

Directors' Report

The Directors present their report together with the financial report of **mecu** Limited ('the Company') trading as **bankmecu** and the consolidated financial report of the consolidated entity, being the Company and its controlled entities, for the year ended 30 June 2014 and the auditor's report thereon.

1. Directors

The Directors of the Company at any time during or since the end of the financial year are:

Name & qualifications

J S Downes

BA (Hons), DipEd, GradDipBus (Acct),
FAICD, FCPA, FCA

Independent: Yes

Term of office: Director since March 2012. Appointed Chairman 28 March 2014.

Skills & Experience:

J S Downes is a non-executive director with extensive experience in accounting, banking and finance and has 17 years experience as a Company Director. Former positions include Director, ING Australia 2005-2008.

Directorships of listed entities within the last three years, other directorships and offices (current & recent):

- Member of the Company Auditors & Liquidators Board (since January 2013)
- Director of Devine Ltd (since January 2013)
- Member of the Finance Committee – University of Melbourne (since December 2012)
- Member of the World Vision Business Advisory Council (March 2012 to March 2014)
- Honorary Fellow, Department of Accounting, Faculty of Business & Economics, University of Melbourne (since July 2011)
- Member of the AICD Reporting Committee (since 2010)
- Member of the IFRS Advisory Council (July 2005 to December 2012)

Board Committee membership:

Member of the Executive Committee. Ex officio member of the Audit and Compliance, Governance, Due Diligence and Risk Committees.

J W Baistow

BA, DipBusStud, DipCD,
Grad Dip Mgt (Tech),
MBA (Tech Management),
FAICD, FAMI

Independent: Yes

Term of office: Continuing Director of **bankmecu** and its predecessor organisations since 1990. Chairman from November 2011 to 28 March 2014.

Skills & Experience:

J W Baistow is a retired senior executive with CSIRO.

Directorships of listed entities within the last three years, other directorships and offices (current & recent):

Nil

Board Committee membership:

Member of the Audit and Compliance, Risk and Due Diligence Committees.

Directors' Report

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M J Bastian

LLB(Hons), GDLP, BBus(Mgt), RN,
GAICD, MAMI, A Fin

Independent: Yes

Term of office: Director since November 2012.

Skills & Experience:

M J Bastian is a leadership facilitator and former Manager at the Australian Securities and Investments Commission.

Directorships of listed entities within the last three years, other directorships and offices (current & recent):

- Member of the Gippsland Regional Committee of the Australian Institute of Company Directors (since May 2013)
- Non-Executive Director of Latrobe Community Health Services (since January 2011)

Board Committee membership:

Member of the Risk and Governance Committees.

G J Camm

MBA, BBus, CPA, SF Fin

Independent: Yes

Term of office: Director since February 2012.

Skills & Experience:

G J Camm has been a Company Director for 11 years. Previous banking experience includes Managing Director, ANZ Banking Group (New Zealand) and Managing Director, Australian Retail Banking ANZ Banking Group.

Directorships of listed entities within the last three years, other directorships and offices (current & recent):

- Director Yarra Valley Water (since October 2013)
- Deputy Chairman of iSelect Ltd (August 2012 to September 2014)
- Director Bottlecyclers Pty Ltd (since August 2012)
- Member of the Business Advisory Council of Greenfleet Australia (since March 2012)
- Trustee of the Australian Cancer Research Foundation (since 2000)

Board Committee membership:

Chairman of the Risk Committee and member of the Due Diligence Committee.

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H M Clarke

DipSocSci, DipEd, FAICD, MAMI

Independent: Yes

Term of office: Continuing Director of **bankmecu** and its predecessor organisations since 1992. Appointed Deputy Chair in October 2006.

Skills & Experience:

H M Clarke is a senior manager of the Victorian Department of Education and Early Childhood Development.

Directorships of listed entities within the last three years, other directorships and offices (current & recent):

- Scholarship trustee of the Dafydd Lewis Trust (since February 2012)

Board Committee membership:

Chairman of the Governance Committee. Member of the Audit and Compliance, Executive, Nominations and Due Diligence Committees.

P J Ford

BA, DipEd, FAICD, MAMI

Independent: Yes

Term of office: Director of **bankmecu** and its predecessor organisations between July 1984 and August 1991, and since October 2001.

Skills & Experience:

P J Ford is a Company Director and was formerly General Manager, Southern Region for Cuscal Limited.

Directorships of listed entities within the last three years, other directorships and offices (current & recent):

Nil

Board Committee membership:

Member of the Audit and Compliance and Governance Committees.

P J Taylor

BEc, CPA, ACIS, MIIA(Aust),
RCA, FAICD, FAMI, AGIA

Independent: Yes

Term of office: Continuing Director of **bankmecu** and its predecessor organisations between October 1991 and April 1997, and since July 1998.

