
Members Equity Bank Limited

ABN: 56 070 887 679

Interim Financial Statements

For the half-year ended 31 December 2016

Members Equity Bank Limited

Directors' report for the half-year ended 31 December 2016

The directors of Members Equity Bank Limited (the Company) submit herewith the interim financial statements of the Group (being the Company and its subsidiaries) for the half-year ended 31 December 2016, and the independent auditor's review report thereon.

Directors

The directors of Members Equity Bank Limited at any time during or since the end of the half-year and at the date of this report are:

K Hodgson	Chairman
C Bart	(appointed 1 July 2016)
C Christian	
G Combet	
A De Salis	(retired 14 November 2016)
J Milne	
J Nesbitt	(appointed 2 February 2017)
E Rubin	(appointed 4 October 2016)
G Weaven	(resigned 31 December 2016)

Principal activities

The principal activities of the Group comprised of:

- 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 (2016: \$nil). The directors do not recommend the payment of a dividend in respect of the half-year ended 31 December 2016.

Review of operations and results

Statutory profit for the half-year ended 31 December 2016 was \$29.3 million compared to \$34.5 million for the half-year ended 31 December 2015.

Significant items

There are a number of significant items which are included in the Group's statutory profit for the financial period but have been excluded from the Group's underlying profit for the financial period. The following table reconciles the Group's statutory profit with the Group's underlying profit. All amounts are after tax.

	31 Dec 2016	31 Dec 2015
	\$'m	\$'m
Statutory profit for the half-year	29.3	34.5
• loss on sale of commercial loans and asset finance portfolios	5.7	-
• realised and unrealised losses / (gains) on hedging instruments	3.0	(4.3)
• IT partnership costs (1)	2.4	-
Underlying profit for the half-year	40.4	30.2

(1) One-off transition costs to consolidate multiple service providers for IT infrastructure, application solution and support services

Auditor independence

The auditor's independence declaration is included on page 3 of the interim financial statements.

Subsequent events

There have been no matters or circumstances which have arisen since the end of the financial half-year which significantly affect the operations of the Group, the results of those operations, or the state of affairs of the Group in subsequent years.

Members Equity Bank Limited

Directors' report for the half-year ended 31 December 2016

Rounding off of amounts

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

Signed in accordance with a resolution of the directors.

On behalf of the directors



Director

Melbourne, 8 March 2017

8 March 2017

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

Dear Board Members

Members Equity Bank Limited

I am pleased to provide the following declaration of independence to the directors of Members Equity Bank Limited (the Bank).

As lead audit partner for the review of the Interim Financial Statements of the Bank for the half-year ended 31 December 2016, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- (i) the auditor independence requirements of the Australian Accounting Standards in relation to the review; and
- (ii) any applicable code of professional conduct in relation to the review.

Yours sincerely



DELOITTE TOUCHE TOHMATSU



Mark Stretton
Partner
Chartered Accountants

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

We have reviewed the accompanying Interim Financial Statements of Members Equity Bank Limited (the Bank), which comprises the condensed consolidated statement of financial position as at 31 December 2016, the condensed consolidated statement of profit or loss and other comprehensive income, the condensed consolidated statement of cash flows and the condensed consolidated statement of changes in equity for the half year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the Bank and the entities it controlled at the end of the half-year or from time to time during the half-year as set out on pages 5 to 12.

Directors' Responsibility for the Interim Financial Statements

The directors of the Bank are responsible for the preparation of the Interim Financial Statements that gives a true and fair view in accordance with Australian Accounting Standards and for such internal control as the directors determine is necessary to enable the preparation of the Interim Financial Statements that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the Interim Financial Statements based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity (ASRE 2410)*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the Interim Financial Statements is not in accordance with Australian Accounting Standards including: giving a true and fair view of Bank's financial position as at 31 December 2016 and its performance for the half-year ended on that date. As the auditor of the Bank, ASRE 2410 requires that we comply with the ethical requirements relevant to the review of the annual financial report.

