Members Equity Bank Limited

ABN: 56 070 887 679

Annual Financial Report

For the financial year ended 30 June 2018

General Information

Australian Business Number
56 070 887 679

Directors

K Hodgson	Chairman
C Bart	
C Christian	
G Combet	
J Milne	
J Nesbitt	
E Rubin	

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 Australian Prudential Regulation Authority (APRA) Prudential Standard APS330 are located on the Company's website at www.mebank.com.au.

Members Equity Bank Limited

Annual financial report
for the financial year ended 30 June 2018

Contents

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 2018.

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

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

K Hodgson	Chairman
C Bart	
C Christian	
G Combet	
J Milne	(leave of absence from 1 April 2017 to 31 October 2017)
J Nesbitt	
E Rubin	

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

Dividends
No dividends have been paid or declared since the start of the financial year (2017: $nil). The directors do not recommend the payment of a dividend in respect of the financial year ended 30 June 2018.

The Group has paid $4,864,616 of fully franked dividends during the year with respect to the perpertual Capital Notes issued in November 2017 (2017: nil).

Review of operations and results
Profit for the year ended 30 June 2018 was $89.1 million compared to $61.8 million for the year ended 30 June 2017. The results were broadly in line with expectations.

Subsequent events
The Group priced a public offering of prime residential mortgage backed securities via SMHL Series Securitisation Fund 2018-2. The issue settled on 16 August 2018 and had a final volume of $1.25 billion.

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

Likely developments and expected results
On 19 July 2017, APRA released an Information Paper outlining their conclusions with respect to the quantum and timing of capital increases that will be required for Australian Authorised Deposit-taking Institutions (ADI) to achieve ‘unquestionably strong’ capital ratios. For ADIs such as ME (that do not use the Internal Ratings Based methodology for capital) the effective increase in capital requirements to meet the ‘unquestionably strong’ benchmark is expected to be around 50 basis points. All ADIs are expected to meet the new benchmarks by 1 January 2020.

The 50 basis points increase in capital requirements is expected to apply across all three capital ratios i.e. Common Equity Tier 1 (CET1), Tier 1 and Total Capital Ratio, resulting in the Board-approved minimum total capital ratio increasing from 11.5% to 12%. As at 30 June 2018, a 50 basis points increase in total capital requirements equated to approximately $50 million.

On 14 February 2018, APRA released two discussion papers for consultation with ADIs on proposed revisions to the capital framework.

The first discussion paper related to proposed changes to the capital framework, which include:
- lower risk weights for low loan-to-value ratio (LVR) mortgage loans, and high risk weights for interest-only loans and loans for investment purposes than what apply under APRA's current framework;
- amendments to the treatment of exposures to small-to-medium-sized enterprises (SMEs), including those secured by residential property under the standardised and internal ratings-based approaches;
- constraints on ADI's internal ratings-based methodology and use of their own parameter estimates for particular exposures, and an overall floor on risk weighted assets relative to the standardised approach, and;
- a single replacement methodology for the current advanced and standardised approaches to operational risk.

As at 30 June 2018, the potential impact on the proposed changes above would increase the Group's risk weighted assets by approximately $125 million, thus reducing the Group's capital by approximately 18 basis points.
The second discussion paper related to APRA implementing a leverage ratio requirement for ADIs. The leverage ratio is a non-risk based measure of capital strength that is widely used internationally. A minimum leverage ratio of 3% was introduced under Basel III, and is intended to operate as a backstop to the risk weighted capital framework. Although the risk-based capital measures remain the primary metric of capital adequacy, APRA has previously indicated its intention to implement a leverage ratio requirement in Australia. This approach was also recommended by the Financial System Inquiry in 2014. APRA is proposing to apply a minimum requirement of 3% for ADIs under the standardised approach, and to implement the leverage ratio as a minimum requirement from July 2019. As at 30 June 2018, the estimated leverage ratio for the Group was approximately 4.0%.

On 14 August 2018, APRA released a discussion paper for industry consultation on potential approaches to adjust the capital framework for ADIs to make capital ratios more transparent, comparable and flexible. Though Australia's capital framework is largely based on internationally agreed minimum standards set by the Basel Committee on Banking Supervision, APRA takes a more conservative approach to the definition of capital and the calculation of risk-weighted assets in some areas. Consequently, Australian ADIs typically have lower reported capital ratios than overseas peers with comparable capital strength.

The discussion paper released outlines two general approaches designed to aid ADIs in representing and communicating their capital strength:

- Under one approach, ADIs would continue using existing definitions of capital and risk-weighted assets, but APRA would develop a methodology allowing them to improve the credibility and robustness of internationally comparable capital ratio disclosures; or
- Under a second approach, APRA would change the way ADIs calculate capital ratios to instead use more internationally harmonised definitions of capital and risk-weighted assets. To maintain the strength and risk-sensitivity of the capital framework, there would need to be corresponding increases in minimum ratio and/or capital buffer requirements.

APRA is open to considering these approaches independently or in combination, or indeed retaining its current methodology, and is seeking industry feedback on whether the benefits of the suggested approaches outweigh the regulatory burden and associated increase in complexity. Separately, the discussion paper proposes measures to make the capital framework more flexible in times of stress, including by increasing the size of regulatory capital buffers relative to minimum regulatory capital requirements.

Corporate governance statement

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

<u>Board Composition</u>

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

- the Board maintains a majority of independent non-executive directors; and
- the Board comprises directors with an appropriate range of qualifications and experience.

In addition, each director must satisfy the Board's Fit and Proper Policy.

The Constitution provides, amongst other matters, that directors may not hold office for more than 3 years without standing for re-election. Retiring directors are eligible for re-election. Ms Christian and Mr Hodgson offered themselves for re-election by the shareholders as directors of the Company and were re-elected in November 2017.

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

Ken Hodgson - Non Executive Director
Director since January 2012 (Chairman since January 2016)
In addition to his role as Chairman of the Board Mr Hodgson is the Chair of the People and Remuneration Committee and the Nominations Committee. During the year, he was also a member of the Audit and Governance Committee and Investments and Partnerships Strategy Committee. He is a director of Hydro Tasmania and spent 28 years working at

Westpac and National Australia Bank in their retail banking divisions, including as General Manager Consumer Financial Services at Westpac, and as General Manager Personal Financial Services at National Australia Bank.

Christine Christian - Non Executive Director
Director since November 2012
During the year Ms Christian was the Chair of the Risk and Compliance Committee and a member of the Audit and Governance Committee. Ms Christian is an independent company director. Her current directorships include FlexiGroup Limited, State Library of Victoria, Lonsec Financial Group, Kirkwood Capital, and Victorian Managed Insurance Authority. She has served in senior executive roles in Australia and overseas primarily in the credit risk, financial services and global business publishing sectors, including 14 years as Chief Executive Officer of Dun & Bradstreet Australia and New Zealand.

Justin Milne - Non Executive Director
Director since November 2012 - leave of absence 1 April to 31 October 2017
Following his return from a leave of absence on 1 November 2017 Mr Milne became a member of the Digital Committee. He is Chairman of the Australian Broadcasting Corporation and Chair of Myob Ltd and NetComm Wireless. He is a non-executive director of Tabcorp Holdings Ltd, and NBN Co. He has served in senior executive roles as Group Managing Director at Telstra and was responsible for BigPond Broadband and Telstra's Media businesses. Prior to working at Telstra, he was the CEO of OzEmail and the Microsoft Network. He is currently President of the Leichhardt Rowing Club.

Greg Combet AM - Non Executive Director
Director since November 2014
Mr Combet is the Chair of the Investments and Partnerships Strategy Committee, and during the year was a member of the People and Remuneration Committee, Risk and Compliance Committee (from 6 December 2017), and Digital Committee (to 31 October 2017). He is Deputy Chair of Industry Super Australia Pty Ltd, Deputy Chair of IFM Investors and a director of Greg Combet Pty Ltd. He also holds a number of consultancy roles. Mr Combet held various cabinet, ministerial, and parliamentary roles within the Australian Government from 2007 to 2013 and was formerly Secretary of ACTU and a director of AustralianSuper. During part of the year he was also Patron of the Black Lung Victims Group.

Cheryl Bart AO – Non Executive Director
Director since July 2016
Ms Bart is Chair of the Digital Committee and is a member of the Risk and Compliance Committee. She is currently a non-executive director of SG Fleet Ltd, Audio Pixels Holding Ltd, Invictus Games Sydney 2018, Football Federation Australia, Powering Australian Renewables Fund, and Trustee of the Prince's Trust Australia. She has a diverse director portfolio background, chairing both committees and boards across the utilities, funds management, auto-finance and leasing, broadcasting, technology and infrastructure sectors.

Elana Rubin - Non-Executive Director
Director since October 2016
Ms Rubin is a member of the Digital Committee, People and Remuneration Committee, and Investments and Partnerships Strategy Committee. She is currently a director of Mirvac Group, Afterpay Touch Group, Transurban Queensland, Victorian Funds Management Corporation,Victorian Managed Insurance Authority, RGA Reinsurance Company of Australia, and Slater and Gordon. Ms Rubin has over 20 years' experience as a non-executive director on private, government and not-for-profit boards, and is a member of several advisory boards in investment property and public policy. Previous non-executive directorships include Chair of AustralianSuper, director of TAL, MLC Life and Administrator, and SecondBite.

John Nesbitt - Non Executive Director
Director since February 2017
Mr Nesbitt is Chair of the Audit and Governance Committee, and a member of the Risk and Compliance Committee, and the Investments and Partnerships Strategy Committee. Mr Nesbitt is the Chairman of AMP Capital Holdings Limited. His previous non executive directorships include AMP Investment Services Pty Limited. Mr Nesbitt is a Chartered Accountant and has had a lengthy banking and broader financial services career through his roles at Suncorp as Chief Executive Officer Suncorp Banking and Wealth, and before that, Suncorp Group Chief Financial Officer. He has previously been Chair of the Perpetual Superannuation Board and has had memberships of a number of other management and industry representative boards.

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

Board Responsibilities

The primary role of the Board is to protect the rights and interests of the Company and to create value for its shareholders and their members having due regard to the interests of other stakeholders. The Board is ultimately responsible for the overall corporate governance of the Company, including monitoring the business of the Company on behalf of the shareholders.

This includes:

- appointing and, if necessary, removing the Chief Executive Officer (CEO);
- reviewing and approving the business plan and budget;
- providing strategic direction to the Company by engaging with the CEO in the development and oversight of the execution of the business plan and budget;
- monitoring performance against the business plan and budget and reviewing that performance with the CEO;
- setting the Company’s risk appetite and ensuring the Company has in place an appropriate risk management framework and processes which support that appetite and within which management must operate;
- approving any major corporate initiatives;
- ensuring that management decisions are consistent with delegated authorities and the interests of shareholders;
- overseeing the integrity of the Company’s accounting and corporate reporting, including the external audit;
- monitoring the effectiveness of the Company's governance practices;
- assisting the CEO in creating the desired staff culture;
- fostering an environment of innovation and deep customer understanding;
- ensuring the Company’s shareholders are provided with the appropriate information in a timely manner;
- overseeing the appointment, and when necessary replacement of other senior executives;
- supporting the CEO in nurturing staff and developing succession plans;
- approving the remuneration framework; and
- performing such other functions as are prescribed by law or are assigned to the Board.

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

Role of CEO

The responsibility for the execution 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 implementation of ME's strategic direction. The CEO manages in accordance with the Authorities and Delegations Policy and the other policies approved by the Board from time to time.

Board Committees

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

Audit and Governance Committee

The Audit and Governance Committee's purpose is to:

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

The Committee oversees:

- financial reporting policies and controls;
- compliance with applicable accounting standards to give a true and fair view of the financial position and performance of the Company;
- the integrity of the Company's financial statements;
- the appropriateness of the accounting judgments or choices exercised by management in preparing the financial statements;
- compliance with Australian Prudential Regulation Authority’s statutory reporting requirements;
- the effectiveness of the Company’s risk management framework;
- the recommendation for appointment or removal, and annually reviewing the performance and independence of the Company's external auditor;
- the adequacy, independence and performance of the Company's Internal Audit function;
- the appointment or if necessary removal of the Head of the Internal Audit function.

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

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

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

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

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

The Committee is responsible for:
- reviewing and overseeing any matters affecting the capability and organisational culture of the Company;
- reviewing the Company's recruitment, retention and termination practices and overseeing the annual talent review process and succession planning for Executives and senior leaders;
- receiving updates on proposed changes to organisational structure to support the workplace of the future;
- overseeing the development and application of the Company's Diversity and Inclusion approach and approving targets for achieving diversity and inclusion;
- reviewing the Company's workplace and industrial relations strategies, policies and processes;
- the effectiveness of the Company's Workplace Health and Safety practices;
- the Company's Remuneration Policy;
- reviewing and approving the process for the oversight and evaluation of the Board, Board Committees, and directors.

