Members Equity Bank Limited

ABN: 56 070 887 679

Annual Financial Report

For the financial year ended 30 June 2019

Members Equity Bank Limited

Annual financial report
for the financial year ended 30 June 2019

General Information

Australian Business Number
56 070 887 679

Directors

J Evans	Chairman (appointed 30 April 2019)
C Bart	
C Christian	
G Combet	
P Everingham	(appointed 30 April 2019)
K Hodgson	(resigned 31 March 2019)
D Issa	(appointed 31 March 2019)
J Milne	(resigned 4 October 2018)
J Nesbitt	
E Rubin	

Chief Executive Officer
J McPhee

Chief Financial Officer

A Crane	(appointed 19 August 2019)
K Barnes	(appointed 3 July 2019 and resigned 19 August 2019 - interim)
Gary Dickson	(resigned 21 June 2019)

Company Secretary

J Brand	(appointed 20 June 2019)
A Martin	(appointed 9 November 2018 and resigned 29 August 2019)
I Rogerson	(resigned 9 November 2018)

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 2019

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The directors of Members Equity Bank Limited ("the Company") submit herewith the annual financial report of "the Group" (being the Company and its subsidiaries) for the financial year ended 30 June 2019.

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

Directors

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

J Evans	Chairman (appointed 30 April 2019)
K Hodgson	Chairman (appointed 1 January 2016 and resigned 31 March 2019)
C Bart	
C Christian	
G Combet	
P Everingham	(appointed 30 April 2019)
D Issa	(appointed 31 March 2019)
J Milne	(resigned 4 October 2018)
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 (2018: $nil). The directors do not recommend the payment of a dividend in respect of the financial year ended 30 June 2019.

The Group has paid $12,464,696 of fully franked dividends during the year with respect to the perpetual Capital Notes issued (2018: $4,864,616).

Review of operations and results

Profit for the year ended 30 June 2019 was $67.1 million (2018: $89.1 million).

Subsequent events

Subsequent to the financial year ended 30 June 2019, the Company has redeemed $300 million of subordinated debt in August 2019. Other than the matter disclosed 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 2019, a 50 basis points increase in total capital requirements equated to approximately $52 million.

On 14 February 2018, APRA released two discussion papers for consultation on proposed revisions to the capital framework for authorised deposit-taking institutions (ADIs). One paper notes changes to the capital framework following the Basel Committee announcements, while the other paper outlines an approach for a leverage ratio.

The proposed revisions would assist in levelling the playing field in Australian banking between the standardised and internal ratings-based (IRB) banks. The key changes for standardised banks involve improving granularity in the mortgage book where risk weights are to be tiered based on loan-to-value ratio (LVR) and ascertaining whether a mortgage is for an owner-occupied property or an ‘income-producing real estate’. Any impact is expected to be well covered through the ‘unquestionably strong’ benchmarking.

Additionally, APRA is proposing a minimum leverage ratio of 4% for IRB banks and 3% for standardised ADIs. The proposed implementation date is 1 January 2022. This is not expected to be a constraint, with average leverage ratios above 5% disclosed by the IRB ADIs.

A response from APRA was subsequently published on 12 June 2019, which aims to progress key elements of the proposals relating to residential mortgages, the standardised approaches to credit risk and operational risk, and the simplified framework.

Director's report (continued)

Proposals on other amendments to the IRB approach, the interest rate risk in the banking book framework and improvements to the transparency, comparability and flexibility of the ADI capital framework will be subject to consultation in late 2019.

Corporate governance statement

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

Board Composition

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

- The Board maintains a majority of independent non-executive directors; and
- The Board comprises directors with an appropriate range of qualifications and experience.
- In accordance with the Board Renewal Policy, the directors are rotated through the mechanisms contained in the ME Constitution, which require a third of directors to retire in each year, with a three-year rotation period for each director. Directors retiring by rotation may stand for re-appointment. This process is used to periodically review and recommend changes in the composition of the board.

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

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

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

James Evans - Non Executive Director
Director since April 2019

In addition to his role as Chairman of the board, Jim is a member of the People and Remuneration Committee (from 15 May 2019). Jim has over 40 years’ experience, including 30 years in banking and financial services. He is currently Chairman of ASX 100-listed company Pendal Group Limited and its major subsidiary J O Hambro Capital Management Holdings Limited. He is also a non-executive director of Investa Wholesale Funds Management Limited and ICPF Holdings Limited. Jim worked at Commonwealth Bank for more than 10 years, including five as Chief Risk Officer of Wealth Management, during which time he held directorships in funds management, general insurance, life insurance and lease financing businesses. Jim has served as the Chairman of Suncorp Portfolio Services Limited and as a non-executive director of Australian Infrastructure Fund Limited as well as Hastings Funds Management Limited.

Christine Christian - Non Executive Director
Director since November 2012

Christine is the Chair of the Risk and Compliance Committee, Chair of the Nominations Committee (from 4 October 2018 until that committee was dissolved on 15 May 2019) and a member of the Audit and Governance Committee. Christine is an independent company director; she is currently Chairman of Kirwood Capital and Deputy Chair of FlexiGroup Ltd. She is a director of State Library of Victoria, Lonsec Financial Group, La Trobe University, the Cranlana Programme and the Victorian Managed Insurance Authority. She also has more than 30 years’ experience in senior executive roles in Australia and overseas, primarily in the credit risk, financial services and global business publishing sectors – including 14 years as CEO of Dun & Bradstreet Australia and New Zealand, Chairman of Dun & Bradstreet Consumer Credit Services, and Executive Director of Dun & Bradstreet India.

Greg Combet AM - Non Executive Director
Director since November 2014 `

Greg is a member of the Risk and Compliance Committee and the People and Remuneration Committee (to 15 May 2019), and Chair of the Investments and Partnerships Strategy Committee (until that committee was dissolved on 15 May 2019). He is Chair of IFM Investors and Industry Super Australia, and Director of Greg Combet Pty Ltd. He also holds a number of consultancy and advisory roles. Greg held various cabinet, ministerial and parliamentary roles within the Australian Government from 2007 to 2013, including as Minister for Industry and Innovation, Minister for Climate Change and Energy Efficiency, and Minister for Defence Personnel, Science and Materiel. He was formerly Secretary of the Australian Council of Trade Unions (ACTU) and a director of AustralianSuper. During the year, he was a patron of Mine Dust Victims Group.

Cheryl Bart AO – Non Executive Director
Director since July 2016

Cheryl is Chair of the Digital Committee, a member of the Audit and Governance Committee (from 12 April 2019) and a member of the Risk and Compliance Committee (to 15 May 2019). She is currently Chairman of Powering Australian Renewables Fund, and a non-executive director of SG Fleet Group Ltd, Audio Pixels Holding Ltd, TEDxSydney, and was a non-executive director for the Invictus Games 2018. Cheryl 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. Her previous non-executive directorships include Chairman of ANZ Trustees Ltd, South Australian Environment Protection Authority and South Australian Film Corporation as well as a non- executive director of the Australian Broadcasting Corporation, Football Federation Australia (FFA), Prince’s Trust Australia and Spark Infrastructure Ltd.

Director's report (continued)

Peter Everingham - Non Executive Director
Director since April 2019

Peter is a member of the Digital Committee (from 30 April 2019) and the People and Remuneration Committee (from 15 May 2019). He has over 25 years' corporate experience including 18 years in the digital sector. Peter is currently a director of Super Retail Group and iCar Asia. He is also a governor and director of the World Wide Fund for Nature Australia. He was formerly Managing Director of SEEK Limited's International Division and served as a non-executive director of its education businesses IDP Education, Online Education Services and Think Education. He was also chairman of SEEK's China subsidiary, Zhaopin Limited. Prior to SEEK, Peter was Director of Strategy for Yahoo! in Australia and Southeast Asia.

David Issa - Non Executive Director
Director since March 2019

David is a member of the Digital Committee (from 12 April 2019) and the Audit and Governance Committee (from 15 May 2019). He is currently a director at Industry Fund Services and has over 30 years' experience in the digital, technology, banking and insurance industries. His previous roles include Director of Superpartners, CEO of online consumer networks One Big Switch and FiftyUp Club as well as CEO of Personal Insurance and CIO at Insurance Australia Group. At Westpac Banking Corporation, David held roles including CIO at Institutional Banking Group, Program Director at Westpac Investing, and CEO of the bank's wholly owned software incubator Qvalent.

John Nesbitt - Non Executive Director
Director since February 2017

John is Chair of the Audit and Governance Committee as well as a member of the Risk and Compliance Committee, the Investments and Partnerships Strategy Committee (until that committee was dissolved on 15 May 2019) and the Nominations Committee (until that committee was dissolved on 15 May 2019). John is a non-executive director and Independent Chairman of AMP Capital Holdings Limited as well as a non-executive director of General Reinsurance Life Australia Limited, General Reinsurance Australia Limited and Evolve Housing Limited (previously Affordable Community Housing Limited). John has broader financial services, property, infrastructure, technology and chartered accounting experience through his previous roles as CEO of Suncorp Banking and Wealth, Group Chief Financial Officer (CFO) of Suncorp Group Limited as well as Group CFO and Group Executive Private Wealth at Perpetual Limited and CFO roles at Lend Lease Corporation Limited. He has previously been Chair of the Perpetual Superannuation Board and has had memberships at a number of complex joint venture and industry representative boards.

Elana Rubin - Non-Executive Director
Director since October 2016

Elana is a member of the People and Remuneration Committee and was appointed Chair of that committee on 15 May 2019. Elana is also a member of the Risk and Compliance Committee (from 15 May 2019). She was a member of the Digital Committee (to 15 May 2019), the Investments and Partnerships Strategy Committee (until that committee was dissolved on 15 May 2019) and the Nominations Committee (until that committee was dissolved on15 May 2019). She is currently a director of Mirvac Group, Afterpay Touch Group, Slater and Gordon as well as several unlisted and/or government bodies in insurance, funds management, infrastructure and property sectors. Elana has over 20 years' experience as a non-executive director on private, government and not-for-profit boards. Previous non-executive directorships include Chair of AustralianSuper.

Company Secretary

Adam Martin

Mr Martin was appointed Company Secretary on 9 November 2018 and resigned 29 August 2019. Mr Martin is a lawyer by training and prior to joining ME Bank was the Chief Legal Officer for the Toll Holdings Limited Group of Companies.

Joanna Brand

Ms Brand was appointed Company Secretary on 20 June 2019. Ms Brand is a lawyer by training. Prior to joining ME Bank, Ms Brand was the Chief Legal Counsel for Jetstar Airways.

Board Responsibilities

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

This includes:

- appointing and, if necessary, removing the Chief Executive Officer (CEO);
- reviewing and approving the business plan and budget;

Director's report (continued)

- 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.

<u>Role of CEO</u>

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

<u>Board Committees</u>

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.

Director's report (continued)

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 (resigned 31 March 2019) and Ms Rubin (appointed 15 May 2019).

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 (committee dissolved 15 June 2019)
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.

Director's report (continued)

- 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.

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

Nominations Committee (committee dissolved 15 May 2019)

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 (resigned 4 October 2018) and subsequently by Ms Christian (4 October 2018 until 15 May 2019).

Board Performance

The Board meets on a regular basis to address relevant operational and strategic issues affecting the Company. A program is in place for self evaluation of performance by the Board and each of its Committees. A self evaluation of each of the Risk and Compliance Committee, Audit and Governance Committee, People and Remuneration 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. An external party conducted an evaluation of the Board performance during FY19.

Board attendance 1 July 2018 to 30 June 2019

	Board Meetings		
	Held	Eligible	Attn'd
C Bart	11	11	11
C Christian	11	11	9
G Combet	11	11	9
J Evans	11	3	3
P Everingham	11	3	3
K Hodgson	11	7	7
D Issa	11	4	4
J Milne	11	3	3
J Nesbitt	11	11	11
E Rubin	11	11	11

The directors attended a Board Strategy Day on 31 January 2019.

