Members Equity Bank Limited

ABN: 56 070 887 679

Annual Financial Report

For the financial year ended 30 June 2017

General Information

Australian Business Number
56 070 887 679

Directors

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

Chief Executive Officer
J McPhee

Chief Financial Officer
G Dickson

Company Secretary
I Rogerson

Auditors
Deloitte Touche Tohmatsu
550 Bourke Street
Melbourne VIC 3000

Registered office
Level 28
360 Elizabeth Street
Melbourne VIC 3000

Country of incorporation
Australia

Country of domicile
Australia

Regulatory Disclosures
The regulatory disclosures required by Australian Prudential Regulation Authority (APRA) Prudential Standard APS330 are located on the Company's website at www.mebank.com.au.

Members Equity Bank Limited

Annual financial report
for the financial year ended 30 June 2017

Contents

Directors' report
for the financial year ended 30 June 2017

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 2017.

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

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

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

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 (2016: $nil). The directors do not recommend the payment of a dividend in respect of the financial year ended 30 June 2017.

Review of operations and results
Profit for the year ended 30 June 2017 was $61.8 million compared to $76.8 million for the year ended 30 June 2016. The results were broadly in line with expectations.

Significant items
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 pre-tax loss on disposal of $8.9 million for the financial year ended 30 June 2017.

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

Likely developments and expected results
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%. APRA has indicated that there will be a further consultation process on the specific mechanics of how the changes will be effected.

As at 30 June 2017, a 50 basis points increase in total capital requirements equates to approximately $50 million. Following the Standard & Poor's sector-wide downgrade on 22 May 2017, the Group intends to increase the amount of capital held and this will also satisfy the proposed regulatory capital increases highlighted above. The increase in capital is expected to comprise ordinary share capital and Additional Tier 1 capital (the latter subject to market conditions).

Corporate governance statement
The Group's approach to corporate governance is based on the belief that in order to encourage the long term growth of the Group and meet the interests of shareholders, it is important to address the relationships between Board, executive management, shareholders, customers, the community and other stakeholders (including regulators) through appropriate policies and processes. The Board's

approach is cognisant of the ASX Corporate Governance Council Corporate Governance Principles and Recommendations and other better practice guides to ensure that the Group's governance standards meet both industry and community expectations. The Board remains committed to achieving the highest standard of internal corporate governance wherever appropriate, including promotion of gender diversity across the organisation. In addition, the Board is governed by the requirements of the 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 addition, each director must satisfy the Board’s Fit and Proper Policy.
The Constitution provides, amongst other matters, that directors may not hold office for more than 3 years without standing for re-election. Retiring directors are eligible for re-election. Ms De Salis retired as a director effective from 14 November 2016 and Mr Weaven retired as a director effective from 31 December 2016. Mr Combet offered himself for re-election by the shareholders as a director of the Company and was re-elected in November 2016.

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

Ken Hodgson - Non Executive Director
Director since January 2012 (Chairman since January 2016)
In addition to his role as Chairman of the Board Mr Hodgson is the Chair of the People and Remuneration Committee and the Nominations Committee. During the year, he was also a member of the Risk and Compliance Committee (from 1 July 2016 to 5 April 2017) and the Audit and Governance Committee. He is a director of Hydro Tasmania and spent 28 years working at Westpac and National Australia Bank in their retail banking divisions, including as General Manager Consumer Financial Services at Westpac, and as General Manager Personal Financial Services at National Australia Bank.

Christine Christian - Non Executive Director
Director since November 2012
Ms Christian was the Chair of the Audit and Governance Committee (1 July 2016 to 7 June 2017), and Chair of the Risk and Compliance Committee. Ms Christian is an independent company director. Her current directorships include FlexiGroup Limited, Powerlinx Inc., State Library of Victoria, Sherpa Systems Pty Ltd, Lonsec Financial Group, and Victorian Managed Insurance Authority. She has served in senior executive roles in Australia and overseas primarily in the credit risk, financial services and global business publishing sectors, including 14 years as Chief Executive Officer of Dun & Bradstreet Australia and New Zealand.

Justin Milne - Non Executive Director
Director since November 2012
Mr Milne is on a leave of absence from the board from 1 April 2017 to 30 September 2017
Mr Milne was the Chair of the Digital Committee (from 1 July 2016 to 31 March 2017) and a member of the People and Remuneration Committee (from 1 January 2017 to 31 March 2017), until his leave of absence commenced on April 2017. He is the Chairman of the Australian Broadcasting Corporation and Chair of Myob Ltd and NetComm Wireless. He is a non-executive director of Tabcorp Holdings Ltd, NBN Co and SMS Management and Technology. He has served in senior executive roles as Group Managing Director at Telstra and was responsible for BigPond Broadband and Telstra's Media businesses. Prior to working at Telstra, he was the CEO of OzEmail and the Microsoft Network. He is currently President of the Leichhardt Rowing Club.

Greg Combet AM - Non Executive Director
Director since November 2014
Mr Combet is a member of the People and Remuneration Committee and Digital Committee (from 6 April 2017) and during the year was a member of the Audit and Governance Committee, and Risk and Compliance Committee (from 1 July 2016 to 5 April 2017). He is Deputy Chair of Industry Super Australia Pty Ltd, Deputy Chair of IFM Investors and a director of Greg Combet Pty Ltd. He also holds a number of consultancy roles. Mr Combet held various cabinet, ministerial, and parliamentary roles within the Australian Government from 2007 to 2013 and was formerly Secretary of ACTU and a director of AustralianSuper. He is Patron of the Black Lung Victims Group.

Cheryl Bart AO – Non Executive Director
Director since July 2016
Ms Bart is Chair of the Digital Committee (from 1 April 2017) and is a member of the Risk and Compliance Committee. She is currently a non-executive director of SG Fleet Ltd, Audio Pixels Holding Ltd, Invictus Games Sydney 2018, Football Federation Australia (FFA) and Ted X Sydney and is Trustee of The Prince's Trust Australia. She has a diverse director portfolio background, chairing both committees and boards across the utilities, funds management, auto-finance and leasing, broadcasting, technology and infrastructure sectors. Previous non-executive directorships include Chair of ANZ Trustees Ltd, and a director of Environment Protection Authority, South Australian Film Corporation, Spark Infrastructure Ltd, and Australian Broadcasting Corporation.

Elana Rubin - Non-Executive Director
Director since October 2016
Ms Rubin is a member of the Digital Committee and People and Remuneration Committee (from 1 January 2017). She is currently a director of Mirvac Group, Afterpay Touch Group, Transurban Queensland, Victorian Funds Management Corporation, LaunchVic and Victorian Managed Insurance Authority. Ms Rubin has over 20 years' experience as a non-executive director on private, government and not-for-profit boards, and is a member of several advisory boards in investment property and public policy. Previous non-executive directorships include Chair of AustralianSuper, director of TAL, MLC Life and Administrator, and SecondBite.

John Nesbitt - Non Executive Director
Director since February 2017
Mr Nesbitt is Chair of the Audit and Governance Committee (from 8 June 2017) and a member of the Risk and Compliance Committee (from 5 April 2017). Effective 28 July 2017 Mr Nesbitt has been appointed Chairman of AMP Capital Funds Management Limited and AMP Investment Services Pty Limited. Mr Nesbitt has a lengthy banking and broader financial services experience through his roles at Suncorp as Chief Executive Officer Suncorp Banking and Wealth, and before that, Suncorp Chief Financial Officer. He has previously been Chair of the Perpetual Superannuation Board and has had memberships of a number of other management and industry representative boards.

Anne De Salis - Non Executive Director
Retired November 2016
Ms De Salis was a member of the People and Remuneration Committee and Digital Committee. She was during the year a director of Super Consumers Centre and National Indigenous Pastoral Enterprises Board. Ms De Salis has a diverse career spanning the public and private sectors, with considerable experience in financial services, and has held senior executive / director positions with AMP, MBF Australia, the Commonwealth Treasury and the Office of the Prime Minister, Rt Hon Paul Keating.

Garry Weaven - Non Executive Director (Chairman from 6 February 2015 to 31 December 2015)
Retired December 2016
Mr Weaven was a member of the People and Remuneration Committee. He is the Chairman of Industry Super Holdings Pty Ltd (ISH) and other entities in the ISH Group, including IFM Holdings and IFM Investors, and is a director of the New Daily. Mr Weaven's background includes periods as Chairman of Pacific Hydro, Assistant Secretary of the Australian Council of Trade Unions (ACTU), and Senior Consultant to Westpac Financial Services.

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

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

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

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

Role of CEO
The responsibility for the execution and administration of operations is delegated by the Board to the CEO. The CEO is responsible for the leadership and management of the Group, and for the implementation of ME's strategic direction. The CEO manages in accordance with the Authorities and Delegations Policy and the other policies approved by the Board from time to time.

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

Audit and Governance Committee
The Audit and Governance Committee's purpose is to:
- assist the Board by providing an objective view of the effectiveness of the Company's financial reporting framework and overall internal control framework;
- review the development of and recommend to the Board corporate governance policies and principles applicable to the Company.

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

The Committee is comprised of independent non-executive directors. During the period, the Committee was chaired by Ms Christian (1 July 2016 to 7 June 2017) and by Mr Nesbitt (from 8 June 2017).

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

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

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

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

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

- the Company's Remuneration Policy;
- reviewing and approving the process for the oversight and evaluation of the Board, Board Committees, and directors.

