Members Equity Bank Limited

ABN: 56 070 887 679

Annual Financial Report

For the financial year ended 30 June 2015

General Information

Australian Business Number
56 070 887 679

Directors

G Weaven	Chairman (appointed 6 February 2015)
C Christian	
G Combet	(appointed 7 November 2014)
A De Salis	
B Fraser	(retired 5 February 2015)
S Herman	
K Hodgson	
J Milne	
B Pollock	(retired 6 November 2014)

Chief Executive Officer
J McPhee

Chief Financial Officer
G Dickson

Company Secretary
I Rogerson

Auditors
Deloitte Touche 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 2015

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Directors' report
for the financial year ended 30 June 2015

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 2015.

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:

B Fraser (Chairman)	(retired 5 February 2015)
G Weaven (Chairman)	(appointed 6 February 2015)
C Christian	
G Combet	(appointed 7 November 2014)
A De Salis	
S Herman	
K Hodgson	
J Milne	
B Pollock	(retired 6 November 2014)

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 (2014: $nil). The directors do not recommend the payment of a dividend in respect of the financial year ended 30 June 2015.

Review of operations and results
Profit for the year ended 30 June 2015 was $79.7 million compared to $28.2 million for the year ended 30 June 2014. The results were broadly in line with expectations.

Significant items
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. From 1 July 2014, the Group has adopted hedge accounting by designating certain derivatives held for risk management as hedging instruments in qualifying cash flow hedging relationships. The adoption of hedge accounting has enabled the Group to defer unrealised gains or losses on the hedging instruments in other comprehensive income until the hedged item is recognised in profit or loss. During the year, $54.3 million (net of tax) was recognised as other comprehensive income resulting from effective hedge relationships.

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

Subsequent events
The Group priced its first public offering of prime residential mortgage backed securities for 2015 via SMHL Series Securitisation Fund 2015-1. The issue settled on 30 July 2015 and had a final volume of $1.5 billion.

Other than the matter noted above, there are no other matters or circumstances occurring subsequent to the end of the financial year that has significantly affected, or may significantly affect, the operations of the Company, the results of those operations, or the state of affairs of the entity 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 Australian Council of Superannuation Investors Corporate Governance Guidelines and other best 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.

Board Composition

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

- the Board maintains a majority of 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 Herman and Mr Hodgson offered themselves for re-election by the shareholders as directors of the Company and were re-elected in November 2014.

Mr Combet was elected as a director of the Company at the last Annual General Meeting which was held on 7 November 2014 to replace Mr Pollock who retired on 6 November 2014. In addition, Mr Fraser, retired as a director of the Company effective from 5 February 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:

Garry Weaven - Non Executive Director (Chairman since 6 February 2015)
Director since April 2000
Mr Weaven was Chair of the People and Remuneration Committee until 5 February 2015 and is Chair of the Nominations Committee. He is the Chairman of Industry Super Holdings Pty Ltd (ISH) and other entities in the ISH Group, including IFM Holdings Pty Ltd and IFM Investors Pty Ltd, and is a director of the New Daily Pty Ltd. Mr Weaven's background includes periods as Chairman of Pacific Hydro Pty Ltd, Assistant Secretary of the Australian Council of Trade Unions (ACTU), and as Senior Consultant to Westpac Financial Services.

Christine Christian - Non Executive Director
Director since November 2012
Ms Christian is a member of the Audit and Governance Committee, Risk and Compliance Committee, and Technology Committee. She has served in senior executive roles in Australia and overseas primarily in the credit risk, financial services and global business publishing sectors during a career spanning more than 30 years, including 14 years as Chief Executive Officer of Dun & Bradstreet Australia and New Zealand. Ms Christian is an independent company director. Her current directorships include UNICEF Australia, Chief Executive Women, Powerlinx Inc, State Library of Victoria Foundation Council, Directioneering Pty Ltd, Morgan Stanley Infrastructure Advisory Board, and TAFE Review Board. She has held director positions with Business Information Industry Association - Asia and Middle East, and the Melbourne International Comedy Festival, and Private Media Pty Ltd.

Anne De Salis - Non Executive Director
Director since May 2008
Ms De Salis is a member of the People and Remuneration Committee, and Technology Committee. She has a diverse career spanning the public and private sectors, with considerable experience in financial services. She has held senior executive / director positions with AMP, MBF Australia, the Commonwealth Treasury and the Office of the Prime Minister, Rt Hon Paul Keating. She is currently a director of Super Consumers Centre and National Indigenous Pastoral Enterprises Board, and was a director of Funds SA until 30 June 2015.

Sally Herman - Non Executive Director
Director since January 2012
Ms Herman is the Chair of the Audit and Governance Committee and the Risk and Compliance Committee. She has a wealth of experience in consumer and commercial banking. From 1994 to 2010 she was employed in a number of roles at Westpac. Ms Herman is the Chairman of the Board of Urbis Pty Ltd. She is also a non-executive director of Premier Investments Ltd, Breville Group Ltd, Investec Property Limited, Evans & Partners (Member of the Advisory Board), and is the President of the Kambala Council. Formerly a director of the Endeavour Foundation, the State Library of NSW Foundation Board, and FSA Group Limited.

Ken Hodgson - Non Executive Director
Director since January 2012
Mr Hodgson is the Chair of the People and Remuneration Committee, a member of the Audit and Governance Committee, and the Risk and Compliance Committee. He spent 28 years working at Westpac and National Australia Bank in their retail banking divisions, including as General Manager Consumer Financial Serivces at Westpac, and as General Manager Personal Financial Services at National Australia Bank.

Justin Milne - Non Executive Director
Director since November 2012
Mr Milne is the Chair of the Technology Committee. He is the Chairman of NetComm Wireless Ltd and the National Basketball League,

and a non-executive director of Tabcorp Holdings Ltd, NBN Co Limited, and MYOB Limited. Formerly a director of Basketball Australia, the Sydney Children's Hospical Foundation and Chair of their Building Appeal. He was also a Group Managing Director at Telstra, 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 currently sits on the Board of IFM Investors (funds management) and is a consultant to, amongst others, the State of South Australia (economic restructuring post auto industry), and is a Principal Adviser to Industry Super Australia (strategy for Industry Super). Mr Combet held various cabinet, ministerial, and parliamentary roles within the Australian Governement from 2007 to 2013, including as Minister for Industry and Innovation, Minister for Climate Change and Energy Efficiency, and Minister for Defence Personnel, Science, and Material. Mr Combet was formerly Secretary of Australian Council of Trade Unions and a director of Australian Super.

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 involves:
- providing strategic direction to the Company by engaging with the Chief Executive Officer (CEO) in the development of the business plan and budget;
- approving the business plan and budget;
- appointing the CEO and monitoring the performance of the CEO;
- monitoring performance against the business plan and budget and reviewing that performance with the CEO;
- setting the Bank'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 Bank's accounting and corporate reporting, including the external audit;
- assisting the CEO in creating the desired organisational culture;
- ensuring the Bank's shareholders are provided with the appropriate information in a timely manner;
- supporting the CEO in nurturing employees 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 governance responsibilities, the Board has established Board Committees. During the year the following Committees were in place:

Audit, Risk and Governance Committee
The Audit, Risk and Governance Committee was replaced by two newly created Committees (Audit and Governance Committee and Risk and Compliance Committee) to comply with the APRA Prudential Standard CPS 510 effective from 1 January 2015. The Audit, Risk and Governance Committee's purpose was to provide an objective view of the effectiveness of the Company's financial reporting framework and overall internal control framework; to review operational, credit, market, liquidity, and strategic risk throughout all facets of the Group's business; to oversee, monitor and review the Company's risk management principles and policies, strategies, processes and control; and to review the development of and recommend to the Board all other corporate governance policies and principles applicable to the Company.

The Committee was comprised of independent non-executive directors. During the period to 31 December 2014, the Committee was chaired by Ms Herman.

Audit and Governance Committee
The Audit and Governance Committee was established on 1 January 2015 and its purpose is to assist the Board in fulfilling its corporate governance and oversight responsibilities in relation to the:

- Bank's financial and APRA reporting;
- internal control system;
- risk management framework; and
- internal and external audit functions.

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

Risk and Compliance Committee
The Risk and Compliance Committee was established on 1 January 2015 and its purpose is to assist the Board in fulfilling its corporate governance and oversight responsibilities in relation to the:

- Bank's risk appetite statement;
- risk management strategy;
- risk management framework; and
- risk management (including compliance) function.

