

ANNUAL REVIEW.

2013 FINANCIAL YEAR.



GENUINELY FAIRER BANKING. THE STORY.

ME Bank is a 100% Australian owned, APRA regulated Bank. Established by industry super funds – the same people who brought you low cost, no commission super. We were proudly built to provide a genuine banking alternative – a fairer way to bank.

What does this mean? We're fighting the injustices of the major banks because we believe that everyone deserves a fairer deal. We always have and we always will – it's in our blood.

The industry super fund and union movements' hard-fought principles of fairness and collective benefit are at the very heart of our business. And because we're owned by industry super funds, our profits go back to them for their members, to assist in achieving a better quality of life for you in retirement.

The fact is, the reason we were built is different, so our priorities are different – and that changes everything.

In 1994, we started by offering lower home loan rates that had previously only been available to those who could afford large loans or were able to negotiate better deals. We've stayed true to our heritage and continue to grow by giving everyday Australians – who are members of aligned super funds, unions and employer associations – real service, genuine respect and competitive products.

These are the things that are in our DNA. Our commitment to being fairer is genuine.

ME Bank's products are straightforward, easy-to-understand and transparent like our transaction and savings accounts and personal loans. You know what you're getting and that you can trust us because there are no hidden costs and no bank jargon. In fact, we've kept our standard variable rate home loan for super fund and union members below that of the Big Four banks for every month, of every year, since we became a bank in 2001.

We respect each and every one of our customers. Regardless of how much you earn or where you live, we treat our customers with care and understanding. Because we appreciate the importance of your time, we'll visit you at home or at work. And if you phone us, you'll talk to a real person right here in Australia who'll take the time to talk to you until your query is answered.

This is what it means to bank with a genuinely different kind of bank.

BANK FAIRER.

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ME BANK AWARDS.

ME BANK WON THE FOLLOWING AWARDS IN THE 2013 FINANCIAL YEAR.

GENERAL.



2012 Mozo People's Choice Awards
Top 5 Bank

TRANSACTION ACCOUNT.



2013 CANSTAR Award
Outstanding Value –
Transaction Account

ONLINE SAVINGS ACCOUNT.



2013 CANSTAR Award
Outstanding Value –
Savings Account

FIRST HOME SAVER ACCOUNT.



2012 AFR Smart Investor
Blue Ribbon Awards

HOME LOANS.



2013 Australian
Home Loan Awards
Gold Medal -
Lender of the Year



2013 Australian
Home Loan Awards
Gold Medal -
Bank of the Year



2013 Australian
Home Loan Awards
Gold Medal –
Best Bank
Customer Service



2013 Australian
Home Loan Awards
Gold Medal –
Best Bank
Speed of Approval



2013 Australian
Home Loan Awards
Gold Medal –
Best Overall
Speed of Approval



2013 Australian
Home Loan Awards
Gold Medal –
Best Overall
Variable Rate Loans



2013 Australian
Home Loan Awards
Gold Medal –
Best Bank
Variable Rate Loans



2013 Australian
Home Loan Awards
Gold Medal –
Best Overall
Loan for Refinancing



2013 Australian
Home Loan Awards
Gold Medal –
Best Bank Loan
for Refinancing



2013 Australian
Home Loan Awards
Silver Medal –
Best Bank Loan for
Property Investors



2013 Australian
Home Loan Awards
Silver Medal –
Best Bank Loan
for 1st Home Buyers



2013 Australian
Home Loan Awards
Silver Medal –
Best Bank Fixed
Rate Home Loans



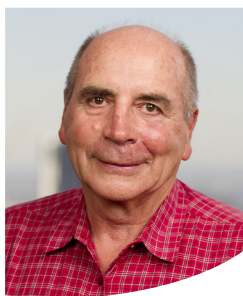
2012 Your
Mortgage magazine
Gold Medal -
Best Bank Standard Variable
Member Package Ultimate
Offset Account



2012 Mozo People's
Choice Awards
Best Home Loans

1.0

MESSAGE FROM THE CHAIRMAN AND CEO.



BERNIE FRASER.
CHAIRMAN.



JAMIE MCPHEE.
CHIEF EXECUTIVE OFFICER.

The past year was one of solid progress for ME Bank. Underlying profit increased by 51% to \$36.9 million, which was quite an achievement in what remains a low credit growth and highly competitive banking environment.

Other notable markers of the Bank's progress include further growth in customer numbers and a surge in deposits; these and other developments are documented in this Annual Review.

As encouraging as many of these results are in reflecting the Bank's good performance in the 2013 financial year, they also confirm that the Bank remains on its longer term track to become a more significant player in Australian banking over the next five years.

Prompted in large measure by the global financial crisis, ME Bank has undergone massive changes and reorientation over recent years. In particular, it has changed from being essentially a manager of securitised funds to a more traditional bank, writing business on its own balance sheet. This Annual Review covers progress on the Bank's various initiatives, including workplace banking and the revamping of the Bank's technology systems. The latter is particularly worthy of note, having progressed on time and on budget.

When the transformation program is completed in the middle of next year, it will put ME Bank on a par with its competitors in this critically important area, rather than lagging some way behind. It will also facilitate more effective integration and cross-selling of the products of ME Bank and its industry super fund shareholders. These opportunities are likely to become increasingly significant for both parties as intensifying competition in traditional banking drives the major banks to press harder into the wealth management business.

The encouraging results for the 2013 financial year still leave ME Bank with a lot of work to do to generate returns on equity and cost to income ratios approaching those of the major banks. This will take time. But the right foundations have been laid and, as outlined in the Bank's three year business plan, the building blocks are being put in place.

We would like to acknowledge the sustained efforts of our rejuvenated Management and Board teams during the past year, along with the support of our shareholders, customers, the industry super funds, unions and employer associations: their ongoing belief augurs well for the future of ME Bank.

2.0

ABOUT ME BANK.

ME Bank is owned by some of the largest industry super funds in Australia, with more than \$200 billion in funds under management, providing the organisation with significant strength. Our customers' deposits are also protected by the Government Guarantee, up to \$250,000.

Our head office is in Melbourne and we have offices in every capital city. Our personal banking products include home loans, credit cards, personal loans, novated car leasing, transaction and saving accounts and term deposits. We also offer a range of finance solutions for employers including loans and asset financing, as well as investment and term deposit accounts.

STAKEHOLDERS.

ME Bank is owned by 30 of Australia's leading industry super funds. In addition to our shareholders our stakeholders include other industry super funds, unions and employer associations and the members of these organisations. The Bank also counts our employees, customers, community, government and regulatory authorities as our stakeholders.

We engage with our stakeholders regularly and in various ways. We communicate with industry super funds frequently, including through representative bodies such as Industry Super Australia, the umbrella body for several of these funds. We communicate with regulatory authorities such as the Australian Prudential Regulation Authority (APRA) as necessary, both in our own right and through the Australian Bankers' Association, of which we are a member.

PRODUCTS AND SERVICES.

Personal banking products

- Home and investment property loans
- Credit cards
- Personal loans
- Car finance
- Transaction accounts
- Savings accounts
- Term deposits

Business banking products

- Business finance solutions
- Asset finance solutions
- Staff car packaging (novated lease)
- Deposit products

Treasury Products

- 11am Account
- Term deposits
- Electronic Certificate of Deposit
- Long term debt
- Cash Notice Account

Servicing customers

- Internet banking
- Workplace banking
- Mobile banking
- Broker network
- Australian-based national customer contact centre

AustralianSuper

cbus

HESTA
An Industry Superfund

HOST PLUS
expect more

MTAA
SUPER FUND

FIRST
SUPER

caresuper

VISION
SUPER

sunsuper

TWUSUPER

UniSuper

Statewide

Maritime Super

AUSfund
Australia's Unclaimed Super Fund

AUSCOAL
Super

CATHOLIC

LUCRFSuper

TASPLAN
Your Choice for Super

BUSSuper

LGSP
WA LOCAL SUPER

IREISuper

media
super

ngs
super

qie
super
first in our class

kinetic
superannuation

AUSTRALIAN
CATHOLIC
RETIREMENT
FUND

intrustsuper
with your service

mercy
super

ENERGYSUPER
SUSTAINING
PROSPERITY

Quadrant

CUSTOMERS.