Board Committee attendance 1 July 2018 to 30 June 2019

	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	-	7	y	7	-	n	-	6	y	5[6]	5	y	1[2]
C Christian	-	n	-	-	n	-	-	n	-	6	y	5	5	y	4
G Combet	5	y	5	-	n	-	4	y	4	6	y	5	-	n	-
J Evans	5	y	0[1]	-	n	-	-	n	-	-	n	-	-	n	-
P Everingham	5	y	0[1]	7	y	1[2]	-	n	-	-	n	-	-	n	-
K Hodgson	5	y	4[5]	-	n	-	4	y	2[3]	-	n	-	5	y	3[4]
D Issa	-	n	-	7	y	1[2]	-	n	-	-	n	-	5	y	1[2]
J Milne	-	n	-	7	y	2[3]	-	n	-	-	n	-	-	n	-
J Nesbitt	-	n	-	-	n	-	4	y	4	6	y	6	5	y	5
E Rubin	5	y	5	7	y	6[7]	4	y	4	6	y	0[2]	-	n	-

Director's report (continued)

	Nominations Committee		
	Held	Member	Attn'd
C Bart	-	n	-
C Christian	1	y	1
G Combet	-	n	-
J Evans	-	n	-
P Everingham	-	n	-
K Hodgson	1	y	0
D Issa	-	n	-
J Milne	-	n	-
J Nesbitt	1	y	1
E Rubin	1	y	1

Note:
1 Eligible for nil meetings
2 Eligible for one meeting only.
3 Eligible for two meetings only.
4 Eligible for three meetings only.
5 Eligible for four meetings only.
6 Eligible for five meetings only.
7 Eligible for six meetings only.

Disclosures by directors

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

Remuneration of directors and key management personnel

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

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

Remuneration Framework - Employees

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

Remuneration at the Company will;	Because it will…
Support the strategy	• Encourage performance and behaviours that contribute to the overall achievement of the long-term business strategy of the Company. • Link remuneration to the generation of sustainable value for the organisation and its shareholders.
Align to our values	• Encourage performance and behaviours that are consistent with the values and culture of the Company.
Be fair	• Attract, motivate and retain high performers by providing remuneration that is market competitive.
Be transparent	• Be structured, 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, 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.

Director's report (continued)

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 a balanced scorecard result achieved within the appropriate risk and values frameworks. In line with recommendations of the Sedgwick report, all sales incentive programs will cease at the end of financial year ended June 2019

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, 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.

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.

Director's report (continued)

Rounding off of amounts

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

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

On behalf of the Directors

Director
Melbourne, 11 September 2019

Deloitte.

Deloitte Touche Tohmatsu
ABN 74 490 121 060

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11 September 2019

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 2019, 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.

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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 2019, 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 2019 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 2019, 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 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.

Deloitte.

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

DELOITTE TOUCHE TOHMATSU

Mark Stretton
Partner
Chartered Accountants

Melbourne, 11 September 2019

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 2019

Members Equity Bank Limited

Statement of profit or loss and other comprehensive income

	Notes	Consolidated 2019 $'000	Consolidated 2018 $'000	Company 2019 $'000	Company 2018 $'000
Interest and similar income	5	1,312,512	1,245,424	1,263,293	1,199,716
Interest and similar expense	5	(898,387)	(848,311)	(953,708)	(919,110)
Net interest income		414,125	397,113	309,585	280,606
Funds management fee income	5	1,618	2,900	16,989	17,380
Other operating income	5	20,760	25,190	81,232	125,308
Total net operating income		436,503	425,203	407,806	423,294
Expenses					
Operating expenses	5	267,113	253,040	263,129	249,419
Impairment on intangibles	13	20,606	-	20,606	-
Impairment losses	5	8,944	8,159	8,928	8,159
Project expenses	5	43,770	36,065	43,770	36,065
Loss on sale of commercial loans and asset finance portfolios	5	-	350	-	350
Total expenses		340,433	297,614	336,433	293,993
Profit before income tax		96,070	127,589	71,373	129,301
Income tax expense	6	28,955	38,533	20,736	38,267
Profit for the year		67,115	89,056	50,637	91,034
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/(loss) on FVTOCI financial assets, net of tax		2,625	(1,103)	2,625	(1,102)
Cash flow hedges - effective portion of changes in fair values, net of tax		(63,265)	12,066	(46,848)	10,083
Total comprehensive income for the year		6,475	100,019	6,414	100,015

Notes to the financial statements are included on pages 19 to 73.

Statement of financial position
as at 30 June 2019

		Consolidated		Company	
	Notes	2019 $'000	2018 $'000	2019 $'000	2018 $'000
Assets					
Cash and cash equivalents	24(a)	839,889	409,650	533,154	166,238
Investments	7	3,581,453	3,176,469	3,581,453	3,176,470
Derivatives	16	3,785	11,005	3,311	10,412
Trade and other receivables	8	9,520	5,894	10,425	30,531
Current tax assets	6	9,265	-	11,568	281
Loans and advances	9	26,272,491	24,212,838	26,355,920	24,294,485
Investment in controlled entities	10	-	-	103	102
Plant and equipment	12	6,567	5,780	6,567	5,780
Intangible assets	13	86,632	93,228	86,632	93,228
Deferred tax assets	6	43,845	8,802	43,840	8,799
Other assets	14	14,875	13,083	14,875	13,083
Total assets		30,868,322	27,936,749	30,647,848	27,799,409
Liabilities					
Deposits and other borrowings	15	28,911,694	26,165,970	28,710,852	26,033,555
Derivatives	16	98,544	11,572	71,183	8,167
Trade and other payables	17	40,499	22,230	51,085	24,344
Current tax liabilities	6	-	838	-	-
Provisions	18	31,235	29,235	31,235	29,235
Subordinated debt	19	301,079	300,734	301,079	300,734
Total liabilities		29,383,051	26,530,579	29,165,434	26,396,035
Net assets		1,485,271	1,406,170	1,482,414	1,403,374
Equity					
Issued capital	20	1,105,459	1,006,282	1,105,459	1,006,282
Reserves	21	(40,720)	22,759	(22,300)	24,762
Retained earnings		420,532	377,129	399,255	372,330
Total equity		1,485,271	1,406,170	1,482,414	1,403,374
Book value per share		$ 134.46	$ 127.30		

Notes to the financial statements are included on pages 19 to 73.

Members Equity Bank Limited

Statement of changes in equity
for the financial year ended 30 June 2019

		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 2017		807,921	297,942	17,457	2,722	(13,387)	1,112,655
Issue of capital notes	20	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
Balance at 1 July 2018		1,006,282	377,129	22,461	1,619	(1,321)	1,406,170
Adjustment due to change in accounting policy		-	(14,086)	-	-	-	(14,086)
Balance as at 1 July 2018		1,006,282	363,043	22,461	1,619	(1,321)	1,392,084
Issue of capital notes	20	99,177	-	-	-	-	99,177
Dividends paid	22	-	(12,465)	-	-	-	(12,465)
Transfer to/(from) general reserve for credit losses	21	-	2,839	(2,839)	-	-	-
Other comprehensive income for the year		-	-	-	2,625	-	2,625
Other comprehensive expense for the year		-	-	-	-	(63,265)	(63,265)
Profit for the year		-	67,115	-	-	-	67,115
Balance at 30 June 2019		1,105,459	420,532	19,622	4,244	(64,586)	1,485,271

		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 2017		807,921	291,162	17,457	2,722	(9,399)	1,109,863
Issue of capital notes	20	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
Balance at 1 July 2018		1,006,282	372,330	22,458	1,620	684	1,403,374
Adjustment due to change in accounting policy	3	-	(14,086)	-	-	-	(14,086)
		1,006,282	358,244	22,458	1,620	684	1,389,288
Issue of capital notes	20	99,177	-	-	-	-	99,177
Dividends paid	22	-	(12,465)	-	-	-	(12,465)
Transfer to/(from) general reserve for credit losses	21	-	2,839	(2,839)	-	-	-
Other comprehensive income for the year		-	-	-	2,625		2,625
Other comprehensive expense for the year		-	-	-	-	(46,848)	(46,848)
Profit for the year		-	50,637	-	-	-	50,637
Balance at 30 June 2019		1,105,459	399,255	19,619	4,245	(46,164)	1,482,414

Notes to the financial statements are included on pages 19 to 73.

Statement of cash flows
for the financial year ended 30 June 2019

		Consolidated		Company	
		2019	2018	2019	2018
	Notes	$'000	$'000	$'000	$'000
Cash flows from operating activities					
Profit before tax		96,070	127,589	71,373	129,301
Adjustments for:					
Change in operating assets	24(c)	(2,471,428)	(1,940,197)	(2,452,297)	(2,110,390)
Change in operating liabilities	24(d)	2,736,975	1,753,240	2,676,518	1,900,467
Non-cash items included in profit before tax	24(e)	58,752	58,623	58,752	58,938
Income tax payments		(40,841)	(37,587)	(40,841)	(36,357)
Net cash provided/(used in) by operating activities		379,528	(38,332)	313,505	(58,041)
Cash flows from investing activities					
Purchase of plant and equipment	12	(3,142)	(534)	(3,142)	(534)
Purchase of intangible assets	13	(32,859)	(24,626)	(32,859)	(24,626)
Dividends received		-	-	2,700	2,600
Net cash used in investing activities		(36,001)	(25,160)	(33,301)	(22,560)
Cash flows from financing activities					
Proceeds from issue of shares	20	-	-	-	-
Proceeds from issue of capital notes	20	99,177	198,361	99,177	198,361
Dividends paid on capital notes	22	(12,465)	(4,865)	(12,465)	(4,865)
Redemption of subordinated debt	19	-	(33,000)	-	(33,000)
Net cash provided by financing activities		86,712	160,496	86,712	160,496
Net increase in cash		430,239	97,004	366,916	79,895
Cash and cash equivalents at the beginning of the financial year		409,650	312,646	166,238	86,343
Cash and cash equivalents at the end of the financial year	24(a)	839,889	409,650	533,154	166,238

Notes to the financial statements are included on pages 19 to 73.

1 General information

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

2 Application of new and revised Accounting Standards

(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 2018, and therefore relevant for the year ended 30 June 2019.

Standards affecting presentation and disclosure

AASB 7 Financial Instruments: Disclosures

AASB 7 has been amended to include more extensive qualitive and quantitative disclosure relating to AASB 9, such as new financial instrument classification categories which impacts disclosures related to the statement of financial position as well as introducing new qualitative and quantitative disclosure requirements for the three stage ECL impairment model. The amendment also includes new hedge accounting and transition disclosures related to the the adoption of AASB 9.

AASB 9 Financial Instruments and related Amending Standards

The final version of AASB 9 brings together the classification and measurement, impairment and hedge accounting phases of the IASB's project to replace IAS 39 Financial Instruments: Recognition and Measurement. The Standard carries over the existing derecognition requirements from AASB 139 but all other areas of AASB 139 have been revised.

AASB 9 introduces new requirements for classifying and measuring financial assets, as follows:

- Debt instruments meeting both a 'business model' test and a cash flow characteristics' test are measured at amortised cost (the use of fair value is optional in some limited circumstances).
- Investments in equity instruments not held for trading can be designated as 'fair value through other comprehensive income' with only dividends being recognised in profit or loss.
- All other instruments (including all derivatives unless in a hedge relationship) are measured at fair value with changes recognised in the profit or loss.
- The concept of 'embedded derivatives' does not apply to financial assets within the scope of the Standard and the entire instrument must be classified and measured in accordance with the above guidelines.

