Victoria Teachers Mutual Bank
Invested in you

Annual Financial Report 2016

For the period ended 30 June 2016

Victoria Teachers Mutual Bank
Invested in you

2015/16
Financial Year Snapshot

Loans **$1.66b** (Annual change 7.38%)	**Deposits** **$1.96b** (Annual change 6.73%)	**Assets** **$2.16b** (Annual change 6.84%)
Profit after income tax **$15.1m** (Annual change 1.3%)	**Return on average assets** **0.72%**	**Customer base** **108,801** (Annual change 1.5%)

Chair's Report

Bernie Lloyd

How does our organisation decide whether it has had a successful year?

Firstly, and foremost, one can seek opinion from our customers. Are they telling us they are happy with our service and products? Are they encouraging others to bank with us? Are they advising consumer advocates that they rate us highly? Are they nominating us for awards? I'm proud to say that the answer to all of these questions is yes.

For the 2015/16 year our customer base has grown; our target was surpassed. Ratings by DBM Consumer Atlas (March 2016) had us as the third top financial institution in Australia in terms of consumers' willingness to promote us as a worthy institution. We were awarded two Mozo Experts' Choice Awards 2016 as well as the Mozo People's Choice Award – recognition for best financial value and customer satisfaction.

Financial metrics are another means by which we can measure our progress and growth. We can be proud of these results too. These are highlighted in our Annual Report but some key figures include total assets at $2.16b, after tax operating profit of $15.1m, return on assets (ROA) of 0.72% and growth in deposits to $1.96b and loans to $1.66b.

Yet, organisations like ours always need to consider their purpose, the why of their existence. Of course it is critical that we are seen as sound and successful in the banking sector but there is more to us than this. We have always been and always will be committed to the education community. We know that our dedication to and support for the most important arena in our society will help build community and, by association, strengthen our society.

Your Board plays a dual role of conformance (i.e. oversight of our processes, practices, policies and codes that need to be within current laws and standards) and performance (i.e. ensuring our strategy is driven by innovative and relevant long-term thinking and decision-making and that it benefits our customers, financially and socially). These are our main governance responsibilities.

As such, the Board itself is in a continuous cycle of review. As well as guiding strategy and adding value to the organisation where we can, we regularly examine what skills and competencies we need to realise our Mutual Bank's preferred future, and then audit our current capacities against this. In addition, we assess ourselves and each other, we ask for feedback from the executive management team, and we have engaged with an external reviewer to evaluate our contribution overall with a view to creating a future plan for each director to grow and develop. The synergy of this individual growth and its impact on Board progress will ensure your directors are able to help direct the Mutual Bank into its next stage.

Succession planning is an ongoing focus. We appointed a new director this year, Peter Wilson, who brings a breadth of experience and expertise to any dialogue. Our Board consists of seven directors who offer a diversity of specialist skills and who are united in their dedication to our underlying values at the heart of which is benefiting our customers. It is an honour to play a leadership role in a socially responsible customer based organisation.

Adding value to the education community is always affirmed when directors and our Relationship Officers visit schools around the state to present awards for our Teaching Initiatives Program. This year over $30,000 was distributed to 22 schools and preschools. Needless to say, the awards are given and received with gratitude.

As ever, our success lies in where we've come from, what we believe in, who we support and how effectively we run our organisation. I congratulate William Wolke and his staff for their continued achievements and thank my fellow directors for their wisdom and commitment.

CEO's Report

William Wolke

As foreshadowed in last year's report, the Mutual Bank has continued to invest in technology to enhance its digital suite and add further utility and convenience for you, our customers.

Our new Internet Banking, Mobile Banking and App platforms were made available in May 2016. The new platforms will allow us to further develop features to benefit customers going forward.

It is an age of heightened sensitivity regarding cyber security and the Mutual Bank carries out rigorous testing of its systems on an ongoing basis to ensure appropriate levels of defence and proactively protect our customers from data, privacy and cybersecurity threats.

Performance for 2016 has been strong across many criteria. As mentioned in the Chair's report advocacy levels from our customers remain high – amongst the highest for any banking institution in Australia. We thank you for your continued support and realise of course that we need to keep working hard to earn such support and trust.

In a highly competitive marketplace our financial outcomes have continued to be strong. Both lending and deposit growth has been good, with the quality of our lending evidenced by exceptionally low arrears and our deposit strength being supported by long term relationships. The profit has been achieved with an equal value being returned to customers in the form of advantageous interest rates, fees and service levels.

Strong financial foundations support the investment profile needed to continually improve the Mutual Bank and ride the troughs and peaks of economic cycles over the medium to long term. This is particularly true at the time of writing with Australia (and across the world) experiencing historically low interest rates and economic uncertainty.

Over the past year the Mutual Bank has developed relationships with selected mortgage brokers and will continue to do so. Care is taken when entering into these arrangements to ensure that there is good fit including culture and values.

Adding to our corporate social responsibilities, we now also provide governance and risk management advice to Traditional Credit Union in the Northern Territory. This is in the form of one of our executive management team sitting on the Board on a voluntary basis.

Our achievements are due to our dedicated staff who are the fabric of our culture and values which translates in value add service to our customers. We continue to provide a flexible, supportive workplace and invest in our people.

We are proud to be a caring, resilient and innovative organisation and it is a credit to the forty eight founding customers who started with $480 forty four years ago and made the first loan of $200 to assist a female customer secure a rental bond.

Once again, I thank and congratulate our customers, and our staff, directors and management for the results and achievements this year and the sustained track record of all these years without losing focus on our reason for being – to benefit customers.

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Corporate Information

Victoria Teachers Limited trading as Victoria Teachers Mutual Bank (the Mutual Bank) is an Australian company limited by shares and registered under the Corporations Act 2001. It is a mutual entity with the core purpose of benefitting its Members.

Members have two relationships with the Mutual Bank, as a customer and as an owner/shareholder. As customers, Members exercise choice through their selection of the products and services they believe best suit their individual needs. As owners and shareholders, Members have the right, and are encouraged, to participate as appropriate in determining the activities of the Mutual Bank.

A Member Share in the Mutual Bank is non-transferable and has no “traded value” (as in share price) but each Member has an equal and important vote in the governance of the Mutual Bank, no matter the extent of their customer relationship. Members and their communities share the benefits of ownership through competitive interest rates, fairer fees and premium service.

The Mutual Bank is an Authorised Deposit-taking Institution (ADI) supervised by the Australian Prudential Regulation Authority (APRA) under the Banking Act 1959. The Mutual Bank is also supervised by the Australian Securities & Investments Commission (ASIC) under the Corporations Act 2001, and holds an Australian Financial Services Licence and a Credit Licence.

Corporate Governance

The Board of Directors (the Board), the CEO and senior executives are committed to managing the Mutual Bank’s business ethically and maintaining high standards of corporate governance.

The Corporate Governance information outlined below generally describes the practices and processes adopted to ensure sound management of the Mutual Bank within the legal and regulatory framework it operates under.

The Mutual Bank is protected by the same safeguards that apply to all ADIs (including listed banks, credit unions, and building societies), and is regulated by the same authorities. The Mutual Bank and its related bodies corporate (the “Consolidated Entity”) acts in accordance with the laws, regulations, standards and codes applicable to it; seeks to adopt proper standards of business practice; and act with ethics and integrity.

Role of the Board

The Board has a formal Board Charter setting out its the role and responsibilities. The interests of Members are paramount to the Mutual Bank’s operations and the primary role of the Board is to protect and enhance long-term Member value.

In fulfilling this role, the Board is responsible for setting the overall governance framework of the Mutual Bank. This includes providing strategic guidance; establishing and monitoring the performance of the Mutual Bank against its objectives; ensuring the integrity of internal controls and information systems; and ensuring regulatory compliance; setting the Mutual Bank’s appetite and tolerance for risk; and maintaining sound financial and risk management systems oversight.

To assist in the execution of its responsibilities the Board has established a number of key committees, each with its own charter. Details of the various Board committees are outlined further in this report.

The Board has delegated responsibility for the day to day operations and management of the Mutual Bank to the CEO and the executive management team.

Board Composition

Board composition is determined in accordance with the Mutual Bank’s Constitution, regulatory requirements and the Board policy on Composition, Renewal and Succession.

The Constitution provides for the number of Directors which is a minimum of five and the Board may be comprised of both Member elected and Board appointed Directors. A majority of the Directors are required to be Member elected Directors.

Directors must satisfy the requirements of the Board’s ‘Responsible Persons - Position Eligibility Policy’ in compliance with APRA’s Prudential Standard CPS 520 Fit and Proper.

Corporate Governance

The names and details of Directors and the Company Secretary of the Mutual Bank in office at any time during or since the end of the financial year are:

	Names	Qualifications	Position
	**Bernadette Lloyd**	BA, DipEd, MEd, Dip Financial Services (AMI), GAICD - Director since 2011	Chair, Non-Executive Director
	**Graeme Willis**	FAICD, FCIBS, SF Fin - Director since 2013	Deputy Chair, Non-Executive Director
	**Karen Starr**	PhD, MEd, BEd, DipT (Sec), FAICD, FACEL, FACE, FIEDRC Director since 2006	Non-Executive Director
	**Michael Monester**	LLB, B. Juris., FAICD - Director since 2010	Non-Executive Director
	**David Temple**	B.Ec , FAIM, FAICD Director since 2010	Non-Executive Director
	**Joanne Dawson**	B.Comm, MBA, Dip FP, CA, CFP, GAICD Director since 2014	Non-Executive Director
	**Peter Wilson**	B. Comm, MA, FCPA, FAICD, FAHRI, FCIPD (UK) Director since June 2016	Non-Executive Director
	**Company Secretary** **Elsbeth Torelli**	FIPA, SA Fin, FAMI, AFAIM, MAICD	Executive Manager - Risk & Governance

Director Independence

It is the policy of the Mutual Bank that the Chair of the Board and a majority of the Directors are independent, Non-Executive Directors. In assessing independence the Board considers whether any Director has relationships that would materially affect their ability to exercise unfettered and independent judgment in looking after the interests of the Mutual Bank and its Members. In this regard, and more broadly, the Mutual Bank complies with APRA's Prudential Standard CPS 510 Governance.

The Board's renewal and succession processes support the maintenance of a majority of independent, non- executive directors.

There are procedures in place to enable the Board collectively, and each Director individually, to seek independent professional advice at the Mutual Bank's expense to assist them carry out their responsibilities.

Conflicts of Interest

In accordance with the Corporations Act 2001, Directors must keep the Board advised of any interest that could potentially conflict with the interests of the Mutual Bank. The Board has developed guidelines to assist Directors in disclosing actual or potential conflicts of interest.

Transactions between Directors and the Mutual Bank are subject to the same terms and conditions that apply to Members.

Executive Management, the Company Secretary and other key employees are also required to declare any interests that could potentially conflict with the interests of the Mutual Bank.

Corporate Governance

Diversity and Non-discrimination

The Board recognises that diversity of perspectives promotes understanding, and ultimately leads to business success. Managing and respecting diversity makes the Mutual Bank responsive, productive and competitive, which creates value for its Members.

It is the policy of the Mutual Bank to treat all Members, employees, prospective employees, agents, contractors, and suppliers fairly, equally and in a non-discriminatory or non-harassing manner, and to value diversity.

The Mutual Bank recognises and embraces the diverse skills, experience, backgrounds and perspectives that people bring to the organisation irrespective of their gender or marital status, origin, ethnicity, culture, disability, age, sexual orientation, industrial activities, political and/or religious beliefs.

During the year in accordance with the requirements of the Workplace Gender Equality Act 2012 (Act), the Mutual Bank lodged its annual compliance report with the Workplace Gender Equality Agency (Agency).

Provided in the report was information such as the gender composition of the workforce and the Board, and the formal policies and strategies in place that specifically support equality in the Mutual Bank.

The Mutual Bank has been assessed as compliant with the requirements under the Act.

Ethical Standards

The Board has adopted a Code of Conduct to guide the Directors in ethical and responsible decision making, and in recognising their legal and other obligations to stakeholders. All Directors, managers and staff are expected to act with the utmost honesty and integrity at all times, in accordance with the values of the Mutual Bank.

The Board has also agreed that the Mutual Bank be bound by the Customer Owned Banking Code of Practice which sets down principles by which the Mutual Bank deals with its Members and keeps them informed of the services available, fees, and other relevant information. As part of this Code, the Mutual Bank has implemented procedures for resolving complaints from Members, and where necessary, refer disputes to an independent arbiter, the Financial Ombudsman Service.

Qualifications & Training

The Mutual Bank's Constitution outlines the minimum qualifications required in order to be a Director, which include:

- The Australian Institute of Company Directors (AICD), Company Directors Diploma Course; or
- A qualification issued by a registered training organisation, university or other higher education institution, or a professional or industry association relevant to the mutual Authorised Deposit-taking sector that is assessed by the Directors as satisfying the competencies for a Director of a mutual Authorised Deposit-taking Institution.

Details of Directors' qualifications are reported in the table on page 2.

In addition, the Board has a strong commitment to continuous improvement through:

- New Directors, managers and staff undergoing a formal induction program; and
- Directors, managers and staff undertaking relevant and appropriate training and professional development programs.

Board Renewal and Succession

The Board maintains a Composition, Renewal and Succession Policy to ensure that the composition of the Board is appropriate to the circumstances of the Mutual Bank; and that the Mutual Bank has in place appropriate Board renewal and succession arrangements.

Board and Director Performance Evaluations

The Board is committed to continuous improvement and undertakes performance evaluations of the Board, key Board committees and of individual Directors.

The Mutual Bank complies with APRA Prudential Standards CPS 510 Governance and CPS 520 Fit and Proper which require that those responsible for the management and oversight of an Authorised Deposit-taking Institution (Responsible Persons) have the appropriate skills, experience and knowledge and that they act with honesty and integrity. The eligibility of Responsible Persons which includes Directors and Senior Executives must generally be assessed prior to their initial appointment and then re-assessed annually.

Director Remuneration

Remuneration for Directors is determined by the Board as approved by Members at a General Meeting. The pool of approved remuneration funds is allocated to each Director in accordance with their specific role and responsibilities.

The Board has approved a Remuneration Policy and the remuneration of the Directors, the CEO and Executive Managers is overseen by the Remuneration Committee.

Further information in relation to the remuneration of Directors, the CEO and Executive Managers (those persons determined to be Key Management Personnel) is contained in the notes to the financial statements.

Corporate Governance

Controlled entities

The activities of controlled entities in the Mutual Bank group are overseen by the Mutual Bank's Board and by their own Board of Directors, who are drawn from the Mutual Bank's Board and Executive Management. The entities operate within the Mutual Bank's governance framework.

Constitution, Board and Committee Charters, and Policies

The Board operates in accordance with the Mutual Bank's Constitution, a comprehensive policy framework, a Board Charter, and Committee charters.

