	Total
	$'000	$'000	$'000	$'000	$'000
2021					
Financial assets					
Loans and advances (i)	25,403,597	-	-	25,419,830	25,419,830
Financial liabilities					
Deposits and other borrowings:					
- Medium term notes (ii)	400,634	-	403,236	-	403,236
2020					
Financial assets					
Loans and advances (i)	26,615,476	-	-	26,722,502	26,722,502
Financial liabilities					
Deposits and other borrowings:					
- Medium term notes (ii)	951,451	-	952,054	-	952,054

24 Financial instruments (continued)

	Book Value	Company Level 1	Level 2	Level 3	Total
	$'000	$'000	$'000	$'000	$'000
2021					
Financial assets					
Loans and advances (i)	25,527,881	-	-	25,544,114	25,544,114
Financial liabilities					
Deposits and other borrowings:					
- Medium term notes (ii)	400,634	-	403,236	-	403,236
2020					
Financial assets					
Loans and advances (i)	26,752,352	-	-	26,859,378	26,859,378
Financial liabilities					
Deposits and other borrowings:					
- Medium term notes (ii)	951,451	-	952,054	-	952,054

Methodologies and assumptions used to determine the fair value of financial assets and liabilities not carried at fair value

(i) The fair value of fixed rate loans are estimated by reference to current market rates offered on similar loans. The Group has reviewed the disclosure in relation to the classification of the fair value hierarchy for loans and advances, and has determined that it should be classified as level 3 fair value. The inputs used to determine the fair value of loans and advances are unobservable. As a result, the comparative information for the fair value of loans and advances has also been reclassified accordingly.

(ii) The fair value of medium term notes are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments.

25 Risk management

Overview

The Board has a risk management framework to identify, measure, evaluate, monitor, report and control or mitigate all internal and external sources of material risk across the Group.

The risk management framework is centred on a Risk Management Statement, signed by the CEO, which articulates the purpose and value of successful risk management and is the overarching intent against which all components of the risk management framework are aligned. The statement recognises that the design and implementation controls mitigate risks will reasonably assure the achievement of the Group's corporate objective. The four risk management objectives contained in the risk management framework and shown below provide the Group with single, integrated and structurally lean approach to manage all material risks in a consistent way and support a fit for purpose risk-based culture.

- Objective 1: Keep ME Safe
- Objective 2: Strong Risk Culture
- Objective 3: Strategic alignment
- Objective 4: Risk measure and monitoring

Collectively, these elements of the framework:

- Allow the Board to establish and monitor risk appetite limits that reflect organisational strategy and good governance;
- Measure, across highly quantifiable risk classes such as credit, market, and liquidity risk, the risk capacity of the organisation, and apply meaningful risk tolerances;
- Measure, across more qualitative risk classes, specifically operational risks, the relative distribution of risk exposures and develop and apply meaningful risk appetite limits for 21 operational risk classes;
- Monitor risk exposures to risk limits and provide relevant reporting and insight, for both management/Board and regulators;

25 Risk management (continued)

- Ensure clear accountability for the key controls on which the Group relies on to operate an effective business and meet regulatory and contractual obligations;
- Ensure adequate and effective business continuity and disaster recovery capabilities are in place, and regularly tested;
- Support the development of new or enhanced products and services, and the projects that deliver them;
- Provide insight for the Board on the risk culture of the organisation; and, overall,
- Assist the organisation make better risk based decisions to achieve its purpose and business objectives.

The framework supports a Three Lines of Defence governance model which is reflected across roles and responsibilities, management and Board committee structures, decision making and reporting.

The risk management framework is a living document which is updated as required.

The COVID-19 pandemic has had an impact on the Group's material risks such as the financial stability of its customers, which impacts balance sheet strength and operations and risks in relation to safety of employees.

The Group's COVID-19 response includes:
- offering suspension of mortgage payments which has been crucial in keeping Australians in their homes as they self-isolate, serve as essential workers, and weather the economic impacts of the virus;
- increasing internal communications to staff to communicate public health messages and ensure they felt supported and enabled the majority to work from home;
- critical customer communications; and
- recognised increased forward looking credit impairment provision.

(a) Credit risk
Credit, in the context of the Group's lending and investment activities, is the provision of funds on agreed terms and conditions to a debtor or counterparty who is obliged to repay the amount borrowed or received. Credit may be extended, on a secured or unsecured basis, by way of instruments such as mortgages, bonds, private placements, deposits, derivatives and leases.

Credit risk arises as a consequence of contractual and/or contingent financial transactions between the provider and the user of funds (the counterparty). Financial loss results when a counterparty fails to honour the terms and conditions of its obligations.

Credit risk loss levels can vary from expected levels due to a number of factors such as:
- failure to identify existing or potential credit risks when conducting lending and investment activities and then failing to develop and implement sound and prudent credit policies to effectively manage and control these risks;
- inadequate credit granting, documentation, facility management and collection procedures;
- ineffective procedures to monitor and control the nature, characteristics, and quality of the credit portfolio; and
- failure to manage problem credits effectively.

Sound credit risk management involves establishing an appropriate credit risk strategy, maintaining a sound credit granting process, maintaining appropriate credit administration, measurement and monitoring processes and ensuring adequate controls over credit risk are in place for prudently managing the risk and reward relationship throughout the entire credit life cycle. The Group's credit risk control principles seek to effectively manage the impact of credit risk-related events.

The Group has a delegated authority framework in place for charge-offs.

As per the impairment requirement under AASB 9 'Financial Instruments', the Group has applied the expected credit loss (ECL) model on loans and advances from 1 July 2018. The key inputs into the measurement of ECLs are:
- Probability of default (PD);
- Loss given default (LGD), and;
- Exposure at default (EAD)

These parameters are derived from internally developed models. This will also incorporate forward-looking information to reflect considerable judgement over how changes in macro-economic conditions affect ECL estimation.

25 Risk management (continued)

The table below shows the reconciliation from the opening balance to the closing balance of ECL allowance and transfers during the period:

	Consolidated & Company				
	Stage 1 12-month ECL Collective provision $'000	**Stage 2 Lifetime ECL not credit impaired Collective provision $'000**	**Stage 3 Lifetime ECL credit impaired Collective provision $'000**	**Stage 3 Lifetime ECL credit impaired Specific provision $'000**	**Total $'000**
Balance as at 30 June 2020	10,122	58,710	19,190	7,195	95,217
Changes due to financial assets recognised in the opening balance that have:					
Transferred to 12 month ECL - collective provision	14,913	(8,415)	(5,265)	(1,233)	-
Transferred to lifetime ECL - collective provision	(239)	4,714	(3,838)	(638)	-
Transferred to lifetime ECL credit impaired					
- collective provision	(36)	(1,497)	1,764	(231)	-
- specific provision	(8)	(178)	(379)	565	-
Write offs	-	-	-	-	-
Changes due to modifications that did not result in modification	-	-	-	-	-
New financial assets originated or purchased	1,481	683	374	87	2,625
Financial assets which have been derecognised	-	-	-	-	-
Changes in model risk parameters	-	-	-	-	-
(Decrease) / increase in provisions (net of releases)	(16,446)	(2,239)	4,122	4,499	(10,063)
Write-backs of specific provisions	-	-	-	-	-
Write-off from specific provisions	-	-	-	(3,986)	(3,986)
Balance as at 30 June 2021	9,787	51,779	15,969	6,258	83,793