The revised financial liability provisions maintain the existing amortised cost measurement basis for most liabilities. New requirements apply where an entity chooses to measure a liability at fair value through profit and loss – in these cases, the portion of the change in fair value related to changes in fair value related to changes in the entity's own credit risk is presented in other comprehensive income rather than within profit or loss, unless it creates a mismatch in profit or loss.

2 Application of new and revised Accounting Standards (continued)

	A new impairment model based on expected credit losses will apply to debt instruments measured at amortised cost or at fair value through other comprehensive income, lease receivables, contract assets and written loan commitments and financial guarantee contracts. The loan loss allowance will be for either 12-month expected losses or lifetime expected losses. The latter applies if credit risk has increased significantly since initial recognition of the financial instrument. A new hedge accounting model has been put in place that is designed to be more closely aligned with how entities undertake risk management activities when hedging financial and non-financial risk exposures. However, some transition options exist that allow entities to essentially retain AASB 139 hedge accounting.
AASB 15 Revenue from Contract with Customers and related amending Standards	AASB 15 outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers; and replaces AASB 111 Construction Contracts, AASB 118 Revenue, Interpretation 13 Customer Loyalty Programmes, Interpretation 15 Agreements for the Construction of Real Estate, Interpretation 18 Transfers of Assets from Customers, and Interpretation 131 Revenue-Barter Transactions Involving Advertising Services. The core principle is that an entity recognises revenue to depict the transfer of promised goods or services to customers at an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.
Interpretation 22 Foreign Currency Transactions and Advance Consideration	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)

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

Standard/Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
Definition of a Business AASB 16 Leases	1 January 2019	30 June 2020
Interpretation 23 Uncertainty over Income Tax Treatments	1 January 2019	30 June 2020
AASB 2017-6 Amendment to Australian Accounting Standards - Prepayment Features with Negative Compensation	1 January 2019	30 June 2020
AASB 2018-1 Amendment to Australian Accounting Standards - Annual Improvements 2015 - 2017 Cycle	1 January 2019	30 June 2020
AASB 2018-6 Amendment to Australian Accounting Standards - Definition of a Business	1 January 2020	30 June 2021

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 2018-7 Amendment to Australian Accounting Standards - Definition of Material	1 January 2020	30 June 2021
AASB 2019-1 Amendment to Australian Accounting Standards - References to the Conceptual Framework	1 January 2020	30 June 2021

AASB 16 Leases

AASB 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments by both lessors and lessees. AASB 16 will supersede 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.

As at 30 June 2019, the Group has non cancellable operating lease commitments of $16,525,945. 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. The assessment indicates that most of 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 estimated right of use asset as at 30 June 2019 is between $100,000,000 and $120,000,000. The expected impact on profit or loss on the future period would be a decrease in operating expenses and an increase in depreciation between $8 million to $11 million respectively, with an increase in notional interest expense of less than $1 million. The impact on the statement of cash flows will be to increase cash flows from operating activities and decrease cash flows from financing activities between $8 million to $11 million respectively.

The estimated impact of AASB 16 disclosed above is based on accounting policies, assumptions, judgements, and estimation techniques that remain subject to change until the finalisation of the 2020 half year financial report and the 2020 annual financial report.

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.

2 Application of new and revised Accounting Standards (continued)

- 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 will 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 2019.

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.

3 Significant accounting policies (continued)

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

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

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

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

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

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

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

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

AASB 15 Revenue from contracts with customers
AASB 15 replaces all the previous guidance on revenue recognition from contracts with customers. It requires the identification of discrete performance obligations within a customer contract and an associated transaction price that is allocated to these obligations. Revenue is recognised upon satisfaction of these performance obligations, which occur when control of the goods or services is transferred to the customer.

The Group adopted AASB 15 on 1 July 2018. On conclusion of the transition project, no material adjustment to opening retained earnings was recognised as the amendments to accounting policies did not result in significant changes to the timing or amount of revenue recognised at 30 June 2018. The Group has applied the standard retrospectively with the cumulative effect of initially applying the standard recognised at the date of initial application.

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

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

3 Significant accounting policies (continued)

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

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

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

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

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

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

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

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

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

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

(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.

3 Significant accounting policies (continued)

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

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

- Level 1: Quoted (unadjusted) market prices in active markets for identical assets or liabilities;

- Level 2: Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable; and

- Level 3: Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

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

(g) Financial instruments
AASB 9 Financial Instruments replaced AASB 139 Financial Instruments: Recognition and Measurement from 1 July 2018. This has resulted in changes to accounting policies for the classification and measurement of financial assets and financial liabilities, and the manner in which credit impairments are required to be determined as well as requirements with respect to hedge accounting.

The Group has applied AASB 9 in the current financial year beginning 1 July 2018 with respect to the classification and measurement of financial assets, and impairment of financial assets, for which a transition adjustment has been recognised in its retained earnings as at 1 July 2018. AASB 9 provides concessional relief to the effect that prior year comparatives are not required to be restated.

The key changes in significant accounting policies and impacts from the transition are summarised below:

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

Financial assets
AASB 9 has three classification categories for financial assets; amortised cost, fair value through other comprehensive income (FVTOCI) and fair value through profit or loss (FVTPL). The classification is based on the business model under which the financial asset is managed and its contractual cash flows.

In comparison to AASB 138, the FVTOCI and amortised cost categories have been added; and the held-to-maturity, loans and receivables and available-for-sale classification categories have been removed.

The Group applies the following principal policies for new financial assets' classifications in terms of AASB 9.

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

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

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

3 Significant accounting policies (continued)

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

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

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

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

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

Financial liabilities
AASB 9 largely retains the existing requirements of AASB 139 for the classification and measurement of financial liabilities. The Group's financial liabilities are measured at amortised cost.

Impairment
AASB 9 replaces the AASB 139's incurred loss model with an expected loss model. Whilst the ultimate credit loss under both AASB 9 and AASB 139 is the same over the lifetime of the asset, AASB 9's expected credit loss (ECL) requirements require earlier recognition of credit impairments.

The impairment requirements apply to financial assets measured at amortised cost and FVTOCI, and amounts receivable from contracts with customers as defined in AASB 15.

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

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

The ECL is determined with reference to the following stages:

(a) *Stage 1: 12 month ECL*
At initial recognition, and for financial assets for which there has not been a significant increase in credit risk (SICR) or for those financial assets for which there has been an increase in credit risk but for which the credit risk is considered to be

3 Significant accounting policies (continued)

low, ECL is determined based on PD over the next 12 months and the life time losses associated with such PD, adjusted for forward looking estimates (FLE).

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

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

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

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

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

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

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

Hedge accounting
The Group 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.

Transition
As permitted by AASB 9, the Group has not restated its comparative financial statements and has recorded a transition adjustment to its opening balance sheet, retained earnings and OCI as at 1 July 2018 to account for the impact of the adoption of AASB 9's classification and measurement, and impairment requirements.

The transitional adjustment to the opening retained earnings balance on 1 July 2018 has reduced the Group's retained earnings by $14.1 million, and does not have a material impact on the Group's minimum regulatory capital requirements.

3 Significant accounting policies (continued)

The table below shows the classification of each class of financial asset and liability under AASB 139 and AASB 9 as at 1 July 2018.

	Consolidated				
	Original classification under AASB 139	New classification under AASB 9	Original carrying amount under AASB 139 $'000	New carrying amount under AASB 9 $'000	Remeasurement as at 1 July 2018 $'000
Financial assets					
Cash and cash equivalents	Amortised cost	Amortised cost	409,650	409,650	-
Investments					
Treasury notes and semi-government securities	Available-for-sale	FVTOCI	775,657	775,657	-
Bank bills	Available-for-sale	FVTOCI	293,886	293,886	-
Corporate floating rate notes	Available-for-sale	FVTOCI	1,030,662	1,030,662	-
Mortgage backed securities	Available-for-sale	FVTOCI	171,017	171,017	-
Government securities	FVTPL	FVTPL	905,247	905,247	-
Derivatives					
Basis swaps	FVTPL	FVTPL	2,487	2,487	-
Trade and other receivables	Loans and receivables	Amortised cost	5,894	5,894	-
Loans and advances	Loans and receivables	Amortised cost	24,212,838	24,192,715	(20,123)
Financial liabilities					
Deposits and other borrowings	Amortised cost	Amortised cost	26,165,970	26,165,970	-
Derivatives					-
Futures	FVTPL	FVTPL	3,874	3,874	-
Trade and other payables	Amortised cost	Amortised cost	22,230	22,230	-
Subordinated debt	Amortised cost	Amortised cost	300,734	300,734	-
Tax impact					6,037
Total adjustment to retained earnings (net of tax)					(14,086)

The table below shows the gross exposure and related ECL allowance for each class of asset subject to the impairment requirements of AASB 9.

	Consolidated 30 June 2018			Consolidated 1 July 2018		
	Gross $'000	ECL allowance $'000	Net $'000	Gross $'000	ECL allowance $'000	Net $'000
Financial assets						
Cash and cash equivalents	409,650	-	409,650	409,650	-	409,650
Investments						
Treasury notes and semi-government securities	775,657	-	775,657	775,657	-	775,657
Bank bills	293,886	-	293,886	293,886	-	293,886
Corporate floating rate notes	1,030,662	-	1,030,662	1,030,662	-	1,030,662
Mortgage backed securities	171,017	-	171,017	171,017	-	171,017
Trade and other receivables	5,894	-	5,894	5,894	-	5,894
Loans and advances	24,233,482	20,644	24,212,838	24,233,482	40,767	24,192,715

3 Significant accounting policies (continued)

	Company				
	Original classification under AASB 139	New classification under AASB 9	Original carrying amount under AASB 139 $'000	New carrying amount under AASB 9 $'000	Remeasurement as at 1 July 2018 $'000
Financial assets					
Cash and cash equivalents	Amortised cost	Amortised cost	166,238	166,238	-
Investments					
Treasury notes and semi-government securities	Available-for-sale	FVTOCI	775,658	775,658	-
Bank bills	Available-for-sale	FVTOCI	293,886	293,886	-
Corporate floating rate notes	Available-for-sale	FVTOCI	1,030,662	1,030,662	-
Mortgage backed securities	Available-for-sale	FVTOCI	171,017	171,017	-
Government securities	FVTPL	FVTPL	905,247	905,247	-
Derivatives					
Basis swaps	FVTPL	FVTPL	2,487	2,487	-
Trade and other receivables	Loans and receivables	Amortised cost	30,531	30,531	-
Loans and advances	Loans and receivables	Amortised cost	24,294,485	24,274,362	(20,123)
Financial liabilities					
Deposits and other borrowings	Amortised cost	Amortised cost	26,033,555	26,033,555	-
Derivatives					-
Futures	FVTPL	FVTPL	3,874	3,874	-
Trade and other payables	Amortised cost	Amortised cost	24,344	24,344	-
Subordinated debt	Amortised cost	Amortised cost	300,734	300,734	-
Tax impact					6,037
Total adjustment to retained earnings (net of tax)					(14,086)

The table below shows the gross exposure and related ECL allowance for each class of asset subject to the impairment requirements of AASB 9.

	Company 30 June 2018			Company 1 July 2018		
	Gross $'000	ECL allowance $'000	Net $'000	Gross $'000	ECL allowance $'000	Net $'000
Financial assets						
Cash and cash equivalents	166,238	-	166,238	409,650	-	409,650
Investments						
Treasury notes and semi-government securities	775,658	-	775,658	775,657	-	775,657
Bank bills	293,886	-	293,886	293,886	-	293,886
Corporate floating rate notes	1,030,662	-	1,030,662	1,030,662	-	1,030,662
Mortgage backed securities	171,017	-	171,017	171,017	-	171,017
Trade and other receivables	30,531	-	30,531	5,894	-	5,894
Loans and advances	24,315,129	20,644	24,294,485	24,315,129	40,767	24,274,362

3 Significant accounting policies (continued)

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

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

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

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

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

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

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

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

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

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

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

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

(k) Leasing
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 consolidated 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. Contingent rentals are recognised as expenses in the periods in which they are incurred.