Copies of the following are available on the Mutual Bank's website at victeach.com.au:

- Constitution;
- Board Charter;
- Governance Committee Charter;
- Nominations Committee Charter;
- Remuneration Committee Charter;
- Risk & Compliance Committee Charter
- Audit Committee Charter; and
- Responsible Officers - Position Eligibility Policy.

Board Committees

At all times the Board retains full responsibility for oversight of the Mutual Bank's operations, and in order to more effectively discharge its governance responsibilities, the Board makes use of committees.

Specialist committees are able to focus on particular responsibilities and provide informed feedback to the Board.

In brief, the composition and role of the established Board Committees as at the end of the financial year were:

Audit Committee

Consists of Directors: David Temple (Chairperson), Graeme Willis, Joanne Dawson and Peter Wilson.

The role of the Audit Committee is to provide the Board with an objective view of; the effectiveness and integrity of the financial reporting and prudential reporting framework, internal and external audit assurance processes and performance, and the overall internal control framework.

Risk & Compliance Committee

Consists of Directors: Graeme Willis (Chairperson), Karen Starr, David Temple, and Peter Wilson.

The Risk & Compliance Committee's role is to assist the Board in the oversight, monitoring and review of the risk management framework including risk management policies, strategies, systems and processes. The Committee also reviews and monitors the compliance management framework covering compliance with statutory and prudential obligations.

Governance Committee

Consists of Directors: Michael Monester (Chairperson), Bernadette Lloyd and Joanne Dawson;

The Governance Committee assists the Board in the discharge of its responsibilities by developing, reviewing and making recommendations on governance policies, practices and processes; and Board engagement, representation and interaction with Members and stakeholders .

Nominations Committee

Consists of Directors: Bernadette Lloyd (Chairperson), Karen Starr, and Graeme Willlis.

The Nominations Committee is responsible for ensuring that candidates standing for election or appointment to the Board meet the requirements of the Constitution, APRA prudential requirements and the Mutual Bank's Responsible Persons - Position Eligibility Policy.

Remuneration Committee

Consists of Directors: Bernadette Lloyd (Chairperson), Michael Monester, and Graeme Willis.

The Remuneration Committee assists the Board in fulfilling its obligations and responsibilities with respect to the effective management of and adherence to APRA's requirements.

Corporate Citizenship

The Mutual Bank seeks to be a trusted and responsible corporate citizen, through initiatives to reduce its impact on the environment and give back to the education community, and by being a responsible lender and basing pricing on a fair exchange between the Mutual Bank and Members.

Member Communication

Part of the Mutual Bank carrying out its responsibility to act in the best interests of its Members is the need to provide relevant and timely information.

Members have access to information in relation to the Mutual Bank through the Slate and eSlate newsletters, the Annual Financial Report, the Chair's and CEO's addresses to the Annual General Meeting, the Mutual Bank's website, and by providing other contact points for Members to make enquiries with the Mutual Bank.

The Board receives regular reports detailing information on Member satisfaction and complaints received from Members. The Board also receives reports on the results of Customer Insight Surveys .

Corporate Governance

Whistleblower Protection

The Mutual Bank has established a Fraud & Whistleblowing Policy aimed at providing a safe environment for employees and Directors to voice genuine concerns in relation to legislative, regulatory and code breaches, financial misconduct, impropriety, fraud and criminal activity.

Privacy

The Mutual Bank places great importance on the confidentiality of our Members' personal information. We take steps to ensure that Member information is not disclosed to, or accessed by, unauthorised persons, and that we comply with the Australian Privacy Principles and the Credit reporting Code of Conduct.

The Mutual Bank's Privacy Policy is available on its website.

Compliance Program

The Mutual Bank has a comprehensive Board approved Compliance Management Program in support of:

- The Mutual Bank's Australian Financial Services Licence and Australian Credit Licence obligations;
- The Customer Owned Banking Code of Practice and other relevant industry codes;
- Corporate compliance policies and procedures; and
- Statutory and regulatory requirements.

Risk Management

The Board has determined the Mutual Bank's appetite and tolerance for risk after taking into account strategic objectives and other factors including Member expectations, financial and capital requirements, external conditions, organisational culture and the Mutual Bank's experience or demonstrated capacity in managing risks.

The Board has adopted a Risk Management Strategy and ensures material risks facing the Mutual Bank have been identified and that appropriate and adequate mitigation actions, policies, controls, monitoring and reporting mechanisms are in place.

The Board accepts its responsibilities to ensure that the Directors collectively have the necessary skills, knowledge and experience to understand the risks of the Mutual Bank, including its legal and prudential obligations; and to ensure that the Mutual Bank is managed in an appropriate way taking into account these risks.

Internal and External Audit

The Internal Audit function provides an independent assurance function. The internal audit plan is approved by the Audit Committee. The Manager Internal Audit reports to the Chair of the Audit Committee, and to the CEO for day- to-day operational issues as appropriate.

The external audit firm is Ernst & Young. The appointed external audit partner is required to be independent and meet APRA's Fit & Proper prudential standard. The external auditor has access to the Audit Committee and the Risk & Compliance Committee. The external audit engagement contributes to the integrity of the financial reporting, fulfills the role and responsibilities of the auditor appointed under APRA Prudential Standard APS 310 Audit & Related Matters, and auditing for the purposes of the Corporations Act.

Corporate Governance

Directors Meetings

The number of Board meetings (including meetings of Committees of the Board) and number of meetings attended by each Director during the financial year were:

	Board meetings		Strategic Interface Sessions		Governance Committee	
	A	B	A	B	A	B
Bernadette Lloyd	12	12	3	3	4	4
Graeme Willis	12	11	3	2	4	2
Karen Starr	12	11	3	3	-	-
Michael Monester	12	12	3	3	4	4
David Temple	12	10	3	3	-	-
Joanne Dawson	12	10	3	3	-	-
Peter Wilson*	1	1	1	1	-	-

	Risk & Compliance Committee		Audit Committee		Remuneration Committee	
	A	B	A	B	A	B
Bernadette Lloyd	6	6	4	4	2	2
Graeme Willis	6	6	4	4	2	1
Karen Starr	6	5	4	3	-	-
Michael Monester	-	-	-	-	2	2
David Temple	6	6	4	4	-	-
Joanne Dawson	5	3	4	3	-	-
Peter Wilson*	-	-	-	-	-	-

	Executive Committee	
	A	B
Bernadette Lloyd	4	3
Graeme Willis	4	3
Karen Starr	-	-
Michael Monester	1	1
David Temple	-	-
Joanne Dawson	-	-
Peter Wilson*	-	-

A - Number of meetings directors eligible to attend in their capacity as a member of the Board or respective Board Committee.
B - Number of Board and Board Committee meetings attended by directors in their capacity as a member.

*Appointed June 2016.
Strategy Committee and Executive Committee were discontinued effective October 2015. Board Advocacy Committee functions merged with the Governance Committee effective October 2015

Executive Management

William Wolke B.Acc., CA (SA), MBA, FAMI, MAICD
Chief Executive Officer

William Wolke has been the Chief Executive Officer of the Mutual Bank since 2002 and has more than thirty years experience in financial services, both in Australia and South Africa. The Mutual Bank has become a progressive and multiple award winning modern organisation in its chosen market under his leadership. His career has included general management and director appointments in a mutual building society, retail and commercial banking, financial planning, as well as leadership roles in management consulting and the accounting professions. William has been on the Board of the Customer Owned Banking Association, the industry body representing the Australian mutual sector, since 2009.

Adam Alsbury B.Bus (Mkt), MBA, AMAMI (CPM), FAMI, FAICD
Executive Manager - Strategy & Marketing

Adam Alsbury joined Victoria Teachers Mutual Bank in 2000 and was appointed to the Executive Management team in 2007. He has experience in marketing, business development, e-business and business strategy in the software and financial services industries and over 20 years of service in emergency and community services in both a volunteer and professional capacity.

Adam completed a Masters of Business Administration at Melbourne Business School and is a Fellow of the Australasian Mutuals Institute and the Australian Institute of Company Directors. Adam is also recognised as a Certified Practicing Marketer (the peak professional benchmark for marketers) by the Australian Marketing Institute.

Glenn Borg B.Bus, CAHRI, A Fin, GAICD
Executive Manager - People & Culture

Glenn Borg joined the Mutual Bank in October 2007. He leads the People & Culture function and has experience in human resources and people management, with particular strengths and expertise in employee and industrial relations, workforce planning, occupational health and safety and organisation development. His formal qualifications are supported by his membership of the Australian Human Resources Institute and Financial Services Institute of Australia.

David Percival B.Bus (Accounting), CPA, MBA, GAICD
Executive Manager - Finance

David Percival joined the Mutual Bank in July 2002 and has over 28 years experience within the financial services industry. He is responsible for leading the finance function which includes accounting, treasury, credit control and transaction operations. David has been a CPA for over 15 years and completed an MBA at Deakin University in 2005.

Mark Thomson MIT., Grad Cert IS
Executive Manager - Technology

Mark Thomson has managed the Information Technology function at the Mutual Bank since 2004. He has more than 20 years experience in the financial services sector in areas of Information Technology operations, digital technologies, project management, risk management and strategic planning.

Elsbeth Torelli FIPA, SA Fin, FAMI, AFAIM, MAICD
Executive Manager - Risk & Governance

Elsbeth Torelli joined the Mutual Bank in October 1983 and is responsible for implementing and managing the risk, compliance and governance strategies and frameworks of the Mutual Bank, and is the designated Chief Risk Officer and also the Company Secretary. She has previously held other executive management and management positions within the organisation. Elsbeth is actively involved in the Customer Owned Banking sector as a national Director of the Australasian Mutuals Institute Ltd (trading as Instil), a Director of Traditional Credit Union Ltd, and Chair of the Executive Committee for the Australian Mutuals Investment Trust.

Justine Ward B.Bus (Banking & Finance), Grad Dip – AFI, Grad Cert – OD
Executive Manager - Sales & Service

Justine Ward joined the Mutual Bank in September 2014 and is responsible for the areas of Lending, Insurance, Financial Planning, Member Service Centres and the Member Contact Centre. Justine has a strong background in the banking and finance sector and strengths in strategic environments, change management, sales and enhancing the customer experience.

Directors' report

Your Directors submit their report for the year ended 30 June 2016.

Principal activities

During the financial year there were no significant changes to the principal activities of the Consolidated Entity, these being the provision of deposit taking facilities, credit facilities and related financial services to assist the economic and social wellbeing of Members.

Review of Operations

The net profit after related income tax expense of the Mutual Bank was $16.103m (2015: $14.966m). The consolidated net profit after related income tax expense for the Consolidated Entity was $15.099m (2015: $14.896m).

A detailed review of operations of the Mutual Bank during the period is contained in the Chair's and Chief Executive Officer's Reports.

Dividends

No dividends have been paid or declared on Member shares by the Mutual Bank since the end of the previous financial year. Dividends of $111k (2015: $117k) were paid during the year for issued non-voting Tier 1 preference shares - refer Note 19.

Significant changes in the state of affairs

In the opinion of the Directors, there have been no significant changes in the state of affairs of the Consolidated Entity that occurred during the financial year under review.

Employees

The Consolidated Entity at reporting date employed 226 employees as at 30 June 2016 (2015: 217).

Auditor independence and Audit Services

The Directors received the declaration from the Auditors of the Mutual Bank and this is presented on page 10 of the Annual Report and forms part of this Directors' Report.

Indemnification and Insurance of Directors and Officers

The Mutual Bank has paid premiums in respect of Directors and Officers Liability insurance and associated legal expenses insurance. Disclosure of the nature of the liabilities or the amount of the premium paid in respect of the Directors and Officers liability and legal expenses insurance contracts, is prohibited under the terms of the contract.

Indemnification of auditors

To the extent permitted by law, the Mutual Bank has agreed to indemnify its auditors, Ernst & Young, as part of the terms of its audit engagement agreement, against claims by third parties arising from the audit (for an unspecified amount). No payment has been made to indemnify Ernst & Young during or since the financial year.

Events Subsequent to Balance Date

There are no transactions or events of a material nature likely, in the opinion of the Directors, to affect significantly the operations of the Consolidated Entity, the results of those operations, or the state of affairs of the Consolidated Entity, in subsequent financial years.

Likely developments

The Mutual Bank will continue to pursue its mission to benefit Members through advice, relationships and services, and will strive to achieve sustainable growth in its operations.

Disclosure of information relating to future developments in the operations of the Mutual Bank, which is not prejudicial to the economic interests of the Mutual Bank is contained in the Chair's and Chief Executive Officer's Reports presented separately in the Annual Review.

Directors' Interests and Benefits

During or since the end of the financial year no Directors have received or become entitled to any benefits (other than a benefit included in the aggregate amount of remuneration received or due and receivable by Directors shown in the accounts) from a contract between the Mutual Bank and themselves, their firm or a company in which they have a substantial interest.

Directors' benefits are included in Note 23.

Rounding

The amounts contained in the financial report have been rounded to the nearest $1,000 (where rounding is applicable) where noted ($000) under the option available to the Mutual Bank under ASIC Corporations Instrument 2016/191. The Mutual Bank is an entity to which the class order applies.

BRLloyd

Bernadette Lloyd
Chair

Melbourne
20 September 2016

Building a better working world

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Auditor's Independence Declaration to the Directors of Victoria Teachers Limited

As lead auditor for the audit of Victoria Teachers Limited for the financial year ended 30 June 2016, I declare to the best of my knowledge and belief, there have been:

a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Victoria Teachers Limited and the entities it controlled during the financial year.

Ernst + Young

Ernst & Young

Brett Kallio

Brett Kallio
Partner
Melbourne

20 September 2016

Directors' declaration

In accordance with a resolution of the Directors of Victoria Teachers Ltd trading as Victoria Teachers Mutual Bank (the Mutual Bank), I state that:

In the opinion of the Directors of the Mutual Bank:

(a) The financial statements and notes of the Mutual Bank and of the Consolidated Entity are in accordance with the Corporations Act 2001, including:

(i) Giving a true and fair view of the Mutual Bank's and the Consolidated Entity's financial position as at 30 June 2016 and of its performance for the year ended on that date; and

(ii) Complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001; and

(b) The financial statements and notes also comply with International Financial Reporting Standards as disclosed in Note 1; and

(c) There are reasonable grounds to believe that the Mutual Bank will be able to pay its debts as and when they become due and payable.