25 Risk management (continued)

	Consolidated & Company				
	Stage 1 12-month ECL Collective provision $'000	Stage 2 Lifetime ECL not credit impaired Collective provision $'000	Stage 3 Lifetime ECL credit impaired Collective provision $'000	Stage 3 Lifetime ECL credit impaired Specific provision $'000	Total $'000
Balance as at 30 June 2019	10,186	12,257	15,624	5,032	43,099
Changes due to financial assets recognised in the opening balance that have:					
Transferred to 12 month ECL - collective provision	7,025	(3,724)	(3,233)	(69)	-
Transferred to lifetime ECL - collective provision	(463)	3,485	(2,807)	(214)	-
Transferred to lifetime ECL credit impaired					
- collective provision	(101)	(1,995)	3,208	(1,112)	-
- specific provision	(8)	(201)	(622)	831	-
Write offs	-	-	-	-	-
Changes due to modifications that did not result in modification	-	-	-	-	-
New financial assets originated or purchased	2,012	2,328	1,196	-	5,536
Financial assets which have been derecognised	-	-	-	-	-
Changes in model risk parameters	(1,791)	36,504	(3,783)	-	30,930
(Decrease) / increase in provisions (net of releases)	(6,739)	10,056	9,607	5,815	18,739
Write-backs of specific provisions	-	-	-	-	-
Write-off from specific provisions	-	-	-	(3,086)	(3,086)
Balance as at 30 June 2020	10,122	58,710	19,190	7,195	95,217

	Consolidated		Company	
	2021 $'000	2020 $'000	2021 $'000	2020 $'000
New and increased provisions (net of releases)	(7,438)	51,915	(7,438)	51,915
Write offs net of provision releases	3,365	9,912	3,365	9,912
Write-backs of specific provisions	-	-	-	-
Recoveries	(2,961)	(2,847)	(2,961)	(2,847)
Total impairment loss (reversal) / charged to the income statement	(7,034)	58,980	(7,034)	58,980

The table below aggregates the ECL allowance by product.

	Consolidated and Company	
	2021 $'000	2020 $'000
Credit cards	10,167	9,757
Personal loans	10,323	12,390
Residential home loans	63,303	73,070
	83,793	95,217

25 Risk management (continued)

Expected Credit Losses (ECL)

Background
Credit risk is the risk that a customer or counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group's main income generating activity is lending to customers and therefore credit risk is a principal risk. Credit risk mainly arises from loans and advances and investments in derivatives that are an asset position.

Determining ECL
The Group applies a three-stage approach to measuring the ECL based on changes in the financial asset's underlying credit risk and includes forward-looking macroeconomic information. Where ECL is modelled collectively for portfolios of exposures, it is modelled as the product of the probability of default, the loss given default, and the exposure at default.

The determination of the ECL, which is unbiased and probability weighted, and incorporates all available information relevant to the assessment, including information about past events, current conditions, and reasonable and supportable information about future events, time value of money and economic conditions at the reporting date.

With the outbreak of COVID-19 domestically and globally the Group, like many other businesses, encountered unprecedented economic impacts. The uncertainty and volatility of the economic and financial environment driven by the pandemic presented significant challenges in the forward-looking estimates within the ECL model. Hence a high level of management judgment was required.

AASB 9 requires the Group to measure the loss allowance for a financial instrument at an amount equal to 12 month ECL if the credit risk on a financial instrument has not increased significantly since initial recognition (except for a purchased or originated credit-impaired financial asset). If the credit risk on a financial instrument has increased significantly since initial recognition or if the financial instrument is a purchased or originated credit -impaired financial asset, the Group is required to measure the loss allowance for that financial instrument at an amount equal to the lifetime expected credit loss.
AASB 9 also requires a simplified approach for measuring the loss allowance at an amount equal to lifetime ECL for trade and other receivables and other assets.

Credit quality of financial assets
In assessing the impairment of financial assets under the expected credit loss model, default is defined as one of the following:
- The customer is 90 days or more overdue on a scheduled credit obligation repayment; or
- The customer is unlikely to repay their credit obligation in full, leading to action taken to realise the value of the security.

The Group also reviews its exposures to identify other qualitative, default-related events such as significant financial difficulty of the borrower which includes breaches of lending covenant or it is becoming evident that the borrower will enter an arrangement because of financial difficulties.

Determining significant increase in credit risk (SICR)
SICR thresholds are used to determine whether an exposure's credit risk has increased significantly since initial recognition. SICR methodology is based on a relative credit risk approach which considers changes in an account's underlying credit risk.

At reporting date, the Group assesses the credit risk of its assets in comparison to the risk at initial recognition to determine the stage that applies to the associated ECL measurement. If an account's risk has increased significantly, it will migrate to stage 2. Otherwise, the account will remain in stage 1.

Given account delinquency is the primary mechanism used to monitor credit risk at ME, delinquency threshold is used to determine if the credit risk of an account has increased significantly since initial recognition. SICR is considered over a pre-determined period of time in which the account has been past due and it will not migrate back to stage 1 until the account shows improvement in its behaviour over this period. Other qualitative default-related considerations are also considered in determining when an account enters stage 3 such as arrangements due to financial difficulties such as bankrupt arrangements.

The SICR thresholds are periodically reviewed and adjusted based on historical default experience. Repayment deferral during COVID-19 has not in itself been treated as an automatic indicator of SICR unless other circumstances have been experienced.

25 Risk management (continued)

Model Inputs

The Group models the ECL for on-balance sheet financial assets measured at amortised cost or FVTOCI such as loans, as well as off-balance sheet items such as undrawn credit commitments. For this purpose, the Group segments its credit portfolios by cohorts that share like risk profiles and are subject to regular reviews. Portfolios are segmented along product lines and shared characteristics that are highly correlated to credit risk product, security, lender mortgage insurance and other like criteria.
Segments are reviewed on a regular basis to ensure that each group is comprised of homogenous exposures.
The key model inputs used in measuring the ECL are listed below. These figures are derived from internally developed models and other historical data.

Probability of default (PD)

PD is an estimate of the likelihood of default over a given time horizon. It is estimated as at a point in time. The calculation is based on statistical rating models and is a function of transition matrices used to determine point in time PD estimates. These transition matrices are based on historical delinquency trend PD. The PD calculation also takes into consideration contractual maturities of exposures and estimated prepayment rates. The development of PD is generally performed at an account level.
Repayment deferral during COVID-19 was not considered as a period of arrears and does not constitute as a default. All loan deferrals requested were applied as part of COVID-19 customer arrangements.
Until 1 October 2020, customers impacted by COVID-19 and who were current or less than 30 days delinquent, were offered a repayment pause upon request. From 1 October 2020, customers requesting a repayment deferral underwent a full assessment to ensure the customer requires a deferral. All loans that were granted a repayment deferral as part of COVID-19 relief have either resumed payments or been assessed for financial difficulty using an approved hardship process.

