Members Equity Bank Limited

ABN: 56 070 887 679

Annual Financial Report

For the financial year ended 30 June 2016

General Information

Australian Business Number
56 070 887 679

Directors

K Hodgson	(Chairman from 1 January 2016)
C Bart	(appointed 1 July 2016)
C Christian	
G Combet	
A De Salis	
S Herman	(resigned 5 October 2015)
J Milne	
G Weaven	(Chairman from 1 July 2015 to 31 December 2015)

Chief Executive Officer
J McPhee

Chief Financial Officer
G Dickson

Company Secretary
I Rogerson

Auditors
Deloitte Touché Tohmatsu
550 Bourke Street
Melbourne VIC 3000

Registered office
Level 28
360 Elizabeth Street
Melbourne VIC 3000

Country of incorporation
Australia

Country of domicile
Australia

Regulatory Disclosures
The regulatory disclosures required by 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 2016

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Directors' report
for the financial year ended 30 June 2016

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 2016.

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:

K Hodgson	(Chairman from 1 January 2016)
C Bart	(appointed 1 July 2016)
C Christian	
G Combet	
A De Salis	
S Herman	(resigned 5 October 2015)
J Milne	
G Weaven	(Chairman from 1 July 2015 to 31 December 2015)

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, consumer, and commercial lending portfolios; and
- carrying out associated funding activities for off balance sheet portfolios.

Dividends
No dividends have been paid or declared since the start of the financial year (2015: $nil). The directors do not recommend the payment of a dividend in respect of the financial year ended 30 June 2016.

Review of operations and results
Profit for the year ended 30 June 2016 was $76.8 million compared to $77.8 million for the year ended 30 June 2015. The results were broadly in line with expectations.

Significant items
There are no significant items that have an impact on the Group's profit for the financial year.

Subsequent events
There are no matters or circumstances occurring subsequent to the end of the financial year that have significantly affected, or may significantly affect, the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial years.

Likely developments and expected results
In the opinion of the directors, disclosure of information regarding likely developments in the Group's operations and the expected results of those operations in subsequent years would prejudice the Group's interests. Accordingly, this information has not been included in this report.

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 the Australian Prudential Regulation Authority including those contained in Authorised Deposit-taking Institution (ADI) Prudential Standards.

<u>Board Composition</u>
The composition of the Board is determined in accordance with the Company's Constitution and the following guidelines:
- the Board maintains a majority of non-executive independent directors; and
- the Board comprises directors with an appropriate range of qualifications and experience.

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. Ms Christian and Messrs Weaven and Milne offered themselves for re-election by the shareholders as directors of the Company and were re-elected in November 2015.

Ms Herman resigned as a director of the Company effective from 5 October 2015.

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:

Ken Hodgson - Non Executive Director
Director since January 2012 (Chairman since January 2016)
In addition to his role as Chairman of the Board Mr Hodgson is the Chair of the People and Remuneration Committee and the Nominations Committee. During the year, he was also a member of the Audit and Governance Committee and the Risk and Compliance Committee. He is a director of Hydro Tasmania and spent 28 years working at Westpac and National Australia Bank in their retail banking divisions, including as General Manager Consumer Financial Services at Westpac, and as General Manager Personal Financial Services at National Australia Bank.

Garry Weaven - Non Executive Director (Chairman from 6 February 2015 to December 2015)
Director since April 2000
Mr Weaven is a member of the People and Remuneration Committee. He is the Chairman of Industry Super Holdings Pty Ltd (ISH) and other entities in the ISH Group, including IFM Holdings and IFM Investors, and is a director of the New Daily Mr Weaven's background includes periods as Chairman of Pacific Hydro, Assistant Secretary of the Australian Council of Trade Unions (ACTU), and Senior Consultant to Westpac Financial Services.

Cheryl Bart – Non Executive Director
Director since July 2016
Ms Bart is a member of the Risk and Compliance Committee and Digital Committee. She is currently a non-executive director of SG Fleet Ltd, Audio Pixel Holding Ltd, Football Federation Australia and Ted X Sydney and is the Trustee of the Prince's Charities Australia. She has a diverse director portfolio background, chairing both committees and boards across the utilities, funds management, auto-finance and leasing, broadcasting, technology and infrastructure sectors. Previous non-executive directorships include ANZ Trustees Ltd, Environment Protection Authority, South Australian Film Corporation, Australian Broadcasting Corporation.

Anne De Salis - Non Executive Director
Director since May 2008
Ms De Salis is a member of the People and Remuneration Committee and Digital Committee. She is currently a director of Super Consumers Centre and National Indigenous Pastoral Enterprises Board. She has a diverse career spanning the public and private sectors, with considerable experience in financial services, and has held senior executive / director positions with AMP, MBF Australia, the Commonwealth Treasury and the Office of the Prime Minister, Rt Hon Paul Keating.

Christine Christian - Non Executive Director
Director since November 2012
Ms Christian was appointed the Chair of the Audit and Governance Committee, and Chair of the Risk and Compliance Committee following Ms Herman's retirement. Ms Christian was also a member of the Digital Committee until November 2015. Ms Christian is an independent company director. Her current directorships include Powerlinx Inc., State Library of Victoria, Sherpa Systems Pty Ltd, Lonsec Fiscal Group, Victorian Managed Insurance Authority. She has served in senior executive roles in Australia and overseas primarily in the credit risk, financial services and global business publishing sectors, including 14 years as Chief Executive Officer of Dun & Bradstreet Australia and New Zealand.

Justin Milne - Non Executive Director
Director since November 2012
Mr Milne is the Chair of the Digital Committee. He is the Chairman of NetComm Wireless Ltd. and a non-executive director of Tabcorp Holdings Ltd, NBN Co Limited, MYOB Limited, SMS Management and Technology Limited and Leichardt Rowing Club. He was also a Group Managing Director at Telstra and was responsible for BigPond Broadband and Telstra's Media businesses. Prior to working at Telstra, he was the CEO of OzEmail and the Microsoft Network.

Greg Combet - Non Executive Director
Director since November 2014
Mr Combet is a member of the Audit and Governance Committee, and Risk and Compliance Committee. He is a director of IFM Investors and Greg Combet Pty Ltd, and a consultant to Industry Super Australia, the State of Victoria, AGL Energy Limited, and Arnold Bloch Leibler. Mr Combet held various cabinet, ministerial, and parliamentary roles within the Australian Government from 2007 to 2013 and was formerly Secretary of ACTU and a director of AustralianSuper.

Company Secretary

Isobel Rogerson

Ms Rogerson was appointed Company Secretary in June 2010 following a year in the role of Assistant Company Secretary. Prior to joining the Company Ms Rogerson had worked in various roles at UBS Australia, and prior to that in the Wealth Management division of the National Australia Bank. Ms Rogerson is a lawyer by training and worked in private practice for a number of years before moving into financial services.

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 is ultimately responsible for the overall corporate governance of the Company, including monitoring the business of the Company on behalf of the shareholders.

This includes:
- appointing and, if necessary, removing the Chief Executive Officer;
- reviewing and approving the business plan and budget;
- providing strategic direction to the Company by engaging with the Chief Executive Officer in the development and oversight of the execution of the business plan and budget;
- monitoring performance against the business plan and budget and reviewing that performance with the Chief Executive Officer;
- setting the Company's risk appetite and ensuring that the Company has in place an appropriate risk management framework and processes which support that appetite and within which management must operate;
- approving any major corporate initiatives;
- 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;
- assisting the Chief Executive Officer 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;
- supporting the Chief Executive Officer in nurturing staff and developing succession plans;
- approving the remuneration framework; 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 that all directors are appropriately informed and properly consider all agenda items.

Role of CEO

The responsibility for the operation and administration of operations is delegated by the Board to the CEO. The CEO is responsible for the leadership and management of the Group, and for the development of strategy. The CEO manages in accordance with the Authorities and Delegations Policy and the other policies approved by the Board from time to time.

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:
- assist the Board by providing 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:
- compliance with applicable accounting standards and integrity of financial statements;
- compliance with Australian Prudential Regulation Authority's statutory reporting requirements;
- the recommendation for appointment or removal, and reviewing the performance and independence of the Company's external auditor;
- the appointment, independence and performance of the Head of Internal Audit function;
- the effectiveness of the Company's risk management framework;

The Committee is comprised of independent non-executive directors. During the period, the Committee was chaired by Ms Herman and, following Ms Herman's retirement, by Ms Christian.

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 Ms Herman and, following Ms Herman's retirement, by Ms Christian.

People and Remuneration Committee
The People and Remuneration Committee's purpose is to:
- make recommendations in respect of Company's Remuneration Policy and program;
- make recommendations in respect of the remuneration arrangements for the Chief Executive Officer, Executives, non-executive directors, Finance, Risk and Internal Control Personnel, and any other employees whose roles may affect the financial soundness of the Company;
- ensure there is a robust and effective process for evaluating the performance of the Board, its committees, and individual directors;
- assist the Board in relation to executive (including the CEO) succession planning to meet the Company's longer term strategic goals;
- monitor compensation, including superannuation levels, and policy guidelines; and
- provide a formal forum for communication between the Board and management on people matters.

The Committee is comprised of independent non-executive directors. During the period, the Committee was chaired by Mr Hodgson.

Digital Committee (previously the Technology Committee)
In March 2016 the Board reviewed the remit and purpose of the Technology Committee. Following the review the Committee was renamed the Digital Committee, and its purpose and responsibilities updated.

The Digital Committee's purpose is to:
- oversee the end-to-end digital delivery of the Company's products and services;
- monitor the development and implementation of the IT strategy, the alignment of the IT function with the Company's business;
- receive regular reporting on the digital ecosystem and customer experience;
- monitor the investment in the IT architecture, infrastructure and support systems to underpin the safe, secure and effective delivery of the Company's products and services.

The Committee is comprised of independent non-executive directors. During the period the Committee was chaired by Mr Milne.

Nominations Committee
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 needs basis, and met during the period for the purpose of conducting interviews for the appointment of new directors.

The Committee is comprised of independent non-executive directors, and two representatives of the Company's four largest shareholders. During the period, the Committee was chaired by the Chairman of the Board.

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 the annual (calendar year) self evaluation of performance by the Board and each of its Committees. As the Nominations Committee did not meet during 2015, it did not undertake an evaluation. A self evaluation of performance of each of the Risk and Compliance Committee and People and Remuneration Committee was undertaken in February 2016. A self evaluation of performance of the Audit and Governance Committee was undertaken in March 2016, and by the Technology Committee in March 2016.

The Board conducted a self evaluation in April 2016, and Mr Hodgson, as Chairman, also conducted individual discussions with all of the directors.