Skills & Experience:

P J Taylor is an Audit Consultant and a Registered Company Auditor.

Directorships of listed entities within the last three years, other directorships and offices (current & recent):

- Member of the Risk Management Committee of the Uniting Church in Australia (Vic & Tasmania) (since November 2007)
- Member and Chairman of the Board of Management for Heidelberg Orchestras Inc (since 1996)

Board Committee membership:

Chairman of the Audit and Compliance Committee. Member of the Risk Committee.

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D G Walsh

BBus (Acct), FCPA, MBA,
GAICD, AFAMI, FFIN

Independent: No

Term of office: Appointed CEO on 1 September 2011 and Managing Director on 22 September 2011.

Skills & Experience:

D G Walsh is the former General Manager, Corporate Services of **bankmecu**.

Directorships of listed entities within the last three years, other directorships and offices (current & recent):

- Director of CUFSS Limited (since March 2013)
- Alternate Director of Data Action Ltd (since August 2013)
- Director of the Business Council of Cooperatives & Mutuals (since August 2013)

Board Committee membership:

Chair of the Due Diligence Committee. Member of the Executive and Governance Committees.

2. Company Secretary

C H Newey

BBus, CPA, MAMI

C H Newey was appointed joint company secretary on 27 November 2003. He has held the position of General Manager Corporate Services since 1 September 2011 and was previously Finance & Administration Manager for 8 years. He has 22 years experience in the customer owned banking sector.

L E Ladson

BBus, CPA, MAMI

L E Ladson was appointed joint company secretary on 23 February 2012. She has held the position of Finance Manager since 10 October 2011. She has 32 years experience in the customer owned banking sector.

3. Key management personnel

D G Walsh

BBus (Acct), FCPA, MBA, GAICD, AFAMI, FFIN

Managing Director

He has held the position of Managing Director since 22 September 2011 and was previously General Manager Corporate Services for 8 years. He has 26 years experience in the customer owned banking sector.

P R Ashkettle

BCA MBA

Chief Risk Officer

P R Ashkettle has held the position of Chief Risk Officer for 4 months, joining the Company in March 2014. Prior to this appointment he worked for Superpartners, a superannuation administrator to Australian industry funds. Patrick commenced in the financial services industry in 1985 with a software and data processing bureau in New Zealand before joining ANZ where he worked for 20 years.

R B Dowland

GAICD, AFAMI

General Manager Development

R B Dowland has held the position of General Manager Development for 12 years and has 23 years experience in the customer owned banking sector.

C H Newey

BBus, CPA, MAMI

General Manager Corporate Services

He has held the position of General Manager Corporate Services since 1 September 2011 and was previously Finance & Administration Manager for 8 years. He has 22 years experience in the customer owned banking sector.

J P Yardley

MBA

Chief Operating Officer

J P Yardley has held the position of Chief Operating Officer for 12 years and has 15 years of banking experience. Previous experience includes corporate advisory (acquisitions) and time as a Chief of Staff for a senior New Zealand Cabinet Minister.

4. Directors' meetings

| Director | Board Meetings | | Audit and Compliance Committee Meetings | | Risk Committee Meetings | | Board Executive Committee Meetings | | Governance Committee Meetings | |
|-------------|----------------|----|---|---|-------------------------|----|------------------------------------|---|-------------------------------|---|
| | A | B | A | B | A | B | A | B | A | B |
| J W Baistow | 12 | 12 | 4 | 4 | 10 | 11 | 3 | 3 | 3 | 3 |
| M J Bastian | 12 | 12 | 2 | 2 | 11 | 11 | – | – | 4 | 4 |
| G J Camm | 11 | 12 | – | – | 10 | 11 | – | – | – | – |
| H M Clarke | 11 | 12 | 4 | 4 | – | – | 4 | 4 | 3 | 4 |
| J S Downes | 12 | 12 | 4 | 4 | 7 | 7 | 1 | 1 | 1 | 1 |
| P J Ford | 12 | 12 | 4 | 4 | – | – | – | – | 4 | 4 |
| P J Taylor | 11 | 12 | 4 | 4 | 10 | 11 | – | – | – | – |
| D G Walsh | 12 | 12 | 4 | 4 | 11 | 11 | 4 | 4 | 4 | 4 |

A – Number of meetings attended.

B – Number of meetings held during the time that the Director held office during the year.

5. Remuneration report**Principles of compensation**

Remuneration of Directors and executives is referred to as compensation throughout this report.

Key management personnel have authority and responsibility for planning, directing and controlling the activities of the Company. Key management personnel comprise the non executive Directors and senior executives of the Company.

Compensation levels for key management personnel and secretaries of the Company are competitively set to attract and retain appropriately qualified and experienced Directors and executives. The Board Governance Committee obtains independent advice on the appropriateness of compensation packages given trends in comparable companies.