A review of an Interim Financial Statements consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the 31 December 2016 Interim Financial Statements of the Bank do not present fairly, in all material respects, the Bank's financial position as at 31 December 2016 and of its financial performance for the period ended on that date in accordance with Australian Accounting Standards.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU



Mark Stretton
Lead Client Service Partner
Chartered Accountants



Vivienne Tang
Engagement Partner

Melbourne, 8 March 2017

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; and
- (b) in the directors' opinion, the attached interim financial statements and notes thereto comply with accounting standards and present a true and fair view of the financial position and performance of the consolidated entity.

Signed in accordance with a resolution of the directors.

On behalf of the directors



Director

Melbourne, 8 March 2017

Members Equity Bank Limited

Condensed consolidated statement of profit or loss and other comprehensive income for the half-year ended 31 December 2016

	Notes	Consolidated half-year ended	
		31 Dec 2016 \$'000	31 Dec 2015 \$'000
Interest and similar income		581,044	610,500
Interest and similar expense		(418,694)	(461,235)
Net interest income		162,350	149,265
Funds management fee income		3,714	5,649
Other operating income		21,077	27,516
Total net operating income		187,141	182,430
Expenses			
Operating expenses		117,203	118,907
Impairment losses		7,972	5,862
Project expenses		11,967	8,398
Loss on sale of commercial loans and asset finance portfolios	4	8,040	-
Total operating expenses		145,182	133,167
Profit before income tax		41,959	49,263
Income tax expense	5	12,617	14,795
Profit for the period		29,342	34,468
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 available-for-sale financial assets, net of tax		(4,690)	(4,617)
Cash flow hedges - effective portion of changes in fair values, net of tax		37,407	13,269
Total comprehensive income for the period		62,059	43,120

Notes to the financial statements are included on pages 11 to 14.

Members Equity Bank Limited

Condensed consolidated statement of financial position as at 31 December 2016

	Notes	Consolidated	
		31 Dec 2016 \$'000	30 Jun 2016 \$'000
Assets			
Cash and cash equivalents		468,198	440,054
Investments		3,012,927	3,064,159
Derivatives		5,785	4,661
Trade and other receivables		6,098	5,516
Loans and advances		20,972,038	19,534,241
Plant and equipment		9,395	29,829
Intangible assets		85,603	83,620
Deferred tax assets		20,896	32,893
Other assets		9,244	8,422
Total assets		24,590,184	23,203,395
Liabilities			
Deposits and other borrowings	7	23,101,365	21,770,305
Derivatives		37,744	87,851
Trade and other payables		67,894	20,081
Provisions		22,170	26,446
Subordinated debt		333,000	332,760
Total liabilities		23,562,173	22,237,443
Net assets		1,028,011	965,952
Equity			
Issued capital		767,922	767,922
Reserves		(7,633)	(37,181)
Retained earnings		267,722	235,211
Total equity		1,028,011	965,952
Book value per share		\$ 97.22	\$ 91.35

Notes to the financial statements are included on pages 11 to 14.

**Condensed consolidated statement of changes in equity
for the half-year ended 31 December 2016**

	Consolidated					Total \$'000
	Issued capital \$'000	Retained earnings \$'000	General reserve for credit losses \$'000	Investment revaluation reserve \$'000	Cash flow hedge reserve \$'000	
Balance as at 1 July 2015	729,995	163,892	17,381	5,245	(54,335)	862,178
Adjustment due to restatement	-	(4,562)	-	-	-	(4,562)
Balance as at 1 July 2015 (restated)	729,995	159,330	17,381	5,245	(54,335)	857,616
Issue of share capital	37,927	-	-	-	-	37,927
Transfer to/(from) general reserve for credit losses	-	102	(102)	-	-	-
Other comprehensive income for the period	-	-	-	(4,617)	13,269	8,652
Profit for the period	-	34,468	-	-	-	34,468
Balance as at 31 December 2015	767,922	193,900	17,279	628	(41,066)	938,663
Balance as at 1 July 2016	767,922	235,211	18,332	3,235	(58,748)	965,952
Issue of share capital	-	-	-	-	-	-
Transfer to/(from) general reserve for credit losses	-	3,169	(3,169)	-	-	-
Other comprehensive income for the period	-	-	-	(4,690)	37,407	32,717
Profit for the period	-	29,342	-	-	-	29,342
Balance as at 31 December 2016	767,922	267,722	15,163	(1,455)	(21,341)	1,028,011