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

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

The Committee is responsible for:
- receiving updates and demonstrations about emerging technologies and trends and their potential impact on the Company;
- receiving reports, and providing feedback on, the Company's technology strategy;
- overseeing the Company's strategies of outsourcing of material technology services;
- receiving regular reporting on the customer experience delivered by the Company's digital eco-system;
- overseeing reporting on the Company's technological investment and expenditure, including the Program of Works;
- reviewing the performance of the IT department against the strategy;
- reviewing key technology risks and associated strategies and making recommendations to the Risk and Compliance Committee;
- overseeing the effectiveness of disaster recovery plans and disaster recovery testing.

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

Investments and Partnerships Strategy Committee
The Investments and Partnerships Strategy Committee's purpose is to:
- consider strategy for the Bank to achieve scale and expanded digital capability,
- evaluate potential transactions, investments, and strategic relationships (Transactions) that are aligned with the Bank's Vision and Business Plan
- (where appropriate) consult with shareholders and make recommendations to the Board.

The Committee is responsible for:
- assisting management in developing, implementing and adhering to a strategic plan and direction for the Bank's acquisitions and investments activities that is consistent with the Bank's vision and strategic plan.
- reviewing and scrutinising Transactions the Bank is considering, assessing management's capacity and ability to execute a Transaction, and providing appropriate recommendations to the Board with respect to any Transaction that requires Board approval.
- assisting management and the Board in evaluating the proposed purchase price and other terms for any Transaction and, as appropriate, recommending specific limits on the purchase price and related terms as a condition to proceeding.
- assisting management and the Board in assessing the specific risks and issues involved in each Transaction the Bank is pursuing. Escalating to the Board any strategic risk issues as they arise, and assisting in the management of those issues.
- reviewing and making recommendations on the Bank's due diligence relative to any proposed Transaction.
- reviewing post-closing implementation including planning, stakeholder communications, and the reporting and tracking of appropriate metrics and milestones.
- overseeing the development of an external communications approach in respect of any issues, and any specific external communications to be issued by the Bank.
- ensuring appropriate, periodic evaluations of Transactions completed by the Bank.
- examining any other matters referred to it by the Board.

Nominations Committee
The Nominations Committee's purpose is to make recommendations to the Board in respect of the appointment of new directors. It meets on an as needs basis, and did not meet 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 Hodgson.

Board Performance
The Board meets on a regular basis to address relevant operational and strategic issues affecting the Company. A program is in place for annual self evaluation of performance by the Board and each of its Committees. A self evaluation of each of the Risk and Compliance Committee, Audit and Governance Committee, People and Remuneratuion Committee, and Digital Committee was undertaken in FY18. The Nominations Committee and Investments and Partnerships Strategy Committee did not undertake an evaluation.

The Chairman conducts annual one-on-one discussions with all Directors. The Board did not conduct a self-evaluation during FY18 but plans to conduct an external evaluation during FY19.

Board attendance 1 July 2017 to 30 June 2018

	Board Meetings		
	Held	Eligible	Attn'd
C Bart	13	13	12
C Christian	13	13	12
G Combet	13	13	13
K Hodgson	13	13	13
J Milne *	13	9	9
J Nesbitt	13	13	13
E Rubin	13	13	13

* leave of absence from 1 April to 31 October 2017

The directors attended a Board Strategy Day on 15 February 2018.

Board Committee attendance 1 July 2017 to 30 June 2018

	People & Remuneration Committee			Digital Committee			Investments & Partnerships Strategy Committee			Risk & Compliance Committee			Audit & Governance Committee		
	Held	Member	Attn'd	Held	Member	Attn'd	Held	Member	Attn'd	Held	Member	Attn'd	Held	Member	Attn'd
C Bart	-	n	-	5	y	3	-	n	-	6	y	4	-	n	-
C Christian	-	n	-	-	n	-	-	n	-	6	y	6	5	y	4
G Combet	5	y	5	5	y	1*	2	y	2	6	y	4**	-	n	-
K Hodgson	5	y	5	-	n	-	2	y	2	-	n	-	5	y	4
J Milne	-	n	-	5	y	4**	-	n	-	-	n	-	-	-	-
J Nesbitt	-	n	-	-	n	-	2	y	2	6	y	6	5	y	5
E Rubin	5	y	5	5	y	5	2	y	2	-	n	-	-	n	-

*Eligible for one meeting only.
**Eligible for four meetings only.
The Nominations Committee did not meet in FY18.

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

Remuneration of directors and key management personnel
The names, details and aggregate remuneration of directors and key management personnel are set out in Note 28 to the financial statements.

In determining appropriate levels of key management personnel remuneration, the People and Remuneration Committee may engage an external consultant to provide independent advice, to ensure that the compensation is set competitively compared to the market. No external advice was taken during FY18.

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

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

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

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

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

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

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

Long Term Incentives (LTI)
An LTI arrangement is in place for the CEO only.

Remuneration Framework - Directors
Non-executive directors of the Company are remunerated by way of one base fee (inclusive of the Superannuation Guarantee Charge payment, at 9.5% for the period). The Non-Executive Director Remuneration Policy provides for the fee to be up to 60% of the median level of non-executive director fees paid by Bendigo and Adelaide Bank Limited and Bank of Queensland Limited.

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 CEO or 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 Group, against a liability incurred in that role, to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

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

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

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

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

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

On behalf of the Directors

Director
Melbourne, 11 September 2018

Deloitte.

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11 September 2018

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

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 2018, 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

M Stretton

Mark Stretton
Partner
Chartered Accountants

Deloitte.

Deloitte Touche Tohmatsu
ABN 74 490 121 060

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

Opinion

We have audited the financial report of Members Equity Bank Limited (the "Company") and its subsidiaries (the "Group") which comprises the consolidated statement of financial position as at 30 June 2018, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information, and the directors' declaration.

In our opinion, the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the Company and Group's financial position as at 30 June 2018 and of their financial performance for the year then ended; and

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

Basis for Opinion

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

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

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

Other Information

The directors' are responsible for the other information. The other information obtained at the date of this auditor's report comprises the Directors' report included in the Group's annual report for the year ended 30 June 2018, but does not include the financial report and our auditor's report thereon.

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

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date

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of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors 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 gives a true and fair view and is free from material misstatement, whether due to fraud or error.

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

Auditor's Responsibilities for the Audit of the Financial Report

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

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

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

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

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

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

M Stretton

Mark Stretton
Partner
Chartered Accountants

Melbourne, 11 September 2018

Directors' declaration

The directors declare that:

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

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

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

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

On behalf of the Directors

Director
Melbourne, 11 September 2018

Statement of profit or loss and other comprehensive income for the financial year ended 30 June 2018

	Notes	Consolidated 2018 $'000	Consolidated 2017 $'000	Company 2018 $'000	Company 2017 $'000
Interest and similar income	5	1,245,424	1,161,628	1,199,716	1,114,725
Interest and similar expense	5	(848,311)	(825,302)	(919,110)	(892,620)
Net interest income		397,113	336,326	280,606	222,105
Funds management fee income	5	2,900	5,952	17,380	20,764
Other operating income	5	25,190	32,124	125,308	136,295
Total net operating income		425,203	374,402	423,294	379,164
Expenses					
Operating expenses	5	253,040	231,085	249,419	227,525
Impairment losses	5	8,159	13,773	8,159	13,771
Project expenses	5	36,065	32,393	36,065	32,393
Loss on sale of commercial loans and asset finance portfolios	5	350	8,902	350	8,902
Total expenses		297,614	286,153	293,993	282,591
Profit before income tax		127,589	88,249	129,301	96,573
Income tax expense	6	38,533	26,393	38,267	28,141
Profit for the year		89,056	61,856	91,034	68,432
Other comprehensive income					
Items that will not be reclassified subsequently to profit or loss		-	-	-	-
Items that may be reclassified subsequently to profit or loss					
Net fair value gain on available-for-sale financial assets, net of tax		(1,103)	(513)	(1,102)	(513)
Cash flow hedges - effective portion of changes in fair values, net of tax		12,066	45,361	10,083	38,601
Total comprehensive income for the year		100,019	106,704	100,015	106,520

Notes to the financial statements are included on pages 19 to 62.

Statement of financial position
as at 30 June 2018

	Notes	Consolidated 2018 $'000	Consolidated 2017 $'000	Company 2018 $'000	Company 2017 $'000
Assets					
Cash and cash equivalents	24(a)	409,650	312,646	166,238	86,343
Investments	7	3,176,469	2,981,442	3,176,470	2,826,801
Derivatives	16	11,005	11,331	10,412	11,082
Trade and other receivables	8	5,894	6,005	30,531	19,098
Loans and advances	9	24,212,838	22,503,585	24,294,485	22,583,561
Investment in controlled entities	10	-	-	102	102
Plant and equipment	12	5,780	8,330	5,780	8,330
Intangible assets	13	93,228	89,336	93,228	89,336
Deferred tax assets	6	8,802	14,557	8,799	14,555
Other assets	14	13,083	8,969	13,364	9,170
Total assets		27,936,749	25,936,201	27,799,409	25,648,378
Liabilities					
Deposits and other borrowings	15	26,165,970	24,410,231	26,033,555	24,132,279
Derivatives	16	11,572	26,927	8,167	20,658
Trade and other payables	17	22,230	25,721	24,344	25,860
Current tax liabilities	6	838	949	-	-
Provisions	18	29,235	26,482	29,235	26,482
Subordinated debt	19	300,734	333,236	300,734	333,236
Total liabilities		26,530,579	24,823,546	26,396,035	24,538,515
Net assets		1,406,170	1,112,655	1,403,374	1,109,863
Equity					
Issued capital	20	1,006,282	807,921	1,006,282	807,921
Reserves	21	22,759	6,792	24,762	10,780
Retained earnings		377,129	297,942	372,330	291,162
Total equity		1,406,170	1,112,655	1,403,374	1,109,863
Book value per share		$ 127.30	$ 100.73		

Notes to the financial statements are included on pages 19 to 62.

Statement of changes in equity
for the financial year ended 30 June 2018

		Consolidated					
	Notes	Issued capital $'000	Retained earnings $'000	General reserve for credit losses $'000	Investment revaluation reserve $'000	Cash flow hedge reserve $'000	Total $'000
Balance at 1 July 2016		767,922	235,211	18,332	3,235	(58,748)	965,952
Issue of share capital	20	39,999	-	-	-	-	39,999
Issue of capital notes		-	-	-	-	-	-
Dividends paid	22	-	-	-	-	-	-
Transfer to/(from) general reserve for credit losses	21	-	875	(875)	-	-	-
Other comprehensive income for the year		-	-	-	(513)	45,361	44,848
Profit for the year		-	61,856	-	-	-	61,856
Balance at 30 June 2017		807,921	297,942	17,457	2,722	(13,387)	1,112,655
Balance at 1 July 2017		807,921	297,942	17,457	2,722	(13,387)	1,112,655
Issue of share capital	20	-	-	-	-	-	-
Issue of capital notes		198,361	-	-	-	-	198,361
Dividends paid	22	-	(4,865)	-	-	-	(4,865)
Transfer to/(from) general reserve for credit losses	21	-	(5,004)	5,004	-	-	-
Other comprehensive income for the year		-	-	-	(1,103)	12,066	10,963
Profit for the year		-	89,056	-	-	-	89,056
Balance at 30 June 2018		1,006,282	377,129	22,461	1,619	(1,321)	1,406,170

		Company					
	Notes	Issued capital $'000	Retained earnings $'000	General reserve for credit losses $'000	Investment revaluation reserve $'000	Cash flow hedge reserve $'000	Total $'000
Balance at 1 July 2016		767,922	221,855	18,332	3,235	(48,000)	963,344
Issue of share capital	20	39,999	-	-	-	-	39,999
Issue of capital notes							
Dividends paid	22	-	-	-	-	-	-
Transfer to/(from) general reserve for credit losses	21	-	875	(875)	-	-	-
Other comprehensive income for the year		-	-	-	(513)	38,601	38,088
Profit for the year		-	68,432	-	-	-	68,432
Balance at 30 June 2017		807,921	291,162	17,457	2,722	(9,399)	1,109,863
Balance at 1 July 2017		807,921	291,162	17,457	2,722	(9,399)	1,109,863
Issue of share capital	20	-	-	-	-	-	-
Issue of capital notes		198,361	-	-	-	-	198,361
Dividends paid	22	-	(4,865)	-	-	-	(4,865)
Transfer to/(from) general reserve for credit losses	21	-	(5,001)	5,001	-	-	-
Other comprehensive income for the year		-	-	-	(1,102)	10,083	8,981
Profit for the year		-	91,034	-	-	-	91,034
Balance at 30 June 2018		1,006,282	372,330	22,458	1,620	684	1,403,374

Notes to the financial statements are included on pages 19 to 62.

