
Members Equity Bank Limited

ABN: 56 070 887 679

Interim Financial Statements

For the half-year ended 31 December 2015

**Directors' report
for the half-year ended 31 December 2015**

The directors of Members Equity Bank Limited (the Company) submit herewith the interim financial statements of the Group (being the Company and its subsidiaries) for the half-year ended 31 December 2015, and the independent auditor's review report thereon.

Directors

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

| | |
|-------------|---|
| K Hodgson | Chairman (appointed as Chairman effective 1 January 2016) |
| C Christian | |
| G Combet | |
| A De Salis | |
| S Herman | (resigned 5 October 2015) |
| J Milne | |
| G Weaven | (ceased as Chairman effective 31 December 2015) |

Principal activities

The principal activities of the Group comprised of:

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

There were no significant changes during the period in the nature of the activities of the Group.

Dividends

No dividends have been paid or declared since the start of the financial year (2015: \$nil). The directors do not recommend the payment of a dividend in respect of the half-year ended 31 December 2015.

Review of operations and results

Profit for the half-year ended 31 December 2015 was \$34.5 million compared to \$39.1 million for the half-year ended 31 December 2014.

Significant items

There are no significant items that have an impact on the Group's profit for the financial period.

Auditor independence

The auditor's independence declaration is included on page 2 of the interim financial statements.

Subsequent events

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

Rounding off of amounts

The Company is a company of the kind referred to in ASIC Class Order 98/0100, dated 10 July 1998, and in accordance with that Class Order amounts in the interim financial statements are rounded off to the nearest thousand dollars, unless otherwise indicated.

Signed in accordance with a resolution of the directors.

On behalf of the directors



Director

Melbourne, 3 March 2016

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

3 March 2016

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 review of the Interim Financial Statements of Members Equity Bank Limited for the half-year ended 31 December 2015, I declare that to the best of my knowledge and belief, there have been no contraventions of:

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

Yours sincerely



DELOITTE TOUCHE TOHMATSU



Jamie C. J. Gatt
Partner
Chartered Accountant

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

We have reviewed the accompanying Interim Financial Statements of Members Equity Bank Limited, which comprises the condensed consolidated statement of financial position as at 31 December 2015, and the condensed consolidated statement of profit or loss and other comprehensive income, the condensed consolidated statement of cash flows and the condensed consolidated statement of changes in equity for the half year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the end of the half-year or from time to time during the half-year as set out on pages 5 to 13.

Directors' Responsibility for the Interim Financial Statements

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

Auditor's Responsibility

Our responsibility is to express a conclusion on the Interim Financial Statements based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the Interim Financial Statements is not in accordance with Australian Accounting Standards including: giving a true and fair view of the Members Equity Bank Limited's financial position as at 31 December 2015 and its performance for the half-year ended on that date. As the auditor of Members Equity Bank Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the review of the annual financial report.

A review of an Interim Financial Statements consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain

assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the 31 December 2015 Interim Financial Statements of Members Equity Bank Limited do not present fairly, in all material respects, the bank's financial position as at 31 December 2015 and of its financial performance for the period ended on that date in accordance with *Australian Accounting Standards*.



DELOITTE TOUCHE TOHMATSU



Jamie C. J. Gatt
Lead Client Service Partner
Chartered Accountants
Melbourne, 3 March 2015



Vivienne Tang
Engagement Partner
Chartered Accountants
Melbourne, 3 March 2015

Directors' declaration

The directors declare that:

- (a) in the directors' opinion, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable; and
- (b) in the directors' opinion, the attached financial statements and notes thereto comply with accounting standards and present a true and fair view of the financial position and performance of the consolidated entity.

Signed in accordance with a resolution of the directors.

On behalf of the directors



Director
Melbourne, 3 March 2016

Condensed consolidated statement of profit or loss and other comprehensive income
for the half-year ended 31 December 2015

| | Notes | Consolidated half-year ended | |
|--|-------|---------------------------------|-----------------------|
| | | 31 Dec 2015 \$'000 | 31 Dec 2014 \$'000 |
| Interest and similar income | | 610,500 | 610,747 |
| Interest and similar expense | | (461,235) | (474,288) |
| Net interest income | | 149,265 | 136,459 |
| Funds management fee income | | 5,649 | 9,793 |
| Other operating income | | 27,516 | 31,057 |
| Total net operating income | | 182,430 | 177,309 |
| Expenses | | | |
| Operating expenses | | 118,907 | 108,797 |
| Impairment losses | | 5,862 | 7,987 |
| Project expenses | | 8,398 | 7,522 |
| Total operating expenses | | 133,167 | 124,306 |
| Profit before income tax | | 49,263 | 53,003 |
| Income tax expense | 5 | 14,795 | 13,906 |
| Profit for the period | | 34,468 | 39,097 |
| 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 | | (4,617) | 675 |
| Cash flow hedges - effective portion of changes in fair values, net of tax | | 13,269 | (43,936) |
| Total comprehensive income for the period | | 43,120 | (4,164) |

Notes to the financial statements are included on pages 10 to 13.