Loss Given Default (LGD)

LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including cash flows from any collateral. LGD captures the percentage of losses associated with a given default event. LGD is estimated using historical loss rates considering relevant factors for individual exposures for each portfolio. The Group uses portfolio benchmarks for LGD.

Exposure at default (EAD)

EAD is an estimate of the exposure at a future default date, considering expected changes in the exposure after the reporting date, including repayments of principal and interest, and expected drawdowns on committed facilities. The Group's EAD modelling approach reflects expected changes in the balance outstanding over the lifetime of the loan exposure that are permitted by the current contractual terms, such as amortisation profiles, early repayment or overpayment, changes in utilisation of undrawn commitments, and credit mitigation actions taken before default. To ensure the credit risk of any pre-payments and drawdowns are captured for term loans, the Group estimates an account's exposure at default based on an EAD factor (%) relative to its reporting month's scheduled balance or limit.

Forward-looking Estimates (FLE)

AASB 9 requires expected credit losses to incorporate forward-looking information.
The uncertainty and volatility of the economic and financial environment driven by the COVID-19 pandemic presented significant challenges in the forward looking estimates within the ECL model. This required a high level of management judgement particularly involving the forward-looking outlook and the recovery curve, involving senior management from Treasury, Finance and Risk.
The Group uses forward-looking macroeconomic information that is available without undue cost or effort in its assessment of significant increase of credit risk as well as in its measurement of ECL. The Bank's Treasury and Market Risk department generates a base case scenario of future forecast of relevant economic variables with reference to public information and third party sources such as governmental bodies and monetary authorities. Variables used include House Price Index, Gross Domestic Product and Unemployment.

The Group models the non-linear impact of assumptions about macroeconomic factors on ECL. The Group applies probabilities to the forecast scenarios identified. The base case scenario is the single most-likely outcome. The Group has estimated relationships between macro-economic variables and credit risk and credit losses.

In addition to the base scenario, the Group uses upside, downside and severe scenarios, with associated probability weightings. The probability weighting is such that the base scenario has the highest weighting, since it is the most likely outcome. The severe scenario attracts minimal weighting as it is the most highly unlikely outcome. The weightings of the upside and downside scenarios depend on the possible probability of the scenario. Management judgement is required in determining the likelihood of these scenarios with reference to the economic outlook.

25 Risk management (continued)

The ECL, along with FLE, is signed-off by Chief Risk Officer and Chief Financial Officer as part of the Group's governance framework.

The forward-looking component of the ECL model is estimated using key macroeconomic variables based on pre-COVID-19 forecast information and weightings. The impact of the forward-looking components using available forecast information across multiple scenarios and weighting was used.

Scenario	Weighting	Expectation
Base	Most Likely	Unemployment to recover from 2021/2022 trough, improving over 2023 GDP grpwth observed as the economy emerges from recession before moderating closer to long run average. House price growth continues, although growth levels may ease after the early 2021 peak.
Downside/ upside	Possible	Modelled on base forecasts.

COVID-19 overlay
The COVID-19 overlay continued to be applied based on the remaining uncertainty in the economy (due to lockdowns and border restrictions) and subsequent financial impacts on customers. This overlay was reviewed by determining the potential outcomes through stress testing the potential delinquency profile of those customers (impacted by COVID-19) who had opted for a loan repayment deferral. It has already been observed that these customers have been more likely to have ongoing financial difficulties (i.e a much higher arrears profile than the portfolio), and be more vulnerable to further deterioration in the economic environment.

Despite increased optimism earlier in the 2021 calendar year, future economic conditions remain uncertain driven by a number factors including:
- The direct and indirect financial impacts on individuals and business owners from the cessation of Job Keeper in March 2021.
- Continued closure of the International border by the Federal Government and State Domestic borders by respective State Governments.
- Snap lockdowns across the majority of capital cities across the country.
- The rapidly escalating Covid outbreak in Sydney and regional NSW, forcing a potentially longer and progressively stricter lockdown.

The Group updated the macroeconomic outlook and used a more severe downturn to determine its provisioning adequacy.
Management has applied judgements based on available industry forecast information and observed delinquency trends to determine the portion expected to default. This analysis was used to affirm the appropriateness of the continued inclusion of the COVID-19 overlay.

Sensitivity Analysis
The appropriateness of the provisions was stressed using different macro-economic forecast information and by applying multiple probability weighted scenarios.

Maximum exposure to credit risk
The carrying amount of financial assets recorded in the financial statements, net of any impairment allowance, represents the Group's maximum exposure to credit risk. In respect to residential home loans, the Group holds mortgages over the residential properties. There is no collateral held as security or other credit enhancements for any other financial assets besides residential home loans.

The maximum exposure to credit risk of the investment securities designated at FVTPL is their carrying amount, which amounts to $3,101,000 as at 30 June 2021 (2020: $899,515,000).

Concentration of exposure
Concentration of credit risk exists when a number of counterparties are engaged in similar activities, or operate in the same geographical areas or industry sections and have similar economic characteristics so that their ability to meet contractual obligations is similarly affected by changes in economic, political or other conditions. The diversification and size of the Group is such that its lending is widely spread geographically within Australia.

25 Risk management (continued)

Credit quality of financial assets

The table below shows the credit quality by class of financial asset for credit exposures. The amounts presented are gross of impairment allowances.

	Consolidated				
	Neither past due nor impaired				
	Investment grade	Unrated	Past due but not impaired	Impaired	Total
	$'000	$'000	$'000	$'000	$'000
2021					
Amortised cost investments	-	79,938	-	-	79,938
FVTOCI investments	3,030,323	-	-	-	3,030,323
FVTPL investments	101	3,000	-	-	3,101
Trade and other receivables	-	3,751	-	-	3,751
Loans and advances	-	24,485,754	955,066	46,570	25,487,390
	3,030,424	24,572,443	955,066	46,570	28,604,503
2020					
Amortised cost investments	-	34,658	-	-	34,658
FVTOCI investments	2,346,725	-	-	-	2,346,725
FVTPL investments	849,554	3,000	-	-	852,554
Trade and other receivables	-	4,184	-	-	4,184
Loans and advances	-	25,581,223	1,071,571	57,899	26,710,693
	3,196,279	25,623,065	1,071,571	57,899	29,948,814

	Company				
	Neither past due nor impaired				
	Investment grade	Unrated	Past due but not impaired	Impaired	Total
	$'000	$'000	$'000	$'000	$'000
2021					
Amortised cost investments	-	79,938	-	-	79,938
FVTOCI investments	3,030,323	-	-	-	3,030,323
FVTPL investments	101	3,000	-	-	3,101
Trade and other receivables	-	5,086	-	-	5,086
Loans and advances	-	24,610,038	955,066	46,570	25,611,674
	3,030,424	24,698,062	955,066	46,570	28,730,122