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

3 Significant accounting policies (continued)

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

4 Use of judgements and estimates

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

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

(a) Judgements

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

Determination of control over investees

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

Securitisation vehicle

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

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

Investment funds

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

Determination of the useful life for the core banking system

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

Determination of amortisation period of loan origination costs

During the year, the Group has amended the amortisation period for home loan and personal loan origination costs to be 5.5 years (2018: 5 years) and 2.6 years (2018: 3 years) respectively. This change in accounting estimate has reduced the amortisation expense of the home loan origination costs by $3,875,890 and an increase of amortisation expense of $99,971 for personal loans during the year.

(b) Assumptions and estimation uncertainties

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

Impairment losses on loans and advances

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

Fair value of financial instruments

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

Impairment of intangible assets

Refer to Note 13.

5 Revenue and expenses

	Consolidated		Company	
	2019	**2018**	**2019**	**2018**
	$'000	**$'000**	**$'000**	**$'000**
Interest and similar income				
Deposits with other financial institutions	5,362	4,259	3,690	2,157
Loans and advances	1,050,671	1,000,545	1,053,496	1,003,570
Investment securities	77,501	76,613	73,734	71,269
	1,133,534	1,081,417	1,130,920	1,076,996
Interest rate swap contracts	178,978	164,007	132,373	122,720
	1,312,512	1,245,424	1,263,293	1,199,716
Interest and similar expense				
Deposits and other borrowings	694,436	641,832	800,276	761,636
Subordinated borrowings	14,233	14,680	14,233	14,680
	708,669	656,512	814,509	776,316
Interest rate swap contracts	189,718	191,799	139,199	142,794
	898,387	848,311	953,708	919,110
Funds management fee income	1,618	2,900	16,989	17,380
Other operating income				
Fee income	15,438	15,292	13,749	13,199
Other income	5,858	1,784	5,810	1,724
Cumulative gains reclassified from equity on				
- Disposal of FVTOCI investments	2,542	238	2,451	141
(Losses)/gains from investments	24,479	1,051	24,479	1,051
Fair value movement in derivatives	(27,557)	6,825	(27,557)	6,825
Distribution from unit trusts	-	-	59,600	99,768
Dividend income from subsidiary	-	-	2,700	2,600
	20,760	25,190	81,232	125,308
Operating expenses				
Staff and related costs	133,586	123,416	133,586	123,416
General administrative expenses	87,052	80,747	83,068	77,126
Transaction fee expenses	11,676	11,066	11,676	11,066
Depreciation and amortisation of:				
- Plant and equipment	2,355	3,084	2,355	3,084
- Intangibles	18,849	19,814	18,849	19,814
Loss on disposal of:				
- Plant and equipment	-	-	-	-
- Intangibles	-	2,403	-	2,403
Operating lease rental expenses	13,595	12,510	13,595	12,510
	267,113	253,040	263,129	249,419
Impairment losses				
Loans and advances (refer to Note 26(a))	8,645	7,938	8,631	7,938
Overdrawn savings accounts	299	221	297	221
	8,944	8,159	8,928	8,159
Project expenses				
Program of work	43,770	36,065	43,770	36,065
	43,770	36,065	43,770	36,065
Loss on sale of commercial loans and asset finance portfolios				
Loss on sale (i)	-	350	-	350
	-	350	-	350

(i) 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 with respect to the sale of the Group's commercial loans and asset finance portfolios.

6 Income taxes

	Consolidated		Company	
	2019	2018	2019	2018
	$'000	$'000	$'000	$'000
Income tax recognised in profit or loss				
Tax expense comprises:				
Current tax expense	38,053	37,375	36,868	36,257
Adjustment recognised in the current year in relation to the current tax of prior years	(44)	102	(44)	102
Deferred tax expense/(income) relating to the origination and reversal of temporary differences	(9,054)	1,056	(16,088)	1,908
Total tax expense	28,955	38,533	20,736	38,267
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	96,070	127,589	71,373	129,301
Income tax expense calculated at 30%	28,821	38,277	21,412	38,790
Effect of expenses/(income) that are not deductible/(assessable) in determining taxable profit	178	154	(632)	(625)
	28,999	38,431	20,780	38,165
Adjustment recognised in the current year in relation to the current tax of prior years	(44)	102	(44)	102
Income tax expense recognised in profit or loss	28,955	38,533	20,736	38,267

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

Income tax recognised in other comprehensive income (OCI)

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

	Consolidated		Company	
	2019	2018	2019	2018
	$'000	$'000	$'000	$'000
Deferred tax				
Revaluations of FVTOCI financial assets	(1,124)	473	(1,125)	473
Cash flow hedges	27,113	(5,172)	20,078	(4,321)
	25,989	(4,699)	18,953	(3,848)
Current tax assets				
Prepaid income tax	9,265	-	11,568	281
Current tax liabilities				
Income tax payable	-	838	-	-

6 Income taxes (continued)

Deferred tax assets

	Consolidated			
	Opening balance $'000	Recognised in profit or loss $'000	Recognised in OCI $'000	Closing balance $'000
2019				
Temporary differences				
Accrued expenses	78	1,752	-	1,830
Provisions	8,388	592	-	8,980
Plant and equipment and intangible assets	(5,936)	2,269	-	(3,667)
FVTPL financial assets	(318)	(6,892)	-	(7,210)
FVTOCI financial assets	(695)	-	(1,124)	(1,819)
Derivatives	147	305	-	452
Cash flow hedges	634	-	27,113	27,747
Impairment allowance	6,208	6,721	-	12,929
Other	296	4,307	-	4,603
	8,802	9,054	25,989	43,845

	Consolidated			
	Opening balance $'000	Recognised in profit or loss $'000	Recognised in OCI $'000	Closing balance $'000
2018				
Temporary differences				
Accrued expenses	68	10	-	78
Provisions	7,448	940	-	8,388
Plant and equipment and intangible assets	(8,009)	2,073	-	(5,936)
FVTPL financial assets	935	(1,253)	-	(318)
FVTOCI 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	(1,055)	(4,700)	8,802

	Company			
	Opening balance $'000	Recognised in profit or loss $'000	Recognised in OCI $'000	Closing balance $'000
2019				
Temporary differences				
Accrued expenses	74	1,752	-	1,826
Provisions	8,388	592	-	8,980
Plant and equipment and intangible assets	(5,935)	2,269	-	(3,666)
FVTPL financial assets	(318)	(6,892)	-	(7,210)
FVTOCI financial assets	(694)	-	(1,125)	(1,819)
Derivatives	158	293	-	451
Cash flow hedges	(224)	-	20,078	19,854
Impairment allowance	6,208	6,721	-	12,929
Other	296	4,307	-	4,603
Temporary differences relating to the securitisation trusts	846	7,046	-	7,892
	8,799	16,088	18,953	43,840

6 Income taxes (continued)

	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)
FVTPL financial assets	935	(1,253)	-	(318)
FVTOCI 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

7 Investments

	Consolidated		Company	
	2019 $'000	2018 $'000	2019 $'000	2018 $'000
Amortised cost investments				
Mortgage backed securities	1,039	-	1,039	-
FVTOCI investments				
Treasury notes and semi-government securities	1,343,565	775,657	1,343,565	775,658
Bank bills	158,475	293,886	158,475	293,886
Corporate floating rate notes	915,220	1,030,662	915,220	1,030,662
Mortgage backed securities	200,983	171,017	200,983	171,017
	2,618,243	2,271,222	2,618,243	2,271,223
FVTPL investments				
Government securities	959,171	905,247	959,171	905,247
Unlisted equity	3,000	-	3,000	-
	3,581,453	3,176,469	3,581,453	3,176,470

8 Trade and other receivables

	Consolidated		Company	
	2019 $'000	2018 $'000	2019 $'000	2018 $'000
Amounts receivable from related parties (i)	-	-	-	257
Management fee income receivable (see Note 11)	81	143	299	-
Interest receivable	116	95	86	57
Other receivables (ii)	9,323	5,656	10,040	30,217
	9,520	5,894	10,425	30,531

(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 2019 $'000	Consolidated 2018 $'000	Company 2019 $'000	Company 2018 $'000
Credit cards	169,619	167,694	169,619	167,694
Personal loans	144,697	156,734	144,697	156,734
Residential home loans	26,001,274	23,909,054	26,002,172	23,909,054
Intercompany loans	-	-	82,531	81,647
	26,315,590	24,233,482	26,399,019	24,315,129
Less:				
Allowance for impairment losses	(43,099)	(20,644)	(43,099)	(20,644)
	26,272,491	24,212,838	26,355,920	24,294,485
Individual impairment	5,012	6,946	5,012	6,946
Collective impairment	38,087	13,698	38,087	13,698
	43,099	20,644	43,099	20,644

10 Investment in controlled entities

	Consolidated 2019 $'000	Consolidated 2018 $'000	Company 2019 $'000	Company 2018 $'000
Investment at cost	-	-	103	102

The controlled entities of the Company are:

		Country of incorporation	Ownership interest 2019	Ownership interest 2018
Subsidiary				
ME Portfolio Management Limited	(i)	Australia	100%	100%
Securitisation (refer Note 4(a))				
SMHL Series 2008-1 Fund	(ii)	Australia	0%	100%
SMHL Series Securitisation Fund 2011-2	(ii)	Australia	0%	100%
SMHL Series Private Placement 2011-1	(ii)	Australia	100%	100%
SMHL Series Securitisation Fund 2012-1	(ii)	Australia	0%	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%	100%
SMHL Series Private Placement Trust 2017-2	(ii)	Australia	100%	100%
SMHL Series 2018-1 Fund	(ii)	Australia	100%	0%
SMHL Series Securitisation Fund 2018-2	(ii)	Australia	100%	0%
SMHL Series Private Placement Trust 2019-1	(ii)	Australia	100%	0%
SMHL Series Securitisation Fund 2019-1	(ii)	Australia	100%	0%

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

11 Involvement with unconsolidated structured entities

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

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

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

	Trade & other receivables	
	2019	2018
	$'000	$'000
Securitisation trusts for residential home loans	72	137
Managed fund	9	6
	81	143

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

Fee income earned from securitisation trusts	1,592	2,864
Fee income earned from managed fund	26	36
	1,618	2,900

12 Plant and equipment

	Consolidated and Company			
	Motor vehicles	Computer equipment	Furniture & equipment	Total
	$'000	$'000	$'000	$'000
Gross carrying amount				
Balance at 1 July 2017	-	1,899	26,515	28,414
Additions	-	447	87	534
Disposals	-	-	-	-
Balance at 30 June 2018	-	2,346	26,602	28,948
Additions	1,882	849	411	3,142
Disposals	-	-	-	-
Balance at 30 June 2019	1,882	3,195	27,013	32,090
Accumulated depreciation				
Balance at 1 July 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
Depreciation expense	29	256	2,070	2,355
Disposals				-
Balance at 30 June 2019	29	2,406	23,088	25,523
Net book value				
As at 30 June 2018	-	196	5,584	5,780
As at 30 June 2019	1,853	789	3,925	6,567

13 Intangible assets

	Consolidated and Company		
	Core banking software $'000	Other software $'000	Total $'000
Gross carrying amount			
Balance at 1 July 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
Additions	-	32,859	32,859
Disposal	-	-	-
Impairment on intangibles	-	(20,606)	(20,606)
Balance at 30 June 2019	70,626	110,671	181,297
Accumulated amortisation			
Balance at 1 July 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
Amortisation expenses	6,632	12,217	18,849
Disposal	-	-	-
Balance at 30 June 2019	34,036	60,629	94,665
Net book value			
As at 30 June 2018	43,222	50,006	93,228
As at 30 June 2019	36,590	50,042	86,632

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 (using the market approach valuation methodology), net of selling costs.