Members Equity Bank Limited

Condensed consolidated statement of financial position as at 31 December 2015

| | Notes | Consolidated | |
|---|-------|-----------------------|-----------------------|
| | | 31 Dec 2015 \$'000 | 30 Jun 2015 \$'000 |
| Assets | | | |
| Cash and cash equivalents | | 254,962 | 360,902 |
| Investments | | 3,035,350 | 2,904,722 |
| Derivatives | | 9,325 | 15,452 |
| Trade and other receivables | | 7,859 | 4,345 |
| Loans and advances | | 18,418,350 | 17,763,317 |
| Plant and equipment | | 35,923 | 34,244 |
| Intangible assets | | 76,819 | 76,771 |
| Deferred tax assets | | 27,916 | 35,882 |
| Other assets | | 6,978 | 8,098 |
| Total assets | | 21,873,482 | 21,203,733 |
| Liabilities | | | |
| Amounts due to other financial institutions | | - | 2,620 |
| Deposits and other borrowings | 6 | 20,485,407 | 19,859,255 |
| Derivatives | | 63,731 | 100,040 |
| Trade and other payables | | 31,402 | 28,021 |
| Current tax liabilities | | - | 826 |
| Provisions | | 21,691 | 23,011 |
| Subordinated debt | | 332,588 | 332,344 |
| Total liabilities | | 20,934,819 | 20,346,117 |
| Net assets | | 938,663 | 857,616 |
| Equity | | | |
| Issued capital | 7 | 767,922 | 729,995 |
| Reserves | | (23,159) | (31,709) |
| Retained earnings | | 193,900 | 159,330 |
| Total equity | | 938,663 | 857,616 |
| Book value per share | | \$ 88.77 | \$ 84.49 |

Condensed consolidated statement of changes in equity
for the half-year ended 31 December 2015

| | | Consolidated | | | | | |
|-------|---|--------------|----------|------------|-------------|-----------|----------|
| | | Issued | Retained | General | Investment | Cash flow | Total |
| | | capital | earnings | reserve | revaluation | hedge | |
| | | | | for credit | reserve | reserve | |
| Notes | | \$'000 | \$'000 | losses | \$'000 | \$'000 | \$'000 |
| | Balance as at 1 July 2014 | 699,995 | 86,471 | 15,079 | 6,604 | - | 808,149 |
| 4 | Adjustment due to restatement | - | (2,661) | - | - | - | (2,661) |
| | Balance as at 1 July 2014 (restated) | 699,995 | 83,810 | 15,079 | 6,604 | - | 805,488 |
| | Transfer to/(from) general reserve for credit losses | - | (3,546) | 3,546 | - | - | - |
| | Other comprehensive income for the period | - | - | - | 675 | (43,936) | (43,261) |
| | Profit for the period | - | 39,097 | - | - | - | 39,097 |
| | Balance as at 31 December 2014 | 699,995 | 119,361 | 18,625 | 7,279 | (43,936) | 801,324 |
| | Balance as at 1 July 2015 | 729,995 | 163,892 | 17,381 | 5,245 | (54,335) | 862,178 |
| 4 | Adjustment due to restatement | - | (4,562) | - | - | - | (4,562) |
| | Balance as at 1 July 2015 (restated) | 729,995 | 159,330 | 17,381 | 5,245 | (54,335) | 857,616 |
| 7 | Issue of share capital | 37,927 | - | - | - | - | 37,927 |
| | Transfer to/(from) general reserve for credit losses | - | 102 | (102) | - | - | - |
| | Other comprehensive income for the period | - | - | - | (4,617) | 13,269 | 8,652 |
| | Profit for the period | - | 34,468 | - | - | - | 34,468 |
| | Balance as at 31 December 2015 | 767,922 | 193,900 | 17,279 | 628 | (41,066) | 938,663 |