Statement of cash flows
for the financial year ended 30 June 2018

	Notes	Consolidated 2018 $'000	Consolidated 2017 $'000	Company 2018 $'000	Company 2017 $'000
Cash flows from operating activities					
Profit before tax		127,589	88,249	129,301	96,573
Adjustments for:					
Change in operating assets	24(c)	(1,940,197)	(2,920,054)	(2,110,390)	(2,870,708)
Change in operating liabilities	24(d)	1,753,240	2,647,037	1,900,467	2,546,859
Non-cash items included in profit before tax	24(e)	58,623	67,125	58,938	68,412
Income tax payments		(37,587)	(26,329)	(36,357)	(26,127)
Net cash provided/(used in) by operating activities		(38,332)	(143,972)	(58,041)	(184,991)
Cash flows from investing activities					
Purchase of plant and equipment	12	(534)	(950)	(534)	(950)
Purchase of intangible assets	13	(24,626)	(22,485)	(24,626)	(22,485)
Proceeds from sale of plant and equipment		-	-	-	-
Dividends received		-	-	2,600	2,500
Net cash used in investing activities		(25,160)	(23,435)	(22,560)	(20,935)
Cash flows from financing activities					
Proceeds from issue of shares	20	-	39,999	-	39,999
Proceeds from issue of capital notes	20	198,361	-	198,361	-
Dividends paid on capital notes	22	(4,865)	-	(4,865)	-
Redemption of subordinated debt	19	(33,000)	-	(33,000)	-
Net cash provided by financing activities		160,496	39,999	160,496	39,999
Net increase in cash		97,004	(127,408)	79,895	(165,927)
Cash and cash equivalents at the beginning of the financial year		312,646	440,054	86,343	252,270
Cash and cash equivalents at the end of the financial year	24(a)	409,650	312,646	166,238	86,343

Notes to the financial statements are included on pages 19 to 62.

1 General information

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

2 Application of new and revised Accounting Standards

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

In the current year, the Group has applied a number of the Accounting Standards issued by the Australian Accounting Standards Board (AASB), that are mandatorily effective for an accounting period that begins on or after 1 July 2017, and therefore relevant for the year ended 30 June 2018.

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

Standards affecting presentation and disclosure

AASB 2016-2 Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 107	The Group has applied these amendments for the first time in the current year. The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non cash changes. The Group's liabilities arising from financing activities consists of subordinated debt. A reconciliation between opening and closing balances of this item is provided in Note 19. Consistent with the transition provisions of the amendments, the Group has not disclosed comparative information for the prior period. Apart from the additional disclosure in Note 19, the application of these amendments do not have a material impact on the Group's consolidated financial statements.
AASB 2016-1 Amendments to Australian Accounting Standards – Recognition of Deferred Tax Assets for Unrealised Losses	The Group has applied these amendments for the first time in the current year. The amendments clarify how an entity should evaluate whether there will be sufficient taxable profits against which it can utilise a deductible temporary difference. The application of these amendments has had no impact on the Group's consolidated financial statements as the Group already assesses the sufficiency of future taxable profits in a way that is consistent with these amendments.
AASB 2017-2 Amendment to Australian Accounting Standards - Further Annual Improvements 2014-2016	Amends AASB 12 Disclosure of Interests in Other Entities to clarify that an entity need not provide summarised financial information for interests in subsidiaries, associates or joint ventures that are classified (or included in a disposal group that is classified) as held for sale. The amendments clarify that this is the only concession from the disclosure requirements of AASB 12 for such interests. The application of these amendments has had no effect on the Group's consolidated financial statements as none of the Group's interests in these entities are classified, or included in a disposal group that is classified, as held for sale.

(ii) Standards and Interpretations in issue not yet effective.
The Group has assessed the impact of the following Standards and Interpretations.

2 Application of new and revised Accounting Standards (continued)

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	1 January 2018	30 June 2019
AASB 15 Revenue from contracts with customers	1 January 2018	30 June 2019
AASB 16 Leases	1 January 2019	30 June 2020
AASB 2017-1 Amendments to Australian Accounting Standards - Transfer of Investment Property, Annual Improvements 2014-2016 Cycle and Other Amendments	1 January 2018	30 June 2019
Interpretation 22 Foreign Currency Transactions and Advance Consideration	1 January 2018	30 June 2019
Interpretation 23 Uncertainty over Income Tax Treatments	1 January 2019	30 June 2020

<u>AASB 9 Financial Instruments</u>
AASB 9 issued in November 2009 introduced new requirements for classification and measurement of financial assets. AASB 9 was subsequenly amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in November 2013 to include the new requirements for general hedge accounting.
Another revised version of AASB 9 was issued in July 2014 mainly to include (a) impairment requirements for financial assets, and (b) limited amendments to the classification and measurement requirements by introducing the 'fair value through other comprehensive income' (FVTOCI) measurement category for certain simple debt instruments.

Key requirements of AASB 9:
- All recognised financial assets that are within the scope of AASB 9 are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at FVTOCI. All other debt instruments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under AASB 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading nor contingent consideration recognised by an acquirer in a business combination) in other comprehensive income, with only dividend income generally recognised in profit or loss.
- With regard to the measurement of financial liabilities designated as fair value through profit or loss, AASB 9 requires that the amount of change in the fair value of a financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of such changes in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under AASB 139, the entire amount of change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss.
- In relation to the impairment of financial assets, AASB 9 requires an expected credit loss model, as opposed to an incurred credit loss model under AASB 139. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.
- The new general hedge accounting requirements retain three types of hedge accouting mechanisms currently available under AASB 139. Under AASB 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

Based on an analysis of the Group's financial assets and liabilities as at 30 June 2018, on the basis of the facts and circumstances that exist at that date, the directors of the Company have assessed the impact of AASB 9 to the Group's consolidated financial statements as follows:

2 Application of new and revised Accounting Standards (continued)

Classification and measurement

Debt instruments are initially measured at fair value plus transaction costs that are directly attributable to the financial asset. Unless designated at fair value through profit or loss (FVTPL) under AASB 9, the classification and subsequent measurement of debt instruments are based on:

- the business model for managing the debt instruments; and
- the contractual cash flows of the debt instruments.

The business model of managing debt instruments - The business models reflect how financial assets are managed in order to generate cash flows. These business models determine whether cash flows will result from collecting contractual cash flows, selling financial assets or both. Factors considered in determining the business model for a group of assets include both past experience and future plans for these assets. The AASB 9 business models were determined on 1 January 2018 with reference to how the asset's performance is evaluated and reported to key management personnel, how risks are assessed and managed, and how senior managers are compensated.

The contractual cash flows of the debt instruments - In determining the classification of a financial asset, it is determined whether the financial asset's cash flows represent sole payments of principal and interest (the SPPI test). Payments of principal and interest are solely those consistent with a basic lending arrangement i.e. interest includes only consideration for the time value of money, credit risk, other basic lending risk (including liquidity risk), costs (including administrative costs), and a profit margin that is consistent with a basic lending arrangement. If the SPPI test is not passed, then the related financial asset is measured at FVTPL.

Debt instruments are classified as:

- amortised cost if the SPPI test is passed and the business model for managing the asset is of hold to collect;
- FVTOCI if the SPPI test is passed and the business model for managing the asset is of hold to collect and sell; or
- FVTPL if the SPPI test is failed or if the business model for managing the asset is not one of hold to collect or hold to collect and sell.

The impact of AASB 9 on the Group's classification and measurement will be as follows:

- Loans and advances classified as amortised cost as disclosed in Note 9: these are held within a business model whose objective is to collect contractual cash flows that are solely payments of principal and interest on the principal outstanding. Accordingly, these financial assets will continue to be subsequently measured at amortised cost upon the application of AASB 9.
- Treasury notes, semi-government securities, bank bills, corporate fixed rate notes, corporate floating rate notes, mortgage backed securities, and commercial paper which are classified as available-for-sale investments carried at fair value as disclosed in Note 7: these are held within a business model whose objective is achieved both by collecting contractual cash flows and selling the debt instruments in the open market, and the instruments' contractual terms give rise to cash flows on specified dates that are solely payments of principal and interest on the principal outstanding. Accordingly, these debt instruments will continue to be subsequently measured at FVTOCI upon the application of AASB 9, and the fair value gains or losses accumulated in the investment revaluation reserve will continue to be subsequently reclassified to profit or loss when these instruments are derocognised or reclassified.
- All other financial assets and liabilities will continue to be measured on the same basis as is currently adopted under AASB 139.

Impairment

Financial assets such as loans and advances (Note 9), FVTOCI investments (Note 7), trade and other receivables (Note 8) will be subject to impairment provisions of AASB 9. AASB 9.7.2.15 allows an entity not to restate comparatives, in which case the cumulative difference in loss allowance to be recognised in terms of AASB 9 are charged against opening retained earnings in the period in which the entity first applies AASB 9. Nevertheless, restatement of comparatives is permitted if and only if it is possible without the use of hindsight.

From 1 July 2018, the impairment requirement under AASB 9 will be applied when assessing the expected credit loss (ECL) on a forward-looking basis for financial assets measured at amortised cost. Under this requirement, losses are to be recognised much earlier, i.e. based on the "Expected Credit Loss" model rather than the "Incurred Loss" model (under AASB 139). This is achieved by determining whether the credit risk, i.e. risk of default, on a financial instrument has increased significantly since initial recognition, i.e. accounts transitioning from low risk (stage 1) to high risk (stage 2 or 3). Additionally, it will require considerable judgement over how changes in macro-economic conditions affect ECL estimation.

Expected credit loss allowance for the three stages are:

- Stage 1 - 12-month expected credit loss
- Stage 2 - Lifetime expected credit loss (non impaired loans)
- Stage 3 - Lifetime expected credit loss (impaired loans)

2 Application of new and revised Accounting Standards (continued)

The main driver for the increase in loan provisions will be when assets exhibit a significant increase in credit risk (SICR), e.g. transitioning from stage 1 (12-month ECL) to stage 2 and/or stage 3 (lifetime ECL).

It is anticipated that the application of the expected credit loss model of AASB 9 will lead to an increase in loss provisions between $8 to $15 million on the date of initial application.

The estimated impact of AASB 9 above is based on accounting policies, assumptions, judgements and estimation techniques that remain subject to change until the finalisation of the 2019 Half Year Financial Report and the 2019 Annual Financial Report.

The Group applies the simplified approach in that it assumes that the credit risk on a financial asset has not increased significantly since initial recognition if the financial asset is determined to have low credit risk at the reporting date.

Hedge accounting

The Group has put in place a macro cash flow hedge by entering into interest rate swap contracts to hedge its portfolio of liabilities. The International Accounting Standards Board (IASB) has a separate project to confirm the accounting for macro hedging. Whilst the macro hedge accounting project is on-going, adopters of AASB 9 may, as an accounting policy choice, continue to apply the macro fair value hedge accounting model for interest rate risk in AASB 139. The Group has elected to continue its macro cash flow hedge accounting under AASB 139. Hence there will be no impact on hedge accounting upon the application and adoption of AASB 9 on 1 July 2018.

<u>AASB 15 Revenue from Contracts with Customers</u>

AASB 15 establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. AASB 15 will supercede the current revenue recognition guidance including AASB 118 Revenue, AASB 111 Construction Contracts, and the related Interpretations when it becomes effective.

The core principle of AASB 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition.

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligation in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under AASB 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer.

Far more prescriptive guidance has been added in AASB 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by AASB 15.

In April 2016, the IASB issued Clarificaton to IFRS 15 in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

The Group recognises revenue from the following:

- Management fee income from unconsolidated structured entities;
- Interchange fee income; and
- Income from certain exclusivity contracts.
- Transaction and service fee income

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

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

With regards to income from certain exclusivity contracts, the Group has assessed that the performance obligations are satisfied at a point in time. Hence, revenue can only be recognised when the performance obligations are met from 1 July 2018.

With regards to transaction and service fee income, the Group has assessed that this income is recognised when services are delivered and not related to any contracts.

2 Application of new and revised Accounting Standards (continued)

Apart from providing more extensive disclosures on the Group's revenue transactions, the Group does not anticipate that the application of AASB 15 will have a material impact on the financial position and/or financial performance of the Group.

<u>AASB 16 Leases</u>
AASB 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments by both lessors and lessees. AASB 16 will supercede the current lease guidance including AASB 117 Leases, and the related interpretations when it becomes effective.

AASB 16 distinguishes leases and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases (off balance sheet) and finance leases (on balance sheet) are removed for lessee accounting, and is replaced by a model where right-of-use asset and a corresponding liability have to be recognised for all leases by the lessees (i.e. all on balance sheet) except for short term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. Furthermore, the classification of cash flows will also be affected as operating lease payments under AASB 117 are presented as operating cash flows; whereas under the AASB 16 model, the lease payments will be split into a principal and an interest portion which will be presented as financing and operating cash flows respectively.