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

People and Remuneration Committee
The People and Remuneration Committee's purpose is to make recommendations in respect of the Company's Remuneration Policy and program; make recommendations in respect of the remuneration arrangements for the CEO and other specified employees or group of employees whose roles may affect the financial soundness of the Company; monitor compensation, including superannuation, levels and policy guidelines; ensuring there is a robust and effective process for evaluating the performance of the Board, its committees and individual directors; assisting the Board in relation to executive (including the CEO) succession planning to meet the Company's longer term strategic goals; and providing a formal forum for communication between the Board and management on human resource matters. The People & Remuneration Committee may make recommendations to the Board in connection with the fitness and propriety of directors.

The Committee is comprised of independent non-executive directors. During the period, the Committee was chaired by Mr Weaven (from 1 July 2014 to 5 February 2015) and Mr Hodgson (from 6 February 2015 to current).

Technology Committee
The objective of the Technology Committee is to provide oversight to the Company's Information Technology (IT) function including IT strategy, the alignment of the IT function with the Company's business, systems stability, information security, and related operations.

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

Nominations Committee
The purpose of the Committee is to make recommendations to the Board in respect of the appointment of new directors. It meets on an as needs basis, and met once during the period.

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 Mr Fraser (from 1 July 2014 to 5 February 2015) and Mr Weaven (from 6 February 2015 to current).

<u>Board Performance</u>
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 self evaluation of performance by each of the Board, People and Remuneration and Technology Committees. As the Nominations Committee met only once during the period, it did not undertake an evaluation. While no formal evaluation was undertaken for the Audit, Risk and Governance Committee (ARGC) as the Committee ceased on 31 December 2014, the members of the ARGC provided verbal feedback to the Risk and Compliance Committee at the February 2015 meeting.

Board attendance 1 July 2014 to 30 June 2015

	Board Meetings	
	Held	Attn'd
B Fraser	7	7
C Christian	12	10
G Combet	7	7
A De Salis	12	11
S Herman	12	12
K Hodgson	12	12
J Milne	12	11
B Pollock	5	5
G Weaven	12	12

Board Committee attendance 1 July 2014 to 31 December 2014

	Audit, Risk & Governance Committee			People & Remuneration Committee			Technology Committee			Nominations Committee		
	Held	Member	Attn'd	Held	Member	Attn'd	Held	Member	Attn'd	Held	Member	Attn'd
B Fraser	-	n	-	4	y	4	-	n	-	1	y	1
C Christian	4	y	4	-	n	-	3	y	3	-	N/A	-
G Combet	1	y	1	-	n	-	-	n	-	-	N/A	-
A De Salis	-	n	-	4	y	4	3	y	3	-	N/A	-
S Herman	4	y	4	-	n	-	-	n	-	-	N/A	-
K Hodgson	4	y	4	1	y	1	-	n	-	-	N/A	-
J Milne	-	n	-	-	n	-	3	y	3	-	N/A	-
B Pollock	3	y	3	3	y	3	-	n	-	-	y	-
G Weaven	-	n	-	4	y	4	-	n	-	-	N/A	-

Board Committee attendance 1 January 2015 to 30 June 2015

	People & Remuneration Committee			Technology 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
B Fraser	-	y	-	-	n	-	-	y	-	-	n	-	-	n	0
C Christian	-	n	-	2	y	1	-	N/A	-	3	y	3	3	y	2
G Combet	-	n	-	-	n	-	-	N/A	-	3	y	3	3	y	3
A De Salis	2	y	2	2	y	2	-	N/A	-	-	n	-	-	n	-
S Herman	-	n	-	-	n	-	-	N/A	-	3	y	3	3	y	3
K Hodgson	2	y	2	-	n	-	-	N/A	-	3	y	3	3	y	3
J Milne	-	n	-	2	y	2	-	N/A	-	-	n	-	-	n	-
B Pollock	-	y	-	-	n	-	-	y	-	-	n	-	-	n	-
G Weaven	2	y	2	-	n	-	-	N/A	-	-	n	-	-	n	-

Disclosures by directors
The Board has established procedures for handling matters that may give rise to 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 retrenchment, 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 Class Order 98/0100, dated 10 July 1998, and in accordance with that Class Order amounts in the directors' report and 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, 3 September 2015

Deloitte.

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

3 September 2015

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 2015, 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 C. J. Gatt
Partner
Chartered Accountant

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Member of Deloitte Touche Tohmatsu Limited

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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 2015, 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 55.

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.

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Member of Deloitte Touche Tohmatsu Limited.

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 2015 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, 3 September 2015

Vivienne Tang
Partner
Chartered Accountants
Melbourne, 3 September 2015

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

Sally Herman

Director
Melbourne, 3 September 2015

Statement of profit or loss and other comprehensive income for the financial year ended 30 June 2015

	Notes	Consolidated 2015 $'000	Consolidated 2014 $'000	Company 2015 $'000	Company 2014 $'000
Interest and similar income	5	1,226,699	1,033,757	1,185,063	1,001,511
Interest and similar expense	5	(952,841)	(797,185)	(997,555)	(826,010)
Net interest income		273,858	236,572	187,508	175,501
Funds management fee income	5	16,805	25,612	28,921	36,285
Other operating income	5	69,112	1,447	125,729	48,605
Total net operating income		359,775	263,631	342,158	260,391
Expenses					
Operating expenses	5	220,206	196,754	217,190	194,343
Impairment losses	5	16,150	14,301	16,150	14,271
Project expenses	5	12,333	13,689	12,333	13,689
Total operating expenses		248,689	224,744	245,673	222,303
Profit before income tax		111,086	38,887	96,485	38,088
Income tax expense	6	31,363	10,722	26,472	10,037
Profit for the year		79,723	28,165	70,013	28,051
Other comprehensive income					
Items that will not be reclassified subsequently to profit or loss		-	-	-	-
Items that may be reclassfied subsequently to profit or loss					
Net fair value gain on available-for-sale financial assets, net of tax		(1,359)	794	(1,359)	794
Cash flow hedges - effective portion of changes in fair values, net of tax		(54,335)	-	(45,111)	-
Total comprehensive income for the year		24,029	28,959	23,543	28,845

Notes to the financial statements are included on pages 16 to 55.

Statement of financial position
as at 30 June 2015

		Consolidated		Company	
		2015	2014	2015	2014
	Notes	$'000	$'000	$'000	$'000
Assets					
Cash and cash equivalents	24(a)	360,902	360,414	185,780	144,055
Investments	7	2,904,722	2,461,801	2,841,169	2,456,825
Derivatives	16	15,452	10,019	15,375	9,561
Trade and other receivables	8	4,345	8,255	11,283	34,544
Loans and advances	9	17,769,834	14,916,724	17,836,185	14,970,740
Investment in controlled entities	10	-	-	102	102
Plant and equipment	12	34,244	35,602	34,244	35,602
Intangible assets	13	76,771	58,192	76,771	58,192
Deferred tax assets	6	33,927	19,336	33,925	19,335
Other assets	14	8,098	5,113	8,098	5,113
Total assets		21,208,295	17,875,456	21,042,932	17,734,069
Liabilities					
Amounts due to other financial institutions		2,620	30,897	1,556	32,491
Deposits and other borrowings	15	19,859,255	16,897,526	19,712,035	16,761,545
Derivatives	16	100,040	39,271	85,176	34,925
Trade and other payables	17	28,021	29,996	28,891	29,714
Current tax liabilities	6	826	12,343	-	11,744
Provisions	18	23,011	24,371	23,011	24,371
Subordinated debt	19	332,344	32,903	332,344	32,903
Total liabilities		20,346,117	17,067,307	20,183,013	16,927,693
Net assets		862,178	808,149	859,919	806,376
Equity					
Issued capital	20	729,995	699,995	729,995	699,995
Reserves	21	(31,709)	21,683	(22,485)	21,683
Retained earnings		163,892	86,471	152,409	84,698
Total equity		862,178	808,149	859,919	806,376
Book value per share		$ 84.94	$ 82.51		

Notes to the financial statements are included on pages 16 to 55.