**Condensed consolidated statement of cash flows
for the half-year ended 31 December 2015**

| | Notes | Consolidated | |
|---|-------|-----------------------|-----------------------|
| | | 31 Dec 2015 \$'000 | 31 Dec 2014 \$'000 |
| Cash flows from operating activities | | | |
| Profit before tax | | 49,263 | 53,003 |
| Adjustments for: | | | |
| Change in operating assets | | (769,389) | (1,950,492) |
| Change in operating liabilities | | 589,320 | 1,537,003 |
| Non-cash items included in profit before tax | | 18,064 | 21,485 |
| Income tax payments | | (16,968) | (14,196) |
| Net cash used in operating activities | | (129,710) | (353,197) |
| Cash flows from investing activities | | | |
| Purchase of plant and equipment | | (7,994) | (7,761) |
| Purchase of intangible assets | | (6,163) | (14,794) |
| Net cash used in investing activities | | (14,157) | (22,555) |
| Cash flows from financing activities | | | |
| Net proceeds from issue of subordinated debt | | - | 299,412 |
| Proceeds from issue of shares | 7 | 37,927 | - |
| Net cash provided by financing activities | | 37,927 | 299,412 |
| Net decrease in cash | | (105,940) | (76,340) |
| Cash and cash equivalents at the beginning of the period | | 360,902 | 360,414 |
| Cash and cash equivalents at the end of the period | | 254,962 | 284,074 |

Notes to the financial statements are included on pages 10 to 13.

Condensed notes to the financial statements for the half-year ended 31 December 2015

1 General information

The interim financial statements of Members Equity Bank Limited (the Company) and its subsidiaries (collectively, the Group) for the half-year ended 31 December 2015 were authorised for issue in accordance with a resolution of the directors made on 3 March 2016.

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

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

2 Basis of preparation

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

The interim financial statements have been prepared on the basis of historical cost, except for the revaluation of financial instruments. Cost is based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars, unless otherwise stated.

The Company is a company of the kind referred to in ASIC Class Order 98/100, dated 10 July 1998, and in accordance with that Class Order amounts in the interim financial statements are rounded off to the nearest thousand dollars, unless otherwise stated.

3 Significant accounting policies

The accounting policies and methods of computation adopted in the preparation of the interim financial statements are consistent with those adopted and disclosed in the Company's 2015 annual financial report for the financial year ended 30 June 2015.

Application of new and revised accounting standards

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

4 Restatement of comparatives

The Group has amended its recognition criteria with respect to certain fee income earned from loans and advances recognised in the financial years ended 30 June 2014 and 30 June 2015. The amended accounting treatment results in the recognition of that fee income in the period in which the service is performed which is not necessarily the period in which the fee income is received in cash.

As at 30 June 2015, the effects of this amendment on the consolidated statement of financial position and consolidated statement of profit or loss and other comprehensive income of the comparative period are as follows:

- loans and advances were overstated by \$6.5 million;
 - of which \$2.7 million relates to the financial year ended 30 June 2015, giving rise to an overstatement in other operating income by \$7.9 million and an understatement in interest and similar income of \$5.2 million in that year⁽ⁱ⁾;
 - the remaining \$3.8 million relates to the financial year ended 30 June 2014, giving rise to an overstatement in other operating income by \$5.8m and an understatement in interest and similar income of \$2.0 million in that year⁽ⁱⁱ⁾;
- deferred tax assets were understated by \$1.9 million;
 - of which \$0.8 million relates to the financial year ended 30 June 2015, giving rise to an overstatement in income tax expense in that year by the same amount⁽ⁱ⁾;
 - the remaining \$1.1 million relates to the financial year ended 30 June 2014, giving rise to an overstatement in income tax expense in that year by the same amount⁽ⁱⁱ⁾; and
- retained earnings were overstated by \$4.6 million;
 - of which \$1.9 million relates to the financial year ended 30 June 2015⁽ⁱ⁾;
 - the remaining \$2.7 million relates to the financial year ended 30 June 2014⁽ⁱⁱ⁾.

(i) This adjustment has been reflected in the prior period comparatives.

(ii) This adjustment has been reflected as a retained earnings opening balance adjustment in the prior period comparatives.

The amendment will result in the interim financial statements providing more relevant and no less reliable information as it aligns the accounting for the recognition of fee income within the definition of revenue under AASB 118 'Revenue'.

**Condensed notes to the financial statements
for the half-year ended 31 December 2015**

4 Restatement of comparatives (continued)

Extract of consolidated statement of profit or loss and other comprehensive income

| | Consolidated half-year ended | |
|-----------------------------|---|--------------------|
| | 31 Dec 2014 | 31 Dec 2014 |
| | \$'000 | \$'000 |
| | Reported | Restated |
| Interest and similar income | 608,436 | 610,747 |
| Other operating income | 34,962 | 31,057 |
| Income tax expense | 14,384 | 13,906 |

Extract of consolidated statement of financial position

| | Consolidated | |
|---------------------|---------------------|--------------------|
| | 30 Jun 2015 | 30 Jun 2015 |
| | \$'000 | \$'000 |
| | Reported | Restated |
| Loans and advances | 17,769,834 | 17,763,317 |
| Deferred tax assets | 33,927 | 35,882 |
| Retained earnings | 163,892 | 159,330 |

5 Income tax

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

| | Consolidated half-year ended | |
|--|---|--------------------|
| | 31 Dec 2015 | 31 Dec 2014 |
| | \$'000 | \$'000 |
| | | |
| Income taxes | | |
| Current income tax expense | 8,784 | 26,406 |
| Adjustment recognised in the current year in relation to the current tax of prior years | - | (2,014) |
| Deferred income tax expense/(income) related to origination and reversal of deferred taxes | 6,011 | (10,486) |
| Income tax expense recognised in statement of profit or loss | 14,795 | 13,906 |

6 Deposits and other borrowings

In December 2015, the Group issued \$50.0 million of unsecured floating rate notes with a contractual maturity date of 17 November 2017.