ME Bank was established to offer members of industry super funds and unions a genuine alternative to the major banks, and we have never lost sight of this core objective. It's because of our heritage that we continue to put customers at the centre of our decision-making.

ME Bank's customers come from a broad cross-section of the Australian community. Our market can be viewed as consisting of six customer segments, differentiated by their life stage and associated financial needs.

Since October 2011, ME Bank has published a bi-annual *Household Financial Comfort Report* which provides insights into the financial situation of Australian households. These reports provide ME Bank with a better understanding of the financial mindset of different types of households, enabling us to tailor initiatives to best suit their financial needs.

One such initiative is the recently launched *Building Financial Confidence* program, one of Australia's largest financial education programs. Comprising 112 education modules, the program is designed to help increase the financial confidence of Australian consumers and to empower them with financial knowledge to help make a positive impact on their financial health and wellbeing. Importantly, the program provides financial information based on a number of different customer groups, recognising that not everyone is the same. The *Building Financial Confidence* program is publicly available, free of charge, via the ME Bank website.

While there are important distinctions between customers, we believe all our customers want straightforward, transparent, consistently low-cost banking combined with real customer service. ME Bank designs its products with this in mind.

For example, our approach to term deposits is very different to other banks. We offer competitive term deposit rates across all our terms and not just on one or two terms. That means customers can secure a competitive rate for any investment timeframe, rather than set their timeframe just to get this rate. The same philosophy applies to our home loans where we offer our customers our best rate the first time, so customers do not need to haggle for a low rate. Our standard variable home loan rate has been lower than those of the big four banks for every month of every year since we became a bank in 2001. All our products are similarly designed, which is why customers voted us one of Australia's best banks in MOZO's 2012 People Choice Awards and we continue to have leading customer satisfaction scores as measured by Roy Morgan Research.

ME Bank grew its customer base by 12% from 252,311 at the end of June 2012 to 284,018 by June 2013 (Figure 1). This metric is an important measure as we believe customers are the arbiter of the relevance and success of an organisation. More than 30,000 additional customers have chosen to entrust us with their banking needs over the past year. This demonstrates our products and services and our position as the genuinely fairer alternative is resonating with our target market.

CUSTOMER NUMBERS.

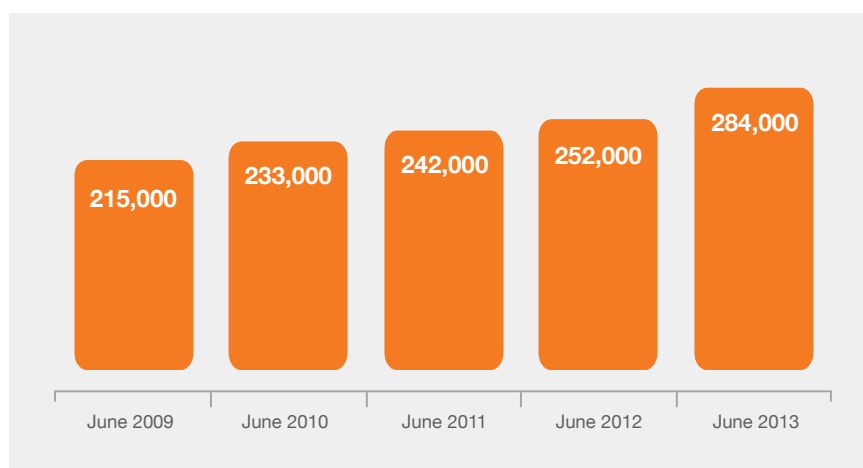


Figure 1: Customer numbers

3.0

STRATEGIC PRIORITIES.

ME Bank has ambitious growth plans, including doubling customer numbers in five years, increasing return on equity and reducing our cost to income ratio. Underpinning these plans is our key point of difference – a unique combination of heart and capability. Unlike any other Australian bank, ME Bank has both the customer-first philosophy of the mutual banks and, thanks to the backing of some of Australia's largest super funds, the strength and capability of a commercial bank. We believe this unique position gives us an opportunity to challenge the banking landscape.

Putting the customer at the centre of everything we do guides our distribution strategy, which aims to provide customers with access to their bank through any channel and the device of their choice, anytime and anywhere. We believe customers should have the same experience with us no matter what channel they choose to use, whether through social media, our call centre, a workplace banker, a broker, a mobile banker, smart phone, over the internet or through a tablet. Having quick and easy access to banking services at anytime from anywhere and receiving consistent service across these channels is increasingly important to customers.

The three year business transformation currently underway is a key priority for ME Bank, providing a technology platform that will position the Bank for future growth. The transformation program will replace legacy core banking platforms with a new, modern system capable of supporting all aspects of the Bank's strategy. The new platform will help drive efficiencies, improve agility in product development, reduce customer effort, integrate more effectively with network partners and position ME Bank for success in the digital economy.

The transformation program is scheduled for completion in mid 2014. It represents a major investment by the Bank, with an overall cost of approximately \$60 million. Phase 1 was completed in June 2012. This resulted in a number of benefits including improved efficiencies in originating personal loan applications, leading to a quicker 'time to yes' for customers and improved efficiency for employees through access to multiple ME Bank applications with a single sign on.

Phase 2 was delivered in September 2013. It included the successful implementation of the new business process management platform. The first new process implemented on this platform enables customers to open their own transaction account online within minutes.

ME Bank will move its remaining deposit products onto the business process management platform, followed by its loan products in phase 3. A new reporting platform, Insight, will also go live at the completion of phase 3 in mid 2014.

WORKPLACE BANKING.

Workplace Banking is a long term strategy to build an alternative to the traditional branch banking model right where our customers are – in their workplace. It provides face-to-face banking through the workplace, combining fairer banking and convenience. Our relationships with aligned super funds, unions and employer associations provide a competitive advantage and are the reason why we are the only bank in Australia with the ability to offer the convenience of banking right where our customers work. Our vision is to build the largest “branch” network in the country.

ME Bank is making good progress towards this goal. Since the launch of workplace banking in July 2011, we have increased the number of workplace banking sites from six pilot sites to 71 workplaces in June 2013, covering major industry sectors and various geographies. Our overall market share at employer workplaces Australia wide is 7% and at our pilot sites it is over 35%.

We have also introduced a number of interactive workplace banking kiosks, most recently at Casselden in Melbourne, which is home to HESTA, Cbus, SuperPartners, and other industry partners and employers. The kiosks provide convenient access to ME Bank products and services when a workplace banking manager is not on site. The kiosks provide a real-time video link to our contact centre, an ATM, internet banking for account opening and servicing and the opportunity to promote ME Bank, aligned super funds, unions and employer associations.

LEVERAGING OUR RELATIONSHIPS.

Our strategy is to leverage our unique relationship with aligned super funds, unions and employer associations to make ME Bank the primary bank for their members. That is, the bank into which a member's pay is deposited and from which everyday transactions are made. ME Bank has led by example – our recent Enterprise Agreement included a clause that all employees must have their salary directed to an ME Bank account. In the near future the Bank will work in conjunction with its partners to provide co-branded products to drive customer engagement and growth.

NETWORK DEPOSITS.

ME Bank has launched a competitive range of attractive cash and fixed income products enabling us to become a major provider of deposit and other banking products to aligned super funds and their members.

The Bank's network deposit offering has expanded to 9 products with investments by 30 shareholder and other network super funds. These investments have provided the Bank with \$2.6 billion in deposit funding and over 29,000 members who chose to invest directly with ME Bank.

Through collaboration with super funds and their members, ME Bank is developing a strong diversified funding source. We plan to further strengthen these relationships by offering a wider range of products that meet the needs of super funds and their members and by expanding our distribution further into the industry funds network.

4.0

2013 PERFORMANCE.

OVERVIEW.