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

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

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

The Committee is comprised of independent non-executive directors. During the period the Committee was chaired by Mr Milne (from 1 July 2016 to 31 March 2017), and on the commencement of Mr Milne's leave of absence, by Ms Bart (from 1 April 2017).

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

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

<u>Board Performance</u>
The Board meets on a regular basis to address relevant operational and strategic issues affecting the Company. A program is in place for annual self evaluation of performance by the Board and each of its Committees. A self evaluation of each of the Risk and Compliance Committee and Audit and Governance Committee was undertaken in FY17. A self-evaluation of the performance of each of the People and Remuneration and Digital Committee was not completed in FY17 due to changes in composition of the Committees (with the departures of Ms De Salis and Mr Weaven). The Nominations Committee did not undertake an evaluation.

The Chairman conducted one-on-one discussions with all Directors. The Board did not conduct a self-evaluation during FY17 but plans to conduct an external evaluation during FY18.

<u>Board attendance 1 July 2016 to 30 June 2017</u>

	Board Meetings		
	Held	Eligible	Attn'd
C Bart	11	11	9
C Christian	11	11	11
G Combet	11	11	11
A De Salis	11	5	5
K Hodgson	11	11	11
J Milne	11	8	7
J Nesbitt	11	5	5
E Rubin	11	8	8
G Weaven	11	6	6

The directors attended a Board Strategy Day on 16 February 2017.

Board Committee attendance 1 July 2016 to 31 December 2016

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

Board Committee attendance 1 January 2017 to 31 March 2017

	People & Remuneration Committee			Digital Committee			Nominations Committee			Risk & Compliance Committee			Audit & Governance Committee		
	Held	Member	Attn'd	Held	Member	Attn'd	Held	Member	Attn'd	Held	Member	Attn'd	Held	Member	Attn'd
C Bart	-	n	-	1	y	0	-	n/a	-	1	y	1	-	n	-
C Christian	-	n	-	-	n	-	-	n/a	-	1	y	1	1	y	1
G Combet	-	n	-	-	n	-	-	n/a	-	1	y	1	1	y	1
K Hodgson	1	y	1	-	n	-	-	y	-	1	y	1	1	y	1
J Milne	1	y	0	1	y	1	-	n/a	-	-	n	-	-	n	-
J Nesbitt	-	n	-	-	n	-	-	n/a	-	-	n	-	1	y	1
E Rubin	1	y	1	1	y	1	-	n/a	-	-	n	-	-	n	-

Board Committee attendance 1 April 2017 to 30 June 2017

	People & Remuneration Committee			Digital Committee			Nominations Committee			Risk & Compliance Committee			Audit & Governance Committee		
	Held	Member	Attn'd	Held	Member	Attn'd	Held	Member	Attn'd	Held	Member	Attn'd	Held	Member	Attn'd
C Bart	-	n	-	2	y	2	-	n/a	-	2	y	1	-	n	-
C Christian	-	n	-	-	n	-	-	n/a	-	2	y	2	1	y	1
G Combet *	2	y	2	2	y	1	-	n/a	-	2	y	1	-	n	-
K Hodgson	2	y	2	-	n	-	-	y	-	2	y	1	1	y	1
J Milne	-	n	-	-	n	-	-	n/a	-	-	n	-	-	n	-
J Nesbitt	-	n	-	-	n	-	-	n/a	-	2	y	2	1	y	1
E Rubin	2	y	2	2	y	2	-	n/a	-	-	n	-	-	n	-

* Eligible for one meeting 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 in remuneration programs that are clearly defined, simple to understand and clearly communicated.
Differentiate performance	Motivate employees to be high performers who deliver strong sustainable results by differentiating remuneration for performance, reflecting individual, team and organisational performance.
Embed risk awareness and good governance	• Encourage prudent risk taking within the Company's risk appetite. • Encourage behaviours that support the risk management framework. • Encourage actions clearly focused on the Company's long-term financial soundness.

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

Fixed pay

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

Short-Term Incentives (STI)

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

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

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

Long Term Incentives (LTI)

An LTI arrangement is in place for the CEO only.

Remuneration Framework - Directors

Non-executive directors of the Company are remunerated by way of one base fee (inclusive of the Superannuation Guarantee Charge payment, at 9.5% for the period). During the year the Non-Executive Director Remuneration Policy was updated to provide for the fee to be up to 60% (previously 50%) of the median level of non-executive director fees paid by Bendigo and Adelaide Bank Limited and Bank of Queensland Limited (effective 1 July 2017).

In addition to the base fee, non-executive directors who participate on Board Committees may receive additional remuneration as compensation for the additional responsibilities and workload.

Other Remuneration and Employment Arrangements
Contracts with employees provide for notice periods, which, depending on the level of seniority of the employee, generally range from 2 weeks to 5 weeks and up to 6 months for some very senior employees. All employment contracts permit the Company to terminate for misconduct.

Upon termination, a person will receive their statutory entitlements of accrued annual and long service leave, as well as accrued superannuation benefits and payment in lieu of applicable notice periods (except in some cases of termination for serious misconduct).

Termination payments and settlements (other than in relation to statutory entitlements) or retention benefits require approval of the CEO. Sign on benefits require the Board's approval.

Indemnification and insurance of directors, officers and auditors
During the financial year, the Company paid a premium in respect of a contract insuring the directors (as shown above) and officers of the 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 9 of the Annual Financial Report.

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

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

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

On behalf of the Directors

Director
Melbourne, 7 September 2017

Deloitte.

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7 September 2017

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 2017, 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

Report on the Audit of the Financial Report

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 2017, 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 2017 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 2017, 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.

Deloitte.

- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group's audit. We remain solely responsible for our audit opinion.

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

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Mark Stretton
Partner
Chartered Accountants

Melbourne, 7 September 2017

Vivienne Tang
Partner
Chartered Accountants

Melbourne, 7 September 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;

(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, 7 September 2017

Statement of profit or loss and other comprehensive income
for the financial year ended 30 June 2017

	Notes	Consolidated 2017 $'000	Consolidated 2016 $'000	Company 2017 $'000	Company 2016 $'000
Interest and similar income	5	1,161,628	1,221,621	1,114,725	1,173,219
Interest and similar expense	5	(825,302)	(907,035)	(892,620)	(963,595)
Net interest income		336,326	314,586	222,105	209,624
Funds management fee income	5	5,952	10,354	20,764	24,671
Other operating income	5	32,124	45,533	136,295	128,901
Total net operating income		374,402	370,473	379,164	363,196
Expenses					
Operating expenses	5	231,085	233,845	227,525	230,186
Impairment losses	5	13,773	14,144	13,771	14,144
Project expenses	5	32,393	15,012	32,393	15,012
Loss on sale of commercial loans and asset finance portfolios	5	8,902	-	8,902	-
Total expenses		286,153	263,001	282,591	259,342
Profit before income tax		88,249	107,472	96,573	103,854
Income tax expense	6	26,393	30,640	28,141	28,895
Profit for the year		61,856	76,832	68,432	74,959
Other comprehensive income					
Items that will not be reclassified subsequently to profit or loss		-	-	-	-
Items that may be reclassified subsequently to profit or loss					
Net fair value gain on available-for-sale financial assets, net of tax		(513)	(2,010)	(513)	(2,010)
Cash flow hedges - effective portion of changes in fair values, net of tax		45,361	(4,413)	38,601	(2,889)
Total comprehensive income for the year		106,704	70,409	106,520	70,060

Notes to the financial statements are included on pages 18 to 58.

Statement of financial position
as at 30 June 2017

		Consolidated		Company	
		2017	2016	2017	2016
	Notes	$'000	$'000	$'000	$'000
Assets					
Cash and cash equivalents	24(a)	312,646	440,054	86,343	252,270
Investments	7	2,981,442	3,064,159	2,826,801	3,003,183
Derivatives	16	11,331	4,661	11,082	4,172
Trade and other receivables	8	6,005	5,516	19,098	7,246
Loans and advances	9	22,503,585	19,534,241	22,583,561	19,583,112
Investment in controlled entities	10	-	-	102	102
Plant and equipment	12	8,330	29,829	8,330	29,829
Intangible assets	13	89,336	83,620	89,336	83,620
Deferred tax assets	6	14,557	32,893	14,555	32,892
Other assets	14	8,969	8,422	9,170	9,513
Total assets		25,936,201	23,203,395	25,648,378	23,005,939
Liabilities					
Deposits and other borrowings	15	24,410,231	21,770,305	24,132,279	21,591,935
Derivatives	16	26,927	87,851	20,658	69,348
Trade and other payables	17	25,721	20,081	25,860	22,106
Current tax liabilities	6	949	-	-	-
Provisions	18	26,482	26,446	26,482	26,446
Subordinated debt	19	333,236	332,760	333,236	332,760
Total liabilities		24,823,546	22,237,443	24,538,515	22,042,595
Net assets		1,112,655	965,952	1,109,863	963,344
Equity					
Issued capital	20	807,921	767,922	807,921	767,922
Reserves	21	6,792	(37,181)	10,780	(26,433)
Retained earnings		297,942	235,211	291,162	221,855
Total equity		1,112,655	965,952	1,109,863	963,344
Book value per share		$ 100.73	$ 91.35		

Notes to the financial statements are included on pages 18 to 58.