	Company				
	Neither past due nor impaired				
	Investment grade	Unrated	Past due but not impaired	Impaired	Total
	$'000	$'000	$'000	$'000	$'000
2020					
Amortised cost investments	-	34,658	-	-	34,658
FVTOCI investments	2,299,764	-	-	-	2,299,764
FVTPL investments	896,515	3,000	-	-	899,515
Trade and other receivables	-	5,431	-	-	5,431
Loans and advances	-	25,718,099	1,071,571	57,899	26,847,569
	3,196,279	25,761,188	1,071,571	57,899	30,086,937

25 Risk management (continued)

Credit risk exposure by risk grade

The table below show significant exposures to credit risk which the expected credit loss model is applied:

	Stage 1 12 months ECL Not credit impaired $'000	Stage 2 Lifetime ECL Not credit impaired $'000	Stage 3 Lifetime ECL Credit impaired $'000	Total $'000
Consolidated				
30 June 2021				
Loans and advances				
Unrated				
Credit cards	130,470	2,193	-	132,663
Personal loans	80,919	8,441	-	89,360
Residential home loans	23,921,839	1,017,711	-	24,939,550
Default				
Credit cards	-	-	555	555
Personal loans	-	-	4,691	4,691
Residential home loans	-	-	320,571	320,571
Total	24,133,228	1,028,345	325,817	25,487,390
Other financial assets				
Senior investment grade	1,312,549	-	-	1,312,549
Investment grade	1,717,875	-	-	1,717,875
Sub-investment grade	-	-	-	-
Unrated	82,938	-	-	82,938
Default	-	-	-	-
Total	3,113,362	-	-	3,113,362
30 June 2020				
Loans and advances				
Unrated				
Credit cards	133,263	4,768	-	138,031
Personal loans	106,766	15,679	-	122,445
Residential home loans	24,941,099	1,146,191	-	26,087,290
Default				
Credit cards	-	-	2,849	2,849
Personal loans	-	-	3,615	3,615
Residential home loans	-	-	356,463	356,463
Total	25,181,128	1,166,638	362,927	26,710,693
Other financial assets				
Senior investment grade	1,978,026	-	-	1,978,026
Investment grade	1,218,253	-	-	1,218,253
Sub-investment grade	-	-	-	-
Unrated	37,658	-	-	37,658
Default	-	-	-	-
Total	3,233,937	-	-	3,233,937

25 Risk management (continued)

	Stage 1 12 months ECL Not credit impaired $'000	Stage 2 Lifetime ECL Not credit impaired $'000	Stage 3 Lifetime ECL Credit impaired $'000	Total $'000
Company				
30 June 2021				
Loans and advances				
Unrated				
Credit cards	130,470	2,193	-	132,663
Personal loans	80,919	8,441	-	89,360
Residential home loans	23,921,839	1,017,711	-	24,939,550
Default				
Credit cards	-	-	555	555
Personal loans	-	-	4,691	4,691
Residential home loans	-	-	320,571	320,571
Total	24,133,228	1,028,345	325,817	25,487,390
Other financial assets				
Senior investment grade	1,312,549	-	-	1,312,549
Investment grade	1,717,875	-	-	1,717,875
Sub-investment grade	-	-	-	-
Unrated	82,938	-	-	82,938
Default	-	-	-	-
Total	3,113,362	-	-	3,113,362
30 June 2020				
Loans and advances				
Unrated				
Credit cards	133,263	4,768	-	138,031
Personal loans	106,767	15,679	-	122,446
Residential home loans	24,941,157	1,146,191	-	26,087,348
Default				-
Credit cards	-	-	2,849	2,849
Personal loans	-	-	3,615	3,615
Residential home loans	-	-	356,463	356,463
Total	25,181,187	1,166,638	362,927	26,710,752
Other financial assets				
Senior investment grade	1,978,026	-	-	1,978,026
Investment grade	1,218,253	-	-	1,218,253
Sub-investment grade	-	-	-	-
Unrated	37,658	-	-	37,658
Default	-	-	-	-
Total	3,233,937	-	-	3,233,937

25 Risk management (continued)

Past due financial assets

The following table details the financial assets that are past due but not impaired at the reporting date:

	Consolidated and Company				
	< 30 days $'000	31 - 60 days $'000	61 - 90 days $'000	> 90 days $'000	Total $'000
2021					
Net loans and advances					
Credit cards	6,239	883	351	-	7,473
Personal loans	3,466	1,178	781	-	5,425
Residential home loans	461,010	113,975	84,436	282,747	942,168
	470,715	116,036	85,568	282,747	955,066

	Consolidated and Company				
	< 30 days $'000	31 - 60 days $'000	61 - 90 days $'000	> 90 days $'000	Total $'000
2020					
Net loans and advances					
Credit cards	6,035	1,012	796	-	7,843
Personal loans	5,503	1,147	892	-	7,542
Residential home loans	349,206	185,614	206,059	315,307	1,056,186
	360,744	187,773	207,747	315,307	1,071,571

A facility is considered to be past due when a contractual payment falls overdue by one or more days. When a facility is classified as past due, the entire facility balance is disclosed in the past due analysis.

The Group assesses the allowances for impairment on loans and advances on a collective basis. Any loan facility where an assessment of probability of default or loss would give rise to a reasonable expectation that the facilities in question will need, in the short term to be subject to a write-down or write-off, will be assessed for impairment on an individual basis. Impairment allowances are evaluated at each reporting date, unless unforeseen circumstances require more careful attention.

Collateral held and other credit enhancements

The Group holds collateral and other credit enhancements against certain of its credit exposures. The table below sets out the principal types of collateral held against different types of financial assets.

	Percentage of exposure that is subject to collateral requirements 2021	2020	Principal types of collateral held
Cash and cash equivalents (i)	100%	100%	Repo eligible financial assets
Derivative assets (ii)	-	-	Cash
Loans and advances:			
Credit cards	-	-	None
Personal loans	-	-	None
Residential home loans (iii)	100%	100%	Residential property

(i) Repurchase agreements financial assets.

25 Risk management (continued)

(ii) Derivative transactions are entered into under ISDA master netting agreements. In general, under ISDA master netting agreements in certain circumstances - e.g. when a credit event such as a default occurs - all outstanding transactions under the agreement are terminated, the termination value is assessed and only a single net amount is due or payable in settlement of all transactions.

(iii) The fair value of the collateral for the residential home loans is $50,293 million (2020: $50,996 million). Values of the collateral are captured when loans are originated. The group has elected to use the value of the collateral at the time of origination as a proxy for its fair value.

Offsetting financial assets and financial liabilities
As at 30 June 2021, there are no financial assets and financial liabilities that are offset in the Group's statement of financial position. The Group considers the ISDA master netting agreements do not meet the criteria for offsetting in the statement of financial position. This is because they create for the parties to the agreement a right of set-off of recognised amounts that is enforceable only following an event of default, insolvency or bankruptcy of the Group or the counterparties or following other predetermined events (see Note 16).