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 2019 was $1.36 billion (2018: $1.29 billion).

Economic and market conditions may change but the Group estimates that reasonable changes in these conditions would not cause the recoverable amount of intangible assets to decline below the carrying amount. The impairment testing has indicated that the recoverable amount of intangible assets exceeds the carrying amount. An impairment loss of $20.6 million on other software relating to the development of credit cards platform was recognised as at 30 June 2019 (2018: nil).

14 Other assets

	Consolidated		Company	
	2019 $'000	2018 $'000	2019 $'000	2018 $'000
Prepayments	14,875	13,083	14,875	13,083
	14,875	13,083	14,875	13,083

15 Deposits and other borrowings

	Consolidated		Company	
	2019	2018	2019	2018
	$'000	$'000	$'000	$'000
Unsecured - at amortised cost				
Retail customer deposits	8,080,144	7,232,019	8,080,144	7,232,019
Business customer deposits	1,657,872	1,467,080	1,657,872	1,467,080
Superannuation banking deposits	762,592	598,809	762,592	598,809
Advised and corporate deposits	5,785,927	5,489,170	5,785,927	5,489,170
Institutional borrowings	4,893,297	4,944,533	4,893,297	4,944,533
Treasury borrowings	416,551	790,071	416,551	790,071
Medium term notes (i)	1,105,706	1,105,824	1,105,706	1,105,824
Other Borrowings	142	-	-	-
	22,702,231	21,627,506	22,702,089	21,627,506
Secured - at amortised cost				
Mortgage backed securities (ii)	6,209,463	4,538,464	-	-
Liabilities to the securitisation trusts (iii)	-	-	6,008,763	4,406,049
	6,209,463	4,538,464	6,008,763	4,406,049
Total deposits and other borrowings	28,911,694	26,165,970	28,710,852	26,033,555

(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, $550,000,000 is current with the remaining $550,000,000 classified as non current.

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

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

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.

Interest rate swaps

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

Under the terms of the International Swaps and Derivatives Association (ISDA) Collateral Guidelines for the interest rate swap contracts, the balance of the cash collateral received by the Group as at 30 June 2019 is $nil (2018: $nil).

In addition, the Group has pledged cash collateral under the terms of the ISDA Collateral Guidelines. As at 30 June 2019, the Group has pledged cash collateral to the value of $61,380,000 (2018: $14,560,000).

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 9 'Financial Instruments' hedge accounting criteria, specifically basis swap contracts.

16 Derivatives (continued)

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

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

	Consolidated			
	2019 Fair value assets $'000	2019 Fair value liabilities $'000	2018 Fair value assets $'000	2018 Fair value liabilities $'000
Derivatives held for hedging - cash flow hedges				
Interest rate swaps	1,013	97,753	8,083	7,698
Foreign exchange contracts	905	-	435	-
Derivatives held for trading - fair value through profit and loss				
Interest rate basis swaps	1,867	-	2,487	-
Futures	-	791	-	3,874
	3,785	98,544	11,005	11,572

	Consolidated Notional values of derivatives	
	2019 $'000	2018 $'000
Derivatives held for hedging - cash flow hedges		
Interest rate swaps	8,647,000	7,700,000
Foreign exchange contracts	7,720	18,402
Derivatives held for trading - fair value through profit and loss		
Interest rate basis swaps	1,500,000	1,500,000
Futures	724,500	870,900
	10,879,220	10,089,302

	Company			
	2019 Fair value assets $'000	2019 Fair value liabilities $'000	2018 Fair value assets $'000	2018 Fair value liabilities $'000
Derivatives held for hedging - cash flow hedges				
Interest rate swaps	539	70,392	7,490	4,293
Foreign exchange contracts	905	-	435	-
Derivatives held for trading - fair value through profit and loss				
Interest rate basis swaps	1,867	-	2,487	-
Futures	-	791	-	3,874
	3,311	71,183	10,412	8,167

16 Derivatives (continued)

	Company	
	Notional values of derivatives	
	2019	2018
	$'000	$'000
Derivatives held for hedging - cash flow hedges		
Interest rate swaps	6,216,000	5,385,000
Foreign exchange contracts	7,720	18,402
Derivatives held for trading - fair value through profit and loss		
Interest rate basis swaps	1,500,000	1,500,000
Futures	724,500	870,900
	8,448,220	7,774,302

17 Trade and other payables

	Consolidated		Company	
	2019	2018	2019	2018
	$'000	$'000	$'000	$'000
Creditors and accruals	28,366	21,584	28,099	21,378
Other payables	12,133	646	22,986	2,966
	40,499	22,230	51,085	24,344

18 Provisions

	Consolidated		Company	
	2019	2018	2019	2018
	$'000	$'000	$'000	$'000
Employee benefits (i)	27,253	25,645	27,253	25,645
Other provisions (ii)	3,982	3,590	3,982	3,590
	31,235	29,235	31,235	29,235

	Consolidated & Company		
	Employee benefits	Other provisions	Total
	$'000	$'000	$'000
Balance 1 July 2018	25,645	3,590	29,235
Additional provisions made in the period	14,244	418	14,662
Amounts used during the period	(12,271)	(26)	(12,297)
Unused amounts reversed during the period	(333)	-	(333)
Increase/(decrease) during the period in the discounted amount arising from the passage of time and the effect of any change in the discount rate	(32)	-	(32)
Balance 30 June 2019	27,253	3,982	31,235

(i) Employee benefits are expected to be settled within a year with the exception of provisions for long service leave which amounted to $9,057,471 (2018: $8,103,415).

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

19 Subordinated debt

	Consolidated		Company	
	2019	2018	2019	2018
	$'000	$'000	$'000	$'000
Floating rate notes	301,079	300,734	301,079	300,734

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:

29 August 2024	300,000	300,000	300,000	300,000
	300,000	300,000	300,000	300,000

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). Subsequent to the financial year ended June 2019 the Group has redeemed the full amount of the subordinate debt on issue.

In accordance with APRA guidelines, the Group includes the subordinated debt as Tier 2 capital (see Note 27).

20 Issued capital

	Consolidated		Company	
	2019	2018	2019	2018
	$'000	$'000	$'000	$'000
11,045,873 fully paid ordinary shares (2018: 11,045,873)	807,921	807,921	807,921	807,921
30,000 fully paid capital notes (2018: 20,000)	297,538	198,361	297,538	198,361
	1,105,459	1,006,282	1,105,459	1,006,282

	2019		2018	
	No.	$'000	No.	$'000
Movement in issued capital of fully paid shares				
Beginning of the financial year	11,045,873	807,921	11,045,873	807,921
Issue of new shares	-	-	-	-
End of the financial year	11,045,873	807,921	11,045,873	807,921
Movement in issued capital of fully paid capital notes				
Beginning of the financial year	20,000	200,000	-	-
Issue of new notes	10,000	100,000	20,000	200,000
End of the financial year	30,000	300,000	20,000	200,000

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

21 Reserves

	Consolidated		Company	
	2019	2018	2019	2018
	$'000	$'000	$'000	$'000
Debt instruments at FVTOCI reserve	4,244	1,619	4,245	1,620
General reserve for credit losses	19,622	22,461	19,619	22,458
Cash flow hedge reserve	(64,586)	(1,321)	(46,164)	684
	(40,720)	22,759	(22,300)	24,762

Debt instruments FVTOCI reserve

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

21 Reserves (continued)

	Consolidated	Company
	Debt instruments FVTOCI reserve $'000	Debt instruments FVTOCI reserve $'000
Balance as at 1 July 2018	-	-
Change on initial application of AASB 9, net of tax		
Transfer from AFS reserve	1,619	1,620
Restated balance as at 1 July 2018	-	-
Revaluation gains/(losses) recognised in OCI, net of tax	4,244	4,244
Transferred to income statement upon derecognition, net of tax	(1,619)	(1,619)
Balance as at 30 June 2019	4,244	4,245

General reserve for credit losses

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

Cash flow hedge reserve

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

22 Dividends

No dividends have been paid or declared since the start of the financial year (2018: $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 2019. From 1 July 2011, the Company and its subsidiary have formed a tax-consolidated group with the Company as the head entity. Accordingly, all franking credits in the subsidiary are transferred to the head entity franking account.

The Group has paid $12,464,696 of fully franked dividends with respect to the perpetual Capital Notes issued (2018: $4,864,616).

	Company	
	2019 $'000	2018 $'000
Adjusted franking account balance	185,919	168,100

23 Commitments

	Consolidated		Company	
	2019 $'000	2018 $'000	2019 $'000	2018 $'000
(a) Undrawn credit				
Residential home loans	455,972	533,198	455,972	533,198
Credit cards	248,513	243,019	248,513	243,019
Personal loans	-	43	-	43
	704,485	776,260	704,485	776,260

(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.

23 Commitments (continued)

	Consolidated		Company	
	2019	2018	2019	2018
	$'000	$'000	$'000	$'000
Non-cancellable operating lease commitments				
Not longer than 1 year	9,742	10,798	9,742	10,798
Longer than 1 year but not longer than 5 years	9,031	20,941	9,031	20,941
Longer than 5 years	-	-	-	-
	18,773	31,739	18,773	31,739

24 Notes to the statement of cash flows

(a) Reconciliation of cash and cash equivalents

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

Cash and cash equivalents

	Consolidated		Company	
	2019	2018	2019	2018
	$'000	$'000	$'000	$'000
Cash at bank	295,791	203,343	71,404	41,541
Deposits at call	544,098	206,307	461,750	124,697
	839,889	409,650	533,154	166,238

(b) Cash balance not available for use in (a)

First Home Owners Grants held on behalf of customers	10	70	10	70
Cash at bank and deposits at call within securitisation trusts (i)	301,470	107,875	-	-
	301,480	107,945	10	70

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

(c) Change in operating assets

	Consolidated		Company	
	2019	2018	2019	2018
	$'000	$'000	$'000	$'000
Investments	(404,984)	(195,027)	(407,683)	(352,269)
Derivatives assets	7,220	326	7,101	670
Trade and other receivables	(3,626)	111	20,106	(11,433)
Loans and advances	(2,071,996)	(1,739,917)	(2,073,778)	(1,741,588)
Other assets	(1,792)	(4,114)	(1,793)	(4,194)
Movement in other comprehensive income before income tax:				
- FVTOCI financial assets	3,750	(1,576)	3,750	(1,576)
	(2,471,428)	(1,940,197)	(2,452,297)	(2,110,390)

(d) Change in operating liabilities

Deposits and other borrowings	2,741,610	1,752,096	2,673,183	1,897,318
Derivatives liabilities	86,972	(15,355)	63,016	(12,491)
Trade and other payables	18,269	(3,491)	26,741	(1,516)
Provisions	2,000	2,753	2,000	2,753
Subordinated debt	(140)	-	(140)	-
Movement in other comprehensive income before income tax -				
- cash flow hedges	(111,736)	17,237	(88,282)	14,403
	2,736,975	1,753,240	2,676,518	1,900,467

24 Notes to the statement of cash flows (continued)

	Consolidated 2019 $'000	Consolidated 2018 $'000	Company 2019 $'000	Company 2018 $'000
(e) Non-cash items included in profit before tax				
Depreciation of plant and equipment	2,355	3,084	2,355	3,084
Amortisation of intangible assets	18,849	19,814	18,849	19,814
Loss on disposal of plant and equipment, and intangible assets	20,606	920	20,606	920
Impairment losses	2,281	8,159	2,281	8,159
Amortisation of capitalised transaction costs	14,661	26,646	14,661	26,961
	58,752	58,623	58,752	58,938
(f) Operating cash flows from interest				
Interest received	1,357,757	1,294,577	1,307,809	1,235,053
Interest paid	888,622	830,686	598,320	562,943

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.