Statement of changes in equity
for the financial year ended 30 June 2017

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 2015		729,995	159,330	17,381	5,245	(54,335)	857,616
Issue of share capital	20	37,927	-	-	-	-	37,927
Transfer to/(from) general reserve for credit losses	21	-	(951)	951	-	-	-
Other comprehensive income for the year		-	-	-	(2,010)	(4,413)	(6,423)
Profit for the year		-	76,832	-	-	-	76,832
Balance at 30 June 2016		767,922	235,211	18,332	3,235	(58,748)	965,952
Balance at 1 July 2016		767,922	235,211	18,332	3,235	(58,748)	965,952
Issue of share capital	20	39,999	-	-	-	-	39,999
Transfer to/(from) general reserve for credit losses	21	-	875	(875)	-	-	-
Other comprehensive income for the year		-	-	-	(513)	45,361	44,848
Profit for the year		-	61,856	-	-	-	61,856
Balance at 30 June 2017		807,921	297,942	17,457	2,722	(13,387)	1,112,655

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 2015		729,995	147,847	17,381	5,245	(45,111)	855,357
Issue of share capital	20	37,927	-	-	-	-	37,927
Transfer to/(from) general reserve for credit losses	21	-	(951)	951	-	-	-
Other comprehensive income for the year		-	-	-	(2,010)	(2,889)	(4,899)
Profit for the year		-	74,959	-	-	-	74,959
Balance at 30 June 2016		767,922	221,855	18,332	3,235	(48,000)	963,344
Balance at 1 July 2016		767,922	221,855	18,332	3,235	(48,000)	963,344
Issue of share capital	20	39,999	-	-	-	-	39,999
Transfer to/(from) general reserve for credit losses	21	-	875	(875)	-	-	-
Other comprehensive income for the year		-	-	-	(513)	38,601	38,088
Profit for the year		-	68,432	-	-	-	68,432
Balance at 30 June 2017		807,921	291,162	17,457	2,722	(9,399)	1,109,863

Notes to the financial statements are included on pages 18 to 58.

Statement of cash flows
for the financial year ended 30 June 2017

		Consolidated		Company	
		2017	2016	2017	2016
	Notes	$'000	$'000	$'000	$'000
Cash flows from operating activities					
Profit before tax		88,249	107,472	96,573	103,854
Adjustments for:					
Change in operating assets	24(c)	(2,920,054)	(1,952,870)	(2,870,708)	(1,935,676)
Change in operating liabilities	24(d)	2,647,037	1,883,163	2,546,859	1,851,739
Non-cash items included in profit before tax	24(e)	67,125	59,704	68,412	60,774
Income tax payments		(26,329)	(25,723)	(26,127)	(23,807)
Net cash provided/(used in) by operating activities		(143,972)	71,746	(184,991)	56,884
Cash flows from investing activities					
Purchase of plant and equipment	12	(950)	(10,209)	(950)	(10,209)
Purchase of intangible assets	13	(22,485)	(20,422)	(22,485)	(20,422)
Proceeds from sale of plant and equipment		-	110	-	110
Dividends received		-	-	2,500	2,200
Net cash used in investing activities		(23,435)	(30,521)	(20,935)	(28,321)
Cash flows from financing activities					
Proceeds from issue of shares	20	39,999	37,927	39,999	37,927
Net cash provided by financing activities		39,999	37,927	39,999	37,927
Net increase in cash		(127,408)	79,152	(165,927)	66,490
Cash and cash equivalents at the beginning of the financial year		440,054	360,902	252,270	185,780
Cash and cash equivalents at the end of the financial year	24(a)	312,646	440,054	86,343	252,270

Notes to the financial statements are included on pages 18 to 58.

1 General information

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

2 Application of new and revised Accounting Standards

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

In the current year, the Group has applied 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 2016, and therefore relevant for the year ended 30 June 2017.

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

Standards affecting presentation and disclosure

AASB 1057 Application of Australian Accounting Standards, AASB 2015-9 Amendments to Australian Accounting Standards – Scope and Application Paragraphs

These Standards effectively move Australian specific application paragraphs from each Standard into a combined Standard. The Standards have no impact on the application of individual standards.

AASB 2014-4 Amendments to Australian Accounting Standards – Clarification of Acceptable Methods of Depreciation and Amortisation

Amends AASB 116 Property, Plant and Equipment and AASB 138 Intangible Assets to provide additional guidance on how the depreciation or amortisation of property, plant and equipment and intangible assets should be calculated.

The amendments to AASB 116 explain that a depreciation method applied to property, plant and equipment that is based on revenue that is generated by an activity that includes the use of the asset is not appropriate.

The amendments to AASB 138 introduce a rebuttable presumption that an amortisation method for an intangible asset that is based on the revenue generated by the activity that includes the use of the intangible asset is inappropriate, and provides guidance when the rebuttable presumption can be overcome.

AASB 2014-9 Amendments to Australian Accounting Standards – Equity Method in Separate Financial Statements

Amends AASB 127 Separate Financial Statements, to allow an entity to account for investments in subsidiaries, joint ventures and associates in its separate financial statements:

- At cost
- In accordance with AASB 9 Financial Instruments (or, if AASB 9 is not applied, AASB 139 Financial Instruments: Recognition and Measurement), or
- A newly introduced option of using the equity method as described in AASB 128 Investments in Associates and Joint Ventures.

The accounting policy option must be applied for each category of investment.

AASB 2015-1 Amendments to Australian Accounting Standards – Annual Improvements to Australian Accounting Standards 2012-2014 Cycle

Key amendments include:

- AASB 5 Non-current Assets Held for Sale and Discontinued Operations – clarifies that when an entity reclassifies an asset (or disposal group) directly from held for sale to held for distribution to owners (or vice versa), such a reclassification is not treated as a change to a plan of sale (or distribution to owners).
- AASB 7 Financial Instruments: Disclosures – provides

2 Application of new and revised Accounting Standards (continued)

additional application guidance on the concept of continuing involvement for the purposes of disclosures required by the standard, and removes the requirement to provide disclosures relating to offsetting financial assets and financial liabilities in interim financial reports.

- AASB 119 Employee Benefits – clarifies the discount rate to adopt in a regional market sharing the same currency (for example, the Eurozone) by requiring that the depth of the market for high quality corporate bonds should be assessed at a currency rather than country level.
- AASB 134 Interim Financial Reporting – clarifies that certain information required by the Standard can be given either in the interim financial statements or incorporated by cross-reference from the interim financial statements to some other statement (such as management commentary or risk report) that is available to users of the financial statements on the same terms as the interim financial statements and at the same time.

AASB 2015-2 Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 101

Amends AASB 101 Presentation of Financial Statements to provide clarification regarding the disclosure requirements in AASB 101, including narrow-focus amendments to address concerns about existing presentation and disclosure requirements and to ensure entities are able to use judgements when applying a Standard in determining what information to disclose in their financial statements.

The amendments provide additional guidance in the following areas:

- Materiality. The amendments clarify that (1) information should not be obscured by aggregating or by providing immaterial information (2) materiality considerations apply to all parts of the financial statements and (3) even when a standard requires a specific disclosure, materiality considerations still apply, i.e. specific disclosure is not required to be included in the financial report if it is not material to the entity.
- Statement of financial position and statement of profit or loss and other comprehensive income. The amendments (1) introduce a clarification that the list of line items to be presented in these statements can be disaggregated and aggregated as relevant and provide additional guidance on subtotals in these statements and (2) clarify that an entity's share of other comprehensive income (OCI) of equity-accounted associates and joint ventures should be presented in aggregate as single line items based on whether or not it will subsequently be reclassified to profit or loss.
- Notes. The amendments add additional examples of possible ways of ordering the notes to clarify that understandability and comparability should be considered when determining the order of the notes rather than being presented in the order previously included in AASB 101.

2 Application of new and revised Accounting Standards (continued)

(ii) Standards and Interpretations in issue not yet adopted

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

Standard/Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
AASB 2016-1 Amendments to Australian Accounting Standards – Recognition of Deferred Tax Assets for Unrealised Losses	1 January 2017	30 June 2018
AASB 2016-2 Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 107	1 January 2017	30 June 2018

At the date of approval of the financial statements, the Standards and Interpretations listed below were in issue but not yet effective. The Group has assessed the impact of the following Standards and Interpretations and has concluded that they have no material impact on its future financial statements.

Standard/Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
AASB 9 Financial Instruments, AASB 2010-7 Amendments to Australian Accounting Standards arising from AASB 9 (December 2010), AASB 2014-1 Amendments to Australian Accounting Standards (Part E – Financial Instruments), AASB 2014-7 Amendments to Australian Accounting Standards Arising From AASB 9 (December 2014)	1 January 2018	30 June 2019

One of the key new requirements under AASB 9 'Financial Instruments' relates to a new impairment model based on expected credit losses mainly impacting the Group’s Loans and Advances balances carried at amortised cost. The loan loss allowance (individual and collective impairment as referred in Note 9) 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. AASB 9 Financial Instruments' is not mandatorily effective until 1 July 2018 and the Group does not intend to early adopt the standard.