Statement of changes in equity
for the financial year ended 30 June 2015

Consolidated

	Issued capital $'000	Retained Earnings $'000	General reserve for credit losses $'000	Investment revaluation reserve $'000	Cash flow hedges reserve $'000	Total $'000
Balance at 1 July 2013	570,101	69,511	3,874	5,810	-	649,296
Issue of share capital	129,894	-	-	-	-	129,894
Transfer to/(from) general reserve for credit losses	-	(11,205)	11,205	-	-	-
Other comprehensive income for the year	-	-	-	794	-	794
Profit for the year	-	28,165	-	-	-	28,165
Balance at 30 June 2014	699,995	86,471	15,079	6,604	-	808,149
Balance at 1 July 2014	699,995	86,471	15,079	6,604	-	808,149
Issue of share capital	30,000	-	-	-	-	30,000
Transfer to/(from) general reserve for credit losses	-	(2,302)	2,302	-	-	-
Other comprehensive income for the year	-	-	-	(1,359)	(54,335)	(55,694)
Profit for the year	-	79,723	-	-	-	79,723
Balance at 30 June 2015	729,995	163,892	17,381	5,245	(54,335)	862,178

Company

	Issued capital $'000	Retained Earnings $'000	General reserve for credit losses $'000	Investment revaluation reserve $'000	Cash flow hedges reserve $'000	Total $'000
Balance at 1 July 2013	570,101	67,852	3,874	5,810	-	647,637
Issue of share capital	129,894	-	-	-	-	129,894
Transfer to/(from) general reserve for credit losses	-	(11,205)	11,205	-	-	-
Other comprehensive income for the year	-	-	-	794	-	794
Profit for the year	-	28,051	-	-	-	28,051
Balance at 30 June 2014	699,995	84,698	15,079	6,604	-	806,376
Balance at 1 July 2014	699,995	84,698	15,079	6,604	-	806,376
Issue of share capital	30,000	-	-	-	-	30,000
Transfer to/(from) general reserve for credit losses	-	(2,302)	2,302	-	-	-
Other comprehensive income for the year	-	-	-	(1,359)	(45,111)	(46,470)
Profit for the year	-	70,013	-	-	-	70,013
Balance at 30 June 2015	729,995	152,409	17,381	5,245	(45,111)	859,919

Notes to the financial statements are included on pages 16 to 55.

Statement of cash flows
for the financial year ended 30 June 2015

	Notes	Consolidated 2015 $'000	Consolidated 2014 $'000	Company 2015 $'000	Company 2014 $'000
Cash flows from operating activities					
Profit before tax		111,086	38,887	96,485	38,088
Adjustments for:					
Change in operating assets	24(c)	(3,331,888)	(3,406,421)	(3,263,368)	(3,651,148)
Change in operating liabilities	24(d)	2,909,776	3,342,575	2,900,267	3,618,282
Non-cash items included in profit before tax	24(e)	52,100	38,728	48,216	38,699
Income tax payments		(33,603)	(15,137)	(32,892)	(15,136)
Net cash (used in)/provided by operating activities		(292,529)	(1,368)	(251,292)	28,785
Cash flows from investing activities					
Purchase of plant and equipment	12	(9,877)	(18,630)	(9,877)	(18,630)
Purchase of intangible assets	13	(26,548)	(32,982)	(26,548)	(32,982)
Purchase of residual units in unit trusts		-	-	-	-
Proceeds from sale of plant and equipment		-	2,331	-	2,331
Dividends received		-	-	-	1,500
Net cash used in investing activities		(36,425)	(49,281)	(36,425)	(47,781)
Cash flows from financing activities					
Net proceeds from issue of subordinated debt		299,442	-	299,442	-
Proceeds from issue of shares		30,000	129,894	30,000	129,894
Net cash provided by financing activities		329,442	129,894	329,442	129,894
Net increase in cash		488	79,245	41,725	110,898
Cash and cash equivalents at the beginning of the financial year		360,414	281,169	144,055	33,157
Cash and cash equivalents at the end of the financial year	24(a)	360,902	360,414	185,780	144,055

Notes to the financial statements are included on pages 16 to 55.

1 General information

Members Equity Bank Limited (the Company) is a public company incorporated in Australia. The address of the Company's registered office is 28th floor, 360 Elizabeth Street, Melbourne VIC 3000. The principal activities of the Company and its subsidiaries (the Group) are: funding, management, and servicing of residential, consumer, and commercial lending portfolios; provision of retail banking services under a banking licence; 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 a number of Australian Accounting Standards Board (AASB) amendments and a new Interpretation issued by AASB that are mandatorily effective for an accounting period that begins on or after 1 July 2014, and therefore relevant to the current year end.

AASB 2012-3 'Amendments to Australian Accounting Standards - Offsetting Financial Assets and Financial Liabilities'

The amendments to AASB 132 clarify the requirements relating to the offset of financial assets and financial liabilities. Specifically, the amendments clarify the meaning of 'currently has a legally enforceable right to set-off' and 'simultaneous realisation and settlement'.

The amendments have been applied retrospectively. The Group has assessed whether certain of its financial assets and financial liabilities qualify for offset based on the criteria set out in the amendments and concluded that the application of the amendments does not have any material impact on the amounts recognised in the Group's consolidated financial statements.

AASB 2013-3 'Amendments to AASB 136 - Recoverable Amount Disclosures for Non-Financial Assets'

The amendments to AASB 136 remove the requirement to disclose the recoverable amount of a cash-generating unit (CGU) to which goodwill or other intangible assets with indefinite useful lives had been allocated when there has been no impairment or reversal of impairment of the related CGU. Furthermore, the amendments introduce additional disclosure requirements applicable to when the recoverable amount of an asset or a CGU is measured at fair value less cost of disposal. These new disclosures include the fair value hierarchy, key assumptions and valuation techniques used which are in line with the disclosure required by AASB 13 'Fair Value Measurements'.

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

AASB 2014-1 'Amendments to Australian Accounting Standards' (Part A: Annual Improvements 2010 -2012 and 2011-2013 Cycles)

The Annual Improvements 2010-2012 has made a number of amendments to various AASBs, which are summarised below.

- The amendments to AASB 2 (i) change the definitions of 'vesting condition' and 'market condition'; and (ii) add definitions for 'performance condition' and 'service condition' which were previously included within the definition of 'vesting condition'. The amendments to AASB 2 are effective for share-based payment transactions for which the grant date is on or after 1 July 2014.
- The amendments to AASB 3 clarify that contingent consideration that is classified as an asset or a liability should be measured at fair value at each reporting date, irrespective of whether the contingent consideration is a financial instrument within the scope of AASB 9 or AASB 139 or a non-financial asset or liability. Changes in fair value (other than measurement period adjustments) should be recognised in profit and loss. The amendments to AASB 3 are effective for business combinations for which the acquisition date is on or after 1 July 2014.
- The amendments to AASB 8 (i) require an entity to disclose the judgements made by management in applying the aggregation criteria to operating segments, including a description of the operating segments aggregated and the economic indicators assessed in determining whether the operating segments have 'similar economic characteristics'; and (ii) clarify that a reconciliation of the total of the reportable segments' assets to the entity's assets should only be provided if the segment assets are regularly provided to the chief operating decision-maker.
- The amendments to the basis for conclusions of AASB 13 clarify that the issue of

2 Application of new and revised Accounting Standards (continued)

AASB 13 and consequential amendments to AASB 139 and AASB 9 did not remove the ability to measure short-term receivables and payables with no stated interest rate at their invoice amounts without discounting, if the effect of discounting is immaterial.

- The amendments to AASB 116 and AASB 138 remove perceived inconsistencies in the accounting for accumulated depreciation/amortisation when an item of property, plant and equipment or an intangible asset is revalued. The amended standards clarify that the gross carrying amount is adjusted in a manner consistent with the revaluation of the carrying amount of the asset and that accumulated depreciation/amortisation is the difference between the gross carrying amount and the carrying amount after taking into account accumulated impairment losses.
- The amendments to AASB 124 clarify that a management entity providing key management personnel services to a reporting entity is a related party of the reporting entity. Consequently, the reporting entity should disclose as related party transactions the amount incurred for the service paid or payable to the management entity for the provision of key management personnel services. However, disclosure of the components of such compensation is not required.

The Annual Improvements 2011-2013 has made a number of amendments to various AASBs, which are summarised below.

- The amendments to AASB 3 clarify that the standard does not apply to the accounting for the formation of all types of joint arrangements in the financial statements of the joint arrangement itself.
- The amendments to AASB 13 clarify that the scope of the portfolio exception for measuring the fair value of a group of financial assets and financial liabilities on a net basis includes all contracts that are within the scope of, and accounted for in accordance with, AASB 139 or AASB 9, even if those contracts do not meet the definitions of financial assets or financial liabilities within AASB 132.
- The amendments to AASB 140 clarify that AASB 140 and AASB 3 are not mutually exclusive and application of both standards may be required. Consequently, an entity acquiring investment property must determine whether:
  - the property meets the definition of investment property in terms of AASB 140; and
  - the transaction meets the definition of a business combination under AASB 3.