In contrast to lessee accounting, AASB 16 substantially carries forward the lessor accounting requirements in AASB 117, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by AASB 16.

As at 30 June 2018, the Group has non cancellable operating lease commitments of $31,696,000. AASB 117 does not require the recognition of any right-of-use asset or liability for the future payments of these leases; instead, certain information is disclosed as operating lease commitments in Note 23. A preliminary assessment indicates that these arrangements will meet the definition of a lease under AASB 16, and hence the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short term leases upon the application of AASB 16. The new requirement to recognise a right-of-use asset and a related lease liability is expected to have a significant impact on the amounts recognised in the Group's consolidated financial statements. The Group is currently assessing the potential impact of the new requirement and it is not practical to provide a reasonable estimate of the financial impact at this time until the review has been completed.

<u>AASB 2017-2 Amendments to Australian Accounting Standards – Transfers of Investment Property, Annual Improvements 2014-2016 Cycle and Other Amendments</u>
Amends the following Accounting Standards:
- AASB 140 Investment Property, to clarify that a transfer to, or from, investment property necessitates an assessment of whether a property meets, or has ceased to meet, the definition of investment property, supported by observable evidence that a change in use has occurred. The amendments further clarify that situations other than the ones listed in AASB 140 may evidence a change in use, and that a change in use is possible for properties under construction (i.e. a change in use is not limited to completed properties).
- AASB 1 First-time adoption of Internation Financial Reporting Standards to add exemptions arising from Interpretation 22 Foreign Currency Transactions and Advance Consideration
- AASB 128 Investments in Associates and Joint Ventures, to clarify that the option for a venture capital organisation and other similar entities to measure investments in associates and joint ventures at fair value through profit or loss is available seperately for each associate or joint venture, and that election should be made at initial recognition of the associate or joint venture. In respect of the option for an entity that is not an investment entity to retain the fair value measurement applied by its associates and joint ventures that are investment entities when applying the equity method, the amendments make a similar clarification that this choice is available for each investment entity associate or investment entity joint venture.

The amendments are effective for annual reporting periods beginning on or after 1 January 2018 and apply on a retrospective or modified retrospective basis. The Group does not anticipate that the application of the amendments in the future will have any impact on the Group's consolidated financial statements as the Group is neither a first time adopter of IFRS nor a venture capital organisation. Furthermore, the Group does not hold any investment property, nor any associate or joint venture that is an investment entity.

2 Application of new and revised Accounting Standards (continued)

Interpretation 22 Foreign Currency Transactions and Advance Consideraton
Interpretation 22 addresses how to determine the 'date of transaction' for the purpose of determining the exchange rate to use on initial recognition of an asset, expense or income, when consideration for that item has been paid or received in advance in a foreign currency which resulted in the recognition of a non-monetary asset or non-monetary liability (e.g. a non-refundable deposit or deferred revenue).

The Interpretation specifies that the date of transaction is the date on which the entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance, the Interpretation requires an entity to determine the date of transaction for each payment or receipt of advance consideration.

The Interpretation is effective for annual periods beginning on or after 1 January 2018 with earlier application permitted. Entities can apply the Interpretation either retrospectively or prospectively. Specific transition provisions apply to prospective application.

The Group does not anticipate that the application of the amendments in the future will have a material impact on the Group's consolidated financial statements. This is because the Group already accounts for transactions involving payment or receipt of advance consideration in a foreign currency in a way that is consistent with the amendments.

Interpretation 23 Uncertainty over Income Tax Treatments
Interpretation 23 clarifies the accounting for uncertainties in income taxes.

The interpretation is to be applied to the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates ("tax amounts"), when there is uncertainty over income tax treatments under AASB 112 Income Taxes.

The Interpretation requires an entity to:
- Use judgement to determine whether each tax treatment should be considered independently or whether some tax treatments should be considered together.
- Assume that a taxation authority with the right to examine any amounts reported to it will examine those amounts and will have full knowledge of all relevant information when doing so.
- Determine tax amounts on a basis that is consistent with the tax treatment included in its income tax filings if an entity concludes that it is probable that a particular tax treatment wil be accepted by taxation authorities.
- Determine tax amounts using the most likely amount or expected value of tax treatment (whichever provides better predictions of the resolution of the uncertainty) if an entity concludes that it is not probable that a particular tax treatment will be accepted by the taxation authorities.

The Interpretation applies to annual reporting periods beginning on or after 1 January 2019 and applies on a modified retrospective basis. The Group does not anticipate that the application of the amendments in the future will have a material impact on the Group's consolidated financial statements.

3 Significant accounting policies

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

The financial statements were authorised for issue by the directors on 11 September 2018.

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

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis.

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

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

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

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

<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 or 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.

3 Significant accounting policies (continued)

(b) Goods and services tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except:

(i) where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as a non-income tax expense; and

(ii) for receivables and payables which are recognised inclusive of GST. The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables.

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

(c) Recognition of income and expenses

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised.

<u>Interest and similar income and expense</u>

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.

<u>Funds management fee income</u>

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

<u>Fee income</u>

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

<u>Distribution from unit trusts</u>

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.

<u>Dividend income</u>

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

(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).

<u>Current tax</u>

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.

<u>Deferred tax</u>

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

3 Significant accounting policies (continued)

manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

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

(e) Cash and cash equivalents

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

(f) Fair value measurement

The Group measures certain financial instruments, such as investments and derivatives, at fair value at each balance sheet date.

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value of instruments that are quoted in active markets is determined using the quoted prices where they represent those at which regularly and recently occurring transactions take place.
If there is no quoted price in an active market, then the Group uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

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

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

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

(g) Financial assets

<u>Initial recognition and subsequent measurement</u>

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.

<u>Investments</u>

The Group has investments classified as available-for-sale investments and held-for-trading 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.

3 Significant accounting policies (continued)

Held-for-trading investments include debt securities which are intended to be held indefinitely as part of the liquidity coverage ratio requirement by APRA.

After initial measurement, held-for-trading investments are subsequently measured at fair value, with transaction costs recognised in the statement of profit or loss and other comprehensive income as incurred. Subsequently they are measured at fair value and any gains or losses are recognised in the statement of profit or loss and other comprehensive income as they arise.

Loans and receivables

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

Derecognition of financial assets

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

Impairment of financial assets

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

Objective evidence that financial assets are impaired includes:

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

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

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

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

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

3 Significant accounting policies (continued)

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

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

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

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

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

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

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

All intangible assets are tested for impairment when there is an indication that an asset carrying amount may be greater than its recoverable amount. The recoverable amount is determined using the market approach valuation methodology (refer Note 13).

Intangibles are stated at capitalised cost less accumulated amortisation and any accumulated impairment loss.

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

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

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

(k) Leasing
Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

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

3 Significant accounting policies (continued)

The Group as lessee

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

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

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

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

(l) Employee benefits

Short-term and long-term employee benefits

A liability is recognised for benefits accruing to employees in respect of wages and salaries, annual leave and sick leave in the period the related service is rendered.

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

Termination benefit

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

(m) Provisions

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

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

(n) Financial liabilities

Initial recognition and subsequent measurement

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

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

Deposits and other borrowings

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

3 Significant accounting policies (continued)

Amounts due to other financial institutions

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

Subordinated debt

Subordinated debt is recognised at fair value plus directly attributable transaction costs and subsequently measured at amortised cost. Interest is recognised using the EIR method.

Mortgage backed securities

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

Derecognition of financial liabilities

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

(o) Derivatives held for risk management and hedge accounting

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

Hedge accounting

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

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

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

(p) Capital notes

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

4 Use of judgements and estimates

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

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

(a) Judgements

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

Determination of control over investees

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

Securitisation vehicle

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

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

Investment funds

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

For further disclosure in respect of unconsolidated securitisation funds, please refer to Note 11.

Determination of the useful life for the core banking system

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

Determination of amortisation period of loan origination costs

The Group has determined the amortisation period for home loan and personal loan origination costs to be 5 years and 3 years respectively. This is in line with the average life of a home loan and a personal loan on the Group's balance sheet of 5 years and 3 years respectively before it is paid out or refinanced.

(b) Assumptions and estimation uncertainties

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

Impairment losses on loans and advances

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

Fair value of financial instruments

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

Impairment of intangible assets

Please refer to Note 13.

5 Revenue and expenses

	Consolidated		Company	
	2018 $'000	2017 $'000	2018 $'000	2017 $'000
Profit before income tax expense includes the following items of revenue and expense:				
Interest and similar income				
Deposits with other financial institutions	4,259	5,094	2,157	2,424
Loans and advances	1,000,545	938,695	1,003,570	941,137
Investment securities	76,613	73,354	71,269	71,020
	1,081,417	1,017,143	1,076,996	1,014,581
Interest rate swap contracts	164,007	144,485	122,720	100,144
	1,245,424	1,161,628	1,199,716	1,114,725
Interest and similar expense				
Deposits and other borrowings	641,832	602,476	761,636	734,585
Subordinated borrowings	14,680	15,734	14,680	15,734
	656,512	618,210	776,316	750,319
Interest rate swap contracts	191,799	207,092	142,794	142,301
	848,311	825,302	919,110	892,620
Funds management fee income	2,900	5,952	17,380	20,764
Other operating income				
Fee income	15,292	22,080	13,199	19,478
Other income	1,784	4,025	1,724	3,944
Cumulative gains reclassified from equity on disposal of available-for-sale investments	238	3,318	141	3,289
(Losses)/gains from investments held for trading	1,051	(4,753)	1,051	(4,753)
Fair value movement in derivatives	6,825	7,454	6,825	5,379
Distribution from unit trusts	-	-	99,768	106,458
Dividend income from subsidiary	-	-	2,600	2,500
	25,190	32,124	125,308	136,295
Operating expenses				
Staff and related costs	123,416	113,542	123,416	113,542
General administrative expenses	80,747	72,098	77,126	68,538
Transaction fee expenses	11,066	10,217	11,066	10,217
Depreciation and amortisation of:				
- Plant and equipment	3,084	6,148	3,084	6,148
- Intangibles	19,814	16,769	19,814	16,769
Loss on disposal of:				
- Plant and equipment	-	81	-	81
- Intangibles	2,403	-	2,403	-
Operating lease rental expenses	12,510	12,230	12,510	12,230
	253,040	231,085	249,419	227,525
Impairment losses				
Loans and advances (refer to Note 9)	7,938	13,336	7,938	13,336
Overdrawn savings accounts	221	437	221	435
	8,159	13,773	8,159	13,771
Project expenses				
Program of work	36,065	32,393	36,065	32,393
	36,065	32,393	36,065	32,393
Loss on sale of commercial loans and asset finance portfolios				
Loss on sale (i)	350	8,902	350	8,902
	350	8,902	350	8,902

(i) Effective 1 December 2016, the Group sold its commercial loans and asset finance portfolios. As a result of this sale, the Group has recognised a loss on disposal of $8.9 million for the financial year ended 30 June 2017. For the financial year ended 30 June 2018, there was a legal settlement claim of $350,000 relating to the warranties provided under the sale agreement.