The Group has established a cross functional project team which is in the process of building and testing the models, assembling data and calibrating the impairment stage transfer criteria. The project team is in the process of beginning to build models for the purposes of parallel runs. Based on an analysis of the Group’s financial assets and financial liabilities as at 30 June 2017 on the basis of the facts and circumstances that exists at that date, the directors of the Company have performed a preliminary assessment of the impact of AASB 9 'Financial Instruments' to the Group's consolidated financial statements. However, given the additional work still required to be performed on the models and that the facts and circumstances, particularly the impact of forward looking macro-economic information, can change between now and the implementation date this estimate is not considered a reasonable estimate of the potential impact of AASB 9 'Financial Instruments'. The expectation is such that the impairment provision would increase under AASB 9 'Financial Instruments'.

Standard/Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
AASB 15 Revenue from Contracts with Customers, AASB 2014-5 Amendments to Australian Accounting Standards arising from AASB 15, AASB 2015-8 Amendments to Australian Accounting Standards – Effective Date of AASB 15, and AASB 2016-3 Amendments to Australian Accounting Standards - Clarification to AASB 15	1 January 2018	30 June 2019
Interpretation 22 Foreign Currency Transactions and Advance Consideration	1 January 2018	30 June 2019
AASB 16 Leases	1 January 2019	30 June 2020

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 7 September 2017.

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

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

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

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

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

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

<u>Subsidiaries</u>
Subsidiaries are investees controlled by the Company. The Company controls an investee if it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date when control ceases.

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

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

(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.

3 Significant accounting policies (continued)

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

(c) Recognition of income and expenses

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

Interest and similar income and expense

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

Funds management fee income

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

Fee income

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

Distribution from unit trusts

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

Dividend income

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

(d) Income tax

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

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.

3 Significant accounting policies (continued)

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

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

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

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

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

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

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

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

(g) Financial assets
<u>Initial recognition and subsequent measurement</u>
All financial assets are initially recognised on the trade date, i.e., the date the Group becomes a party to the contractual provisions of the instrument, except for purchases or sales of financial assets that require delivery of assets within the time frame generally established by the market concerned.

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

<u>Investments</u>
The Group has investments classified as available-for-sale investments and held-for-trading investments.

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

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

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

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

3 Significant accounting policies (continued)

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

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

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

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

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

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

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

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

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

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

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

3 Significant accounting policies (continued)

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

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

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

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

(j) Intangible assets

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

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

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

<u>Core banking software</u>

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

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

<u>Other software</u>

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

(k) Leasing

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

<u>The Group as lessor</u>

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

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

<u>The Group as lessee</u>

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

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

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

3 Significant accounting policies (continued)

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

(l) Employee benefits

Short-term and long-term employee benefits

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

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

Termination benefit

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

(m) Provisions

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

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

(n) Financial liabilities

Initial recognition and subsequent measurement

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

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

Deposits and other borrowings

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

Amounts due to other financial institutions

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

Subordinated debt

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

Mortgage backed securities

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

Derecognition of financial liabilities

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

3 Significant accounting policies (continued)

(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'.

<u>Hedge accounting</u>

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.

4 Use of judgements and estimates

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

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

(a) Judgements

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

Determination of control over investees

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

Securitisation vehicle

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

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

Investment funds

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

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

Determination of the useful life for the core banking system

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

Determination of amortisation period of loan origination costs

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

(b) Assumptions and estimation uncertainties

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

Impairment losses on loans and advances

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

Fair value of financial instruments

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

Impairment of intangible assets

Please refer to Note 13.

5 Revenue and expenses

	Consolidated		Company	
	2017	2016	2017	2016
	$'000	$'000	$'000	$'000
Profit before income tax expense includes the following items of revenue and expense:				
Interest and similar income				
Deposits with other financial institutions	5,094	5,496	2,424	3,266
Loans and advances	938,695	892,403	941,137	895,225
Investment securities	73,354	83,644	71,020	79,887
	1,017,143	981,543	1,014,581	978,378
Interest rate swap contracts	144,485	240,078	100,144	194,841
	1,161,628	1,221,621	1,114,725	1,173,219
Interest and similar expense				
Deposits and other borrowings	602,476	593,289	734,585	708,719
Subordinated borrowings	15,734	17,144	15,734	17,144
	618,210	610,433	750,319	725,863
Interest rate swap contracts	207,092	296,602	142,301	237,732
	825,302	907,035	892,620	963,595
Funds management fee income	5,952	10,354	20,764	24,671
Other operating income				
Fee income	22,080	27,153	19,478	25,042
Other income	4,025	6,299	3,944	6,299
Cumulative gains reclassified from equity on disposal of available-for-sale investments	3,318	2,775	3,289	2,641
(Losses)/gains from investments held for trading	(4,753)	-	(4,753)	-
Fair value movement in derivatives	7,454	9,306	5,379	10,156
Distribution from unit trusts	-	-	106,458	82,563
Dividend income from subsidiary	-	-	2,500	2,200
	32,124	45,533	136,295	128,901
Operating expenses				
Staff and related costs	113,542	113,760	113,542	113,760
General administrative expenses	72,098	69,363	68,538	65,705
Transaction fee expenses	10,217	10,248	10,217	10,247
Depreciation and amortisation of:				
- Plant and equipment	6,148	14,041	6,148	14,041
- Intangibles	16,769	13,108	16,769	13,108
Loss on disposal of plant and equipment	81	152	81	152
Operating lease rental expenses	12,230	13,173	12,230	13,173
	231,085	233,845	227,525	230,186
Impairment losses				
Loans and advances (refer to Note 9)	13,336	13,740	13,336	13,740
Overdrawn savings accounts	437	404	435	404
	13,773	14,144	13,771	14,144
Project expenses				
Program of work	32,393	15,012	32,393	15,012
	32,393	15,012	32,393	15,012
Loss on sale of commercial loans and asset finance portfolios				
Loss on sale (i)	8,902	-	8,902	-
	8,902	-	8,902	-

(i) 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 $8.9 million for the financial year ended 30 June 2017.

6 Income taxes

	Consolidated		Company	
	2017	2016	2017	2016
	$'000	$'000	$'000	$'000
Income tax recognised in profit or loss				
Tax expense comprises:				
Current tax expense	27,326	26,527	26,176	25,436
Adjustment recognised in the current year in relation to the current tax of prior years	(118)	(1,628)	(118)	(1,628)
Deferred tax expense/(income) relating to the origination and reversal of temporary differences	(815)	5,741	2,083	5,087
Total tax expense	26,393	30,640	28,141	28,895
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	88,249	107,472	96,573	103,854
Income tax expense calculated at 30%	26,475	32,241	28,972	31,156
Effect of expenses/(income) that are not deductible/(assessable) in determining taxable profit	36	27	(713)	(633)
	26,511	32,268	28,259	30,523
Adjustment recognised in the current year in relation to the current tax of prior years	(118)	(1,628)	(118)	(1,628)
Income tax expense recognised in profit or loss	26,393	30,640	28,141	28,895

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	
	2017	2016	2017	2016
	$'000	$'000	$'000	$'000
<u>Deferred tax</u>				
Revaluations of available-for-sale financial assets	220	861	220	861
Cash flow hedges	(19,440)	1,891	(16,543)	1,238
	(19,220)	2,752	(16,323)	2,099
Current tax liabilities				
Income tax payable	949	-	-	-

6 Income taxes (continued)

Deferred tax assets

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

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

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

6 Income taxes (continued)

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

7 Investments

	Consolidated		Company	
	2017 $'000	2016 $'000	2017 $'000	2016 $'000
At fair value:				
Available-for-sale investments				
Treasury notes and semi-government securities	493,690	360,965	493,690	360,966
Bank bills	235,359	990,915	80,718	929,938
Corporate fixed rate notes	-	25,529	-	25,529
Corporate floating rate notes	1,060,009	1,677,490	1,060,009	1,677,490
Mortgage backed securities	99,234	9,260	99,234	9,260
	1,888,292	3,064,159	1,733,651	3,003,183
Investments held for trading				
Government securities	1,093,150	-	1,093,150	-
	2,981,442	3,064,159	2,826,801	3,003,183

8 Trade and other receivables

	Consolidated 2017 $'000	Consolidated 2016 $'000	Company 2017 $'000	Company 2016 $'000
Amounts receivable from related parties:				
Subsidiary (i)	-	-	1,683	1,034
Management fee income receivable (please see Note 11)	231	698	-	-
Interest receivable	144	185	81	120
Other receivables (ii)	5,630	4,633	17,334	6,092
	6,005	5,516	19,098	7,246

(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.