Cash and cash equivalents

Cash and cash equivalents has been assessed as having a low credit risk. The 12 month ECL has been assessed as immaterial and no provision has been recognised.

(b) Liquidity risk
The Group defines liquidity risk as:
- Risk arising from the mismatch between cash inflows and cash outflows, and the Group's ability to meet liability obligations as and when they fall due; and
- The risk around the ability to easily and quickly convert liquid assets into cash without incurring material loss on the market value of that asset.

The objectives of the Liquidity and Funding Risk Policy is to:
- Ensure the Group meets prudential requirements as a minimum;
- Ensure the Group has sufficient access to liquidity to allow depositors and other creditors to have access to their funds whenever they are contractually entitled to them;
- To meet liquidity requirements under both normal conditions and stressed conditions;
- Define the Group's objectives for managing liquidity and funding risk;
- Define the roles and responsibilities of the Board and management;
- Specify the risk appetite, limits and triggers for funding and liquidity risk; and
- Set out the Group's monitoring and escalation requirements for liquidity and funding risk.

The Group develops contingency plans to fund business activities as follows:

Under normal business conditions, the Group will maintain its Liquidity Coverage Ratio (LCR) ratio as required by APRA Prudential Standards (APS) 210 Liquidity, plus a buffer over the prudential minimum LCR at all times.

The Group will conduct regular stress testing of its liquidity position under the criteria proposed by APRA. Under stressed conditions, the liquid asset portfolio is assumed to be available to cover forecast cash outflows.

Contingent liquidity is available in addition to the assets held in the liquidity pool in the form of unencumbered assets that can be used as collateral to access secured funding, or sold outright. In the event of a market-wide stress event greater reliance would be placed on central bank liquidity facilities to which the Group has access as a result of prepositioned assets.

25 Risk management (continued)

The following table sets out the availability of the Group's financial assets to support contingent funding.

	Consolidated				
	Encumbered		Unencumbered		
	Pledged as collateral $'000	Restricted from using as collateral $'000	Available as collateral $'000	Not readily available to secure funding $'000	Total $'000
30 June 2021					
Cash and cash equivalents	16,190	-	-	960,508	976,698
Investments	-	-	3,030,424	82,938	3,113,362
Derivatives	-	-	-	10	10
Trade and other receivables	-	-	-	3,751	3,751
Current tax assets	-	-	-	-	-
Loans and advances	-	-	-	25,403,597	25,403,597
Investment in controlled entities	-	-	-	-	-
Plant and equipment	-	-	-	72,840	72,840
Intangible assets	-	-	-	112,044	112,044
Deferred tax assets	-	-	-	43,703	43,703
Other assets	-	-	-	15,220	15,220
	16,190	-	3,030,424	26,694,611	29,741,225

	Consolidated				
	Encumbered		Unencumbered		
	Pledged as collateral $'000	Restricted from using as collateral $'000	Available as collateral $'000	Not readily available to secure funding $'000	Total $'000
30 June 2020					
Cash and cash equivalents	78,755	-	-	1,344,900	1,423,655
Investments	217,906	-	2,978,373	37,658	3,233,937
Derivatives	-	-	-	804	804
Trade and other receivables	-	-	-	4,184	4,184
Current tax assets	-	-	-	-	-
Loans and advances	-	-	-	26,615,476	26,615,476
Investment in controlled entities	-	-	-	-	-
Plant and equipment	-	-	-	15,185	15,185
Intangible assets	-	-	-	102,528	102,528
Deferred tax assets	-	-	-	54,681	54,681
Other assets	-	-	-	14,399	14,399
	296,661	-	2,978,373	28,189,815	31,464,849

25 Risk management (continued)

	Company				
	Encumbered		Unencumbered		
	Pledged as collateral $'000	Restricted from using as collateral $'000	Available as collateral $'000	Not readily available to secure funding $'000	Total $'000
30 June 2021					
Cash and cash equivalents	16,190	-	-	329,309	345,499
Investments	-	-	3,030,424	82,938	3,113,362
Derivatives	-	-	-	10	10
Trade and other receivables	-	-	-	5,086	5,086
Current tax assets	-	-	-	-	-
Loans and advances	-	-	-	25,527,881	25,527,881
Investment in controlled entities	-	-	-	102	102
Plant and equipment	-	-	-	72,840	72,840
Intangible assets	-	-	-	112,044	112,044
Deferred tax assets	-	-	-	43,703	43,703
Other assets	-	-	-	15,220	15,220
	16,190	-	3,030,424	26,189,133	29,235,747

	Company				
	Encumbered		Unencumbered		
	Pledged as collateral $'000	Restricted from using as collateral $'000	Available as collateral $'000	Not readily available to secure funding $'000	Total $'000
30 June 2020					
Cash and cash equivalents	78,755	-	-	873,147	951,902
Investments	217,906	-	2,978,373	37,658	3,233,937
Derivatives	-	-	-	565	565
Trade and other receivables	-	-	-	5,431	5,431
Current tax assets	-	-	-	246	246
Loans and advances	-	-	-	26,752,352	26,752,352
Investment in controlled entities	-	-	-	102	102
Plant and equipment	-	-	-	15,185	15,185
Intangible assets	-	-	-	102,528	102,528
Deferred tax assets	-	-	-	54,675	54,675
Other assets	-	-	-	14,399	14,399
	296,661	-	2,978,373	27,856,288	31,131,322

Financial assets pledged as collateral

The table above shows the financial assets pledged as collateral. These assets are pledged as part of sales and repurchases, securities borrowing and securitisation transactions under terms that are usual and customary for such activities. As part of these transactions, the Group has received assets as collateral that it is permitted to sell or repledge in the absence of default. These assets have a fair value of $149,476,000 as at 30 June 2021 (2020: $476,971,000). The Group is obliged to return equivalent securities under the relevant agreements. In addition, the Company pledged mortgage backed securities with a face value of $1,033,400,000 as at 30 June 2021 (2020: $326,700,000). These assets are eliminated from the Group and Company financial statements as it relates to holdings in one of the securitisation trusts (refer to Note 10).

25 Risk management (continued)

The table below summarises the maturity profile of the Group's financial liabilities based on contractual undiscounted repayment obligations, including interest repayments up to the maturity date. Liability products that are subject to a notice period are treated as if notice were given immediately, however this does not reflect the expected behavioural cash flows as indicated by the Group's deposit retention history.