Board attendance 1 July 2015 to 30 June 2016

	Board Meetings	
	Held	Attn'd
C Christian	10	10
G Combet	10	9
A De Salis	10	10
S Herman	3	3
K Hodgson	10	10
J Milne	10	10
G Weaven	10	10

The directors attended a Board Strategy Day on 18 February 2016.

Board Committee attendance 1 July 2015 to 30 June 2016

	People & Remuneration Committee			Digital Committee			Nominations Committee			Risk & Compliance Committee			Audit & Governance Committee		
	Held	Member	Attn'd	Held	Member	Attn'd	Held	Member	Attn'd	Held	Member	Attn'd	Held	Member	Attn'd
C Christian	-	n	-	3	y	3	4	y	3	6	y	5	5	y	5
G Combet	-	n	-	-	n	-	4	y	3	6	y	5	5	y	3
A De Salis	5	y	5	5	y	5	-	n	-	-	n	-	-	n	-
S Herman	-	n	-	-	n	-	-	n	-	2	y	2	2	y	2
K Hodgson	5	y	5	-	n	-	4	y	4	6	y	6	5	y	5
J Milne	-	n	-	5	y	5	4	y	4	-	n	-	-	n	-
G Weaven	5	y	5	-	n	-	4	n	-	-	n	-	-	n	-

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 28 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 retain employees to achieve the Company's purpose and overall objectives within its risk appetite and risk framework. The following guiding principles are the foundation of the Company's remuneration approach.

Remuneration 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 remuneration 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 remuneration 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 remuneration 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.

Fixed pay

Fixed pay consists of salary (including packaged items) and superannuation contributions. It reflects the market competitive value of the skills, expertise and experience required to successfully fulfil the requirements of a job at the Company. The target fixed pay position is the median of the financial services market. Fixed pay reviews are conducted annually and adjustments are in accordance with the Enterprise Agreement.

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.

The Annual Bonus encompasses most employees. Where appropriate, the Board approves an Annual Bonus pool that reflects the performance of the Company. Incentives are then allocated to employees based on individual performance. 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 retirement or death may be allocated a pro-rata payment based on their service and performance during the financial year.

Sales Incentive Programs are provided for sales-focused employees instead of the Annual Bonus. These programs reward sales results achieved within the appropriate risk and values frameworks.

Long Term Incentives (LTI)

An LTI arrangement is in place for the CEO only.

Remuneration Framework - Directors

Non-executive directors of the Company are remunerated by way of one base fee (inclusive of the Superannuation Guarantee Charge payment, at 9.5% for the period). The Non-Executive Director Remuneration Policy provides for the fee to be approximately half the median level of non-executive director fees paid by Bendigo Adelaide Bank and Bank of Queensland.

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.

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, as well as accrued superannuation benefits 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 require approval of the CEO. Sign on benefits require the Board's approval.

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 Company, 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 8 of the Annual Financial Report.

Non-audit services
Non-audit services were provided by the Company's auditor as disclosed in Note 31 to the financial statements.

Rounding off of amounts
The Company is a company of the kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instruments, 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

Director
Melbourne, 8 September 2016

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

8 September 2016

Dear Board Members

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 statements of Members Equity Bank Limited for the financial year ended 30 June 2016, I declare that to the best of my knowledge and belief, there have been no contraventions of:

(i) the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and

(ii) any applicable code of professional conduct in relation to the audit.

Yours sincerely

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Jamie Gatt

Jamie C. J. Gatt
Partner
Chartered Accountant

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

We have audited the accompanying financial report of Members Equity Bank Limited which comprises the statement of financial position as at 30 June 2016, and the statement of profit or loss and other comprehensive income, the statement of cash flows and the statement of changes in equity for the year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity, comprising the company and the entities it controlled at the year's end or from time to time during the financial year, as set out on pages 11 to 54.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 2, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements,* that the financial statements comply with International Financial Reporting Standards.

Auditor's Responsibility

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

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

Deloitte.

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

Auditor's Independence Declaration

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Members Equity Bank Limited, would be in the same terms if given to the directors as at the time of this auditor's report.

Opinion

In our opinion:

(a) the financial report of Members Equity Bank Limited is in accordance with the *Corporations Act 2001*, including:

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

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

(b) the financial statements also comply with International Financial Reporting Standards as disclosed in Note 2.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Jamie C. J. Gatt
Partner
Chartered Accountants
Melbourne, 8 September 2016

Vivienne Tang
Partner
Chartered Accountants
Melbourne, 8 September 2016

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

Director
Melbourne, 8 September 2016

Statement of profit or loss and other comprehensive income for the financial year ended 30 June 2016

	Notes	Consolidated 2016 $'000	Consolidated 2015 $'000	Company 2016 $'000	Company 2015 $'000
Interest and similar income	5	1,221,621	1,231,890	1,173,219	1,190,254
Interest and similar expense	5	(907,035)	(952,841)	(963,595)	(997,555)
Net interest income		314,586	279,049	209,624	192,699
Funds management fee income	5	10,354	16,805	24,671	28,921
Other operating income	5	45,533	61,206	128,901	117,823
Total net operating income		370,473	357,060	363,196	339,443
Expenses					
Operating expenses	5	233,845	220,206	230,186	217,190
Impairment losses	5	14,144	16,150	14,144	16,150
Project expenses	5	15,012	12,333	15,012	12,333
Total operating expenses		263,001	248,689	259,342	245,673
Profit before income tax		107,472	108,371	103,854	93,770
Income tax expense	6	30,640	30,548	28,895	25,657
Profit for the year		76,832	77,823	74,959	68,113
Other comprehensive income					
Items that will not be reclassified subsequently to profit or loss		-	-	-	-
Items that may be reclassified subsequently to profit or loss					
Net fair value gain on available-for-sale financial assets, net of tax		(2,010)	(1,359)	(2,010)	(1,359)
Cash flow hedges - effective portion of changes in fair values, net of tax		(4,413)	(54,335)	(2,889)	(45,111)
Total comprehensive income for the year		70,409	22,129	70,060	21,643

Notes to the financial statements are included on pages 16 to 54.

Statement of financial position
as at 30 June 2016

		Consolidated		Company	
		2016	2015	2016	2015
	Notes	$'000	$'000	$'000	$'000
Assets					
Cash and cash equivalents	24(a)	440,054	360,902	252,270	185,780
Investments	7	3,064,159	2,904,722	3,003,183	2,841,169
Derivatives	16	4,661	15,452	4,172	15,375
Trade and other receivables	8	5,516	4,345	7,246	11,283
Loans and advances	9	19,534,241	17,763,317	19,583,112	17,829,668
Investment in controlled entities	10	-	-	102	102
Plant and equipment	12	29,829	34,244	29,829	34,244
Intangible assets	13	83,620	76,771	83,620	76,771
Deferred tax assets	6	32,893	35,882	32,892	35,880
Other assets	14	8,422	8,098	9,513	8,098
Total assets		23,203,395	21,203,733	23,005,939	21,038,370
Liabilities					
Amounts due to other financial institutions		-	2,620	-	1,556
Deposits and other borrowings	15	21,770,305	19,859,255	21,591,935	19,712,035
Derivatives	16	87,851	100,040	69,348	85,176
Trade and other payables	17	20,081	28,021	22,106	28,891
Current tax liabilities	6	-	826	-	-
Provisions	18	26,446	23,011	26,446	23,011
Subordinated debt	19	332,760	332,344	332,760	332,344
Total liabilities		22,237,443	20,346,117	22,042,595	20,183,013
Net assets		965,952	857,616	963,344	855,357
Equity					
Issued capital	20	767,922	729,995	767,922	729,995
Reserves	21	(37,181)	(31,709)	(26,433)	(22,485)
Retained earnings		235,211	159,330	221,855	147,847
Total equity		965,952	857,616	963,344	855,357
Book value per share		$ 91.35	$ 84.49		

Notes to the financial statements are included on pages 16 to 54.

Statement of changes in equity
for the financial year ended 30 June 2016

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 2014		699,995	86,471	15,079	6,604	-	808,149
Adjustment due to restatement	3	-	(2,662)	-	-	-	(2,662)
Balance at 1 July 2014 (restated)		699,995	83,809	15,079	6,604	-	805,487
Issue of share capital	20	30,000	-	-	-	-	30,000
Transfer to/(from) general reserve for credit losses	21	-	(2,302)	2,302	-	-	-
Other comprehensive income for the year		-	-	-	(1,359)	(54,335)	(55,694)
Profit for the year		-	77,823	-	-	-	77,823
Balance at 30 June 2015		729,995	159,330	17,381	5,245	(54,335)	857,616
Balance at 1 July 2015		729,995	159,330	17,381	5,245	(54,335)	857,616
Issue of share capital	20	37,927	-	-	-	-	37,927
Transfer to/(from) general reserve for credit losses	21	-	(951)	951	-	-	-
Other comprehensive income for the year		-	-	-	(2,010)	(4,413)	(6,423)
Profit for the year		-	76,832	-	-	-	76,832
Balance at 30 June 2016		767,922	235,211	18,332	3,235	(58,748)	965,952

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 2014		699,995	84,698	15,079	6,604	-	806,376
Adjustment due to restatement	3	-	(2,662)	-	-	-	(2,662)
Balance at 1 July 2014 (restated)		699,995	82,036	15,079	6,604	-	803,714
Issue of share capital	20	30,000	-	-	-	-	30,000
Transfer to/(from) general reserve for credit losses	21	-	(2,302)	2,302	-	-	-
Other comprehensive income for the year		-	-	-	(1,359)	(45,111)	(46,470)
Profit for the year		-	68,113	-	-	-	68,113
Balance at 30 June 2015		729,995	147,847	17,381	5,245	(45,111)	855,357
Balance at 1 July 2015		729,995	147,847	17,381	5,245	(45,111)	855,357
Issue of share capital	20	37,927	-	-	-	-	37,927
Transfer to/(from) general reserve for credit losses	21	-	(951)	951	-	-	-
Other comprehensive income for the year		-	-	-	(2,010)	(2,889)	(4,899)
Profit for the year		-	74,959	-	-	-	74,959
Balance at 30 June 2016		767,922	221,855	18,332	3,235	(48,000)	963,344

Notes to the financial statements are included on pages 16 to 54.