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

Interpretation 21 'Levies'

Interpretation 21 addresses the issue as to when to recognise a liability to pay a levy imposed by a government. The Interpretation defines a levy, and specifies that the obligating event that gives rise to the liability is the activity that triggers the payment of the levy, as identified by the legislation. The Interpretation provides guidance on how different levy arrangements should be accounted for, in particular, it clarifies that neither economic compulsion nor the going concern basis of financial statements preparation implies that an entity has a present obligation to pay a levy that will be triggered by operating in a future period.

Interpretation 21 has been applied retrospectively. The application of this interpretation does not have any material impact on the disclosures or on the amounts recognised in the Group's consolidated financial statements.

AASB 1031 'Materiality', AASB 2013-9 Amendments to Australian Accounting Standards' - Conceptual Framework, Materiality and Financial Instruments' (Part B: Materiality), AASB 2014-1 Amendments to Australian Accounting Standards' (Part C: Materiality)

The revised AASB 1031 is an interim standard that cross-references to other Standards and the 'Framework for the Preparation and Presentation of Financial Statements' (issued December 2013) that contain guidance on materiality. The AASB is progressively removing references to AASB 1031 in all Standards and Interpretations. Once all of these references have been removed, AASB 1031 will be withdrawn. The adoption of AASB 1031, AASB 2013-9 (Part B) and AASB 2014-1 (Part C) does not have any material impact on the disclosures or the amounts recognised in the Group's consolidated financial statements.

2 Application of new and revised Accounting Standards (continued)

(ii) Standards and Interpretations in issue not yet adopted
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 assess the impact of these Standards and Interpretations on its 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 (i)	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'	1 January 2017	30 June 2018
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 2015-3 'Amendments to Australian Accounting Standards arising from the Withdrawal of AASB 1031 'Materiality'	1 July 2015	30 June 2016

(i) The AASB has issued the following versions of AASB 9 and the relevant amending standards;
- AASB 9 'Financial Instruments' (December 2009) and the relevant amending standards;
- AASB 9 'Financial Instruments' (December 2010) and the relevant amending standards;
- AASB 2013-9 'Amendment to Australian Accounting Standards - Conceptual Framework, Materiality and Financial Instruments', Part C - Financial Instruments
- AASB 9 'Financial Instruments' (December 2014) and the relevant amending standards.

All the standards have an effective date of annual reporting periods beginning on or after 1 January 2018. Either AASB 9 (December 2009) or AASB 9 (December 2010) can be early adopted if the initial application date is before 1 February 2015. After this date only AASB 9 (December 2014) can be early adopted.

At the date of authorisation of the financial statements, the following IASB Standards and IFRIC 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

At the date of publication, there have been no IASB Standards or IFRIC Interpretations that are issued but not yet effective.

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. 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 3 September 2015.

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 Class Order 98/100, dated 10 July 1998, and in accordance with that Class Order 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.

(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.

<u>Subsidiaries</u>
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.

<u>Loss of control</u>
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.

<u>Transactions eliminated on consolidation</u>
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.

3 Significant accounting policies (continued)

(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.

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 it 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.

3 Significant accounting policies (continued)

(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.

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 finance 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.

3 Significant accounting policies (continued)

<u>Impairment of financial assets</u>
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 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 and equipment
Plant and 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 property, 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

3 Significant accounting policies (continued)

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

All intangible assets must be 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 (4)).

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 developing internally developed software by the Group that are not core banking software. These are 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 classfied 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 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.

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

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

3 Significant accounting policies (continued)

Termination benefit
A liability for a termination benefit is recognised at the earlier of when the entity 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 throught profit or loss, transaction costs that are directly attributable to its acquisition or issue. The Group classifies its financial liabilities, other than loan commitments, as measured at amortised cost or fair value through profit or loss.

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

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.

3 Significant accounting policies (continued)

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.

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.

Determination of control over investees

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

Securitisation vehicle

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

Outside the day-to-day servicing of the housing loans (which is carried out by the Group under a servicing contract), key decisions are usually required only when housing loans in the vehicles go into default. Therefore, in considering whether it has control, the Group considers whether it manages the key decisions that most signficantly 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 vehicles, 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)).

4 Use of judgements and estimates (continued)

Fair value of financial instruments

Management uses 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	
	2015	2014	2015	2014
	$'000	$'000	$'000	$'000
The profit before income tax expense includes the following items of revenue and expense:				
Interest and similar income				
Deposits with other financial institutions	6,333	8,756	3,292	3,101
Loans and advances	832,289	739,973	835,221	739,590
Investment securities	83,896	65,802	80,305	63,851
	922,518	814,531	918,818	806,542
Interest rate swap contracts	304,181	219,226	266,245	194,969
	1,226,699	1,033,757	1,185,063	1,001,511
Interest and similar expense				
Deposits and other borrowings	598,605	553,555	686,982	613,373
Subordinated borrowings	15,578	2,029	15,578	2,029
	614,183	555,584	702,560	615,402
Interest rate swap contracts	338,658	241,601	294,995	210,608
	952,841	797,185	997,555	826,010
Funds management fee income	16,805	25,612	28,921	36,285
Other operating income				
Fee income	32,012	25,756	30,359	24,166
Other income	3,535	2,150	3,488	2,149
Cumulative gains reclassified from equity on disposal of available-for-sale investments	5,417	1,000	5,205	1,000
Net foreign exchange loss	-	(8)	-	(8)
Fair value movement in derivatives	28,148	(27,451)	25,746	(30,825)
Distribution from unit trusts	-	-	59,231	50,623
Dividend income from subsidiary	-	-	1,700	1,500
	69,112	1,447	125,729	48,605
Operating expenses				
Staff and related costs	112,482	106,032	112,482	106,032
General administrative expenses	65,998	57,301	62,982	54,890
Transaction fee expenses	8,825	6,738	8,825	6,738
Depreciation and amortisation of:				
- Plant and equipment	11,235	7,828	11,235	7,828
- Intangibles	7,969	4,161	7,969	4,161
Loss on disposal of plant and equipment	-	30	-	30
Loss on disposal of computer software	-	1,445	-	1,445
Operating lease rental expenses	13,697	13,219	13,697	13,219
	220,206	196,754	217,190	194,343
Impairment losses				
Loans and advances (refer to Note 9)	15,851	14,111	15,851	14,081
Overdrawn savings accounts	299	190	299	190
	16,150	14,301	16,150	14,271
Project expenses				
Change and maintenance program	6,548	6,954	6,548	6,954
Transformation program	3,192	3,778	3,192	3,778
Strategic Priorities	2,593	2,957	2,593	2,957
	12,333	13,689	12,333	13,689

6 Income taxes

	Consolidated		Company	
	2015	2014	2015	2014
	$'000	$'000	$'000	$'000
Income tax recognised in profit or loss				
Tax expense comprises:				
Current tax expense	24,100	22,041	23,161	21,359
Adjustment recognised in the current year in relation to the current tax of prior years	(2,014)	(985)	(2,014)	(985)
Deferred tax expense/(income) relating to the origination and reversal of temporary differences	9,277	(10,334)	5,325	(10,337)
Total tax expense	31,363	10,722	26,472	10,037
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	111,086	38,887	96,485	38,088
Income tax expense calculated at 30%	33,326	11,666	28,945	11,426
Effect of expenses/(income) that are not deductible/(assessable) in determining taxable profit	51	41	(459)	(404)
	33,377	11,707	28,486	11,022
Adjustment recognised in the current year in relation to the current tax of prior years	(2,014)	(985)	(2,014)	(985)
Income tax expense recognised in profit or loss	31,363	10,722	26,472	10,037

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	
	2015	2014	2015	2014
	$'000	$'000	$'000	$'000
Deferred tax				
Revaluations of available-for-sale financial assets	582	(340)	582	(340)
Cash flow hedges	23,286	-	19,333	-
	23,868	(340)	19,915	(340)
Current tax liabilities				
Income tax payable	826	12,343	-	11,744

6 Income taxes (continued)

Deferred tax assets

	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	195	86	-	281
	19,336	(9,277)	23,868	33,927

	Consolidated			
	Opening balance $'000	Recognised in profit or loss $'000	Recognised in OCI $'000	Closing balance $'000
2014				
Temporary differences				
Accrued expenses	452	(232)	-	220
Provisions	5,902	923	-	6,825
Plant and equipment and intangibles	58	(1,287)	-	(1,229)
Finance leases	(95)	88	-	(7)
Available-for-sale financial assets	(2,490)	-	(340)	(2,830)
Derivatives	2,723	8,258	-	10,981
Cash flow hedges	-	-	-	-
Impairment allowance	3,565	1,616	-	5,181
Other	(773)	968	-	195
	9,342	10,334	(340)	19,336