	Consolidated				
	At call $'000	0 - 3 months $'000	3 mths to 1 year $'000	1 - 5 years $'000	More than 5 years $'000
2021					
Deposits and other borrowings	10,739,184	6,226,026	7,029,837	4,936,421	1,118,883
Trade payables	-	51,738	-	-	-
Net settled:					
Interest rate swaps (cash flow hedges)	-	9,465	12,504	2,627	-
Interest rate swaps	-	94	125	-	-
Foreign exchange contracts (cash flow hedges)	-	-	160	710	-
Total undiscounted cash flows	10,739,184	6,287,323	7,042,627	4,939,758	1,118,883
2020					
Deposits and other borrowings	8,248,989	8,833,195	7,467,788	4,509,954	1,626,259
Trade payables	-	22,190	-	-	-
Net settled:					
Interest rate swaps (cash flow hedges)	-	17,810	38,461	23,326	-
Interest rate swaps	-	856	1,048	19	-
Foreign exchange contracts (cash flow hedges)	-	-	298	18	-
Total undiscounted cash flows	8,248,989	8,874,051	7,507,595	4,533,317	1,626,259

	Company				
	At call $'000	0 - 3 months $'000	3 mths to 1 year $'000	1 - 5 years $'000	More than 5 years $'000
2021					
Deposits and other borrowings	10,739,184	5,873,365	5,974,615	1,185,430	-
Trade payables	-	55,921	-	-	-
Net settled:					
Interest rate swaps (cash flow hedges)	-	4,279	5,717	3,353	-
Interest rate swaps (held-for-trading)	-	94	125	-	-
Foreign exchange contracts	-	-	160	710	-
Total undiscounted cash flows	10,739,184	5,933,660	5,980,618	1,189,493	-
2020					
Deposits and other borrowings	8,248,989	9,079,448	5,786,923	931,707	-
Trade payables	-	44,996	-	-	-
Net settled:					
Interest rate swaps (cash flow hedges)	-	12,177	25,838	17,394	-
Interest rate swaps (held-for-trading)	-	856	1,048	19	-
Foreign exchange contracts	-	-	298	18	-
Total undiscounted cash flows	8,248,989	9,137,477	5,814,107	949,138	-

25 Risk management (continued)

(c) Market risk
Market risk is defined as the risk of loss arising from movements in market prices. The primary market risk exposures for the Group are interest rate risk and currency risk.

Interest rate risk
The two key risk measures monitored by management are the exposure of market value of equity (MVE) to movements in interest rates and the volatility in forecast earnings over the next 12 months due to volatility in net interest income (NII).

The Group uses a simulation modelling approach to measuring NII volatility. The modelling takes a dynamic approach, including simulation of the forecast balance sheet over the next 12 months. Key inputs into the simulation include forecast growth, the price and portfolio mix of new business written, repayment rates and maturity profiles.

Under this simulation model variable rate and non contractual assets and liabilities are assumed to reprice in the first month of the forward gap profile. Fixed rate assets and liabilities are assumed to reprice in the sooner of month of next rate set date or maturity date.

Interest rate sensitivity analysis
The following table details the sensitivity of the Group's forecast 1 year pre tax NII and MVE to a 1% parallel shock in forward interest rates. NII measures do not take into account the potential impact of market movements on profit and loss due to the mark to market treatment of those financial assets and liabilities carried at fair value through profit or loss at reporting date.

MVE sensitivity was calculated using a 1% parallel shock in forward interest rates at reporting date, assuming all financial assets and liabilities are measured at fair value regardless of their accounting treatment.

	Consolidated and Company			
	Net interest income		MVE	
	1% increase	1% decrease	1% increase	1% decrease
	$'000	$'000	$'000	$'000
30 June 2021	9,167	(10,393)	(8,603)	9,607
30 June 2020	18,261	(18,503)	22,468	(22,265)

Currency risk
Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.

As at the end of the financial year, there is no material currency risk exposure on the Group's monetary assets and liabilities and its forecast cash flows (2020: $nil).

There has been no change to the manner in which the Group manages and measures it's market risk exposures in the current year.

(d) Operational risk
Operating risk is the risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems or from external events.

Where possible and appropriate, the Group builds operational risk controls into each of its processes. Control processes are designed to be appropriate to the activities conducted. While it is not possible to specify all types of control processes, the following controls are implemented wherever appropriate:
- integration of controls in processes and role responsibilities;
- promoting compliance within the process and with all relevant laws and regulatory requirements;
- maintaining safeguards for access to, and use of, assets and records;
- where possible and appropriate, the segregation of duties through role and system-based segregation to protect against internal fraud and avoiding conflicts of interest;
- promoting effective IT security practices, including system access controls;
- clearly communicated policies and procedures; and
- monitoring of adherence to assigned risk limits or thresholds.

25 Risk management (continued)

(e) Macro-economic, political and regulatory risks

The Group's performance may be subject to changes in economic conditions in Australia (and globally), and any governmental or regulatory response to those changing conditions. The changes in economic conditions could include:

- changes in economic growth, unemployment levels and consumer confidence which may lead to a decline in the demand for the Group's products and services and the quality of existing portfolio of loans;
- changes in fiscal and monetary policy, including inflation and interest rates, which may impact profitability or cause a decline in the demand for the Group's products and services;
- declines in aggregate investment and economic output in Australia or in key offshore regions;
- national or international political and economic instability or the instability of national or international financial markets; and
- changes in residential real estate values.

Specific consideration to COVID-19 macro-economic impacts has been taken into account by the Group in relation to Risk management. The Group has recognised a forward looking impairment provision of $42m and undertakes regular stress testing of its portfolios.

The Group is subject to a broad range of regulatory and legal oversight, including by, among others, APRA, the Reserve Bank of Australia (RBA), the Australian Competition and Consumer Commission (ACCC), Australian Securities and Investments Commission (ASIC) and Australian Transaction Reports and Analysis Centre (AUSTRAC), and Office of the Australian Information Commissioner (OAIC). These regulators (with others) are responsible for a broad range of laws, prudential requirements, regulations, policies and other standards, the change in, or implementation or interpretation of, which could affect ME either directly or indirectly in substantial and unpredictable ways.

26 Capital management

The Group manages its capital to ensure that it will be able to continue as a going concern. Capital is managed with regard to expectations of shareholders, the requirements of APRA and to maintain credit ratings commensurate with the nature of the Group’s business. Tier 1 capital comprises of Common Equity Tier 1 (CET1) capital and any Additional Tier 1 (AT1) capital. The total capital of the Group is the sum of Tier 1 and Tier 2 capital, net of all specified deductions and amortisation, subject to the limits that apply under APRA Prudential Standard APS 111 'Capital Adequacy: Measurement of Capital'.

Management has developed and employed systems and processes to identify and measure risks to ensure that the Group is appropriately capitalised. In managing its capital, the Group is committed to increasing the internal generation of capital commensurate with the increased business risks that are inherent in growing its business. The Group monitors the structure of capital through its Asset and Liability Committee on a regular basis to make sure that the capital held meets the determined on a risk requirements imposed by APRA (refer below).

<u>Externally imposed capital requirements</u>
APRA guidelines require capital to be allocated against credit, market and operational risks. The Group must maintain a minimum ratio of qualifying capital (comprising Tier 1 and Tier 2 capital) to assets and off-balance sheet exposures weighted basis.

APRA sets a Prudential Capital Ratio at a level proportional to an ADI's overall risk profile. A breach of the required ratios under the prudential standards may trigger legally enforceable directions by APRA, which can include a direction to raise additional capital or to cease business. From 1 January 2016, APRA implemented a capital conservation buffer of 2.5% of an ADI's total risk weighted assets.