Statement of cash flows
for the financial year ended 30 June 2016

		Consolidated		Company	
		2016	2015	2016	2015
	Notes	$'000	$'000	$'000	$'000
Cash flows from operating activities					
Profit before tax		107,472	108,371	103,854	93,770
Adjustments for:					
Change in operating assets	24(c)	(1,953,655)	(3,329,173)	(1,934,261)	(3,260,653)
Change in operating liabilities	24(d)	1,883,163	2,909,776	1,851,739	2,900,267
Non-cash items included in profit before tax	24(e)	59,704	52,100	60,774	48,216
Income tax payments		(25,723)	(33,603)	(23,807)	(32,892)
Net cash provided/(used in) by operating activities		70,961	(292,529)	58,299	(251,292)
Cash flows from investing activities					
Purchase of plant and equipment	12	(10,209)	(9,877)	(10,209)	(9,877)
Purchase of intangible assets	13	(19,637)	(26,548)	(19,637)	(26,548)
Proceeds from sale of plant and equipment		110	-	110	-
Net cash used in investing activities		(29,736)	(36,425)	(29,736)	(36,425)
Cash flows from financing activities					
Net proceeds from issue of subordinated debt		-	299,442	-	299,442
Proceeds from issue of shares	20	37,927	30,000	37,927	30,000
Net cash provided by financing activities		37,927	329,442	37,927	329,442
Net increase in cash		79,152	488	66,490	41,725
Cash and cash equivalents at the beginning of the financial year		360,902	360,414	185,780	144,055
Cash and cash equivalents at the end of the financial year	24(a)	440,054	360,902	252,270	185,780

Notes to the financial statements are included on pages 16 to 54.

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: provision of banking services under a banking licence; funding, management, and servicing of residential, consumer, and commercial lending portfolios; and carrying out associated funding activities for off balance sheet portfolios.

2 Application of new and revised Accounting Standards

(i) New and revised Australian Accounting Standards affecting amounts reported and/or disclosures in the financial statements

In the current year, the Group has applied one amendment to one of the Accounting Standards issued by the Australian Accounting Standards Board (AASB), that are mandatorily effective for an accounting period that begins on or after 1 July 2015, and therefore relevant for the year ended 30 June 2016.

Standards affecting presentation and disclosure

AASB 2015-3 'Amendments to Australian Accounting Standards arising from the Withdrawal of AASB 1031 Materiality'	This amendment completes the withdrawal of references to AASB 1031 in all Australian Accounting Standards and Interpretations, allowing that Standard to effectively be withdrawn.

The application of these amendments does not have any material impact on the disclosures or the amounts recognised in the Group's consolidated financial statements.

(ii) Standards and Interpretations in issue not yet adopted

The Group has assessed the impact of the following Standards and Interpretations and has concluded that there will be no material impact on its future financial statements.

Standard/Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
AASB 2014-4 'Amendments to Australian Accounting Standards - Clarification of Acceptable Methods of Depreciation and Amortisation'	1 January 2016	30 June 2017
AASB 2014-9 'Amendments to Australian Accounting Standards - Equity Method in Separate Financial Statements'	1 January 2016	30 June 2017
AASB 2015-1 'Amendments to Australian Accounting Standards - Annual Improvements to Australian Accounting Standards 2012-2014 Cycle'	1 January 2016	30 June 2017
AASB 2015-2 'Amendments to Australian Accounting Standards - Disclosure Initiative: Amendments to AASB 101'	1 January 2016	30 June 2017
AASB 2016-1 'Amendments to Australian Accounting Standards - Recognition of Deferred Tax Asset for Unrealised Losses'	1 January 2017	30 June 2018
AASB 2016-2 'Amendments to Australian Accounting Standards - Disclosure Initiative: Amendments to AASB 107'	1 January 2017	30 June 2018

2 Application of new and revised Accounting Standards (continued)

At the date of authorisation of the financial statements, the Standards and Interpretations listed below were in issue but not yet effective. The Group has not yet assessed the impact of the following Standards and Interpretations on its future financial statements.

Standard/Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
AASB 9 ‘Financial Instruments’, and the relevant amending standards	1 January 2018	30 June 2019
AASB 15 'Revenue from Contracts with Customers' and AASB 2014-5 'Amendments to Australian Accounting Standards arising from AASB 15', AASB 2015-8 'Amendments to Australian Accounting Standards - Effective date AASB 15'	1 January 2018	30 June 2019
AASB 16 'Leases'	1 January 2019	30 June 2020

At the date of authorisation of the financial statements, the following International Accounting Standards Board Standards and International Financial Reporting Interpretations Committee Interpretations were also in issue but not yet effective, although Australian equivalent Standards and Interpretations have not yet been issued.

Standard/Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
Clarifications to IFRS 15 'Revenue from Contracts with Customers'	1 January 2018	30 June 2019

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 8 September 2016.

Basis of preparation
The financial report has been prepared on the basis of historical cost, except for available-for-sale investments and derivative financial instruments, which have all been measured at fair value. 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.

The amendments to the Corporations Act in June 2010 removed the requirement to prepare parent entity financial statements where consolidated financial statements are prepared. However, the Company has adopted the general relief available under ASIC Class Order 10/654 to include parent entity financial statements in the financial reports.

3 Significant accounting policies (continued)

(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 certain structured entities presented as a single economic unit.

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 and 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 available-for-sale, 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.

Funds management fee income

Funds management fee income is recognised in accordance with the entitlement to fees for the management services provided.

Fee income

Fee income is generally recognised when the service has been provided.

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.

(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.

3 Significant accounting policies (continued)

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.

(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 assets

Initial recognition and subsequent measurement

All financial assets are initially recognised on the trade date, i.e., the date the Group becomes a party to the contractual provisions of the instrument, except for purchases or sales of financial assets that require delivery of assets within the time frame generally established by the market concerned.

3 Significant accounting policies (continued)

The classification of financial assets at initial recognition depends on the purpose for which the financial assets were acquired and their characteristics. All financial assets are initially measured at their fair value plus transaction costs, except in the case of financial assets recorded at fair value through profit or loss.

Available-for-sale investments
Available-for-sale investments include debt securities which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in market conditions.

After initial measurement, available-for-sale investments are subsequently measured at fair value. Fair value is determined in the manner described in Note 3(f). Unrealised gains and losses arising from changes in fair value are recognised in other comprehensive income and accumulated in an 'Investment revaluation reserve'. When the investment is disposed of, the cumulative gain or loss previously recognised in equity is recognised in the statement of profit or loss and other comprehensive income. Interest earned whilst holding available-for-sale investments is reported as interest income using the EIR. The losses from impairment of such investments are recognised in the statement of profit or loss and other comprehensive income.

Loans and receivables
Loans and receivables includes loans and advances to customers and trade and other receivables. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortised cost using the EIR method, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in interest income in the statement of profit or loss.

Derecognition of financial assets
The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

Impairment of financial assets
Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at least annually. A financial asset or portfolio of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more loss events that occurred after the initial recognition of the asset ("loss event") and that loss event or events has had an impact on the estimated future cash flows of the financial asset or the portfolio that can be reliably estimated.

Objective evidence that financial assets are impaired includes:
- significant financial difficulty of the borrower or issuer;
- default or delinquency by a borrower;
- the restructuring of a loan or advance by the Group on terms that the Group would not consider otherwise;
- indications that a borrower or issuer will enter bankruptcy; or
- the disappearance of an active market for a security.

The Group considers evidence of impairment for loans and advances at both a specific asset and a collective level. All individually significant loans and advances are assessed for specific impairment. Those found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Loans and advances that are not individually significant are collectively assessed for impairment by grouping together loans and advances with similar risk characteristics.

In assessing collective impairment, the Group uses statistical modelling of historical trends of the probability of default, the timing of recoveries and the amount of loss incurred, and makes an adjustment if current economic and credit conditions are such that the actual losses are likely to be greater or lesser than is suggested by historical trends. Default rates, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure that they remain appropriate.

For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset’s carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of loans and advances where the carrying amount is reduced through the use of an allowance account. When a loan is uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the

3 Significant accounting policies (continued)

allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

In a subsequent period, if the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

(h) Repurchase agreements
Securities sold under agreements to repurchase are retained within available-for-sale 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 sales 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 years

(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 its 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. For instance, 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
Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

<u>The Group as lessor</u>
Amounts due from lessees under finance leases are recognised as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's

3 Significant accounting policies (continued)

net investment outstanding in respect of the leases.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial indirect costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

The Group as lessee
Assets held under finance leases are initially recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy. Contingent rentals are recognised as expenses in the periods in which they are incurred.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

(l) Employee benefits
Short-term and long-term employee benefits
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.

Termination benefit
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.

(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 plus, 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.

3 Significant accounting policies (continued)

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 yield method.

Amounts due to other financial institutions
Amounts due to other financial institutions include amounts owing to Australian banks and other financial institutions. They are brought to account at fair value at inception and subsequently stated at amortised cost.

Subordinated debt
Subordinated debt is recognised at fair value plus directly attributable transaction costs and subsequently measured at amortised cost. Interest is recognised using the EIR 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 cashflows 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 cashflow 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) Restatement of comparatives
The Group has amended its recognition criteria with respect to certain fee income earned from loans and advances recognised in the financial years ended 30 June 2014 and 30 June 2015. The amended accounting treatment results in the recognition of that fee income in the period in which the service is performed which is not necessarily the period in which the fee income is received in cash.

3 Significant accounting policies (continued)

As at 30 June 2015, the effects of this amendment on the consolidated statement of financial position and consolidated statement of profit or loss and other comprehensive income of the comparative period are as follows:

- loans and advances were overstated by $6.5 million;
  - of which $2.7 million relates to the financial year ended 30 June 2015, giving rise to an overstatement in other operating income by $7.9 million and an understatement in interest and similar income of $5.2 million in that year (i);
  - the remaining $3.8 million relates to the financial year ended 30 June 2014, giving rise to an overstatement in other operating income by $5.8m and an understatement in interest and similar income of $2.0 million in that year (ii);
- deferred tax assets were understated by $1.9 million;
  - of which $0.8 million relates to the financial year ended 30 June 2015, giving rise to an overstatement in income tax expense in that year by the same amount (i);
  - the remaining $1.1 million relates to the financial year ended 30 June 2014, giving rise to an overstatement in income tax expense in that year by the same amount (ii); and
- retained earnings were overstated by $4.6 million;
  - of which $1.9 million relates to the financial year ended 30 June 2015(i);
  - the remaining $2.7 million relates to the financial year ended 30 June 2014(ii).

(i) This adjustment has been reflected in the prior period comparatives.
(ii) This adjustment has been reflected as a retained earnings opening balance adjustment in the prior period comparatives.

The amendment will result in the financial statements providing more relevant and no less reliable information as it aligns the accounting for the recognition of fee income within the definition of revenue under AASB 118 'Revenue' and interest income under AASB 139 'Financial Instruments: Recognition and Measurement'.