	Consolidated 2017 $'000	Consolidated 2016 $'000	Company 2017 $'000	Company 2016 $'000
9 Loans and advances				
Credit cards	164,767	151,609	164,767	151,609
Personal loans	194,092	217,371	194,092	217,371
Residential home loans	22,170,326	18,996,001	22,178,401	18,996,248
Commercial loans	-	112,874	71,901	161,498
Asset finance				
Finance lease	-	22,600	-	22,600
Hire purchase	-	26,706	-	26,706
Chattel mortgage	-	39,147	-	39,147
	22,529,185	19,566,308	22,609,161	19,615,179
Less:				
Unearned asset finance income	-	(7,454)	-	(7,454)
Allowance for impairment losses	(25,600)	(24,613)	(25,600)	(24,613)
	22,503,585	19,534,241	22,583,561	19,583,112
Movement in allowance for impairment of loans and advances				
Balance at the beginning of the year	24,613	22,410	24,613	22,410
Amounts written off as uncollectible during the year	(14,995)	(16,516)	(14,995)	(16,516)
Amounts recovered during the year	2,646	4,979	2,646	4,979
Allowance for impairment losses recognised during the year	13,336	13,740	13,336	13,740
Balance at the end of the year	25,600	24,613	25,600	24,613
Individual impairment	7,244	6,127	7,244	6,127
Collective impairment	18,356	18,486	18,356	18,486
	25,600	24,613	25,600	24,613

10 Investment in controlled entities

	Consolidated 2017 $'000	Consolidated 2016 $'000	Company 2017 $'000	Company 2016 $'000
Investment at cost	-	-	102	102

The controlled entities of the Company are:

		Country of incorporation	Ownership interest 2017	Ownership interest 2016
Subsidiary				
ME Portfolio Management Limited	(i)	Australia	100%	100%
Securitisation (refer Note 4(a))				
SMHL Series 2008-1 Fund	(ii)	Australia	100%	100%
SMHL Series Private Placement Trust 2010-1	(ii)	Australia	100%	100%
SMHL Series Securitisation Fund 2010-3	(ii)	Australia	100%	100%
SMHL Series Securitisation Fund 2011-2	(ii)	Australia	100%	100%
SMHL Series Private Placement 2011-1	(ii)	Australia	100%	100%
SMHL Series Private Placement 2011-3	(ii)	Australia	100%	100%
SMHL Series Securitisation Fund 2012-1	(ii)	Australia	100%	100%
SMHL Series Securitisation Fund 2013-1	(ii)	Australia	100%	100%
SMHL Series Securitisation Fund 2014-1	(ii)	Australia	100%	100%
SMHL Series Private Placement 2014-2	(ii)	Australia	100%	100%
SMHL Series Securitisation Fund 2015-1	(ii)	Australia	100%	100%
SMHL Series Securitisation Fund 2016-1	(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	
	2017	2016
	$'000	$'000
Securitisation trusts for residential home loans	209	560
Managed fund	22	138
	231	698

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

	2017	2016
Fee income earned from securitisation trusts	5,709	9,757
Fee income earned from managed fund	243	597
	5,952	10,354

12 Plant and equipment

	Consolidated and Company		
	Computer equipment	Furniture & equipment	Total
	$'000	$'000	$'000
Gross carrying amount			
Balance at 1 July 2015	21,148	41,324	62,472
Additions	7,443	2,766	10,209
Disposals	(1,416)	(4,663)	(6,079)
Balance at 30 June 2016	27,175	39,427	66,602
Additions	843	107	950
Disposals	(26,119)	(13,019)	(39,138)
Balance at 30 June 2017	1,899	26,515	28,414
Accumulated depreciation			
Balance at 1 July 2015	8,492	19,736	28,228
Depreciation expense	6,288	7,753	14,041
Disposals	(1,081)	(4,415)	(5,496)
Balance at 30 June 2016	13,699	23,074	36,773
Depreciation expense	2,564	3,584	6,148
Disposals	(14,827)	(8,010)	(22,837)
Balance at 30 June 2017	1,436	18,648	20,084
Net book value			
As at 30 June 2016	13,476	16,353	29,829
As at 30 June 2017	463	7,867	8,330

13 Intangible assets

	Consolidated and Company		
	Core banking software $'000	Other software $'000	Total $'000
Gross carrying amount			
Balance at 1 July 2015	70,895	37,115	108,010
Additions	-	20,422	20,422
Disposal	(301)	(335)	(636)
Balance at 30 June 2016	70,594	57,202	127,796
Additions	32	22,453	22,485
Disposal	-	-	-
Balance at 30 June 2017	70,626	79,655	150,281
Accumulated amortisation			
Balance at 1 July 2015	7,427	23,812	31,239
Amortisation expenses	6,698	6,410	13,108
Disposal	-	(171)	(171)
Balance at 30 June 2016	14,125	30,051	44,176
Amortisation expenses	6,648	10,121	16,769
Disposal	-	-	-
Balance at 30 June 2017	20,773	40,172	60,945
Net book value			
As at 30 June 2016	56,469	27,151	83,620
As at 30 June 2017	49,853	39,483	89,336

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

The recoverable amount for intangible assets has been calculated based on their deemed fair value. Deemed fair value of the intangible assets was calculated as the remaining balance after deducting all net assets other than intangibles from the Group's fair value of issued share capital, net of selling costs. The impairment testing has indicated that the recoverable amount of intangible assets exceeds the carrying amount. Hence no impairment losses on intangible assets were recognised as at 30 June 2017 (2016: nil).

The use of the Group's fair value of issued share capital is deemed appropriate as all intangible assets are corporate assets, which are shared to support the operation of all areas of the business. The fair value of issued share capital of the Group as at 30 June 2017 was $1.19 billion (2016: $1.08 billion).

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

14 Other assets

	Consolidated		Company	
	2017	2016	2017	2016
	$'000	$'000	$'000	$'000
Prepayments	8,969	8,422	8,969	9,513
Income tax receivable	-	-	201	-
	8,969	8,422	9,170	9,513

15 Deposits and other borrowings

	Consolidated		Company	
	2017	2016	2017	2016
	$'000	$'000	$'000	$'000
Unsecured - at amortised cost				
Retail customer deposits	5,707,514	4,126,619	5,707,514	4,126,619
Business customer deposits	1,342,619	1,159,179	1,342,619	1,159,179
Superannuation banking deposits	564,776	507,071	564,776	507,071
Advised and corporate deposits	4,958,411	4,686,747	4,958,411	4,686,747
Institutional borrowings	4,882,307	4,762,236	4,882,307	4,762,236
Treasury borrowings	716,954	539,250	716,954	539,250
Medium term notes (i)	1,255,855	928,368	1,255,855	928,368
Other borrowings	1	-	1	-
	19,428,437	16,709,470	19,428,437	16,709,470
Secured - at amortised cost				
Mortgage backed securities (ii)	4,981,794	5,060,835	-	-
Liabilities to the securitisation trusts (iii)	-	-	4,703,842	4,882,465
	4,981,794	5,060,835	4,703,842	4,882,465
Total deposits and other borrowings	24,410,231	21,770,305	24,132,279	21,591,935

(i) Medium term notes include interest payable and deferred expenses directly attributable to its issuance, with a face value of $1,250,000,000. Of the $1,250,000,000 floating rate notes:
- $350,000,000 is due in the first half of the 2018 financial year;
- $350,000,000 is due in the second half of the 2018 financial year;
- $350,000,000 is due in the first half of the 2020 financial year; and
- $200,000,000 is due in the second half of the 2020 financial year.

(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 2017 is $nil (2016: $nil).

In addition, the Group has pledged cash collateral under the terms of the ISDA Collateral Guidelines. As at 30 June 2017, the Group has pledged cash collateral to the value of $31,320,000 (2016: $68,320,000).

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

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

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			
	2017 Fair value assets $'000	2017 Fair value liabilities $'000	2016 Fair value assets $'000	2016 Fair value liabilities $'000
Derivatives held for hedging - cash flow hedges				
Interest rate swaps	2,118	26,677	4,661	87,851
Foreign exchange contracts	235	-	-	-
Derivatives held for trading - fair value through profit and loss				
Interest rate basis swaps	2,282	250	-	-
Futures	6,696	-	-	-
	11,331	26,927	4,661	87,851

	Company			
	2017 Fair value assets $'000	2017 Fair value liabilities $'000	2016 Fair value assets $'000	2016 Fair value liabilities $'000
Derivatives held for hedging - cash flow hedges				
Interest rate swaps	1,869	20,408	4,172	69,348
Foreign exchange contracts	235	-	-	-
Derivatives held for trading - fair value through profit and loss				
Interest rate basis swaps	2,282	250	-	-
Futures	6,696	-	-	-
	11,082	20,658	4,172	69,348

17 Trade and other payables

	Consolidated		Company	
	2017	2016	2017	2016
	$'000	$'000	$'000	$'000
Creditors and accruals	17,235	9,755	17,081	9,603
Other payables	8,486	10,326	8,779	12,503
	25,721	20,081	25,860	22,106

18 Provisions

	Consolidated		Company	
	2017	2016	2017	2016
	$'000	$'000	$'000	$'000
Employee benefits (i)	24,139	22,225	24,139	22,225
Restructuring provision	-	1,900	-	1,900
Other provisions (ii)	2,343	2,321	2,343	2,321
	26,482	26,446	26,482	26,446

(i) Employee benefits are expected to be settled within a year with the exception of provisions for long service leave which amounted to $7,867,412 (2016: $7,178,340).

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

19 Subordinated debt

	Consolidated		Company	
	2017	2016	2017	2016
	$'000	$'000	$'000	$'000
Floating rate notes	333,236	332,760	333,236	332,760

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

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

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

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

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

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

20 Issued capital

	Consolidated		Company	
	2017	2016	2017	2016
	$'000	$'000	$'000	$'000
11,045,873 fully paid ordinary shares (2016: 10,573,785)	807,921	767,922	807,921	767,922

	2017		2016	
	No.	$'000	No.	$'000
Movement in issued capital of fully paid shares				
Beginning of the financial year	10,573,785	767,922	10,150,594	729,995
Issue of new shares	472,088	39,999	423,191	37,927
End of the financial year	11,045,873	807,921	10,573,785	767,922

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

21 Reserves

	Consolidated		Company	
	2017	2016	2017	2016
	$'000	$'000	$'000	$'000
Investment revaluation reserve	2,722	3,235	2,722	3,235
General reserve for credit losses	17,457	18,332	17,457	18,332
Cash flow hedge reserve	(13,387)	(58,748)	(9,399)	(48,000)
	6,792	(37,181)	10,780	(26,433)

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

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

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

22 Dividends

No dividends have been paid or declared since the start of the financial year (2016: $nil). The directors do not recommend the payment of a dividend with respect to the year ended 30 June 2017.

