

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 2013 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 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. Appointed Chair in November 2011.

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):

- Director of Cuscal Limited (October 2002–October 2011)
- Chairman of the Credit Union Foundation Australia (December 2006–October 2010)

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

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):

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

Board Committee membership: Member of the Risk Committee and Governance Committee.

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):

- Trustee of the Australian Cancer Research Foundation (since 2000)
- Deputy Chairman of iSelect Ltd (since August 2012)
- Director Bottlecyclers Pty Ltd (since August 2012)
- Member of the Business Advisory Council of Greenfleet Australia (since March 2012)

Board Committee membership: Chair of the Risk Committee and member of the Due Diligence Committee.

Directors' Report

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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: Chair of the Governance Committee. Member of the Audit and Compliance Committee, Executive Committee and Due Diligence Committee.

R D Dixon

CPA, ACIS

Independent: Yes

Term of office: Continuing Director of **bankmecu** and its predecessor organisations from July 2007 to November 2012.

Skills & Experience: R D Dixon is the former General Manager of Queensland Teachers Credit Union Limited from 1985-2005. Former Director of Cuscal Limited 1992-2004, including Deputy Chair 1999 and Chair 2000-2004.

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

- Chair of E-Commerce Holdings Pty Ltd (since October 2007)

Board Committee membership: Nil. Retired on 28 November 2012.

J S Downes

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

Independent: Yes

Term of office: Director since March 2012.

Skills & Experience: J S Downes is a non-executive director with extensive experience in accounting, banking and finance and has 16 years experience as a Company Director. Former positions include CFO and COO ANZ Institutional Division 2005-2008, and Director ING Australia 2005-2008.

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

- Director and Audit Committee Member, Devine Ltd (since January 2013)
- Honorary Fellow, Department of Accounting, Faculty of Business & Economics, University of Melbourne (since July 2011)
- Member, Finance Committee, University of Melbourne (since November 2012)
- Member, World Vision Business Advisory Council (since March 2012)
- Member, IFRS Advisory Council (2005-2012)
- Alternate Director and CFO, Alumina Ltd (2009-2011)
- Director, Alcoa of Australia Ltd (2009-2011)

Board Committee membership: Chair of the Audit and Compliance Committee.

P J Ford

BA, DipEd, FAICD, MAMI

Independent: Yes

Term of office: Director of **bankmecu** and its predecessor organisations between July 1986 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 & Compliance Committee and Governance Committee.

P J Taylor

BEC, CPA, ACIS, ACSA, MIIA(Aust),
RCA, FAICD, FAMI

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

Board Committee membership: Member of the Risk Committee and Audit and Compliance Committee.

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 Marillac House Ltd (October 2001 to September 2011)
- Chairman of Data Action Ltd (November 2009 to October 2011)
- 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: Member of the Risk Committee, Executive Committee, Governance Committee and Due Diligence Committee.

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2. Company Secretary

Christopher 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 21 years experience in the customer owned banking sector.

Leanne 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 31 years experience in the customer owned banking sector.

3. Key management personnel

Damien 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 25 years experience in the customer owned banking sector.

Robert J Allen

BA, DipEd, MAICD, FAMI

General Manager Operations

R J Allen has held the position of General Manager Operations for 11 years and has 28 years service with the Company. Retired 30 August 2013.

Rowan B Dowland

GAICD, AFAMI

General Manager Development

R B Dowland has held the position of General Manager Development for 11 years and has 22 years experience in the customer owned banking sector.

Christopher 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 21 years experience in the customer owned banking sector.

John P Yardley

MBA

General Manager Lending & Personal Banking

J P Yardley has held the position of General Manager Lending & Personal Banking for 11 years and has 14 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	11	11	4	4	11	11	4	4	4	4
M J Bastian	7	7	-	-	6	6	-	-	2	2
G J Camm	11	11	-	-	11	11	-	-	-	-
H M Clarke	11	11	3	3	5	5	4	4	4	4
R D Dixon	4	4	-	-	4	4	-	-	-	-
J S Downes	11	11	4	4	-	-	-	-	-	-
P J Ford	11	11	4	4	-	-	-	-	2	2
P J Taylor	11	11	4	4	6	6	-	-	2	2
D G Walsh	11	11	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 2012 AGM, is not to exceed \$523,000 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.

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 10.00% (2012: 8.25%), net loans and advances of 4.41% (2012: 4.51%) and deposits of 5.55% (2012: 10.72%).

Financial review

During the year the consolidated entity earned net profit of \$25,397,292 (2012: \$27,015,571).

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 2013, the consolidated entity held regulatory capital of \$298,105,882 (2012: \$279,091,474). 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 2013 the Company's capital adequacy ratio was 19.83% (2012: 18.50%)

Significant changes in the state of affairs

On 15 June 2013 Fitzroy & Carlton Community Credit Co-operative transferred its business to bankmecu. Assets of \$9m and reserves of \$0.8m 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 2013, 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.

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11. Likely developments and expected results

The Directors are not aware of any likely developments in financial years subsequent to 30 June 2013, 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, KPMG. 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 7 and forms part of the Directors' report for the financial year ended 30 June 2013.

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:



John Baistow, Director

Signed at Melbourne on 26 September 2013



Helen Clarke, Director

Signed at Melbourne on 26 September 2013