On behalf of the Board

BRLloyd

Bernadette Lloyd
Chair

Melbourne
20 September 2016

Statement of Comprehensive Income

For the year ended 30 June 2016

		Mutual Bank		Consolidated Entity	
	Notes	**2016 $000's**	**2015 $000's**	**2016 $000's**	**2015 $000's**
Interest income	2(a)	90,479	95,401	88,951	93,836
Interest expense	2(b)	41,779	48,763	41,749	48,725
Net interest income		**48,700**	**46,638**	**47,202**	**45,111**
Other operating income	2(c)	11,383	11,276	12,175	11,798
Net operating income before expenses		**60,083**	**57,914**	**59,377**	**56,909**
Less					
Salaries and related expenses		22,177	20,475	22,177	20,475
Member access and statement expenses		6,445	5,952	6,445	5,952
Administration expenses		4,352	3,706	4,377	3,732
Depreciation and amortisation expense		1,222	1,132	2,322	2,252
Information technology costs		2,695	2,346	2,695	2,347
Occupancy expenses		3,045	3,023	919	847
Marketing expenses		1,449	1,198	1,449	1,198
Charge for loan impairment	7(d)	291	164	291	164
Total operating expenses		**41,676**	**37,996**	**40,675**	**36,967**
Fair value revaluation gain on land and buildings and related assets	9, 10	3,157	1,298	2,781	1,298
Profit for the year before income tax		**21,564**	**21,216**	**21,483**	**21,240**
Income tax expense	3	5,461	6,250	6,384	6,344
Net profit for the year		**16,103**	**14,966**	**15,099**	**14,896**
Other comprehensive income					
Items that will not be reclassified to profit or loss					
Net fair value revaluation gain/loss on property, plant and equipment	2(d)	38	579	38	579
Items that will be reclassified subsequently to profit or loss					
Net gains/(losses) on cash flow hedges taken to equity	16	12	(1,000)	12	(1,000)
Total other comprehensive income		**50**	**(421)**	**50**	**(421)**
Total comprehensive income for the year		**16,153**	**14,545**	**15,149**	**14,475**

The above statement of comprehensive income should be read in conjunction with the accompanying notes.

Statement of Financial Position

As at 30 June 2016

		Mutual Bank		Consolidated Entity	
	Notes	2016 $000's	2015 $000's	2016 $000's	2015 $000's
Assets					
Financial assets:					
Cash and cash equivalents	4	47,807	21,918	47,807	21,918
Trade and other receivables	5	2,524	3,653	2,596	3,723
Held-to-maturity investments	6	405,649	409,074	405,649	409,074
Loans and advances	7	1,660,355	1,546,178	1,660,355	1,546,178
Due from controlled entities	8	30,086	30,924	-	-
Other investments	9	4,087	844	686	666
Property, plant and equipment	10	6,058	5,909	38,167	36,312
Intangible assets	11	2,021	1,164	2,021	1,164
Deferred tax assets	12	2,830	2,734	3,658	3,681
Prepayments		229	221	273	266
Total Assets		**2,161,646**	**2,022,619**	**2,161,212**	**2,022,982**
Liabilities					
Financial liabilities:					
Deposits	13	1,959,081	1,835,179	1,957,289	1,833,916
Trade and other payables	14	12,098	13,536	12,174	13,615
Subordinated debt	15	2,000	2,000	2,000	2,000
Derivative financial instruments	16	1,836	1,862	1,836	1,862
Income tax payable		356	333	418	399
Provisions	17	4,390	3,862	4,390	3,862
Deferred tax liabilities	12	517	619	1,292	651
Total Liabilities		**1,980,278**	**1,857,391**	**1,979,399**	**1,856,305**
Net Assets		**181,368**	**165,228**	**181,813**	**166,677**
Equity					
Redeemable Preference Shares	18	3,000	2,902	3,000	2,902
Reserves		178,368	162,326	178,813	163,775
Total Equity		**181,368**	**165,228**	**181,813**	**166,677**

The above statement of financial position should be read in conjunction with the accompanying notes.

Statement of Changes in Equity

For the year ended 30 June 2016

Mutual Bank	Issued preference shares	General reserve	Asset revaluation reserve	Reserve for credit losses	Share redemption reserve	Cash flow hedge reserve	Total
	$000's	$000's	$000's	$000's	$000's	$000's	$000's
As at 1 July 2014	**2,902**	**139,522**	**2,934**	**5,371**	**330**	**(259)**	**150,800**
Profit for the period	-	14,966	-	-	-	-	14,966
Other comprehensive income	-	-	579	-	-	(1,000)	(421)
Total comprehensive income	**-**	**14,966**	**579**	**-**	**-**	**(1,000)**	**14,545**
Transfer to share redemption reserve	-	(25)	-	-	25	-	-
Transfer to reserve for credit losses	-	159	-	(159)	-	-	-
Dividends paid/payable	-	(117)	-	-	-	-	(117)
At 30 June 2015	**2,902**	**154,505**	**3,513**	**5,212**	**355**	**(1,259)**	**165,228**
As at 1 July 2015	**2,902**	**154,505**	**3,513**	**5,212**	**355**	**(1,259)**	**165,228**
Profit for the period	-	16,103	-	-	-	-	16,103
Other comprehensive income	-	-	38	-	-	12	50
Total comprehensive income	**-**	**16,103**	**38**	**-**	**-**	**12**	**16,153**
Share issue costs expensed	98	-	-	-	-	-	98
Transfer to share redemption reserve	-	(23)	-	-	23	-	-
Transfer to reserve for credit losses	-	(930)	-	930	-	-	-
Dividends paid/payable	-	(111)	-	-	-	-	(111)
At 30 June 2016	**3,000**	**169,544**	**3,551**	**6,142**	**378**	**(1,247)**	**181,368**
Consolidated Entity							
As at 1 July 2014	**2,902**	**141,041**	**2,934**	**5,371**	**330**	**(259)**	**152,319**
Profit for the period	-	14,896	-	-	-	-	14,896
Other comprehensive income	-	-	579	-	-	(1,000)	(421)
Total comprehensive income	**-**	**14,896**	**579**	**-**	**-**	**(1,000)**	**14,475**
Transfer to share redemption reserve	-	(25)	-	-	25	-	-
Transfer to reserve for credit losses	-	159	-	(159)	-	-	-
Dividends paid/payable	-	(117)	-	-	-	-	(117)
At 30 June 2015	**2,902**	**155,954**	**3,513**	**5,212**	**355**	**(1,259)**	**166,677**
As at 1 July 2015	**2,902**	**155,954**	**3,513**	**5,212**	**355**	**(1,259)**	**166,677**
Profit for the period	-	15,099	-	-	-	-	15,099
Other comprehensive income	-	-	38	-	-	12	50
Total comprehensive income	**-**	**15,099**	**38**	**-**	**-**	**12**	**15,149**
Share issue costs expensed	98	-	-	-	-	-	98
Transfer to share redemption reserve	-	(23)	-	-	23	-	-
Transfer to reserve for credit losses	-	(930)	-	930	-	-	-
Dividends paid/payable	-	(111)	-	-	-	-	(111)
At 30 June 2016	**3,000**	**169,989**	**3,551**	**6,142**	**378**	**(1,247)**	**181,813**

The above statement of changes in equity should be read in conjunction with the accompanying notes.

Statement of Cash Flows

As at 30 June 2016

		Mutual Bank		Consolidated Entity	
	Notes	2016 $000's	2015 $000's	2016 $000's	2015 $000's
Cash flows from operating activities					
Inflows					
Interest received		91,599	95,630	90,071	94,067
Dividends received		20	20	20	20
Bad debts recovered		20	20	20	20
Other operating income		12,709	12,358	13,839	13,156
Total inflows		**104,348**	**108,028**	**103,950**	**107,263**
Outflows					
Interest paid		(43,310)	(49,565)	(43,280)	(49,537)
Salaries and related expenses		(21,649)	(20,220)	(21,649)	(20,220)
Other payments in the course of operations		(19,562)	(15,751)	(17,735)	(14,056)
Income taxes paid		(5,653)	(8,333)	(5,720)	(8,376)
Total outflows		**(90,174)**	**(93,869)**	**(88,384)**	**(92,189)**
Net cash flows from operating activities	**20**	**14,174**	**14,159**	**15,566**	**15,074**
Cash flows from investing activities					
Net increase in loans		(114,488)	(60,115)	(114,488)	(60,115)
Net movement in investments		3,425	(73,212)	3,425	(73,212)
Payments for property, plant and equipment	10	(1,108)	(1,188)	(1,133)	(1,415)
Proceeds from sale of property, plant and equipment		279	218	279	218
Net decrease/(increase) in loans due from controlled entities		838	841	-	-
Payments for intangible assets		(1,347)	(742)	(1,347)	(742)
Net cash flows used in investing activities		**(112,401)**	**(134,198)**	**(113,264)**	**(135,266)**
Cash flows from financing activities					
Net increase in deposits		124,227	87,459	123,698	87,612
Dividends paid	19	(111)	(117)	(111)	(117)
Net cash flows from financing activities		**124,116**	**87,342**	**123,587**	**87,495**
Net increase/(decrease) in cash and cash equivalents		25,889	(32,697)	25,889	(32,697)
Cash and cash equivalents at the beginning of the period		21,918	54,615	21,918	54,615
Cash and cash equivalents at the end of the period	**4**	**47,807**	**21,918**	**47,807**	**21,918**

The above statement of cash flows should be read in conjunction with the accompanying notes.

Notes to the financial statements

For the year ended 30 June 2016

Contents of the notes to the financial statements

Notes to the financial statements

For the year ended 30 June 2016

1. Summary of significant accounting policies

The significant accounting policies that have been adopted in the preparation of the financial statements have been applied consistently to all periods and have been applied consistently by the consolidated entity.

(a) Basis of preparation

The financial report is a general purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001, Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board. The financial report has been prepared on a historical cost basis, except for land and buildings and derivatives, which have been measured at fair value.

The financial report is presented in Australian dollars and all values are rounded to the nearest thousand dollars ($'000) unless otherwise stated.

(b) Statement of compliance

The financial report complies with Australian Accounting Standards and International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

No new or amended standards or interpretations that apply to the current financial year have caused a need for significantly altering the accounting policies of the Consolidated Entity.

Future Accounting Developments:

Australian Accounting Standards and interpretations that have recently been issued or amended but are not yet effective and have not been adopted by the Consolidated Entity for the annual reporting period ended 30 June 2016, are set out below together with an assessment of the impact of these new standards and interpretations (to the extent relevant to the Consolidated Entity):

AASB 9 "Financial Instruments" amends the classification, measurement and impairment of financial instruments and general hedge accounting requirements. AASB 9 is not mandatory until 1 July 2018 and replaces AASB 139. AASB 9 includes requirements for a simpler approach for classification and measurement of financial assets compared with the requirements of AASB 139. Whilst these changes are expected to have no material impact on current accounting practices, some changes in processes will be required.

AASB 15 "Revenue from Contracts with Customers" contains new requirements for the recognition of revenue and additional disclosures. AASB 15 is not mandatory until 1 July 2017. These changes are not expected to have a material impact upon current accounting practices.

AASB 16 "Leases" replaces AASB 117 "Leases" standard and is operative for financial reporting periods beginning on or after 1 January 2019. It has made significant changes to lease accounting that will see all leases, except short term (<12 months) and low value, brought on balance sheet. These changes are not expected to have a material impact upon current accounting practices.

(c) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Mutual Bank, its subsidiaries (Note 9) and special purpose entities as at 30 June each year (the Consolidated Entity). The Mutual Bank also includes the Victoria Teachers Trust Series 2012-1 (the "Series").

The financial statements of the subsidiaries are prepared for the same reporting period as the Mutual Bank, using consistent accounting policies.

In preparing the consolidated financial statements, all intercompany balances and transactions and profits and losses resulting from intra-group transactions have been eliminated in full.

Investments in subsidiaries held by the Mutual Bank are accounted for at cost in the separate financial statements of the parent entity less any impairment charges. Dividends, if applicable, received from subsidiaries are recorded as a component of other revenues in the separate income statement of the parent entity, and do not impact the recorded cost of the investment. Upon receipt of dividend payments from subsidiaries, the parent will assess whether any indicators of impairment of the carrying value of the investment in the subsidiary exist. Where such indicators exist, to the extent that the carrying value of the investment exceeds its recoverable amount, an impairment loss is recognised.

Subsidiaries are fully consolidated from the date on which control is obtained by the Consolidated Entity and cease to be consolidated from the date on which control is transferred out of the Consolidated Entity.

Residential Mortgage Securitisation Programs:

The Consolidated Entity engages in a securitisation program with the Victoria Teachers Trust Series 2012-1. The principal activity of the Victoria Teachers Trust Series 2012-1 is to act as a securitisation Special Purpose Entity for the purpose of liquidity contingency for the Mutual Bank.

Securitisation provides the Consolidated Entity the option to liquefy a pool of assets and increase its funding capacity. Where the Mutual Bank has continuing involvement with securitisation vehicles, through on-going exposure to the risks and rewards associated with the assets (e.g. due to subscription

Notes to the financial statements

For the year ended 30 June 2016

of issued notes), the originated assets remain recognised on the balance sheet of the Mutual Bank for accounting purposes.

(d) Significant accounting judgements, estimates and assumptions

The preparation of the financial statements requires Management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, revenue and expenses. The judgements and estimates are based on historical experience and other various factors believed to be reasonable under the circumstances, the results of which form the basis of the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions and conditions.

Management has identified critical accounting policies for which significant judgements, estimates and assumptions are made, information about which is included in the following notes:

- Note 1(j) - Provision for Impairment of loans and advances; and
- Note 1(l) - Revaluation of land and buildings.

(e) Revenue recognition

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

Interest income:

Revenue is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

Interest receivable is included in the amount of trade and other receivables in the statement of financial position.

Interest earned on loans is calculated and accrued on the daily outstanding balance and is charged to a Member's loan on the last day of each month.

Loan establishment fees (or fee discounts) are initially deferred as part of the loan balance, and are amortised as income (or expense) over the expected life of the loan. The amortised amounts are included as part of interest income.

Other income:

Other income is recognised when the Consolidated Entity's right to receive payment is established.

(f) Leases

Leases are classified as either a finance lease or an operating lease. Under a finance lease, substantially all the risks and rewards incidental to legal ownership are transferred to the lessee. Under an operating lease, these risks remain with the lessor. Determining whether a lease agreement is a finance or an operating lease requires judgement on various aspects that include the fair value of the leased asset, the economic life of the leased asset, whether or not to include renewal options in the lease term and determining an appropriate discount rate to calculate the present value of the minimum lease payments. The Consolidated Entity currently only engages in operating leases.

As lessee

Operating lease rentals are charged to the income statement on a straight-line basis over the term of the lease. When an operating lease is terminated before the end of the lease period, any payment made to the lessor by way of penalty is recognised as an expense in the income statement in the period of termination. Lease incentives received are recognised as a reduction of lease expense on a straight-line basis over the lease term.

As lessor

Assets leased under operating leases are included within property, plant and equipment at cost and depreciated over the life of the lease after taking into account anticipated residual values. Operating lease rental income is recognised within other operating income in the income statement on a straight-line basis over the life of the lease. Depreciation is recognised within the income statement consistent with the nature of the asset.