6 Income taxes

	Consolidated 2018 $'000	Consolidated 2017 $'000	Company 2018 $'000	Company 2017 $'000
Income tax recognised in profit or loss				
Tax expense comprises:				
Current tax expense	37,375	27,326	36,257	26,176
Adjustment recognised in the current year in relation to the current tax of prior years	102	(118)	102	(118)
Deferred tax expense/(income) relating to the origination and reversal of temporary differences	1,056	(815)	1,908	2,083
Total tax expense	38,533	26,393	38,267	28,141
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	127,589	88,249	129,301	96,573
Income tax expense calculated at 30%	38,277	26,475	38,790	28,972
Effect of expenses/(income) that are not deductible/(assessable) in determining taxable profit	154	36	(625)	(713)
	38,431	26,511	38,165	28,259
Adjustment recognised in the current year in relation to the current tax of prior years	102	(118)	102	(118)
Income tax expense recognised in profit or loss	38,533	26,393	38,267	28,141

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 2018 $'000	Consolidated 2017 $'000	Company 2018 $'000	Company 2017 $'000
Deferred tax				
Revaluations of available-for-sale financial assets	473	220	473	220
Cash flow hedges	(5,172)	(19,440)	(4,321)	(16,543)
	(4,699)	(19,220)	(3,848)	(16,323)
Current tax liabilities				
Income tax payable	838	949	-	-

6 Income taxes (continued)

Deferred tax assets

	Consolidated			
	Opening balance $'000	Recognised in profit or loss $'000	Recognised in OCI $'000	Closing balance $'000
2018				
Temporary differences				
Accrued expenses	68	9		78
Provisions	7,448	940		8,388
Plant and equipment and intangible assets	(8,009)	2,073		(5,936)
Financial assets held for trading	935	(1,253)		(318)
Available-for-sale financial assets	(1,167)		472	(695)
Derivatives	(1,551)	1,698		147
Cash flow hedges	5,806		(5,172)	634
Impairment allowance	7,726	(1,518)		6,208
Other	3,301	(3,005)		296
	14,557	(1,056)	(4,700)	8,802

	Consolidated			
	Opening balance $'000	Recognised in profit or loss $'000	Recognised in OCI $'000	Closing balance $'000
2017				
Temporary differences				
Accrued expenses	102	(34)	-	68
Provisions	7,134	314	-	7,448
Plant and equipment and intangible assets	(6,984)	(1,025)	-	(8,009)
Financial assets held for trading	-	935	-	935
Available-for-sale financial assets	(1,387)	-	220	(1,167)
Derivatives	(1,648)	97	-	(1,551)
Cash flow hedges	25,177	-	(19,371)	5,806
Impairment allowance	7,407	319	-	7,726
Other	3,092	209	-	3,301
	32,893	815	(19,151)	14,557

	Company			
	Opening balance $'000	Recognised in profit or loss $'000	Recognised in OCI $'000	Closing balance $'000
2018				
Temporary differences				
Accrued expenses	66	8		74
Provisions	7,448	940		8,388
Plant and equipment and intangible assets	(8,008)	2,073		(5,935)
Financial assets held for trading	935	(1,253)		(318)
Available-for-sale financial assets	(1,167)		473	(694)
Derivatives	(1,551)	1,709		158
Cash flow hedges	4,097		(4,321)	(224)
Impairment allowance	7,726	(1,518)		6,208
Other	3,301	(3,005)		296
Temporary differences relating to the securitisation trusts	1,708	(862)		846
	14,555	(1,908)	(3,848)	8,799

6 Income taxes (continued)

	Company			
	Opening balance $'000	Recognised in profit or loss $'000	Recognised in OCI $'000	Closing balance $'000
2017				
Temporary differences				
Accrued expenses	101	(35)	-	66
Provisions	7,134	314	-	7,448
Plant and equipment and intangible assets	(6,983)	(1,025)	-	(8,008)
Financial assets held for trading	-	935	-	935
Available-for-sale financial assets	(1,387)	-	220	(1,167)
Derivatives	(2,270)	719	-	(1,551)
Cash flow hedges	20,571	-	(16,474)	4,097
Impairment allowance	7,407	319	-	7,726
Other	3,092	209	-	3,301
Temporary differences relating to the securitisation trusts	5,227	(3,519)	-	1,708
	32,892	(2,083)	(16,254)	14,555

7 Investments

	Consolidated		Company	
	2018 $'000	2017 $'000	2018 $'000	2017 $'000
At fair value:				
Available-for-sale investments				
Treasury notes and semi-government securities	775,657	493,690	775,658	493,690
Bank bills	293,886	235,359	293,886	80,718
Corporate fixed rate notes	-	-	-	-
Corporate floating rate notes	1,030,662	1,060,009	1,030,662	1,060,009
Mortgage backed securities	171,017	99,234	171,017	99,234
	2,271,222	1,888,292	2,271,223	1,733,651
Investments held for trading				
Government securities	905,247	1,093,150	905,247	1,093,150
	3,176,469	2,981,442	3,176,470	2,826,801

8 Trade and other receivables

	Consolidated 2018 $'000	Consolidated 2017 $'000	Company 2018 $'000	Company 2017 $'000
Amounts receivable from related parties:				
Subsidiary (i)	-	-	257	1,683
Management fee income receivable (please see Note 11)	143	231	-	-
Interest receivable	95	144	57	81
Other receivables (ii)	5,656	5,630	30,217	17,334
	5,894	6,005	30,531	19,098

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

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

9 Loans and advances

	Consolidated 2018 $'000	Consolidated 2017 $'000	Company 2018 $'000	Company 2017 $'000
Credit cards	167,694	164,767	167,694	164,767
Personal loans	156,734	194,092	156,734	194,092
Residential home loans	23,909,054	22,170,326	23,909,054	22,178,401
Commercial loans (i)	-	-	81,647	71,901
	24,233,482	22,529,185	24,315,129	22,609,161
Less:				
Allowance for impairment losses	(20,644)	(25,600)	(20,644)	(25,600)
	24,212,838	22,503,585	24,294,485	22,583,561
Movement in allowance for impairment of loans and advances				
Balance at the beginning of the year	25,600	24,613	25,600	24,613
Amounts written off as uncollectible during the year	(15,568)	(14,995)	(15,568)	(14,995)
Amounts recovered during the year	2,674	2,646	2,674	2,646
Allowance for impairment losses recognised during the year	7,938	13,336	7,938	13,336
Balance at the end of the year	20,644	25,600	20,644	25,600
Individual impairment	6,946	7,244	6,946	7,244
Collective impairment	13,698	18,356	13,698	18,356
	20,644	25,600	20,644	25,600

(i) Payment Funding Facility (PFF) & Committed Liquidity Bond (CLB) are liquidity facilities provided by the Originator (ME) to the Series Trusts at the inception of the Trust. The facilities are to provide funding to the Trusts in the case of an Income Shortfall.

10 Investment in controlled entities

	Consolidated 2018 $'000	Consolidated 2017 $'000	Company 2018 $'000	Company 2017 $'000
Investment at cost	-	-	102	102

The controlled entities of the Company are:

		Country of incorporation	Ownership interest 2018	Ownership interest 2017
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	0%	100%
SMHL Series Securitisation Fund 2010-3	(ii)	Australia	0%	100%
SMHL Series Securitisation Fund 2011-2	(ii)	Australia	100%	100%
SMHL Series Private Placement 2011-1	(ii)	Australia	100%	100%
SMHL Series Private Placement 2011-3	(ii)	Australia	0%	100%
SMHL Series Securitisation Fund 2012-1	(ii)	Australia	100%	100%
SMHL Series Securitisation Fund 2013-1	(ii)	Australia	100%	100%
SMHL Series Securitisation Fund 2014-1	(ii)	Australia	100%	100%
SMHL Series Private Placement 2014-2	(ii)	Australia	100%	100%
SMHL Series Securitisation Fund 2015-1	(ii)	Australia	100%	100%
SMHL Series Securitisation Fund 2016-1	(ii)	Australia	100%	100%
SMHL Series Securitisation Fund 2017-1	(ii)	Australia	100%	0%
SMHL Series Private Placement Trust 2017-2	(ii)	Australia	100%	0%
SMHL Series Private Placement Trust 2017-3	(ii)	Australia	100%	0%

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

11 Involvement with unconsolidated structured entities

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

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

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

	Trade & other receivables	
	2018 $'000	2017 $'000
Securitisation trusts for residential home loans	137	209
Managed fund	6	22
	143	231

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

	2018 $'000	2017 $'000
Fee income earned from securitisation trusts	2,864	5,709
Fee income earned from managed fund	36	243
	2,900	5,952

12 Plant and equipment

	Consolidated and Company		
	Computer equipment $'000	Furniture & equipment $'000	Total $'000
Gross carrying amount			
Balance at 1 July 2016	27,175	39,427	66,602
Additions	843	107	950
Disposals	(26,119)	(13,019)	(39,138)
Balance at 30 June 2017	1,899	26,515	28,414
Additions	447	87	534
Disposals	-	-	-
Balance at 30 June 2018	2,346	26,602	28,948
Accumulated depreciation			
Balance at 1 July 2016	13,699	23,074	36,773
Depreciation expense	2,564	3,584	6,148
Disposals	(14,827)	(8,010)	(22,837)
Balance at 30 June 2017	1,436	18,648	20,084
Depreciation expense	714	2,370	3,084
Disposals	-	-	-
Balance at 30 June 2018	2,150	21,018	23,168
Net book value			
As at 30 June 2017	463	7,867	8,330
As at 30 June 2018	196	5,584	5,780

13 Intangible assets

	Consolidated and Company		
	Core banking software $'000	Other software $'000	Total $'000
Gross carrying amount			
Balance at 1 July 2016	70,594	57,202	127,796
Additions	32	22,453	22,485
Disposal	-	-	-
Balance at 30 June 2017	70,626	79,655	150,281
Additions	-	24,626	24,626
Disposal	-	(5,863)	(5,863)
Balance at 30 June 2018	70,626	98,418	169,044
Accumulated amortisation			
Balance at 1 July 2016	14,125	30,051	44,176
Amortisation expenses	6,648	10,121	16,769
Disposal	-	-	-
Balance at 30 June 2017	20,773	40,172	60,945
Amortisation expenses	6,631	13,183	19,814
Disposal		(4,943)	(4,943)
Balance at 30 June 2018	27,404	48,412	75,816
Net book value			
As at 30 June 2017	49,853	39,483	89,336
As at 30 June 2018	43,222	50,006	93,228

The Group carries out annual impairment testing for its intangible assets as required by AASB 136 'Impairment of Assets'.

The recoverable amount for intangible assets has been calculated based on their deemed fair value. Deemed fair value of the intangible assets was calculated as the remaining balance after deducting all net assets other than intangibles from the Group's fair value of issued share capital, net of selling costs. The impairment testing has indicated that the recoverable amount of intangible assets exceeds the carrying amount. Hence no impairment losses on intangible assets were recognised as at 30 June 2018 (2017: nil).

The use of the Group's fair value of issued share capital is deemed appropriate as all intangible assets are corporate assets, which are shared to support the operation of all areas of the business. The fair value of issued share capital of the Group as at 30 June 2018 was $1.29 billion (2017: $1.19 billion).

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

14 Other assets

	Consolidated		Company	
	2018 $'000	2017 $'000	2018 $'000	2017 $'000
Prepayments	13,083	8,969	13,083	8,969
Income tax receivable	-	-	281	201
	13,083	8,969	13,364	9,170

15 Deposits and other borrowings

	Consolidated		Company	
	2018	2017	2018	2017
	$'000	$'000	$'000	$'000
Unsecured - at amortised cost				
Retail customer deposits	7,232,019	5,707,514	7,232,019	5,707,514
Business customer deposits	1,467,080	1,342,619	1,467,080	1,342,619
Superannuation banking deposits	598,809	564,776	598,809	564,776
Advised and corporate deposits	5,489,170	4,958,411	5,489,170	4,958,411
Institutional borrowings	4,944,533	4,882,307	4,944,533	4,882,307
Treasury borrowings	790,071	716,954	790,071	716,954
Medium term notes (i)	1,105,824	1,255,855	1,105,824	1,255,855
Other borrowings	-	1	-	1
	21,627,506	19,428,437	21,627,506	19,428,437
Secured - at amortised cost				
Mortgage backed securities (ii)	4,538,464	4,981,794	-	-
Liabilities to the securitisation trusts (iii)	-	-	4,406,049	4,703,842
	4,538,464	4,981,794	4,406,049	4,703,842
Total deposits and other borrowings	26,165,970	24,410,231	26,033,555	24,132,279

(i) Medium term notes include interest payable and deferred expenses directly attributable to its issuance, with a face value of $1,100,000,000. Of the $1,100,000,000 floating rate notes:
- $350,000,000 is due in the first half of the 2020 financial year; and
- $200,000,000 is due in the second half of the 2020 financial year.
- $300,000,000 is due in the first half of the 2021 financial year; and
- $250,000,000 is due in the second half of the 2021 financial year.

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

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

16 Derivatives

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

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

Under the terms of the International Swaps and Derivatives Association (ISDA) Collateral Guidelines for the interest rate swap contracts, the balance of the cash collateral received by the Group as at 30 June 2018 is $nil (2017: $nil).

In addition, the Group has pledged cash collateral under the terms of the ISDA Collateral Guidelines. As at 30 June 2018, the Group has pledged cash collateral to the value of $14,560,000 (2017: $31,320,000).

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

Interest rate swap contracts held-for-trading activities relate to contracts entered into for risk management purposes that do not meet the AASB 139 'Financial Instruments' hedge accounting criteria, specifically basis swap contracts.