	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
Other financial liabilities	-	-	-	-
Impairment allowance	5,181	1,568	-	6,749
Other	195	86	-	281
Temporary differences relating to the securitisation trusts	1,086	3,233	-	4,319
	19,335	(5,325)	19,915	33,925

6 Income taxes (continued)

	Company			
	Opening balance $'000	Recognised in profit or loss $'000	Recognised in OCI $'000	Closing balance $'000
2014				
Temporary differences				
Accrued expenses	447	(228)	-	219
Provisions	5,902	923	-	6,825
Plant and equipment and intangibles	59	(1,287)	-	(1,228)
Finance leases	(95)	88	-	(7)
Available-for-sale financial assets	(2,490)	-	(340)	(2,830)
Derivatives	647	9,247	-	9,894
Cash flow hedges	-	-	-	-
Other financial liabilities	(22)	22	-	-
Impairment allowance	3,565	1,616	-	5,181
Other	(773)	968	-	195
Temporary differences relating to the securitisation trusts	2,098	(1,012)	-	1,086
	9,338	10,337	(340)	19,335

7 Investments

	Consolidated 2015 $'000	Consolidated 2014 $'000	Company 2015 $'000	Company 2014 $'000
At fair value:				
Available-for-sale investments				
Treasury notes and semi-government securities	597,657	796,612	597,657	796,612
Bank bills	767,835	367,651	704,282	362,675
Corporate fixed rate notes	98,734	256,749	98,734	256,749
Corporate floating rate notes	1,426,203	1,015,447	1,426,203	1,015,447
Mortgage backed securities	14,293	25,342	14,293	25,342
	2,904,722	2,461,801	2,841,169	2,456,825

8 Trade and other receivables

	Consolidated 2015 $'000	Consolidated 2014 $'000	Company 2015 $'000	Company 2014 $'000
Amounts receivable from related parties:				
Subsidiary (i)	-	-	1,299	2,602
Management fee income receivable (please see Note 11)	1,015	2,406	-	-
Interest receivable	248	485	175	121
Other receivables (ii)	3,082	5,364	9,809	31,821
	4,345	8,255	11,283	34,544

(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 are non-interest bearing and are generally receivable on demand.

9 Loans and advances

	Consolidated 2015 $'000	Consolidated 2014 $'000	Company 2015 $'000	Company 2014 $'000
Credit cards	121,402	120,734	121,402	120,734
Personal loans	228,456	219,426	228,456	219,426
Residential home loans	17,172,957	14,264,993	17,172,957	14,264,993
Commercial loans	135,966	146,949	202,317	200,965
Asset finance				
Finance Lease	32,675	50,996	32,675	50,996
Hire Purchase	47,591	72,004	47,591	72,004
Chattel Mortgage	67,759	82,253	67,759	82,253
	17,806,806	14,957,355	17,873,157	15,011,371
Less:				
Unearned asset finance income	(14,562)	(23,395)	(14,562)	(23,395)
Allowance for impairment losses	(22,410)	(17,236)	(22,410)	(17,236)
	17,769,834	14,916,724	17,836,185	14,970,740
<u>Movement in allowance for impairment of loans and advances</u>				
Balance at the beginning of the year	17,236	12,852	17,236	12,852
Amounts written off as uncollectible during the year	(13,375)	(11,825)	(13,375)	(11,795)
Amounts recovered during the year	2,698	2,098	2,698	2,098
Allowance for Impairment losses recognised during the year	15,851	14,111	15,851	14,081
Balance at the end of the year	22,410	17,236	22,410	17,236
Individual impairment	5,723	1,372	5,723	1,372
Collective impairment	16,687	15,864	16,687	15,864
	22,410	17,236	22,410	17,236

10 Investment in controlled entities

	Consolidated 2015 $'000	Consolidated 2014 $'000	Company 2015 $'000	Company 2014 $'000
Investment at cost	-	-	102	102

10 Investment in controlled entities (continued)

The controlled entities of the Company are:

		Country of incorporation	Ownership interest 2015	Ownership interest 2014
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 2011-2	(ii) (iii)	Australia	0%	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%	0%
SMHL Series Private Placement 2014-2	(ii)	Australia	100%	0%
SMHL Series Securitisation Fund 2015-1	(ii)	Australia	100%	0%
SMHL Global Fund No.8 (iv)	(iv)	Australia	0%	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.
(iii) The trust ceased operations on 31 March 2014.
(iv) The company holds the residual income units indirectly through its subsidiary. The trust ceased operations on 20 March 2014.

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 2015 $'000	Trade & other receivables 2014 $'000
Securitisation trusts for housing loans	808	2,067
Managed fund	207	339
	1,015	2,406

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

	2015	2014
Fee income earned from securitisation trusts	15,880	23,950
Fee income earned from managed fund	925	1,662
	16,805	25,612

12 Plant and equipment

	Consolidated and Company			
	Computer equipment $'000	Furniture & equipment $'000	Motor vehicles $'000	Total $'000
Gross carrying amount				
Balance at 1 July 2013	9,010	28,482	1,337	38,829
Additions	7,444	11,186	-	18,630
Disposals	(1,747)	(1,780)	(1,337)	(4,864)
Balance at 30 June 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
Accumulated depreciation				
Balance at 1 July 2013	1,777	8,939	953	11,669
Depreciation expense	2,506	5,204	118	7,828
Disposals	(474)	(959)	(1,071)	(2,504)
Balance at 30 June 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
Net book value				
As at 30 June 2014	10,898	24,704	-	35,602
As at 30 June 2015	12,656	21,588	-	34,244

13 Intangible assets

	Consolidated and Company		
	Core banking software $'000	Other software $'000	Total $'000
Gross carrying amount			
Balance at 1 July 2013	22,150	27,861	50,011
Additions	28,783	4,199	32,982
Disposal	-	(1,531)	(1,531)
Balance at 30 June 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
Accumulated amortisation			
Balance at 1 July 2013	1,470	17,724	19,194
Amortisation expenses	1,301	2,860	4,161
Disposal	-	(85)	(85)
Balance at 30 June 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
Net book value			
As at 30 June 2014	48,162	10,030	58,192
As at 30 June 2015	63,468	13,303	76,771

13 Intangible assets (continued)

During the 2015 financial year, the Group completed its core banking modernisation upgrade under the banner of the 'Transformation Project'. In June 2015, 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 2015 financial year.

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 Company's fair value of issued share capital, net of selling costs.

The use of the Company'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 Company was taken from an independent valuation report with an effective date of 30 June 2015. 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	$293m

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 possible changes in these assumptions would not cause the recoverable amount of intangible assets to decline below the carrying amount.

14 Other assets

	Consolidated		Company	
	2015	2014	2015	2014
	$'000	$'000	$'000	$'000
Prepayments	8,098	5,113	8,098	5,113

15 Deposits and other borrowings

	Consolidated		Company	
	2015	2014	2015	2014
	$'000	$'000	$'000	$'000
Unsecured - at amortised cost				
Retail customer deposits	3,355,806	3,127,333	3,355,806	3,127,333
Business customer deposits	1,231,222	1,252,246	1,231,222	1,252,246
Superannuation banking deposits	426,929	420,968	426,929	420,968
Advised and corporate deposits	3,821,953	3,370,461	3,821,953	3,370,461
Institutional borrowings	4,528,279	3,528,000	4,528,279	3,528,000
Treasury borrowings	544,392	550,035	544,392	550,035
Medium term notes (i)	998,279	813,932	998,279	813,932
Other borrowings	986	1,634	985	1,633
	14,907,846	13,064,609	14,907,845	13,064,608
Secured - at amortised cost				
Mortgage backed securities (ii)	4,951,409	3,832,917	-	-
Liabilities to the securitisation trusts (iii)	-	-	4,804,190	3,696,937
	4,951,409	3,832,917	4,804,190	3,696,937
Total deposits and other borrowings	19,859,255	16,897,526	19,712,035	16,761,545

15 Deposits and other borrowings (continued)

(i) Of the $995,000,000 floating rate notes:
- $20,000,000 is due in the first half of the the 2016 financial year;
- $200,000,000 is due in the second half of the 2016 financial year;
- $325,000,000 is due in the first half of the 2017 financial year;
- $200,000,000 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.

(iii) Liabilities to the securitisation trusts represent the residential home loans that are securitised into the SPEs 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 2015 is $nil (2014: $nil).