(g) Income tax and other taxes

Income tax on the statement of comprehensive income for the year comprises current and deferred tax.

The income tax expense (Note 3) is based on the profit for the year adjusted for any non-assessable or non-deductible items. It is calculated, using tax rates enacted or substantively enacted at the balance date.

Deferred tax (Note 12) is recognised using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or liability is settled. Deferred tax is credited

Notes to the financial statements

For the year ended 30 June 2016

in the Statement of Financial Performance except where it relates to items that may be credited directly to equity, in which case the deferred tax is adjusted directly against equity.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Tax consolidation:

The Mutual Bank and its subsidiaries participate in a tax consolidation group. The Mutual Bank is liable for any tax payable on behalf of its subsidiaries. However, the subsidiaries are generally required under UIG Interpretation 1052 Tax Consolidation Accounting to recognise their income tax expense and deferred taxes in their annual report and to report the current tax liability to the Mutual Bank as a contribution of equity by the Mutual Bank. The Mutual Bank reports the income tax payable as additional contributions of equity and increases the Mutual Bank's investment in the subsidiaries - refer to Note 9.

Goods and services tax:

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST is not recoverable from the Australian Tax Office (ATO). In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of expense.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the ATO is included as a part of receivables or payables in the Statement of Financial Position.

Cash flows are included in the Statement of Cash Flows on a gross basis and the GST components of the cash flows arising from investing and financing activities that are recoverable from, or payable to, the ATO are classified as operating cash flows.

(h) Cash and cash equivalents

Cash and cash equivalents in the Statement of Financial Position comprise cash at bank and in hand and deposits at call which are readily converted to cash and which are subject to an insignificant risk of change in value.

For the purposes of the statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of any outstanding bank overdrafts.

Cash and cash equivalents are carried at amortised cost in the Statement of Financial Position.

(i) Valuation of financial instruments

Under AASB 139 Financial Instruments: Recognition and Measurement, financial instruments are categorised based upon the purpose for which the investments were acquired. Classification is re-evaluated at each reporting date, but there are restrictions on reclassifying to other categories.

There has been no reclassification of financial assets during the year.

Recognition and derecognition

Financial assets are initially recognised at fair value including directly attributable transaction costs,with the exception of financial assets at fair value through profit or loss.

All purchases and sales of financial instruments are recognised on the trade date i.e., the date that the Consolidated Entity commits to trade the instrument.

Financial instruments are derecognised when the right to receive cash flows from the financial assets has expired or when the Consolidated Entity transfers substantially all the risks and rewards of the financial instruments. If the Consolidated Entity neither retains nor transfers substantially all of the risks and rewards, it derecognises the instrument if it has transferred control.

Subsequent measurement

(i) Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Consolidated Entity has the intention and ability to hold it to maturity. Investments intended to be held for an undefined period are not included in this classification. Investments that are intended to be held-to-maturity, such as bonds, bills of exchange, negotiable certificates of deposit, rolling negotiable certificates and other deposits are subsequently measured at amortised cost using the effective interest method.

(ii) Loans and receivables - also refer to note 1(j)

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest rate method.

(iii) Cash and cash equivalents - refer to note 1(h)

(iv) Interest bearing loans and borrowings - refer to note 1(n)

(v) Deposits - refer to note 1(o)

(vi) Derivative financial instruments and hedge accounting - refer to note 1(p)

Notes to the financial statements

For the year ended 30 June 2016

For investments carried at amortised cost, gains and losses are recognised in the statement of comprehensive income when the investments are derecognised or impaired.

(j) Loans

Loans are initially recognised at fair value including establishment transaction costs. At reporting date, loans are measured at amortised cost under the effective interest rate method, less any allowance for impairment.

All loan assets are subject to recurring review and assessed for possible impairment. Details of the Consolidated Entity's impairment assessment including individually assessed and collectively assessed allowances are provided in Note 7.

If there is objective evidence that a loan is impaired, a provision for impairment is created through the use of a provision account with the loss being recognised as an operating expense.

An impairment loss may be reversed in a subsequent period by adjusting the provision account, however the carrying value of the loan cannot exceed what the amortised cost would have been had the impairment not been recognised in the first place.

Additional provisions for impairment which are required by the Australian Prudential Regulation Authority (APRA) when reporting financial results to APRA, are reported as a reserve for credit losses. Refer to Note 7(c).

Impaired loans are written off against the provision for impairment when there is no realistic prospect of future recovery and all collateral has been realised.

The Consolidated Entity seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, the arrears profile of the Member is extinguished after six months if the Member has complied with the renegotiated terms.

(k) Other investments

Other investments are classified as available-for-sale financial assets which do not have a quoted market price in an active market and whose fair value cannot be reliably measured. At reporting date, these investments in controlled entities and special service providers are measured at cost less any allowance for impairment.

Details of the terms and conditions of equity investments are set out in Note 9.

The Consolidated Entity assesses at each financial year end whether other investments are impaired.

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value (because its fair value cannot be reliably measured), the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the current market rate of return for a similar financial asset.

(l) Property, plant and equipment

Property

Land and buildings are carried at fair value based on regular valuations by an external independent valuer who has carried out the valuation in accordance with Generally accepted valuation Standards and Australian Accounting Standards.

Plant and equipment

Plant and equipment are carried at cost less any accumulated depreciation and any accumulated impairment losses.

The carrying values of plant and equipment are reviewed for impairment annually or when circumstances indicate that the carrying amount may not be recoverable. If such an indication exists and where the carrying amount exceeds the recoverable amount (being the higher of fair value and value in use), the assets are written down to their recoverable amount.

The recoverable amount is assessed on the basis of expected net cash flows that will be received from the asset's employment and subsequent disposal, discounted to their present values. Any decrement in the carrying amount is recognised as an impairment expense in the Statement of Comprehensive Income.

Depreciation

With the exception of land, all property, plant and equipment is depreciated over their useful lives commencing from the time the asset is held ready for use. Leasehold improvements are depreciated over the shorter of either the unexpired term of the lease or the estimated useful life of the improvements. Land is not depreciated.

Depreciation is calculated on a straight-line basis over the estimated useful life of the assets as follows:

Buildings	40 years
Plant and equipment	5 to 20 years
Leasehold improvements	6 years
Artwork	40 years
Computer equipment	2.5 to 4 years
Motor vehicles	4 to 8 years

The asset's residual values, useful lives and amortisation methods are reviewed and adjusted if appropriate at each financial year-end.

Notes to the financial statements

For the year ended 30 June 2016

Derecognition and disposal

Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the Statement of Comprehensive Income in the year the asset is derecognised.

Revaluations of land and buildings

Any revaluation increment is credited to the asset revaluation reserve included in the equity section on the statement of financial position, except to the extent that if it reverses a revaluation decrease of the same asset previously recognised in the statement of comprehensive income, in which case the increase is recognised in the statement of comprehensive income.

Any revaluation decrement is recognised in the statement of comprehensive income, except to the extent that it offsets a previous revaluation increase for the same asset, in which case the decrease is debited directly to the asset revaluation reserve to the extent of the credit balance existing in the revaluation reserve for that asset.

Additionally, any accumulated depreciation as at the revaluation date is eliminated against the gross carrying amounts of the assets and the net amounts are restated to the revalued amounts of the assets.

Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

(m) Intangible assets

Intangible assets consist of computer software which has a finite useful life and is carried at cost less any accumulated amortisation and any impairment losses. Computer software is amortised on a straight-line basis over 2 to 3 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired and is reviewed at least annually.

(n) Interest bearing loans and borrowings

All loans and borrowings are initially recognised at fair value less directly attributable transaction costs. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

(o) Deposits

All deposits are initially recognised at fair value. After initial recognition, deposits are subsequently measured at amortised cost using the effective interest method.

Interest is calculated on the daily balance and posted to the accounts periodically, or on maturity of the term deposit. Interest on deposits is calculated on an accrual basis. The amount of the accrual is shown as a part of trade and other payables.

(p) Derivative financial instruments and hedge accounting

The Consolidated Entity enters into derivatives such as interest rate swaps to manage its exposure to interest rate risk.

Interest rate swaps relate to contractual agreements between two parties to exchange streams of payments over time based on specified notional amounts, in relation to movements in a specified underlying index such as interest rate. The Consolidated Entity either receives or pays a floating rate of interest in return for paying or receiving, respectively, a fixed rate of interest. The payment flows are usually netted against each other, with the difference being paid by one party to the other.

Derivatives are recognised at fair value and are classified as trading except where they are designated as a part of an effective hedge relationship and classified as hedging derivatives. The carrying value of derivatives is measured at fair value throughout the life of the contract. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Cash flow hedges

The Consolidated Entity designates its derivatives as hedges of highly probable future cash flows attributable to a recognised asset or liability, or a highly probable forecast transaction (cash flow hedges).

Documentation is prepared at the inception of the hedge to detail the relationship between the hedging instrument and hedged item including the effectiveness of the proposed hedge, along with the risk management objectives and strategy for undertaking the hedge transactions. On an ongoing basis, testing is conducted and documents whether the hedging instrument used is highly effective in offsetting changes in cash flows of the hedged item.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in the cash flow hedge reserve within equity. The gain or loss relating to the ineffective portion is recognised immediately in the statement of comprehensive income. The carrying value of the hedged item is not adjusted. Amounts accumulated in equity are transferred to the statement of comprehensive income in the period(s) in which the hedged item will affect profit or loss (e.g. when the forecast hedged variable cash flows are recognised within profit or loss).

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised in the income statement when the forecast transaction is ultimately recognised in the income

Notes to the financial statements

For the year ended 30 June 2016

statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was recognised in equity is immediately transferred to the statement of comprehensive income.

Details of the fair value of the derivative instruments used for hedging purposes are provided in Note 27.

(q) Employee benefits

(i) Wages

Liabilities for wages, including any non-monetary benefits expected to be settled within 12 months of the reporting date in respect of employee's services up to the reporting date, are recognised in trade and other payables. They are measured at the amounts expected to be paid when the liabilities are settled.

(ii) Annual leave

Liabilities for annual leave expected to be settled within 12 months of the reporting date in respect of employees services up to the reporting date, are recognised in the provision for annual leave. They are measured at the amounts expected to be paid when the liabilities are settled.

(iii) Long service leave

The liability for long service leave in respect of services provided by employees up to the reporting date is recognised in the provision for long service leave and measured as the present value of expected future payments to be made.

Consideration is given to expected future wage and salary levels, experience of employee departures, and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity that match, as closely as possible, the estimated future cash outflows.

Notes to the financial statements

For the year ended 30 June 2016

	Mutual Bank		Consolidated Entity	
2. Selected income and expenses	**2016 $000's**	**2015 $000's**	**2016 $000's**	**2015 $000's**
a. Interest income				
Loans secured by real estate mortgages	67,822	70,539	67,822	70,539
Held-to-maturity	12,989	14,534	12,989	14,534
Government guaranteed loans	23	41	23	41
Other loans and advances	8,117	8,722	8,117	8,722
Due from controlled entities	1,528	1,565	-	-
Total interest income	**90,479**	**95,401**	**88,951**	**93,836**
(b) Interest expense				
Due to controlled entities	30	38	-	-
Subordinated debt	164	171	164	171
Short-term borrowings	-	22	-	22
Other persons	41,585	48,532	41,585	48,532
	41,779	48,763	41,749	48,725
Net interest income	**48,700**	**46,638**	**47,202**	**45,111**
(c) Other Operating Income				
Fees	3,012	3,005	3,012	3,005
Commissions	7,249	7,157	7,249	7,157
Other	1,122	1,114	1,914	1,636
Total other operating income	**11,383**	**11,276**	**12,175**	**11,798**
(d) Other comprehensive income				
Net fair value revaluation gain/(loss) on property plant and equipment				
Increase/(Decrease) in land values	-	950	-	950
Income tax on land revaluation	-	(285)	-	(285)
Increase in artwork value	55	-	55	-
Income tax on artwork revaluation	(17)	-	(17)	-
Net decrease in building values	**38**	**665**	**38**	**665**
Decrease in building values	-	(123)	-	(123)
Income tax on building devaluation	-	37	-	37
	38	**579**	**38**	**579**

3. Income tax expense

The major components of income tax expense are:				
On net profit for the period:				
Current income tax charge	5,776	6,509	5,838	6,576
Adjustments for income tax expense of previous years	(77)	(92)	(77)	(95)
Deferred tax relating to origination and reversal of temporary differences	(238)	(167)	623	(137)
Income tax benefit reported in the statement of comprehensive income	**5,461**	**6,250**	**6,384**	**6,344**

Refer to Note 12 for details of deferred tax assets and liabilities.
A reconciliation between income tax expense on net profit for the period before income tax reported in the statement of comprehensive income, and net profit for the period before income tax multiplied by the Consolidated Entity's applicable income tax rate, is as follows:

Notes to the financial statements

For the year ended 30 June 2016

	Mutual Bank		Consolidated Entity	
	2016 $000's	**2015 $000's**	**2016 $000's**	**2015 $000's**
Profit for the period before income tax	**21,564**	**21,216**	**21,485**	**21,240**
Income tax expense at the Consolidated Entity's statutory income tax rate of 30% (2015: 30%)	6,470	6,365	6,446	6,372
Tax on expenses not allowable as tax deductions	24	74	24	74
Impairment of investment in controlled entities	(947)	(13)	-	-
Tax offsets and other items	(9)	(84)	(9)	(8)
Adjustments for income tax of previous years	(77)	(92)	(77)	(94)
Income tax expense reported in the statement of comprehensive income	**5,461**	**6,250**	**6,384**	**6,344**

4. Cash and cash equivalents

Cash at bank and on hand	18,407	15,918	18,407	15,918
Deposits at call	29,400	6,000	29,400	6,000
	47,807	**21,918**	**47,807**	**21,918**

5. Trade and other receivables

Interest receivable on investments - held-to-maturity	2,455	3,575	2,455	3,575
Other receivables	69	78	141	148
	2,524	**3,653**	**2,596**	**3,723**

Other receivables are recognised as amounts owed to the Consolidated Entity for services provided, unpresented cheques and deposits not yet credited to the bank account, and reimbursements of expenses incurred on behalf of a third party. Amounts due for services provided are settled on normal commercial terms.

6. Investments - held to maturity

Investments with banks and subsidiaries				
- Commonwealth Bank of Australia	30,000	21,000	30,000	21,000
- Other banks and subsidiaries	244,689	309,104	244,689	309,104
Investments with ADIs				
- Indue Ltd	7,217	4,057	7,217	4,057
- Mutual banks, credit unions and building societies	123,743	74,913	123,743	74,913
	405,649	**409,074**	**405,649**	**409,074**
Maturity analysis				
No longer than 3 months	107,471	90,943	107,471	90,943
Longer than 3 months and less than 12 months	161,935	188,413	161,935	188,413
Longer than 1 year and less than 5 years	136,243	129,718	136,243	129,718
	405,649	**409,074**	**405,649**	**409,074**

All investments are held directly with Australian banks and subsidiaries and Australian registered Authorised Deposit-taking Institutions (ADIs). Refer to Note 26(a) for further comments and tables on credit quality and risk.