	1 July 2018	Financing cash flows	Non-cash changes: Acquisition	Non-cash changes: Foreign exchange movements	Non-cash changes: Fair value movements	Other changes	30 June 2019
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Subordinated debt	300,734	(140)	-	-	-	485	301,079

	1 July 2017	Financing cash flows	Non-cash changes: Acquisition	Non-cash changes: Foreign exchange movements	Non-cash changes: 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 2019 $'000	Consolidated 2018 $'000	Company 2019 $'000	Company 2018 $'000
(a) Categories of financial instruments				
Financial assets				
Cash and cash equivalents	839,889	409,650	533,154	166,238
Investments				
Amortised cost financial asset	1,039	-	1,039	-
FVTOCI financial assets	2,618,243	2,271,222	2,618,243	2,271,223
FVTPL financial assets	962,171	905,247	962,171	905,247
Derivatives				
Designated hedge accounting relationship	1,918	8,518	1,444	7,925
FVTPL derivatives	1,867	2,487	1,867	2,487
Trade and other receivables	9,520	5,894	10,425	30,531
Loans and advances	26,272,491	24,212,838	26,355,920	24,294,485

25 Financial instruments (continued)

	Consolidated		Company	
	2019	2018	2019	2018
	$'000	$'000	$'000	$'000
Financial liabilities				
Derivatives				
Designated hedge accounting relationship	97,753	7,698	70,392	4,293
FVTPL derivatives	791	3,874	791	3,874
Deposits and other borrowings	28,911,694	26,165,970	28,710,852	26,033,555
Trade and other payables	40,499	22,230	51,085	24,344
Subordinated debt	301,079	300,734	301,079	300,734

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

(b) Fair value of financial instruments

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

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

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

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

25 Financial instruments (continued)

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

	Consolidated			
	Level 1	**Level 2**	**Level 3**	**Total**
	$'000	**$'000**	**$'000**	**$'000**
30 June 2019				
Financial Assets				
Investments				
FVTOCI financial assets:				
Treasury notes and semi-government securities	-	1,343,565	-	1,343,565
Bank bills	-	158,475	-	158,475
Corporate floating rate notes	-	915,220	-	915,220
Mortgage backed securities	-	200,983	-	200,983
FVTPL financial assets:				
Government Securities	-	959,171	-	959,171
Unlisted equity	-	-	3,000	3,000
	-	3,577,414	3,000	3,580,414
Derivatives				
Designated hedge accounting relationship	-	1,918	-	1,918
FVTPL derivatives	-	1,867	-	1,867
	-	3,785	-	3,785
Financial liabilities				
Derivatives				
Designated hedge accounting relationship	-	97,753	-	97,753
FVTPL derivatives	-	791	-	791
	-	98,544	-	98,544

	Consolidated			
	Level 1	**Level 2**	**Level 3**	**Total**
	$'000	**$'000**	**$'000**	**$'000**
30 June 2018				
Financial assets				
Investments				
FVTOCI financial assets:				
Treasury notes and semi-government securities	-	775,657	-	775,657
Bank bills	-	293,886	-	293,886
Corporate floating rate notes	-	1,030,662	-	1,030,662
Mortgage backed securities	-	171,017	-	171,017
FVTPL financial assets:				
Government securities	-	905,247	-	905,247
Unlisted equity	-	-	-	-
	-	3,176,469	-	3,176,469
Derivatives				
Designated hedge accounting relationship	-	8,518	-	8,518
FVTPL derivatives	-	2,487	-	2,487
	-	11,005	-	11,005
Financial liabilities				
Derivatives				
Designated hedge accounting relationship	-	7,698	-	7,698
FVTPL derivatives	-	3,874	-	3,874
	-	11,572	-	11,572

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**
30 June 2019				
Financial Assets				
Investments				
FVTOCI financial assets:				
Treasury notes and semi-government securities	-	1,343,565	-	1,343,565
Bank bills	-	158,475	-	158,475
Corporate floating rate notes	-	915,220	-	915,220
Mortgage backed securities	-	200,983	-	200,983
FVTPL financial assets:				
Government Securities	-	959,171	-	959,171
Unlisted equity	-	-	3,000	3,000
	-	3,577,414	3,000	3,580,414
Derivatives				
Designated hedge accounting relationship	-	1,444	-	1,444
FVTPL derivatives	-	1,867	-	1,867
	-	3,311	-	3,311
Financial liabilities				
Derivatives				
Designated hedge accounting relationship	-	70,392	-	70,392
FVTPL derivatives	-	791	-	791
	-	71,183	-	71,183

	Company			
	Level 1	**Level 2**	**Level 3**	**Total**
	$'000	**$'000**	**$'000**	**$'000**
30 June 2018				
Financial Assets				
Investments				
FVTOCI financial assets:				
Treasury notes and semi-government securities	-	775,658	-	775,658
Bank bills	-	293,886	-	293,886
Corporate floating rate notes	-	1,030,662	-	1,030,662
Mortgage backed securities	-	171,017	-	171,017
FVTPL financial assets:				
Government Securities	-	905,247	-	905,247
Unlisted equity	-	-	-	-
	-	3,176,470	-	3,176,470
Derivatives				
Designated hedge accounting relationship	-	7,925	-	7,925
FVTPL derivatives	-	2,487	-	2,487
	-	10,412	-	10,412
Financial liabilities				
Derivatives				
Designated hedge accounting relationship	-	4,293	-	4,293
FVTPL derivatives	-	3,874	-	3,874
	-	8,167	-	8,167

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	Consolidated Level 2	Consolidated Level 3	Consolidated Total
	$'000	$'000	$'000	$'000	$'000
2019					
Financial assets					
Loans and advances (i)	26,272,491	-	-	26,380,534	26,380,534
Financial liabilities					
Deposits and other borrowings:					
- Medium term notes (ii)	1,105,706	-	1,108,821	-	1,108,821
Subordinated debt (ii)	301,079	-	301,697	-	301,697
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

	Book Value	Company Level 1	Company Level 2	Company Level 3	Company Total
	$'000	$'000	$'000	$'000	$'000
2019					
Financial assets					
Loans and advances (i)	26,355,920	-	-	26,463,963	26,463,963
Financial liabilities					
Deposits and other borrowings:					
- Medium term notes (ii)	1,105,706	-	1,108,821	-	1,108,821
Subordinated debt (ii)	301,079	-	301,697	-	301,697
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

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.

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

26 Risk management (continued)

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

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

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

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

	Consolidated & Company						
	Collective provision 12 month ECL $'000	Collective provision lifetime ECL Not credit impaired $'000	Collective provision lifetime ECL Credit impaired $'000	Collective provision for credit losses $'000	Specific provision lifetime ECL credit impaired $'000	Purchased or Originated Credit Impaired $'000	Total $'000
Balance as at 30 June 2018	-	-	-	13,698	6,946	-	20,644
Change on initial application of AASB 9	11,673	15,882	10,080	(13,698)	(3,814)	-	20,123
Balance as at 1 July 2018	11,673	15,882	10,080	-	3,132	-	40,767
Changes due to financial assets recognised in the opening balance that have:							
Transferred to 12 month ECL - collective provision	6,261	(3,384)	(2,758)	-	(119)	-	-
Transferred to lifetime ECL - collective provision	(541)	3,300	(2,698)	-	(61)	-	-
Transferred to lifetime ECL credit impaired	-	-	-	-	-	-	-
- collective provision	(65)	(1,340)	1,405	-	-	-	-
- specific provision	(6)	(113)	(241)	-	360	-	-
Write offs	-	-	-	-	(3,458)	-	(3,458)
Changes due to modifications that did not result in modification							
New financial assets originated or purchased	2,378	1,588	1,548	-	-	21	5,535
Financial assets which have been derecognised	-	-	-	-	-	-	-
Changes in model risk parameters	-	-	-	-	-	-	-
Increased provisions (net of releases)	(9,514)	(1,138)	5,751	-	5,156	-	255
Write-backs of specific provisions	-	-	-	-	-	-	-
Write-off from specific provisions	-	-	-	-	-	-	-
Balance as at 30 June 2019	10,186	14,795	13,087	-	5,010	21	43,099

26 Risk management (continued)

	Consolidated		Company	
	2019	**2018**	**2019**	**2018**
	$'000	**$'000**	**$'000**	**$'000**
New and increased provisions (net of releases)	5,790	10,612	5,790	10,612
Write offs net of provision releases	7,340	-	7,340	-
Write-backs of specific provisions	-	-	-	-
Recoveries	(4,485)	(2,674)	(4,499)	(2,674)
Total impairment loss charged to the income statement	8,645	7,938	8,631	7,938

The table below aggregates the ECL allowance by product.

	Consolidated and Company	
	2019	**2018**
	$'000	**$'000**
Credit cards	5,742	4,285
Personal loans	6,331	7,030
Residential home loans	31,026	9,329
	43,099	20,644

The table below shows the reconciliation from the opening balance to the closing balance of funds under management and transfers during the period

	Consolidated						
	Collective provision 12 month ECL $'000	**Collective provision lifetime ECL Not credit impaired $'000**	**Collective provision lifetime ECL Credit impaired $'000**	**Collective provision for credit losses $'000**	**Specific provision lifetime ECL credit impaired $'000**	**Purchased or Originated Credit Impaired $'000**	**Total $'000**
Balance as at 30 June 2018	23,075,247	979,135	166,570		12,530	-	24,233,482
Changes due to financial assets recognised in the opening balance that have:							
Transferred to 12 month ECL - collective provision	475,359	(435,081)	(39,096)	-	(1,182)	-	-
Transferred to lifetime ECL - collective provision	(658,827)	699,588	(40,022)	-	(739)	-	-
Transferred to lifetime ECL credit impaired							
- collective provision	(84,971)	(62,725)	147,696	-	-	-	-
- specific provision	(6,659)	(5,159)	(3,269)	-	15,087	-	-
Write offs	-	-	-	-	(10,661)	-	(10,661)
Changes due to modifications that did not result in modification							
New financial assets originated or purchased	5,883,339	161,872	8,435	-	-	335	6,053,981
Financial assets which have been derecognised	-	-	-	-	-	-	-
Changes in model risk parameters	-	-	-	-	-	-	-
Increased provisions (net of releases)	(3,762,150)	(167,170)	(36,260)	-	4,368	-	(3,961,212)
Write-backs of specific provisions	-	-	-	-	-	-	-
Write-off from specific provisions	-	-	-	-	-	-	-
Balance as at 30 June 2019	24,921,338	1,170,460	204,054	-	19,403	335	26,315,590

26 Risk management (continued)

	Company						
	Collective provision 12 month ECL $'000	Collective provision lifetime ECL Not credit impaired $'000	Collective provision lifetime ECL Credit impaired $'000	Collective provision for credit losses $'000	Specific provision lifetime ECL credit impaired $'000	Purchased or Originated Credit Impaired $'000	Total $'000
Balance as at 30 June 2018	23,156,894	979,135	166,570		12,530	-	24,315,129
Changes due to financial assets recognised in the opening balance that have:							
Transferred to 12 month ECL - collective provision	475,359	(435,081)	(39,096)	-	(1,182)	-	-
Transferred to lifetime ECL - collective provision	(658,827)	699,588	(40,022)	-	(739)	-	-
Transferred to lifetime ECL credit impaired							
- collective provision	(84,971)	(62,725)	147,696	-	-	-	-
- specific provision	(6,659)	(5,159)	(3,269)	-	15,087	-	-
Write offs	-	-	-	-	(10,661)	-	(10,661)
Changes due to modifications that did not result in modification							
New financial assets originated or purchased	5,883,339	161,872	8,435	-	-	335	6,053,981
Financial assets which have been derecognised	-	-	-	-	-	-	-
Changes in model risk parameters	-	-	-	-	-	-	-
Increased provisions (net of releases)	(3,760,368)	(167,170)	(36,260)	-	4,368	-	(3,959,430)
Write-backs of specific provisions	-	-	-	-	-	-	-
Write-off from specific provisions	-	-	-	-	-	-	-
Balance as at 30 June 2019	25,004,767	1,170,460	204,054	-	19,403	335	26,399,019

Expected Credit Losses (ECL)

Background

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

In the year ended June 2019, AASB 9 replaced AASB 139. Under AASB 139, the model considered losses on an incurred basis whilst AASB 9 is an expected loss model. The new impairment requirements apply to financial assets measured at amortised cost and FVTOCI.