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

16 Derivatives (continued)

Foreign exchange contracts

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

	Consolidated			
	2018 Fair value assets $'000	2018 Fair value liabilities $'000	2017 Fair value assets $'000	2017 Fair value liabilities $'000
Derivatives held for hedging - cash flow hedges				
Interest rate swaps	8,083	7,698	2,118	26,677
Foreign exchange contracts	435	-	235	-
Derivatives held for trading - fair value through profit and loss				
Interest rate basis swaps	2,487	-	2,282	250
Futures	-	3,874	6,696	-
	11,005	11,572	11,331	26,927

	Consolidated Notional values of derivatives	
	2018 $'000	2017 $'000
Derivatives held for hedging - cash flow hedges		
Interest rate swaps	7,700,000	9,023,580
Foreign exchange contracts	18,402	17,281
Derivatives held for trading - fair value through profit and loss		
Interest rate basis swaps	1,500,000	1,500,000
Futures	870,900	1,009,200
	10,089,302	11,550,061

	Company			
	2018 Fair value assets $'000	2018 Fair value liabilities $'000	2017 Fair value assets $'000	2017 Fair value liabilities $'000
Derivatives held for hedging - cash flow hedges				
Interest rate swaps	7,490	4,293	1,869	20,408
Foreign exchange contracts	435	-	235	-
Derivatives held for trading - fair value through profit and loss				
Interest rate basis swaps	2,487	-	2,282	250
Futures	-	3,874	6,696	-
	10,412	8,167	11,082	20,658

	Company Notional values of derivatives	
	2018 $'000	2017 $'000
Derivatives held for hedging - cash flow hedges		
Interest rate swaps	5,385,000	6,515,000
Foreign exchange contracts	18,402	17,281
Derivatives held for trading - fair value through profit and loss		
Interest rate basis swaps	1,500,000	1,500,000
Futures	870,900	1,009,200
	7,774,302	9,041,481

17 Trade and other payables

	Consolidated		Company	
	2018 $'000	2017 $'000	2018 $'000	2017 $'000
Creditors and accruals	21,584	17,235	21,378	17,081
Other payables	646	8,486	2,966	8,779
	22,230	25,721	24,344	25,860

18 Provisions

	Consolidated		Company	
	2018 $'000	2017 $'000	2018 $'000	2017 $'000
Employee benefits (i)	25,645	24,139	25,645	24,139
Restructuring provision	-	-	-	-
Other provisions (ii)	3,590	2,343	3,590	2,343
	29,235	26,482	29,235	26,482

(i) Employee benefits are expected to be settled within a year with the exception of provisions for long service leave which amounted to $8,103,415 (2017: $7,867,412).

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

19 Subordinated debt

	Consolidated		Company	
	2018 $'000	2017 $'000	2018 $'000	2017 $'000
Floating rate notes	300,734	333,236	300,734	333,236

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

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

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

(i) The subordinated debt was issued on 19 December 2012. Whilst the maturity date of these notes was 19 December 2022, under the terms of the agreements between the Group and the lenders, the Group redeemed these notes on 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 APRA guidelines, the Group includes the subordinated debt as Tier 2 capital (refer to Note 27).

20 Issued capital

	Consolidated		Company	
	2018 $'000	2017 $'000	2018 $'000	2017 $'000
11,045,873 fully paid ordinary shares (2017: 11,045,873)	807,921	807,921	807,921	807,921
20,000 fully paid capital notes (2017: nil)	198,361	-	198,361	-
	1,006,282	807,921	1,006,282	807,921

20 Issued capital (continued)

	2018		2017	
	No.	$'000	No.	$'000
Movement in issued capital of fully paid shares				
Beginning of the financial year	11,045,873	807,921	10,573,785	767,922
Issue of new shares	-	-	472,088	39,999
End of the financial year	11,045,873	807,921	11,045,873	807,921

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

	2018		2017	
	No.	$'000	No.	$'000
Movement in issued capital of fully paid capital notes				
Beginning of the financial year	-	-	-	-
Issue of new notes	20,000	200,000	-	-
End of the financial year	20,000	200,000	-	-

21 Reserves

	Consolidated		Company	
	2018	2017	2018	2017
	$'000	$'000	$'000	$'000
Investment revaluation reserve	1,619	2,722	1,620	2,722
General reserve for credit losses	22,461	17,457	22,458	17,457
Cash flow hedge reserve	(1,321)	(13,387)	684	(9,399)
	22,759	6,792	24,762	10,780

<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 (2017: $nil) with respect to the ordinary fully paid shares. The directors do not recommend the payment of a dividend with respect to the year ended 30 June 2018.

The Group has paid $4,864,616 of fully franked dividends with respect to the perpertual Capital Notes issued in November 2017 (2017: nil).

	Company	
	2018	2017
	$'000	$'000
Adjusted franking account balance (i)	168,100	128,118

(i) From 1 July 2011, the Company and its subsidiary have formed a tax-consolidated group with the Company as the head entity. Accordingly, all franking credits in the subsidiary are transferred to the head entity franking account.

23 Commitments

	Consolidated 2018 $'000	Consolidated 2017 $'000	Company 2018 $'000	Company 2017 $'000
(a) Undrawn credit				
Residential home loans	533,198	567,361	533,198	567,361
Credit cards	243,019	238,534	243,019	238,534
Personal loans	43	43	43	43
	776,260	805,938	776,260	805,938

(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 2018 $'000	Consolidated 2017 $'000	Company 2018 $'000	Company 2017 $'000
Non-cancellable operating lease commitments				
Not longer than 1 year	10,798	9,627	10,798	9,627
Longer than 1 year but not longer than 5 years	20,941	23,451	20,941	23,451
Longer than 5 years	-	-	-	-
	31,739	33,078	31,739	33,078

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 2018 $'000	Consolidated 2017 $'000	Company 2018 $'000	Company 2017 $'000
Cash at bank	203,343	174,306	41,541	54,958
Deposits at call	206,307	138,340	124,697	31,385
	409,650	312,646	166,238	86,343
(b) Cash balance not available for use in (a)				
First Home Owners Grants held on behalf of customers	120	35	120	35
Cash at bank and deposits at call within securitisation trusts (i)	107,875	95,623	-	-
	107,995	95,658	120	35

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

24 Notes to the statement of cash flows (continued)

	Consolidated		Company	
	2018	2017	2018	2017
	$'000	$'000	$'000	$'000
(c) Change in operating assets				
Investments	(195,027)	82,717	(352,269)	173,882
Derivatives assets	326	(6,670)	670	(6,910)
Trade and other receivables	111	(489)	(11,433)	(11,852)
Loans and advances	(1,739,917)	(2,994,333)	(1,741,588)	(3,025,438)
Other assets	(4,114)	(547)	(4,194)	343
Movement in other comprehensive income before income tax - available-for-sale financial assets	(1,576)	(732)	(1,576)	(733)
	(1,940,197)	(2,920,054)	(2,110,390)	(2,870,708)
(d) Change in operating liabilities				
Deposits and other borrowings	1,752,096	2,637,510	1,897,318	2,536,642
Derivatives liabilities	(15,355)	(60,924)	(12,491)	(48,690)
Trade and other payables	(3,491)	5,640	(1,516)	3,754
Provisions	2,753	36	2,753	36
Subordinated debt	-	(27)	-	(27)
Movement in other comprehensive income before income tax - cash flow hedges	17,237	64,802	14,403	55,144
	1,753,240	2,647,037	1,900,467	2,546,859
(e) Non-cash items included in profit before tax				
Depreciation of plant and equipment	3,084	6,148	3,084	6,148
Amortisation of intangible assets	19,814	16,769	19,814	16,769
Loss on disposal of plant and equipment, and computer software	920	16,301	920	16,301
Impairment losses	8,159	13,773	8,159	13,771
Amortisation of capitalised transaction costs	26,646	14,134	26,961	15,423
	58,623	67,125	58,938	68,412
(f) Operating cash flows from interest				
Interest received	1,294,577	1,207,150	1,235,053	890,973
Interest paid	830,686	817,050	562,943	601,758

Reconciliation of liabilities arising from financing activities

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

			Non-cash changes				
	1 July 2017	Financing cash flows	Acquisition	Foreign exchange movements	Fair value movements	Other changes	30 June 2018
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Subordinated debt	333,236	(33,000)	-	-	-	498	300,734

25 Financial instruments

	Consolidated		Company	
	2018 $'000	2017 $'000	2018 $'000	2017 $'000
(a) Categories of financial instruments				
Financial assets				
Cash and cash equivalents	409,650	312,646	166,238	86,343
Investments				
Available-for-sale financial assets	2,271,222	1,888,292	2,271,223	1,733,651
Held for trading financial assets	905,247	1,093,150	905,247	1,093,150
Derivatives				
Designated hedge accounting relationship	8,518	2,353	7,925	2,104
Held for trading	2,487	8,978	2,487	8,978
Trade and other receivables	5,894	6,005	30,531	19,098
Loans and advances	24,212,838	22,503,585	24,294,485	22,583,561
Financial liabilities				
Derivatives				
Designated hedge accounting relationship	7,698	26,677	4,293	20,408
Held for trading	3,874	250	3,874	250
At amortised cost:				
Deposits and other borrowings	26,165,970	24,410,231	26,033,555	24,132,279
Trade and other payables	22,230	25,721	24,344	25,860
Subordinated debt	300,734	333,236	300,734	333,236

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

(b) Fair value of financial instruments

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

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

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

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

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

25 Financial instruments (continued)

	Consolidated			
	Level 1	**Level 2**	**Level 3**	**Total**
	$'000	**$'000**	**$'000**	**$'000**
2018				
Assets				
Investments				
Available-for-sale financial assets:				
Treasury notes and semi-government securities	-	775,657	-	775,657
Bank bills	-	293,886	-	293,886
Corporate fixed rate notes	-	-	-	-
Corporate floating rate notes	-	1,030,662	-	1,030,662
Mortgage backed securities	-	171,017	-	171,017
Held for trading financial assets:				
Government Securities	-	905,247	-	905,247
	-	3,176,469	-	3,176,469
Derivatives				
Designated hedge accounting relationship	-	8,518	-	8,518
Held for trading	-	2,487	-	2,487
	-	11,005	-	2,487
Liabilities				
Derivatives				
Designated hedge accounting relationship	-	7,698	-	7,698
Held for trading	-	3,874	-	3,874
	-	11,572	-	11,572

	Consolidated			
	Level 1	**Level 2**	**Level 3**	**Total**
	$'000	**$'000**	**$'000**	**$'000**
2017				
Assets				
Investments				
Available-for-sale financial assets:				
Treasury notes and semi-government securities	-	493,690	-	493,690
Bank bills	-	235,359	-	235,359
Corporate fixed rate notes	-	-	-	-
Corporate floating rate notes	-	1,060,009	-	1,060,009
Mortgage backed securities	-	99,234	-	99,234
Held for trading financial assets:				
Government Securities	-	1,093,150	-	1,093,150
	-	2,981,442	-	2,981,442
Derivatives				
Designated hedge accounting relationship	-	2,353	-	2,353
Held for trading	-	8,978	-	8,978
	-	11,331	-	11,331
Liabilities				
Derivatives				
Designated hedge accounting relationship	-	26,677	-	26,677
Held for trading	-	250	-	250
	-	26,927	-	26,927

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
2018				
Assets				
Investments				
Available-for-sale financial assets:				
Treasury notes and semi-government securities	-	775,658	-	775,658
Bank bills	-	293,886	-	293,886
Corporate fixed rate notes	-	-	-	-
Corporate floating rate notes	-	1,030,662	-	1,030,662
Mortgage backed securities	-	171,017	-	171,017
Held for trading financial assets:				
Government Securities	-	905,247	-	905,247
	-	3,176,470	-	3,176,470
Derivatives				
Designated hedge accounting relationship	-	7,925	-	7,925
Held for trading	-	2,487	-	2,487
	-	10,412	-	10,412
Liabilities				
Derivatives				
Designated hedge accounting relationship	-	4,293	-	4,293
Held for trading	-	3,874	-	3,874
	-	8,167	-	8,167

	Company			
	Level 1	Level 2	Level 3	Total
	$'000	$'000	$'000	$'000
2017				
Assets				
Investments				
Available-for-sale financial assets:				
Treasury notes and semi-government securities	-	493,690	-	493,690
Bank bills	-	80,718	-	80,718
Corporate fixed rate notes	-	-	-	-
Corporate floating rate notes	-	1,060,009	-	1,060,009
Mortgage backed securities	-	99,234	-	99,234
Held for trading financial assets:				
Government Securities	-	1,093,150	-	1,093,150
	-	2,826,801	-	2,826,801
Derivatives				
Designated hedge accounting relationship	-	2,104	-	2,104
Held for trading	-	8,978	-	8,978
	-	11,082	-	11,082
Liabilities				
Derivatives				
Designated hedge accounting relationship	-	20,408	-	20,408
Held for trading	-	250	-	250
	-	20,658	-	20,658

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
2018					
Financial assets					
Loans and advances (i)	24,212,838	-	-	24,181,631	24,181,631
Financial liabilities					
Deposits and other borrowings:					
- Medium term notes (ii)	1,105,824	-	1,108,633	-	1,108,633
Subordinated debt (ii)	300,734	-	304,439	-	304,439
2017					
Financial assets					
Loans and advances (i)	22,503,585	-	-	22,528,765	22,528,765
Financial liabilities					
Deposits and other borrowings:					
- Medium term notes (ii)	1,255,855	-	1,257,612	-	1,257,612
Subordinated debt (ii)	333,236	-	337,191	-	337,191

	Book Value	Company			
		Level 1	Level 2	Level 3	Total
	$'000	$'000	$'000	$'000	$'000
2018					
Financial assets					
Loans and advances (i)	24,294,485	-	-	24,263,279	24,263,279
Financial liabilities					
Deposits and other borrowings:					
- Medium term notes (ii)	1,105,824	-	1,108,633	-	1,108,633
Subordinated debt (ii)	300,734	-	304,439	-	304,439
2017					
Financial assets					
Loans and advances (i)	22,583,561	-	-	22,608,743	22,608,743
Financial liabilities					
Deposits and other borrowings:					
- Medium term notes (ii)	1,255,855	-	1,257,612	-	1,257,612
Subordinated debt (ii)	333,236	-	337,191	-	337,191

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

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

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

26 Risk management

Overview
The Board has a Risk Management Framework to support the identification and management of all material risks across the Group.