7. Loans

(a) By class				
Secured by real estate mortgages				
- Personal	1,558,473	1,451,884	1,558,473	1,451,884
- Commercial	10,614	7,984	10,614	7,984
Government guaranteed school loans	551	700	551	700
Other loans and advances				
- Personal	90,302	85,283	90,302	85,283
- Commercial	381	304	381	304
- Loans to investment trust	300	300	300	300
	1,660,621	**1,546,455**	**1,660,621**	**1,546,455**
Provision for impairment	(266)	(277)	(266)	(277)
Net loans and advances	**1,660,355**	**1,546,178**	**1,660,355**	**1,546,178**

Notes to the financial statements

For the year ended 30 June 2016

	Mutual Bank		Consolidated Entity	
	2016 $000's	**2015 $000's**	**2016 $000's**	**2015 $000's**
Maturity analysis				
No longer than 3 months	23,237	23,003	23,237	23,003
Longer than 3 months and less than 12 months	1,421	1,516	1,421	1,516
Longer than 1 year and less than 5 years	50,890	44,762	50,890	44,762
Longer than 5 years	1,584,807	1,476,897	1,584,807	1,476,897
	1,660,355	**1,546,178**	**1,660,355**	**1,546,178**

The Mutual Bank has established the Victoria Teachers Trust Series 2012-1, an internal securitisation entity for the purpose of liquidity contingency which means that the notes issued by the series are held by the Mutual Bank and sold only if the need arises. The Class A notes are currently eligible under the RBA Open Market Operations program meaning that the Reserve Bank of Australia will purchase these notes for cash under a repurchase agreement. From time to time, the Mutual Bank will top-up the Victoria Teachers Trust Series 2012-1 notes by securitising additional home loans as existing loans pay down.

As there has been no transfer of the risks or rewards of ownership of the home loans and other relevant assets or liabilities, the Victoria Teachers Trust Series 2012-1 is consolidated within the Mutual Bank.

As at 30 June 2016 the carrying amount of notes (assets) held by the Mutual Bank and the associated liability of the Victoria Teachers Trust Series 2012-1 was $212.5m (2015: $191.2m). The carrying amount of home loans was $203.3m (2015: $182.8m)

(b) Provision for impairment				
Individual balances identified as impaired	730	180	730	180
Individual impairment on the above	142	114	142	114
Collective impairment	124	163	124	163
	266	**277**	**266**	**277**
(c) Movement in provision for impairment				
Balance at the beginning of year	277	305	277	305
Bad debts written off	(321)	(212)	(321)	(212)
Additional provisions	310	184	310	184
	266	**277**	**266**	**277**
(d) Charge to profit or loss for impairment:				
Additional provisions	310	184	310	184
Recoveries	(19)	(20)	(19)	(20)
	291	**164**	**291**	**164**

Impairment Assessment

The main considerations for the loan impairment assessment include whether any payments of principal or interest are overdue by more than 90 days or there are any known difficulties in the cash flows of counterparties or original terms of the contract. The Consolidated Entity addresses impairment assessment in two areas: individually assessed Provision for Impairment and collectively assessed Provision for Impairment.

Individually assessed Provision for Impairment

The Consolidated Entity determines the Provision for Impairment appropriate for each individually significant loan on an individual basis. Items considered when determining Provision for Impairment amounts include an accumulation of repayment defaults, knowledge of financial difficulty of borrowers, probability of bankruptcy of borrowers and difficulties with the borrower to negotiate arrangements to repay arrears or pay out the loan balance, the projected receipts from the counterparties, the timing of expected cash flows, and the realisable value of collateral. Provision for Impairment are evaluated at each reporting date and monthly for management reporting purposes.

Collectively assessed Provision for Impairment

Provision for Impairment are assessed collectively for losses on loans that are not individually significant and for individually significant loans where there is not yet objective evidence of individual impairment. Provision for Impairment are evaluated on each reporting date. The collective assessment takes account of impairment that is likely to be present in the portfolio even though there is not yet objective evidence of the impairment in an individual assessment. Impairment losses are estimated taking into consideration the historical losses of the portfolio, current economic conditions and the probability of impairment occurring.

Refer to Note 26(a) for further information on credit risk management.

Notes to the financial statements

For the year ended 30 June 2016

8. Due from controlled entities	Mutual Bank 2016 $000's	Mutual Bank 2015 $000's	Consolidated Entity 2016 $000's	Consolidated Entity 2015 $000's
Loan to VTMB Properties Pty Ltd	30,086	30,924	-	-
	30,086	**30,924**	**-**	**-**

An inter entity loan was provided by the Mutual Bank to VTMB Properties Pty Ltd in February 2013 for the purchase and fit out of a commercial property located at 117 Camberwell Road, Hawthorn East. VTMB Properties Pty Ltd is a wholly owned subsidiary of the Mutual Bank and was established to manage the Consolidated Entity's property portfolio.

9. Other investments

Shares in controlled entity - VTMB Properties Pty Ltd	3,401	178	-	-
Shares in Indue Ltd	686	666	686	666
	4,087	**844**	**686**	**666**

VTMB Properties Pty Ltd is incorporated in Australia and wholly owned by the Mutual Bank. The results of the Mutual Bank includes the reversal of impairment provision in respect to investment in VTMB Properties Pty Ltd at $3.157m (2015: $1.298m for investment and loan impairment).

10. Property, plant and equipment

Mutual Bank	Land and buildings $000's	Office equipment $000's	Furniture and fittings $000's	Motor vehicles $000's	Total $000's
At 1 July 2014					
Cost or fair value	3,471	4,254	545	976	9,246
Accumulated depreciation	(512)	(3,439)	(254)	(233)	(4,438)
Net book amount	**2,959**	**815**	**291**	**743**	**4,808**
Year ended 30 June 2015					
Opening net book amount	2,959	815	291	743	4,808
Additions	-	657	25	448	1,130
Work in progress	-	-	-	1	1
Disposals	-	(23)	-	(218)	(241)
Revaluations	827	-	-	-	827
Depreciation	(48)	(349)	(11)	(208)	(616)
Closing net amount	**3,738**	**1,100**	**305**	**766**	**5,909**
At 1 July 2015					
Cost or fair value	4,255	4,594	571	1,076	10,496
Accumulated depreciation	(517)	(3,494)	(266)	(310)	(4,587)
Net book amount	**3,738**	**1,100**	**305**	**766**	**5,909**
Year ended 30 June 2016					
Opening net book amount	3,738	1,100	305	766	5,909
Additions	-	216	-	892	1,108
Disposals	-	-	-	(283)	(283)
Revaluations	-	-	55	-	55
Depreciation	(44)	(422)	(13)	(252)	(731)
Closing net amount	**3,694**	**894**	**347**	**1,123**	**6,058**
At 30 June 2016					
Cost or fair value	4,402	4,810	419	1,454	11,085
Accumulated depreciation	(708)	(3,916)	(72)	(331)	(5,027)
Net book amount	**3,694**	**894**	**347**	**1,123**	**6,058**

Notes to the financial statements

For the year ended 30 June 2016

Consolidated Entity	Land and buildings $000's	Leasehold improvements $000's	Office equipment $000's	Furniture and fittings $000's	Motor vehicles $000's	Total
At 1 July 2014						
Cost or fair value	31,830	342	4,637	2,803	975	40,587
Accumulated depreciation	(993)	(97)	(3,669)	(790)	(232)	(5,781)
Net book amount	**30,837**	**245**	**968**	**2,013**	**743**	**34,806**
Year ended 30 June 2015						
Opening net book amount	30,837	245	968	2,013	743	34,806
Additions	26	-	657	224	448	1,355
Disposals	-	-	(23)	-	(218)	(241)
Revaluations	2,126	-	-	-	-	2,126
Other transfers	512	-	-	(512)	-	-
Depreciation	(858)	(68)	(367)	(234)	(207)	(1,734)
Closing net amount	**32,643**	**177**	**1,235**	**1,491**	**766**	**36,312**
At 1 July 2015						
Cost or fair value	33,368	342	4,926	2,301	1,076	42,013
Accumulated depreciation	(725)	(165)	(3,691)	(810)	(310)	(5,701)
Net book amount	**32,643**	**177**	**1,235**	**1,491**	**766**	**36,312**
Year ended 30 June 2016						
Opening net book amount	32,643	177	1,235	1,491	766	36,312
Additions	-	-	216	24	892	1,132
Disposals	-	-	-	-	(283)	(283)
Revaluations	2,781	-	-	55	-	2,836
Other transfers	(325)	-	-	325	-	-
Depreciation	(845)	(68)	(475)	(190)	(252)	(1,830)
Closing net amount	**34,254**	**109**	**976**	**1,705**	**1,123**	**38,167**
At 30 June 2016						
Cost or fair value	34,995	343	5,142	2,388	1,454	44,322
Accumulated depreciation	(741)	(234)	(4,166)	(683)	(331)	(6,155)
Net book amount	**34,254**	**109**	**976**	**1,705**	**1,123**	**38,167**

If land and buildings were measured using the cost model the carrying amounts would be:

	Mutual Bank		Consolidated Entity	
	2016 $000's	2015 $000's	2016 $000's	2015 $000's
Land and buildings at cost	**2,078**	**2,135**	**34,187**	**32,538**

In February 2013 the Mutual Bank entered into a sale and leaseback agreement with VTMB Properties Pty Ltd to lease 117 Camberwell Road property for an initial period of 10 years.

Fair value hierarchy
Land and Buildings at fair value fall under the Level 3 category of the fair value hierachy as defined in Note 27.

Valuation techniques used to derive Level 3 fair values
The Consolidated Entity engaged qualified valuers from Jones Lang LaSalle, to determine the fair value of its land and buildings. The effective date of the last revaluations was 30 June 2016.

The valuation technique used to derive the Level 3 fair value of Land and Building is the capitalisation of market rental approach. The capitalisation approach involves the addition of our valuer's opinion of market rent for the various components of the Property, and the deduction of outgoings (where appropriate) in order to determine the net market income of the Property. This net market income is capitalised at the adopted capitalisation rate to derive a core value.

Valuation inputs
The fair value of properties has been determined using the capitalisation of market rental approach.
The following primary inputs have been used:

Notes to the financial statements

For the year ended 30 June 2016

	Consolidated Entity 2016	Consolidated Entity 2015
Capitalisation rate (%)	6.75	6.00 - 7.25
Terminal rate (%)	7.25	7.50
Discount rate (%)	8.00	8.50

Sensitivity to significant changes in unobservable inputs within Level 3 of the hierarchy

A significant increase in the capitalisation rate would result in lower fair value of land and buildings at fair value, while significant decrease in the capitalisation rate would result in a higher fair value.

Accounting for fair value revaluation gain

The 117 Camberwell Road property held by the VTMB Properties Pty Ltd subsidiary was revalued upwards by $2.781m (2015: $1.298m). Included in the revaluation is the reversal of depreciation of $1.086m (2015: $1.298m).

As a previous downward revaluation of $4.455m was recognised in the net profit for the period ended 30 June 2013 the subsequent increase partially reverses the prior devaluation and is recognised in the net profit for the period.

	Mutual Bank		Consolidated Entity	
	2016 $000's	2015 $000's	2016 $000's	2015 $000's
11. Intangible assets				
Computer software at cost	6,785	5,438	6,785	5,438
Less accumulated amortisation	(4,764)	(4,274)	(4,764)	(4,274)
	2,021	**1,164**	**2,021**	**1,164**
Carrying amount at the beginning of the financial year	1,164	936	1,164	936
Additions	1,347	742	1,347	742
Amortisation	(490)	(514)	(490)	(514)
Carrying amount at the end of the financial year	**2,021**	**1,164**	**2,021**	**1,164**
12. Deferred tax assets and liabilities				
The balance comprises temporary differences attributable to:				
Deferred tax assets				
Accruals not currently deductible	804	896	804	896
Provisions for impairment on loans	80	83	80	83
Provisions and accruals for staff entitlements	1,370	1,166	1,370	1,166
Revaluation of Land and Buildings	-	-	828	947
Cash flow hedge reserve	535	559	535	559
Other	41	30	41	30
Total deferred tax assets	**2,830**	**2,734**	**3,658**	**3,681**
Deferred tax liabilities				
Deferred loan fee expenses	22	29	22	29
Deferred debt and equity raising fees	-	29	-	29
Depreciation of Property Plant and Equipment	495	561	1,270	593
Total deferred tax liabilities	**517**	**619**	**1,292**	**651**
13. Deposits				
Term deposits	783,670	776,070	783,670	776,070
Deposits on call	1,174,584	1,058,296	1,172,792	1,057,033
Withdrawable member shares	827	813	827	813
	1,959,081	**1,835,179**	**1,957,289**	**1,833,916**
Maturity analysis				
At call	1,163,381	1,040,286	1,161,589	1,039,023
No longer than 3 months	439,022	414,372	439,022	414,372
Longer than 3 months and less than 12 months	300,079	326,452	300,079	326,452
Longer than 1 year and less than 5 years	51,081	50,832	51,081	50,832
Longer than 5 years	5,518	3,237	5,518	3,237
	1,959,081	**1,835,179**	**1,957,289**	**1,833,916**

Notes to the financial statements

For the year ended 30 June 2016

14 Trade and other payables	Mutual Bank 2016 $000's	Mutual Bank 2015 $000's	Consolidated Entity 2016 $000's	Consolidated Entity 2015 $000's
Creditors and accruals	3,564	3,810	3,640	3,889
Settlement accounts	2,356	2,031	2,356	2,031
Accrued deposit interest	6,178	7,695	6,178	7,695
	12,098	**13,536**	**12,174**	**13,615**

15. Subordinated debt

Subordinated debt of $2.0M was issued by an investment trust in October 2012. The debt is repayable by the Consolidated Entity after October 2022 or earlier if subject to a defined event. The debt carries interest payable quarterly at a market rate.

The subordinated debt qualifies as capital under APRA's capital adequacy prudential standards, the qualifying balance is reducing at $0.4M per annum under transitional arrangements.

Subordinated debt remains subordinated to the rights of all other present and future creditors of the Consolidated Entity in the event of liquidation of the Consolidated Entity.

16. Derivative financial instruments

The table below shows the fair values of derivative financial instruments, recorded as assets or liabilities.

At 30 June 2016, the Consolidated Entity had interest rate swap agreements in place with a notional amount of $113.1m (2015: $121.1m). The notional amount, recorded gross, is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at the year end and are not indicative of either the market risk or the credit risk:

	2016 Assets $000's	2016 Liabilities $000's	2015 Assets $000's	2015 Liabilities $000's
Mutual Bank				
Derivatives used as cash flow hedges				
Interest rate swaps	-	1,836	-	1,862
Consolidated Entity				
Derivatives used as cash flow hedges				
Interest rate swaps	-	1,836	-	1,862

Fair value measurement is classified as Level 2 in the fair value hierarchy with the methodology and basis for valuation explained in Note 27.