	Company	
	2017	2016
	$'000	$'000
Adjusted franking account balance (i)	128,118	100,968

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

23 Commitments

	Consolidated		Company	
	2017	2016	2017	2016
	$'000	$'000	$'000	$'000
(a) Undrawn credit				
Residential home loans	567,361	418,595	567,361	418,595
Credit cards	666,873	572,582	666,873	572,582
Personal loans	43	80	43	80
Commercial loans	-	286	-	286
	1,234,277	991,543	1,234,277	991,543

(b) Lease commitments

Operating lease arrangements

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

	Consolidated		Company	
	2017	2016	2017	2016
	$'000	$'000	$'000	$'000
Non-cancellable operating lease commitments				
Not longer than 1 year	9,627	9,987	9,627	9,987
Longer than 1 year but not longer than 5 years	23,451	31,281	23,451	31,281
Longer than 5 years	-	-	-	-
	33,078	41,268	33,078	41,268

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	
	2017	2016	2017	2016
	$'000	$'000	$'000	$'000
Cash at bank	174,306	225,069	54,958	103,886
Deposits at call	138,340	214,985	31,385	148,384
	312,646	440,054	86,343	252,270
(b) Cash balance not available for use in (a)				
First Home Owners Grants held on behalf of customers	35	115	35	115
Cash at bank and deposits at call within securitisation trusts (i)	95,623	124,737	-	-
	95,658	124,852	35	115

(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				
Investments	82,717	(159,437)	173,882	(164,214)
Derivatives assets	(6,670)	10,791	(6,910)	11,203
Trade and other receivables	(489)	(1,171)	(11,852)	4,037
Loans and advances	(2,994,333)	(1,800,643)	(3,025,438)	(1,783,201)
Other assets	(547)	461	343	(630)
Movement in other comprehensive income before income tax - available-for-sale financial assets	(732)	(2,871)	(733)	(2,871)
	(2,920,054)	(1,952,870)	(2,870,708)	(1,935,676)
(d) Change in operating liabilities				
Amounts due to other financial institutions	-	(2,620)	-	(1,556)
Deposits and other borrowings	2,637,510	1,908,366	2,536,642	1,876,184
Derivatives liabilities	(60,924)	(12,189)	(48,690)	(15,828)
Trade and other payables	5,640	(7,940)	3,754	(6,785)
Provisions	36	3,435	36	3,435
Subordinated debt	(27)	416	(27)	416
Movement in other comprehensive income before income tax - cash flow hedges	64,802	(6,305)	55,144	(4,127)
	2,647,037	1,883,163	2,546,859	1,851,739
(e) Non-cash items included in profit before tax				
Depreciation of plant and equipment	6,148	14,041	6,148	14,041
Amortisation of intangible assets	16,769	13,108	16,769	13,108
Loss on disposal of plant and equipment, and computer software	16,301	152	16,301	152
Impairment losses	13,773	14,144	13,771	14,144
Amortisation of capitalised transaction costs	14,134	18,259	15,423	19,329
	67,125	59,704	68,412	60,774
(f) Operating cash flows from interest				
Interest received	1,207,150	1,267,248	890,973	1,217,785
Interest paid	817,050	916,762	601,758	625,563

25 Financial instruments

	Consolidated		Company	
	2017 $'000	2016 $'000	2017 $'000	2016 $'000
(a) Categories of financial instruments				
Financial assets				
Cash and cash equivalents	312,646	440,054	86,343	252,270
Investments				
Available-for-sale financial assets	1,888,292	3,064,159	1,733,651	3,003,183
Held for trading financial assets	1,093,150	-	1,093,150	-
Derivatives				
Designated hedge accounting relationship	2,353	4,661	2,104	4,172
Held for trading	8,978	-	8,978	-
Trade and other receivables	6,005	5,516	19,098	7,246
Loans and advances	22,503,585	19,534,241	22,583,561	19,583,112
Financial liabilities				
Derivatives				
Designated hedge accounting relationship	26,677	87,851	20,408	69,348
Held for trading	250	-	250	-
At amortised cost:				
Deposits and other borrowings	24,410,231	21,770,305	24,132,279	21,591,935
Trade and other payables	25,721	20,081	25,860	22,106
Subordinated debt	333,236	332,760	333,236	332,760

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

(b) Fair value of financial instruments

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

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

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

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

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

	Consolidated			
	Level 1	Level 2	Level 3	Total
	$'000	$'000	$'000	$'000
2016				
Assets				
Investments				
Available-for-sale financial assets:				
Treasury notes and semi-government securities	-	360,965	-	360,965
Bank bills	-	990,915	-	990,915
Corporate fixed rate notes	-	25,529	-	25,529
Corporate floating rate notes	-	1,677,490	-	1,677,490
Mortgage backed securities	-	9,260	-	9,260
Held for trading financial assets:				
Government Securities	-	-	-	-
	-	3,064,159	-	3,064,159
Derivatives				
Designated hedge accounting relationship	-	4,661	-	4,661
Held for trading	-	-	-	-
	-	4,661	-	4,661
Liabilities				
Derivatives				
Designated hedge accounting relationship	-	87,851	-	87,851
Held for trading	-	-	-	-
	-	87,851	-	87,851

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

	Company			
	Level 1	**Level 2**	**Level 3**	**Total**
	$'000	**$'000**	**$'000**	**$'000**
2016				
Assets				
Investments				
Available-for-sale financial assets:				
Treasury notes and semi-government securities	-	360,966	-	360,966
Bank bills	-	929,938	-	929,938
Corporate fixed rate notes	-	25,529	-	25,529
Corporate floating rate notes	-	1,677,490	-	1,677,490
Mortgage backed securities	-	9,260	-	9,260
Held for trading financial assets:				
Government Securities	-	-	-	-
	-	3,003,183	-	3,003,183
Derivatives				
Designated hedge accounting relationship	-	4,172	-	4,172
Held for trading	-	-	-	-
	-	4,172	-	4,172
Liabilities				
Derivatives				
Designated hedge accounting relationship	-	69,348	-	69,348
Held for trading	-	-	-	-
	-	69,348	-	69,348

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

25 Financial instruments (continued)

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

	Book Value	Consolidated Level 1	Level 2	Level 3	Total
	$'000	$'000	$'000	$'000	$'000
2017					
Financial assets					
Loans and advances (i)	22,503,585	-	-	22,528,765	22,528,765
Financial liabilities					
Deposits and other borrowings:					
- Medium term notes (ii)	1,255,855	-	1,257,612	-	1,257,612
Subordinated debt (ii)	333,236	-	337,191	-	337,191
2016					
Financial assets					
Loans and advances (i)	19,534,241	-	-	19,595,257	19,595,257
Financial liabilities					
Deposits and other borrowings:					
- Medium term notes (ii)	928,368	-	928,876	-	928,876
Subordinated debt (ii)	332,760	-	326,380	-	326,380

	Book Value	Company Level 1	Level 2	Level 3	Total
	$'000	$'000	$'000	$'000	$'000
2017					
Financial assets					
Loans and advances (i)	22,583,561	-	-	22,608,743	22,608,743
Financial liabilities					
Deposits and other borrowings:					
- Medium term notes (ii)	1,255,855	-	1,257,612	-	1,257,612
Subordinated debt (ii)	333,236	-	337,191	-	337,191
2016					
Financial assets					
Loans and advances (i)	19,583,112	-	-	19,644,128	19,644,128
Financial liabilities					
Deposits and other borrowings:					
- Medium term notes (ii)	928,368	-	928,876	-	928,876
Subordinated debt (ii)	332,760	-	326,380	-	326,380

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.

<u>Maximum exposure to credit risk</u>
The carrying amount of financial assets recorded in the financial statements, net of any impairment allowance, represents the Group's maximum exposure to credit risk. In respect to residential home loans, the Group holds mortgages over the residential

26 Risk management (continued)

properties. There is no collateral held as security and other credit enhancements for all other financial assets besides residential home loans.

Credit quality of financial assets

The table below shows the credit quality by class of financial asset for credit exposures. The amounts presented are gross of impairment allowances.

	Consolidated				
	Neither past due nor impaired				
	Investment grade $'000	Unrated $'000	Past due but not impaired $'000	Impaired $'000	Total $'000
2017					
Available-for-sale financial assets	2,981,442	-	-	-	2,981,442
Trade and other receivables	-	6,005	-	-	6,005
Loans and advances	-	21,635,346	885,534	8,305	22,529,185
	2,981,442	21,641,351	885,534	8,305	25,516,632
2016					
Available-for-sale financial assets	3,064,159	-	-	-	3,064,159
Trade and other receivables	-	5,516	-	-	5,516
Loans and advances	-	18,813,195	738,235	7,424	19,558,854
	3,064,159	18,818,711	738,235	7,424	22,628,529

	Company				
	Neither past due nor impaired				
	Investment grade $'000	Unrated $'000	Past due but not impaired $'000	Impaired $'000	Total $'000
2017					
Available-for-sale financial assets	2,826,801	-	-	-	2,826,801
Trade and other receivables	-	19,098	-	-	19,098
Loans and advances	-	21,715,322	885,534	8,305	22,609,161
	2,826,801	21,734,420	885,534	8,305	25,455,060
2016					
Available-for-sale financial assets	3,003,183	-	-	-	3,003,183
Trade and other receivables	-	7,246	-	-	7,246
Loans and advances	-	18,862,066	738,235	7,424	19,607,725
	3,003,183	18,869,312	738,235	7,424	22,618,154

26 Risk management (continued)

Past due financial assets
The following table details the financial assets that are past due but not impaired at the reporting date:

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

	Consolidated and Company				
	< 30 days $'000	31 - 60 days $'000	61 - 90 days $'000	> 90 days $'000	Total $'000
2016					
Net loans and advances					
Credit cards	10,697	2,060	947	-	13,704
Personal loans	9,917	3,211	1,793	-	14,921
Residential home loans	457,799	82,945	45,820	123,046	709,610
	478,413	88,216	48,560	123,046	738,235

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

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

Impairment allowance
Reconciliation of impairment allowance by class is as follows:

	Consolidated						
	Credit cards $'000	Personal loans $'000	Residential home loans $'000	Commercial loans $'000	Asset finance $'000	Overdrawn customer accounts $'000	Total $'000
Balance 1 July 2015	3,560	7,956	7,843	489	2,562	87	22,497
Impairment allowance	2,955	6,043	3,768	(46)	1,020	405	14,145
Balances written off	(5,814)	(8,441)	(642)	-	(1,618)	(412)	(16,927)
Amounts recovered	2,730	2,245	-	-	3	-	4,978
Balance 30 June 2016	3,431	7,803	10,969	443	1,967	80	24,693
Balance 1 July 2016	3,431	7,803	10,969	443	1,967	80	24,693
Impairment allowance	5,511	8,666	910	(443)	(1,371)	437	13,710
Balances written off	(5,917)	(8,450)	(32)	-	(596)	(389)	(15,384)
Amounts recovered	1,315	1,141	253	-	-	29	2,738
Balance 30 June 2017	4,340	9,160	12,100	-	-	157	25,757

26 Risk management (continued)

	Company						
	Credit cards $'000	Personal loans $'000	Residential home loans $'000	Commercial loans $'000	Asset finance $'000	Overdrawn customer accounts $'000	Total $'000
Balance 1 July 2015	3,560	7,956	7,843	489	2,562	87	22,497
Impairment allowance	2,955	6,043	3,768	(46)	1,020	404	14,144
Balances written off	(5,814)	(8,441)	(642)	-	(1,618)	(412)	(16,927)
Amounts recovered	2,730	2,245	-	-	3	-	4,978
Balance 30 June 2016	3,431	7,803	10,969	443	1,967	79	24,692
Balance 1 July 2016	3,431	7,803	10,969	443	1,967	79	24,692
Impairment allowance	5,511	8,666	974	(443)	(1,371)	435	13,772
Balances written off	(5,916)	(8,450)	(32)	-	(596)	(387)	(15,381)
Amounts recovered	1,314	1,141	189	-	-	29	2,673
Balance 30 June 2017	4,340	9,160	12,100	-	-	156	25,756

Collateral held and other credit enhancements, and their financial effect

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

	Percentage of exposure that is subject to collateral requirements 2017	2016	Principal types of collateral held
Derivative assets (i)	-	-	Cash
Loans and advances:			
Credit cards	-	-	None
Personal loans	-	-	None
Residential home loans	100%	100%	Residential property
Commercial loans (ii) (iii)	-	100%	Commercial and residential property
Asset finance (ii) (iii)	-	100%	Floating charges over corporate assets

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

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

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

Offsetting financial assets and financial liabilities

As at 30 June 2017, there are no financial assets and financial liabilities that are offset in the Group's statement of financial position. The Group considers the ISDA master netting agreements do not meet the criteria for offsetting in the statement of financial position. This is because they create for the parties to the agreement a right of set-off of recognised amounts that is enforceable only following an event of default, insolvency or bankruptcy of the Group or the counterparties or following other predetermined events (please refer to Note 16).

26 Risk management (continued)

(b) Liquidity risk

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

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

Under normal business conditions, the Group will maintain its Liquidity Coverage Ratio (LCR) ratio as required by APRA Prudential Standards (APS) 210 "Liquidity" from 1 January 2017, plus a buffer over the LCR at all times.

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

- The Group will maintain a positive net cash flow position under a name specific crisis scenario for a minimum period of 5 business days; and
- The Group will maintain a positive net cash flow position under a market or systemic crisis scenario for a minimum period of 15 months.

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

The table below summarises the maturity profile of the Group's financial liabilities as at 30 June 2017 based on contractual undiscounted repayment obligations, including interest repayments up to the maturity date. Repayments which are subject to notice are treated as if notice were given immediately. However, the Group expects that many customers will not request repayment on the earliest date the Group could be required to pay and the table does not reflect the expected cash flows indicated by the Group's deposit retention history.

	Consolidated				
	At call $'000	0 - 3 months $'000	3 mths to 1 year $'000	1 - 5 years $'000	More than 5 years $'000
2017					
Deposits and other borrowings	4,511,984	5,809,458	7,816,366	1,743,092	5,616,054
Trade payables	-	25,721	-	-	-
Subordinated debt	-	3,780	11,169	59,737	362,390
Net settled:					
Interest rate swaps (cash flow hedges)	-	(9,736)	(13,757)	(282)	-
Interest rate swaps (held-for-trading)	-	(30)	(294)	(736)	-
Foreign exchange contracts (cash flow hedges)	-	-	270	1,009	-
Total undiscounted cash flows	4,511,984	5,829,193	7,813,754	1,802,820	5,978,444
2016					
Deposits and other borrowings	3,867,781	5,022,977	7,239,717	1,502,648	5,708,933
Trade payables	-	20,081	-	-	-
Subordinated debt	-	3,983	11,804	63,206	379,921
Net settled:					
Interest rate swaps (cash flow hedges)	-	(13,976)	(19,134)	8,443	-
Interest rate swaps (held-for-trading)	-	-	-	-	-
Foreign exchange contracts (cash flow hedges)	-	-	-	-	-
Total undiscounted cash flows	3,867,781	5,033,065	7,232,387	1,574,297	6,088,854

26 Risk management (continued)

	Company				
	At call $'000	0 - 3 months $'000	3 mths to 1 year $'000	1 - 5 years $'000	More than 5 years $'000
2017					
Deposits and other borrowings	4,511,984	5,809,458	7,816,366	1,743,092	5,616,054
Trade payables	-	25,860	-	-	-
Subordinated debt	-	3,780	11,169	59,737	362,390
Net settled:					
Interest rate swaps (cash flow hedges)	-	(6,773)	(10,718)	1,053	-
Interest rate swaps (held-for-trading)	-	(30)	(294)	(736)	-
Foreign exchange contracts	-	-	270	1,009	-
Total undiscounted cash flows	4,511,984	5,832,295	7,816,793	1,804,155	5,978,444
2016					
Deposits and other borrowings	3,867,781	5,022,977	7,239,717	1,502,476	5,708,933
Trade payables	-	22,106	-	-	-
Subordinated debt	-	3,983	11,804	63,206	379,921
Net settled:					
Interest rate swaps (cash flow hedges)	-	(10,288)	(12,275)	10,611	-
Interest rate swaps (held-for-trading)	-	-	-	-	-
Foreign exchange contracts					
Total undiscounted cash flows	3,867,781	5,038,778	7,239,246	1,576,293	6,088,854

(c) Market risk

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

Interest rate risk

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

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

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

Interest rate sensitivity analysis

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

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

	Consolidated and Company			
	Net interest income		MVE	
	2% increase $'000	2% decrease $'000	2% increase $'000	2% decrease $'000
30 June 2017	32,767	(19,298)	22,871	(11,752)
30 June 2016	56,852	(49,603)	29,135	(23,440)

26 Risk management (continued)

Currency risk
Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.

As at the end of the financial year, there is no material currency risk exposure on the Group's monetary assets and liabilities and its forecast cash flows (2016: $nil).

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

Where possible and appropriate, the Group builds operational risk controls into each of its processes. Control processes are designed to be appropriate to the activities conducted. While it is not possible to specify all types of control processes, the following controls are implemented wherever appropriate:
- integration of controls in processes and role responsibilities;
- promoting compliance within the process and with all relevant laws and regulatory requirements;
- maintaining safeguards for access to, and use of, assets and records;
- where possible and appropriate, the segregation of duties through role and system-based segregation to protect against internal fraud and avoiding conflicts of interest;
- promoting effective IT security practices, including system access controls;
- clearly communicated policies and procedures; and
- monitoring of adherence to assigned risk limits or thresholds.

(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 potential for a Royal Commission into banking. The 2017 Australia Federal Budget outlined a number of changes to the supervision of the banking industry, including the provision of additional powers to APRA as part of its prudential supervisory responsibilities. This is an area which continues to be the subject of significant public discussion and media coverage.

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

27 Capital management

The Group manages its capital to ensure that it will be able to continue as a going concern. Capital is managed with regard to expectations of shareholders, the requirements of APRA and to maintain credit ratings commensurate with the nature of the Group's business. Tier 1 capital comprises of Common Equity Tier 1 (CET1) capital and any Additional Tier 1 (AT1) capital. The total capital of the Group is the sum of Tier 1 and Tier 2 capital, net of all specified deductions and amortisation, subject to the limits that apply under APRA Prudential Standard APS 111 'Capital Adequacy: Measurement of Capital'.

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

Externally imposed capital requirements

APRA guidelines require capital to be allocated against credit, market and operational risks. The Group must maintain a minimum ratio of qualifying capital (comprising Tier 1 and Tier 2 capital) to assets and off-balance sheet exposures determined on a risk weighted basis.

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

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

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

APRA requires capital adequacy to be measured at two levels:
- Level 1 includes the Company, SMHL Series 2008-1 Fund, and SMHL Series Private Placement 2014-2; and
- Level 2 includes the Company, ME Portfolio Management Limited, SMHL Series 2008-1 Fund, and SMHL Series Private Placement 2014-2.

Capital ratios are monitored against internal capital targets aset by the Board which are over and above minimum APRA capital requirements. The Group remains well capitalised with a CET1 ratio of 10% during the financial year ended 30 June 2017.

Securitisation deconsolidation principle

Where an ADI (or a member of its level 2 consolidated group) participates in a securitisation that meets APRA's operational requirements for regulatory capital relief under Prudential Standard APS 120 Securitisation, the special purpose vehicle holding securitised assets is treated as non-consolidated independent third party for the purpose of calculating the capital adequacy ratio. SMHL Series Private Placement Trust 2010-1, SMHL Series Securitisation Fund 2010-3, SMHL Series Securitisation Fund 2011-2, SMHL Series Private Placement 2011-1, SMHL Series Private Placement 2011-3, SMHL Series Securitisation Fund 2012-1,SMHL Series Securitisation Fund 2013-1, SMHL Series Securitisation Fund 2014-1, SMHL Series Securitisation Fund 2015-1, and SMHL Series Securitisation Fund 2016-1 have complied with APS 120, accordingly, they are not included in the calculation of capital adequacy.

Capital adequacy ratio

	Level 1	
	2017	**2016**
	%	**%**
Risk weighted capital adequacy ratios		
Tier 1	10.0	9.9
Tier 2	4.0	4.5
Total capital ratio	14.0	14.4

The internal total capital adequacy ratio set by the Board remained at 11.5% during the financial year ended 30 June 2017 (2016: 11.5%).

28 Director and key management personnel compensation

(a) Details of key management personnel

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

Directors - Company

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

Key management personnel

J McPhee	Chief Executive Officer
A Aboud	Chief Change Officer
A Beck	Group Executive, Industry Affairs (resigned 1 July 2016)
C Cataldo	Chief Risk Officer
G Dickson	Chief Financial Officer
M Gay	Chief Information Officer
H Gordon	Group Executive, People Experience (resigned 3 July 2017)
I Purcell	Acting Group Executive, People Experience (appointed 15 May 2017)
R James	Chief Marketing Officer (resigned 22 August 2017)
A Middleton	Group Executive, Sales
C Ralston	Group Executive, Service Excellence

The Company remunerates all directors and key management personnel within the Group.

(b) Aggregate compensation made to key management personnel

The aggregate compensation made to key management personnel of the Group is set out below:

	Company	
	2017	2016
	$	$
Key management personnel		
Short term benefits	5,277,125	5,615,316
Other long term benefits	1,205,959	935,235
Termination benefits	-	309,405
Total key management personnel compensation	6,483,084	6,859,956

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

28 Director and key management personnel compensation (continued)

(c) Aggregate compensation made to directors

Board schedule of fees of the Company

	Company 2017 $	Company 2016 $
Chair of the Board	168,000	168,000
Member of the Board	84,000	84,000
Audit and Governance Committee		
Chair of the committee	13,500	13,500
Committee member	6,750	6,750
Risk and Compliance Committee		
Chair of the committee	13,500	13,500
Committee member	6,750	6,750
People and Remuneration Committee		
Chair of the committee	13,500	13,500
Committee member	6,750	6,750
Digital Committee (formerly Technology Committee)		
Chair of the committee	13,500	13,500
Committee member	6,750	6,750

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

Director	Committee membership	2017 $	2016 $
K Hodgson	Chair of the Board	168,000	84,000
	Member of the Board	-	42,000
	Audit & Governance Committee	6,750	6,750
	Risk & Compliance Committee (ceased 5 April 2017)	5,140	6,750
	Chair, People & Remuneration Committee	13,500	13,500
		193,390	153,000
C Bart	Member of the Board	84,000	-
	Risk & Compliance Committee	6,750	-
	Chair, Digital Committee (appointed 6 April 2017)	3,219	-
	Digital Committee (ceased 5 April 2017)	5,140	-
		99,109	-
C Christian	Member of the Board	84,000	84,000
	Chair, Audit & Governance Committee (ceased 7 June 2017)	13,059	8,671
	Audit & Governance Committee (appointed 8 June 2017)	441	2,414
	Chair, Risk & Compliance Committee (appointed 13 November 2015)	13,500	8,671
	Risk & Compliance Committee (ceased 12 November 2015)	-	2,414
	Technology Committee (ceased 12 November 2015)	-	2,414
		111,000	108,584
G Combet	Member of the Board	84,000	84,000
	Audit & Governance Committee (ceased 5 April 2017)	5,140	6,750
	Risk & Compliance Committee (ceased 5 April 2017)	5,140	6,750
	People & Remuneration Committee (appointed 6 April 2017)	1,610	-
	Digital Committee (appointed 6 April 2017)	1,610	-
		97,500	97,500
A De Salis	Member of the Board (ceased 14 Novemeber 2016)	31,015	84,000
	People & Remuneration Committee (ceased 14 November 2016)	2,492	6,750
	Digital Committee (ceased 14 Novemebr 2016)	2,492	6,750
		35,999	97,500

28 Director and key management personnel compensation (continued)

Director	Committee membership	2017 $	2016 $
J Milne	Member of the Board	64,615	84,000
	Chair, Digital Committee (ceased 31 March 2017)	10,385	13,500
	People & Remuneration Committee (appointed 1 January 2017, ceased 31 March 2017)	1,817	-
		76,817	97,500
J Nesbitt	Member of the Board	34,569	-
	Risk & Compliance Committee (appointed 2 February 2017)	2,778	-
	Chair, Audit & Governance Committee (appointed 8 June 2017)	883	-
	Audit & Governance Committee (ceased 7 June 2017)	1,670	-
		39,900	-
E Rubin	Member of the Board	62,677	-
	People & Remuneration Committee (appointed 1 January 2017)	3,375	-
	Digital Committee (appointed 1 January 2017)	3,375	-
		69,427	-
G Weaven	Chair of the Board (appointed 6 February 2015 and ceased 31 December 2015)	-	84,000
	Member of the Board (ceased 31 December 2016)	45,231	42,000
	Chair, People and Remuneration Committee (ceased 31 December 2016)	3,635	6,750
		48,866	132,750
Total directors compensation		772,008	686,834

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 2017, the following transactions occurred between the Company and its subsidiaries:

- Management fees received or receivable from the subsidiary entity of $5,950,921 (2016: $10,354,320);
- Mortgage manager fee paid or payable to the subsidiary entity of $22,311 (2016: $20,875); 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 $592,335 are owed from the subsidiary entity (2016: $1,033,842).

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

	Consolidated			Company		
	Less than 12 months	Over 12 months	Total	Less than 12 months	Over 12 months	Total
	$'000	$'000	$'000	$'000	$'000	$'000
As at 30 June 2016						
Assets						
Cash and cash equivalents	440,054	-	440,054	252,270	-	252,270
Investments	1,334,435	1,729,724	3,064,159	1,273,458	1,729,725	3,003,183
Derivatives	3,227	1,434	4,661	2,898	1,274	4,172
Trade and other receivables	5,516	-	5,516	7,246	-	7,246
Loans and advances	376,419	19,157,822	19,534,241	425,044	19,158,068	19,583,112
Investment in controlled entities	-	-	-	-	102	102
Plant and equipment	-	29,829	29,829	-	29,829	29,829
Intangible assets	-	83,620	83,620	-	83,620	83,620
Deferred tax assets	-	32,893	32,893	-	32,892	32,892
Other assets	8,422	-	8,422	9,513	-	9,513
	2,168,073	21,035,322	23,203,395	1,970,429	21,035,510	23,005,939
Liabilities						
Deposits and other borrowings	15,792,102	5,978,203	21,770,305	15,786,202	5,805,733	21,591,935
Derivatives	30,982	56,869	87,851	23,317	46,031	69,348
Trade and other payables	20,081	-	20,081	22,106	-	22,106
Current tax liabilities	-	-	-	-	-	-
Provisions	19,268	7,178	26,446	19,268	7,178	26,446
Subordinated debt	-	332,760	332,760	-	332,760	332,760
Total liabilities	15,862,433	6,375,010	22,237,443	15,850,893	6,191,702	22,042,595
Net	(13,694,360)	14,660,312	965,952	(13,880,464)	14,843,808	963,344

31 Remuneration of auditors

	Consolidated		Company	
	2017	2016	2017	2016
	$	$	$	$
Audit and Review of Financial statements	395,500	321,500	351,500	281,500
Regulatory audits	116,000	116,000	108,000	108,000
Tax services	147,319	599,035	130,440	561,735
Other services	439,000	418,500	439,000	418,500
	1,097,819	1,455,035	1,028,940	1,369,735

The auditor of the Group is Deloitte Touche Tohmatsu.

32 Subsequent events

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