A risk based assurance program provides line of sight across the management of all material risks, to help ensure both regulatory obligations and business objectives are met.

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

- Standard 1: Risk management leadership and accountability
- Standard 2: Risk identification and evaluation
- Standard 3: Risk control
- Standard 4: Risk management monitoring and reporting

Collectively, these elements of the framework:
- Allow the Board to establish and monitor risk appetite limits that reflect organisational strategy and good governance;
- Measure, across highly quantifiable risk classes such as credit, market, and liquidity risk, the risk capacity of the organisation, and apply meaningful risk tolerances;
- Measure, across more qualitative risk classes, specifically operational risks, the relative distribution of risk exposures and develop and apply meaningful risk appetite limits for 21 operational risk classes;
- Monitor risk exposures to risk limits and provide relevant reporting and insight, for both management/Board and regulators;
- Ensure clear accountability for the key controls on which the Group relies on to operate an effective business and meet regulatory and contractual obligations;
- Ensure adequate and effective business continuity and disaster recovery capabilities are in place, and regularly tested;
- Support the development of new or enhanced products and services, and the projects that deliver them;
- Provide insight for the Board on the risk culture of the organisation; and, overall,
- Assist the organisation make better risk based decisions to achieve its purpose and business objectives.

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

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

(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.

26 Risk management (continued)

As per the impairment requirement under AASB 9 'Financial Instruments', the Group will apply the expected credit loss (ECL) model on loans and advances from 1 July 2018. The key inputs into the measurement of ECLs are:

- Probability of default (PD);
- Loss given default (LGD), and;
- Exposure at default (EAD)

These parameters will be derived from internally developed models, to determine whether the credit risk, i.e. risk of default, on a financial instrument has increased significantly since initial recognition, i.e. accounts moving from low risk (stage 1) to higher risk (stage 2 or 3). This will also incorporate forward-looking information to reflect considerable judgement over how changes in macro-economic conditions affect ECL estimation.

Maximum exposure to credit risk

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

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
2018					
Available-for-sale financial assets	3,176,469	-	-	-	3,176,469
Trade and other receivables	-	5,894	-	-	5,894
Loans and advances	-	23,235,929	972,473	25,080	24,233,482
	3,176,469	23,241,823	972,473	25,080	27,415,845
2017					
Available-for-sale financial assets	2,981,442	-	-	-	2,981,442
Trade and other receivables	-	6,005	-	-	6,005
Loans and advances	-	21,632,709	885,534	10,942	22,529,185
	2,981,442	21,638,714	885,534	10,942	25,516,632

	Company				
	Neither past due nor impaired				
	Investment grade $'000	Unrated $'000	Past due but not impaired $'000	Impaired $'000	Total $'000
2018					
Available-for-sale financial assets	3,176,470	-	-	-	3,176,470
Trade and other receivables	-	30,531	-	-	30,531
Loans and advances	-	23,317,576	972,473	25,080	24,315,129
	3,176,470	23,348,107	972,473	25,080	27,522,130
2017					
Available-for-sale financial assets	2,826,801	-	-	-	2,826,801
Trade and other receivables	-	19,098	-	-	19,098
Loans and advances	-	21,712,685	885,534	10,942	22,609,161
	2,826,801	21,731,783	885,534	10,942	25,455,060

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
2018					
Net loans and advances					
Credit cards	12,252	1,939	880	-	15,071
Personal loans	10,910	3,066	1,660	-	15,636
Residential home loans	632,655	104,431	51,666	153,014	941,766
	655,817	109,436	54,206	153,014	972,473

	Consolidated and Company				
	< 30 days $'000	31 - 60 days $'000	61 - 90 days $'000	> 90 days $'000	Total $'000
2017					
Net loans and advances					
Credit cards	12,668	1,973	715	-	15,356
Personal loans	11,820	3,043	1,872	-	16,735
Residential home loans	590,716	92,041	44,018	126,668	853,443
	615,204	97,057	46,605	126,668	885,534

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

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

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 2016	3,431	7,803	10,969	443	1,967	80	24,693
Impairment allowance	5,511	8,666	910	(443)	(1,371)	437	13,710
Balances written off	(5,917)	(8,450)	(32)	-	(596)	(389)	(15,384)
Amounts recovered	1,315	1,141	253	-	-	29	2,738
Balance 30 June 2017	4,340	9,160	12,100	-	-	157	25,757
Balance 1 July 2017	4,340	9,160	12,100	-	-	157	25,757
Impairment allowance	6,165	3,919	(2,135)	-	(10)	221	8,160
Balances written off	(7,482)	(7,451)	(636)	-	-	(325)	(15,894)
Amounts recovered	1,262	1,402	-	-	10	-	2,674
Balance 30 June 2018	4,285	7,030	9,329	-	-	53	20,697

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 2016	3,431	7,803	10,969	443	1,967	79	24,692
Impairment allowance	5,511	8,666	974	(443)	(1,371)	435	13,772
Balances written off	(5,916)	(8,450)	(32)	-	(596)	(387)	(15,381)
Amounts recovered	1,314	1,141	189	-	-	29	2,673
Balance 30 June 2017	4,340	9,160	12,100	-	-	156	25,756
Balance 1 July 2017	4,340	9,160	12,100	-	-	156	25,756
Impairment allowance	6,165	3,919	(2,135)	-	(10)	221	8,160
Balances written off	(7,483)	(7,450)	(636)	-	-	(325)	(15,894)
Amounts recovered	1,262	1,402	-	-	10	-	2,674
Balance 30 June 2018	4,284	7,031	9,329	-	-	52	20,696

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.

	Percentage of exposure that is subject to collateral requirements 2018	2017	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) (iii)	-	-	Commercial and residential property

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

(ii) The general creditworthiness of a business customer (commercial loans and asset finance) tends to be the most relevant indicator of credit quality of a loan extended to it. However, collateral provides additional security and the Group generally requested 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.

(iii) On 1 December 2016, the commercial loans and asset finance portfolios were divested.

Offsetting financial assets and financial liabilities

As at 30 June 2018, there are no financial assets and financial liabilities that are offset in the Group's statement of financial position. The Group considers the ISDA master netting agreements do not meet the criteria for offsetting in the statement of financial position. This is because they create for the parties to the agreement a right of set-off of recognised amounts that is enforceable only following an event of default, insolvency or bankruptcy of the Group or the counterparties or following other predetermined events (please refer to Note 16).

26 Risk management (continued)

(b) Liquidity risk

The Group defines liquidity risk as:

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

The objectives of the Liquidity and Funding Risk Policy is to:

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

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

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

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

The table below summarises the maturity profile of the Group's financial liabilities as at 30 June 2018 based on contractual undiscounted repayment obligations, including interest repayments up to the maturity date. Liability products that are subject to a notice period are treated as if notice were given immediately, however this does not reflect the expected behavioral cash flows as indicated by the Group's deposit retention history.

	Consolidated				
	At call $'000	0 - 3 months $'000	3 mths to 1 year $'000	1 - 5 years $'000	More than 5 years $'000
2018					
Deposits and other borrowings	5,252,125	8,595,511	7,049,796	4,863,616	1,045,505
Trade payables		22,230			
Subordinated debt		3,513	10,790	57,711	316,777
Net settled:					
Interest rate swaps (cash flow hedges)		(888)	(5,112)	(17,438)	(11,777)
Interest rate swaps (held-for-trading)		(273)	185	272	
Foreign exchange contracts (cash flow hedges)			355	639	
Total undiscounted cash flows	5,252,125	8,620,093	7,056,014	4,904,800	1,350,505
2017					
Deposits and other borrowings	4,511,984	5,809,458	7,816,366	1,743,092	5,616,054
Trade payables	-	25,721	-	-	-
Subordinated debt	-	3,780	11,169	59,737	362,390
Net settled:					
Interest rate swaps (cash flow hedges)	-	(9,736)	(13,757)	(282)	-
Interest rate swaps (held-for-trading)	-	(30)	(294)	(736)	-
Foreign exchange contracts (cash flow hedges)	-	-	270	1,009	-
Total undiscounted cash flows	4,511,984	5,829,193	7,813,754	1,802,820	5,978,444

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
2018					
Deposits and other borrowings	5,252,125	8,386,043	6,478,386	2,901,011	22,545
Trade payables	-	24,344	-	-	-
Subordinated debt	-	3,513	10,790	57,711	316,777
Net settled:					
Interest rate swaps (cash flow hedges)		(1,164)	(5,586)	(16,843)	(11,777)
Interest rate swaps (held-for-trading)		(273)	185	272	
Foreign exchange contracts			355	639	
Total undiscounted cash flows	5,252,125	8,412,463	6,484,130	2,942,790	327,545
2017					
Deposits and other borrowings	4,511,984	5,809,458	7,816,366	1,743,092	5,616,054
Trade payables	-	25,860	-	-	-
Subordinated debt	-	3,780	11,169	59,737	362,390
Net settled:					
Interest rate swaps (cash flow hedges)	-	(6,773)	(10,718)	1,053	-
Interest rate swaps (held-for-trading)	-	(30)	(294)	(736)	-
Foreign exchange contracts	-	-	270	1,009	-
Total undiscounted cash flows	4,511,984	5,832,295	7,816,793	1,804,155	5,978,444

(c) Market risk

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

Interest rate risk

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

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

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

Interest rate sensitivity analysis

The following table details the sensitivity of the Group's forecast 1 year pre tax NII and MVE to a 2% parallel shock in forward interest rates. The simulation modelling contains a floor of 0% where the interest rate on a recognised financial instrument is below 2%. NII measures do not take into account the potential impact of market movements on profit and loss due to the mark to market treatment of those financial assets and liabilities carried at fair value through profit or loss at reporting date.

MVE sensitivity was calculated using a 2% parallel shock in forward interest rates at reporting date, assuming all financial assets and liabilities are measured at fair value regardless of their accounting treatment.

	Consolidated and Company			
	Net interest income		MVE	
	2% increase $'000	2% decrease $'000	2% increase $'000	2% decrease $'000
30 June 2018	37,729	(2,523)	19,238	(21,787)
30 June 2017	32,767	(19,298)	22,871	(11,752)

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 cash flows (2017: $nil).

(d) Operational risk

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

Where possible and appropriate, the Group builds operational risk controls into each of its processes. Control processes are designed to be appropriate to the activities conducted. While it is not possible to specify all types of control processes, the following controls are implemented wherever appropriate:

- integration of controls in processes and role responsibilities;
- promoting compliance within the process and with all relevant laws and regulatory requirements;
- maintaining safeguards for access to, and use of, assets and records;
- where possible and appropriate, the segregation of duties through role and system-based segregation to protect against internal fraud and avoiding conflicts of interest;
- promoting effective IT security practices, including system access controls;
- clearly communicated policies and procedures; and
- monitoring of adherence to assigned risk limits or thresholds.

(e) Macro-economic, political and regulatory risks

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

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

Although the Group has in place a number of strategies to minimise the exposure to economic risk and will engage in prudent management practices to minimise its exposure in the future, these factors may nonetheless have an adverse impact on financial performance and position. As part of these strategies the Group will undertake regular stress testing of its portfolios, but this testing might not anticipate the exact circumstances of the change in the various factors which have an impact on the economy, or on the Group.

The financial services industry, and banking in particular, is currently the subject of increased public scrutiny and government and regulatory oversight, including the Financial Services Royal Commission.

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

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. Tier 1 capital comprises of Common Equity Tier 1 (CET1) capital and any Additional Tier 1 (AT1) capital. The total capital of the Group is the sum of Tier 1 and Tier 2 capital, net of all specified deductions and amortisation, subject to the limits that apply under APRA Prudential Standard APS 111 'Capital Adequacy: Measurement of Capital'.

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

The minimum CET1 ratio, Tier 1 capital ratio and total capital ratio under APRA's Basel III capital adequacy Prudential Standard are 4.5%, 6.0% and 8.0% respectively.

In addition to the minimum total capital ratio described above, APRA sets a Prudential Capital Ratio at a level proportional to an ADI's overall risk profile. A breach of the required ratios under the prudential standards may trigger legally enforceable directions by APRA, which can include a direction to raise additional capital or to cease business.