The 2013 financial year was one of consolidation for ME Bank in which we were able to demonstrate progress towards building a sustainable business based on a clear strategy. The transition to growing our workplace banking network is on target to deliver 70 new sites over the next 12 months to add to the 71 sites already in operation. In addition, credit operations have been successfully centralised, reducing overheads and improving efficiency. A number of new products have been initiated in cooperation with our network partners including the Cash Hub Account, the Cash Notice Account, Extendable Term Deposit and Operational Risk Financial Reserve product solutions.

Some of the highlights for the year include:

- Underlying net profit after tax (NPAT) increased by 51% year on year.
- Customer deposits grew 41% from the previous year.
- *EveryDay* Transaction Account portfolio exceeded 40,000 accounts.
- Home loan settlements improved by 17% compared to the previous year.
- Customer growth of 12% for the year.
- The transformation program continues to be on time, on budget and within scope.
- Improved credit rating of 'A3 long term' from Moody's Investor Services (Standard & Poor's equivalent of A-).

FINANCIAL PERFORMANCE.

ME Bank has produced a solid result given the challenging credit conditions in the Australian market where overall credit growth remains close to 30 year lows while housing credit growth is at its lowest point since records began in 1977. Despite this environment, the Bank was able to post a 51% increase in underlying NPAT driven by better than expected net interest margin and improved home loan growth (Table 1).

2013 KEY METRICS.

KEY METRICS	YEAR ENDED 30 JUNE 2013	YEAR ENDED 30 JUNE 2012	% CHANGE
Profit - statutory (after tax) \$m	40.4	4.7	759.6%
Profit - underlying (after tax) \$m	36.9	24.4	51.2%
Return on Equity	6.3%	5.0%	26.0%
Net interest margin	1.53%	1.50%	2.0%
Cost to Income	74.7%	78.0%	4.2%
Total on and off balance sheet assets \$m	19,563	19,542	0.1%
Lending assets on balance sheet \$m	12,305	9,602	28.2%
Deposit liabilities \$m	9,893	6,999	41.3%
Customer numbers	284,018	252,311	12.6%

Table 1: 2013 Key metrics

There was a significant increase in statutory NPAT in the 2013 financial year (Table 2). This change is explained by the 51% increase in underlying earnings and the impact of the following significant items which occurred in the 2012 financial year:

- Branch closures following the transition to a new distribution strategy, moving from a branch focus to other distribution channels;
- The centralisation to Melbourne of all credit operations; and
- The restructuring of operations and employer banking departments.

A further significant item impacting both financial years is the hedge revaluation. This reflects the mark to market movement of the interest rate swaps used to convert fixed rate home loan interest revenue into a floating interest rate. While the swap itself is required to be re-valued for accounting purposes, the fixed rate home loans are carried at cost. The revaluation of the interest rate swaps resulted in an unrealised loss of \$15.7 million (\$10.9 million after tax) for the 2012 financial year and an unrealised gain of \$4.9 million (\$3.5 million after tax) for the 2013 financial year.

2013 NET PROFIT.

RECONCILIATION OF STATUTORY PROFIT TO UNDERLYING PROFIT	YEAR ENDED 30 JUNE 2013 (\$M)	YEAR ENDED 30 JUNE 2012 (\$M)
Net profit after tax (underlying)	36.9	24.4
Impact of significant items (post tax)		
Hedge revaluation gain/(loss)	3.5	(10.9)
Branch closures	-	(6.3)
Centralisation of credit operations	-	(1.6)
Restructuring of operations and employer banking	-	(0.9)
Net profit after tax (statutory)	40.4	4.7

Table 2: 2013 Net profit

OPERATIONAL EFFICIENCY.

Moving our loans from “off balance sheet” to the traditional banking model of “on balance sheet” has changed the composition of revenue for ME Bank, reflected in our management fee income decreasing in favour of significant increases in our net interest income (Figure 2).

The primary measure of ME Bank’s operational efficiency is its cost to income ratio. Over the past five years, this ratio has improved from 88% to 75% (Figure 3) but remains higher than the industry average. Narrowing this gap is a challenge for the Bank. To achieve significant long term savings the Bank closed its branches in the 2012 financial year and introduced a centralised model for credit operations in December 2012. The Bank expects to achieve further reductions in its cost to income ratio through improving economies of scale and efficiency enhancing investments, notably the transformation program.

REVENUE (\$M).

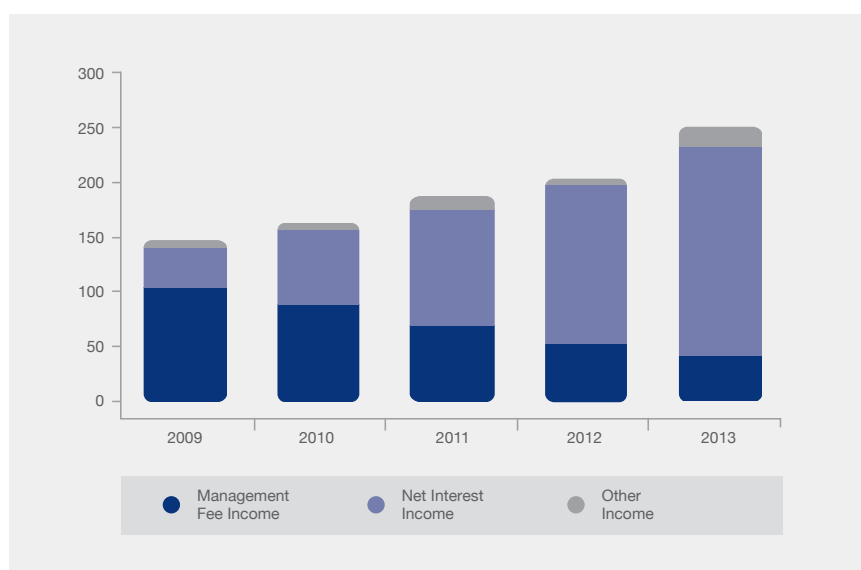


Figure 2: Revenue (\$M)

COST TO INCOME RATIO.

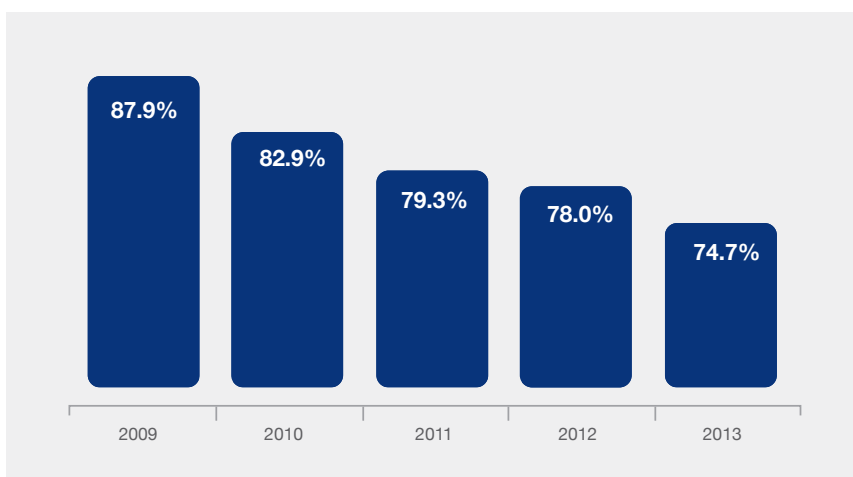


Figure 3: Cost to income ratio

BALANCE SHEET.

Assets

Total balance sheet assets grew by over 18% over the year from \$11.9 billion to \$14.1 billion (Figure 4). This growth came from an increase in lending assets of \$2.7 billion offset by a decrease in non-lending assets of \$0.5 billion. Non-lending assets, which mainly consist of cash and liquid assets, decreased this financial year due to a reduction in APRA's minimum liquid holding requirement.

ME Bank began as a home loan originator and almost 95% of lending assets are home loans. Since 2011, several initiatives have supported growth across the home loan portfolio for the first time since the global financial crisis. These include:

- Introduction of a Member Package product, which currently accounts for over 60% of new home loan settlements and contributes to growth in primary banking relationships through inclusion of an offset account and credit card.