Extract of consolidated statement of profit or loss and other comprehensive income

	Consolidated financial year ended		Company financial year ended	
	30 Jun 2015 $'000 Reported	30 Jun 2015 $'000 Restated	30 Jun 2015 $'000 Reported	30 Jun 2015 $'000 Restated
Interest and similar income	1,226,699	1,231,890	1,185,063	1,190,254
Other operating income	69,112	61,206	125,729	117,823
Income tax expense	31,363	30,548	26,472	25,657

Extract of consolidated statement of financial position

	Consolidated		Company	
	30 Jun 2015 $'000 Reported	30 Jun 2015 $'000 Restated	30 Jun 2015 $'000 Reported	30 Jun 2015 $'000 Restated
Loans and advances	17,769,834	17,763,317	17,836,185	17,829,668
Deferred tax assets	33,927	35,882	33,925	35,880
Retained earnings	163,892	159,330	152,409	147,847

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 is set out below.

<u>Determination of control over investees</u>

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.

4 Use of judgements and estimates (continued)

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.

For further disclosure in respect of unconsolidated securitisation funds, please refer to 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 10 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.

(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 (please refer to 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 (please refer to Note 3(f)).

Impairment of intangible assets
Please refer to Note 13.

5 Revenue and expenses

	Consolidated		Company	
	2016	2015	2016	2015
	$'000	$'000	$'000	$'000
Profit before income tax expense includes the following items of revenue and expense:				
Interest and similar income				
Deposits with other financial institutions	5,496	6,333	3,266	3,292
Loans and advances	892,403	837,480	895,225	840,412
Investment securities	83,644	83,896	79,887	80,305
	981,543	927,709	978,378	924,009
Interest rate swap contracts	240,078	304,181	194,841	266,245
	1,221,621	1,231,890	1,173,219	1,190,254
Interest and similar expense				
Deposits and other borrowings	593,289	598,605	708,719	686,982
Subordinated borrowings	17,144	15,578	17,144	15,578
	610,433	614,183	725,863	702,560
Interest rate swap contracts	296,602	338,658	237,732	294,995
	907,035	952,841	963,595	997,555
Funds management fee income	10,354	16,805	24,671	28,921
Other operating income				
Fee income	27,153	24,106	25,042	22,453
Other income	6,299	3,535	6,299	3,488
Cumulative gains reclassified from equity on disposal of available-for-sale investments	2,775	5,417	2,641	5,205
Fair value movement in derivatives	9,306	28,148	10,156	25,746
Distribution from unit trusts	-	-	82,563	59,231
Dividend income from subsidiary	-	-	2,200	1,700
	45,533	61,206	128,901	117,823
Operating expenses				
Staff and related costs	113,760	112,482	113,760	112,482
General administrative expenses	69,363	65,998	65,705	62,982
Transaction fee expenses	10,248	8,825	10,247	8,825
Depreciation and amortisation of:				
- Plant and equipment	14,041	11,235	14,041	11,235
- Intangibles	13,108	7,969	13,108	7,969
Loss on disposal of plant and equipment	152	-	152	-
Operating lease rental expenses	13,173	13,697	13,173	13,697
	233,845	220,206	230,186	217,190
Impairment losses				
Loans and advances (refer to Note 9)	13,740	15,851	13,740	15,851
Overdrawn savings accounts	404	299	404	299
	14,144	16,150	14,144	16,150
Project expenses				
Program of work	15,012	12,333	15,012	12,333
	15,012	12,333	15,012	12,333

6 Income taxes

	Consolidated		Company	
	2016 $'000	2015 $'000	2016 $'000	2015 $'000
Income tax recognised in profit or loss				
Tax expense comprises:				
Current tax expense	26,527	24,100	25,436	23,161
Adjustment recognised in the current year in relation to the current tax of prior years	(1,628)	(2,014)	(1,628)	(2,014)
Deferred tax expense/(income) relating to the origination and reversal of temporary differences	5,741	8,462	5,087	4,510
Total tax expense	30,640	30,548	28,895	25,657
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	107,472	108,371	103,854	93,770
Income tax expense calculated at 30%	32,241	32,511	31,156	28,130
Effect of expenses/(income) that are not deductible/(assessable) in determining taxable profit	27	51	(633)	(459)
	32,268	32,562	30,523	27,671
Adjustment recognised in the current year in relation to the current tax of prior years	(1,628)	(2,014)	(1,628)	(2,014)
Income tax expense recognised in profit or loss	30,640	30,548	28,895	25,657

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	
	2016 $'000	2015 $'000	2016 $'000	2015 $'000
Deferred tax				
Revaluations of available-for-sale financial assets	861	582	861	582
Cash flow hedges	1,891	23,286	1,238	19,333
	2,752	23,868	2,099	19,915
Current tax liabilities				
Income tax payable	-	826	-	-

6 Income taxes (continued)

Deferred tax assets

	Consolidated			
	Opening balance $'000	Recognised in profit or loss $'000	Recognised in OCI $'000	Closing balance $'000
2016				
Temporary differences				
Accrued expenses	662	(560)	-	102
Provisions	6,427	707	-	7,134
Plant and equipment and intangibles	(3,767)	(3,217)	-	(6,984)
Finance leases	-	-	-	-
Available-for-sale financial assets	(2,248)	-	861	(1,387)
Derivatives	2,537	(4,185)	-	(1,648)
Cash flow hedges	23,286	-	1,891	25,177
Impairment allowance	6,749	658		7,407
Other	2,236	856		3,092
	35,882	(5,741)	2,752	32,893

	Consolidated			
	Opening balance $'000	Recognised in profit or loss $'000	Recognised in OCI $'000	Closing balance $'000
2015				
Temporary differences				
Accrued expenses	220	442	-	662
Provisions	6,825	(398)	-	6,427
Plant and equipment and intangibles	(1,229)	(2,538)	-	(3,767)
Finance leases	(7)	7	-	-
Available-for-sale financial assets	(2,830)	-	582	(2,248)
Derivatives	10,981	(8,444)	-	2,537
Cash flow hedges	-	-	23,286	23,286
Impairment allowance	5,181	1,568	-	6,749
Other	1,335	901	-	2,236
	20,476	(8,462)	23,868	35,882

	Company			
	Opening balance $'000	Recognised in profit or loss $'000	Recognised in OCI $'000	Closing balance $'000
2016				
Temporary differences				
Accrued expenses	660	(559)	-	101
Provisions	6,427	707	-	7,134
Plant and equipment and intangibles	(3,766)	(3,217)	-	(6,983)
Finance leases	-	-	-	-
Available-for-sale financial assets	(2,248)	-	861	(1,387)
Derivatives	2,170	(4,440)	-	(2,270)
Cash flow hedges	19,333	-	1,238	20,571
Impairment allowance	6,749	658	-	7,407
Other	2,236	856	-	3,092
Temporary differences relating to the securitisation trusts	4,319	908	-	5,227
	35,880	(5,087)	2,099	32,892

6 Income taxes (continued)

	Company			
	Opening balance $'000	Recognised in profit or loss $'000	Recognised in OCI $'000	Closing balance $'000
2015				
Temporary differences				
Accrued expenses	219	441	-	660
Provisions	6,825	(398)	-	6,427
Plant and equipment and intangibles	(1,228)	(2,538)	-	(3,766)
Finance leases	(7)	7	-	-
Available-for-sale financial assets	(2,830)	-	582	(2,248)
Derivatives	9,894	(7,724)	-	2,170
Cash flow hedges	-	-	19,333	19,333
Impairment allowance	5,181	1,568	-	6,749
Other	1,335	901	-	2,236
Temporary differences relating to the securitisation trusts	1,086	3,233	-	4,319
	20,475	(4,510)	19,915	35,880

7 Investments

	Consolidated		Company	
	2016 $'000	2015 $'000	2016 $'000	2015 $'000
At fair value:				
Available-for-sale investments				
Treasury notes and semi-government securities	360,965	597,657	360,966	597,657
Bank bills	990,915	767,835	929,938	704,282
Corporate fixed rate notes	25,529	98,734	25,529	98,734
Corporate floating rate notes	1,677,490	1,426,203	1,677,490	1,426,203
Mortgage backed securities	9,260	14,293	9,260	14,293
	3,064,159	2,904,722	3,003,183	2,841,169

8 Trade and other receivables

	Consolidated 2016 $'000	Consolidated 2015 $'000	Company 2016 $'000	Company 2015 $'000
Amounts receivable from related parties:				
Subsidiary (i)	-	-	1,034	1,299
Management fee income receivable (please see Note 11)	698	1,015	-	-
Interest receivable	185	248	120	175
Other receivables (ii)	4,633	3,082	6,092	9,809
	5,516	4,345	7,246	11,283

(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 2016 $'000	Consolidated 2015 $'000	Company 2016 $'000	Company 2015 $'000
Credit cards	151,609	121,402	151,609	121,402
Personal loans	217,371	226,987	217,371	226,987
Residential home loans	18,996,001	17,167,909	18,996,248	17,167,909
Commercial loans	112,874	135,966	161,499	202,317
Asset finance				
Finance lease	22,600	30,580	22,600	30,580
Hire purchase	26,706	49,686	26,706	49,686
Chattel mortgage	39,147	67,759	39,147	67,759
	19,566,308	17,800,289	19,615,180	17,866,640
Less:				
Unearned asset finance income	(7,454)	(14,562)	(7,454)	(14,562)
Allowance for impairment losses	(24,613)	(22,410)	(24,613)	(22,410)
	19,534,241	17,763,317	19,583,112	17,829,668
Movement in allowance for impairment of loans and advances				
Balance at the beginning of the year	22,410	17,236	22,410	17,236
Amounts written off as uncollectible during the year	(16,516)	(13,375)	(16,516)	(13,375)
Amounts recovered during the year	4,979	2,698	4,979	2,698
Allowance for impairment losses recognised during the year	13,740	15,851	13,740	15,851
Balance at the end of the year	24,613	22,410	24,613	22,410
Individual impairment	6,127	5,723	6,127	5,723
Collective impairment	18,486	16,687	18,486	16,687
	24,613	22,410	24,613	22,410

10 Investment in controlled entities

	Consolidated 2016 $'000	Consolidated 2015 $'000	Company 2016 $'000	Company 2015 $'000
Investment at cost	-	-	102	102

The controlled entities of the Company are:

		Country of incorporation	Ownership interest 2016	Ownership interest 2015
Subsidiary				
ME Portfolio Management Limited	(i)	Australia	100%	100%
Securitisation (refer Note 4(a))				
SMHL Series 2008-1 Fund	(ii)	Australia	100%	100%
SMHL Series Private Placement Trust 2010-1	(ii)	Australia	100%	100%
SMHL Series Securitisation Fund 2010-3	(ii)	Australia	100%	100%
SMHL Series Securitisation Fund 2011-2	(ii)	Australia	100%	100%
SMHL Series Private Placement 2011-1	(ii)	Australia	100%	100%
SMHL Series Private Placement 2011-3	(ii)	Australia	100%	100%
SMHL Series Securitisation Fund 2012-1	(ii)	Australia	100%	100%
SMHL Series Securitisation Fund 2013-1	(ii)	Australia	100%	100%
SMHL Series Securitisation Fund 2014-1	(ii)	Australia	100%	100%
SMHL Series Private Placement 2014-2	(ii)	Australia	100%	100%
SMHL Series Securitisation Fund 2015-1	(ii)	Australia	100%	100%