26 Risk management (continued)

Determining ECL

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

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

The Group has not made changes in the estimation techniques or significant assumptions made during the reporting period.

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

Credit quality of financial assets

In assessing the impairment of financial assets under the expected credit loss model, default is defined as one of the following:

- The customer is 90 days or more overdue on a scheduled credit obligation repayment; or
- The customer is unlikely to repay their credit obligation in full, leading to action taken to realise the value of the security.

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

Determining significant increase in credit risk (SICR)

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

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

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

The SICR thresholds are periodically reviewed and adjusted based on historical default experience.

Model Inputs

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

The key model inputs used in measuring the ECL are listed below. These figures are derived from internally developed models and other historical data.

26 Risk management (continued)

Probability of default (PD)
PD is an estimate of the likelihood of default over a given time horizon. It is estimated as at a point in time. The calculation is based on statistical rating models and is a function of transition matrices used to determine a point in time PD estimates. These transition matrices are based on historical delinquency trends PDs. The PD calculation also takes into consideration of contractual maturities of exposures and estimated prepayment rates. The development of PDs is generally performed at an account level.

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

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

Forward-looking Estimates (FLE)
AASB 9 requires expected credit losses to incorporate forward-looking information.

The Group uses forward-looking macroeconomic information that is available without undue cost or effort in its assessment of significant increase of credit risk as well as in its measurement of ECL. The Bank's Treasury department generates a 'base case' scenario of future forecast of relevant economic variables with reference to public information and third party sources such as governmental bodies and monetary authorities. Variables used include House Price Index, Gross Domestic Product and Unemployment.

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

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

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

Scenario	Weighting	Expectation
Base	Most Likely	Unemployment to remain relatively stable then slightly improve from 2022. GDP to remain stable through to late 2019 then increases before moderating. House prices to decrease before recovering late 2020, peaking late 2021 / early 2022 then easing thereafter.
Downside/ upside	Possible	Modelled on base forecasts.
Severe	Highly Unlikely	Unemployment increases before more than doubling in year 4 then gradually declines. GDP falls by more than 5 per cent over the first 2 years then recovers thereafter. House prices to drop significantly over the first three years before stabilising.

26 Risk management (continued)

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.

The maximum exposure to credit risk of the investment securities designated at FVTPL is their carrying amount, which amounts to $962,171,000 as at 30 June 2019 (2018: $905,247,000).

Concentration of exposure

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

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
2019					
Amortised cost investments	-	1,039	-	-	1,039
FVTOCI investments	2,618,243	-	-	-	2,618,243
FVTPL investments	962,171	-	-	-	962,171
Trade and other receivables	-	9,520	-	-	9,520
Loans and advances	-	25,225,848	1,044,082	45,660	26,315,590
	3,580,414	25,236,407	1,044,082	45,660	29,906,563
2018					
Amortised cost investments	-	-	-	-	-
FVTOCI investments	2,271,222	-	-	-	2,271,222
FVTPL investments	905,247	-	-	-	905,247
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

	Company				
	Neither past due nor impaired				
	Investment grade $'000	Unrated $'000	Past due but not impaired $'000	Impaired $'000	Total $'000
2019					
Amortised cost investments	-	1,039	-	-	1,039
FVTOCI investments	2,618,243	-	-	-	2,618,243
FVTPL investments	962,171	-	-	-	962,171
Trade and other receivables	-	10,425	-	-	10,425
Loans and advances	-	25,309,277	1,044,082	45,660	26,399,019
	3,580,414	25,320,741	1,044,082	45,660	29,990,897

26 Risk management (continued)

	Company				
	Neither past due nor impaired		Past due		
	Investment grade	Unrated	but not impaired	Impaired	Total
	$'000	$'000	$'000	$'000	$'000
2018					
Amortised cost investments	-	-	-	-	-
FVTOCI investments	2,271,223	-	-	-	2,271,223
FVTPL investments	905,247	-	-	-	905,247
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

Credit risk exposure by risk grade

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

	Stage 1 12 months ECL Not credit impaired $'000	Stage 2 Lifetime ECL Not credit impaired $'000	Stage 3 Lifetime ECL Credit impaired $'000	Total $'000
Consolidated				
30 June 2019				
Loans and advances				
Unrated			-	-
Credit cards	162,626	5,805	-	168,431
Personal loans	124,629	17,165	-	141,794
Residential home loans	24,634,083	1,147,490	-	25,781,573
Default				
Credit cards	-	-	1,188	1,188
Personal loans	-	-	2,903	2,903
Residential home loans	-	-	219,701	219,701
Total	24,921,338	1,170,460	223,792	26,315,590
Other financial assets				
Senior investment grade	1,451,437	-	-	1,451,437
Investment grade	2,125,977	-	-	2,125,977
Sub-investment grade	-	-	-	-
Unrated	4,039	-	-	4,039
Default	-	-	-	-
Total	3,581,453	-	-	3,581,453
30 June 2018				
Loans and advances				
Unrated				
Credit cards	161,607	5,331	-	166,938
Personal loans	134,733	18,598	-	153,331
Residential home loans	22,769,885	966,912	-	23,736,797
Default				
Credit cards	-	-	755	755
Personal loans	-	-	3,403	3,403
Residential home loans	-	-	172,258	172,258
Total	23,066,225	990,841	176,416	24,233,482

26 Risk management (continued)

	Stage 1 12 months ECL Not credit impaired $'000	Stage 2 Lifetime ECL Not credit impaired $'000	Stage 3 Lifetime ECL Credit impaired $'000	Total $'000
Other financial assets				
Senior investment grade	1,138,054	-	-	1,138,054
Investment grade	2,038,415	-	-	2,038,415
Sub-investment grade	-	-	-	-
Unrated	-	-	-	-
Default	-	-	-	-
Total	3,176,469	-	-	3,176,469
Company				
30 June 2019				
Loans and advances				
Unrated			-	-
Credit cards	162,626	5,805	-	168,431
Personal loans	124,629	17,165	-	141,794
Residential home loans	24,717,512	1,147,490	-	25,865,002
Default				
Credit cards	-	-	1,188	1,188
Personal loans	-	-	2,903	2,903
Residential home loans	-	-	219,701	219,701
Total	25,004,767	1,170,460	223,792	26,399,019
Other financial assets				
Senior investment grade	1,451,437	-	-	1,451,437
Investment grade	2,125,977	-	-	2,125,977
Sub-investment grade	-	-	-	-
Unrated	4,039	-	-	4,039
Default	-	-	-	-
Total	3,581,453	-	-	3,581,453
30 June 2018				
Loans and advances				
Unrated			-	-
Credit cards	161,607	5,331	-	166,938
Personal loans	134,733	18,598	-	153,331
Residential home loans	22,851,532	966,912	-	23,818,444
Default	-	-		-
Credit cards	-	-	755	755
Personal loans	-	-	3,403	3,403
Residential home loans	-	-	172,258	172,258
Total	23,147,872	990,841	176,416	24,315,129
Other financial assets				
Senior investment grade	1,138,054	-	-	1,138,054
Investment grade	2,038,416	-	-	2,038,416
Sub-investment grade	-	-	-	-
Unrated	-	-	-	-
Default	-	-	-	-
Total	3,176,470	-	-	3,176,470

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	31 - 60 days	61 - 90 days	> 90 days	Total
	$'000	$'000	$'000	$'000	$'000
2019					
Net loans and advances					
Credit cards	12,139	2,079	791	1,131	16,140
Personal loans	10,271	2,446	987	2,495	16,199
Residential home loans	687,410	115,185	57,867	151,281	1,011,743
	709,820	119,710	59,645	154,907	1,044,082

	Consolidated and Company				
	< 30 days	31 - 60 days	61 - 90 days	> 90 days	Total
	$'000	$'000	$'000	$'000	$'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

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

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

Collateral held and other credit enhancements

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

	Percentage of exposure that is subject to collateral requirements		Principal types of collateral held
	2019	2018	
Cash and cash equivalents (i)	100%	100%	Repo eligible financial assets
Derivative assets (ii)	-	-	Cash
Loans and advances:			
Credit cards	-	-	None
Personal loans	-	-	None
Residential home loans (iii)	100%	100%	Residential property

(i) Repurchase agreements financial assets.

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

26 Risk management (continued)

(iii) The fair value of the collateral for the residential home loans is $49,472 million (2018: $45,834 million). Values of the collateral are captured when loans are originated. The group has elected to use the value of the collateral at the time of origination as a proxy for its fair value.

Offsetting financial assets and financial liabilities

As at 30 June 2019, there are no financial assets and financial liabilities that are offset in the Group's statement of financial position. The Group considers the ISDA master netting agreements do not meet the criteria for offsetting in the statement of financial position. This is because they create for the parties to the agreement a right of set-off of recognised amounts that is enforceable only following an event of default, insolvency or bankruptcy of the Group or the counterparties or following other predetermined events (see Note 16).

Cash and cash equivalents

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

(b) Liquidity risk

The Group defines liquidity risk as:

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

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

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

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

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

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

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

26 Risk management (continued)

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

	Consolidated				
	Encumbered		Unencumbered		
	Pledged as collateral $'000	Restricted from using as collateral $'000	Available as collateral $'000	Not readily available to secure funding $'000	Total $'000
30 June 2019					
Cash and cash equivalents	68,329	-	-	771,560	839,889
Investments	4,286	-	3,573,128	4,039	3,581,453
Derivatives	-	-	-	3,785	3,785
Trade and other receivables	-	-	-	9,520	9,520
Current tax assets	-	-	-	9,265	9,265
Loans and advances	-	-	-	26,272,491	26,272,491
Investment in controlled entities	-	-	-	-	-
Plant and equipment	-	-	-	6,567	6,567
Intangible assets	-	-	-	86,632	86,632
Deferred tax assets	-	-	-	43,845	43,845
Other assets	-	-	-	14,875	14,875
	72,615	-	3,573,128	27,222,579	30,868,322

	Consolidated				
	Encumbered		Unencumbered		
	Pledged as collateral $'000	Restricted from using as collateral $'000	Available as collateral $'000	Not readily available to secure funding $'000	Total $'000
30 June 2018					
Cash and cash equivalents	25,401	-	-	384,249	409,650
Investments	495,540	-	2,680,929	-	3,176,469
Derivatives	-	-	-	11,005	11,005
Trade and other receivables	-	-	-	5,894	5,894
Current tax assets	-	-	-	-	-
Loans and advances	-	-	-	24,212,838	24,212,838
Investment in controlled entities	-	-	-	-	-
Plant and equipment	-	-	-	5,780	5,780
Intangible assets	-	-	-	93,228	93,228
Deferred tax assets	-	-	-	8,802	8,802
Other assets	-	-	-	13,083	13,083
	520,941	-	2,680,929	24,734,879	27,936,749

26 Risk management (continued)

	Company				
	Encumbered		Unencumbered		
	Pledged as collateral $'000	Restricted from using as collateral $'000	Available as collateral $'000	Not readily available to secure funding $'000	Total $'000
30 June 2019					
Cash and cash equivalents	68,329	-	-	464,825	533,154
Investments	4,286	-	3,573,128	4,039	3,581,453
Derivatives	-	-	-	3,311	3,311
Trade and other receivables	-	-	-	10,425	10,425
Current tax assets	-	-	-	11,568	11,568
Loans and advances	-	-	-	26,355,920	26,355,920
Investment in controlled entities	-	-	-	103	103
Plant and equipment	-	-	-	6,567	6,567
Intangible assets	-	-	-	86,632	86,632
Deferred tax assets	-	-	-	43,840	43,840
Other assets	-	-	-	14,875	14,875
	72,615	-	3,573,128	27,002,105	30,647,848

	Company				
	Encumbered		Unencumbered		
	Pledged as collateral $'000	Restricted from using as collateral $'000	Available as collateral $'000	Not readily available to secure funding $'000	Total $'000
30 June 2018					
Cash and cash equivalents	25,401	-	-	140,837	166,238
Investments	495,540	-	2,680,930	-	3,176,470
Derivatives	-	-	-	10,412	10,412
Trade and other receivables	-	-	-	30,531	30,531
Current tax assets	-	-	-	281	281
Loans and advances	-	-	-	24,294,485	24,294,485
Investment in controlled entities	-	-	-	102	102
Plant and equipment	-	-	-	5,780	5,780
Intangible assets	-	-	-	93,228	93,228
Deferred tax assets	-	-	-	8,799	8,799
Other assets	-	-	-	13,083	13,083
	520,941	-	2,680,930	24,597,538	27,799,409

Financial assets Financial assets pledged as collateral

The table above shows the financial assets pledged as collateral. These assets are pledged as part of sales and repurchases, securities borrowing and securitisation transactions under terms that are usual and customary for such activities. As part of these transactions, the Group has received assets as collateral that it is permitted to sell or repledge in the absence of default. These assets have a fair value of $400,291,000 as at 30 June 2019 (2018: $110,067,000). The Group is obliged to return equivalent securities under the relevant agreements.