- Introduction of new channels, including workplace banking and brokers, to broaden ME Bank's access to its target market.
- Ongoing tactical pricing, offers and campaigns.
- Centralisation of credit operations to streamline the credit decision process.

Over the next three years ME Bank plans to develop an extensive range of new asset and liability products.

TOTAL BALANCE SHEET ASSETS (\$M).



Figure 4: Total balance sheet assets (\$M)

Liabilities

Historically, ME Bank was a mortgage originator that relied on securitisation as its primary funding source. In recent years the Bank has migrated to a balance sheet funding model and has successfully diversified its funding sources. At 30 June 2013, retail deposits were 20% of funding, business deposits 9%, unsecured wholesale 50% and securitisation 21%.

Deposit liabilities grew by 41% in the 2013 financial year due to the 58% increase in retail customer deposits and the 42% increase in wholesale deposits over the year (Figure 5). This improvement in the Bank's liquidity and funding position has been driven by the implementation of a number of initiatives, including:

- Changes to the *EveryDay* Transaction Account fee structure.
- *EveryDay* Transaction Account and Online Savings Account bundle offering bonus interest.
- Expansion of the institutional channel.
- Increased take up of network deposit products by shareholders.

DEPOSIT LIABILITIES (\$M).

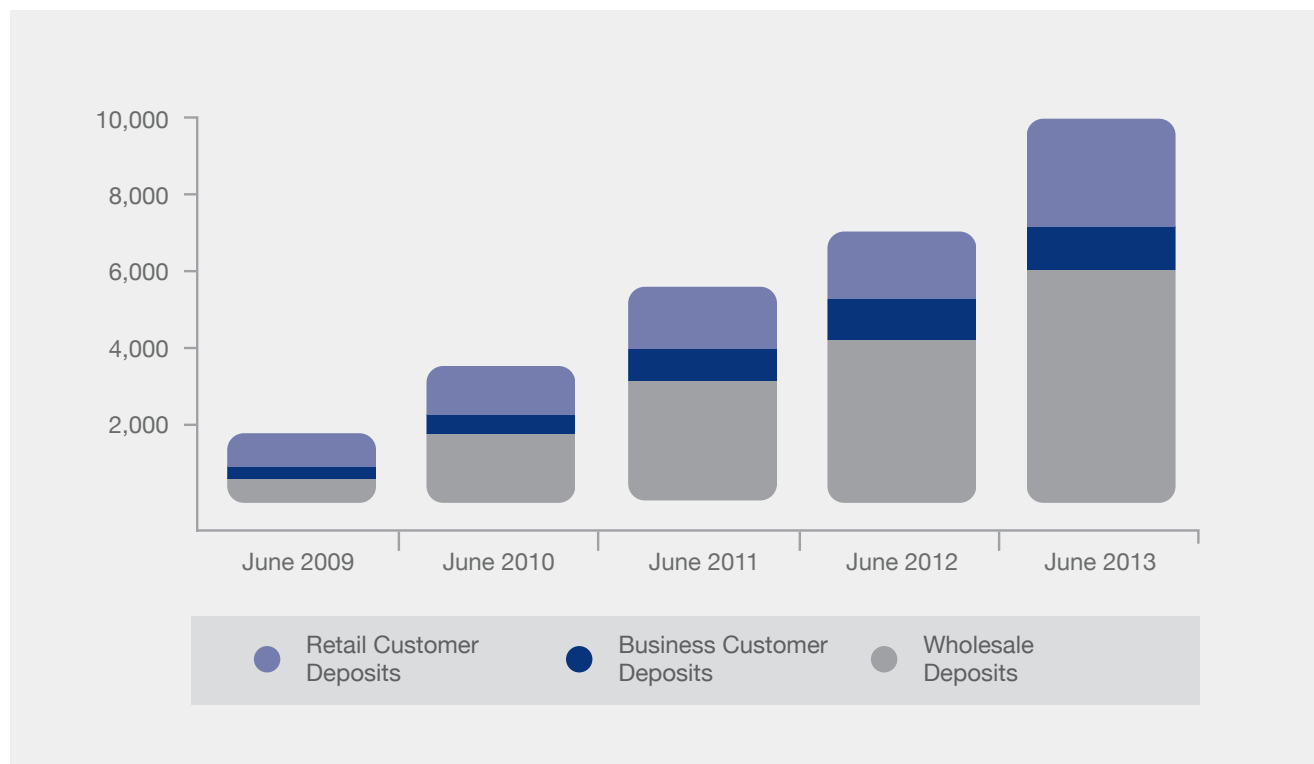


Figure 5: Deposit liabilities (\$M)

ASSETS UNDER MANAGEMENT.

Total assets under management combines on-balance sheet assets with off-balance sheet assets held in trusts managed by the Bank. The 2013 financial year produced a relatively flat movement in total assets under management, reflecting the low credit growth environment in Australia (Figure 6).

ASSETS UNDER MANAGEMENT (\$M).

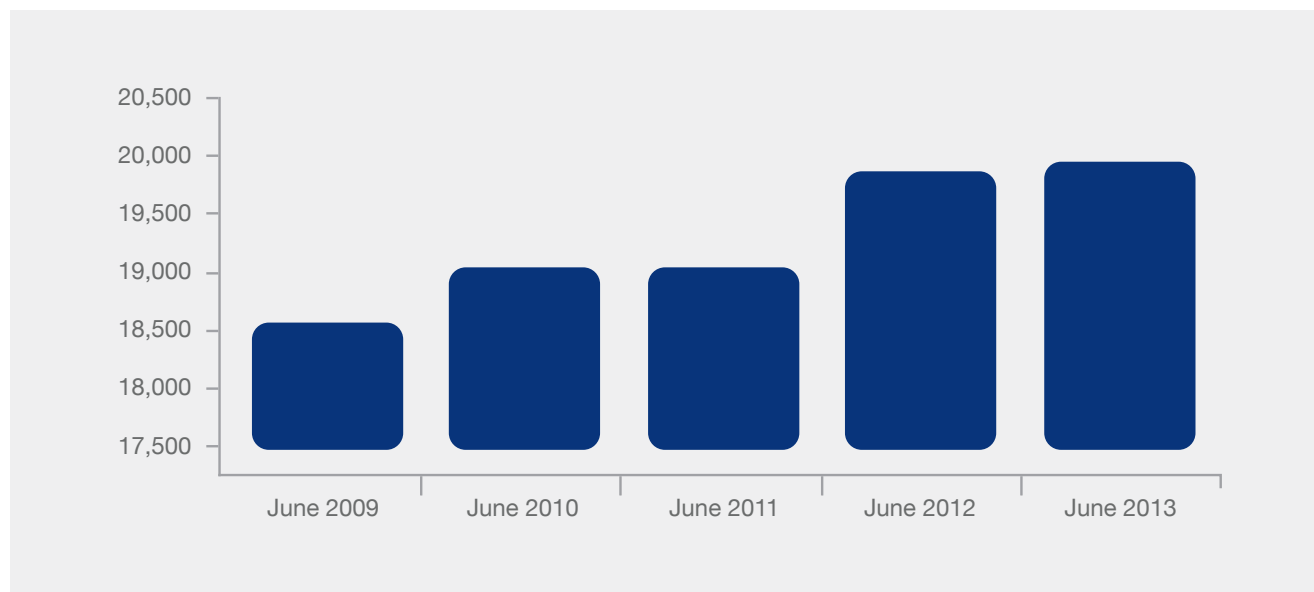


Figure 6: Assets under management (\$M)

5.0

GOVERNANCE.

CORPORATE GOVERNANCE.

ME Bank's approach to corporate governance is based on the belief that in order to encourage the long term growth of the Bank and meet the interests of shareholders, it is important to address the relationships between Board, executive management and our stakeholders through appropriate policies and processes.

The Board's approach is cognisant of the Australian Council of Superannuation Investors Corporate Governance Guidelines and other best practice guides to ensure that our governance standards meet both industry and community expectations. The Board is committed to achieving the highest standard of internal corporate governance wherever appropriate. In addition, the Board is governed by APRA's requirements including those contained in Authorised Deposit-taking Institution (ADI) Prudential Standards.