(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	
	2016 $'000	2015 $'000
Securitisation trusts for housing loans	560	808
Managed fund	138	207
	698	1,015

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

	2016 $'000	2015 $'000
Fee income earned from securitisation trusts	9,757	15,880
Fee income earned from managed fund	597	925
	10,354	16,805

12 Plant and equipment

	Consolidated and Company		
	Computer equipment $'000	Furniture & equipment $'000	Total $'000
Gross carrying amount			
Balance at 1 July 2014	14,707	37,888	52,595
Additions	6,441	3,436	9,877
Disposals	-	-	-
Balance at 30 June 2015	21,148	41,324	62,472
Additions	7,443	2,766	10,209
Disposals	(1,416)	(4,663)	(6,079)
Balance at 30 June 2016	27,175	39,427	66,602
Accumulated depreciation			
Balance at 1 July 2014	3,809	13,184	16,993
Depreciation expense	4,683	6,552	11,235
Disposals	-	-	-
Balance at 30 June 2015	8,492	19,736	28,228
Depreciation expense	6,288	7,753	14,041
Disposals	(1,081)	(4,415)	(5,496)
Balance at 30 June 2016	13,699	23,074	36,773
Net book value			
As at 30 June 2015	12,656	21,588	34,244
As at 30 June 2016	13,476	16,353	29,829

13 Intangible assets

	Consolidated and Company		
	Core banking software $'000	Other software $'000	Total $'000
Gross carrying amount			
Balance at 1 July 2014	50,933	30,529	81,462
Additions	19,962	6,586	26,548
Disposal	-	-	-
Balance at 30 June 2015	70,895	37,115	108,010
Additions	7,802	11,835	19,637
Disposal	-	149	149
Balance at 30 June 2016	78,697	49,099	127,796
Accumulated amortisation			
Balance at 1 July 2014	2,771	20,499	23,270
Amortisation expenses	4,656	3,313	7,969
Disposal	-	-	-
Balance at 30 June 2015	7,427	23,812	31,239
Amortisation expenses	6,948	6,160	13,108
Disposal	-	(171)	(171)
Balance at 30 June 2016	14,375	29,801	44,176
Net book value			
As at 30 June 2015	63,468	13,303	76,771
As at 30 June 2016	64,322	19,298	83,620

In June 2016, the Group carried out impairment testing for its intangible assets as required by AASB 136 "Impairment of Assets". No impairment losses on intangible assets were recognised during the 2016 financial year (2015: $nil).

The recoverable amounts for intangible assets have been calculated based on their deemed fair value. Deemed fair value of the intangible assets was calculated as the remaining balance after deducting all net assets other than intangibles from the Group's fair value of issued share capital, net of selling costs.

The use of the Group's fair value of issued share capital is appropriate as all intangible assets are corporate assets, which are shared to support the operation of all areas of the business. The fair value of issued share capital of the Group was taken from an independent valuation report with an effective date of 30 June 2016. The key assumptions used in the valuation report were:

Discount rate	13.00%
Terminal value growth rate	6%
Net present value of cash flows over a 10 year period	$352m

The discount rate was a post-tax measure based on the estimated rate of return on ordinary equity as the current risk-free rate of return, plus market risk and company specific premiums expected over the risk-free rate of return. Ten years of cash flows were included in the discounted cash flow model; this is in line with the current expectation of the useful life of the core banking system (refer to Note 3(j)). A long-term growth rate of 6% was adopted and is considered reasonable when compared to others in the industry. Cash flows are based on the forecasted net profit after tax, adjusted by the capital expenditure and the regulatory capital requirements over the ten year period.

The key assumptions described above may change as economic and market conditions change. The Group estimates that reasonable changes in these conditions would not cause the recoverable amount of intangible assets to decline below the carrying amount.

14 Other assets

	Consolidated		Company	
	2016	2015	2016	2015
	$'000	$'000	$'000	$'000
Prepayments	8,422	8,098	9,513	8,098

15 Deposits and other borrowings

	Consolidated		Company	
	2016	2015	2016	2015
	$'000	$'000	$'000	$'000
Unsecured - at amortised cost				
Retail customer deposits	4,126,619	3,355,806	4,126,619	3,355,806
Business customer deposits	1,159,179	1,231,222	1,159,179	1,231,222
Superannuation banking deposits	507,071	426,929	507,071	426,929
Advised and corporate deposits	4,686,747	3,821,953	4,686,747	3,821,953
Institutional borrowings	4,762,236	4,528,279	4,762,236	4,528,279
Treasury borrowings	539,250	544,392	539,250	544,392
Medium term notes (i)	928,368	998,279	928,368	998,279
Other borrowings	-	986	-	985
	16,709,470	14,907,846	16,709,470	14,907,845
Secured - at amortised cost				
Mortgage backed securities (ii)	5,060,835	4,951,409	-	-
Liabilities to the securitisation trusts (iii)	-	-	4,882,465	4,804,190
	5,060,835	4,951,409	4,882,465	4,804,190
Total deposits and other borrowings	21,770,305	19,859,255	21,591,935	19,712,035

(i) Of the $925,000,000 floating rate notes:
- $325,000,000 is due in the first half of the 2017 financial year;
- $100,000,000 is due in the second half of the 2017 financial year;
- $250,000,000 is due in the first half of the 2018 financial year; and
- $250,000,000 is due in the second half of the 2018 financial year.

(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).

16 Derivatives

The Group makes use of derivative instruments for risk management purposes, in particular interest rate risk. This risk is managed using interest rate swap contracts.

Interest rate swaps

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 2016 is $nil (2015: $nil).

In addition, the Group has pledged cash collateral under the terms of the ISDA Collateral Guidelines. As at 30 June 2016, the Group has pledged cash collateral to the value of $68,320,000 (2015: $101,620,000).

The following tables detail the notional principal amounts and remaining terms of interest rate swap contracts outstanding at the end of the reporting period for both the Group and the Company.

Cash flow hedges

	Average contracted fixed interest rate		Notional principal value		Fair value asset		Fair value liability	
	2016 %	2015 %	2016 $'000	2015 $'000	2016 $'000	2015 $'000	2016 $'000	2015 $'000
Consolidated								
Less than 1 year	2.96	2.94	3,717,950	1,926,050	3,227	-	30,982	11,306
1 to 2 years	2.38	3.06	4,526,000	4,172,950	1,434	-	40,869	64,028
2 years +	2.14	2.49	1,755,000	3,531,000	-	5,380	16,000	24,706
			9,998,950	9,630,000	4,661	5,380	87,851	100,040
Company								
Less than 1 year	3.10	3.01	2,465,000	1,249,850	2,898	-	23,317	7,807
1 to 2 years	2.37	3.10	3,675,000	3,490,000	1,274	-	31,645	56,101
2 years +	2.14	2.48	1,665,000	3,255,000	-	5,380	14,386	21,268
			7,805,000	7,994,850	4,172	5,380	69,348	85,176

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.

Held-for-trading

	Average contracted fixed interest rate		Notional principal value		Fair value asset		Fair value liability	
	2016 %	2015 %	2016 $'000	2015 $'000	2016 $'000	2015 $'000	2016 $'000	2015 $'000
Consolidated								
Less than 1 year	-	2.94	-	4,018,755	-	10,072	-	-
1 to 2 years	-	-	-	-	-	-	-	-
2 years +	-	-	-	-	-	-	-	-
			-	4,018,755	-	10,072	-	-
Company								
Less than 1 year	-	3.01	-	4,000,000	-	9,995	-	-
1 to 2 years	-	-	-	-	-	-	-	-
2 years +	-	-	-	-	-	-	-	-
			-	4,000,000	-	9,995	-	-

Interest rate swap contracts held-for-trading activities relate to contracts entered into for risk management purposes that do not meet the AASB 139 hedge accounting criteria. These contracts include 'basis swap contracts' and 'receive fixed and pay floating contracts'.

17 Trade and other payables

	Consolidated		Company	
	2016	2015	2016	2015
	$'000	$'000	$'000	$'000
Creditors and accruals	9,755	12,678	9,603	12,516
Other payables	10,326	15,343	12,503	16,375
	20,081	28,021	22,106	28,891

18 Provisions

	Consolidated		Company	
	2016	2015	2016	2015
	$'000	$'000	$'000	$'000
Employee benefits (i)	22,225	20,646	22,225	20,646
Restructuring provision (ii)	1,900	628	1,900	628
Other provisions (iii)	2,321	1,737	2,321	1,737
	26,446	23,011	26,446	23,011

(i) Employee benefits are expected to be settled within a year with the exception of provisions for long service leave which amounted to $7,178,340 (2015: $6,396,316).

(ii) In June 2016, the Group undertook an organisational restructure that resulted in some roles being made redundant. Consequently, a provision was raised to cover the costs of the restructure.

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

19 Subordinated debt

	Consolidated		Company	
	2016	2015	2016	2015
	$'000	$'000	$'000	$'000
Floating rate notes	332,760	332,344	332,760	332,344

Agreements between the Group and the lenders provide that, in the event of liquidation, entitlement of the lenders to repayment of the principal sum and interest thereon is and shall at all times be and remain subordinated to the rights of all other present and future creditors of the Group.

The contractual maturity dates for repayment of the principal face value sum to the lenders are as follows:

19 December 2022 (i)	33,000	33,000	33,000	33,000
29 August 2024 (ii)	300,000	300,000	300,000	300,000
	333,000	333,000	333,000	333,000

(i) The subordinated debt was issued on 19 December 2012. Whilst the maturity date of these notes is 19 December 2022, under the terms of the agreements between the Group and the lenders, the Group is entitled to call these notes 5 years prior to the contractual maturity date (19 December 2017).

(ii) The subordinated debt was issued on 29 August 2014. Whilst the maturity date of these notes is 29 August 2024, under the terms of the agreements between the Group and the lenders, the Group is entitled to call these notes 5 years prior to the contractual maturity date (29 August 2019).

In accordance with Australian Prudential Regulation Authority (APRA) guidelines, the Group includes the subordinated debt as Tier 2 capital (refer to Note 27).