	Mutual Bank 2016 $000's	Mutual Bank 2015 $000's	Consolidated Entity 2016 $000's	Consolidated Entity 2015 $000's
The net movement on derivatives during the year was as follows:				
Charged to comprehensive income	12	(1,000)	12	(1,000)
	12	**(1,000)**	**12**	**(1,000)**
At 30 June 2016, the notional principal amounts and period of expiry of the interest rate swap contracts are as follows:				
0 - 1 year	48,100	-	48,100	-
1 - 2 years	48,000	61,000	48,000	61,000
2 - 5 years	17,000	60,100	17,000	60,100
	113,100	**121,100**	**113,100**	**121,100**

Cash Flow Hedges

The Consolidated Entity is exposed to variability in the future interest cash flows on non-trading assets and liabilities which bear interest at a variable rate. The Consolidated Entity uses interest rate swaps as cash flow hedges of these interest rate risks.

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For the year ended 30 June 2016

	Mutual Bank		Consolidated Entity	
	2016 $000's	**2015 $000's**	**2016 $000's**	**2015 $000's**
17. Provisions				
(a) Long service leave				
Balance at beginning of year	2,601	2,453	2,601	2,453
Payments made	(150)	(380)	(150)	(380)
Additional Provisions	505	528	505	528
Balance at the end of the financial year	**2,956**	**2,601**	**2,956**	**2,601**
Current	2,655	2,290	2,655	2,290
Non-current	301	311	301	311
	2,956	**2,601**	**2,956**	**2,601**

Refer to Note 1(q) for the basis of calculating long service leave. The expected timing to pay benefits is dependent upon an employee taking long service leave.

(b) Annual leave				
Balance at beginning of year	1,261	1,154	1,261	1,154
Payments made	(1,184)	(1,074)	(1,184)	(1,074)
Additional Provisions	1,357	1,181	1,357	1,181
Balance at the end of the financial year	**1,434**	**1,261**	**1,434**	**1,261**

Annual leave - accrued entitlements to balance date. Entitlements may be taken by the entitled employee at any time in the next twelve months.

Total provisions	**4,390**	**3,862**	**4,390**	**3,862**

18. Equity

Redeemable Preference Shares				
Shares issued	3,000	3,000	3,000	3,000
Less share issue costs	-	(98)	-	(98)
	3,000	**2,902**	**3,000**	**2,902**

The issue of redeemable non-voting preference shares (called "Tier 1" shares) of $100 each was approved at a Members meeting on 16 March 2006. 30,000 fully paid shares were issued to an investment trust on 21 June 2006.

The shares are redeemable by the Mutual Bank after 21 June 2016. The shareholder cannot redeem the shares. The shares carry no voting rights for the shareholder. The preference shares no longer qualify as Additional Tier 1 capital under APRA's capital adequacy prudential standards. The share issue costs were expensed in the net profit in the current financial year.

The agreement also included the obligation for the Consolidated Entity to advance a loan of $300,000 (2015: $300,000) to the investment trust as security for payment of dividends - refer Note 7.

The average fully franked dividend rate for the year was 3.69% (2015: 3.92%).

19. Dividends paid and payable

Dividends on redeemable Tier 1 preference shares:				
Paid or payable during the year:				
September dividend	27	30	27	30
December dividend	28	30	28	30
March dividend	28	30	28	30
June dividend	28	27	28	27
	111	**117**	**111**	**117**

Notes to the financial statements

For the year ended 30 June 2016

	Mutual Bank		Consolidated Entity	
	2016 $000's	**2015 $000's**	**2016 $000's**	**2015 $000's**
19. Dividends paid and payable (continued)				
The tax rate at which paid dividends have been franked is 30% (2015: 30%)				
Franking credit balance				
The amount of franking credits available for the subsequent financial year are:				
- franking account balance as at the end of the financial year	67,443	61,993	67,443	61,993
- franking credits that will arise from the payment of income tax payable as at the end of the financial year	264	333	325	399
The amount of franking credits available for future reporting periods:				
	67,707	**62,326**	**67,768**	**62,392**

20. Statement of cash flows

	Mutual Bank 2016	Mutual Bank 2015	Consolidated 2016	Consolidated 2015
Cash flows from operating activities				
Net profit	16,103	14,966	15,099	14,896
Adjustments for:				
Net loss/(gain) on sale of non-current assets	3	83	3	83
Revaluation of property, plant and equipment and related assets	(3,157)	(1,298)	(2,781)	(1,298)
Provisions for loan impairment	311	184	311	184
Share issue costs expensed	98	-	98	-
Depreciation/amortisation	1,222	1,132	2,322	2,252
Changes in assets and liabilities:				
(Increase)/decrease in accrued receivables	10	153	7	83
(Increase)/decrease in accrued interest	1,120	229	1,120	229
(Increase)/decrease in other investments	(86)	(342)	(20)	(346)
(Increase)/decrease in other assets	(10)	-	(10)	77
(Increase)/decrease in deferred tax asset	(96)	(173)	23	(160)
Increase/(decrease) in trade creditors	(245)	1,684	(246)	1,491
Increase/(decrease) in interest payable	(1,531)	(802)	(1,531)	(802)
Increase/(decrease) in provisions	528	255	528	255
Increase/(decrease) in income taxes payable	23	(1,917)	19	(1,892)
Increase/(decrease) in deferred tax liabilities	(119)	5	624	22
Net Cash from operating activities	**14,174**	**14,159**	**15,566**	**15,074**

21. Commitments and contingencies

(a) Contingent liabilities

There are no contingent liabilities at 30 June 2016 (2015: Nil)

(b) Credit commitments

Binding commitments to extend credit are agreements to lend to a Member as long as there is no violation of any condition established in the contract. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements.

	Mutual Bank 2016	Mutual Bank 2015	Consolidated 2016	Consolidated 2015
Irrevocable:				
Approved loans but undrawn loans	31,411	23,507	31,411	23,507
Loans available for redraw	298,826	278,110	298,826	278,110
	330,237	**301,617**	**330,237**	**301,617**
Revocable:				
Undrawn line of credit and credit card commitments	84,942	83,003	84,942	83,003
	84,942	83,003	84,942	83,003
	415,179	**384,620**	**415,179**	**384,620**

Notes to the financial statements

For the year ended 30 June 2016

	Mutual Bank		Consolidated Entity	
	2016 $000's	**2015 $000's**	**2016 $000's**	**2015 $000's**
(c) Bank commitments				
The Mutual Bank guarantees the performance of certain Members by issuing Transaction Negotiation Authorities to third parties in relation to payroll processing. The credit risk involved is managed through holding Term Deposits as collateral.				
(d) Lease expenditure commitments				
The Mutual Bank leases property at 117 Camberwell Road, Hawthorn East, under an operating lease expiring February 2023. Future minimum rentals payable are as follows:				
Within 1 year	2,555	2,664	68	68
1 to 5 years	10,187	10,171	54	121
Over 5 years	4,127	6,698	-	-
	16,869	**19,533**	**122**	**189**
(e) Lease income receivables				
The Consolidated Entity leases out part of two properties under non-cancellable operating leases expiring December 2016 and June 2017.				
Future minimum rental receivables are as follows:				
Within 1 year	34	68	856	880
1 to 5 years	-	35	-	878
	34	**103**	**856**	**1,758**

22. Auditors' remuneration

Amounts paid or payable to Ernst & Young for*:				
Audit fees				
Fees for audit of the complete set of financial statements	162	164	162	164
Total audit fees	162	164	162	164
Audit-related fees				
Securitisation reviews	14	12	14	12
	14	12	14	12
All other fees				
Tax related services	23	29	23	29
Other services	33	-	33	-
	56	29	56	29
	232	**205**	**232**	**205**

Audit related services

The Mutual Bank engaged Ernst & Young during the financial year ending 30 June 2016 to provide a number of services in relation to taxation and reviews for loan securitisation.

**Amounts included GST*

Notes to the financial statements

For the year ended 30 June 2016

23. Director and executive disclosures

(a) Details of Key Management Personnel

(i) Directors

The following persons were Directors of the Mutual Bank and its subsidiaries during the financial year:

B. Lloyd	J. Dawson	P. Wilson
K. Starr	G. Willis	
M. Monester	D. Temple	

(ii) Executives

The following executives were those persons with authority for implementing the strategic plan, and management of the Mutual Bank and its subsidiaries during the financial year:
W. Wolke - Chief Executive Officer
A. Alsbury - Executive Manager - Strategy & Marketing
G. Borg - Executive Manager - People & Culture
D. Percival - Executive Manager - Finance
M. Thomson - Executive Manager - Technology
E. Torelli - Executive Manager - Risk & Governance
J. Ward - Executive Manager - Sales & Service

	Mutual Bank		Consolidated Entity	
	2016 $000's	**2015 $000's**	**2016 $000's**	**2015 $000's**
(b) Aggregate Compensation of Key Management Personnel				
Short-term employee benefits - salaries	2,607	2,485	2,607	2,485
Post-employment benefits - superannuation contributions	346	336	346	336
Other long-term benefits - long service leave	135	161	135	161
Total	**3,088**	**2,982**	**3,088**	**2,982**

Compensation includes all forms of consideration paid, payable or provided by the Mutual Bank and Consolidated Entity.

(c) Directors' Remuneration

(included in 23b above)
A formal policy for Directors' remuneration was passed at the 2003 Annual General Meeting. It stated that the aggregate maximum sum determined at that meeting to be paid to Directors as remuneration for their services (based on a full complement of directors) be adjusted for each following year (unless otherwise resolved at a general meeting) by an amount not exceeding the amount determined by applying the Headline Consumer Price Index for the preceding year to the remuneration paid for the preceding year.

	Mutual Bank 2016	Mutual Bank 2015	Consolidated 2016	Consolidated 2015
Aggregate remuneration paid to Directors	**418**	**463**	**418**	**463**

(d)Transactions with Key Management Personnel

	Mutual Bank 2016	Mutual Bank 2015	Consolidated 2016	Consolidated 2015
Loans				
Summary of transactions:				
New loans advanced	1,762	2,024	1,762	2,024
Interest and fees	121	111	121	111
Repayments	1,036	887	1,036	887
Revolving credit facilities:				
Total value extended	39	98	39	98
Balance utilised at 30 June	4	7	4	7
Loan and credit facilities:				
Balance owing at 30 June	**3,140**	**2,814**	**3,140**	**2,814**
Savings and term deposit services:				
Amounts deposited at 30 June	**805**	**2,960**	**805**	**2,960**

Notes to the financial statements

For the year ended 30 June 2016

Loans and revolving line of credit facilities are made to Key Management Personnel (KMP) in the course of ordinary business on normal commercial terms and conditions. These include secured and unsecured loans. Loans must be repaid and paid out in cash or cash equivalents. No loan or line of credit is impaired and no loan has been written off as a bad debt.

Savings and term deposit services are extended to KMP in the course of ordinary business on normal commercial terms and conditions.

Transactions with KMP relate to the KMP in place at any time in each financial year.

The KMP have declared that they have no influence over, or are influenced by, close family members or other related parties that have lending or banking relationships with the Consolidated Entity. These close family members or related parties conduct transactions with the Consolidated Entity on normal terms and conditions offered to all other members.

(e) Shareholdings

Each of the Directors and executives comprising the KMP of the Consolidated Entity hold one withdrawable share as a Member of the Consolidated Entity. No dividends have been declared or paid by the Consolidated Entity on the withdrawable Member shares (as distinct from the Tier 1 preference shares).

24. Economic dependency

The Consolidated Enitity has an economic dependency on the following suppliers of services.

(a) Commonwealth Bank of Australia Ltd

The Commonwealth Bank supplies the Consolidated Entity with rights to use its banking systems in the form of cheque clearing, ATM and EFTPOS services, sponsorship of the Consolidated Entity's participation in the Visa Card scheme, and facilitates transaction settlement arrangements.

(b) First Data International Ltd

This company undertakes the switch processing used to link ATM, EFTPOS and Visa transactions, card acquirers and merchants to the Consolidated Entity.

(c) Ultradata Australia Ltd

This company provides the Consolidated Entity's core banking and other application software.

(d) Indue Ltd

This company provides the Consolidated Entity with direct entry and Bpay facilities.

	Mutual Bank		Consolidated Entity	
	2016 $000's	2015 $000's	2016 $000's	2015 $000's
25. Superannuation				
Payment made to:				
Defined contribution superannuation plans	1,968	1,798	1,968	1,798
Defined benefit superannuation plans	-	7	-	7
	1,968	**1,805**	**1,968**	**1,805**

For defined contribution superannuation plans, the Consolidated Entity is not obliged to contribute to these plans other than to meet its liability under the Superannuation Guarantee or to remit further contributions requested by employees.

Notes to the financial statements

For the year ended 30 June 2016

26. Financial risk management

Effective risk management is fundamental to the operations of the Consolidated Entity. A comprehensive risk management process is in place which involves identifying, understanding and managing the risks associated with its activities. Risk awareness, controls and compliance is embedded into day-to-day activities and each individual is accountable for the risk exposures relating to his or her role and responsibilities. The Consolidated Entity's risk management is underpinned by an integrated framework of responsibilities and functions driven from the Board level down to operational levels, covering all material risks.

The material risks associated with the Consolidated Entity's core activities have been identified. Included in these are the financial risks of credit risk, non-traded market risk and liquidity risk. Operational risks such as Regulatory & Legal, Outsourcing, and Information Technology are how we execute the delivery of our products and achieve our strategic objectives. Strategic risks are focused on our current strategic objectives.

The Consolidated Entity's overall risk management approach seeks to minimise potential adverse effects on the financial performance of the Consolidated Entity and to protect the interests of its Members.

All activities undertaken are consistent with the Consolidated Entity's Mission, Vision and Positioning.

The Consolidated Entity seeks to avoid activities that result in undue financial risk, however it will continue to develop and implement new products and services which assist in achieving strategic objectives.

This note presents information about the Consolidated Entity's exposure to the material risks mentioned above; and the objectives, policies and processes for measuring and managing these risks. Further quantitative disclosures are included throughout this note and this complete set of financial statements.

Risk management structure

Board of Directors:
The Board of Directors is responsible for ensuring risks are identified and controlled, for setting the overall risk appetite, approving the Risk Management Strategy, and approving key risk management policies.

Risk & Compliance Committee:
The Risk & Compliance Committee has been delegated oversight of the risk management framework and the implementation of policies, strategies, systems and processes. It is responsible for monitoring any key risk issues and monitors relevant risk decisions.