In addition, the Group has pledged cash collateral under the terms of the International Swaps and Derivatives Association (ISDA) Collateral Guidelines. As at 30 June 2015, the Group has pledged cash collateral to the value of $101,620,000 (2014: $22,090,000).

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	
	2015 %	2014 %	2015 $'000	2014 $'000	2015 $'000	2014 $'000	2015 $'000	2014 $'000
Consolidated								
Less than 1 year	2.94	-	1,926,050	-	-	-	11,306	-
1 to 2 years	3.06	-	4,172,950	-	-	-	64,028	-
2 years +	2.49	-	3,531,000	-	5,380	-	24,706	-
			9,630,000	-	5,380	-	100,040	-
Company								
Less than 1 year	3.01	-	1,249,850	-	-	-	7,807	-
1 to 2 years	3.10	-	3,490,000	-	-	-	56,101	-
2 years +	2.48	-	3,255,000	-	5,380	-	21,268	-
			7,994,850	-	5,380	-	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.

16 Derivatives (continued)

Held-for-trading

	Average contracted fixed interest rate		Notional principal value		Fair value asset		Fair value liability	
	2015 %	2014 %	2015 $'000	2014 $'000	2015 $'000	2014 $'000	2015 $'000	2014 $'000
Consolidated								
Less than 1 year	2.94	3.59	4,018,755	690,455	10,072	6	-	3,267
1 to 2 years	-	2.81	-	5,766,801	-	10,013	-	8,875
2 years +	-	3.10	-	3,705,950	-	-	-	27,129
			4,018,755	10,163,206	10,072	10,019	-	39,271
Company								
Less than 1 year	3.01	3.56	4,000,000	349,500	9,995	-	-	1,993
1 to 2 years	-	2.79	-	5,349,850	-	9,561	-	7,027
2 years +	-	3.11	-	3,490,000	-	-	-	25,905
			4,000,000	9,189,350	9,995	9,561	-	34,925

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	
	2015 $'000	2014 $'000	2015 $'000	2014 $'000
Creditors and accruals	12,678	16,979	12,516	16,806
Other payables	15,343	13,017	16,375	12,908
	28,021	29,996	28,891	29,714

18 Provisions

	Consolidated		Company	
	2015 $'000	2014 $'000	2015 $'000	2014 $'000
Employee benefits (i)	20,646	19,269	20,646	19,269
Restructuring provision	628	3,703	628	3,703
Other provisions (ii)	1,737	1,399	1,737	1,399
	23,011	24,371	23,011	24,371

(i) Employee benefits are expected to be settled within a year with the exception of provisions for long service leave which amounted to $6,396,000 (2014: $6,370,000).

(ii) Other provisions predominantly relate to the make good provision for all rental premises of ME Bank offices throughout Australia.

19 Subordinated debt

Floating rate notes	332,344	32,903	332,344	32,903

- 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.

19 Subordinated debt (continued)

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

	Consolidated		Company	
	2015	2014	2015	2014
	$'000	$'000	$'000	$'000
19 December 2022 (i)	33,000	33,000	33,000	33,000
29 August 2024 (ii)	300,000	-	300,000	-
	333,000	33,000	333,000	33,000

(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

10,150,594 fully paid ordinary shares (2014: 9,794,206)	729,995	699,995	729,995	699,995

	2015		2014	
	No.	$'000	No.	$'000
Movement in issued capital of fully paid shares				
Beginning of the financial year	9,794,206	699,995	8,282,750	570,101
Issue of new shares	356,388	30,000	1,511,456	129,894
End of the financial year	10,150,594	729,995	9,794,206	699,995

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

21 Reserves

	Consolidated		Company	
	2015	2014	2015	2014
	$'000	$'000	$'000	$'000
Investment revaluation reserve	5,245	6,604	5,245	6,604
General reserve for credit losses	17,381	15,079	17,381	15,079
Cash flow hedge reserve	(54,335)	-	(45,111)	-
	(31,709)	21,683	(22,485)	21,683

<u>Investment revaluation reserve</u>
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.

<u>General reserve for credit losses</u>
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.

<u>Cash flow hedge reserve</u>
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 (2014: $nil). The directors do not recommend the payment of a dividend in respect of the year ended 30 June 2015.

	Company	
	2015	2014
	$'000	$'000
Adjusted franking account balance (i)	57,627	51,674

(i) From 1 July 2011, the Company and its subsidiary have formed a new 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	
	2015	2014	2015	2014
	$'000	$'000	$'000	$'000
(a) Undrawn credit				
Residential home loans	311,915	271,936	311,915	271,936
Credit cards	433,306	369,012	433,306	369,012
Personal loans	232	164	232	164
Commercial loans	286	285	286	285
	745,739	641,397	745,739	641,397

(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	
	2015	2014	2015	2014
	$'000	$'000	$'000	$'000
Non-cancellable operating lease commitments				
Not longer than 1 year	10,929	11,660	10,929	11,660
Longer than 1 year but not longer than 5 years	31,372	32,486	31,372	32,486
Longer than 5 years	6,456	14,026	6,456	14,026
	48,757	58,172	48,757	58,172

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	
	2015	2014	2015	2014
	$'000	$'000	$'000	$'000
Cash at bank	119,316	55,329	29,097	21,944
Deposits at call	241,586	305,085	156,683	122,111
	360,902	360,414	185,780	144,055

	Consolidated		Company	
	2015	2014	2015	2014
(b) Cash balance not available for use in (a)				
First Home Owners Grants held on behalf of customers	252	204	252	204
Cash at bank and deposits at call within securitisation trusts (i)	175,122	190,554	-	-
	175,374	190,758	252	204

(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		Company	
	2015	2014	2015	2014
(c) Change in operating assets				
Investments	(442,921)	(1,015,048)	(384,344)	(1,010,072)
Derivatives assets	(5,433)	3,511	(5,814)	2,897
Trade and other receivables	3,910	(906)	23,261	(14,916)
Loans and advances	(2,882,518)	(2,393,190)	(2,891,545)	(2,628,438)
Other assets	(2,985)	(1,753)	(2,985)	(1,753)
Movement in other comprehensive income before income tax - available-for-sale financial assets	(1,941)	965	(1,941)	1,134
	(3,331,888)	(3,406,421)	(3,263,368)	(3,651,148)
(d) Change in operating liabilities				
Amounts due to other financial institutions	(28,278)	27,639	(30,934)	27,868
Deposits and other borrowings	2,958,241	3,292,330	2,947,577	3,563,928
Derivatives liabilities	60,769	22,526	50,251	26,424
Trade and other payables	(1,975)	(4,297)	(823)	(4,315)
Provisions	(1,360)	4,542	(1,360)	4,542
Subordinated debt	-	(165)	-	(165)
Movement in other comprehensive income before income tax - cash flow hedges	(77,621)	-	(64,444)	-
	2,909,776	3,342,575	2,900,267	3,618,282
(e) Non-cash items included in profit before tax				
Depreciation of plant and equipment	11,235	7,828	11,235	7,828
Amortisation of intangible assets	7,969	4,161	7,969	4,161
Loss on disposal of plant and equipment, and computer software	-	1,475	-	1,475
Impairment losses	16,150	14,301	12,939	14,271
Amortisation of capitalised transaction costs	16,746	10,963	16,073	10,964
	52,100	38,728	48,216	38,699
(f) Operating cash flows from interest				
Interest received	1,259,345	1,046,216	1,216,031	1,016,115
Interest paid	930,119	775,608	659,672	810,107

25 Financial instruments

	Consolidated		Company	
	2015 $'000	2014 $'000	2015 $'000	2014 $'000
(a) Categories of financial instruments				
Financial assets				
Cash and cash equivalents	360,902	360,414	185,780	144,055
Available-for-sale financial assets	2,904,722	2,461,801	2,841,169	2,456,825
Fair value through profit or loss (FVTPL):				
Derivatives held for trading	3,299	10,019	3,558	9,561
Derivative instruments in designated hedge accounting relationship	12,153	-	11,817	-
Loans and receivables:				
Trade and other receivables	4,345	8,255	11,283	34,544
Net loans and advances	17,769,834	14,916,724	17,836,185	14,970,740
Financial liabilities				
Fair value through profit or loss (FVTPL):				
Derivatives held for trading	-	39,271	-	34,925
Derivative instruments in designated hedge accounting relationship	100,040	-	85,176	-
Amortised cost:				
Amounts due to other financial institutions	2,620	30,897	1,556	32,491
Deposits and other borrowings	19,859,255	16,897,526	19,712,035	16,761,545
Trade and other payables	28,021	29,996	28,891	29,714
Subordinated debt	332,344	32,903	332,344	32,903