20 Issued capital

	Consolidated 2016 $'000	Consolidated 2015 $'000	Company 2016 $'000	Company 2015 $'000
10,573,785 fully paid ordinary shares (2015: 10,150,594)	767,922	729,995	767,922	729,995

	2016 No.	2016 $'000	2015 No.	2015 $'000
Movement in issued capital of fully paid shares				
Beginning of the financial year	10,150,594	729,995	9,794,206	699,995
Issue of new shares	423,191	37,927	356,388	30,000
End of the financial year	10,573,785	767,922	10,150,594	729,995

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

21 Reserves

	Consolidated 2016 $'000	Consolidated 2015 $'000	Company 2016 $'000	Company 2015 $'000
Investment revaluation reserve	3,235	5,245	3,235	5,245
General reserve for credit losses	18,332	17,381	18,332	17,381
Cash flow hedge reserve	(58,748)	(54,335)	(48,000)	(45,111)
	(37,181)	(31,709)	(26,433)	(22,485)

Investment revaluation reserve

The investment revaluation reserve arises on the revaluation of available-for-sale financial assets. Where a revalued asset is sold that portion of the reserve that relates to that financial asset is effectively realised and is recognised in profit or loss. Where a revalued financial asset is impaired that portion of the reserve that relates to that financial asset is recognised in profit or loss.

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)).

22 Dividends

No dividends have been paid or declared since the start of the financial year (2015: $nil). The directors do not recommend the payment of a dividend in respect of the year ended 30 June 2016.

	Company 2016 $'000	Company 2015 $'000
Adjusted franking account balance (i)	100,968	57,627

(i) 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.

23 Commitments

	Consolidated		Company	
	2016	2015	2016	2015
	$'000	$'000	$'000	$'000
(a) Undrawn credit				
Residential home loans	418,595	311,915	418,595	311,915
Credit cards	572,582	433,306	572,582	433,306
Personal loans	80	232	80	232
Commercial loans	286	286	286	286
	991,543	745,739	991,543	745,739

(b) Lease commitments

Operating lease arrangements

Operating leases are entered into as a means of acquiring access to premises, computer equipment and motor vehicles. The rental payments detailed below have been based on the terms of the relevant lease contracts net of amounts recoverable from sub-lessees.

	Consolidated		Company	
	2016	2015	2016	2015
	$'000	$'000	$'000	$'000
Non-cancellable operating lease commitments				
Not longer than 1 year	9,987	10,929	9,987	10,929
Longer than 1 year but not longer than 5 years	31,281	31,372	31,281	31,372
Longer than 5 years	-	6,456	-	6,456
	41,268	48,757	41,268	48,757

24 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:

Cash and cash equivalents

	Consolidated		Company	
	2016 $'000	2015 $'000	2016 $'000	2015 $'000
Cash at bank	225,069	119,316	103,886	29,097
Deposits at call	214,985	241,586	148,384	156,683
	440,054	360,902	252,270	185,780
(b) Cash balance not available for use in (a)				
First Home Owners Grants held on behalf of customers	115	252	115	252
Cash at bank and deposits at call within securitisation trusts (i)	124,737	175,122	-	-
	124,852	175,374	115	252

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

	Consolidated 2016 $'000	Consolidated 2015 $'000	Company 2016 $'000	Company 2015 $'000
(c) Change in operating assets				
Investments	(159,437)	(442,921)	(162,014)	(384,344)
Derivatives assets	10,791	(5,433)	11,203	(5,814)
Trade and other receivables	(1,171)	3,910	4,037	23,261
Loans and advances	(1,800,643)	(2,879,803)	(1,783,201)	(2,888,830)
Other assets	(324)	(2,985)	(1,415)	(2,985)
Movement in other comprehensive income before income tax - available-for-sale financial assets	(2,871)	(1,941)	(2,871)	(1,941)
	(1,953,655)	(3,329,173)	(1,934,261)	(3,260,653)
(d) Change in operating liabilities				
Amounts due to other financial institutions	(2,620)	(28,278)	(1,556)	(30,934)
Deposits and other borrowings	1,908,366	2,958,241	1,876,184	2,947,577
Derivatives liabilities	(12,189)	60,769	(15,828)	50,251
Trade and other payables	(7,940)	(1,975)	(6,785)	(823)
Provisions	3,435	(1,360)	3,435	(1,360)
Subordinated debt	416	-	416	-
Movement in other comprehensive income before income tax - cash flow hedges	(6,305)	(77,621)	(4,127)	(64,444)
	1,883,163	2,909,776	1,851,739	2,900,267
(e) Non-cash items included in profit before tax				
Depreciation of plant and equipment	14,041	11,235	14,041	11,235
Amortisation of intangible assets	13,108	7,969	13,108	7,969
Loss on disposal of plant and equipment, and computer software	152	-	152	-
Impairment losses	14,144	16,150	14,144	12,939
Amortisation of capitalised transaction costs	18,259	16,746	19,329	16,073
	59,704	52,100	60,774	48,216
(f) Operating cash flows from interest				
Interest received	1,267,248	1,259,345	1,217,785	1,216,031
Interest paid	916,762	930,119	625,563	659,672

25 Financial instruments

	Consolidated		Company	
	2016 $'000	2015 $'000	2016 $'000	2015 $'000
(a) Categories of financial instruments				
Financial assets				
Cash and cash equivalents	440,054	360,902	252,270	185,780
Available-for-sale financial assets	3,064,159	2,904,722	3,003,183	2,841,169
Fair value through profit or loss:				
Derivatives held for trading	-	3,299	-	3,558
Derivative instruments in designated hedge accounting relationship	4,661	12,153	4,172	11,817
Loans and receivables:				
Trade and other receivables	5,516	4,345	7,246	11,283
Net loans and advances	19,534,241	17,763,317	19,583,112	17,829,668
Financial liabilities				
Derivative instruments in designated hedge accounting relationship	87,851	100,040	69,348	85,176
Amortised cost:				
Amounts due to other financial institutions	-	2,620	-	1,556
Deposits and other borrowings	21,770,305	19,859,255	21,591,935	19,712,035
Trade and other payables	20,081	28,021	22,106	28,891
Subordinated debt	332,760	332,344	332,760	332,344

The Group's principal financial assets comprise cash and cash equivalents, treasury notes and semi-government securities, bank bills, commercial paper, fixed term deposits, floating rate notes, mortgage backed securities, residential home loans, credit cards, personal loans and commercial loans. The principal financial liabilities comprise amounts due to other financial institutions, retail and business deposits, negotiable certificates of deposit and medium term notes. 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 (please refer to 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 premia 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.

The Group uses widely recognised valuation models for determining the fair value of financial instruments such as available-for-sale 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.

25 Financial instruments (continued)

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
2016				
Assets				
Financial assets at fair value through profit and loss				
Derivatives	-	-	-	-
Derivative instruments in designated hedge accounting relationship				
Interest rate swaps	-	4,661	-	4,661
Available-for-sale financial assets				
Treasury notes and semi-government securities	-	360,965	-	360,965
Bank bills	-	990,915	-	990,915
Corporate fixed rate notes	-	25,529	-	25,529
Corporate floating rate notes	-	1,677,490	-	1,677,490
Mortgage backed securities	-	9,260	-	9,260
Total	-	3,064,159	-	3,064,159
Liabilities				
Derivative instruments in designated hedge accounting relationship				
Interest rate swaps	-	87,851	-	87,851

	Consolidated			
	Level 1	Level 2	Level 3	Total
	$'000	$'000	$'000	$'000
2015				
Assets				
Financial assets at fair value through profit and loss				
Derivatives	-	3,299	-	3,299
Derivative instruments in designated hedge accounting relationship				
Interest rate swaps	-	12,153	-	12,153
Available-for-sale financial assets				
Treasury notes and semi-government securities	-	597,657	-	597,657
Bank bills	-	767,835	-	767,835
Corporate fixed rate notes	-	98,734	-	98,734
Corporate floating rate notes	-	1,426,203	-	1,426,203
Mortgage backed securities	-	14,293	-	14,293
Total	-	2,904,722	-	2,904,722
Liabilities				
Derivative instruments in designated hedge accounting relationship				
Interest rate swaps	-	100,040	-	100,040

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

25 Financial instruments (continued)

	Company			
	Level 1	**Level 2**	**Level 3**	**Total**
	$'000	**$'000**	**$'000**	**$'000**
2016				
Assets				
Financial assets at fair value through profit and loss				
Derivatives	-	-	-	-
Derivative instruments in designated hedge accounting relationship				
Interest rate swaps	-	4,172	-	4,172
Available-for-sale financial assets				
Treasury notes and semi-government securities	-	360,966	-	360,966
Bank bills	-	929,938	-	929,938
Corporate fixed rate notes	-	25,529	-	25,529
Corporate floating rate notes	-	1,677,490	-	1,677,490
Mortgage backed securities	-	9,260	-	9,260
Total	-	3,003,183	-	3,003,183
Liabilities				
Derivative instruments in designated hedge accounting relationship				
Interest rate swaps	-	69,348	-	69,348

	Company			
	Level 1	**Level 2**	**Level 3**	**Total**
	$'000	**$'000**	**$'000**	**$'000**
2015				
Assets				
Financial assets at fair value through profit and loss				
Derivatives	-	3,558	-	3,558
Derivative instruments in designated hedge accounting relationship				
Interest rate swaps	-	11,817	-	11,817
Available-for-sale financial assets				
Treasury notes and semi-government securities	-	597,657	-	597,657
Bank bills	-	704,282	-	704,282
Corporate fixed rate notes	-	98,734	-	98,734
Corporate floating rate notes	-	1,426,203	-	1,426,203
Mortgage backed securities	-	14,293	-	14,293
Total	-	2,841,169	-	2,841,169
Liabilities				
Derivative instruments in designated hedge accounting relationship				
Interest rate swaps	-	85,176	-	85,176

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

25 Financial instruments (continued)

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
2016					
Financial assets					
Net loans and advances (i)	19,534,241	-	19,595,257	-	19,595,257
Financial liabilities					
Deposits and other borrowings:					
- Medium term notes (ii)	928,368	-	928,876	-	928,876
Subordinated debt (ii)	332,760	-	326,380	-	326,380
2015					
Financial assets					
Net loans and advances (i)	17,763,317	-	17,871,157	-	17,871,157
Financial liabilities					
Deposits and other borrowings:					
- Medium term notes (ii)	998,279	-	1,002,670	-	1,002,670
Subordinated debt (ii)	332,344	-	334,460	-	334,460

		Company			
	Book Value	Level 1	Level 2	Level 3	Total
	$'000	$'000	$'000	$'000	$'000
2016					
Financial assets					
Net loans and advances (i)	19,583,112	-	19,644,128	-	19,644,128
Financial liabilities					
Deposits and other borrowings:					
- Medium term notes (ii)	928,368	-	928,876	-	928,876
Subordinated debt (ii)	332,760	-	326,380	-	326,380
2015					
Financial assets					
Net loans and advances (i)	17,829,668	-	17,937,507	-	17,937,507
Financial liabilities					
Deposits and other borrowings:					
- Medium term notes (ii)	998,279	-	1,002,670	-	1,002,670
Subordinated debt (ii)	332,344	-	334,460	-	334,460

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.