BOARD.

The composition of the Board is determined in accordance with the Bank's Constitution and is comprised of non-executive independent directors, with an appropriate range of qualifications and experience. In addition, each director satisfies the Board's Fit and Proper Policy.

The Constitution provides, amongst other matters, that directors may not hold office for more than three years without standing for re-election. Retiring directors are eligible for re-election. Mr Weaven offered himself for re-election by the shareholders as a director of the Bank and was re-elected in November 2012. Mr Ries retired by rotation on 1 November 2012.

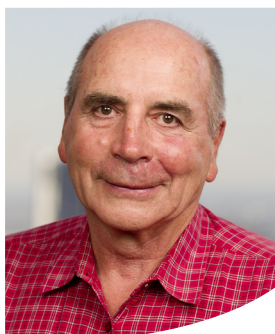
During the year it was decided that two new directors would be appointed, to replace Mr Ries and enhance the experience of the Board. An external executive search firm was engaged to identify possible candidates, and a thorough review and interview process was conducted by the Board. As a result of the process Ms Christian and Mr Milne were elected by the shareholders as directors effective 1 November 2012.

Board Responsibilities

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

The Board meets regularly and follows meeting protocols designed to ensure that all directors are appropriately informed and properly consider all agenda items. The Board also has procedures for handling matters that may give rise to a conflict of interest.

The Board members at 30 June 2013 are listed below.



Mr Bernie Fraser

Bernie is a former Secretary to the Treasury and Governor of the Reserve Bank. He is currently the head of the Climate Change Authority, an independent body created to provide advice on the Australian Government's policies for reducing carbon pollution.



Ms Christine Christian

Christine is recognised internationally as a leading authority on credit risk management, debt management, credit risk solutions, and global business information systems. Christine sits on a number of boards in addition to ME Bank.



Ms Anne De Salis

Anne has a diverse career spanning the public and private sectors. Her experience in financial services includes senior executive / director positions with AMP, MBF Australia, the Commonwealth Treasury and Funds SA (where she is currently a director).



Ms Sally Herman

Sally has a wealth of experience in consumer and commercial banking, including a number of years at Westpac. Sally is also a director of a number of other listed and unlisted companies.



Mr Ken Hodgson

Ken has 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.



Mr Justin Milne

Justin is the Chairman of NetComm Wireless Ltd and a non-executive director of Tabcorp Holdings Ltd. He is Chair of the National Basketball League, a board member of Basketball Australia, and a director of the Sydney Children's Hospital Foundation. Justin has also held a number of senior executive roles.



Mr Brian Pollock

Brian is currently a director of Industry Super Holdings, the IFM Group, A E Smith & Son and the Macquarie Real Estate Equity Fund series of companies. A former National President, he is one of only 7 members to have been awarded National Life Membership of the Property Council of Australia.



Mr Garry Weaven

Garry is Chair of Industry Funds Management, Pacific Hydro and Industry Super Holdings. Garry's background includes a period as Assistant Secretary of the ACTU and a period as Senior Consultant to Westpac Financial Services. He was also a foundation board member of Melbourne's Docklands Authority.

Board Committees

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

Audit, Risk and Governance Committee

The Audit, Risk and Governance Committee's purpose is to provide an objective view of the effectiveness of the Bank's financial reporting framework and overall internal control framework; to review operational, credit, market and liquidity, and newly-identified strategic risk throughout all facets of the Bank's business; to oversee, monitor and review the Bank's risk management principles and policies, strategies, processes and control; and to review the development of and recommend to the Board all other corporate governance policies and principles applicable to the Bank.

The Committee is comprised of independent non-executive directors. During the period to 1 November 2012 the Committee was chaired by Mr Ries. During the period from 1 November 2012 the Committee was chaired by Ms Herman.

People and Remuneration Committee

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

Mr Weaven is the chair of the Committee, which is comprised of independent non-executive directors, for the year being Ms de Salis and Messrs Fraser and Pollock.

Technology Committee

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

The Committee is comprised of independent non-executive directors. During the period to 6 June 2013 the Committee was chaired by Mr Pollock. During the period from 6 June 2013 the Committee was chaired by Mr Milne.

Nominations Committee

The purpose of the Committee is to make recommendations to the Board in respect of the appointment of new directors.

Mr Fraser is the Chair of the Committee. The Committee is comprised of independent non-executive directors, and two director representatives of the Bank's four largest shareholders.

Board Performance

The Board meets on a regular basis to address relevant operational and strategic issues affecting the Bank. A program is in place for the annual self evaluation of performance by each of the Board and the Audit, Risk and Governance, People and Remuneration and Technology Committees. As the Nominations Committee met only on an ad hoc basis, it did not undertake an evaluation.

Remuneration of directors and senior managers and material risk takers

During the year the People and Remuneration Committee oversaw remuneration for the Bank.

The aggregate remuneration of senior managers, material risk takers and directors is set out in Table 3. For ME Bank, senior managers are those people, excluding the directors and the external auditor, holding Responsible Person positions, in accordance with the Bank's Fit and Proper Policy. During the year there were 20 senior managers. During the period the Bank did not have any material risk takers.

ME Bank aims to provide remuneration to attract, motivate and retain employees to achieve its purpose and overall objectives within its risk appetite and risk framework. The following guiding principles are the foundation of the Bank'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 Bank's long-term business strategy. 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 Bank's values and culture.
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 Bank's risk appetite. Encourage behaviours that support the risk management framework. Encourage actions clearly focused on the Bank's long-term financial soundness.

ME Bank uses a range of different remuneration elements to effectively reward employees. To ensure fair reward, the Bank 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 ME Bank. Our 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 Bank and the overall performance of the organisation. It is the main mechanism the Bank 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 ME Bank is the Annual Bonus.

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

Sales Incentive Programs, rather than Annual Bonuses, are provided for sales-focused employees. 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

The Bank's non-executive directors are remunerated by way of one base fee (inclusive of the Superannuation Guarantee Charge payment, at 9% for the year). The Non-Executive Director Remuneration Policy provides for the fee to be approximately half the median level of non-executive director fees paid by Bendigo Adelaide Bank and Bank of Queensland.

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

The aggregate compensation made to directors and the senior managers is shown in Table 3.

Senior Managers, of which:	\$5,613,443
Fixed remuneration	\$5,189,553
Variable remuneration	\$423,890
Directors	\$768,518

Table 3: Total value of remuneration awards for 2013 financial year*

*All remuneration is cash based.

RISK MANAGEMENT.

ME Bank seeks a risk profile that meets the objectives of key stakeholders through balancing the growth of the business with the protection of its shareholders' funds, earnings, brand and reputation, its operating licence and the interests of its customers. These various interests are reflected in the Bank's Risk Appetite Statement. The Risk Appetite Statement categorises the Bank's key risks into the categories of Strategic, Financial, Operational, Credit and Market. The three levels of risk are shown - in very general terms - in Table 4 below.

ME Bank applies the "three lines of defence" model to its operations. The second (risk management) and third (assurance) lines are located in the Risk department, under the supervision of the Chief Risk Officer.

During the year, focus has been on the continued evolution of the Bank's credit risk management capability. This includes improved governance and oversight of our credit risk processes to ensure alignment with our risk appetite. We also further developed our credit risk capabilities and credit policies to ensure a robust, organisational wide understanding of risk.

The Bank also improved our internal audit approach and capability. The risk-based methodology to internal audit reviews was applied, with audit activity being focussed on the higher risk areas that have the potential to disrupt the achievement of strategic goals and objectives. The capability of the function has also been enhanced, with the ongoing co-sourced arrangement with PricewaterhouseCoopers to provide subject matter expertise across specialist areas.

ME Bank aims to ensure it is not associated with instances of fraud or corruption, with policies and procedures in place designed to stamp out unwanted practices. To support our employees to report actual or suspected instances of fraud, crime or serious misconduct we have in place a 'Speak Up' program and all employees receive training in the policy as part of their induction. During the year there were no reported instances of internal fraud. Where it is relevant for their work, our employees are trained on how to identify a suspicious matter (these may relate to suspected fraud, tax evasion or other offences) and follow-up actions.