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. Availibility 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**
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				
Financial liabilities at fair value through profit and loss				
Derivatives	-	-	-	-
Derivative instruments in designated hedge accounting relationship				
Interest rate swaps	-	100,040	-	100,040

	Consolidated			
	Level 1	**Level 2**	**Level 3**	**Total**
	$'000	**$'000**	**$'000**	**$'000**
2014				
Assets				
Financial assets at fair value through profit and loss				
Derivatives	-	10,019	-	10,019
Derivative instruments in designated hedge accounting relationship				
Interest rate swaps	-	-	-	-
Available-for-sale financial assets				
Treasury notes and semi-government securities	-	796,612	-	796,612
Bank bills	-	367,651	-	367,651
Corporate fixed rate notes	-	256,749	-	256,749
Corporate floating rate notes	-	1,015,447	-	1,015,447
Mortgage backed securities	-	25,342	-	25,342
Total	-	2,461,801	-	2,461,801
Liabilities				
Financial liabilities at fair value through profit and loss				
Derivatives	-	39,271	-	39,271
Derivative instruments in designated hedge accounting relationship				
Interest rate swaps	-	-	-	-

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**
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				
Financial liabilities at fair value through profit and loss				
Derivatives	-	-	-	-
Derivative instruments in designated hedge accounting relationship				
Interest rate swaps	-	85,176	-	85,176

	Company			
	Level 1	**Level 2**	**Level 3**	**Total**
	$'000	**$'000**	**$'000**	**$'000**
2014				
Assets				
Financial assets at fair value through profit and loss				
Derivatives	-	9,561	-	9,561
Derivative instruments in designated hedge accounting relationship				
Interest rate swaps	-	-	-	-
Available-for-sale financial assets				
Treasury notes and semi-government securities	-	796,612	-	796,612
Bank bills	-	362,675	-	362,675
Corporate fixed rate notes	-	256,749	-	256,749
Corporate floating rate notes	-	1,015,447	-	1,015,447
Mortgage backed securities	-	25,342	-	25,342
Total	-	2,456,825	-	2,456,825
Liabilities				
Financial liabilities at fair value through profit and loss				
Derivatives	-	34,925	-	34,925
Derivative instruments in designated hedge accounting relationship				
Interest rate swaps	-	-	-	-

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:

	Book Value	Consolidated Level 1	Level 2	Level 3	Total
	$'000	$'000	$'000	$'000	$'000
2015					
Financial assets					
Net loans and advances (i)	17,769,834	-	17,877,674	-	17,877,674
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
2014					
Financial assets					
Net loans and advances (i)	14,916,724	-	15,024,606	-	15,024,606
Financial liabilities					
Deposits and other borrowings:					
- Medium term notes (ii)	813,932	-	816,463	-	816,463
Subordinated debt (ii)	32,903	-	34,419	-	34,419

	Book Value	Company Level 1	Level 2	Level 3	Total
	$'000	$'000	$'000	$'000	$'000
2015					
Financial assets					
Net loans and advances (i)	17,836,185	-	17,944,024	-	17,944,024
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
2014					
Financial assets					
Net loans and advances (i)	14,970,740	-	15,078,622	-	15,078,622
Financial liabilities					
Deposits and other borrowings:					
- Medium term notes (ii)	813,932	-	816,463	-	816,463
Subordinated debt (ii)	32,903	-	34,419	-	34,419

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 approved an updated Risk Management Framework specifically for the management of strategic, credit, market, liquidity and operational risk. It describes the key high-level control principles for the Group in a manner that is appropriate to business needs.

This framework is designed to promote better practice and compliance with applicable regulatory requirements. It also provides for the consistent and systematic identification, assessment, treatment and reporting of identified risks, as well as the application of relevant management policies and control limits across each risk discipline.

Managing risk this way:
- provides a structured approach to assess opportunities for policy and process enhancements which can lead to better customer service and improved business processes; and
- assists in ensuring that the Group remains profitable by:
  - minimising the potential of an adverse impact on organisational objectives;
  - enabling the Group to set appropriate prices for its products or its required returns to take account of losses that will occur from time to time; and
  - facilitating more informed decision making taking into consideration the associated risks.

The Group's goals, objectives, values, policies and strategies and how the organisation contributes to these are also important considerations. These considerations help define the criteria by which decisions are made on the acceptability or otherwise of risks and form the basis of controls and management options available.

The following Management Committees have been established to assist the Board and its Committees to oversee implementation of these policies and the underlying risk management frameworks as well as setting appropriate risk parameters and control limits:
- Credit Risk Committee;
- Asset and Liability Committee; and
- Operational Risk and Compliance Committee.

Additionally, these committees ensure management monitor, limit, and promote compliance with the limits set within the Board approved Risk Appetite Statement.

(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
2015					
Available-for-sale financial assets	2,904,722	-	-	-	2,904,722
Trade and other receivables	-	4,345	-	-	4,345
Loans and advances	-	17,167,383	619,138	5,723	17,792,244
	2,904,722	17,171,728	619,138	5,723	20,701,311
2014					
Available-for-sale financial assets	2,461,801	-	-	-	2,461,801
Trade and other receivables	-	8,255	-	-	8,255
Loans and advances	-	14,497,703	433,160	3,097	14,933,960
	2,461,801	14,505,958	433,160	3,097	17,404,016

	Company				
	Neither past due nor impaired				
	Investment grade $'000	Unrated $'000	Past due but not impaired $'000	Impaired $'000	Total $'000
2015					
Available-for-sale financial assets	2,841,169	-	-	-	2,841,169
Trade and other receivables	-	11,283	-	-	11,283
Loans and advances	-	17,233,734	619,138	5,723	17,858,595
	2,841,169	17,245,017	619,138	5,723	20,711,047
2014					
Available-for-sale financial assets	2,456,825	-	-	-	2,456,825
Trade and other receivables	-	34,544	-	-	34,544
Loans and advances	-	14,551,719	433,160	3,097	14,987,976
	2,456,825	14,586,263	433,160	3,097	17,479,345

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
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

	Consolidated and Company				
	< 30 days $'000	31 - 60 days $'000	61 - 90 days $'000	> 90 days $'000	Total $'000
2014					
Net loans and advances					
Credit cards	8,043	1,923	1,848	-	11,814
Personal loans	6,642	3,249	2,087	-	11,978
Residential home loans	240,114	59,054	39,233	70,967	409,368
	254,799	64,226	43,168	70,967	433,160

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 2013	2,600	5,767	3,006	458	1,021	52	12,904
Impairment allowance	2,270	8,024	2,214	89	1,514	190	14,301
Balances written off	(3,692)	(6,390)	(441)	-	(1,302)	(197)	(12,022)
Amounts recovered	1,201	758	-	138	1	6	2,104
Balance 30 June 2014	2,379	8,159	4,779	685	1,234	51	17,287
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

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 2013	2,600	5,767	3,006	458	1,021	52	12,904
Impairment allowance	2,270	8,024	2,184	89	1,514	190	14,271
Balances written off	(3,692)	(6,390)	(411)	-	(1,302)	(197)	(11,992)
Amounts recovered	1,201	758	-	138	1	6	2,104
Balance 30 June 2014	2,379	8,159	4,779	685	1,234	51	17,287
Balance 1 July 2014	2,379	8,159	4,779	685	1,234	51	17,287
Impairment allowance	4,029	5,270	3,413	(196)	3,334	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	3,435	7,931	7,995	489	2,560	87	22,497

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 2015	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 International Swaps and Derivatives Association (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 2015, 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 event (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
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
2014					
Amounts due to other financial institutions	30,897	-	-	-	-
Deposits and other borrowings	3,104,003	6,505,337	3,502,725	3,979,272	839,263
Trade payables	-	29,996	-	-	-
Subordinated debt	-	520	1,535	41,210	-
Net settled:					
Interest rate swaps (cash flow hedges)	-	-	-	-	-
Interest rate swaps (held-for-trading)	-	(7,210)	(18,875)	(28,329)	-
Total undiscounted cash flows	3,134,900	6,528,643	3,485,385	3,992,153	839,263

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
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
2014					
Amounts due to other financial institutions	32,491	-	-	-	-
Deposits and other borrowings	3,104,003	6,311,852	2,925,683	1,038,756	2
Trade payables	-	29,714	-	-	-
Subordinated debt	-	520	1,535	41,210	-
Net settled:					
Interest rate swaps (cash flow hedges)	-	-	-	-	-
Interest rate swaps (held-for-trading)	-	(6,678)	(18,261)	(28,035)	-
Total undiscounted cash flows	3,136,494	6,335,408	2,908,957	1,051,931	2

(c) Market risk

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

Interest rate risk

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

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

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

Interest rate sensitivity analysis

The following table details the sensitivity of the Group's forecast 1 year pre tax NII and MVE to a 2% parallel shock in forward interest rates. NII measures do not take into account the potential impact of market movements on profit and loss due to the mark to market treatment of those financial assets and liabilities carried at fair value through profit or loss at reporting date.