Audit Committee:
The Audit Committee is responsible for the effectiveness and integrity of the financial reporting framework and the overall internal control framework.

Risk & Governance Management Function:
The Risk & Governance functional team is responsible for developing, implementing and maintaining defined risk, compliance and governance related policies and procedures to ensure an independent oversight process, and for regular risk reporting to the Risk Committee.

Asset & Liability Committee (ALCO):
ALCO is a management committee responsible for oversight and decision making in relation to the interest rate risk in, and the structure and mix of, the Consolidated Entity's assets and liabilities. It is also responsible for managing the funding needs and liquidity risks of the Consolidated Entity.

Internal Audit & External Audit:
Risk management processes throughout the Consolidated Entity are audited regularly by the Internal and External Audit functions, examining both the adequacy of the procedures and controls and the Consolidated Entity's compliance with the procedures. Internal & External Audit discuss the results of all assessments with management and report their findings and recommendations to the Audit Committee.

(a) Credit risk management

Credit risk is the risk that the Consolidated Entity will incur a loss due to Members, clients or counterparties default on their contractual obligations or there is a deterioration in the credit quality of third parties to which the Consolidated Entity is exposed. The Consolidated Entity manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual and related counterparties and by monitoring exposures in relation to such limits.

To manage, measure and mitigate credit risk, the Consolidated Entity has independent lending and credit control functions, which operate under Board approved delegated limits and policies and procedures that comply with the prudential standards issued by APRA, and responsible lending requirements issued by ASIC.

Notes to the financial statements

For the year ended 30 June 2016

The major classes of financial assets that expose the Consolidated Entity to credit risk are loans to Members (including undrawn and unused credit commitments), cash with banks and other investments held to maturity.

The fundamental principles that the Consolidated Entity applies to mitigate credit risk include:

- loans are extended to Members on the basis of a consistent and comprehensive credit assessment process;
- deposits with banks and other financial institutions are governed by their external risk rating and the type of investment product;
- Board approved delegated limits, approval levels, policies and procedures. These are consistent with the prudential standards issued by APRA;
- regular monitoring of credit risk exposures once facilities have been approved;
- regular reporting of credit risk exposures to Executive Management and the Board;
- an analysis of related risks including concentration and large exposure risk; and
- regular internal audit reviews.

		Mutual Bank		Consolidated Entity	
	Notes	2016 $000's	2015 $000's	2016 $000's	2015 $000's
(i) Exposure to credit risk					
The table below shows the maximum exposure to credit risk before taking into account any collateral or other credit enhancements.					
Cash and cash equivalents	4	47,807	21,918	47,807	21,918
Trade and other receivables	5	2,524	3,653	2,596	3,723
Deposits with banks	6	274,689	330,104	274,689	330,104
Deposits with authorised deposit-taking institutions	6	130,960	78,970	130,960	78,970
Loans secured by real estate mortgages	7	1,569,087	1,459,868	1,569,087	1,459,868
Government guaranteed loans	7	551	700	551	700
Other loans and advances	7	90,983	85,887	90,983	85,887
Other investments	9	4,087	844	686	666
		2,120,688	**1,981,944**	**2,117,359**	**1,981,836**
Irrevocable credit commitments	21	330,237	301,617	330,237	301,617
		330,237	**301,617**	**330,237**	**301,617**
Total credit risk exposure		**2,450,925**	**2,283,561**	**2,447,596**	**2,283,453**

(ii) Collateral and other credit enhancements

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty and the requirements of the Consolidated Entity's policies. Guidelines are implemented regarding the acceptability of type of collateral and valuation parameters. Real estate mortgages are held for all loans classified as loans secured by real estate mortgages.

Goods mortgages are held as collateral over certain other loans and advances totalling $54.2m (2015: $47.6m) but the realisable or fair value of the related assets is impracticable to determine.

The maximum exposure to credit risk at the reporting date is the carrying amount of the financial assets. The credit risk on financial assets which have been recognised in the balance sheet, other than investments in shares, is generally the carrying amount, net of any provisions for impairment, and is shown gross before the effect of mitigation through use of collateral. Credit risk relating to investments is monitored and controlled by exposure limits to counterparties. These limits are determined by reference to third party credit ratings.

Loan receivables are largely secured by physical property and advanced on a conservative Loan to Value Ratio (LVR) basis. Lenders Mortgage Insurance is generally taken out for any residential mortgages with a LVR in excess of 80%. At the end of the reporting period, the weighted average LVR (measured as current exposure divided by recorded collateral value) on mortgage loans is: 51.79% (2015: 51.56%). Accordingly, the financial effect of these measures is that remaining credit risk on loans receivable is very low. Some lending products are unsecured (e.g. personal loans). The Consolidated Entity manages its exposure to these unsecured products by making an internal assessment in relation to the credit quality of the customer, taking into account their financial position, past experience and other factors. For financial (liquid) investments, only those securities assessed as being of at least a satisfactory credit grade are accepted.

Notes to the financial statements

For the year ended 30 June 2016

(iii) Concentration of Risk

Large exposures
Loans to Members is the asset class that presents a source of large exposure risk to the Consolidated Entity's equity. Concentrations within this class of financial asset are measured in terms of exposures to individual borrowers and groups of associated borrowers. Where the total of an individual or group exposure exceeds 5% or 10% respectively of the Consolidated Entity's total equity holdings, it is considered that a significant concentration exists. As at 30 June 2016 (and 30 June 2015) there were no individual or group exposures in the loan asset class that exceeded 5% or 10% respectively of the Consolidated Entity's equity.

	Mutual Bank		Consolidated Entity	
	2016 $000's	**2015 $000's**	**2016 $000's**	**2015 $000's**
Geographic concentration of loans				
Victorian residents	96%	95%	96%	95%
Other Australian and overseas residents	4%	5%	4%	5%
	100%	100%	100%	100%

(iv) Credit quality

The table below show the credit quality of financial assets for the Consolidated Entity:

		Neither past due or impaired		Past Due or	
		High grade	**Other grade**	**Impaired**	**Total**
	Notes	**$000's**	**$000's**	**$000's**	**$000's**
2016					
Cash and cash equivalents	4	47,807	-	-	47,807
Trade and other receivables	5	2,455	141	-	2,596
Deposits with banks	6	274,689	-	-	274,689
Deposits with authorised deposit-taking institutions	6	130,960	-	-	130,960
Loans secured by real estate mortgages	7	1,498,708	59,463	10,916	1,569,087
Government guaranteed loans	7	551	-	-	551
Other loans and advances	7	-	82,577	8,406	90,983
Other investments	9	-	686	-	686
		1,955,170	**142,867**	**19,322**	**2,117,359**
2015					
Cash and cash equivalents	4	21,918	-	-	21,918
Trade and other receivables	5	3,575	148	-	3,723
Deposits with banks	6	330,104	-	-	330,104
Deposits with authorised deposit-taking institutions	6	78,970	-	-	78,970
Loans secured by real estate mortgages	7	1,398,313	49,033	12,522	1,459,868
Government guaranteed loans	7	700	-	-	700
Other loans and advances	7	-	80,147	5,740	85,887
Other investments	9	-	666	-	666
		1,833,580	**129,994**	**18,262**	**1,981,836**

Financial assets that are neither past due or impaired are those assets which are complying in full with their contractual obligations, and excludes loans which have fallen into arrears by one day or more. Conversely, all financial assets that are not complying with their contractual obligations, or are one day or more in arrears, are defined as past due or impaired.
Financial assets that are neither past due or impaired are classified between those assets that are high grade and not high grade (other grade). To define what is a high grade financial asset, the Consolidated Entity has referred to the prudential standards issued by APRA in particular APS 112 which categorises the asset by likelihood of default. APS112 applies risk-weighted percentages to indicate the quality of assets. A risk-weight of 50% or less indicates higher quality assets and this has been applied to define high grade assets for the above tables.

Notes to the financial statements

For the year ended 30 June 2016

(v) Credit risk exposure - investments with banks and other ADIs

	Standard & Poors or equivalent rating		Mutual Bank		Consolidated Entity	
	Long-term	Short-term	2016 $000's	2015 $000's	2016 $000's	2015 $000's
- Banks and subsidiaries	AA- to AA	A1+	60,000	41,000	60,000	41,000
- Banks and subsidiaries	A- to A+	A2 to A1	71,426	35,283	71,426	35,283
- Banks and subsidiaries	A to A-	A2	47,234	187,863	47,234	187,863
- Banks and subsidiaries	BBB- to BBB+	A2	96,030	65,958	96,030	65,958
- Banks and subsidiaries	BB+	A3	-	-	-	-
- Building Societies	BBB	A2	-	-	-	-
- Mutual Banks/ Credit Unions	A- to A+	A2 to A1	-	-	-	-
- Mutual Banks/ Credit Unions	BBB- to BBB+	A2 to A3	109,882	59,913	109,882	59,913
- Mutual Banks/ Credit Unions	Unrated	Unrated	13,860	15,000	13,860	15,000
- Indue Ltd	Unrated	Unrated	7,217	4,057	7,217	4,057
			405,649	**409,074**	**405,649**	**409,074**
By type of investment						
- Negotiable certificates of deposit			89,446	111,106	89,446	111,106
- Term deposits			126,217	112,057	126,217	112,057
- Fixed rate notes and floating / variable rate notes			189,986	185,911	189,986	185,911
			405,649	**409,074**	**405,649**	**409,074**

Unrated investments are deposits held with counterparties that have not obtained an external rating with Standard & Poors or similar rating agencies. These investments have been assessed and are considered a high grade investment.

(vi) Ageing analysis of past due loans (Mutual Bank and Consolidated Entity)

The table below show the ageing analysis of past due but not impaired loans by class of financial asset, where past due balances apply to that class of financial asset.

		Past due days				
	Note	0 - 30 $000's	31 - 90 $000's	91 - 365 $000's	> 365 $000's	Total $000's
2016						
Loans secured by real estate mortgages not assessed as individually impaired		9,522	601	775	17	10,915
Other loans and advances - personal (before impairment assessment)		7,222	604	484	96	8,406
Less individually impaired	7	-	(309)	(349)	(72)	(730)
Other loans and advances - personal; not assessed as individually impaired		7,222	295	135	24	7,676
		16,744	**896**	**910**	**41**	**18,591**
2015						
Loans secured by real estate mortgages not assessed as individually impaired		11,212	359	952	-	12,523
Other loans and advances - personal (before impairment assessment)		5,048	420	189	83	5,740
Less individually impaired	7	-	(45)	(132)	(3)	(180)
Other loans and advances - personal; not assessed as individually impaired		5,048	375	57	80	5,560
		16,260	**734**	**1,009**	**80**	**18,083**

All loans secured by real estate mortgages are considered to be fully secured.

Notes to the financial statements

For the year ended 30 June 2016

(vii) Renegotiated Loans

The carrying amount of loans that would have otherwise been past due or impaired whose terms have been renegotiated.

	Mutual Bank		Consolidated Entity	
	2016 $000's	**2015 $000's**	**2016 $000's**	**2015 $000's**
Renegotiatied loans	255	380	255	380
	255	380	255	380

(viii) Collateral obtained

Assets acquired and sold through the enforcement of security during the annual reporting period, the proceeds which have been applied to reduce the related debt.

Motor vehicles	247	2	247	2
	247	2	247	2

(b) Market risk - Interest rate risk

Market risk is a measure of potential change in the value of a portfolio of instruments as a result of changes in the financial environment (changes in underlying market risk factors such as interest rates, equity markets, bond markets, commodity markets and exchange rates) between now and a future point in time.

As the Consolidated Entity does not participate in the bond or equities market or engage in foreign exchange transactions, it is the non-traded interest rate risk in our banking book, resulting from increases or decreases in interest rates arising from the execution of our core business strategies and the delivery of products and services to Members, which has the potential for major risk impact on the Consolidated Entity's net interest earnings and sensitivity to changes in economic value.

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows, the fair value of financial instruments, or the net interest margin.

The fundamental principles that the Consolidated Entity applies to mitigate interest rate risk are:

- maintaining a net interest margin that is adequate for the achievement of short and longer-term objectives with respect to profitability and capital accumulation;
- Board approved delegated limits, approval levels, policies and procedures;
- maintaining an Asset Liability Committee (ALCO) to review portfolio growth, economic conditions and markets, review interest rate risk metrics reports, determine pricing and advise interest rate changes to the Board;
- forecasting and scenario modelling of growth and interest rates;
- monitoring current and future interest rate yields on its loans, deposits and investments portfolio and effect on profit and equity; and
- use of hedging techniques through interest rate swaps (derivatives).

Sensitivity to interest rate risk:
The Consolidated Entity also measures on a monthly basis the stress sensitivity of earnings to interest rate movements, utilising an Earnings at Risk (EaR) sensitivity calculation. The calculation involves the measuring of the static interest rate repricing gaps arising as a result of the varying interest rate repricing characteristics of assets, liabilities and capital, and the impact, over a 12 month period, of a 1% and 2% interest rate increase and 1% and 2 % interest rate decrease on earnings arising from the static gap position. The information below shows the Mutual Bank's and Consolidated Entity's stress sensitivity to interest rates utilising EaR sensitivity (+/-1% change):

The major classes of financial assets and liabilities that are subject to interest rate variation are loans to members, cash with banks, investments and deposits from members. The interest rates on the major proportion of these assets and liabilities can be adjusted in the short-term to minimise any significant impact of mis-match on interest margins.

	Interest rate movement			
	Mutual Bank and Consolidated Entity			
	+1% 2016 $000's	**+1% 2015 $000's**	**-1% 2016 $000's**	**-1% 2015 $000's**
Post Tax Earnings at risk	2,867	2,738	(2,889)	(2,762)

Notes to the financial statements

For the year ended 30 June 2016

(c) Liquidity risk

Liquidity risk is the risk that the Consolidated Entity will encounter difficulty in meeting obligations, especially in the short term, associated with financial and certain other liabilities that are settled by delivering cash or another financial asset. Sources of liquidity risk include unforeseen withdrawals of demand deposits, restricted access to new funding sources with appropriate maturity and interest rate characteristics, inability to liquidate a marketable asset, and a sudden increased demand for loans.

The fundamental principles that the Consolidated Entity applies to mitigate liquidity risk are to:

- maintain a significant portfolio of readily redeemable high quality liquid investments consistent with the prudential standards issued by APRA;
- maintain a prudent balance of cash and cash equivalents to meet its operational needs;
- maintain an established overdraft facility with the Commonwealth Bank;
- measure liquidity levels on a daily basis and report to management;
- manage assets with their liquidity in mind and monitor future cash flows and liquidity on a monthly basis;
- Board approved delegated limits, approval levels, policies and procedures;
- report liquidity levels and future trends to the Asset and Liability Committee and Board; and
- maintain a liquidity contingency plan, liquidity contingency facilities and a retain run plan.