**Condensed consolidated statement of cash flows
for the half-year ended 31 December 2016**

	Consolidated	
	31 Dec 2016	31 Dec 2015
	\$'000	\$'000
Cash flows from operating activities		
Profit before tax	41,959	49,263
Adjustments for:		
Change in operating assets	(1,405,021)	(769,389)
Change in operating liabilities	1,372,906	589,320
Non-cash items included in profit before tax	44,138	18,064
Income tax payments	(15,436)	(16,968)
Net cash from / (used in) operating activities	<u>38,546</u>	<u>(129,710)</u>
Cash flows from investing activities		
Purchase of plant and equipment	(710)	(7,994)
Purchase of intangible assets	(9,692)	(6,163)
Net cash used in investing activities	<u>(10,402)</u>	<u>(14,157)</u>
Cash flows from financing activities		
Proceeds from issue of shares	-	37,927
Net cash provided by financing activities	<u>-</u>	<u>37,927</u>
Net increase / (decrease) in cash	28,144	(105,940)
Cash and cash equivalents at the beginning of the period	440,054	360,902
Cash and cash equivalents at the end of the period	<u>468,198</u>	<u>254,962</u>

Condensed notes to the financial statements for the half-year ended 31 December 2016

1 General information

The interim financial statements of Members Equity Bank Limited (the Company) and its subsidiaries (collectively, the Group) for the half-year ended 31 December 2016 were authorised for issue in accordance with a resolution of the directors made on 8 March 2017.

The Company is a limited company, incorporated and domiciled in Australia. The Group's principal activities are:

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

2 Basis of preparation

The interim financial statements are general purpose financial reports prepared in accordance with AASB 134 'Interim Financial Reporting'. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 'Interim Financial Reporting'. The interim financial statements do not include notes of the type normally included in an annual financial report and should be read in conjunction with the most recent annual financial report.

The interim financial statements have been prepared on the basis of historical cost, unless the application of fair value measurements is required by relevant accounting standards. Cost is based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars, unless otherwise stated.

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

3 Significant accounting policies

The accounting policies and methods of computation adopted in the preparation of the interim financial statements are consistent with those adopted and disclosed in the Company's annual financial report for the financial year ended 30 June 2016.

Application of new and revised accounting standards

The Group has adopted all of the new and revised accounting standards that are relevant to its operations and effective for the half-year. None of the new and revised standards had a material impact on the Group.

4 Loss on sale of commercial loans and asset finance portfolios

Effective 1 December 2016 the Group sold its commercial loans and asset finance portfolios to RedZed Lending Solutions Pty Ltd. As a result of this sale the Group has recognised a loss on disposal of \$8.0 million (after tax \$5.7 million) as at 31 December 2016.

5 Income tax

The Group calculates the period income tax expense using the tax rate that would be applicable to the expected total annual earnings. The major components of income tax expense in the interim statement of profit or loss are:

	Consolidated half-year ended	
	31 Dec 2016	31 Dec 2015
	\$'000	\$'000
Income taxes		
Current income tax expense	620	8,784
Adjustment recognised in the current year in relation to the current tax of prior years	-	-
Deferred income tax expense/(income) related to origination and reversal of deferred taxes	11,997	6,011
Income tax expense recognised in statement of profit or loss	12,617	14,795

**Condensed notes to the financial statements
for the half-year ended 31 December 2016**

6 Investment in controlled entities

During the six months ended 31 December 2016, the Group formed one additional trust, SMHL Series Securitisation Fund 2016-1 as part of its securitisation program. The trust was formed in Australia, and the Group holds 100% of the residual income units of the trust.