MVE sensitivity was calculated using a 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 2015	40,341	(38,994)	13,071	(10,785)
30 June 2014	29,290	(29,370)	(15,437)	16,493

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 (2013: $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 (ALCO) 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 Members Equity Bank Pty Limited, SMHL Series 2008-1 Fund, and SMHL Series Private Placement 2014-2; and
- Level 2 includes Members Equity Bank Pty Limited, 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.

Securitisation deconsolidation principle

Where an ADI (or a member of its level 2 consolidated group) participates in a securitisation that meets APRA's operational requirements for regulatory capital relief under Prudential Standard APS 120 Securitisation, the special purpose vehicle (SPV) 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	
	2015	2014
	%	%
Risk weighted capital adequacy ratios		
Tier 1	9.8	10.8
Tier 2	5.0	1.1
Total capital ratio	14.8	11.9

The internal capital adequacy ratio set by the Board remained at 11.5% during the financial year ended 30 June 2015 (2014: 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

B Fraser (Chairman)	(retired 5 February 2015)
G Weaven (Chairman)	(appointed 6 February 2015)
C Christian	
G Combet	(appointed 7 November 2014)
A De Salis	
S Herman	
K Hodgson	
J Milne	
B Pollock	(retired 6 November 2014)

Key management personnel

J McPhee	Chief Executive Officer
A Aboud	Chief Operating Officer (until 28 May 2015), Chief Change Officer (appointed 29 May 2015)
A Beck	Group Executive, Industry Affairs
C Cataldo	Chief Risk Officer (appointed 21 July 2014)
G Dickson	Chief Financial Officer
M Gay	Chief Information Officer (appointed 27 January 2015)
K Hawkins	Chief Information Officer (resigned 28 November 2014)
R James	Chief Marketing Officer
A Middleton	Group Executive, Sales (appointed 4 July 2014)
C Ralston	Chief Operating Officer (appointed 29 May 2015)
F Ryan	Group Executive, People Experience (resigned 19 June 2015)

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	
	2015	2014
	$	$
Key management personnel		
Short term benefits	5,009,353	4,299,062
Other long term benefits	210,880	421,760
Termination benefits	-	1,437,208
Total key management personnel compensation	5,220,233	6,158,030

28 Director and key management personnel compensation (continued)

(c) Aggregate compensation made to directors

Board schedule of fees of The Company

	Company 2015 $	Company 2014 $
Chair of the Board	168,000	155,456
Member of the Board	84,000	77,727
Audit, Risk and Governance Committee (disestablished on 31 December 2014)		
Chair of the committee	-	17,500
Committee member	-	8,750
Audit and Governance Committee (established on 1 January 2015)		
Chair of the committee	13,500	-
Committee member	6,750	-
Risk and Compliance Committee (established on 1 January 2015)		
Chair of the committee	13,500	-
Committee member	6,750	-
People and Remuneration Committee		
Chair of the committee	13,500	12,500
Committee member	6,750	6,250
Technology Committee		
Chair of the committee	13,500	12,500
Committee member	6,750	6,250

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

Director	Committee membership	2015 $	2014 $
B Fraser	Chair of the Board (retired on 5 February 2015)	104,760	155,456
	People and Remuneration Committee	4,211	6,250
	Nomination Committee	-	-
		108,971	161,706
C Christian	Member of the Board	80,711	77,727
	Audit, Risk and Governance Committee	4,712	8,750
	Audit & Governance Committee	3,115	-
	Risk & Compliance Committee	3,115	-
	Technology Committee	6,481	6,250
		98,134	92,727
G Combet	Member of the Board	51,145	-
	Audit, Risk and Governance Committee	1,346	-
	Audit & Governance Committee	3,115	-
	Risk & Compliance Committee	3,115	-
		58,721	-
A De Salis	Member of the Board	80,679	77,727
	People and Remuneration Committee	6,481	6,250
	Technology Committee	6,481	6,250
		93,641	90,227
S Herman	Member of the Board	80,744	77,727
	Chair, Audit, Risk and Governance Committee	9,423	17,500
	Chair, Audit & Governance Committee	6,231	-
	Chair, Risk & Compliance Committee	6,231	-
		102,629	95,227

28 Director and key management personnel compensation (continued)

Director	Committee membership	2015 $	2014 $
K Hodgson	Member of the Board	80,622	77,727
	Audit, Risk and Governance Committee	4,712	8,750
	Audit & Governance Committee	3,115	-
	Risk & Compliance Committee	3,115	-
	Chair, People and Remuneration Committee	7,307	-
		98,871	86,477
J Milne	Member of the Board	80,678	77,727
	Chair, Technology Committee	12,962	12,500
		93,640	90,227
B Pollock	Member of the Board	29,895	77,727
	Audit, Risk and Governance Committee	3,365	8,750
	People and Remuneration Committee	2,404	6,250
	Nomination committee	-	-
		35,664	92,727
G Weaven	Chair of the Board (appointed on 6 February 2015)	62,330	-
	Member of the Board	51,545	77,727
	Chair, People and Remuneration Committee	8,288	12,500
		122,163	90,227
Total directors compensation		812,434	799,545

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 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.

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 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	17,438,219	17,769,834	397,966	17,438,219	17,836,185
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	-	33,927	33,927	-	33,925	33,925
Other assets	8,098	-	8,098	8,098	-	8,098
	2,184,287	19,024,008	21,208,295	2,018,985	19,023,947	21,042,932
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)	14,071,066	862,178	(11,885,127)	12,745,046	859,919

30 Maturity analysis of assets and liabilities (continued)

	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 2014						
Assets						
Cash and cash equivalents	360,414	-	360,414	144,055	-	144,055
Investments	999,239	1,462,562	2,461,801	994,263	1,462,562	2,456,825
Derivatives	9,303	716	10,019	9,000	561	9,561
Trade and other receivables	8,255	-	8,255	34,544	-	34,544
Loans and advances	289,702	14,627,022	14,916,724	343,718	14,627,022	14,970,740
Investment in controlled entities	-	-	-	-	102	102
Plant and equipment	-	35,602	35,602	-	35,602	35,602
Intangible assets	-	58,192	58,192	-	58,192	58,192
Deferred tax assets	-	19,336	19,336	-	19,335	19,335
Other assets	5,113	-	5,113	5,113	-	5,113
	1,672,026	16,203,430	17,875,456	1,530,693	16,203,376	17,734,069
Liabilities						
Amounts due to other financial institutions	30,897	-	30,897	32,491	-	32,491
Deposits and other borrowings	12,152,441	4,745,085	16,897,526	12,073,298	4,688,247	16,761,545
Derivatives	28,265	11,006	39,271	24,859	10,066	34,925
Trade and other payables	29,996	-	29,996	29,714	-	29,714
Current tax liabilities	12,343	-	12,343	11,744	-	11,744
Provisions	18,001	6,370	24,371	18,001	6,370	24,371
Subordinated debt	-	32,903	32,903	-	32,903	32,903
Total liabilities	12,271,943	4,795,364	17,067,307	12,190,107	4,737,586	16,927,693
Net	(10,599,917)	11,408,066	808,149	(10,659,414)	11,465,790	806,376

31 Remuneration of auditors

	Consolidated		Company	
	2015	2014	2015	2014
	$	$	$	$
Financial statements audits	290,005	289,510	233,980	234,600
Regulatory audits	127,025	100,020	119,185	92,335
Other services	648,182	516,045	648,182	516,045
	1,065,212	905,575	1,001,347	842,980

The auditor of the Group is Deloitte Touche Tohmatsu.

32 Subsequent events

The Group priced its first public offering of prime residential mortgage backed securities for 2015 via SMHL Series Securitisation Fund 2015-1. The issue settled on 30 July 2015 and had a final volume of $1.5 billion.

Other than the matter noted above, there are no other matters or circumstances occurring subsequent to the end of the financial year that has significantly affected, or may significantly affect, the operations of the Company, the results of those operations, or the state of affairs of the entity in future financial years.