(ii) The fair value of medium term notes and subordinated debt 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.

26 Risk management

Overview
The Board has a Risk Management Framework to support the identification and management of all material risks across the Group. A strong internal controls system ensures all controls are appropriately designed and implemented to help the Group operate within the risk appetite settings approved by the Board. A standardised, integrated and risk based assurance program provides line of sight across our management of all material risks, to help ensure we meet both our regulatory obligations and business objectives.

The Risk Management Framework is centred around a unifying Risk Management Statement, signed by the CEO, which outlines why good risk management is a critical enabler of our corporate objective. Four Risk Management Standards support the risk management policies, processes, guidelines, tools and practises that enable the Group to meet stakeholder expectations.

Collectively, these elements of our 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 our 21 operational risk classes;
- Monitor our risk exposures to our risk limits and provide relevant reporting and insight, for both management/Board and regulators;
- Ensure clear accountability for the key controls on which we rely on to operate an effective business and meet our 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.

(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.

<u>Maximum exposure to credit risk</u>
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. For commercial loans and asset finance, the Group holds charges over real estate properties, inventory and trade receivables. There is no collateral held as security and other credit enhancements for all other financial assets besides residential home loans, commercial loans, and asset finance.

26 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 $'000	Unrated $'000	Past due but not impaired $'000	Impaired $'000	Total $'000
2016					
Available-for-sale financial assets	3,064,159	-	-	-	3,064,159
Trade and other receivables	-	5,516	-	-	5,516
Loans and advances	-	18,813,195	738,235	7,424	19,558,854
	3,064,159	18,818,711	738,235	7,424	22,628,529
2015					
Available-for-sale financial assets	2,904,722	-	-	-	2,904,722
Trade and other receivables	-	4,345	-	-	4,345
Loans and advances	-	17,160,866	619,138	5,723	17,785,727
	2,904,722	17,165,211	619,138	5,723	20,694,794

	Company				
	Neither past due nor impaired				
	Investment grade $'000	Unrated $'000	Past due but not impaired $'000	Impaired $'000	Total $'000
2016					
Available-for-sale financial assets	3,003,183	-	-	-	3,003,183
Trade and other receivables	-	7,246	-	-	7,246
Loans and advances	-	18,862,067	738,235	7,424	19,607,726
	3,003,183	18,869,313	738,235	7,424	22,618,155
2015					
Available-for-sale financial assets	2,841,169	-	-	-	2,841,169
Trade and other receivables	-	11,283	-	-	11,283
Loans and advances	-	17,227,217	619,138	5,723	17,852,078
	2,841,169	17,238,500	619,138	5,723	20,704,530

26 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
2016					
Net loans and advances					
Credit cards	10,697	2,060	947	-	13,704
Personal loans	9,917	3,211	1,793	-	14,921
Residential home loans	457,799	82,945	45,820	123,046	709,610
	478,413	88,216	48,560	123,046	738,235

	Consolidated and Company				
	< 30 days $'000	31 - 60 days $'000	61 - 90 days $'000	> 90 days $'000	Total $'000
2015					
Net loans and advances					
Credit cards	7,949	1,416	604	-	9,969
Personal loans	10,017	2,886	1,922	-	14,825
Residential home loans	371,259	82,777	42,184	98,124	594,344
	389,225	87,079	44,710	98,124	619,138

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 commercial loan or asset finance 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.

Impairment allowance

Reconciliation of impairment allowance by class is as follows:

	Consolidated						
	Credit cards $'000	Personal loans $'000	Residential home loans $'000	Commercial loans $'000	Asset finance $'000	Overdrawn customer accounts $'000	Total $'000
Balance 1 July 2014	2,379	8,159	4,779	685	1,234	51	17,287
Impairment allowance	4,154	5,295	3,261	(196)	3,336	300	16,150
Balances written off	(4,360)	(6,778)	(197)	-	(2,041)	(270)	(13,646)
Amounts recovered	1,387	1,280	-	-	33	6	2,706
Balance 30 June 2015	3,560	7,956	7,843	489	2,562	87	22,497
Balance 1 July 2015	3,560	7,956	7,843	489	2,562	87	22,497
Impairment allowance	2,955	6,043	3,768	(46)	1,020	405	14,145
Balances written off	(5,814)	(8,441)	(642)	-	(1,618)	(412)	(16,927)
Amounts recovered	2,730	2,245	-	-	3	-	4,978
Balance 30 June 2016	3,431	7,803	10,969	443	1,967	80	24,693

26 Risk management (continued)

	Company						
	Credit cards $'000	Personal loans $'000	Residential home loans $'000	Commercial loans $'000	Asset finance $'000	Overdrawn customer accounts $'000	Total $'000
Balance 1 July 2014	2,379	8,159	4,779	685	1,234	51	17,287
Impairment allowance	4,154	5,295	3,261	(196)	3,336	300	16,150
Balances written off	(4,360)	(6,778)	(197)	-	(2,041)	(270)	(13,646)
Amounts recovered	1,387	1,280	-	-	33	6	2,706
Balance 30 June 2015	3,560	7,956	7,843	489	2,562	87	22,497
Balance 1 July 2015	3,560	7,956	7,843	489	2,562	87	22,497
Impairment allowance	2,955	6,043	3,768	(46)	1,020	404	14,144
Balances written off	(5,814)	(8,441)	(642)	-	(1,618)	(412)	(16,927)
Amounts recovered	2,730	2,245	-	-	3	-	4,978
Balance 30 June 2016	3,431	7,803	10,969	443	1,967	79	24,692

Collateral held and other credit enhancements, and their financial effect

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.

	Note	Percentage of exposure that is subject to collateral requirements 2016	2015	Principal types of collateral held
Derivative assets (i)		-	-	Cash
Loans and advances:				
Credit cards		-	-	None
Personal loans		-	-	None
Residential home loans		100%	100%	Residential property
Commercial loans (ii)		100%	100%	Commercial and residential property
Asset finance (ii)		100%	100%	Floating charges over corporate assets

(i) 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.

(ii) The general creditworthiness of a business customer (commercial loans and asset finance) tends to be the most relevant indicator of credit quality of a loan extended to it. However, collateral provides additional security and the Group generally requests that business borrowers provide it. The Group may take collateral in the form of a first charge over real estate, floating charges over all borrower assets and other liens and guarantees.

Offsetting financial assets and financial liabilities

As at 30 June 2016, 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 (please refer to Note 16).

26 Risk management (continued)

(b) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in accessing funds to meet commitments. The objectives of the liquidity risk policies are to ensure that the obligations of the Group to the Australian payments system are met on a daily basis and to ensure the Group has sufficient access to liquidity to ensure that depositors and other creditors have access to their funds whenever they are contractually entitled to them. The ability to meet these obligations is required both under normal business conditions and under stressed business conditions.

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

Under normal business conditions, the Group will maintain its ratio of Minimum Liquidity Holdings (MLH) as required by APRA Prudential Standards (APS) 210 "Liquidity", plus a buffer over the MLH at all times.

Under adverse business conditions:
The Group will conduct regular stress testing of its liquidity position under the criteria proposed by APRA. As a minimum:

- The Group will maintain a positive net cash flow position under a name specific crisis scenario for a minimum period of 20 business days; and
- The Group will maintain a positive net cash flow position under a market or systemic crisis scenario for a minimum period of 60 business days.

Under stressed conditions the minimum liquid asset portfolio is available to cover forecast cash outflows.

There have been no material changes to liquidity risk policies since the prior year.

The table below summarises the maturity profile of the Group's financial liabilities as at 30 June based on contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as if notice were given immediately. However, the Group expects that many customers will not request repayment on the earliest date the Group could be required to pay and the table does not reflect the expected cash flows 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
2016					
Amounts due to other financial institutions	-	-	-	-	-
Deposits and other borrowings	3,867,781	5,022,977	7,239,717	1,502,648	5,708,933
Trade payables	-	20,081	-	-	-
Subordinated debt	-	3,983	11,804	63,206	379,921
Net settled:					
Interest rate swaps (cash flow hedges)	-	(13,976)	(19,134)	8,443	-
Interest rate swaps (held-for-trading)	-	-	-	-	-
Total undiscounted cash flows	3,867,781	5,033,065	7,232,387	1,574,297	6,088,855
2015					
Amounts due to other financial institutions	2,620	-	-	-	-
Deposits and other borrowings	2,831,309	6,591,620	4,795,969	4,609,387	1,039,443
Trade payables	-	28,021	-	-	-
Subordinated debt	-	4,133	12,303	65,671	398,158
Net settled:					
Interest rate swaps (cash flow hedges)	-	(16,650)	(42,723)	(37,526)	-
Interest rate swaps (held-for-trading)	-	166	198	-	-
Total undiscounted cash flows	2,833,929	6,607,290	4,765,747	4,637,532	1,437,601

26 Risk management (continued)

	Company				
	At call $'000	0 - 3 months $'000	3 mths to 1 year $'000	1 - 5 years $'000	More than 5 years $'000
2016					
Amounts due to other financial institutions	-	-	-	-	-
Deposits and other borrowings	3,867,781	5,022,977	7,239,717	1,502,476	5,708,933
Trade payables	-	22,106	-	-	-
Subordinated debt	-	3,983	11,804	63,206	379,921
Net settled:					
Interest rate swaps (cash flow hedges)	-	(10,288)	(12,275)	10,611	-
Interest rate swaps (held-for-trading)	-	-	-	-	-
Total undiscounted cash flows	3,867,781	5,038,778	7,239,246	1,576,293	6,088,855
2015					
Amounts due to other financial institutions	1,556	-	-	-	-
Deposits and other borrowings	2,831,309	4,943,536	4,343,972	2,927,501	-
Trade payables	-	28,891	-	-	-
Subordinated debt	-	4,133	12,303	65,671	398,158
Net settled:					
Interest rate swaps (cash flow hedges)	-	(13,756)	(37,067)	(33,116)	-
Interest rate swaps (held-for-trading)	-	104	51	-	-
Total undiscounted cash flows	2,832,865	4,962,908	4,319,259	2,960,056	398,158

(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.

<u>Interest rate risk</u>

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 rateset date or maturity date.