7 Issued capital

The Company issued 423,191 fully paid ordinary shares in December 2015 for consideration of \$37.9 million.

8 Financial instruments

(a) Categories of financial instruments

| | Consolidated | |
|--|---------------------|--------------------|
| | 31 Dec 2015 | 30 Jun 2015 |
| | \$'000 | \$'000 |
| | | |
| Financial assets | | |
| Cash and cash equivalents | 254,962 | 360,902 |
| Available-for-sale financial assets | 3,035,350 | 2,904,722 |
| Fair value through profit or loss: | | |
| Derivatives held for trading | 97 | 3,299 |
| Derivative instruments in designated hedge accounting relationship | 9,228 | 12,153 |
| Loans and receivables: | | |
| Trade and other receivables | 7,859 | 4,345 |
| Loans and advances | 18,418,350 | 17,763,317 |

Condensed notes to the financial statements
for the half-year ended 31 December 2015

8 Financial instruments (continued)

| | Consolidated | |
|--|--------------|-------------|
| | 31 Dec 2015 | 30 Jun 2015 |
| | \$'000 | \$'000 |
| Financial liabilities | | |
| Derivative instruments in designated hedge accounting relationship | 63,731 | 100,040 |
| Amortised cost: | | |
| Amounts due to other financial institutions | - | 2,620 |
| Deposits and other borrowings | 20,485,407 | 19,859,255 |
| Trade and other payables | 31,402 | 28,021 |
| Subordinated debt | 332,588 | 332,344 |

(b) Fair value of financial instruments

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 |
| 31 December 2015 | | | | |
| Assets | | | | |
| <u>Financial assets at fair value through profit and loss</u> | | | | |
| Derivatives | - | 97 | - | 97 |
| <u>Derivative instruments in designated hedge accounting relationship</u> | | | | |
| Interest rate swaps | - | 9,228 | - | 9,228 |
| <u>Available-for-sale financial assets</u> | | | | |
| Investments | - | 3,035,350 | - | 3,035,350 |
| Liabilities | | | | |
| <u>Derivative instruments in designated hedge accounting relationship</u> | | | | |
| Interest rate swaps | - | 63,731 | - | 63,731 |
| 30 June 2015 | | | | |
| Assets | | | | |
| <u>Financial assets at fair value through profit and loss</u> | | | | |
| Derivatives | - | 3,299 | - | 3,299 |
| <u>Derivative instruments in designated hedge accounting relationship</u> | | | | |
| Interest rate swaps | - | 12,153 | - | 12,153 |
| <u>Available-for-sale financial assets</u> | | | | |
| Investments | - | 2,904,722 | - | 2,904,722 |
| Liabilities | | | | |
| <u>Derivative instruments in designated hedge accounting relationship</u> | | | | |
| Interest rate swaps | - | 100,040 | - | 100,040 |

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

**Condensed notes to the financial statements
for the half-year ended 31 December 2015**

8 Financial instruments (continued)

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

| | Book Value | Consolidated | | | Total |
|--------------------------------|------------|--------------|------------|---------|------------|
| | | Level 1 | Level 2 | Level 3 | |
| | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 |
| 31 December 2015 | | | | | |
| <u>Financial assets</u> | | | | | |
| Net loans and advances (i) | 18,418,350 | - | 18,411,593 | - | 18,411,593 |
| <u>Financial liabilities</u> | | | | | |
| Deposits and other borrowings: | | | | | |
| - Medium term notes (ii) | 1,028,497 | - | 1,030,698 | - | 1,030,698 |
| Subordinated debt (ii) | 332,588 | - | 330,436 | - | 330,436 |
| 30 June 2015 | | | | | |
| <u>Financial assets</u> | | | | | |
| Net loans and advances (i) | 17,763,317 | - | 17,871,157 | - | 17,871,157 |
| <u>Financial liabilities</u> | | | | | |
| Deposits and other borrowings: | | | | | |
| - Medium term notes (ii) | 998,279 | - | 1,002,670 | - | 1,002,670 |
| Subordinated debt (ii) | 332,344 | - | 334,460 | - | 334,460 |

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

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

9 Subsequent events

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