LOW	A level of risk where the cost of risk mitigation is high relative to the likely impact on return over time.
MEDIUM	The overall risk level appropriate under normal business conditions.
HIGH	Where the capital at risk is high over a sustained period.

Table 4: Levels of risk

6.0

CORPORATE RESPONSIBILITY.

Corporate responsibility is part of the essence of ME Bank.

Our purpose of providing a fairer banking alternative for members of industry super funds, unions and employer associations is underpinned by a view of our role in society, and our responsibility to all of our stakeholders – shareholders, business partners, customers, people and the broader community in which we operate.

ME Bank first launched its corporate responsibility program in 2009. The purpose of the program is to understand and respond to the opportunities and challenges we encounter as a result of our economic, social and environmental impacts. We seek to enhance the positive impacts and minimise negative ones. We engage with all our stakeholders and respond to their concerns.

PEOPLE.

ME Bank is committed to creating a unique, values based, high performing culture. We are currently undertaking a significant cultural transformation to create an agile workforce to deliver our strategic priorities and growth plans. As such, we are focussed on embedding our values, building our leadership capability, managing our talent, leading change and strengthening our partnership with the Finance Sector Union.

Our Values

Our values articulate what ME Bank stands for and how we do business. Our five values of Integrity, Respect, Teamwork, Performance and Empowered to Challenge are important drivers of our cultural transformation and fundamental to building the capability we need to deliver high performance. We have developed a set of statements to define the behaviours we see as representative of our values.

We have introduced an employee recognition scheme to embed the language and behaviours of our values. On the spot informal recognition, as well as formal opportunities to recognise outstanding role models of our values are delivered through our High Five! Recognition program.

We also have a Code of Conduct that mandates ethical and positive ways for employees to interact with one another and with our customers, suppliers and all of our stakeholders. We also have a Dignity at Work Policy to ensure we maintain a workplace free from discrimination, bullying or violence.

FSU Partnership

Our industry super fund and union heritage has enabled us to be innovative in the ways we seek to add value to the human capital invested in our business. We are the first Australian banking organisation to enter into a formal partnership with a union to work collaboratively to solve business issues.



ME Bank's partnership with the Finance Sector Union (FSU) recognises that management, employees and the union have a mutual interest in the ongoing success of the business and uses collaboration as an important means of achieving our business objectives while improving employee satisfaction and engagement.

The partnership is a more sophisticated way to engage on business issues such as change, modernisation, productivity and employment terms and conditions and hinges on a shared understanding of, and working towards, agreed business objectives.

Developing our People

We recognise that leadership effectiveness is critical to our success. All of our leaders go through Challenge ME, a values based leadership program that includes collaborative problem solving, leading and managing change, emotional intelligence and partnering for performance. It also includes 360 degree feedback, emotional intelligence testing and individual coaching. We offer leadership programs that specifically target the development of women and a business community mentoring program that build leadership effectiveness while offering mentoring to long-term unemployed people in Melbourne.

Our Learning and Organisational Development program is based on our values and is aligned to our capability model which establishes the skills, knowledge and behaviours that employees need to pursue opportunities for career progression and growth. This includes a comprehensive induction program so that people transition into the workplace with ease when they commence with ME Bank. We also ensure that all people have the training required to be successful in their role when there are changes to technology and/or processes.

We have adopted a performance partnering approach to maintaining and improving employee performance. This requires managers and employees to partner on the delivery of agreed performance goals and an employee development plan. We have established a quarterly performance cycle, replacing our former half yearly cycle for all our employees.

Workplace Health and Safety

ME Bank is committed to providing a safe and healthy workplace for our employees, contractors, customers and visitors. Employees are consulted on health and safety matters through elected Health and Safety Representatives at all our major workplaces and through our Workplace Health and Safety Committee.

This year we rolled out Keep ME Safe - our workplace health and safety management system. All managers attended training in Keep ME Safe which covers our Workplace Health and Safety policies, supporting procedures and tools.

Workforce Profile

Number of employees:

Permanent	764
Contractors	57

Part/full time ratio:

Part Time	11%
Full Time	89%

Workforce turnover: (12 month rolling average)	13%
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Absenteeism days /FTE: (includes personal, compassionate and workers compensation leave)	8.6
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Number of employees on parental leave:	15
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Female/Male ratio:

All staff

Female	49%
Male	51%

Leadership Group/Managers

Female	41%
Male	59%

Executive (including CEO)

Female	2
Male	7

Board (including Chairman)

Female	3
Male	5

COMMUNITY.

At ME Bank we are committed to contributing to the community. We believe that our long-term success depends on the wellbeing of the communities in which we operate.

Mother's Day Classic

Since 2005, ME Bank has been the major sponsor of the Women in Super Mother's Day Classic, a national fun run and walk that raises funds for breast cancer research. Held in all capital cities and a number of regional centres throughout Australia, the Mother's Day Classic is our biggest community and sponsorship event of the year.

This year, more than 300 employees, their family and friends ran or walked as part of the official ME Bank team. Many other employees volunteered on the day. For the first time, ME Bank won the Largest Corporate Team Award for our participation at the Melbourne event. Our employees also raised more than \$15,000 for the National Breast Cancer Foundation through various fundraising initiatives.

ME Bank provided additional support by promoting the sale of Mother's Day Classic bandannas. We sold nearly 9,000 bandanas which raised \$18,600 for the National Breast Cancer Foundation.

Pink Debit MasterCard®

In 2013 we continued our association with the National Breast Cancer Foundation through issuing the Pink Debit MasterCard®. Since May 2010, ME Bank has donated one cent to the National Breast Cancer Foundation for every purchase made by customers using their Pink card. To date, we have donated \$200,000 to the Foundation.

FFA Green Card for Fairer Play

In 2013, ME Bank commenced a two year partnership with the Football Federation of Australia (FFA). The association was launched with the Green Card for Fairer Play initiative, which has been developed to recognise and reward significant gestures of Fairer Play on or off the field by participants of Hyundai A-League and Grassroots football.

Across March and April, more than 2,000 nominations of Fairer Play by a Hyundai A-League player were received during the national competition. Brisbane Roar player, Thomas Broich, was named the inaugural winner of the ME Bank Green Card for Fairer Play Award and presented with \$10,000 for the junior football club of his choice.

The ME Bank Centre and Richmond Football Club

This year ME Bank continued its support of the Richmond Football Club (AFL), as naming rights sponsor of the Club's training and office headquarters in Melbourne, known as the ME Bank Centre.

Also housed at the ME Bank Centre is the Korin Gamadji Institute, which is an integral part of the Richmond Football Club. The Korin Gamadji Institute (meaning Grow and Emerge) is a unique and innovative indigenous space focused on providing leadership development, education, training and career pathways. The Institute delivers a range of activity together with its pathway partners ensuring outcomes within a space that celebrates cultural pride and supports our next generation of Aboriginal and Torres Strait Islander leaders along their journey.

The Korin Gamadji Institute delivers the Richmond Emerging Aboriginal Leadership (REAL) Program, which is specifically designed for Aboriginal and Torres Strait Islander people aged between 14 and 17 years. The program includes a four-day camp that aims to support the development of young indigenous people into community leaders. Over 200 young indigenous people from Victoria and Alice Springs have participated in the REAL Program since July 2011. The REAL Program is proudly supported by the Federal Government of Australia and the Victorian Electoral Commission.

Giving Back

ME Bank's Giving Back program provides our employees with the opportunity to make regular, post-tax donations through their fortnightly pay to one of our eight community partners. ME Bank matches employee donations dollar-for-dollar up to a predetermined cap.

Our Giving Back community partners are: the National Breast Cancer Foundation, the Prostate Cancer Foundation of Australia, Beyond Blue, Mission Australia, The Smith Family and APHEDA. In September 2012, we added two new partners – Redkite, supporting children and young people with cancer, and the Worldwide Society for the Protection of Animals.