7 Deposits and other borrowings

In July 2016, the Group issued \$225 million of 3 year medium term notes with a maturity date of 18 July 2019.
In August 2016 an additional \$100 million of medium term notes with a maturity date of 17 November 2017 were issued.

8 Financial instruments

(a) Categories of financial instruments

	Consolidated	
	31 Dec 2016	30 Jun 2016
	\$'000	\$'000
Financial assets		
Cash and cash equivalents	468,198	440,054
Available-for-sale financial assets	1,916,774	3,064,159
Fair value through profit or loss (FVTPL):		
Investments designated as FVTPL	1,096,153	-
Futures designated as FVTPL	1,472	-
Derivative instruments in designated hedge accounting relationship	4,313	4,661
Loans and receivables:		
Trade and other receivables	6,098	5,516
Loans and advances	20,972,038	19,534,241
Financial liabilities		
Derivative instruments in designated hedge accounting relationship	37,744	87,851
Amortised cost:		
Deposits and other borrowings	23,101,365	21,770,305
Trade and other payables	67,894	20,081
Subordinated debt	333,000	332,760

(b) Fair value of financial instruments

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.

**Condensed notes to the financial statements
for the half-year ended 31 December 2016**

8 Financial instruments (continued)

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

	Consolidated			Total
	Level 1	Level 2	Level 3	
	\$'000	\$'000	\$'000	
31 December 2016				
Assets				
<u>Financial assets at fair value through profit and loss</u>				
Investments	-	1,096,153	-	1,096,153
Futures	1,472	-	-	1,472
<u>Derivative instruments in designated hedge accounting relationship</u>				
Interest rate swaps	-	4,313	-	4,313
<u>Available-for-sale financial assets</u>				
Investments	-	1,916,774	-	1,916,774
Liabilities				
<u>Derivative instruments in designated hedge accounting relationship</u>				
Interest rate swaps	-	37,744	-	37,744

	Consolidated			Total
	Level 1	Level 2	Level 3	
	\$'000	\$'000	\$'000	
30 June 2016				
Assets				
<u>Financial assets at fair value through profit and loss</u>				
Derivatives	-	-	-	-
<u>Derivative instruments in designated hedge accounting relationship</u>				
Interest rate swaps	-	4,661	-	4,661
<u>Available-for-sale financial assets</u>				
Investments	-	3,064,159	-	3,064,159
Liabilities				
<u>Derivative instruments in designated hedge accounting relationship</u>				
Interest rate swaps	-	87,851	-	87,851

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

**Condensed notes to the financial statements
for the half-year ended 31 December 2016**

8 Financial instruments (continued)

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

	Book Value	Consolidated			Total
		Level 1	Level 2	Level 3	
	\$'000	\$'000	\$'000	\$'000	\$'000
31 December 2016					
<u>Financial assets</u>					
Net loans and advances (i)	20,972,038	-	21,025,452	-	21,025,452
<u>Financial liabilities</u>					
Deposits and other borrowings:					
- Medium term notes (ii)	1,050,646	-	1,050,887	-	1,050,887
Subordinated debt (ii)	333,000	-	334,437	-	334,437
30 June 2016					
<u>Financial assets</u>					
Net loans and advances (i)	19,534,241	-	19,595,257	-	19,595,257
<u>Financial liabilities</u>					
Deposits and other borrowings:					
- Medium term notes (ii)	928,368	-	928,876	-	928,876
Subordinated debt (ii)	332,760	-	326,380	-	326,380

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

- (i) The fair value of fixed rate loans are estimated by reference to current market rates offered on similar loans.
- (ii) The fair value of medium term notes and subordinated debt are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments.

9 Segment information

The Group operates as one segment and therefore no separate segment reporting is provided.

10 Subsequent events

There have been no matters or circumstances which have arisen since the end of the financial half-year which significantly affect the operations of the Group, the results of those operations, or the state of affairs of the Group in subsequent years.