From 1 January 2016, APRA implemented a capital conservation buffer of 2.5% of an ADI's total risk weighted assets.

APRA requires capital adequacy to be measured at two levels:

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

Capital ratios are monitored against internal capital targets set by the Board which are over and above minimum APRA capital requirements. The Group remains well capitalised with a total capital ratio of 15% as at 30 June 2018.

Securitisation deconsolidation principle

Where an ADI (or a member of its level 2 consolidated group) participates in a securitisation that meets APRA's operational requirements for regulatory capital relief under Prudential Standard APS 120 Securitisation, the special purpose vehicle holding securitised assets is treated as non-consolidated independent third party for the purpose of calculating the capital adequacy ratio. SMHL Series Securitisation Fund 2011-2, SMHL Series Private Placement 2011-1, SMHL Series Securitisation Fund 2012-1,SMHL Series Securitisation Fund 2013-1, SMHL Series Securitisation Fund 2014-1, SMHL Series Securitisation Fund 2015-1, SMHL Series Securitisation Fund 2016-1, and SMHL Series Securitisation Fund 2017-1 have complied with APS 120, accordingly, they are not included in the calculation of capital adequacy.

Capital adequacy ratio

	Level 1	
	2018	**2017**
	%	**%**
Risk weighted capital adequacy ratios		
Tier 1		
Common Equity Tier 1	9.7	10.0
Additional Tier 1	2.0	-
Tier 2	3.4	4.0
Total capital ratio	15.1	14.0

The internal total capital adequacy ratio set by the Board remained at 11.5% during the financial year ended 30 June 2018 (2017: 11.5%).

The adoption of AASB 9 on 1 July 2018 is estimated to reduce retained earnings by $6 to $11 million, net of deferred tax (corresponding to $8 to $15 million increase in loss provisions). Further explanation of the expected impact of the implementation of AASB 9 is provided in note 2 to the consolidated financial statements. The Group does not expect the transition to AASB 9 to

27 Capital management (continued)

have a significant impact on its regulatory capital position. The Group has elected to apply the regulatory transitional arrangements in relation to the impairment requirements of AASB 9.

28 Director and key management personnel compensation

(a) Details of key management personnel

The directors of the Company and other key management personnel of the Group during the year were:

Directors - Company

K Hodgson	Chairman
C Bart	
C Christian	
G Combet	
J Milne	
J Nesbitt	
E Rubin	

Key management personnel

J McPhee	Chief Executive Officer
A Aboud	Chief Change Officer (resigned 22 February 2018)
C Cataldo	Chief Risk Officer (from 1 July 2017 to 22 August 2017 and from 1 May 2018 to present) Acting Chief Product Officer (appointed from 23 August 2017 to 30 April 2018)
G Dickson	Chief Financial Officer
M Gay	Chief Information Officer (resigned 1 December 2017)
H Gordon	Group Executive, People Experience (resigned 3 July 2017)
I Purcell	Acting Group Executive, People Experience (appointed from 4 July 2017 to 12 November 2017) & Chief Experience Officer (appointed 23 August 2017)
R James	Chief Marketing Officer (resigned 22 August 2017)
A Middleton	Group Executive, Sales & Acting Group Executive, Service Excellence (appointed from 2 December 2017)
C Ralston	Group Executive, Service Excellence (from 1 July 2017 to 1 December 2017) & Acting Chief Information Officer (appointed from 4 December 2017 to 29 June 2018) & Group Executive, Customer Banking (appointed 1 May 2018)
M Simpson	Group Executive, People Experience (appointed 13 November 2017)
M Toohey	Chief Information Officer (appointed 2 July 2018)
M Hendricks	Acting Chief Risk Officer (appointed from 23 August 2017 to 30 April 2018)

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	
	2018	2017
	$	$
Key management personnel		
Short term benefits	4,760,697	5,277,125
Other long term benefits	836,416	1,205,959
Termination benefits	821,719	-
Total key management personnel compensation	6,418,832	6,483,084

During the year the Group refined its application of the definitions of short term and other long term benefits. The prior year comparatives have been updated to conform with the new interpretations for comparability.

28 Director and key management personnel compensation (continued)

(c) Key management personnel loan and deposit transactions

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

	Company	
	2018	2017
	$	$
Key management personnel		
Loans advanced	4,518,565	4,168,622
Interest charged on loans advanced	134,380	118,297
Deposits	2,057,399	1,424,244
Interest paid on deposits	22,503	21,541
	6,732,847	5,732,704

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

Interest is for all key management personnel during the period.

(d) Key management personnel holdings of securities

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

(e) Key management personnel holdings of securities

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

(f) Aggregate compensation made to directors

Board schedule of fees of the Company

	Company	
	2018	2017
	$	$
Chair of the Board	189,000	168,000
Member of the Board	94,500	84,000
Audit and Governance Committee		
Chair of the committee	14,200	13,500
Committee member	7,100	6,750
Risk and Compliance Committee		
Chair of the committee	14,200	13,500
Committee member	7,100	6,750
People and Remuneration Committee		
Chair of the committee	14,200	13,500
Committee member	7,100	6,750
Digital Committee (formerly Technology Committee)		
Chair of the committee	14,200	13,500
Committee member	7,100	6,750
Investment and Partnerships Strategy Committee		
Chair of the committee	14,200	-
Committee member	7,100	-

28 Director and key management personnel compensation (continued)

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

Director	Committee membership	2018 $	2017 $
K Hodgson	Chair of the Board	189,000	168,000
	Member of the Board	-	-
	Audit & Governance Committee	7,100	6,750
	Risk & Compliance Committee (ceased 5 April 2017)	-	5,140
	Chair, People & Remuneration Committee	14,200	13,500
	Investment & Partnerships Strategy Committee (appointed 2 April 2018)	1,200	-
		211,500	193,390
C Bart	Member of the Board	94,500	84,000
	Risk & Compliance Committee	7,100	6,750
	Chair, Digital Committee	14,200	3,219
	Digital Committee (ceased 5 April 2017)	-	5,140
		115,800	99,109
C Christian	Member of the Board	94,500	84,000
	Chair, Audit & Governance Committee (ceased 7 June 2017)	-	13,059
	Audit & Governance Committee	7,100	441
	Chair, Risk & Compliance Committee	14,200	13,500
		115,800	111,000
G Combet	Member of the Board	94,500	84,000
	Audit & Governance Committee (ceased 5 April 2017)	-	5,140
	Risk & Compliance Committee (appointed 6 December 2017)	4,042	5,140
	People & Remuneration Committee	7,100	1,610
	Digital Committee (ceased 30 October 2017)	2,349	1,610
	Chair, Investment & Partnerships Strategy Committee (appointed 2 April 2018)	3,386	-
		111,377	97,500
A De Salis	Member of the Board (ceased 14 Novemeber 2016)	-	31,015
	People & Remuneration Committee (ceased 14 November 2016)	-	2,492
	Digital Committee (ceased 14 Novemebr 2016)	-	2,492
		-	35,999
J Milne	Member of the Board	62,879	64,615
	Chair, Digital Committee (ceased 31 March 2017)	-	10,385
	People & Remuneration Committee (ceased 31 March 2017)	-	1,817
	Digital Committee (appointed 1 November 2017)	4,724	-
		67,603	76,817
J Nesbitt	Member of the Board	94,500	34,569
	Risk & Compliance Committee	7,100	2,778
	Chair, Audit & Governance Committee	14,200	883
	Audit & Governance Committee (ceased 7 June 2017)	-	1,670
	Investment & Partnerships Strategy Committee (appointed 2 April 2018)	1,200	-
		117,000	39,900
E Rubin	Member of the Board	94,500	62,677
	People & Remuneration Committee	7,100	3,375
	Digital Committee	7,100	3,375
	Investment & Partnerships Strategy Committee (appointed 2 April 2018)	1,200	-
		109,900	69,427
G Weaven	Member of the Board (ceased 31 December 2016)	-	45,231
	Chair, People and Remuneration Committee (ceased 31 December 2016)	-	3,635
		-	48,866
Total directors compensation		848,980	772,008

29 Related party transactions

(a) Equity interests in related parties

Equity interests in subsidiaries

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

(b) Transactions with directors and key management personnel

(i) Key management personnel compensation

Details of director and key management personnel compensation are disclosed in Note 28 to the financial statements.

(ii) Other transactions with key management personnel

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

(c) Transactions between the Company and its subsidiaries

(i) During the financial year ended 30 June 2018, the following transactions occurred between the Company and its subsidiaries:

- Management fees received or receivable from the subsidiary entity of $2,900,261 (2017: $5,950,921);
- Mortgage manager fee paid or payable to the subsidiary entity of $19,301 (2017: $22,311); and
- The Company is the parent entity of a tax consolidated-group.
  Payments to/from the Company are made in accordance with the terms of the tax funding and sharing agreement.

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

- Net receivables of $256,966 are owed from the subsidiary entity (2017: $592,335).

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

30 Maturity analysis of assets and liabilities

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

	Consolidated			Company		
	Less than 12 months	Over 12 months	Total	Less than 12 months	Over 12 months	Total
	$'000	$'000	$'000	$'000	$'000	$'000
As at 30 June 2018						
Assets						
Cash and cash equivalents	409,650	-	409,650	166,238	-	166,238
Investments	1,017,839	2,158,630	3,176,469	1,017,948	2,158,522	3,176,470
Derivatives	1,959	9,046	11,005	2,117	8,295	10,412
Trade and other receivables	5,894	-	5,894	30,531	-	30,531
Loans and advances	259,050	23,953,788	24,212,838	340,697	23,953,788	24,294,485
Investment in controlled entities	-	-	-	-	102	102
Plant and equipment	-	5,780	5,780	-	5,780	5,780
Intangible assets	-	93,228	93,228	-	93,228	93,228
Deferred tax assets	-	8,802	8,802	-	8,799	8,799
Other assets	13,083	-	13,083	13,364	-	13,364
	1,707,475	26,229,274	27,936,749	1,570,895	26,228,514	27,799,409
Liabilities						
Deposits and other borrowings	20,335,382	5,810,587	26,145,969	15,941,931	10,091,624	26,033,555
Derivatives	2,738	8,834	11,572	3,433	4,734	8,167
Trade and other payables	22,230	-	22,230	24,344	-	24,344
Current tax liabilities	838	-	838	-	-	-
Provisions	21,132	8,103	29,235	21,132	8,103	29,235
Subordinated debt	-	300,734	300,734	-	300,734	300,734
Total liabilities	20,382,320	6,128,258	26,510,578	15,990,840	10,405,195	26,396,035
Net	(18,674,845)	20,101,016	1,426,171	(14,419,945)	15,823,319	1,403,374

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 2017						
Assets						
Cash and cash equivalents	312,646	-	312,646	86,343	-	86,343
Investments	616,163	2,365,279	2,981,442	461,522	2,365,279	2,826,801
Derivatives	7,805	3,526	11,331	7,861	3,221	11,082
Trade and other receivables	6,005	-	6,005	19,098	-	19,098
Loans and advances	451,607	22,051,978	22,503,585	523,756	22,059,805	22,583,561
Investment in controlled entities	-	-	-	-	102	102
Plant and equipment	-	8,330	8,330	-	8,330	8,330
Intangible assets	-	89,336	89,336	-	89,336	89,336
Deferred tax assets	-	14,557	14,557	-	14,555	14,555
Other assets	8,969	-	8,969	9,170	-	9,170
	1,403,195	24,533,006	25,936,201	1,107,750	24,540,628	25,648,378
Liabilities						
Deposits and other borrowings	18,596,317	5,813,914	24,410,231	18,549,133	5,583,146	24,132,279
Derivatives	14,488	12,439	26,927	10,524	10,134	20,658
Trade and other payables	25,721	-	25,721	25,860	-	25,860
Current tax liabilities	949	-	949	-	-	-
Provisions	18,615	7,867	26,482	18,615	7,867	26,482
Subordinated debt	-	333,236	333,236	-	333,236	333,236
Total liabilities	18,656,090	6,167,456	24,823,546	18,604,132	5,934,383	24,538,515
Net	(17,252,895)	18,365,550	1,112,655	(17,496,382)	18,606,245	1,109,863

31 Remuneration of auditors

	Consolidated		Company	
	2018	2017	2018	2017
	$	$	$	$
Audit and Review of Financial statements	409,000	395,500	349,500	351,500
Regulatory audits	291,000	116,000	283,000	108,000
Tax services	201,321	147,319	112,321	130,440
Other services	225,490	439,000	225,490	439,000
	1,126,811	1,097,819	970,311	1,028,940

The auditor of the Group is Deloitte Touche Tohmatsu.

32 Subsequent events

The Group priced a public offering of prime residential mortgage backed securities via SMHL Series Securitisation Fund 2018-2. The issue settled on 16 August 2018 and had a final volume of $1.25 billion.

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