26 Risk management (continued)

The table below summarises the maturity profile of the Group's financial liabilities as at 30 June 2019 based on contractual undiscounted repayment obligations, including interest repayments up to the maturity date. Liability products that are subject to a notice period are treated as if notice were given immediately, however this does not reflect the expected behavioural cash flows as indicated by the Group's deposit retention history.

	Consolidated				
	At call $'000	0 - 3 months $'000	3 mths to 1 year $'000	1 - 5 years $'000	More than 5 years $'000
2019					
Deposits and other borrowings	6,737,505	9,083,082	8,967,459	3,835,146	1,290,513
Trade payables	-	40,499	-	-	-
Subordinated debt	-	303,118	-	-	-
Net settled:					
Interest rate swaps (cash flow hedges)	-	10,924	38,489	46,934	-
Interest rate swaps	-	(402)	(868)	-	-
Foreign exchange contracts (cash flow hedges)	-	-	610	296	-
Total undiscounted cash flows	6,737,505	9,437,221	9,005,690	3,882,376	1,290,513
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	-	(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

	Company				
	At call $'000	0 - 3 months $'000	3 mths to 1 year $'000	1 - 5 years $'000	More than 5 years $'000
2019					
Deposits and other borrowings	6,737,505	8,644,283	6,834,752	837,968	
Trade payables	-	51,085	-	-	-
Subordinated debt	-	303,118	-	-	-
Net settled:					
Interest rate swaps (cash flow hedges)	-	7,400	29,595	38,143	-
Interest rate swaps (held-for-trading)	-	(402)	(868)	-	-
Foreign exchange contracts	-	-	610	296	-
Total undiscounted cash flows	6,737,505	9,005,484	6,864,089	876,407	-
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

26 Risk management (continued)

(c) Market risk

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

Interest rate risk

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

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

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

Interest rate sensitivity analysis

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

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

	Consolidated and Company			
	Net interest income		MVE	
	2% increase $'000	2% decrease $'000	2% increase $'000	2% decrease $'000
30 June 2019	31,101	(29,302)	46,818	(46,070)
30 June 2018	37,729	(2,523)	19,238	(21,787)

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 (2018: $nil).

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

(d) Operational risk

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

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

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

26 Risk management (continued)

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

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

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 determined on a risk requirements imposed by APRA (refer below).

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

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.

27 Capital management (continued)

APRA requires capital adequacy to be measured at two levels:

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

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

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 15.8% as at 30 June 2019 (2018: 15.1%).

Securitisation deconsolidation principle

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

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

- SMHL Series Private Placement 2011-1
- SMHL Series Securitisation Fund 2013-1
- SMHL Series Securitisation Fund 2014-1
- SMHL Series Securitisation Fund 2015-1
- SMHL Series Securitisation Fund 2016-1
- SMHL Series Securitisation Fund 2017-1
- SMHL Series Securitisation Fund 2018-2
- SMHL Series Private Placement Trust 2019-1
- SMHL Series Securitisation Fund 2019-1

	Level 1	
	2019	**2018**
	%	**%**
Risk weighted capital adequacy ratios		
Tier 1		
Common Equity Tier 1	9.5	9.7
Additional Tier 1	2.9	2.0
Tier 2	3.4	3.4
Total capital ratio	15.8	15.1

The internal total capital adequacy ratio set by the Board remained at 11.5% during the financial year ended 30 June 2019 (2018: 11.5%).

28 Director and key management personnel compensation

(a) Details of key management personnel

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

Directors - Company

J Evans	Chairman (appointed 30 April 2019)
K Hodgson	Chairman (resigned 31 March 2019)
D Issa	(appointed 31 March 2019)
P Everingham	(appointed 30 April 2019)
C Bart	
C Christian	
G Combet	
J Milne	(resigned 4 October 2018)
J Nesbitt	
E Rubin	

28 Director and key management personnel compensation (continued)

Key management personnel

J McPhee	Chief Executive Officer
C Cataldo	Chief Risk Officer
A Crane	Chief Financial Officer (appointed 19 August 2019)
G Dickson	Chief Financial Officer (resigned 21 June 2019)
A Middleton	Group Executive, Service Excellence
I Purcell	Chief Experience Officer
C Ralston	Group Executive, Customer Banking
M Simpson	Group Executive, People Experience (resigned 31 January 2019)
M Toohey	Chief Information Officer (appointed 2 July 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	
	2019	**2018**
	$	**$**
Key management personnel		
Short term benefits	3,945,700	4,760,697
Other long term benefits	1,061,991	836,416
Termination benefits	317,277	821,719
Total key management personnel compensation	5,324,968	6,418,832

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.

(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	
	2019	**2018**
	$	**$**
Key management personnel		
Loans advanced	3,405,354	4,518,565
Interest charged on loans advanced	125,745	134,380
Deposits	2,329,592	2,057,399
Interest paid on deposits	26,355	22,503
	5,887,045	6,732,847

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.

28 Director and key management personnel compensation (continued)

(f) Aggregate compensation made to directors

Board schedule of fees of the Company

	Company	
	2019	**2018**
	$	**$**
Chair of the Board	189,000	189,000
Member of the Board	94,500	94,500
Audit and Governance Committee		
Chair of the committee	14,200	14,200
Committee member	7,100	7,100
Risk and Compliance Committee		
Chair of the committee	14,200	14,200
Committee member	7,100	7,100
People and Remuneration Committee		
Chair of the committee	14,200	14,200
Committee member	7,100	7,100
Digital Committee		
Chair of the committee	14,200	14,200
Committee member	7,100	7,100
Investment and Partnerships Strategy Committee (dissolved 15 May 2019)		
Chair of the committee	14,200	14,200
Committee member	7,100	7,100

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

Director		2019	2018
		$	$
K Hodgson	Chair of the Board (ceased 31 March 2019)	142,811	189,000
	Committee member	17,307	22,500
	Total compensation	160,118	211,500
J Evans	Chair of the Board (appointed 30 April 2019)	30,508	-
	Committee member	864	-
	Total compensation	31,372	-
P Everingham	Member of the Board (appointed 30 April 2019)	15,396	-
	Committee member	2,044	-
	Total compensation	17,440	-
D Issa	Member of the Board (appointed 31 March 2019)	23,841	-
	Committee member	2,460	-
	Total compensation	26,301	-
C Bart	Member of the Board	94,500	94,500
	Committee member	21,798	21,300
	Total compensation	116,298	115,800
C Christian	Member of the Board	94,500	94,500
	Committee member	38,196	21,300
	Total compensation	132,696	115,800
G Combet	Member of the Board	94,500	94,500
	Committee member	28,024	16,877
	Total compensation	122,524	111,377
J Milne	Member of the Board (ceased 4 October 2018)	22,998	62,879
	Committee member (ceased 31 March 2019)	4,965	4,724
	Total compensation	27,963	67,603

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		2019	2018
		$	**$**
J Nesbitt	Member of the Board	94,500	94,500
	Committee member	26,052	22,500
	Total compensation	120,552	117,000
E Rubin	Member of the Board	94,500	94,500
	Committee member	29,979	15,400
	Total compensation	124,479	109,900
Total directors compensation		879,744	848,980

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 2019, the following transactions occurred between the Company and its subsidiaries:

- Management fees received or receivable from the subsidiary entity of $1,618,381 (2018: $2,900,261);
- Mortgage manager fee paid or payable to the subsidiary entity of $21,535 (2018: $19,301); 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 $299,414 are owed from the subsidiary entity (2018: $256,966).

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 2019						
Assets						
Cash and cash equivalents	839,889	-	839,889	533,154	-	533,154
Investments	1,501,956	2,079,497	3,581,453	1,498,330	2,083,123	3,581,453
Derivatives	2,077	1,708	3,785	1,099	2,212	3,311
Trade and other receivables	9,520	-	9,520	10,425	-	10,425
Current tax assets	9,265	-	9,265	11,568	-	11,568
Loans and advances	171,949	26,100,542	26,272,491	171,981	26,183,939	26,355,920
Investment in controlled entities	-	-	-	-	103	103
Plant and equipment	-	6,567	6,567	-	6,567	6,567
Intangible assets	-	86,632	86,632	-	86,632	86,632
Deferred tax assets	-	43,845	43,845	-	43,840	43,840
Other assets	14,875	-	14,875	14,875	-	14,875
	2,549,531	28,318,791	30,868,322	2,241,432	28,406,416	30,647,848
Liabilities						
Deposits and other borrowings	20,838,877	8,072,817	28,911,694	20,835,250	7,875,602	28,710,852
Derivatives	17,174	81,370	98,544	11,103	60,080	71,183
Trade and other payables	40,499	-	40,499	51,085	-	51,085
Current tax liabilities	-	-	-	-	-	-
Provisions	22,178	9,057	31,235	22,178	9,057	31,235
Subordinated debt	-	301,079	301,079	-	301,079	301,079
Total liabilities	20,918,728	8,464,323	29,383,051	20,919,616	8,245,818	29,165,434
Net	(18,369,197)	19,854,468	1,485,271	(18,678,184)	20,160,598	1,482,414

	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
Current tax assets	-	-	-	281	-	281
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	13,083	-	13,083
	1,707,475	26,229,274	27,936,749	1,570,895	26,228,514	27,799,409
Liabilities						
Deposits and other borrowings	20,355,383	5,810,587	26,165,970	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	20,402,321	6,128,258	26,530,579	15,990,840	10,405,195	26,396,035
Net	(18,694,846)	20,101,016	1,406,170	(14,419,945)	15,823,319	1,403,374

31 Remuneration of auditors

	Consolidated		Company	
	2019	2018	2019	2018
	$	$	$	$
Audit and Review of Financial statements	473,500	409,000	411,125	349,500
Regulatory audits	131,500	291,000	123,500	283,000
Tax services	204,819	201,321	199,319	112,321
Other services	215,292	225,490	140,292	225,490
	1,025,111	1,126,811	874,236	970,311

The auditor of the Group is Deloitte Touche Tohmatsu.

32 Subsequent events

Subsequent to the financial year ended 30 June 2019, the Company has redeemed $300 million of subordinated debt in August 2019. Other than the matter disclosed 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.