APRA requires capital adequacy to be measured at two levels:

- Level 1 includes the Company, SMHL Series Private Placement 2014-2, SMHL Series Private Placement Trust 2017-2 and SMHL Series Securitisation Fund 2018-1 Fund.

- Level 2 includes the Company, ME Portfolio Management Limited, SMHL Series Private Placement 2014-2, SMHL Series Private Placement Trust 2017-2 and SMHL Series Securitisation Fund 2018-1 Fund.

26 Capital management (continued)

Capital ratios are monitored against internal capital targets set by the Board which are over and above minimum APRA capital requirements. The Group remains well capitalised with a total capital ratio of 13.9% as at 30 June 2021 (2020: 13.3%).

Securitisation deconsolidation principle
Where an ADI (or a member of its level 2 consolidated group) participates in a securitisation that meets APRA's operational requirements for regulatory capital relief under Prudential Standard APS 120 Securitisation, the special purpose vehicle holding securitised assets is treated as non-consolidated independent third party for the purpose of calculating the capital adequacy ratio.

The following trusts have complied with APS 120, accordingly, they are not included in the calculation of capital adequacy:

- SMHL Series Securitisation Fund 2015-1
- SMHL Series Securitisation Fund 2016-1
- SMHL Series Securitisation Fund 2017-1
- SMHL Series Securitisation Fund 2018-2
- SMHL Series Private Placement 2019-1
- SMHL Series Securitisation Fund 2019-1
- SMHL Series Private Placement 2019-2
- SMHL Series Securitisation Fund 2020-1

	Level 1	
	2021	2020
	%	%
Risk weighted capital adequacy ratios		
Tier 1		
Common Equity Tier 1	10.5	9.8
Additional Tier 1	2.8	2.9
Tier 2	0.6	0.6
Total capital ratio	13.9	13.3

The internal total capital adequacy ratio set by the Board remained at 12.0% during the financial year (2020: 12.0%).

27 Director and key management personnel compensation

(a) Details of key management personnel
The directors of the Company and other key management personnel of the Group during the year were:

Directors - Company

J Evans	Chairman (resigned 1 July 2021)
C Bart	(resigned 1 July 2021)
P Everingham	(resigned 1 July 2021)
D Issa	(resigned 1 July 2021)
C Christian	(resigned 31 July 2020)
D Kiers	(appointed 31 July 2020, resigned 1 July 2021, re-appointed 5 August 2021)
J Nesbitt	(resigned 31 December 2020)
J Arthur	(appointed 1 January 2021, resigned 1 July 2021)
D Atkin	(appointed 1 January 2021, resigned 1 July 2021)
P Allaway	Chairman (appointed 1 July 2021)
G Frazis	(appointed 1 July 2021)
K Bailey-Lord	(appointed 1 July 2021, resigned 5 August 2021)
B Carter	(appointed 1 July 2021)
K Penrose	(appointed 1 July 2021)
J Lorimer	(appointed 1 July 2021)
W Negus	(appointed 1 July 2021)
M Rosen	(appointed 1 July 2021)

27 Director and key management personnel compensation (continued)

Key management personnel

J McPhee	Chief Executive Officer (resigned 31 July 2020)
A Crane	Chief Executive Officer (appointed 1 August 2020, resigned 1 September 2021)
A Crane	Chief Financial Officer (resigned 31 July 2020, appointed Chief Executive Officer 1 August 2020)
K Christie	Interim Chief Financial Officer (appointed 15 September 2020, resigned 30 June 2021)
X Saldoni	Chief Risk Officer (appointed 28 September 2020)
K Barnes	Interim Chief Risk Officer (resigned 28 September 2020)
R Fornarino	Chief Operations Officer
I Purcell	Chief Experience Officer
C Ralston	Group Executive, Customer Banking
M Toohey	Chief Information Officer

The Company remunerates all directors and key management personnel within the Group.

(b) Aggregate compensation made to key management personnel

The aggregate compensation made to key management personnel of the Group is set out below:

	Company	
	2021	2020
	$	$
Key management personnel		
Short term benefits	9,234,495	5,519,794
Other long term benefits	429,520	-
Termination benefits	710,097	326,268
Total key management personnel compensation	10,374,112	5,846,062

(c) Key management personnel loan and deposit transactions

Loans and deposits of key management personnel are made in the ordinary course of business and on normal commercial terms and conditions that are no more favourable than those given to other employees or customers, including the term of the loan, security required and the interest rate. The aggregate of loans and deposits made, guaranteed or secured to key management personnel, including their related parties, were as follows:

	Company	
	2021	2020
	$	$
Key management personnel		
Loans advanced	2,737,093	2,694,863
Interest charged on loans advanced	61,185	77,183
Deposits	635,683	2,112,193
Interest paid on deposits	8,704	11,598
	3,442,664	4,895,837

Balances are at the balance sheet date (for key management personnel in office at balance sheet date) and at termination date (for key management personnel no longer in office at balance sheet date).

Interest is for all key management personnel during the period.

(d) Key management personnel holdings of securities

Key management personnel, including their related parties, held no subordinated debt, shares, share rights and options over shares in the Company directly, indirectly or beneficially.

(e) Key management personnel holdings of securities

There are no other transactions with key management personnel and their related parties.

27 Director and key management personnel compensation (continued)

(f) Aggregate compensation made to directors

Board schedule of fees of the Company

	Company 2021 $	Company 2020 $
Chair of the Board	195,650	195,650
Member of the Board	97,825	97,825
Audit and Governance Committee		
Chair of the committee	14,700	14,700
Committee member	7,350	7,350
Risk and Compliance Committee		
Chair of the committee	14,700	14,700
Committee member	7,350	7,350
People and Remuneration Committee		
Chair of the committee	14,700	14,700
Committee member	7,350	7,350
Digital Committee		
Chair of the committee	14,700	14,700
Committee member	7,350	7,350
Special Issues Regulatory and Compliance Committee		
Chair of the committee	14,700	14,700
Committee member	7,350	7,350

The aggregate compensation (entirely consisting of short term benefits) made to directors is set out below:

Director		2021 $	2020 $
J Evans	Chair of the Board	195,650	192,325
	Committee member	17,640	9,738
	Other	287,500	-
	Total compensation	500,790	202,063
P Everingham	Member of the Board	97,825	96,163
	Committee member	22,050	14,562
	Total compensation	119,875	110,725
D Issa	Member of the Board	97,825	96,163
	Committee member	28,739	17,106
	Total compensation	126,564	113,269
C Bart	Member of the Board	97,825	96,163
	Committee member	15,950	24,329
	Total compensation	113,775	120,492
C Christian	Member of the Board	12,228	96,163
	Committee member	3,087	27,015
	Total compensation	15,315	123,178
D Kiers	Member of the Board	89,673	60,156
	Committee member	19,066	-
	Total compensation	108,739	60,156

27 Director and key management personnel compensation (continued)

The aggregate compensation (entirely consisting of short term benefits) made to directors is set out below:

Director		2021 $	2020 $
J Nesbitt	Member of the Board	50,951	96,163
	Committee member	11,613	21,926
	Total compensation	62,564	118,089
D Atkin	Member of the Board	40,760	96,163
	Committee member	3,675	17,033
	Total compensation	44,435	113,196
J Arthur	Member of the Board	46,874	96,163
	Committee member	11,025	17,033
	Total compensation	57,899	113,196
Total directors compensation		1,149,956	961,168

28 Related party transactions

(a) Equity interests in related parties

Equity interests in subsidiaries

Details of the percentage of ordinary shares held in subsidiaries are disclosed in Note 10 to the financial statements.