The Consolidated Entity is required to maintain at least 9% of total adjusted liabilities as Minimum Liquidity Holdings (MLH). MLH includes deposits held with other Authorised Deposit Taking Institutions capable of being converted to cash within 2 business days under APRA prudential standards. The Consolidated Entity policy is to maintain at least 12% as MLH. The MLH ratio at 30 June 2016 was 14.00% (2015: 14.28%).

Maturity profile of financial liabilities

The tables below summarise the maturity profile of the Mutual Bank and Consolidated Entity's financial liabilities at balance date based on contractual undiscounted repayment obligations. The Mutual Bank and Consolidated Entity do not expect the majority of Members to request repayment on the earliest date that the Mutual Bank and Consolidated Entity could be required to pay, and the tables do not reflect the expected cash flows indicated by the Mutual Bank and Consolidated Entity's deposit retention history.

	On demand $000's	Within 1 month $000's	1 to 3 months $000's	3 mths to 1 year $000's	1 to 5 years $000's	>5 years $000's	Total $000's
Mutual Bank							
Year ended 30 June 2016							
Deposits	1,178,382	156,331	265,848	306,885	51,635	-	1,959,081
Trade and other payables	-	7,157	2,104	2,429	408	-	12,098
Subordinated debt	-	-	-	-	-	2,000	2,000
	1,178,382	**163,488**	**267,952**	**309,314**	**52,043**	**2,000**	**1,973,179**
Year ended 30 June 2015							
Deposits	1,066,004	143,323	242,657	331,441	51,754	-	1,835,179
Trade and other payables	-	7,275	2,428	3,316	517	-	13,536
Subordinated debt	-	-	-	-	-	2,000	2,000
	1,066,004	**150,598**	**245,085**	**334,757**	**52,271**	**2,000**	**1,850,715**
Consolidated Entity							
Year ended 30 June 2016							
Deposits	1,176,590	156,331	265,848	306,885	51,635	-	1,957,289
Trade and other payables	-	7,233	2,104	2,429	408	-	12,174
Subordinated debt	-	-	-	-	-	2,000	2,000
	1,176,590	**163,564**	**267,952**	**309,314**	**52,043**	**2,000**	**1,971,463**
Year ended 30 June 2015							
Deposits	1,064,741	143,323	242,657	331,441	51,754	-	1,833,916
Trade and other payables	-	7,354	2,428	3,316	517	-	13,615
Subordinated debt	-	-	-	-	-	2,000	2,000
	1,064,741	**150,677**	**245,085**	**334,757**	**52,271**	**2,000**	**1,849,531**

Notes to the financial statements

For the year ended 30 June 2016

Maturity profile of commitments

The table below shows the contractual expiry of the Mutual Bank's and Consolidated Entity's credit commitments. The contractual expiry of the Mutual Bank's and Consolidated Entity's lease commitments is detailed in note 21(d). The Consolidated Entity expects that not all of the commitments will be drawn before the expiry of the commitments.

	Within 1 year $000's	More than 1 year $000's	Total $000's
Credit Commitments			
2016			
Approved but undrawn loans	31,411	-	31,411
Undrawn line of credit and credit card commitments	-	84,942	84,942
Loans available for redraw	96	298,730	298,826
	31,507	**383,672**	**415,179**
2015			
Approved but undrawn loans	23,507	-	23,507
Undrawn line of credit and credit card commitments	-	83,003	83,003
Loans available for redraw	1,600	276,510	278,110
	25,107	**359,513**	**384,620**

Large Exposures

The liability class that presents the major source of risk to the Consolidated Entity's liquidity management position is Deposits. Concentrations within this class of financial liability are measured in terms of exposures to individual depositors and groups of associated depositors. Where the total of an individual exposure or group of associated exposures exceeds 5% or 10% of the Consolidated Entity's capital base, it is considered that a significant exposure exists. As at 30 June 2016 (and 30 June 2015), there were no concentrations in the liability class, Deposits, that exceeded 5% or 10% respectively of the Consolidated Entity's capital base.

Geographic concentration of members' deposits

	Mutual Bank		Consolidated Entity	
	2016	**2015**	**2016**	**2015**
Victorian residents	92%	94%	92%	94%
Other Australian and overseas residents	8%	6%	8%	6%
	100%	**100%**	**100%**	**100%**

Concentration of Financial Liability Risk

Financial liabilities and commitments are concentrated to individuals employed in the Victorian education sector.

27. Fair value measurement

According to AASB 13 'Fair Value Measurement', fair value is a price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the principal or most advantageous market at measurement date.

The best evidence of fair value is a quoted market price in an active market. Where no quoted market price for an instrument is available, the fair value is based on present value estimates or other valuation techniques based on current market conditions. These valuation techniques rely on market observable inputs wherever possible, or rely on inputs which are reasonable assumptions based on market conditions.

Under AASB 13 all financial assets and liabilities measured or disclosed at fair value are categorised into one of the following three fair value hierarchy levels:

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

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly;

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

The classification in the fair value hierarchy of the Mutual Bank and the Consolidated Entity's financial assets and liabilities measured at fair value and amortised cost is presented in the table below (the fair value of financial assets and liabilities that are not materially different to the carrying amount and investments in equity instruments that do not have a quoted market price in an active market has been excluded):

Notes to the financial statements

For the year ended 30 June 2016

		Fair Value			
	Carrying Amount $000's	**Level 1 $000's**	**Level 2 $000's**	**Level 3 $000's**	**Total $000's**
Mutual Bank					
2016					
(i) Financial assets					
Investments - held to maturity	405,649	-	405,545	-	405,545
Loans	1,660,355	-	-	1,658,302	1,658,302
Due from controlled entities	30,086	-	-	30,031	30,031
Total financial assets	**2,096,090**	**-**	**405,545**	**1,688,333**	**2,093,878**
(ii) Financial liabilities					
Deposits	1,959,081	-	-	1,957,769	1,957,769
Subordinated debt	2,000	-	-	2,000	2,000
Derivative financial instruments	1,836	-	1,836	-	1,836
Total financial liabilities	**1,962,917**	**-**	**1,836**	**1,959,769**	**1,961,605**
Mutual Bank					
2015					
(i) Financial assets					
Investments - held to maturity	409,074	-	410,080	-	410,080
Loans	1,546,178	-	-	1,545,285	1,545,285
Due from controlled entities	30,924	-	-	30,836	30,836
Total financial assets	**1,986,176**	**-**	**410,080**	**1,576,121**	**1,986,201**
(i) Financial liabilities					
Deposits	1,835,179	-	-	1,832,508	1,832,508
Subordinated debt	2,000	-	-	2,000	2,000
Derivative financial instruments	1,862	-	1,862	-	1,862
Total financial liabilities	**1,839,041**	**-**	**1,862**	**1,834,508**	**1,836,370**
Consolidated Entity					
2016					
(i) Financial assets					
Investments - held to maturity	405,649	-	405,545	-	405,545
Loans	1,660,355	-	-	1,658,302	1,658,302
Total financial assets	**2,066,004**	**-**	**405,545**	**1,658,302**	**2,063,847**
(ii) Financial liabilities					
Deposits	1,957,289	-	-	1,955,977	1,955,977
Subordinated debt	2,000	-	-	2,000	2,000
Derivative financial instruments	1,836	-	1,836	-	1,836
Total financial liabilities	**1,961,125**	**-**	**1,836**	**1,957,977**	**1,959,813**
Consolidated Entity					
2015					
(i) Financial assets					
Investments - held to maturity	409,074	-	410,080	-	410,080
Loans	1,546,178	-	-	1,545,285	1,545,285
Total financial assets	**1,955,252**	**-**	**410,080**	**1,545,285**	**1,955,365**
(i) Financial liabilities					
Deposits	1,833,916	-	-	1,831,245	1,831,245
Subordinated debt	2,000	-	-	2,000	2,000
Derivative financial instruments	1,862	-	1,862	-	1,862
Total financial liabilities	**1,837,778**	**-**	**1,862**	**1,833,245**	**1,835,107**

Notes to the financial statements

For the year ended 30 June 2016

Investments - held to maturity: The difference between the carrying amount and fair value has been determined by a discounted cash flow model where the future cash flows of the financial asset have been discounted back to the balance date using the observable market interest rates offered at balance date for instruments with similar risk and maturity.

Loans: The carrying value of loans is net of provision for impairment. For variable rate loans, the carrying amount at balance date bears an interest rate that is within a range of normal interest rates on similar loan products in the market, and consequently fair value approximates the carrying amount. For fixed rate loans, the difference between the carrying amount and fair value has been determined by a discounted cash flow model where the future cash flows of the financial asset have been discounted back to the balance date using a rate that is within a range of observable interest rates on similar fixed rate loan products in the market.

Deposits: For deposits at call, the carrying amount at balance date bears an interest rate that is within a range of normal interest rates on similar deposit products in the market, and consequently fair value approximates the carrying amount. For deposits with fixed term interest rates, the difference between the carrying amount and fair value has been determined by a discounted cash flow model where the future cash flows have been discounted back to the balance date using a rate that is within a range of observable interest rates on similar fixed rate term deposits in the market.

Subordinated Debt: The subordinated debt was issued by an investment trust on October 2012. The debt is repayable by the Consolidated Entity after October 2022 or earlier if subject to a defined event. The difference between the carrying amount and fair value has been determined using the effective interest rate method, less debt raising costs which are amortised over the expected period of the debt.

Derivatives Interest Rate Swap: The Consolidated Entity uses interest rate swap contracts. Under interest rate swap contracts, the Consolidated Entity agrees to exchange the difference between fixed and floating rate interest amounts calculated on agreed notional principal amounts. Such contracts enable the Consolidated Entity to mitigate the risk of changing interest rates. The Consolidated Entity enters into interest rate swap agreements for the sole purpose of managing interest rate exposures in financial assets and liabilities and not for speculative purposes. Fair value of interest rate swaps was estimated using discounted cash flow analysis, based on market rates of similar arrangements.

28. Capital

Common Equity Tier 1 Capital comprises the highest quality components of Capital. For the Mutual Bank and Consolidated Entity Tier 1 Capital is primarily comprised of retained earnings. Additional Tier 1 Capital is primarily comprised of the Redeemable Preference Shares.

Tier 2 Capital includes other components of capital that, to varying degrees, fall short of the quality of Tier 1 Capital but nonetheless contribute to the overall strength of an ADI and its capacity to absorb losses.

The capital ratio can be affected by growth in assets relative to growth in retained earnings and by changes in the mix of assets. The Consolidated Entity manages capital through reviewing the ratio monthly and monitoring major movements in asset levels. Further, a 3 year capital projection is maintained to assess how strategic decisions or trends may impact on the level of capital.

The primary objectives of the Consolidated Entity's capital management plan are to ensure that the Consolidated Entity complies with APRA's capital requirements and that the Consolidated Entity maintains sound capital ratios in order to support its business risks and to maximise Member value.

The Consolidated Entity manages its internal capital levels for both current and future activities by conducting an Internal Capital Adequacy Assessment Process (ICAAP) on an annual basis, and maintaining a Capital Management Plan. The plan addresses the capital requirements prescribed by APRA, the strategy for managing capital resources over time, a capital target, how the required capital requirement is to be met and actions and procedures for monitoring compliance with minimum capital adequacy requirements. The capital strategy primarily focuses on building accumulated retained earnings.

Capital adequacy is determined as a ratio of the capital base to the Consolidated Entity's risk weighted exposures. Risk weighted exposures comprises all assets and certain other credit commitments, discounted by regulatory prescribed factors as appropriate, to reflect the lower risk profile of certain assets and commitments. APRA requires all regulated entities, including the Consolidated Entity to include an amount to recognise exposure to operational risk.

Notes to the financial statements

For the year ended 30 June 2016

	Mutual Bank		Consolidated Entity	
	2016 $000's	**2015 $000's**	**2016 $000's**	**2015 $000's**
The Consolidated Entity manages as capital the following:				
Comprehensive income & other Reserves	158,620	143,753	158,620	144,006
Retained Earnings, including current year	14,059	14,816	14,059	14,563
Common Equity Tier 1 Capital (CET1) before regulatory adjustments	**172,679**	**158,569**	**172,679**	**158,569**
Other intangibles	(3,007)	(618)	(3,007)	(618)
Deferred tax asset	(2,366)	(3,029)	(2,366)	(3,029)
Cash flow hedge	1,247	1,259	1,247	1,259
Equity exposures to other financial institutions	(686)	(666)	(686)	(666)
Common Equity Tier 1 Capital (CET1)	**167,867**	**155,515**	**167,867**	**155,515**
Additional Tier 1 Capital	-	2,002	-	2,002
Tier 1 Capital	**167,867**	**157,517**	**167,867**	**157,517**
Total Tier 2 Capital	6,542	6,012	6,542	6,012
Total Regulatory Capital	**174,409**	**163,529**	**174,409**	**163,529**
Risk weighted exposures	**1,124,715**	**1,050,134**	**1,124,715**	**1,050,134**
Capital adequacy ratio (%)	**15.51**	**15.57**	**15.51**	**15.57**

For regulatory capital requirements the Mutual Bank comprises Victoria Teachers Limited and APRA approved subsidiaries (Extended Licence Entity).

During the year, the Mutual Bank and the Consolidated Entity has complied in full with all its externally imposed capital requirements and met its capital targets.

Full details on the disclosure required under APS 330 Public Disclosure are provided on the Mutual Bank's website.

29. Financial statement issue

The complete set of financial statements was authorised for issue by the Directors on 20 September 2016. The Mutual Bank has the power to amend and reissue the complete set of financial statements.

30. Events after the reporting period

There are no other transactions or events of a material nature likely, in the opinion of the Directors, to affect significantly the operations of the Consolidated Entity, the results of those operations, or the state of affairs of the Consolidated Entity, in subsequent financial years.

Notes to the financial statements

For the year ended 30 June 2016

Building a better working world

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Independent auditor's report to the members of Victoria Teachers Limited

We have audited the accompanying financial report of Victoria Teachers Limited, which comprises the statements of financial position as at 30 June 2016, the statements of comprehensive income, the statements of changes in equity and the statements of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the company and the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal controls as the directors determine are necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with International Financial Reporting Standards.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

In conducting our audit we have complied with the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the directors' report.

Notes to the financial statements

For the year ended 30 June 2016

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Opinion

In our opinion:

a. the financial report of Victoria Teachers Limited is in accordance with the *Corporations Act 2001*, including:

    i giving a true and fair view of the company's and consolidated entity's financial positions as at 30 June 2016 and of their performance for the year ended on that date; and

    ii complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and

b. the financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

Ernst + Young

Ernst & Young

Brett Kallio

Brett Kallio
Partner
Melbourne

20 September 2016

Victoria Teachers Mutual Bank
Invested in you

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AFSL/Australian Credit Licence Number 240 960

Invested in you

Every day educators invest in others to help them reach their potential.

We're here to help you reach yours.

RECYCLED CONTENT