<u>Interest rate sensitivity analysis</u>

The following table details the sensitivity of the Group's forecast 1 year pre tax NII and MVE to a 2% parallel shock in forward interest rates. The simulation modelling contains a floor of 0% where the interest rate on a recognised financial instrument is below 2%. 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 2% 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	
	2% increase $'000	2% decrease $'000	2% increase $'000	2% decrease $'000
30 June 2016	56,852	(49,603)	29,135	(23,440)
30 June 2015	40,341	(38,994)	13,071	(10,785)

26 Risk management (continued)

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 cashflows (2015: $nil).

(d) Operating 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.

27 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. The 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 requirements imposed by APRA (refer below).

Externally imposed capital requirements

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 determined on a risk weighted basis.

APRA requires capital adequacy to be measured at two levels:

- Level 1 includes the Company, SMHL Series 2008-1 Fund, and SMHL Series Private Placement 2014-2; and
- Level 2 includes the Company, ME Portfolio Management Limited, SMHL Series 2008-1 Fund, and SMHL Series Private Placement 2014-2.

The Group has met the minimum capital ratio requirements at level 1 and level 2 during the financial year ended 30 June 2016.

Securitisation deconsolidation principle

Where an Authorised Deposit-taking Institution (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 parties for the purpose of calculating the capital adequacy ratio. SMHL Series Private Placement Trust 2010-1, SMHL Series Securitisation Fund 2010-3, SMHL Series Securitisation Fund 2011-2, SMHL Series Private Placement 2011-1, SMHL Series Private Placement 2011-3, SMHL Series Securitisation Fund 2012-1,SMHL Series Securitisation Fund 2013-1, SMHL Series Securitisation Fund 2014-1, and SMHL Series Securitisation Fund 2015-1 have complied with APS 120, accordingly, they are not included in the calculation of capital adequacy.

27 Capital management (continued)

Capital adequacy ratio

	Level 1	
	2016	**2015**
	%	**%**
Risk weighted capital adequacy ratios		
Tier 1	9.9	9.8
Tier 2	4.5	5.0
Total capital ratio	14.4	14.8

The internal capital adequacy ratio set by the Board remained at 11.5% during the financial year ended 30 June 2016 (2015: 11.5%).

28 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

K Hodgson	(Chairman from 1 January 2016)
C Bart	(appointed 1 July 2016)
C Christian	
G Combet	
A De Salis	
S Herman	(resigned 5 October 2015)
J Milne	
G Weaven	(Chairman from 1 July 2015 to 31 December 2015)

Key management personnel

J McPhee	Chief Executive Officer
A Aboud	Chief Change Officer
A Beck	Group Executive, Industry Affairs (resigned 1 July 2016)
C Cataldo	Chief Risk Officer
G Dickson	Chief Financial Officer
M Gay	Chief Information Officer
H Gordon	Group Executive, People Experience (appointed 7 September 2015)
R James	Chief Marketing Officer
A Middleton	Group Executive, Sales
C Ralston	Group Executive, Service Excellence

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	
	2016	**2015**
	$	**$**
Key management personnel		
Short term benefits	5,530,611	5,009,353
Other long term benefits	-	210,880
Total key management personnel compensation	5,530,611	5,220,233

28 Director and key management personnel compensation (continued)

(c) Aggregate compensation made to directors

Board schedule of fees of the Company

	Company 2016 $	Company 2015 $
Chair of the Board	168,000	168,000
Member of the Board	84,000	84,000
Audit and Governance Committee (established on 1 January 2015)		
Chair of the committee	13,500	13,500
Committee member	6,750	6,750
Risk and Compliance Committee (established on 1 January 2015)		
Chair of the committee	13,500	13,500
Committee member	6,750	6,750
People and Remuneration Committee		
Chair of the committee	13,500	13,500
Committee member	6,750	6,750
Digital Committee (formerly Technology Committee)		
Chair of the committee	13,500	13,500
Committee member	6,750	6,750

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

Director	Committee membership	2016 $	2015 $
K Hodgson	Chair of the Board (appointed 1 January 2016)	84,000	-
	Member of the Board	42,000	80,622
	Audit, Risk and Governance Committee (disestablished on 31 December 2014)	-	4,712
	Audit & Governance Committee	6,750	3,115
	Risk & Compliance Committee	6,750	3,115
	Chair, People and Remuneration Committee (appointed 6 February 2015)	13,500	4,985
	People and Remuneration Committee	-	2,322
		153,000	98,871
C Christian	Member of the Board	84,000	80,711
	Chair, Audit & Governance Committee (appointed 12 November 2015)	8,671	-
	Chair, Risk & Compliance Committee (appointed 12 November 2015)	8,671	-
	Audit, Risk and Governance Committee (disestablished 31 December 2014)	-	4,712
	Audit & Governance Committee (ceased 12 November 2015)	2,414	3,115
	Risk & Compliance Committee (ceased 12 November 2015)	2,414	3,115
	Technology Committee (ceased 12 November 2015)	2,414	6,481
		108,586	98,134
G Combet	Member of the Board	84,000	51,145
	Audit, Risk and Governance Committee (disestablished 31 December 2014)	-	1,346
	Audit & Governance Committee	6,750	3,115
	Risk & Compliance Committee	6,750	3,115
		97,500	58,721
A De Salis	Member of the Board	84,000	80,679
	People and Remuneration Committee	6,750	6,481
	Digital Committee	6,750	6,481
		97,500	93,641
B Fraser	Chair of the Board (retired 5 February 2015)	-	104,760
	People and Remuneration Committee	-	4,211
		-	108,971

28 Director and key management personnel compensation (continued)

Director	Committee membership	2016 $	2015 $
S Herman	Member of the Board (resigned 5 October 2015)	21,323	80,744
	Chair, Audit, Risk and Governance Committee (disestablished 31 December 2014)	-	9,423
	Chair, Audit & Governance Committee	3,427	6,231
	Chair, Risk & Compliance Committee	3,427	6,231
		28,177	102,629
J Milne	Member of the Board	84,000	80,678
	Chair, Digital Committee	13,500	12,962
		97,500	93,640
B Pollock	Member of the Board	-	29,895
	Audit, Risk and Governance Committee (disestablished 31 December 2014)	-	3,365
	People and Remuneration Committee	-	2,404
		-	35,664
G Weaven	Chair of the Board (appointed 6 February 2015 and ceased 31 December 2015)	84,000	62,330
	Member of the Board	42,000	51,545
	Chair, People and Remuneration Committee (ceased 5 February 2015)	-	5,476
	People and Remuneration Committee	6,750	2,812
		132,750	122,163
Total directors compensation		715,012	812,434

29 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 28 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 2016, the following transactions occurred between the Company and its subsidiaries:

- Management fees received or receivable from the subsidiary entity of $10,354,320 (2015: $16,805,169);
- Mortgage manager fee paid or payable to the subsidiary entity of $20,875 (2015: $19,665); 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 $1,033,842 are owed from the subsidiary entity (2015: $1,299,495).

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.

30 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 2016						
Assets						
Cash and cash equivalents	440,054	-	440,054	252,270	-	252,270
Investments	1,334,435	1,729,724	3,064,159	1,273,458	1,729,725	3,003,183
Derivatives	3,227	1,434	4,661	2,898	1,274	4,172
Trade and other receivables	5,516	-	5,516	7,246	-	7,246
Loans and advances	376,419	19,157,822	19,534,241	425,044	19,158,068	19,583,112
Investment in controlled entities	-	-	-	-	102	102
Plant and equipment	-	29,829	29,829	-	29,829	29,829
Intangible assets	-	83,620	83,620	-	83,620	83,620
Deferred tax assets	-	32,893	32,893	-	32,892	32,892
Other assets	8,422	-	8,422	9,513	-	9,513
	2,168,073	21,035,322	23,203,395	1,970,429	21,035,510	23,005,939
Liabilities						
Amounts due to other financial institutions	-	-	-	-	-	-
Deposits and other borrowings	15,792,102	5,978,203	21,770,305	15,786,202	5,805,733	21,591,935
Derivatives	30,982	56,869	87,851	23,317	46,031	69,348
Trade and other payables	20,081	-	20,081	22,106	-	22,106
Current tax liabilities	-	-	-	-	-	-
Provisions	19,268	7,178	26,446	19,268	7,178	26,446
Subordinated debt	-	332,760	332,760	-	332,760	332,760
Total liabilities	15,862,433	6,375,010	22,237,443	15,850,893	6,191,702	22,042,595
Net	(13,694,360)	14,660,312	965,952	(13,880,464)	14,843,808	963,344

	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 2015						
Assets						
Cash and cash equivalents	360,902	-	360,902	185,780	-	185,780
Investments	1,474,846	1,429,876	2,904,722	1,411,277	1,429,892	2,841,169
Derivatives	4,481	10,971	15,452	4,581	10,794	15,375
Trade and other receivables	4,345	-	4,345	11,283	-	11,283
Loans and advances	331,615	17,431,702	17,763,317	397,966	17,431,702	17,829,668
Investment in controlled entities	-	-	-	-	102	102
Plant and equipment	-	34,244	34,244	-	34,244	34,244
Intangible assets	-	76,771	76,771	-	76,771	76,771
Deferred tax assets	-	35,882	35,882	-	35,880	35,880
Other assets	8,098	-	8,098	8,098	-	8,098
	2,184,287	19,019,446	21,203,733	2,018,985	19,019,385	21,038,370
Liabilities						
Amounts due to other financial institutions	2,620	-	2,620	1,556	-	1,556
Deposits and other borrowings	15,333,787	4,525,468	19,859,255	13,849,243	5,862,792	19,712,035
Derivatives	11,306	88,734	100,040	7,807	77,369	85,176
Trade and other payables	28,021	-	28,021	28,891	-	28,891
Current tax liabilities	826	-	826	-	-	-
Provisions	16,615	6,396	23,011	16,615	6,396	23,011
Subordinated debt	-	332,344	332,344	-	332,344	332,344
Total liabilities	15,393,175	4,952,942	20,346,117	13,904,112	6,278,901	20,183,013
Net	(13,208,888)	14,066,504	857,616	(11,885,127)	12,740,484	855,357

31 Remuneration of auditors

	Consolidated		Company	
	2016	2015	2016	2015
	$	$	$	$
Audit and Review of Financial statements	321,500	345,005	281,500	233,980
Regulatory audits	116,000	127,025	108,000	119,185
Tax services	599,035	459,759	561,735	459,759
Other services	418,500	188,423	418,500	188,423
	1,455,035	1,120,212	1,369,735	1,001,347

The auditor of the Group is Deloitte Touché Tohmatsu.

32 Subsequent events

There are no matters or circumstances occurring subsequent to the end of the financial year that has significantly affected, or may significantly affect, the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial years.