(b) Transactions with directors and key management personnel

(i) Key management personnel compensation

Details of director and key management personnel compensation are disclosed in Note 27 to the financial statements.

(ii) Other transactions with key management personnel

Some of the directors and key management personnel held deposit accounts, home loan accounts and credit cards with the Group throughout the year. These accounts operate within a normal customer relationship on terms and conditions no more favourable than for other customers of the Company.

(c) Transactions between the Company and its subsidiaries

(i) During the financial year ended 30 June 2021, the following transactions occurred between the Company and its subsidiaries:

- Management fees received or receivable from the subsidiary entity of $49,534 (2020: $819,723);
- Mortgage manager fee paid or payable to the subsidiary entity of $37,903 (2020: $21,522); and
- The Company is the parent entity of a tax consolidated-group. Payments to/from the Company are made in accordance with the terms of the tax funding and sharing agreement.

(ii) The following balances arising from transactions between the Company and its subsidiaries are outstanding at the reporting date:

- Net receivables of nil are owed from the subsidiary entity (2020: $60,421).

All amounts advanced or payable to related parties are unsecured. The amounts outstanding will be settled in cash. No guarantees have been given or received. No expense has been recognised in the year for bad or doubtful debts in respect of the amounts owed by related parties.

29 Maturity analysis of assets and liabilities

The table below shows an analysis of assets and liabilities analysed according to when they are expected to be recovered or settled.

	Consolidated			Company		
	Less than 12 months	Over 12 months	Total	Less than 12 months	Over 12 months	Total
	$'000	$'000	$'000	$'000	$'000	$'000
As at 30 June 2021						
Assets						
Cash and cash equivalents	976,698	-	976,698	345,499	-	345,499
Investments	1,493,400	1,619,962	3,113,362	1,493,400	1,619,962	3,113,362
Derivatives	10	-	10	10	-	10
Trade and other receivables	3,751	-	3,751	5,086	-	5,086
Current tax assets	-	-	-	-	-	-
Loans and advances	128,370	25,275,228	25,403,597	252,653	25,275,228	25,527,881
Investment in controlled entities	-	-	-	-	102	102
Plant and equipment	-	72,840	72,840	-	72,840	72,840
Intangible assets	-	112,044	112,044	-	112,044	112,044
Deferred tax assets	-	43,703	43,703	-	43,703	43,703
Other assets	15,220	-	15,220	15,220	-	15,220
	2,617,449	27,123,776	29,741,225	2,111,868	27,123,878	29,235,747
Liabilities						
Deposits and other borrowings	22,054,219	5,923,709	27,977,928	22,051,862	5,432,106	27,483,968
Derivatives	14,657	11,369	26,026	7,481	6,286	13,767
Trade and other payables	51,738	-	51,738	55,921	-	55,921
Current tax liabilities	9,372	-	9,372	9,372	-	9,372
Provisions	19,818	10,590	30,408	19,818	10,590	30,408
Total liabilities	22,149,803	5,945,669	28,095,472	22,144,454	5,448,982	27,593,436
Net	(19,532,354)	21,178,107	1,645,753	(20,032,585)	21,674,896	1,642,311

	Consolidated			Company		
	Less than 12 months	Over 12 months	Total	Less than 12 months	Over 12 months	Total
	$'000	$'000	$'000	$'000	$'000	$'000
As at 30 June 2020						
Assets						
Cash and cash equivalents	1,423,655	-	1,423,655	951,902	-	951,902
Investments	997,241	2,236,696	3,233,937	997,242	2,236,695	3,233,937
Derivatives	754	50	804	515	50	565
Trade and other receivables	4,184	-	4,184	5,431	-	5,431
Current tax assets	-	-	-	246	-	246
Loans and advances	141,177	26,474,299	26,615,476	278,053	26,474,299	26,752,352
Investment in controlled entities	-	-	-	-	102	102
Plant and equipment	-	15,185	15,185	-	15,185	15,185
Intangible assets	-	102,528	102,528	-	102,528	102,528
Deferred tax assets	-	54,681	54,681	-	54,675	54,675
Other assets	14,399	-	14,399	14,399	-	14,399
	2,581,410	28,883,439	31,464,849	2,247,788	28,883,534	31,131,322
Liabilities						
Deposits and other borrowings	22,710,361	7,060,663	29,771,024	22,705,787	6,759,432	29,465,219
Derivatives	25,571	57,092	82,663	10,163	28,985	39,148
Trade and other payables	22,190	-	22,190	44,996	-	44,996
Current tax liabilities	1,076	-	1,076	-	-	-
Provisions	21,263	9,989	31,252	21,263	9,989	31,252
Total liabilities	22,780,461	7,127,744	29,908,205	22,782,209	6,798,406	29,580,615
Net	(20,199,051)	21,755,695	1,556,644	(20,534,421)	22,085,128	1,550,707

30 Remuneration of auditors

	Consolidated		Company	
	2021	2020	2021	2020
	$	$	$	$
Audit and review of financial statements	471,500	409,000	427,000	367,000
Regulatory audits	345,000	195,000	337,000	187,000
Tax services	152,114	115,690	152,114	115,690
Other services	145,200	182,400	145,200	182,400
	1,113,814	902,090	1,061,314	852,090

The auditor of the Group is Deloitte Touche Tohmatsu.

31 Contingent liabilities

There are contingent liabilities that may exist in respect to current regulatory reviews other than those noted below. The Group is of the opinion that the outcome and the possibility of any obligation from these reviews is uncertain and any associated costs cannot be reliably measured.

32 Subsequent events

On 22 February 2021, it was announced that Bank of Queensland Limited ("BOQ") would acquire 100% of the ordinary share capital in ME Bank pursuant to a share sale and purchase deed. On 1 July 2021, BOQ completed the acquisition of ME Bank. ME Bank continues to operate as a separate Authorised Deposit Taking Institution (ADI) in the short term.

Post-acquisition on 1 July 2021, the Group is in the process of being integrated into BOQ and has been reviewing its Intangible asset balances. The Group has been assessing the impact of accounting policy harmonisation for capitalisation of intangible assets and the strategic direction of certain capital inflight initiatives. In addition, contributing to the development of the BOQ Group technology roadmap. No decisions have been made with regard to future technology projects that would impact intangible assets as at 30 June 2021.

The Group is currently subject to legal proceedings in the Federal Court whereby management estimate the likely outcome for ME Bank is a fine or penalty. Based on additional information received post year end management in conjunction with external legal advice have assessed the matter and concluded a reliable estimate of the potential fines or penalties can be established which have been recorded as at 30 June 2021.