Remuneration packages for key management personnel and secretaries of the Company do not include incentive programs.

Non-executive Directors

Total compensation for all non-executive Directors, last voted upon by members at the 2013 AGM, is not to exceed \$539,100 per annum. The Directors may determine how this sum is to be apportioned among them and how and when it is to be paid. The said sum includes relevant taxes payable by either the Company or Directors.

6. Principal activities

The principal activities of the Company during the year remained unchanged and were the raising of funds as authorised by the Prudential Standards administered by the Australian Prudential Regulation Authority 'APRA' and the *Banking Act 1959*, and the application of those funds in providing financial accommodation to customers.

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7. Operating and financial review

Operations

During the year, the Company operated within the requirements of the Prudential Standards administered by APRA. The consolidated entity experienced growth in reserves of 9.03% (2013: 10.00%), net loans and advances of 5.13% (2013: 4.41%) and deposits of 5.19% (2013: 5.55%).

Financial review

During the year the consolidated entity earned net profit of \$25,485,613 (2013: \$25,397,292).

Regulatory Capital

The consolidated entity is required to maintain minimum regulatory capital holdings in accordance with APRA Prudential Standard APS110. These holdings include, but are not limited to, retained earnings, asset revaluation reserves and other comprehensive income. At 30 June 2014, the consolidated entity held regulatory capital of \$325,734,162 (2013: \$298,105,882). The terms and conditions of the regulatory capital holdings and full regulatory capital reconciliation are available at <http://www.bankmecu.com.au/why-bank-with-us/tools-and-resources/disclosures.html>.

As at 30 June 2014 the Company's capital adequacy ratio was 20.53% (2013: 19.83%)

Significant changes in the state of affairs

On 1 June 2014 Swan Hill Credit Union transferred its business to **bankmecu**. Assets of \$31.8m and reserves of \$3.9m were transferred.

There were no other significant changes in the state of affairs of the consolidated entity during the course of the year.

8. Credit rating

During the year ended 30 June 2014, the consolidated entity's long-term credit rating was maintained at 'BBB+' and the short-term rating was maintained at 'A-2' by Standard and Poor's.

Credit ratings are statements of opinion and not statements of fact or recommendations to purchase, sell or hold any securities. Credit ratings are subject to change. For the latest credit ratings information please refer to www.standardandpoors.com.au

Standard & Poor's (Australia) Pty Ltd holds Australian financial services licence number 337565 under the *Corporations Act 2001*. Standard & Poor's credit ratings and related research are not intended for and must not be distributed to any person in Australia other than a wholesale client (as defined in Chapter 7 of the *Corporations Act*).

9. Dividends

The Directors do not recommend a dividend and no dividends were declared or paid during the year.

10. Events subsequent to balance date

There have been no other matters or circumstances that have arisen since the end of the financial year that have significantly affected or may significantly affect subsequent financial years concerning:

- (i) the operation of the Company; or
- (ii) the results of those operations; or
- (iii) the state of affairs of the Company.

11. Likely developments and expected results

The Directors are not aware of any likely developments in financial years subsequent to 30 June 2014, which may significantly affect the operation and expected results of the Company.

12. Directors' interests

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 emoluments received or due and receivable by Directors shown in the accounts) from a contract between the Company and themselves, their firm or a company in which they have a substantial interest.

13. Indemnification of officers and auditors

The Company has paid insurance premiums in respect of Directors' and officers' liability and legal expenses contracts. The Company has not indemnified the current auditors, Ernst & Young. The Directors have not included details of the nature of the liabilities covered or the amount of the premium paid in respect of the Directors' and Officers' liability and legal expenses insurance contracts, as such disclosure is prohibited under the terms of the contract.

14. Lead auditor's independence declaration

The lead auditor's independence declaration is set out on page Page 8 and forms part of the Directors' report for the financial year ended 30 June 2014.

15. Financial accommodation to Directors and associates

The provision of financial accommodation to Directors and associates of Directors does not contravene the Prudential Standards administered by APRA and is shown in the Company's accounts in accordance with applicable accounting standards.

16. Basis of preparation

The Company is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 (updated by CO 05/641 effective 28 July 2005 and CO 06/51 effective 31 January 2006) and in accordance with that Class Order amounts in the financial report and Directors' Report have been rounded off to the nearest thousand dollars, unless otherwise stated.

The Directors have applied the relief available under ASIC Class Order 10/654 "Inclusion of parent entity financial statements in financial reports" effective 29 July 2010 to continue to present full parent entity financial statements as part of the consolidated financial report.

This report is made in accordance with a resolution of the Directors:



Judith Downes, Director

Signed at Melbourne on 25 September 2014



Peter Taylor, Director

Signed at Melbourne on 25 September 2014