In the 2013 financial year employees donated \$15,550 to our community partners, which was matched by ME Bank. At the end of June 2013, 10.5% of employees participated in the program.

Employees also support our Giving Back community partners through our regular Monthly Mixers; employee networking events held in our Melbourne head office. One of our community partners is profiled at each event and employees make a small donation to attend. In 2013 we raised \$5,157 for our community partners through these events.

Industry Support – HESTA Awards

ME Bank is a major sponsor of the HESTA Awards which recognise, celebrate and promote the achievement of those working in nursing, primary health care, early childhood education, aged care and the community sector.

Overall winners in each category of the Awards share in a prize pool provided by ME Bank that directly supports their industry and provides an opportunity to continue the initiative that led to their Award nomination.



Good Return

In September 2012, ME Bank partnered with Good Return to provide our employees with a way to positively impact the lives of those living in poverty in developing countries. Good Return is an innovative social enterprise established by World Education Australia to address poverty issues in the Asia Pacific region. Good Return works with microfinance institutions to deliver a range of microfinance, financial literacy and livelihood development programs to ensure long-term benefits to families and their communities.

ME Bank employees can contribute by funding a loan for an individual through Good Return. For every employee who funds a microfinance loan, ME Bank donates \$100 to Good Return to run financial literacy programs.

Movember

This year our employees once again participated in Movember, the initiative to raise funds and awareness for men's health issues. During the month of November, our employees raised \$30,209 which, through Movember, was donated to our community partners Beyond Blue and the Prostate Cancer Foundation of Australia.

ENVIRONMENT.

Reducing our impact on the environment is a core part of ME Bank's corporate responsibility program. We understand that our environmental impact extends beyond our own operations to include the products and services we provide and procure, as well as the investment decisions we make.

ME Bank has measured the environmental impact of its operations - our major impacts are in energy and paper use. We have initiatives underway to reduce our consumption in these areas.

Our head office in Melbourne, where the majority of our people are located, received a Green Star rating of 5 stars from the Green Building Council of Australia in April 2013. Our green star accommodation has provided significant environmental benefits, including reduced electricity consumption, largely due to improved heating, cooling and lighting efficiencies.

In 2011 ME Bank developed a policy statement on climate change and our response to this challenge. We understand that climate change is a significant issue for our shareholders, our community and our business. As such, ME Bank has committed to managing its own carbon emissions through the development of a carbon reduction strategy.

Resource use

In the 2013 financial year ME Bank produced almost 2,950 tonnes of greenhouse gas (GHG) emissions from its operations including electricity use in offices, our vehicle fleet and employee air travel (Figure 7). This is an increase of 5.9% from the previous year, mainly due to the increase in emissions from employee air travel.

This year, the largest source of GHG emissions for ME Bank was electricity use in our offices which accounted for 52% of emissions. Our electricity use was 1,373,500 kilowatt hours, which produced 1,526 tonnes CO₂-e. This is a reduction of 2.9% from the previous year.

In the 2013 financial year ME Bank's mobile banking vehicle fleet consumed 411

kilolitres of fuel, around the same volume as the previous year. GHG emissions from our vehicle fleet were 734 tonnes CO₂-e, an increase of 4.3% from the previous year. Between January and April this year, our vehicle fleet progressively changed from 6-cylinder dual fuel cars to smaller, 4-cylinder petrol cars. Our fleet now uses a higher proportion of petrol compared to LPG in its fuel mix, resulting in the increase in GHG emissions this year.

Employee air travel increased significantly this year. Over 2.4 million kilometres were travelled in the 2013 financial year which produced 688 tonnes CO₂-e. There were a small number of long haul flights taken this year that contributed to the increase in air miles travelled, however these were related to the transformation program and are expected to be once-off.

TOTAL GREENHOUSE GAS EMISSIONS (TONNES CO₂-e).

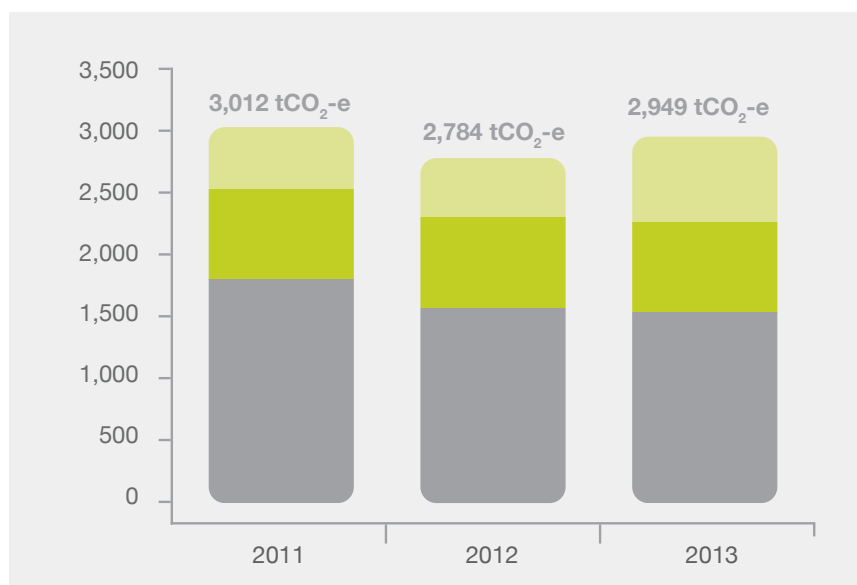


Figure 7: Total greenhouse gas emissions (tonnes CO₂-e)

Paper use

In the 2013 financial year ME Bank used 130 tonnes of paper. Of this, 30% was used in our offices and 70% was used for printed material for customer product information, banking activities such as application forms and marketing material.

In our offices, overall paper use increased by 4.3% this year reflecting the increase in the number of employees and contractors at ME Bank. The number of sheets of paper used per employee declined to 9,416 A4 sheets (Table 5). Our office paper is 100% Australian made, certified carbon neutral and accredited by the Australian Forestry Standard, a non-profit organisation promoting responsible forestry practices throughout the entire supply chain. We expect to see a

decline in our paper use over the coming years as a result of the transformation program which will digitise and streamline the processes involved in customer applications and opening new accounts.

Of the 92 tonnes of paper used to produce printed material this year, 85% was carbon neutral and almost 40% was recycled (Table 6). The volume of printed material increased by 20.5% this year as the Bank increased its buffer inventory which will be drawn down over 2014. We encourage customers to sign up to electronic statements rather than receiving paper statements and to use online banking to minimise paper processes.

Responsible procurement

ME Bank works closely with a wide range of suppliers in the day-to-day operation of our business. In line with our commitment to corporate responsibility, we prefer to partner with suppliers that demonstrate a proactive approach to economic, social and environmental responsibility.

When sourcing new suppliers, ME Bank assesses performance across a range of corporate responsibility indicators in the areas of governance, environmental management, health and safety, workplace policies and human rights, supply chain management and community impact. We also manage the use and disposal of goods and services to minimise social and environmental impacts.

In the coming year we will work with our existing suppliers to understand their economic, social and environmental impacts and partner with them to build their capability in these areas.

INTERNAL PAPER USE.

FY13	FY12	CHANGE IN FY13
38.57 tonnes	36.99 tonnes	4.3%
9,416 A4 sheets/FTE	9,609 A4 sheets/FTE	-2.0%

Table 5: Internal paper use

EXTERNAL PAPER USE.

FY13	FY12	CHANGE IN FY13
92.01 tonnes	76.37 tonnes	20.5%
39.41% recycled content	25.98% recycled content	51.7%
84.56% carbon neutral	91.69% carbon neutral	-7.8%

Table 6: External paper use

7.0

ABRIDGED FINANCIAL STATEMENTS.

The Abridged Financial Statements have been derived from the Annual Financial Report of Members Equity Bank Pty Limited (ME Bank) for the year ended 30 June 2013. The Annual Financial Report comprises the Directors' Report and the annual financial statements. The annual financial statements are general purpose financial statements prepared in accordance with the Corporations Act 2001, Australian Accounting Standards and Interpretations and other requirements of the law.

The Abridged Financial Statements are presented in Australian dollars and are an extract from the annual financial statements and cannot be expected to provide as full an understanding of the financial performance and financial position of ME Bank as the annual financial statements.

The Annual Financial Report of ME Bank for the year ended 30 June 2013 will be sent, free of charge, to members and other interested parties upon request.

The preparation of the annual financial statements in conformity with Australian Accounting Standards requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Use of available information and application of judgement are inherent in the formation of estimates. Actual results could differ from those estimates.

An explanation of all accounting policies is set out in full in the Annual Financial Report.

MEMBERS EQUITY BANK PTY LIMITED.
INCOME STATEMENT
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2013.

	2013	2012
	\$'000	\$'000
Interest and similar income	818,841	760,077
Interest and similar expense	(631,617)	(618,584)
Net interest income	187,224	141,493
Funds management fee income	39,985	53,020
Other operating gains/(losses)	29,100	(655)
Total net operating income	256,309	193,858
Expenses		
Operating expenses	176,242	166,322
Impairment losses	9,861	10,574
Project expenses	13,275	10,240
Total operating expenses	199,378	187,136
Profit before income tax	56,931	6,722
Income tax expense	16,578	2,039
Profit after tax for the year	40,353	4,683

MEMBERS EQUITY BANK PTY LIMITED.
BALANCE SHEET
AS AT 30 JUNE 2013.

		2013	2012
		\$'000	\$'000
	Notes		
Assets			
Cash and cash equivalents		257,869	328,784
Investments	2	1,446,753	1,842,701
Derivatives		13,530	18,266
Trade and other receivables		7,782	8,657
Loans and advances	3	12,304,636	9,602,181
Plant and equipment		27,160	24,803
Intangible assets		30,817	20,348
Deferred tax assets		9,342	12,622
Other assets		3,360	2,141
Total assets		14,101,249	11,860,503
Liabilities			
Amounts due to other financial institutions		3,259	30,383
Deposits and other borrowings	4	13,338,358	11,202,903
Derivatives		16,745	21,749
Trade and other payables		34,271	24,721
Current tax liabilities		6,423	3,636
Provisions		19,829	24,739
Subordinated debt		33,068	16,031
Total liabilities		13,451,953	11,324,162
Net assets		649,296	536,341
Equity			
Issued capital		570,101	500,101
Reserves		9,684	5,516
Retained earnings		69,511	30,724
Total equity		649,296	536,341

MEMBERS EQUITY BANK PTY LIMITED.
STATEMENT OF CHANGES IN EQUITY
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2013.

	Issued capital \$'000	Retained Earnings/ (Accumulated losses) \$'000	General reserve for credit losses \$'000	Investment revaluation reserve \$'000	Total \$'000
Balance at 1 July 2011	430,100	25,508	2,841	867	459,316
Issue of share capital	70,001	-	-	-	70,001
Transfer to/(from) general reserve for credit losses	-	533	(533)	-	-
Other comprehensive income for the year	-	-	-	2,341	2,341
Profit for the year	-	4,683	-	-	4,683
Balance at 30 June 2012	500,101	30,724	2,308	3,208	536,341
Balance at 1 July 2012	500,101	30,724	2,308	3,208	536,341
Issue of share capital	70,000	-	-	-	70,000
Transfer to/(from) general reserve for credit losses	-	(1,566)	1,566	-	-
Other comprehensive income for the year	-	-	-	2,602	2,602
Profit for the year	-	40,353	-	-	40,353
Balance at 30 June 2013	570,101	69,511	3,874	5,810	649,296

NOTES TO THE ABRIDGED FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2013.

1. Review of operating results

The Bank recorded an after tax statutory profit of \$40.4 million for the financial year ended 30 June 2013 compared to \$4.7 million in the previous financial year. The previous financial year was impacted by a number of significant items which did not reoccur in the year ended 30 June 2013 such as the closure of the branch network, centralisation of credit operations and the restructuring of operations and employer banking. The previous financial year was also impacted by a large unrealised loss arising from the mark to market movement of interest rate swaps used to convert fixed rate home loan interest revenue into a floating interest rate. The revaluation of the interest rate swaps resulted in an unrealised gain in the year ended 30 June 2013.

The Bank has produced a solid result given the benign credit conditions in the Australian market where overall credit growth remains close to 30 year lows while housing credit growth is at its lowest point since records began in 1977. Despite this benign background, the Bank increased profit driven by better than expected net interest margin and improved home loan growth.

Net interest income increased to \$187.2 million from \$141.5 million in the previous financial year and funds management fee income decreased to \$40.0 million from \$53.0 million in the previous financial year, reflecting the migration of loans from off balance sheet securitisation trusts to on balance sheet. This trend will continue as the off to on balance sheet migration progresses over the next few years.

Operating expenses increased to \$176.2 million from \$166.3 million in the previous financial year. The composition of expenses has changed from year to year primarily due to the closure of the branches and the other significant items noted above. The majority of the cost increase relates to customer facing activities, brand development and costs related to the Bank's transformation program which will result in a replacement of disparate banking systems with a single core banking system platform.

Impairment losses for the year ended 30 June 2013 were \$9.9 million compared to \$10.6 million in the previous financial year. At 30 June 2013, the loss provisions balance was \$12.8 million (including \$1.0 million of specific provisions) representing 0.13% of the total lending portfolio compared to \$9.7 million (nil specific provisions) at 30 June 2012. Overall, the rate of increase in provisions has slowed slightly in the year ended 30 June 2013 compared to the previous financial year.

Total assets at 30 June 2013 were \$14.1 billion, an increase from \$11.9 billion at 30 June 2012. Cash and cash equivalents and Investments decreased from the previous financial year mainly due to the reduced APRA minimum liquid holding requirement.

Loans and advances have increased to \$12.3 billion at 30 June 2013 from \$9.6 billion at 30 June 2012. The growth in loans and advances is split approximately 77% new business and 23% migration from off balance sheet to on balance sheet. Plant and Equipment and Intangibles have increased mainly due to capitalisation of costs associated with the transformation program.

The increase in total assets has been funded by liabilities increasing to \$13.5 billion from \$11.3 billion. Retail deposits experienced high growth in the year ended 30 June 2013. Wholesale and treasury deposits continue to increase as a result of broadening the product offering to industry super funds.

A total of \$70 million of paid up capital was injected by the shareholders in the year ended 30 June 2013.

2 Investments

	2013	2012
	\$'000	\$'000
At fair value:		
<u>Available-for-sale investments</u>		
Treasury notes and semi-government securities	346,644	339,775
Bank bills	217,549	898,336
Commercial paper	4,990	52,507
Corporate fixed rate notes	187,349	76,433
Corporate floating rate notes	478,127	284,417
Mortgage backed securities	212,094	191,233
	<u>1,446,753</u>	<u>1,842,701</u>

3 Loans and advances

Credit cards	131,257	137,665
Personal loans	191,677	162,043
Residential home loans	11,725,337	9,171,560
Commercial loans	117,573	75,593
Asset finance	175,044	75,721
	<u>12,340,888</u>	<u>9,622,582</u>
<i>Less:</i>		
Unearned asset finance income	(23,400)	(10,699)
Allowance for impairment losses	(12,852)	(9,702)
	<u>12,304,636</u>	<u>9,602,181</u>

4 Deposits and other borrowings

Unsecured - at amortised cost

Retail customer deposits	2,744,791	1,737,392
Business customer deposits	1,139,817	1,024,394
Wholesale and treasury deposits	6,007,686	4,501,727
Medium term notes (i)	593,959	625,306
Other borrowings	3,583	5,593
	<u>10,489,836</u>	<u>7,894,412</u>

Secured - at amortised cost

Mortgage backed securities (ii)	2,848,522	3,308,491
	<u>13,338,358</u>	<u>11,202,903</u>

- (i) Face value of \$181,000,000 fixed rate notes and \$410,000,000 floating rate notes due in second half of 2014 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.

NOTES:

